Alpargatas S.A

Quartely Information
March, 31 2017

Contents

Company information

Capital composition 1

Dividends in cash 2

Individual financial statements

Balance sheet - Assets 3

Balance sheet - Liabilities 4

Statement of income 6

Statement of comprehensive income 7

Statement of cash flows 8

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity (DMPL) - 01/01/2017–03/31/2017 9

Statement of changes in shareholders' equity (DMPL) - 01/01/2016–03/31/2016 10

Statement of added value 11

Consolidated financial statements

Balance sheet - Assets 12

Balance sheet - Liabilities 13

Statement of income 15

Statement of comprehensive income 16

Statement of cash flows 17

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity (DMPL) - 01/01/2017–03/31/2017 18

Statement of changes in shareholders' equity (DMPL) - 01/01/2016–03/31/2016 19

Statement of added value 20

Performance comment 21

Notes 30

Opinions and Statements 76

Special review report - Unqualified

Company information / Capital composition

Quantity of shares (Thousand)	Current quarter 03/31/2017
Paid-in capital	
Common	241,609
Preferred	228,841
Total	470,450
Treasury	
Common	0
Preferred	7,396
Total	7,396

Company information / Dividends in cash

Event	Approval	Dividend	Start payment	Type of share	Class of share	Dividend per share (Reais / Shares)
Board of Directors' Meeting	03/10/2017	Interest on own capital	04/12/2017	Common		0.07873
Board of Directors' Meeting	03/10/2017	Interest on own capital	04/12/2017	Preferred		0.08660
Board of Directors' Meeting	05/05/2017	Interest on own capital	07/12/2017	Common		0.07502
Board of Directors' Meeting	05/05/2017	Interest on own capital	07/12/2017	Preferred		0.08252

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
1	Total assets	3,060,040	3,164,766
1.01	Current assets	1,463,046	1,604,163
1.01.01	Cash and cash equivalents	388,196	266,327
1.01.02	Interest earning bank deposits	60,334	110,771
1.01.02.01	Interest earning bank deposits measured at fair value	60,334	110,771
1.01.02.01.02	Securities available for sale	60,334	110,771
1.01.03	Accounts receivable	515,120	749,073
1.01.03.01	Clients	515,120	749,073
1.01.04	Inventories	410,957	355,859
1.01.06	Recoverable taxes	26,569	26,763
1.01.06.01	Current recoverable taxes	26,569	26,763
1.01.07	Prepaid expenses	25,328	358
1.01.07.01	Prepaid expenses	1,973	358
1.01.07.02	Prepaid expenses with Advertising	23,355	0
1.01.08	Other Current assets	36,542	95,012
1.01.08.02	Assets from discontinued operations	15,865	65,453
1.01.08.03	Other	20,677	29,559
1.01.08.03.01	Advances to suppliers	6,871	7,045
1.01.08.03.02	Accounts receivable - Employees	4,348	7,384
1.01.08.03.03	Dividends receivable	0	1,700
1.01.08.03.04	Unrealized gains on derivative operations	203	632
1.01.08.03.05	Other	9,255	12,798
1.02	Non-current assets	1,596,994	1,560,603
1.02.01	Long-term assets	142,842	127,574
1.02.01.06	Deferred taxes	45,165	70,628
1.02.01.06.01	Deferred income and social contribution taxes	45,165	70,628
1.02.01.08	Related party credits	353	531
1.02.01.08.02	Receivables from subsidiaries	353	531
1.02.01.09	Other non-current assets	97,324	56,415
1.02.01.09.03	Compulsory deposits	73	73
1.02.01.09.04	Judicial deposits	19,749	19,869
1.02.01.09.05	Recoverable taxes	10,042	10,487
1.02.01.09.07	Other accounts receivable	67,460	25,986
1.02.02	Investments	725,286	747,645
1.02.02.01	Ownership interest	725,286	747,645
1.02.02.01.02	Interest in subsidiaries	725,141	747,500
1.02.02.01.04	Other ownership interest	145	145
1.02.03	Property, plant and equipment	608,752	614,108
1.02.03.01	Fixed assets in operation	556,430	558,995
1.02.03.03	Constructions in progress	52,322	55,113
1.02.04	Intangible assets	120,114	71,276
1.02.04.01	Intangible assets	120,114	71,276

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
2	Total liabilities	3,060,040	3,164,766
2.01	Current liabilities	524,755	573,592
2.01.01	Social and labor obligations	124,335	114,013
2.01.01.01	Social charges	9,675	7,645
2.01.01.02	Labor obligations	114,660	106,368
2.01.01.02.01	Salaries and social security charges	114,660	106,368
2.01.02	Suppliers	234,668	322,036
2.01.02.01	Domestic suppliers	187,808	269,807
2.01.02.02	Foreign suppliers	46,860	52,229
2.01.03	Tax liabilities	21,773	25,983
2.01.03.01	Federal tax liabilities	20,814	22,382
2.01.03.01.01	Income and social contribution tax payable	9,587	0
2.01.03.01.02	Other tax liabilities	11,227	22,382
2.01.03.02	State tax liabilities	959	3,601
2.01.04	Loans and financing	46,906	46,530
2.01.04.01	Loans and financing	46,906	46,530
2.01.04.01.01	In domestic currency	46,906	46,530
2.01.05	Other liabilities	84,878	41,944
2.01.05.02	Other	84,878	41,944
2.01.05.02.01	Dividends and interest on own capital	37,402	4,891
2.01.05.02.04	Unrealized losses on derivative operations	713	1,369
2.01.05.02.05	Suppliers and other liabilities	46,763	35,684
2.01.06	Provisions	10,954	10,558
2.01.06.01	Tax, social security, labor and civil provisions	10,954	10,558
2.01.06.01.02	Social security and labor provisions	10,954	10,558
2.01.07	Losses on non-current assets held for sale and discontinued assets	1,241	12,528
2.01.07.02	Liabilities on assets from discontinued operations	1,241	12,528
2.02	Non-current liabilities	409,657	615,151
2.02.01	Loans and financing	373,106	382,658
2.02.01.01	Loans and financing	373,106	382,658
2.02.01.01.01	In domestic currency	373,106	382,658
2.02.02	Other liabilities	10,372	206,917
2.02.02.02	Other	10,372	206,917
2.02.02.02.03	Other liabilities	3,043	2,964
2.02.02.02.04	Taxes with enforceability suspended and other	0	198,624
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.06	Long-term incentive plan	7,157	5,157
2.02.04	Provisions	26,179	25,576
2.02.04.01	Tax, social security, labor and civil provisions	26,179	25,576
2.02.04.01.01	Tax provisions	5,751	4,315
2.02.04.01.02	Social security and labor provisions	4,312	4,369
2.02.04.01.04	Civil provisions	16,116	16,892
2.03	Shareholders' equity	2,125,628	1,976,023
2.03.01	Realized capital	648,497	648,497
2.03.02	Capital reserves	108,551	108,551

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
2.03.02.05	Treasury shares	-64,248	-64,248
2.03.02.07	Other reserves	169,241	169,241
2.03.02.08	Goodwill in the sale of treasury shares	3,558	3,558
2.03.04	Profit reserves	1,513,070	1,365,194
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.05	Profit retention reserve	179,119	68,410
2.03.04.07	Tax incentive reserve	1,266,197	1,229,030
2.03.06	Equity valuation adjustments	13,570	13,665
2.03.07	Accumulated translation adjustments	-158,339	-159,456
2.03.08	Other comprehensive income	279	-428
2.03.08.01	Unrealized income (loss) in hedge operations	235	-428
2.03.08.02	Unrealized income (loss) in hedge operations - Subsidiaries	44	0

Individual financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
3.01	Income from sales of goods and/or services	492,149	613,326
3.02	Cost of goods and/or services sold	-316,600	-373,234
3.03	Gross income (loss)	175,549	240,092
3.04	Operating expenses/income	52,377	-111,048
3.04.01	Sales expenses	-112,996	-111,665
3.04.02	General and administrative expenses	-41,536	-39,584
3.04.04	Other operating income	213,663	1,566
3.04.05	Other operating expenses	-37,096	-24,192
3.04.05.01	Amortization of intangible asset	-4,745	-5,786
3.04.05.02	Other operating expenses	-32,351	-18,406
3.04.06	Equity income (loss)	30,342	62,827
3.05	Income (loss) before financial income (loss) and taxes	227,926	129,044
3.06	Financial income (loss)	-4,090	-9,763
3.06.01	Financial income	17,954	24,434
3.06.01.01	Foreign exchange variation	2,695	7,399
3.06.01.02	Gains on derivative operations	965	5,564
3.06.01.03	Other financial income	14,294	11,471
3.06.02	Financial expenses	-22,044	-34,197
3.06.02.01	Foreign exchange variation	-5,124	-4,680
3.06.02.02	Losses on derivative operations	-1,024	-9,020
3.06.02.03	Other financial expenses	-15,896	-20,497
3.07	Income (loss) before income tax	223,836	119,281
3.08	Income and social contribution taxes	-36,316	-673
3.08.01	Current	-10,333	-2,046
3.08.02	Deferred assets	-25,983	1,373
3.09	Net income (loss) from continued operations	187,520	118,608
3.10	Net income (loss) from discontinued operations	-1,674	-2,778
3.10.01	Net income/loss from discontinued operations	-1,674	-2,778
3.11	Income/loss for the period	185,846	115,830
3.99	Earnings per share - (Reais / Shares)		

Individual financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
4.01	Net income for the period	185,846	115,830
4.02	Other comprehensive income	1,824	-54,345
4.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	1,117	-52,669
4.02.02	Unrealized income (loss) in hedge operations	1,005	-1,944
4.02.03	Deferred income on unrealized income (loss) in hedge operations	-342	661
4.02.04	Unrealized income (loss) in hedge operations - Subsidiaries	44	-393
4.03	Comprehensive income for the period	187,670	61,485

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of Account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
6.01	Net cash from operating activities	104,197	40,111
6.01.01	Cash generated in operations	68,089	77,296
6.01.01.01	Net income for the period	187,520	118,429
6.01.01.02	Depreciation and amortization	17,046	18,903
6.01.01.03	Income (loss) from sale/write-off of property, plant and equipment	1,475	367
6.01.01.04	Equity income (loss)	-30,342	-62,827
6.01.01.05	Interest, monetary restatement and foreign exchange variation	6,295	4,240
6.01.01.06	Provisions for tax, civil and labor risks	3,646	3,790
6.01.01.07	Deferred income and social contribution taxes	25,983	-1,465
6.01.01.08	Taxes with enforceability suspended	-198,624	0
6.01.01.09	Prov. (Reversal) for doubtful accounts	5,049	2,569
6.01.01.10	Amortization of charges on loans and financing	-8,622	-9,166
6.01.01.11	Unrealized gains/losses on derivative operations	778	4,363
6.01.01.12	Provision (Reversal) for inventory losses	6,921	1,360
6.01.01.13	Provision for property, plant and equipment/intangible asset losses	14,337	0
6.01.01.14	Net cash generated/consumed in Discontinued operations	36,627	-3,267
6.01.02	Changes in assets and liabilities	36,108	-37,185
6.01.02.01	Trade accounts receivable	207,624	101,750
6.01.02.02	Inventories	-89,228	-72,018
6.01.02.03	Prepaid expenses	-24,970	-20,813
6.01.02.04	Recoverable taxes	623	6,696
6.01.02.05	Suppliers	-78,634	-22,058
6.01.02.06	Taxes payable	-4,019	-4,017
6.01.02.07	Salaries and social security charges	10,742	-16,713
6.01.02.08	Other	13,970	-10,012
6.02	Net cash used in investment activities	32,991	44,122
6.02.01	Acquisition of property, plant and equipment, intangible assets	-21,002	-6,840
6.02.02	Interest earning bank deposits	-46,610	-3,096
6.02.03	Redemption of interest earning bank deposits	100,603	54,058
6.03	Net cash from financing activities	-15,319	-71,935
6.03.01	Funding loans and financing	0	32,211
6.03.02	Amortization of loans and financing - Principal	-9,765	-125,026
6.03.03	Payment of dividends and interest on own capital	-5,554	-3,010
6.03.04	Sale/Acquisition of treasury shares, net	0	23,890
6.05	Increase (decrease) in cash and cash equivalents	121,869	12,298
6.05.01	Opening balance of cash and cash equivalents	266,327	220,465
6.05.02	Closing balance of cash and cash equivalents	388,196	232,763

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–03/31/2017

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023
5.03	Adjusted opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023
5.04	Capital transactions with partners	0	0	135	-38,200	0	-38,065
5.04.07	Interest on own capital	0	0	135	-38,200	0	-38,065
5.05	Total comprehensive income	0	0	0	185,846	1,824	187,670
5.05.01	Net income for the period	0	0	0	185,846	0	185,846
5.05.02	Other comprehensive income	0	0	0	0	1,824	1,824
5.05.02.01	Financial instruments' adjustments	0	0	0	0	1,049	1,049
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-342	-342
5.05.02.04	Translation adjustments in the period	0	0	0	0	1,117	1,117
5.06	Internal changes in shareholders' equity	0	0	147,741	-147,646	-95	0
5.06.01	Formation of reserves	0	0	147,741	-147,741	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	95	-95	0
5.07	Closing balances	648,497	108,551	1,513,070	0	-144,490	2,125,628

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–03/31/2016

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	648,497	95,404	1,123,749	0	-28,121	1,839,529
5.03	Adjusted opening balances	648,497	95,404	1,123,749	0	-28,121	1,839,529
5.04	Capital transactions with partners	0	23,890	130	-21,300	0	2,720
5.04.05	Treasury shares sold	0	23,890	0	0	0	23,890
5.04.06	Dividends	0	0	130	0	0	130
5.04.07	Interest on own capital	0	0	0	-21,300	0	-21,300
5.05	Total comprehensive income	0	0	0	115,830	-54,345	61,485
5.05.01	Net income for the period	0	0	0	115,830	0	115,830
5.05.02	Other comprehensive income	0	0	0	0	-54,345	-54,345
5.05.02.01	Financial instruments' adjustments	0	0	0	0	-2,337	-2,337
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	661	661
5.05.02.04	Translation adjustments in the period	0	0	0	0	-52,669	-52,669
5.06	Internal changes in shareholders' equity	0	0	94,909	-94,530	-379	0
5.06.01	Formation of reserves	0	0	94,909	-94,909	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	379	-379	0
5.07	Closing balances	648,497	119,294	1,218,788	0	-82,845	1,903,734

Individual financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
7.01	Income	563,971	746,297
7.01.01	Sale of goods, products and services	568,298	747,846
7.01.02	Other income	722	1,020
7.01.04	Allowance/reversal of allowance for doubtful accounts	-5,049	-2,569
7.02	Inputs acquired from third parties	-259,404	-310,640
7.02.01	Cost of products, goods and services sold	-187,077	-276,353
7.02.02	Materials, Energy, Outsourced services and other	-55,566	-32,878
7.02.03	Loss/recovery of asset values	-16,100	-227
7.02.04	Other	-661	-1,182
7.03	Gross added value	304,567	435,657
7.04	Retentions	-17,046	-18,903
7.04.01	Depreciation, amortization and depletion	-17,046	-18,903
7.05	Net added value produced	287,521	416,754
7.06	Added value received as transfer	46,946	85,878
7.06.01	Equity income (loss)	30,342	62,827
7.06.02	Financial income	17,954	24,780
7.06.03	Other	-1,350	-1,729
7.06.03.01	Other	324	870
7.06.03.02	Income (loss) from discontinued operations	-1,674	-2,599
7.07	Total added value payable	334,467	502,632
7.08	Distribution of added value	334,467	502,632
7.08.01	Personnel	154,382	156,138
7.08.01.01	Direct remuneration	120,322	122,287
7.08.01.02	Benefits	26,936	25,856
7.08.01.03	Severance Pay Fund (FGTS)	7,124	7,995
7.08.02	Taxes, rates and contributions	-42,305	178,212
7.08.02.01	Federal	-100,657	108,686
7.08.02.02	State	57,775	69,091
7.08.02.03	Municipal	577	435
7.08.03	Third-party capital remuneration	36,544	52,452
7.08.03.01	Interest	22,494	34,126
7.08.03.02	Rentals	7,723	8,898
7.08.03.03	Other	6,327	9,428
7.08.04	Remuneration of own capital	185,846	115,830
7.08.04.01	Interest on own capital	38,200	21,300
7.08.04.03	Retained earnings / Loss for the period	147,646	94,530

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
1	Total assets	3,734,258	3,782,052
1.01	Current assets	2,194,715	2,262,005
1.01.01	Cash and cash equivalents	449,866	391,347
1.01.02	Interest earning bank deposits	60,334	110,771
1.01.02.01	Interest earning bank deposits measured at fair value	60,334	110,771
1.01.02.01.02	Securities available for sale	60,334	110,771
1.01.03	Accounts receivable	795,163	931,300
1.01.03.01	Clients	795,163	931,300
1.01.04	Inventories	734,463	652,408
1.01.06	Recoverable taxes	59,947	63,476
1.01.06.01	Current recoverable taxes	59,947	63,476
1.01.07	Prepaid expenses	41,965	11,684
1.01.07.01	Prepaid expenses	18,235	11,523
1.01.07.02	Prepaid expenses with Advertising	23,730	161
1.01.08	Other Current assets	52,977	101,019
1.01.08.02	Assets from discontinued operations	15,865	65,453
1.01.08.03	Other	37,112	35,566
1.01.08.03.01	Advance to suppliers	16,661	12,312
1.01.08.03.02	Accounts receivable - Employees	4,446	7,477
1.01.08.03.03	Unrealized gains on derivative operations	261	632
1.01.08.03.04	Other assets	15,744	15,145
1.02	Non-current assets	1,539,543	1,520,047
1.02.01	Long-term assets	184,593	148,601
1.02.01.06	Deferred taxes	57,718	76,689
1.02.01.06.01	Deferred income and social contribution taxes	57,718	76,689
1.02.01.09	Other non-current assets	126,875	71,912
1.02.01.09.03	Compulsory deposits	73	73
1.02.01.09.04	Judicial deposits	22,262	22,264
1.02.01.09.05	Recoverable taxes	53,263	19,523
1.02.01.09.07	Other accounts receivable	51,277	30,052
1.02.02	Investments	3,062	2,206
1.02.02.01	Ownership interest	3,062	2,206
1.02.02.01.04	Other ownership interest	3,062	2,206
1.02.03	Property, plant and equipment	716,484	722,083
1.02.03.01	Fixed assets in operation	654,891	661,097
1.02.03.03	Constructions in progress	61,593	60,986
1.02.04	Intangible assets	635,404	647,157
1.02.04.01	Intangible assets	635,404	647,157
1.02.04.01.02	Intangible assets	635,404	647,157

Consolidated financial statements / Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
2	Total liabilities	3,734,258	3,782,052
2.01	Current liabilities	1,003,419	994,530
2.01.01	Social and labor obligations	172,767	162,695
2.01.01.01	Social charges	20,462	23,065
2.01.01.02	Labor obligations	152,305	139,630
2.01.02	Suppliers	364,879	427,288
2.01.02.01	Domestic suppliers	199,621	281,602
2.01.02.02	Foreign suppliers	165,258	145,686
2.01.03	Tax liabilities	59,898	68,840
2.01.03.01	Federal tax liabilities	56,808	55,534
2.01.03.01.01	Income and social contribution tax payable	34,433	19,399
2.01.03.01.02	Other tax liabilities	22,375	36,135
2.01.03.02	State tax liabilities	3,090	13,306
2.01.04	Loans and financing	215,688	209,908
2.01.04.01	Loans and financing	215,608	209,829
2.01.04.01.01	In domestic currency	68,176	72,189
2.01.04.01.02	In foreign currency	147,432	137,640
2.01.04.03	Financial leases	80	79
2.01.05	Other liabilities	173,737	99,922
2.01.05.02	Other	173,737	99,922
2.01.05.02.01	Dividends and interest on own capital	37,402	4,891
2.01.05.02.04	Liabilities traded from subsidiaries	5,870	6,100
2.01.05.02.05	Unrealized losses on derivative operations	713	1,369
2.01.05.02.06	Suppliers and other liabilities	129,752	87,562
2.01.06	Provisions	15,209	13,349
2.01.06.01	Tax, social security, labor and civil provisions	15,209	13,349
2.01.06.01.01	Tax provisions	1,788	1,500
2.01.06.01.02	Social security and labor provisions	13,412	11,840
2.01.06.01.04	Civil provisions	9	9
2.01.07	Losses on non-current assets held for sale and discontinued assets	1,241	12,528
2.01.07.02	Liabilities on assets from discontinued operations	1,241	12,528
2.02	Non-current liabilities	521,568	721,773
2.02.01	Loans and financing	373,194	382,766
2.02.01.01	Loans and financing	373,106	382,659
2.02.01.01.01	In domestic currency	373,106	382,659
2.02.01.03	Financial leases	88	107
2.02.02	Other liabilities	48,828	233,139
2.02.02.02	Other	48,828	233,139
2.02.02.02.03	Liabilities traded from subsidiaries	24,387	24,626
2.02.02.02.04	Taxes with enforceability suspended	0	198,624
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.07	Other liabilities	15,781	3,229
2.02.02.02.08	Long-term incentive plan	8,488	6,488
2.02.03	Deferred taxes	62,292	67,510
2.02.03.01	Deferred income and social contribution taxes	62,292	67,510

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2017	Prior year 12/31/2016
2.02.04	Provisions	37,254	38,358
2.02.04.01	Tax, social security, labor and civil provisions	37,254	38,358
2.02.04.01.01	Tax provisions	5,751	4,315
2.02.04.01.02	Social security and labor provisions	15,272	17,037
2.02.04.01.04	Civil provisions	16,231	17,006
2.03	Consolidated shareholders' equity	2,209,271	2,065,749
2.03.01	Realized capital	648,497	648,497
2.03.02	Capital reserves	108,551	108,551
2.03.02.05	Treasury shares	-64,248	-64,248
2.03.02.07	Other capital reserves	169,241	169,241
2.03.02.08	Goodwill in the sale of treasury shares	3,558	3,558
2.03.04	Profit reserves	1,513,070	1,365,194
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.05	Profit retention reserve	179,119	68,410
2.03.04.07	Tax incentive reserve	1,266,197	1,229,030
2.03.06	Equity valuation adjustments	13,570	13,665
2.03.07	Accumulated translation adjustments	-158,339	-159,456
2.03.08	Other comprehensive income	279	-428
2.03.08.01	Unrealized income (loss) in hedge operations	235	-428
2.03.08.02	Unrealized income (loss) in hedge operations - Subsidiaries	44	0
2.03.09	Non-controlling interest	83,643	89,726

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
3.01	Income from sales of goods and/or services	807,460	993,763
3.02	Cost of goods and/or services sold	-456,248	-514,562
3.03	Gross income (loss)	351,212	479,201
3.04	Operating expenses/income	-127,337	-317,643
3.04.01	Sales expenses	-209,574	-221,492
3.04.02	General and administrative expenses	-70,794	-66,107
3.04.04	Other operating income	215,080	1,913
3.04.05	Other operating expenses	-62,049	-31,957
3.04.05.01	Amortization of intangible asset	-7,394	-8,847
3.04.05.02	Other operating expenses	-54,655	-23,110
3.05	Income (loss) before financial income (loss) and taxes	223,875	161,558
3.06	Financial income (loss)	-12,422	-21,819
3.06.01	Financial income	19,488	29,060
3.06.01.01	Foreign exchange variation	2,896	9,236
3.06.01.02	Gains on derivative operations	965	5,564
3.06.01.03	Other financial income	15,627	14,260
3.06.02	Financial expenses	-31,910	-50,879
3.06.02.01	Foreign exchange variation	-5,788	-10,921
3.06.02.02	Losses on derivative operations	-1,024	-9,020
3.06.02.03	Other financial expenses	-25,098	-30,938
3.07	Income (loss) before income tax	211,453	139,739
3.08	Income and social contribution taxes	-30,016	-26,096
3.08.01	Current	-15,558	-28,147
3.08.02	Deferred assets	-14,458	2,051
3.09	Net income (loss) from continued operations	181,437	113,643
3.10	Net income (loss) from discontinued operations	-1,674	-2,778
3.10.01	Net income/loss from discontinued operations	-1,674	-2,778
3.11	Income/loss for the period	179,763	110,865
3.11.01	Attributed to the Parent company's partners	185,846	115,830
3.11.02	Attributed to non-controlling partners	-6,083	-4,965
3.99	Earnings per share - (Reais / Shares)		

Consolidated financial statements or Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
4.01	Consolidated net income for the period	179,763	110,865
4.02	Other comprehensive income	1,824	-54,292
4.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	1,117	-52,616
4.02.02	Unrealized income (loss) in hedge operations	1,005	-1,944
4.02.03	Deferred income on unrealized income (loss) in hedge operations	-342	661
4.02.04	Unrealized income (loss) in hedge operations - Subsidiaries	44	-393
4.03	Consolidated comprehensive income for the period	181,587	56,573
4.03.01	Attributed to the Parent company's partners	187,670	61,485
4.03.02	Attributed to non-controlling partners	-6,083	-4,912

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
6.01	Net cash from operating activities	42,461	-8,520
6.01.01	Cash generated in operations	98,183	144,774
6.01.01.01	Net income for the period	181,437	113,464
6.01.01.02	Depreciation and amortization	24,074	27,499
6.01.01.03	Income (loss) from sale/written-off of property, plant and equipment	7,027	1,096
6.01.01.04	Interest, monetary restatement and foreign exchange variation	11,572	6,924
6.01.01.05	Provisions for tax, civil and labor risks	3,795	5,210
6.01.01.06	Deferred income and social contribution taxes	14,458	-2,143
6.01.01.07	Taxes with enforceability suspended	-198,624	0
6.01.01.08	Prov. (Reversal) for doubtful accounts	5,558	1,712
6.01.01.09	Provision (Reversal) for inventory losses	8,498	2,361
6.01.01.10	Amortization of charges on loans and financing	-11,340	-12,606
6.01.01.11	Unrealized gains/losses on derivative operations	720	4,756
6.01.01.12	Provision for property, plant and equipment/intangible asset losses	14,337	0
6.01.01.13	Unrealized gains/losses on derivative operations - Subsidiaries	44	-393
6.01.01.14	Net cash generated/consumed in Discontinued operations	36,627	-3,106
6.01.02	Changes in assets and liabilities	-55,722	-153,294
6.01.02.01	Trade accounts receivable	111,206	-11,595
6.01.02.02	Inventories	-118,604	-114,699
6.01.02.03	Prepaid expenses	-30,269	-24,061
6.01.02.04	Recoverable taxes	-29,535	7,971
6.01.02.05	Suppliers	-53,519	-2,371
6.01.02.06	Taxes payable	-8,180	19,695
6.01.02.07	Salaries and social security charges	10,486	-14,094
6.01.02.08	IR/CSLL payment	-613	-5,862
6.01.02.09	Other	63,306	-8,278
6.02	Net cash used in investment activities	26,878	38,845
6.02.01	Acquisition of property, plant and equipment, intangible assets	-27,115	-14,944
6.02.02	Interest earning bank deposits	-46,610	-3,096
6.02.03	Redemption of interest earning bank deposits	100,603	54,058
6.02.04	Cash from sale of permanent asstes	0	2,827
6.03	Net cash from financing activities	-9,196	-68,041
6.03.01	Funding loans and financing	45,115	45,346
6.03.02	Amortization of loans and financing - Principal	-47,081	-130,562
6.03.03	Payment of dividends and interest on own capital	-5,554	-3,010
6.03.04	Amortization for debt restructuring of subsidiary	-1,676	-3,705
6.03.05	Sale/Acquisition of treasury shares, net	0	23,890
6.04	Foreign exchange variation on cash and cash equivalents	-1,624	-15,885
6.05	Increase (decrease) in cash and cash equivalents	58,519	-53,601
6.05.01	Opening balance of cash and cash equivalents	391,347	394,926
6.05.02	Closing balance of cash and cash equivalents	449,866	341,325

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–03/31/2017

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023	89,726	2,065,749
5.03	Adjusted opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023	89,726	2,065,749
5.04	Capital transactions with partners	0	0	135	-38,200	0	-38,065	0	-38,065
5.04.07	Interest on own capital	0	0	135	-38,200	0	-38,065	0	-38,065
5.05	Total comprehensive income	0	0	0	185,846	1,824	187,670	-6,083	181,587
5.05.01	Net income for the period	0	0	0	185,846	0	185,846	-6,083	179,763
5.05.02	Other comprehensive income	0	0	0	0	1,824	1,824	0	1,824
5.05.02.01	Financial instruments' adjustments	0	0	0	0	1,049	1,049	0	1,049
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-342	-342	0	-342
5.05.02.04	Translation adjustments in the period	0	0	0	0	1,117	1,117	0	1,117
5.06	Internal changes in shareholders' equity	0	0	147,741	-147,646	-95	0	0	0
5.06.01	Formation of reserves	0	0	147,741	-147,741	0	0	0	0
5.06.04	Realization of other income (loss)	0	0	0	95	-95	0	0	0
5.07	Comprehensive Closing balances	648,497	108,551	1,513,070	0	-144,490	2,125,628	83,643	2,209,271

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–03/31/2016

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	648,497	95,404	1,123,749	0	-28,121	1,839,529	91,707	1,931,236
5.03	Adjusted opening balances	648,497	95,404	1,123,749	0	-28,121	1,839,529	91,707	1,931,236
5.04	Capital transactions with partners	0	23,890	130	-21,300	0	2,720	0	2,720
5.04.05	Treasury shares sold	0	23,890	0	0	0	23,890	0	23,890
5.04.06	Dividends	0	0	130	0	0	130	0	130
5.04.07	Interest on own capital	0	0	0	-21,300	0	-21,300	0	-21,300
5.05	Total comprehensive income	0	0	0	115,830	-54,345	61,485	-4,912	56,573
5.05.01	Net income for the period	0	0	0	115,830	0	115,830	-4,965	110,865
5.05.02	Other comprehensive income	0	0	0	0	-54,345	-54,345	53	-54,292
5.05.02.01	Financial instruments' adjustments	0	0	0	0	-2,337	-2,337	0	-2,337
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	661	661	0	661
5.05.02.04	Translation adjustments in the period	0	0	0	0	-52,669	-52,669	53	-52,616
5.06	Internal changes in shareholders' equity	0	0	94,909	-94,530	-379	0	0	0
5.06.01	Formation of reserves	0	0	94,909	-94,909	0	0	0	0
5.06.04	Realization of other comprehensive income (loss)	0	0	0	379	-379	0	0	0
5.07	Closing balances	648,497	119,294	1,218,788	0	-82,845	1,903,734	86,795	1,990,529

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Accumulated of the current year 01/01/2017–03/31/2017	Accumulated of the prior year 01/01/2016–03/31/2016
7.01	Income	931,479	1,197,694
7.01.01	Sale of goods, products and services	935,044	1,198,181
7.01.02	Other income	1,993	1,225
7.01.04	Allowance/reversal of allowance for doubtful accounts	-5,558	-1,712
7.02	Inputs acquired from third parties	-445,545	-466,123
7.02.01	Cost of products, goods and services sold	-276,550	-432,182
7.02.02	Materials, Energy, Outsourced services and other	-150,641	-31,818
7.02.03	Loss/recovery of asset values	-17,693	-941
7.02.04	Other	-661	-1,182
7.03	Gross added value	485,934	731,571
7.04	Retentions	-24,074	-27,499
7.04.01	Depreciation, amortization and depletion	-24,074	-27,499
7.05	Net added value produced	461,860	704,072
7.06	Added value received as transfer	18,289	27,824
7.06.02	Financial income	19,488	29,406
7.06.03	Other	-1,199	-1,582
7.06.03.01	Other	475	1,017
7.06.03.02	Income (loss) from discontinued operations	-1,674	-2,599
7.07	Total added value payable	480,149	731,896
7.08	Distribution of added value	480,149	731,896
7.08.01	Personnel	230,527	249,011
7.08.01.01	Direct remuneration	192,244	209,309
7.08.01.02	Benefits	31,159	30,582
7.08.01.03	Severance Pay Fund (FGTS)	7,124	9,120
7.08.02	Taxes, rates and contributions	7,295	286,083
7.08.02.01	Federal	-51,207	212,885
7.08.02.02	State	57,775	72,623
7.08.02.03	Municipal	727	575
7.08.03	Third-party capital remuneration	62,564	85,937
7.08.03.01	Interest	31,709	49,869
7.08.03.02	Rentals	24,425	24,983
7.08.03.03	Other	6,430	11,085
7.08.04	Remuneration of own capital	179,763	110,865
7.08.04.01	Interest on own capital	38,200	21,300
7.08.04.03	Retained earnings / Loss for the period	147,646	94,530
7.08.04.04	Non-controlling interest in retained earnings	-6,083	-4,965

Notes

ALPARGATAS S.A.

NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2017
(Amounts expressed in thousands of reais - R$, unless otherwise indicated)

1. Operations

1.1. General considerations

Alpargatas S.A. ("Company") is a publicly-held corporation headquartered in the capital city of São Paulo, at Avenida Doutor Cardoso de Melo, 1336, listed in the São Paulo Stock Exchange (BMF&BOVESPA) under the codes “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 associated company 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 May 5, 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 own capital 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.

On July 12, 2016, the Company informed its shareholders and the market in general that J&F Investimentos S.A., the Company's parent company, as the offeror of the mandatory public offering of shares of the Company, due to the acquisition of Company’s controlling shares (“Mandatory IPO" (i) contracted Banco Bradesco BBI SA to provide the intermediation services of the Mandatory IPO and (ii) resubmitted, in the scope of the request for registration of the Mandatory IPO, all documents provided for by CVM Instruction 361. The call notice of mandatory IPO was published on August 17, 2016. As a result of the auction, J&F Investimentos S.A. acquired 45,322,491 common shares issued by the Company, representing 56.82% of the common shares object of the IPO, now holding 207,168,869 common shares, representing 85.75% of the total of this type of shares. The shares were acquired at the unit price of R$ 11.02, totaling R$ 499,454.

Notes

Considering that J&F already had 47,937,043 preferred shares of the Company, its interest in the total share capital of Alpargatas was 54.23%. The mandatory IPO (Initial Public Offering) was settled 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.; 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 precedent conditions.

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

The operation in Argentina will also take place by segregating the operation into a new company ("NewCo Argentina") to be organized by Alpargatas S.A.I.C.-Argentina, and buyers will acquire shares representing 20% of the capital of NewCo Argentina.

The Brazil operation purchase price was 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 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 of the purchase price of the Brazil transaction in the amount of R$ 24,345. The remaining receipts are occurring since July 2016, pursuant to the contract and respective addenda.

1.4. Timberland brand licensing

On May 13, 2016, the Company announced in a material fact that, as of January 1, 2017, will no longer be the representative of the Timberland brand in Brazil. This decision is in line with the Company's strategy regarding its positioning in the sporting goods market (see details in note 11).

Notes

1.5. Relocation Alpargatas International S.L.

On December 5, 2016, the Company completed the relocation process of Alpargatas International SL, new corporate name of Alpargatas International ApS, from Copenhagen (Denmark) to Madrid (Spain). Such European holding company relocation was due to strategic business growth issues, and to optimize management in a country with a strong presence, a strong cultural identity and a structure prepared to absorb new projects.

2. Basis of Preparation and description of significant accounting policies

The individual and consolidated quarterly information was prepared and are presented in accordance with Technical Pronouncement CPC 21 (R1) - Interim Statement and IAS 34 - Interim Financial Reporting, issued by Accounting Pronouncement Committee and International Accounting Standards Board (IASB), respectively, and in a manner consistent with the standards issued by the Securities Commission, applicable to the preparation of the Quarterly Information - ITR.

Accounting practices adopted in Brazil comprise those included in the Brazilian corporate law and the Pronouncements, Guidelines and Interpretations issued by the Accounting Pronouncement Committee (CPC) and approved by Securities Commission (CVM).

The information regarding the preparation and presentation basis of the quarterly information, the description of significant accounting policies and the use of estimates and judgments have not changed in relation to those disclosed in Note 2 to the annual financial statements for the year ended December 31 (hereinafter referred to as "financial statements as of December 31, 2016"), published on March 10, 2017 in the Valor Econômico and Official Gazette newspapers, and made available through the following websites: www.cvm.gov.br, www.bmfbovespa.com.br and www.alpargatas.com.br .

3. New standards, amendments and interpretations of standards

The standards, amendments and interpretations of standards issued but not yet adopted to the date of issuance of the financial statements of the Company, are shown below. The Company intends to adopt them when they become effective.

IFRS 15 – Income from Contracts with Clients

Establishes a five-step model applicable to revenue earned from a client contract, regardless of the type of revenue transaction or industry. It applies to all revenue contracts and provides a model for the recognition and measurement of gains or losses from the sale of certain non-financial assets that are not related to the Company's ordinary activities (for example, sales of real estate, facilities and equipment or intangible assets). Extensive disclosures are also required by this standard. This pronouncement shall be applied for years beginning or after January 1, 2018. The early adoption, although allowed by IFRS, was prohibited by Brazilian capital market regulators.

For product sales, income is currently recognized when the goods are delivered to the client’s location, considered as the time when the client accepts the goods and the risks and benefits related to ownership are transferred. Income is recognized at this time, provided that the income and costs can be measured reliably, receipt of consideration is probable, and there is no continuous involvement of Management with the products. According to IFRS 15, income must be recognized when the client obtains control of the products.

For certain contracts that allow the client to return merchandise, income is currently recognized when a reasonable estimate of returns can be made, provided that all other income recognition criteria are met. If a reasonable estimate cannot be made, income recognition is deferred until the return period expires or until a reasonable estimate of the returns can be made. According to IFRS 15, income from these agreements will be

Notes

recognized to the extent it is probable that a significant reversal in the value of accumulated income will not occur.

Up to the date of disclosure of these interim financial information, management have not concluded the measurement of the effects of this new pronouncement, thus not being able to disclose such effects.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments, which replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 meets the three aspects of accounting for financial instruments of the project: classification and measurement, impairment loss and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and the early adoption is permitted. Except for hedge accounting, the retrospective application is required. However, the presentation of comparative information is not mandatory.

For hedge accounting, the requirements are generally applied prospectively, with few exceptions.

Up to the date of disclosure of these interim financial information, management have not concluded the measurement of the effects of this new pronouncement, thus not being able to disclose such effects.

(i) Classification - Financial assets

IFRS 9 contains a new approach to financial asset classification and measurement that reflects the business model in which the assets are managed and their cash flow characteristics.

IFRS 9 contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in IAS 39 of held-to-maturity, loans and receivables, and available for sale.

In accordance with IFRS 9, derivatives embedded in agreements where the host is a financial asset in the scope of the standard are never separated. In turn, the hybrid financial instrument as a whole is evaluated for classification.

(ii) Impairment - Financial and contractual assets

IFRS 9 replaces the “incurred losses” model of CPC 38 (IAS 39) with a prospective “expected credit losses” model. This will require a relevant judgment as to how changes in economic factors affect the expected credit losses, which will be determined based on weighted probabilities.

The new model of expected losses will be applied to financial assets measured at amortized cost or FVTOCI, with the exception of investments in equity instruments and contractual assets.

Notes

According to IFRS 9, the provisions for expected losses will be measured on one of the following bases:

- Expected credit losses for 12 months, i.e., credit losses that result from potential delinquency events within 12 months after the reporting date; and

- Lifetime expected credit losses, i.e., credit losses that result from all possible delinquency events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, and the 12-month credit loss measurement applies if the risk has not increased significantly since its initial recognition. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk on the reporting date. However, the measurement of lifetime expected credit losses always applies to trade accounts receivable and contractual assets without a significant financing component; an entity may opt to apply this policy also to trade accounts receivable and contractual assets with a significant financing component.

(iii) Classification - Financial liabilities

IFRS 9 retains a large part of the requirements of IAS 39 for the classification of financial liabilities.

However, according to IAS 39, all changes in fair value of the liabilities designated as FVTPL are recognized in Income, whereas, according to IFRS 9, these changes in fair value are generally reported as follows:

- The amount of the change in fair value that is attributable to changes in the credit risk of the financial liability is presented in OCI; and

- The remaining amount of the change in fair value is presented in income (loss).

The Company did not designate or intend to designate financial liabilities as FVTPL. Up to the date of disclosure of these interim financial information, management have not concluded the measurement of the effects of this new pronouncement, thus not being able to disclose such effects.

(iv) Hedge accounting

In the initial application of IFRS 9, the Company may choose, as the accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the new requirements of IFRS 9.

IFRS 9 will require the Company to assure that hedge accounting relationships are aligned with the Group's risk management objectives and strategies, and that the Company applies a more qualitative and forward-looking approach to assessing the effectiveness of the hedge. IFRS 9 also introduces new requirements for rebalancing hedging relationships and prohibits the voluntary discontinuation of hedge accounting. According to the new model, it is likely that more risk management strategies, particularly those of a hedge of a risk component (other than foreign currency risk) of a non-financial item, may qualify for hedge accounting.

With the adoption of IFRS 9, the Company may opt to account for changes in the fair value of the future element separately, as a hedge cost. In such a case, such changes would be recognized in OCI and accumulated in a hedge cost reserve as a separate component within shareholders' equity, and subsequently accounted for in the same way as the accumulated gains and losses in the cash flow hedge reserve.

Notes

Up to the date of disclosure of these interim financial information, management have not concluded the measurement of the effects of this new pronouncement, thus not being able to disclose such effects.

IFRS 16 Leases

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

IFRS 16 replaces the current lease standards, including CPC 06 (IAS 17) Commercial Lease Transactions and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary aspects of lease transactions.

The standard in force for annual periods starting on or after January 1, 2019. Early adoption is permitted only to financial statements under IFRS and entities that apply IFRS 15 Income from Contracts with Clients on or before the date of first adoption of IFRS 16.

Up to the date of disclosure of these interim financial information, management have not concluded the measurement of the effects of this new pronouncement, thus not being able to disclose such effects.

Other amendments

In addition, the following new standards, amendments and interpretations were issued by the IASB, but management does not expect material impacts on the Company's consolidated financial statements and/or consolidated interim financial upon its initial adoption:

Amendment to IAS 7 - The amendments are part of the IASB disclosure improvement initiative and will be effective from annual periods beginning on January 1, 2017.

Amendments in IAS 12 - The amendments clarify the accounting of deferred tax assets on unrealized losses with debt instruments measured at fair value and will be in effect from annual periods beginning on January 1, 2017.

Amendments to IFRS 2 - The amendments address areas involving measurement, classification and modification of the terms and/or conditions of such transactions and will be effective from annual periods beginning on January 1, 2018.

Amendments in IFRS 4 - The amendments address concerns about the adoption of IFRS 9 and will be effective from annual periods beginning on January 1, 2018.

The Company intends to adopt such standards when they come into force, disclosing and recognizing the impacts on the financial statements and/or interim financial information that may occur upon the application of such adoptions.

Considering the current operations of the Company and its subsidiaries, Management does not expect that these amendments will have a material effect on the financial statements and/or interim financial information as of its adoption.

Notes

There are no other standards and interpretations issued and not yet adopted that might, in management's opinion, have a significant impact on the income (loss) or shareholders' equity disclosed by the Company.

4. Consolidated financial statements

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

		Interest (%)	
	Main activity	**03/31/2017**	**12/31/2016**
Direct interest:			
Fibrasil Agrícola e Comercial Ltda. *	Import and export in general, purchase, sale and lease of own properties and interest in other companies, in the country or abroad	100.00	100.00
Alpargatas Imobiliária S.A.	Sale and lease of own properties and holding interest in other companies, in Brazil or abroad.	100.00	100.00
Alpargatas International S.L. -Espanha (formerly Alpargatas International - APS)	Holding company with investments in other companies (Alpargatas USA Inc. and Alpargatas Europe S.L.U.)	100.00	100.00
Alpargatas S.A.I.C. - Argentina	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	98.35	98.35
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	Premium fashion retail chain with stores in Brazil and abroad	60.00	60.00
Alpargatas Asia Ltd. - Hong Kong	Trading of footwear	100.00	100.00
Indirect interest (through Alpargatas Internacional APS):			
Alpargatas USA Inc. - United States	Import and trading of footwear in the U.S. market	100.00	100.00
Alpargatas Europe S.L.U. - Spain	Import and trading 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 (by means of Fibrasil Agrícola e Comercial Ltda.):			
Alpargatas S.A.I.C. - Argentina	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	1.65	1.65
Dialog S.A.	Logistic services	10.00	10.00
Indirect interest (by means of Alpargatas S.A.I.C. - Argentina):			
Alpargatas Calzados de Uruguay S.A.	Trading of footwear	100.00	100.00
Dialog S.A.	Logistic 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 over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) ability to use its power over the investee to affect their return value.

Notes

The balance sheet of foreign subsidiaries 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 statement of income of foreign subsidiaries was translated into reais at average exchange rates. The differences arising from the use of different translation rates are recorded in shareholders' equity, under "Equity valuation adjustment".

5. Tax incentives – Investment subsidies

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:

		Parent company		Consolidated	
		03/31/2017	03/31/2016	03/31/2017	03/31/2016
ICMS grant:					
Paraíba	(a)	24,499	33,250	24,499	33,250
Pernambuco	(b)	2,208	3,695	2,208	3,695
Minas Gerais	(c)	4,046	3,906	4,046	3,906
Corporate Income Tax (IRPJ) incentives:					
Northeastern region	(d)	6,414	-	6,414	-
Total		37,167	40,851	37,167	40,851

(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.

In addition, during the quarters ended March 31, 2017 and 2016, there were no incentive installments to be accounted for, arising from obligations established by the incentive program, to be complied with by the Company. Tax incentive installments are credited to “Sales taxes” in the statement of income.

(b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of ICMS deemed credit, thus committed to what was agreed with the state government by subsidiary CBS S.A. - Companhia Brasileira de Sandálias, which was merged by the parent company on February 1, 2015. The parent company 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) Determination of presumed ICMS credit by Montes Claros plant. The amounts refer to unpaid ICMS installments, thus committed to what was agreed upon with the state government. The Company is in compliance with the established agreement, which consists of investing, generating income and creating direct jobs in Minas Gerais state plant.

(d) Recorded at credit under “Current income and social contribution taxes” caption in statement of income (see details in Note 10.b).

Notes

6. Cash and cash equivalents and interest earning bank deposits

(i) Cash and cash equivalents

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Cash and banks	70,235	2,050	113,910	86,144
Interest earning bank deposits:				
Post-fixed CDBs (Bank Deposit Certificates) (i)	135,019	105,094	142,437	114,135
Post-fixed purchase and sale commitments (i)	182,942	159,183	193,351	170,278
Other - Alpargatas S.A.I.C. - Argentina (ii)	-	-	168	20,790
Total	388,196	266,327	449,866	391,347

(i) As of March 31, 2017, CDBs (Bank Deposit Certificates) and purchase and sale commitments had an average remuneration of 100.78% of CDI (100.57% as of December 31, 2016). The maturity terms range from April 2017 to January 2023, with a grace period for redemption of three months or less, and are subject to an insignificant risk of change in value.

(ii) As of March 31, 2017, interest earning bank deposits held by the subsidiary Alpargatas S.A.I.C. - Argentina are represented by fixed income securities with an annual average remuneration of 26.80% (26.80% as of December 31, 2016).

(iii) Interest earning bank deposits

As of March 31, 2017, refer to CDBs (Bank Deposit Certificates) and post-fixed purchase and sale commitments at the average remuneration of 102.91% of CDI (Interbank Deposit Certificate) (103.05% as of December 31, 2016).

	Parent company and Consolidated	
	03/31/2017	12/31/2016
Post-fixed CDBs (Bank Deposit Certificates) (i)	42,491	63,179
Post-fixed purchase and sale commitments (i)	17,843	47,592
Total	60,334	110,771

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

7. Trade accounts receivable

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

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Domestic market	479,232	682,712	523,691	746,257
Foreign market (i)	43,492	59,858	314,533	224,684
Related parties (Note 21.b))	32,932	43,597	-	-
Allowance for doubtful accounts	(40,536)	(37,094)	(43,061)	(39,641)
Total	515,120	749,073	795,163	931,300

Notes

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

a) Trade accounts receivable by maturity age

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Falling due	462,400	690,963	709,226	850,929
Overdue - in days				
Up to 30	20,262	23,165	39,149	30,464
31–60	7,588	3,186	12,116	7,878
61–90	3,067	1,384	5,552	4,169
91–180	3,827	4,430	5,946	9,244
>181	58,512	63,039	66,235	68,257
Total	555,656	786,167	838,224	970,941

b) Allowance for doubtful accounts

Changes in the allowance for doubtful accounts are as follows:

	Parent company	Consolidated
Balances at December 31, 2016	(37,094)	(39,641)
Additions	(5,049)	(5,877)
Reversals	-	319
Other changes / foreign exchange variation	1,607	2,138
Balances at March 31, 2017	(40,536)	(43,061)

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

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Up to 30	(107)	-	(107)	-
31–60	(9)	(23)	(67)	(99)
61–90	(158)	(101)	(191)	(125)
91–180	(3,003)	(1,991)	(3,890)	(2,828)
>181	(37,259)	(34,979)	(38,806)	(36,589)
Total	(40,536)	(37,094)	(43,061)	(39,641)

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

The maximum credit risk exposure on the date of the financial statements is the book value of each maturity bracket as shown in the table above. No provision for losses was recorded for default clients 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 formed.

Notes

8. Inventories

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

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Finished products	246,642	190,405	469,676	402,065
Work in process	23,732	27,491	48,649	47,608
Raw materials	111,375	110,778	161,236	156,466
Imports in transit	15,041	27,190	15,041	27,190
Other	25,219	3,145	59,095	28,315
Provision for inventory losses	(11,052)	(3,150)	(19,234)	(9,236)
Total	410,957	355,859	734,463	652,408

Changes in the provision for inventory losses are as follow:

	Parent company	Consolidated
Balances at December 31, 2016	(3,150)	(9,236)
Additions	(6,921)	(8,498)
Other changes / Foreign exchange variation	(981)	(1,500)
Balances at March 31, 2017	(11,052)	(19,234)

9. Recoverable taxes

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Prepayments of income and social contribution taxes	1,761	2,290	2,011	2,545
Withholding income tax – IRRF	13,164	12,060	13,550	12,477
Value-Added Tax on Sales and Services -				
ICMS	739	842	947	4,965
Excise Tax - IPI	426	469	486	1,430
Social Integration Program (PIS) and Contribution for social security funding - COFINS to be offset	3,120	3,976	5,106	5,947
Tax incentive - Brasil Maior Plan	5,077	3,804	5,077	3,804
Credit from INSS lawsuit	6,988	6,988	6,988	6,988
Alpargatas Europe S.L.U. - Spain:				
Value-Added Tax - VAT	-	-	1,647	1,719
Prepayments of income tax	-	-	3,979	8,798
Alpargatas S.A.I.C. - Argentina:				
Value-Added Tax - VAT	-	-	1,689	1,802
Prepayments of income tax	-	-	17,815	14,351
Export taxes	-	-	4,132	4,649
Tax credit (note 33.b)	-	-	37,544	3,483
Other	5,336	6,821	12,239	10,041
Total	36,611	37,250	113,210	82,999
Current portion	26,569	26,763	59,947	63,476
Installments - non-current	10,042	10,487	53,263	19,523

10. Income and social contribution taxes

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

Notes

a) Deferred assets

		Parent company and Consolidated	
		03/31/2017	12/31/2016
Assets:			
Parent company:			
Allowance for doubtful accounts		12,320	10,987
Provision for inventory losses		2,096	1,012
Provision for tax, civil and labor risks		12,109	11,899
Provisions for taxes with enforceability suspended			32,249
Recognition adjustment of sales income		3,500	405
Transactions with derivative financial instruments		(121)	221
Tax losses and negative social contribution base		15,098	22,346
Other temporary differences		15,090	6,022
Total - parent company		60,092	85,141
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Provisions for tax, civil and labor risks		4,991	5,228
- Provision for inventory losses		225	225
- Other temporary differences		12,859	12,089
		18,075	17,542
Alpargatas Europe S.L.U. - Spain:			
- Tax losses	(i)	2,416	1,375
Deferred taxes on unrealized income		3,569	4,686
Total - consolidated		84,152	108,744
Liabilities:			
Parent company:			
Goodwill in the acquisition of subsidiaries - amortized for tax purposes	(ii)	15,147	14,543
Transactions with derivative financial instruments		(220)	(30)
Total parent company		14,927	14,513
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Adjustment to present value on renegotiated liabilities and tax difference in valuation of fixed asset items		11,507	18,215
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	(iii)	62,292	66,837
Total - consolidated		88,726	99,565
Parent Company - Non-current assets		45,165	70,628
Consolidated - Non-current assets		57,718	76,689
Consolidated - Non-current liabilities		(62,292)	(67,510)

Notes

(i) The Company enjoys the goodwill tax benefit on acquisition of subsidiary CBS S.A. Companhia Brasileira de Sandálias, at the ratio of 1/60, after the merger of former subsidiary Atlântico Participações S.A., with monthly amortization of R$400 from January 2009 to October 2017, which has resulted in a R$136/month tax effect, and of CBS S.A., with monthly amortization of R$192 from February 2015 to January 2020, with a tax effect of R$65/month for income and social contribution taxes (IRPJ and CSLL) purposes.

(ii) Refer to deferred income and social contribution tax liabilities on fair value of assets acquired and liabilities assumed upon acquisition of the controlling interest of Osklen. Liabilities are reversed as the acquired defined usefu life intangible assets are amortized.

(iii) Refer to deferred income and social contribution tax liabilities on fair value of assets acquired and liabilities assumed upon acquisition of the controlling interest of Osklen. Liabilities are reversed as the acquired defined useful life intangible assets are amortized.

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

	03/31/2017	12/31/2016
2017 (nine months)	3,183	23,444
2018	28,041	12,282
2019	15,448	17,303
2020	13,500	12,886
2021 onwards	23,980	42,829
Total - consolidated	84,152	108,744

As of March 31, 2017, 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 amount of unrecorded tax credit, calculated at the current rate in the United States of America, is as follows:

Total temporary differences	48
Tax losses	88,788
Tax credit	88,836

The tax credit on tax losses arising from such subsidiary has a 20-year period to be offset (expiration date).

Changes in balances of deferred income and social contribution taxes, assets and liabilities for the quarter ended March 31, 2017 and end of year 2016 is as follows:

Notes

	Parent company			Consolidated		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Balance at December 31, 2016	85,141	14,513	70,628	108,744	99,565	9,179
Effects on income (loss)	(25,569)	414	(25,983)	(25,090)	(10,632)	(14,458)
Other comprehensive income	(342)	-	(342)	(342)	-	(342)
Taxes - Discontinued operations	862	-	862	862	-	862
Exchange gains (losses), charges and other changes	-	-	-	(22)	(207)	185
Balance at March 31, 2017	60,092	14,927	45,165	84,152	88,726	(4,574)

b) Current

Reconciliation of income and social contribution taxes on net income:

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Income before income and social contribution taxes	223,836	119,281	211,453	139,730
Combined tax rate for income and social contribution taxes	34%	34%	34%	34%
Expense with income and social contribution taxes at the current tax rate	(76,104)	(40,556)	(71,894)	(47,511)
Equity income (loss)	10,316	21,361	-	-
Benefits of interest on own capital	12,988	7,242	12,988	7,242
Investment grant - ICMS	10,296	14,090	10,296	14,090
Federal tax grant - IRPJ (Corporate Income Tax) (Note 5)	6,414	-	6,414	-
Tax credit - Argentina (note 33.b))	-	-	11.33101.	-
Other permanent exclusions (additions), net	(226)	(2,810)	850	84
Total income and social contribution tax expense	(36,316)	(673)	(30,016)	(26,096)
Current	(10,333)	(2,046)	(15,558)	(28,147)
Deferred assets	(25,983)	1,373	(14,458)	2,051
Effective rate	16%	1%	14%	19%

11. Discontinued operations

As disclosed 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. Additionally, on May 13, 2016, the Company announced that, as of January 1, 2017, would no longer be the representative of the Timberland brand in Brazil. As of March 31, 2017, the assets and liabilities balances and income and expenses of such operations were classified discontinued operations, causing an impact on the business segment “Domestic operations". Thus, certain captions of the financial statements corresponding to Timberland operations and related to the quarter ended March 31, 2016 were reclassified for the separate presentation of Discontinued Operations, as established by the accounting standard.

The profit or loss for Topper and Rainha brands in Brazil for the quarters is as follows:

Notes

March 31, 2017:

	Topper e Rainha	Timberland	Total
Income	-	25,857	25,857
Cost	-	(26,051)	(26,051)
Gross income	-	(194)	(194)
Net operating expenses	-	(2,503)	(2,503)
Financial income (loss)	-	161	161
Income (loss) from discontinued operations before taxes	-	(2,536)	(2,536)
Tax income (expense):			
Related to income (loss) before taxes	-	862	862
Income (loss) for the year from discontinued operations - Attributable to the Parent Company's partners	-	(1,674)	(1,674)

March 31, 2016:

	Topper e Rainha	Timberland	Total
Income	31,605	17,805	49,410
Cost	(26,624)	(10,779)	(37,403)
Gross income	4,981	7,026	12,007
Net operating expenses	(9,424)	(7,643)	(17,067)
Financial income (loss)	505	346	851
Income (loss) from discontinued operations before taxes	(3,938)	(271)	(4,209)
Tax income (expense):			
Related to income (loss) before taxes	1,339	92	1,431
Income (loss) for the year from discontinued operations - Attributable to the Parent Company's partners	(2,599)	(179)	(2,778)

12. Judicial deposits

	Parent company		Consolidated	
	03/31/2017	31/012/2016	03/31/2017	31/012/2016
Tax lawsuits	10,040	10,040	10,040	10,040
Civil lawsuits	13	13	13	13
Labor claims	9,696	9,816	12,209	12,211
	19,749	19,869	22,262	22,264

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

Notes

13. Investments

They are represented as follow:

	Parent company	
	03/31/2017	12/31/2016
Investments	451,748	420,245
Goodwill	273,393	327,255
	725,141	747,500

Notes

	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 on March 31, 2017.									
Quantity of shares or quotas held	5,978,751	57,734,570		10,296,177	507,021,800		50,914,603		
Total current assets	278	231,837		7,719	410,041		122,845		
Total non-current assets	3,794	35,261		3,234	105,243		269,959		
Total current liabilities	-	162,971		74	253,754		95,150		
Total non-current liabilities	-	704		-	42,899		88,548		
Capital	5,979	196,367		10,296	106,197		80,209		
Non-controlling interest	-	-		-	190		83,643		
Shareholders' equity	4,072	103,423		10,879	218,441		125,463		
Unrealized income in inventories / Unrealized gain from sale of assets	-	(5,385)		-	25		(1,568)		
	4,072	98,038		10,879	218,466		123,895		
Net income for the period		156,363		28	154,075		42,282		
Net income (loss) for the period	101	32,817	(i)	132	4,351		(15,207)		
Interest – %	100.00	100.00		100.00	98.35	(ii)	60.00		
Book value of investments:									
Balance at December 31, 2016	3,985	62,366		10,747	210,127		133,020		420,245
Hedge operations	-	44		-	-		-		44
Equity income (loss)	101	34,954	(i)	132	4,280		(9,125)		30,342
Foreign exchange variation of investments	(14)	674		-	457		-		1,117
Balance at March 31, 2017	4,072	98,038		10,879	214,864		123,895	(iii)	451,748

(i) The difference of R$(2,137) 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 subsidiary Fibrasil Agrícola e Comercial Ltda. and totals R$3,602 at March 31, 2017.

(iii) As of March 31, 2017, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen was R$77,170 (R$81,034 as of December 31, 2016).

Notes

	Subsidiaries							
	Fibrasil Agrícola e Comercial Ltda.	**Alpargatas Internacional APS - Denmark**		**Alpargatas Imobiliária S.A.**	**Alpargatas S.A.I.C. - Argentina**		**Terras de Avent. Ind. de Art. Esportivos S.A. -Osklen**	**Total**
Information at March 31, 2016								
Quantity of shares or quotas held	5,978,751	57,734,570		10,296,177	507,021,800		50,914,603	
Total current assets	293	252,617		8,184	385,372		116,593	
Total non-current assets	4,022	37,551		3,234	82,784		279,852	
Total current liabilities	-	192,169		74	189,954		102,731	
Total non-current liabilities	-	1,062		-	45,382		76,726	
Capital	5,979	234,852		10,296	125,736		76,292	
Non-controlling interest	-	-		-	184		86,795	
Shareholders' equity – Controlling shareholders	4,315	96,937		11,344	232,636		130,193	
Unrealized income from inventories	-	(7,126)		-	-		-	
	4,315	89,811		11,344	232,636		130,193	
Net income for the period		193,093		26	197,830		45,567	
Net income (loss) for the period	290	51,969	(i)	144	17,689		(12,412)	
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
Hedge operations	(6)	-		-	(387)		-	(393)
Equity income (loss)	290	52,422	(i)	144	17,418		(7,447)	62,827
Foreign exchange variation of investments	(873)	(2,708)		-	(49,167)		79	(52,669)
Balance at March 31, 2016	4,315	89,811		11,344	228,798		130,193	(iii) 464,461

(i) The difference of R$453 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 the subsidiary Fibrasil Agrícola e Comercial Ltda. and totals R$3,838 at March 31, 2016.

(iii) As of March 31, 2016, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen was R$ 84,201 (R$84,733 as of December 31, 2015).

Notes

As of March 31, 2017 and December 31, 2016, the goodwill in subsidiaries is comprised 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, 2016	53,862	96,268	177,125	327,255
Balance at March 31, 2017	-	96,268	177,125	273,393

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

	indirect subsidiaries							
Information at March 31, 2017	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. - USA	Total indirect subsidiaries
Quantity of shares or quotas held	100,000	5,000	1	1	2	25,000	10	
Total current assets	169,405	3,709	5,191	3,045	2,494	750	46,909	
Total non-current assets	7,388	4,811	1,519	4,282	3,272	179	12,404	
Total current liabilities	52,747	7,456	1,578	5,454	4,955	584	130,394	
Total non-current liabilities	377	-	-	-	-	-	328	
Shareholders' equity (unsecured liability)	123,669	1,064	5,132	1,873	811	345	(71,409)	
Net income for the year	116,307	2,474	2,287	2,689	946	542	31,118	
Net income (loss) for the year	32,427	(605)	(136)	(147)	(464)	79	2,073	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments:								
Balance at December 31, 2016	91,999	1,701	5,247	2,051	1,298	269	(75,642)	26,923
Equity income (loss)	32,427	(605)	(136)	(147)	(464)	79	2,073	33,227
Foreign exchange variation of investments	(757)	(32)	21	(31)	(23)	(3)	2,160	1,335
Balance at March 31, 2017	123,669	1,064	5,132	1,873	811	345	(71,409)	61,485

Notes

Information at March 31, 2016	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. - USA**	**Total indirect subsidiaries**
Quantity of shares or quotas held	100,000	5,000	1	1	2	25,000	10	
Total current assets	162,417	4,486	6,949	2,508	1,577	756	73,460	
Total non-current assets	8,340	5,463	751	2,128	1,649	266	15,030	
Total current liabilities	67,887	9,090	1,798	3,235	2,046	701	153,812	
Total non-current liabilities	687	-	-	-	-	-	374	
Shareholders' equity (unsecured liability)	102,183	859	5,902	1,401	1,180	321	(65,696)	
Net income for the period	145,728	3,468	2,888	2,298	958	683	37,070	
Net income (loss) for the period	49,435	(376)	440	(219)	(39)	149	5,758	
Indirect interest - %	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 income (loss)	49,435	(376)	440	(219)	(39)	149	5,758	55,148
Foreign exchange variation of investments	(5,848)	(54)	(796)	(76)	(58)	(11)	6,627	(216)
Balance at March 31, 2016	102,183	859	5,902	1,401	1,180	321	(65,696)	46,150

Notes

14. Property, plant and equipment

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

		Parent company					
		03/31/2017			12/31/2016		
	Annual weighted average rate of depreciation (%)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land		10,321		10,321	10,321		10,321
Buildings and constructions	4	345,899	(91,358)	254,541	340,000	(90,036)	249,964
Machinery and equipment	8	487,986	(220,452)	267,534	467,526	(208,239)	259,287
Furniture and fixtures	10	47,006	(25,418)	21,588	46,410	(24,496)	21,914
Vehicles	15	7,088	(4,226)	2,862	6,905	(3,937)	2,968
Leasehold improvements	20	30,937	(20,457)	10,480	33,067	(21,967)	11,100
Projects in progress	-	52,322	-	52,322	55,113	-	55,113
Other fixed assets	10	3,788	-	3,788	3,788	-	3,788
Provision for losses ("impairment")	-	(14,684)	-	(14,684)	(347)	-	(347)
Total		970,663	(361,911)	608,752	962,783	(348,675)	614,108

		Consolidated					
		03/31/2017			12/31/2016		
	Annual weighted average rate of depreciation (%)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	11,957	-	11,957	12,256	-	12,256
Buildings and constructions	4	437,392	(158,130)	279,262	472,338	(194,893)	277,445
Machinery and equipment	8	618,615	(329,360)	289,255	645,197	(358,152)	287,045
Furniture and fixtures	10	95,827	(64,098)	31,729	108,040	(77,897)	30,143
Vehicles	15	8,851	(5,837)	3,014	9,214	(6,092)	3,122
Leasehold improvements	20	97,273	(51,639)	45,634	101,220	(56,927)	44,293
Projects in progress	-	61,593	-	61,593	60,986	-	60,986
Other property, plant and equipment	10	8,724	-	8,724	13,440	-	13,440
Provision for losses ("impairment") (ii)	-	(14,684)	-	(14,684)	(6,647)	-	(6,647)
Total		1,325,548	(609,064)	716,484	1,416,044	(693,961)	722,083

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

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

Notes

Changes

	Parent company						
	12/31/2016	Additions	Transfers (i)	Depreciation	Write-offs	Foreign exchange variation /Other changes	03/31/2017
Property, plant and equipment – land	10,321						10,321
Buildings and constructions	249,964	-	6,897	(2,325)	(16)	21	254,541
Machinery and equipment	259,287		16,054	(7,821)	(46)	60	267,534
Furniture and fixtures	21,914	-	826	(1,151)	(60)	59	21,588
Vehicles	2,968	-	73	(174)	(5)	-	2,862
Leasehold improvements	11,100	-	224	(830)	(14)	-	10,480
Projects in progress	55,113	20,901	(23,692)	-	-	-	52,322
Other property, plant and equipment	3,788	-	-	-	-	-	3,788
Provision for losses ("impairment")	(347)	-	-	-	-	(14,337) (ii)	(14,684)
Total	614,108	20,901	382	(12,301)	(141)	(14,197)	608,752

	Consolidated						
	12/31/2016	Additions	Transfers (i)	Depreciation	Write-offs	Foreign exchange variation /Other changes (ii)	03/31/2017
Property, plant and equipment							
Land	12,256	-	-	-	-	(299)	11,957
Buildings and constructions	277,445	9	6,897	(2,787)	(16)	(2,286)	279,262
Machinery and equipment	287,045	241	16,054	(8,433)	(46)	(5,506)	289,255
Furniture and fixtures	30,143	468	826	(2,001)	(60)	2,353	31,729
Vehicles	3,122	-	73	(191)	(5)	15	3,014
Leasehold improvements	44,293	579	224	(3,268)	(14)	3,820	45,634
Projects in progress (iii)	60,986	24,249	(23,692)	-		50	61,593
Other Property, plant and equipment	13,440	-	-	-	-	(4,716)	8,724
Provision for losses ("impairment")	(6,647)	-	-	-	-	(8,037)	(14,684)
Total	722,083	25,546	382	(16,680)	(141)	(14,706)	716,484

(i) The transfers correspond to the changes in assets between the line item "Projects in progress" to the corresponding definite accounts in "Property, plant and equipment", upon completion of projects.

(ii) Mainly refers to foreign exchange variation of foreign subsidiaries.

(iii) The balances recorded in line item "Projects in progress" refer to the following projects: (1) maintenance and modernization of plants, with investments of approximately R$12,594; and (2) several improvements and expansion of the manufacturing process, with investments of approximately R$27,386; and (3) other projects R$21,614.

Notes

15. Intangible assets

	Parent company						
		03/31/2017			12/31/2016		
	Annual rate of amortization (%)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Business management systems (ii)	10	196,447	(140,783)	55,664	193,854	(134,228)	59,626
Client portfolio	10	27,311	(27,311)	-	27,311	(27,311)	-
Without defined useful life:							
Brands, rights and patents	-	1,027	-	1,027	1,027	-	1,027
Goodwill in the acquisition of merged subsidiaries	-	53,862	-	53,862	-	-	-
Projects in progress	-	5,946	-	5,946	7,005	-	7,005
Assignment of commercial rights (i)	-	3,615	-	3,615	3,618	-	3,618
Total		288,208	(168,094)	120,114	232,815	(161,539)	71,276

	Consolidated						
		03/31/2017			12/31/2016		
	Annual rate of amortization (%)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Brands, rights and patents	10	18,751	(17,345)	1,406	24,712	(22,810)	1,902
Business management systems (ii)	10	204,548	(146,383)	58,165	203,337	(141,286)	62,051
Assignment of commercial rights	5	10,253	(3,355)	6,898	11,076	(4,809)	6,267
Client portfolio	20	41,564	(38,798)	2,766	35,806	(32,694)	3,112
Non-compete agreement	25	20,850	(10,203)	10,647	20,850	(9,204)	11,646
Without defined useful life: Trademarks, rights and patents	-	143,916	-	143,916	143,916	-	143,916
Goodwill in the acquisition of subsidiaries	-	327,255	-	327,255	327,255	-	327,255
Projects in progress	-	6,887	-	6,887	5,569	-	5,569
Assignment of commercial rights (i)	-	77,464	-	77,464	85,439	-	85,439
Total		851,488	(216,084)	635,404	857,960	(210,803)	647,157

(i) Refer to amounts paid in the acquisition of the rights to use points of sale where certain "Concept Havaianas" and Osklen are located. As it refers to tradable intangible assets, they are not amortized, being submitted to annual test for impairment to determine recovery.

(ii) They refer to the expenditures incurred in the acquisition, development and implementation of business management systems, such as SAP/R3, WMS and LINX, and the costs incurred in the value chain management project.

Notes

Additional information on intangible assets

(i) *Expenditures with research and development of products*

	Consolidated	
	03/31/2017	03/31/2016
Expenses with research and development of products recorded in income (loss):	4,858	5,897

(ii) *Goodwill impairment test*

Factors that indicated loss on the recoverable value of goodwill in the period were not found.

Changes

	Parent company						
	12/31/2016	Additions	Transfers (i)	Amortizations	Write-offs	Foreign exchange variation /Other changes (ii)	03/31/2017
Intangible asset							
With defined useful life:							
Business management system	59,626	-	778	(4,745)	(7)	12	55,664
Without defined useful life:							
Brands, rights and patents	1,027	-	-	-	-	-	1,027
Goodwill in the acquisition of merged subsidiaries	-	-	-	-	-	53,862	53,862
Projects in progress	7,005	101	(1,160)	-	-	-	5,946
Assignment of commercial rights	3,618	-	-	-	(1,327)	1,324	3,615
Total	71,276	101	(382)	(4,745)	1,334	55,198	120,114

	Consolidated						
	12/31/2016	Additions	Transfers (i)	Amortizations	Write-offs	Foreign exchange variation /Other changes (ii)	03/31/2017
Intangible assets							
With defined useful life:							
Brands, rights and patents	1,902	-	-	(463)	-	(33)	1,406
Business management systems	62,051	771	778	(6,547)	(7)	1,119	58,165
Assignment of commercial rights	6,267	-	-	(384)	-	1,015	6,898
Client portfolio	3,112	-	-	-	-	(346)	2,766
Non-compete agreement	11,646	-	-	-	-	(999)	10,647
Without defined useful life:							
Brands, rights and patents	143,916	-	-	-	-	-	143,916
Goodwill in the acquisition of subsidiaries	327,255	-	-	-	-	-	327,255
Projects in progress (iii)	5,569	(296)	(1,160)	-	-	2,774	6,887
Assignment of commercial rights	85,439	1,094	-	-	(6,879)	(2,190)	77,464
Total	647,157	1,569	(382)	(7,394)	(6,886)	1,340	635,404

Notes

(i) The transfers correspond to the changes in assets between the line item "Projects in progress" to the corresponding definite accounts in "Intangible assets", upon completion of projects.

(ii) Mainly refers to foreign exchange variation of foreign subsidiaries.

(iii) The balances recorded in line item "Projects in progress" refer to the following projects: (1) investments in infrastructure and IT, with investment of R$5,130, and (2) other projects R$ 1,757.

16. Suppliers

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Domestic	187,808	269,807	199,621	281,602
Foreigners	46,860	52,229	165,258	145,686
Total	234,668	322,036	364,879	427,288

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

17. Loans and financing

				Parent company		Consolidated	
		Currency	Index and annual interest rate	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Denominated in reais:							
FNE (BNB)	(a)		4.08%	138,160	144,145	138,160	144,145
Finame	(b)		3.43%	39,798	41,765	39,798	41,765
Finem	(c)		12.13%	53,563	57,008	53,563	57,008
Exim (BNDES)	(d)		12.79%	188,491	186,270	188,491	186,270
Debtor risk	(e)		15.63%			21,270	25,660
Total in reais				420,012	429,188	441,282	454,848
Denominated in foreign currency:							
Foreign facility (4131) - Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen	(f)		13.88%	-	-	27,353	42,545
"Working capital" - Alpargatas USA	(g)	US$	2.99%	-	-	63,536	56,099
"Working capital" - Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen	(e)	US$	14.13%	-	-	7,921	8,148
"Line of Credit" - Alpargatas USA		US$	3.23%	-	-	1,407	-
Financial leases - Alpargatas S.A.I.C. - Argentina		AR$	23.88%	-	-	168	186
"Working capital" - Alpargatas S.A.I.C. - Argentina	(h)	AR$	15.01%	-	-	47,215	30,848
Total foreign currency				-	-	147,600	137,826
Overall total				420,012	429,188	588,882	592,674
Current liabilities				46,906	46,530	215,688	209,908
Non-current liabilities				373,106	382,658	373,194	382,766

a) Allocated to support investment programs in the Northeastern region, and investment in the Montes Claros plant in the Northern region of Minas Gerais. The clearance of contract installments was tied to disbursement schedule of investments. Guarantees are backed by a letter of bank guarantee.

Notes

b) Loans and financing related to FINAME, which were raised by the parent company, are aimed at financing equipment that will be used by the company for improving and increasing production (usually plant equipment). The average term of operations is 96 months (eight years). These financings are monthly amortized, one portion relating to principal and the other to interest.

c) In October 2015, the Company received a credit of R$25,445 related to Pro Design (FINEM). The amounts raised in this modality are aimed at contributing and fostering the development and strengthen the trademark, and also product creation. There are two financing contracts in this modality, one for flip flops and other focused on sports items. Both with a term of 60 months.

d) In June 2016, the company received a credit of R$ 180,840 related to the financing of the BNDES-EXIM Pre-Shipment facility signed with the banks Santander and Safra. The funds are aimed at financing the exports of flip flops, and require evidence of the export performance during the contract period at the end of the operation. The financing will be amortized in a single installment in 2018.

e) Loans obtained by subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. to finance working capital.

f) In August 2016, the Company, by means of the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., raised the amount of US$4,746 (four million seven hundred forty-six thousand dollars) with maturity in February 2017. On the same date, it purchased a Swap to hedge against interest rate, converting the financial charges (Libor + 1.65% p.a.) into 114.00% of CDI (see note 35.c)), designating the derivative financial instrument to hedge fair value. In September 2016, the Company, also by means of the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., raised the amount of US$3,773 (three million seven hundred seventy-tree thousand dollars) with maturity in August 2017. On the same date, a swap was purchased to hedge against interest rate, converting the financial charges (Libor + 1.85% p.a.) into 114.00% of CDI (see note 35.c)), designating the derivative financial instrument to hedge fair value. In October 2016, the Company, also by means of the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., raised the amount of US$4,658 (four million six hundred fifty-eight thousand dollars) with maturity in August 2017. On the same date, a swap was purchased to hedge against interest rate, converting the financial charges (Libor + 1.85% p.a.) into 114.00% of CDI (see note 35.c)), designating the derivative financial instrument to hedge fair value. The loans and swaps are presented at their fair values.

g) The loans and financing funded by foreign subsidiaries are guaranteed by Company's collaterals, according to the limits approved by the Board of Directors.

h) The loans and financing funded by Alpargatas S.A.I.C. - Argentina are used in the working capital of the operation, and do not have covenants or guarantees.

The other loans are guaranteed by Promissory Notes and conditional disposal of the assets of the Company and its subsidiaries, with the exception of the working capital of Alpargatas S.A.I.C. - Argentina.

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

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
2018	221,029	232,762	221,095	232,768
2019	53,212	51,469	53,234	51,556
2020	35,958	35,522	35,958	35,535
2021	30,216	30,215	30,216	30,216
2022	30,216	30,215	30,216	30,216
2023	1,837	1,837	1,837	1,837
2024 onwards	638	638	638	638
Total	373,106	382,658	373,194	382,766

Contractual covenants

Notes

As of March 31, 2017 and December 31, 2016, the loans and financing contracts of the Company and its subsidiaries did not contain restrictive covenants that established obligations regarding of the compliance with the financial ratios by the Company and its subsidiaries.

18. Liabilities traded from subsidiaries

	Consolidated	
	03/31/2017	12/31/2016
Current	5,870	6,100
Non-current	24,387	24,626
Total	30,257	30,726

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

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

The above amounts are shown net of the adjustments to present value, in the amounts of R$15,115 and R$19,940, respectively, as at March 31, 2017 and 2016. The adjustment to present value has been calculated considering as rate, the difference between the base rate of Argentina and the fixed rate for restating liabilities, as established according to the terms of the traded liabilities. As at March 31, 2017, the average discount rate for adjustment to present value was 15% per year.

The effects arising from the net reversal of adjustment to present value have been recorded in the line item "Financial Expenses" in the consolidated, and total R$458 in profit or loss for the quarter ended March 31, 2017 (R$1,033 related to the same period of 2016).

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

As at March 31, 2017, the reversals expected for the following years related to the adjustment to present value are shown as follow:

2017 (nine months)	1,338
2018	1,686
2019	1,579
2020 onwards	10,512
Total	15,115

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

Notes

2018	3,994
2019	4,138
2020 onwards	16,255
Total	24,387

Balance at December 31, 2016	30,726
Interest	1,158
Foreign exchange variation	49
Payments	(1,676)
Balance at March 31, 2017	30,257

19. Tax liabilities

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Value-Added Tax on Sales and Services - ICMS	1,290	4,061	3,421	13,765
Social Integration Program - PIS and Contribution for the Financing of Social Security - COFINS	5,671	13,419	8,988	19,301
Excise Tax - IPI	267	150	267	150
Income and social contribution taxes	9,587	-	34,433	19,399
Brasil Maior Plan	2,889	3,900	2,889	3,994
Alpargatas S.A.I.C. - Argentina:				
Value-Added Tax - VAT			357	2,016
Other taxes	-	-	4,293	2,442
Alpargatas Europe S.L.U. - Spain: Value-Added Tax - VAT			558	7
Other taxes	-	-	914	2,151
Other	2,069	4,453	3,778	5,615
Total	21,773	25,983	59,898	68,840

20. Provisions and other liabilities

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
“Royalties” payable	4,296	6,429	4,305	6,440
Provision for freight payable	6,047	10,917	12,180	11,281
Advertising payable	9,587	9,163	12,088	11,145
Commissions payable	1,740	663	7,072	1,989
Provision for industrial restructuring (i)	8,077	-	28,677	-
Provision for expenses - Novo Mercado (ii)	2,500	-	2,500	-
Provision for legal fees - COFINS lawsuit (Note 23)	8,106	-	8,106	-
Import expenses - US	-	-	7,131	7,235
Advance from clients	2,224	2,127	8,610	5,588
Storage - EMEA/USA	-	-	4,229	3,688
Other accounts payable (commissions, outsourced services, concessionaires and other)	4,186	6,385	34.854	40,196
Total	46,763	35,684	129,752	87,562

(i) Refer to expenditures with industrial restructuring in Brazil and Argentina.

(ii) Refer to costs incurred with the operationalization of the migration to Novo Mercado with banks.

Notes

21. Related parties

a) Related-party balances

Non-current assets and (liabilities)	Parent company	
	03/31/2017	12/31/2016
Alpargatas Imobiliária S.A.	(23)	(23)
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	376	554
Total	353	531

The balance is represented by the current account between the Company and its subsidiaries, in view of the centralized management of cash and cash equivalents, not being imposed financial charges.

b) Balances receivable and payable from related-party transactions

		Parent Company - Accounts receivable		Parent Company and Consolidated - Accounts payable	
		03/31/2017	12/31/2016	03/31/2017	12/31/2016
Alpargatas USA Inc. - United States	(ii)	13,143	19,029	-	-
Alpargatas Europe S.L.U. - Spain	(ii)	18,282	24,212	-	-
Alpargatas S.A.I.C. - Argentina		961	-	-	-
Alpargatas Calzados del Uruguay S.A.		546	356	-	-
JBS S.A.	(iii)	-	-	-	1,147
Total		32,932	43,597	-	1,147

c) Dividends and interest on own capital payable

	Parent company and Consolidated	
	03/31/2017	12/31/2016
Interest on own capital	37,402	4,891

Related-party transactions

Related-party transactions are as follow:

		Sale of products/services		Purchase of products/services	
		03/31/2017	03/31/2016	03/31/2017	03/31/2016
Alpargatas S.A.	(i)	38,314	40,891		
Alpargatas USA Inc. - United States		-	-	4,381	8,307
Alpargatas Europe S.L.U. - Spain		-	-	31,777	32,488
Alpargatas S.A.I.C. - Argentina		-	-	1,251	13
Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen		-	-	-	83
JBS S.A.	(iii)	-	-	905	-
Total		38,314	40,891	38,314	40,891

(i) Substantially comprise sales of flip flops of "Havaianas" trademark to the subsidiaries located in the US and Europe, in view of the operations model, and

Notes

the distribution channel format defined for the Company's foreign operations, in which products are manufactured in Brazil and then sold to foreign subsidiaries, where they are resold.

During the quarters ended March 31, 2017 and 2016, the Company did not record any derecognition or allowance for doubtful accounts for balances receivable of foreign subsidiaries.

(ii) Accounts receivable for the sales of the products described in item (i), which receipts will occur through September 2017.

(iii) Refer to reimbursements of media and freight expenses.

As of March 31, 2017, except for the collaterals and for the guarantees granted to support the loans and financing operations, as mentioned in Note 17, the Company and its subsidiaries had not granted other collaterals and guarantees to the related parties.

d) Remuneration of key management personnel

The Directors' fees are as follow:

	03/31/2017		
	Remuneration		
	Fixed	Variable (i)	Total
Board of Directors and Tax Council	910	-	910
Directors	1,957	1,751	3,708
Total	2,867	1,751	4,618

	03/31/2016		
	Remuneration		
	Fixed	Variable (i)	Total
Board of Directors and Tax Council	742	-	742
Directors	1,763	1,910	3,673
Total	2,505	1,910	4,415

(i) Refers to profit sharing recorded in the year.

According to Note 29, during the quarter ended March 31, 2017, an expense was recognized for the long-term incentive plan amounting to R$2,000 (R$1,389 as at March 31, 2016).

In addition to the management compensation, during the quarter ended March 31, 2017, the Company made contributions to the private pension plan in the amount of R$150 (R$130 as at March 31, 2016) on behalf of the statutory directors.

The annual aggregate Directors' fees set for the year 2017 in the Annual Shareholders' Meeting of April 19, 2017 was R$23,900.

22. Provision for tax, civil and labor risks

Notes

As of March 31, 2017 and December 31, 2016, the Company and its subsidiaries are parties to tax, civil and labor lawsuits, arising from tax assessment notices by tax authorities, third-parties and former employees claims, or actions and questionings. For these contingencies, new provisions were recognized, when, in the opinion of Management and its legal advisors, the risk of any loss is considered probable. These provisions are shown as follow:

		Parent company		Consolidated	
		03/31/2017	12/31/2016	03/31/2017	12/31/2016
Labor claims	(a)	15,266	14,927	27,283	27,475
Tax lawsuits	(b)	5,751	4,315	7,539	5,815
Civil lawsuits		16,116	16,892	16,125	16,901
Contingent liabilities	(c)	-	-	1,516	1,516
Total		37,133	36,134	52,463	51,707
Current portion		10,954	10,558	15,209	13,349
Installments - non-current		26,179	25,576	37,254	38,358

(a) Refer to the claims filed against the Company and its subsidiaries by former employees and collaborators, who basically claim severance payment, extras, overtime, and allowances that they understand as due in view of the subsidiary liability.

(b) Basically refers to a tax assessment notice related to COFINS for the period of July and September to December 1992 issued against the Company, in which the non-taxed differences are disputed, which amount adjusted as at March 31, 2017 amounts to R$4,268. The claim is waiting from a decision in the administrative court of last resort.

(c) Refers to a contingent liability recognized at fair value as a result of the acquisition of subsidiary Osklen.

Changes

	Parent company			
	Labor	Tax	Civil	Total
Balance at December 31, 2016	14,927	4,315	16,892	36,134
Complements	2,986	1,436	(776)	3,646
Payments / Write-offs	(2,647)	-	-	(2,647)
Balance at March 31, 2017	15,266	5,751	16,116	37,133

	Consolidated				
Balance at December 31, 2016	Labor	Tax	Civil	Contingent liabilities	Total
	27,475	5,815	16,901	1,516	51,707
Complements	3,139	1,436	(776)	-	3,799
Reversals	-	-	(4)	-	(4)
Payments/Write-offs/Foreign exchange variation	(3,331)	288	4	-	(3,039)
Balance at March 31, 2017	27,283	7,539	16,125	1,516	52,463

Notes

Possible losses

Contingent liabilities with risk of loss classified as possible:

	Parent company and Consolidated	
	03/31/2017	12/31/2016
Tax:		
Tax assessment notice - IRRF (Withholding Income Tax) (a)	10,375	10,267
CSLL and IRPJ (b)	11,666	11,529
Royalties (c)	7,393	7,303
IPI (d)	47,480	46,865
Other	9,712	13,974
	86,626	89,938
Civil (indemnity lawsuits)	8,534	4,826

(a) Tax assessment notice aimed at collecting IRRF, offset against IRPJ credits.

(b) Tax assessment notice related to the non-approval of offsets of tax debits against IRPJ and CSLL debits.

(c) Tax assessment notice aimed at collecting II, IPI, PIS-Import and COFINS-Import on amounts remitted abroad as royalties, in the period from 2007 to 2010. The Company was awarded a final and unappealable favorable decision in administrative proceeding in the amount of R$ 51,569. The remaining amount refers to tax assessment notice that is still pending judgment.

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

Contingent assets

The Company claims in court the refund for PIS and COFINS collected with the inclusion of ICMS in their tax bases, the expectation of favorable outcome in such claim is considered probable according to the opinion of its legal counsels.

Such refund refers to the period from March 1996 to May 2008 and from January 2015 to March 2017 for COFINS, and from March 2002 to March 2017 for PIS. The amounts involved are estimated at R$300,000, and the Company does not recognize the contingent asset listed above, according to the Pronouncement CPC 25 – Provisions and contingent liabilities and assets.

23. Taxes with enforceability suspended

	Changes in deferred income and social contribution taxes			
	12/31/2016	Restatements	Complements/ (Reversals)	03/31/2017
COFINS - exclusion of ICMS calculation basis	198,624		(198,624)	

Since 1993 the Company has challenged in court the inclusion of ICMS in the tax base of COFINS, and in the period from May 1993 to February 1996 it made judicial deposits.

Notes

From June 2008 to December 2014, the Company used the stay effects from the Injunction sought at the Federal Supreme Court to keep excluding ICMS from the COFINS tax base, however, with no need for making judicial deposits. Nevertheless, such amounts were recorded as liability with suspended payment requirement.

On March 15, 2017 the Federal Supreme Court ruled, in the systematics of general repercussion, the Appeal to the Supreme Court No. 574.706, interpreting the issue favorable to taxpayers, establishing the following thesis: "ICMS should not comprise PIS and COFINS calculation basis". Such judgment was duly formalized by the Judgment Records published on March 17, 2017 and March 20, 2017, reason why the Company reversed the provision for the amounts which payment was suspended, according to the opinion of its legal advisors.

24. Shareholders' equity

a) Capital

Subscribed and paid-in capital have the following ownership structure:

March 31, 2017:

	Common shares		Preferred shares		Total	
Shareholders	Quantity	%	Quantity	%	Quantity	%
Parent companies (J&F Investimentos)	207,246,069	85.78	47,937,043	20.95	255,183,112	54.24
Directors:						
Board of Management	25,220,333	10.44	24,236,311	10.59	49,456,644	10.51
Tax Council	-	-	2,000	-	2,000	-
Other shareholders	9,142,149	3.78	156,665,872	68.46	165,808,021	35.25
Total	241,608,551	100.00	228,841,226	100.00	470,449,777	100.00

December 31, 2016:

	Common shares		Preferred shares		Total	
Shareholders	Quantity	%	Quantity	%	Quantity	%
Parent companies (J&F Investimentos)	161,846,378	66.99	47,937,043	20.95	209,783,421	44.59
Directors:						
Board of Management	62,312,359	25.79	34,382,011	15.02	96,694,370	20.55
Tax Council	-	-	9,500	-	9,500	-
Other shareholders	17,449,814	7.22	146,512,672	64.03	163,962,486	34.86
Total	241,608,551	100.00	228,841,226	100.00	470,449,777	100.00

b) Share repurchase plan

In the quarter ended March 31, 2017, the "Treasury Shares" accounts had no changes.

	Quantity	Average Cost - R$
Balance at December 31, 2016	7,396,403	8.69
Balance at March 31, 2017	7,396,403	8.69

Notes

c) Dividends and interest on own capital

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

In the quarter ended March 31, 2017, Management declared interest on own capital in the gross amount of R$38,200 (R$32,992, net of Withholding Income Tax - IRRF).

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

	Per share – R$ (gross)			
	03/31/2017		12/31/2016	
	Common	Preferred	Common	Preferred
Interest on own capital	0.07873	0.08660	0.27328	0.30061

d) Tax incentive reserve

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

e) Legal reserve

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

25. Information per business segment

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

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

Net income per segment is as follows in the quarter ended March 31, 2017:

- Domestic operations:
  - Brazil: 57.7%
- Foreign operations:
  - Argentina: 19.1%
  - Europe, United States and Exports: 23.2%

Notes

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

Information is shown below:

	03/31/2017					
Statement of income accounts – Continued operations	**Net operating income**	**Net income (loss)**	**Depreciation and amortization**	**Financial (deficit) surplus**	**Net foreign exchange variation**	**Income and social contribution taxes**
Domestic operations:						
Brazil	423,799	151,535	(16,277)	(1,453)	(1,565)	(37,524)
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	42,282	(15,207)	(3,615)	(2,402)	(244)	4,087
Foreign operations:						
Argentina	154,075	4,351	(1,082)	(4,985)	138	14,581
Europe / USA / Exports	187,304	34,646	(3,100)	(690)	(1,221)	(11,160)
Non-controlling interest	-	6,112	-	-	-	-
Consolidated	807,460	181,437	(24,074)	(9,530)	(2,892)	(30,016)

	03/31/2016					
Statement of income accounts – Continued operations	**Net operating income**	**Net income (loss)**	**Depreciation and amortization**	**Financial (deficit) surplus**	**Net foreign exchange variation**	**Income and social contribution taxes**
Domestic operations:						
Brazil	514,686	46,334	(17,672)	(12,251)	5,599	(1,009)
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	45,567	(12,412)	(3,631)	(4,035)	(1,220)	267
Foreign operations:						
Argentina	197,830	17,689	(1.987)	(3,223)	1,717	(9,191)
Europe / USA / Exports	235,680	57,067	(4,209)	(625)	(7,781)	(16,163)
Non-controlling interest	-	4,965	-	-	-	-
Consolidated	993,763	113,643	(27,499)	(20,134)	(1,685)	(26,096)

The table below presents equity balance as of March 31, 2017 and December 31, 2016.

	03/31/2017			12/31/2016		
	Total assets	**Current and non-current liabilities**	**Addition to fixed and intangible assets**	**Total assets**	**Current and non-current liabilities**	**Addition to fixed and intangible assets**
Assets and liabilities						
Domestic operations:						
Brazil	2,460,853	858,982	21,002	2,577,971	1,118,907	80,830
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	392,805	183,698	953	422,953	198,639	9,622
Foreign operations:						
Argentina	515,284	296,653	1,105	441,897	228,056	9,069
Europe / USA / Exports	365,316	185,654	4,055	339,231	170,701	9,582
Consolidated	3,734,258	1,524,987	27,115	3,782,052	1,716,303	109,103

Notes

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

26. Net operating income

	Parent company		Consolidated	
	03/31/2017	03/31/2016	13/31/2017	03/31/2016
Gross operating income:				
Domestic market	513,739	647,269	571,842	688,103
Foreign market	68,187	82,631	390,730	495,043
	581,926	729,900	962,572	1,183,146
Returns and cancellations	(13,628)	(14,204)	(27,528)	(24,212)
Sales taxes	(76,149)	(102,370)	(127,584)	(165,171)
Net operating income	492,149	613,326	807,460	993,763

27. Expenses per type

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

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Cost of products sold:				
Raw materials	168,087	248,894	241,736	312,962
Salaries, social charges and benefits	108,270	94,421	156,977	151,327
Depreciation	10,806	8,976	11,611	10,365
Hedge accounting	1,944	(46)	1,944	(46)
Provisions for tax, civil and labor risks (note 22).	3,055	-	3,053	-
Other costs	24,438	20,989	40,927	39,954
Total	316,600	373,234	456,248	514,562
Sales expenses:				
Salaries, social charges and benefits	17,841	16,810	42,224	47,279
Profit sharing	3,120	2,590	4,348	3,958
Freight	15,412	18,076	25,105	28,636
Advertising and publicity	36,095	35,145	48,297	50,817
Commissions	2,052	1,649	12,740	13,590
Clients' agreement	4,473	3,460	5,105	4,255
Depreciation	616	641	1,930	2,019
Royalties	6,271	8,583	6,351	9,389
Outsourced services	3,981	3,931	9,354	9,367
Rental / Leasing	2,476	2,321	17,037	16,923
Traveling expenses	919	988	2,106	2,207
Storage expenses	1,124	1,721	10,082	11,981
Bulk packaging	7,097	5,841	7,097	5,841
Cargo Insurance	1,688	558	2,304	1,574
Other	9,831	9,351	15,494	13,656
	112,996	111,665	209,574	221,492
General and administrative				
Salaries, social charges and benefits	20,348	20,258	34,969	34,806
Directors' fees (Note 20.e))	4,523	4,313	4,618	4,415
Outsourced services	6,736	5,787	14,043	11,460
Depreciation	861	982	3,139	3,998
Rent and condominium	3,117	3,773	3,843	3,911
Maintenance and repairs	2,225	1,861	2,428	2,025
Other	3,726	2,610	7,754	5,492
	41,536	39,584	70,794	66,107

Notes

28. Stock purchase option programs

The Company granted stock options of preferred shares to some of its employees by means of a program approved by Special Shareholders' Meetings aimed at retaining and encourage them to work towards the interests and goals of the Company and its shareholders. The plans are managed by the Human Resources area of the Company.

In the Annual and Special Shareholders' Meeting held on April 23, 2015, shareholders approved the termination of the Stock Option Plan of the Company, preserving the options already granted and not exercised, according to the contracts in effect.

As a result of the change in the Company's control, as disclosed in note 1.2, the program beneficiaries were entitled to exercise in advance their stock options, and the new parent company was required to acquire the shares for the same price paid to Camargo Corrêa S.A. The program beneficiaries exercised the options in February 2016.

29. Long-term incentive plan

On April 23, 2015, in the Annual and Special Shareholders' Meeting the shareholders approved the new long-term incentive plan (ILP). The ILP plan, which is not technically a share-based remuneration or variable remuneration, is based on a value-creation policy that enables some employees of the Company and its subsidiaries to acquire rights with the Company, based on the distribution of a portion of the creation of future value for the Company that exceeds the hurdle rate *(ke / hurdle rate)* to its shareholders, and has the following benchmarks: (i) market (BM&F Bovespa); (ii) economic (multiple of EBITDA); and (iii) multiple of dividends.

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

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

The new plan started on January 1, 2015 and provides five annual programs, from 2015 to 2019. The Board of Directors of the Company may approve new programs after 2019.

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

The accounting expense recorded in profit or loss related to long-term incentive plans, in the quarter ended March 31, 2017, was R$2,000 (R$1,389 in the quarter ended March 31, 2016), as contra-entry to the liability account of long-term incentive plan.

Notes

30. Employee benefits

The Company and its subsidiaries sponsor a defined contribution private pension plan, and, in addition, grant its own concede um single-life annuity and pension plan for a certain group of former employees and respective spouses. As of March 31, 2017 and December 31, 2016, actuarial liabilities of these plans is R$ 172.

31. Financial income and expenses, net

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Financial income:				
Yields from interest earning bank deposits	11,269	8,707	11,845	11,208
Asset interest	2,501	1,003	3,167	1,150
Other	524	1,761	615	1,902
	14,294	11,471	15,627	14,260
Financial expenses				
Interest and charges on loans and financing	(9,852)	(8,247)	(14,210)	(10,313)
Interest and charges on liabilities traded from subsidiary	-	-	(1,158)	(2,189)
Tax on Financial Operations - IOF	(78)	(67)	489	(266)
Tax on bank operations				
Argentina	-	-	(1,639)	(2,077)
Monetary restatement on taxes	-	(2,689)	-	(2,694)
Bank expenses	(965)	(2,408)	(1,135)	(3,125)
Adjustment to present value	(4,152)	(6,673)	(4,150)	(6,673)
Other	(849)	(413)	(3,295)	(3,601)
Total	(15,896)	(20,497)	(25,098)	(30,938)
Gains on operations with derivative financial instruments	965	5,564	965	5,564
Losses on operations with derivative financial instruments	(1,024)	(9,020)	(1,024)	(9,020)
	(59)	(3,456)	(59)	(3,456)
Total	(1,661)	(12,482)	(9,530)	(20,134)

Notes

32. Net foreign exchange variation

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Asset foreign exchange fluctuation	2,695	7,399	2,896	9,236
Liability foreign exchange fluctuations	(5,124)	(4,680)	(5,788)	(10,921)
	(2,429)	2,719	(2,892)	(1,685)

33. Other operating income (expenses)

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Other operating income:				
Sale of scrap	170	220	170	220
Income from deductible rate	103	260	103	260
Sale of property, plant and equipment	45	-	45	25
Escrow Osklen	235	-	235	-
Write-off of taxes with enforceability suspended (Note 23)	190,518	-	190,518	-
Credit action premium IPI	22,223	-	22,223	-
Other	369	1,086	1,786	1,408
	213,663	1,566	215,080	1,913
Other operating expenses:				
Amortization of intangible assets	(4,745)	(5,786)	(7,394)	(8,847)
Provisions for tax, civil and labor risks (note 21).	(591)	(3,790)	(742)	(5,210)
Long-term incentive plan	(2,000)	(1,389)	(2,000)	(1,389)
Special projects	(298)	(474)	(298)	(474)
Depreciation for revaluation of plant 22 useful life	-	(1,945)	-	(1,945)
Severance pay	(1,937)	(296)	(1,937)	(296)
Profit sharing program	-	(8,012)	-	(10,414)
Provision expenses Novo Mercado	(2,500)	-	(2,500)	-
Provision for industrial restructuring (Note 20)	(14,695)	-	(14,695)	-
Provision for losses on property, plant and equipment	(7,719)	-	(7,719)	-
Cotton moratorium Argentina (a)	-	-	(14,660)	-
Tax credit - Argentina (b)	-	-	33,323	-
Restructuring - Argentina (Note 20)	-	-	(33,462)	-
Negative goodwill - Points of sale Osklen	-	-	(5,552)	-
Other	(2,611)	(2,500)	(4,413)	(3,382)
	(37,096)	(24,192)	(62,049)	(31,957)
Total	176,567	(22,626)	153,031	(30,044)

(a) In March 2017, Alpargatas S.A.I.C. - Argentina renegotiated with the domestic tax authority the payment of a debit of taxes levied on cotton purchases, not paid for the years from 2005 to 2012. The payment will be made in sixty (60) monthly installments starting in April 2017.

(b) In March 2017, Alpargatas S.A.I.C. - Argentina obtained favorable outcome in a lawsuit against the Argentine Government, which challenged the suspension of export benefit in 1992.

Notes

34. Profit sharing

The Company and its subsidiaries grant profit sharing to its employees related to the achievement of operating goals and specific objectives established and approved at the beginning of each year for each plant/unit. In the quarters ended March 31, 2017 and 2016, the following amounts were recognized:

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Profit sharing program	14,310	20,652	17,222	24,271

This liability is recorded in “Salaries and social security charges payable” account in current liabilities.

35. Financial derivative instruments and risk management

a) Sundry considerations and policies

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

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

b) Financial risk management

Financial risk factors

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

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

b.1) *Market risk*

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

i) Foreign exchange risk

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

Notes

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

ii) Interest rate risk

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

b.2) *Credit risk*

Sales are mainly made to retail and wholesale stores. The credit risk is reduced by the large dispersion of the client portfolio and the procedures of evaluation and concession of credit.

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

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

b.3) *Liquidity risk*

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

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

c) Derivative financial instruments and hedge accounting

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

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

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

Notes

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

The operations with derivatives aim to hedge the Company's future cash flow through reduction of foreign exchange exposure to a horizon of 12 months in the future. The future foreign exchange exposure is based on projections of payments and receipts in foreign currency. On March 31, 2017, the total volume covered by hedge (Notional) represented the amount of US$536 (five hundred thirty-six thousand dollars) through operations of the type NDF ("Non-Deliverables Forward"). These operations aim to hedge against impacts of the exchange variation on imports and exports.

Cash flow hedge

The Company adopts the hedge accounting to all operations with derivative financial instruments of the type NDF, whose object of hedge are highly-probable imports and future purchases of inventories in foreign currency.

On March 31, 2017, the Company had a position of derivative financial instruments of the type NDF ("Non-Deliverable Forward") designated as hedge of cash flow of the Company in view of commercial commitments in foreign currency, which Alpargatas believes to be highly probable. The operations have different maturities within a horizon of 12 months in the future. The settlement of this type of instrument is made according to the PTAX on the maturity date. The book balance recorded in Company's balance sheet as of March 31, 2017 is in the table below:

	03/31/2017		12/31/2016	
	Assets	Liabilities	Assets	Liabilities
NDF- "Non-Deliverable Forward" (Fair value - MtM)	203	713	632	1,369

The book balance recorded in Company's shareholders' equity as of March 31, 2017 is in the table below:

	03/31/2017	Other comprehensive income	12/31/2016
Gross balance held in shareholders' equity	357	1,005	(648)
Deferred income and social contribution tax assets on hedge operation	(122)	(342)	220
Gross balance held in shareholders' equity	235	663	(428)

Cash flow hedge operations for future purchases expected in a horizon of 12 months in the future were considered as efficient on March 31, 2017.

The value transferred during the quarter ended March 31, 2017 of shareholders' equity from the reserve of other comprehensive income to the book balance of the items was equal to R$(1,944), since the operation was designated to purchases as of April 2017.

Notes

The accumulated impacts of derivative instruments of the NDF type on income (loss) for the quarter ended March 31, 2017 totaled R$(2,003) of which R$(59) in Financial Income/Expenses (see note 31) and R$(1,944) in Costs of Sold Products (see note 27).
The settlements of derivative financial instruments of the type NDF in the quarter ended March 31, 2017 totaled a cash outflow of R$(1,444).

Fair value hedge

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

On March 31, 2017, the Company, through the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. had a position of derivative financial instruments of the type Swap designated as "hedge" of debts in foreign currency, obtained through Foreign Facility 4131, with maturity on August 22, 2017. The settlement of this type of instrument is made according to the present value on the settlement date. The book balance recorded in Company's balance sheet as of March 31, 2017 is in the table below:

	03/31/2017		12/31/2016	
	Assets	Liabilities	Assets	Liabilities
Swap		862	167	

The operations of hedge of fair value of loans in currency were considered as highly efficient on March 31, 2017.

Accumulated impacts on transactions in income (loss) for the quarter ended March 31, 2017 totaled R$(1,356).

d) Financial liabilities

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

	03/31/2017				
	<1 year	1–2 years	3–5 years	>5 years	Book balance
Obligations from financial lease	80	88			168
Loans and financing	215,608	234,316	106,099	32,691	588,714
Suppliers	364,879	-	-	-	364,879
Total	580,567	234,404	106,099	32,691	953,761

Notes

	<1 year	1–2 years	3–5 years	>5 years	Future Flow
Loans and financing (charges)	41,191	31,873	7,618	150	80,832
Total	41,191	31,873	7,618	150	80,832
Overall total	621,758	266,277	113,717	32,841	1,034,593

	12/31/2016				
	<1 year	1–2 years	3–5 years	>5 years	Book balance
Obligations from financial lease	79	6	101		186
Loans and financing	209,829	232,763	117,206	32,690	592,488
Suppliers	427,288	-	-	-	427,288
Total	637,196	232,769	117,307	32,690	1,019,962

	<1 year	1–2 years	3–5 years	>5 years	Future Flow
Loans and financing (charges)	38,414	32,444	7,618	150	78,626
Total	38,414	32,444	7,618	150	78,626
Overall total	675,610	265,207	124,925	32,840	1,098,588

e) Capital management

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

	03/31/2017	12/31/2016
Cash and cash equivalents and interest earning bank deposits	510,200	502,118
(-) Short and long-term loans and financing	(588,882)	(592,674)
Net financial position	(78,682)	(90,556)
Shareholders' equity	2,209,271	2,065,749

Notes

f) Foreign exchange exposure

	Parent company		Consolidated	
	03/31/2017	12/31/2016	03/31/2017	12/31/2016
Assets:				
Banks	-	4	-	4
Trade accounts receivable	76,424	103,455	76,424	103,455
Total assets	76,424	103,459	76,424	103,459
Liabilities:				
Suppliers	46,860	52,229	48,808	52,246
“Royalties” payable	4,296	6,429	4,296	6,429
Total liabilities	51,156	58,658	53,104	58,675
Net exposure	25,268	44,801	23,320	44,784
Derivative financial instruments	(511)	(737)	(453)	(737)
Total exposure for sensitivity analysis purpose	24,757	44,064	22,867	44,047

g) Market values

On March 31, 2017 and December 31, 2016, the market values of variable cash investments approximate the values recorded in the financial statements since they are linked to the CDI variation. The Company adjusts the market value of its prefixed investments recorded in the balance sheet. Loans and financing are maintained monetarily updated based on interest rates contracted according to usual market conditions and, therefore, the balances payable on the balance sheet dates substantially approximate market values, even those classified as “non-current", considering the type of the corresponding financing.

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

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

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

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

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

Notes

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

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

Notes

Accounting classification and fair values

March 31, 2017	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Loans and receivables	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Foreign currency forward contract	-	261	-	261	261	-	261
	-	261	-	261	261	-	261
Financial assets not measured at fair value							
Trade accounts receivable	-	-	795,163	795,163	-	-	795,163
Cash and cash equivalents	335,956	.	113,910	449,866	335,956	.	449,866
Interest earning bank deposits	60,334	.	-	60,334	60,334	-	60,334
Other accounts receivable	-	-	67,021	67,021	-	-	67,021
	577,221	-	795,163	1,372,384	396,290	-	1,372,384

March 31, 2017	Book value				Fair value		
	Designated at fair value	Hedging instruments at fair value	Other financial liabilities	Total	Level 2	Level 3	Total
Financial instruments measured at fair value							
Foreign currency forward contract	.	713	.	713	713	.	713
	--	713	-	713	713	-	713
Financial liabilities not measured at fair value							
Loans and financing	-	-	588,882	588,882	-	-	588,882
Liabilities traded from subsidiary	.	.	30,257	30,257	.	.	30,257
Long-term incentive plan	8,488	-		8,488	8,488	-	8,488
Suppliers	-	-	364,879	364,879	-	-	364,879
	8,488	-	984,018	992,506	8,488	-	992,506

Notes

December 31, 2016	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Loans and receivables	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Foreign currency forward contract	-	632	-	632	632	-	632
	-	632	-	632	632	-	632
Financial assets not measured at fair value							
Trade accounts receivable	-	-	931,300	931,300	-	-	931,300
Cash and cash equivalents	305,203	-	86,144	391,347	305,203	-	391,347
Interest earning bank deposits	110,771	-	-	110,771	110,771	-	110,771
Other accounts receivable	-	-	65,059	65,059	-	-	65,059
	415,974	-	1,082,503	1,498,477	415,974	-	1,498,477

December 31, 2016	Book value				Fair value		
	Designated at fair value	Hedging instruments at fair value	Other financial liabilities	Total	Level 2	Level 3	Total
Financial instruments measured at fair value							
Foreign currency forward contract	-	1,369	-	1,369	1,369	-	1,369
	-	1,369	-	1,369	1,396	-	1,396
Financial liabilities not measured at fair value							
Loans and financing	-	-	592,674	592,674	-	-	592,674
Liabilities traded from subsidiary	-	-	30,726	30,726	-	-	30,726
Long-term incentive plan	6,488	-	-	6,488	6,488	-	6,488
Suppliers	-	-	427,288	427,288	-	-	427,288
	6,488	-	1,050,688	1,057,176	6,488	-	1,057,176

Notes

h) Sensitivity analysis of financial instruments

Foreign exchange risk

For the sensitivity analysis of the consolidated exchange exposure on March 31, 2017, whose effects reflect only the impacts on monetary assets and liabilities, the balances of trade accounts receivable and of loans and financing held by the foreign subsidiaries were not considered, which are denominated in local functional currencies of each of these subsidiaries, and for this reason, the Company's Management believes that there is no risk of exchange exposure to these subsidiaries.

Considering the foreign exchange exposures described in item (e) above, on March 31, 2017 the sensitivity analysis concerning the outstanding position is as follows:

	Gain/(loss)		
	Probable scenario	**Possible scenario**	**Remote scenario**
Impacts of USD variation.			
Trade accounts receivable	(3,821)	(19,106)	(38,212)
Suppliers	2,440	12,202	24,404
"Royalties" payable	215	1,074	2,148
Total impact on income (loss)	(1,166)	(5,830)	(11,660)
Derivative financial instruments	(57)	(262)	(518)
Total impact in income (loss) from derivatives	(1,223)	(6,092)	(12,178)

The probable scenario considers an appreciation of the Brazilian real of 5.00% against the U.S. dollar considering an exchange rate of R$3.3268, based on market references.

Possible scenario considers an appreciation of 25% of Brazilian Real in relation to US dollar, considering foreign exchange rate on March 31, 2017 of (R$2.3763/US$), and the remote scenario considers an appreciation of 50% (R$1.5842/US$).

Interest rate risk

The sensitivity analysis was calculated based on the interest rates of non-derivative financial instruments in the end of each reporting period. For financial assets and liabilities indexed to CDI, the analysis is prepared assuming that the net value between the outstanding assets and liabilities at the end of the reporting period was outstanding during the whole period.

As of March 31, 2017, 100% of total value invested was indexed at CDI (Interbank Deposit Certificate). With respect to loans, 21% of the total was directly linked to interest rate and 79% was linked to fixed rate or fixed rate plus TJLP.

	Gain/(loss)		
	Probable scenario	**Possible scenario**	**Remote scenario**
Impacts of interest rate variation			
Income from interest earning bank deposits	(2,146)	(2,592)	(2,768)
Expenses with interest on loans	709	856	914
Total impact on income (loss)	(1,437)	(1,736)	(1,854)

Notes

Considering the interest rate (CDI) of 12.13% p.a. on March 31, 2017, the probable scenario simulates a decrease of interest rate by 231 base points on the CDI rate resulting in a rate of 9.82% p.a.

The possible scenario considers a decrease of interest rate by 279 base points on the CDI rate resulting in a rate of 9.34% p.a. on March 31, 2017, and the remote scenario considers a decrease of interest rate by 298 base points resulting in a rate of 9.15% p.a.

36. Net income per share

	03/31/2017		
Continued operations	**Common - ON**	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income for the period of each class of shares	93,364	94,156	187,520
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings (losses) per share in the period	0.3864	0.4252	0.4050
Diluted numerator			
Net income for the period of each class of shares	93,364	94,156	187,520
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings (losses) per share in the period	0.3864	0.4252	0.4050

	03/31/2017		
Discontinued operations	**Common - ON**	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income for the period of each class of shares	(833)	(841)	(1,674)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings (losses) per share in the period	(0.0034)	(0.0038)	(0.0036)
Diluted numerator			
Net income for the period of each class of shares	(833)	(841)	(1,674)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings (losses) per share in the period	(0.0034)	(0.0038)	(0.0036)

Notes

	03/31/2017		
	Common - ON	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income for the period of each class of shares	92,531	93,315	185,846
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings (losses) per share in the period	0.3830	0.4214	0.4013
Diluted numerator			
Net income for the period of each class of shares	92,531	93,315	185,846
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings (losses) per share in the period	0.3830	0.4218	0.4013

	03/31/2016		
Continued operations	**Common - ON**	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income for the period of each class of shares	59,055	59,555	118,610
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings (losses) per share in the period	0.2444	0.2689	0.2561
Diluted numerator			
Net income for the period of each class of shares	59,055	59,555	118,610
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings (losses) per share in the period	0.2444	0.2689	0.2561

Notes

	03/31/2016		
Discontinued operations	**Common - ON**	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income (loss) for the period of each class of shares	(1,384)	(1,395)	(2,779)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings per share in the period	(0.0057)	(0.0063)	(0.0060)
Diluted numerator			
Net income (loss) for the period of each class of shares	(1,384)	(1,395)	(2,779)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings per share in the year	(0.0057)	(0.0063)	(0.0060)

	03/31/2016		
	Common - ON	**Preferred - PN (a)**	**Total**
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic numerator			
Net income for the period of each class of shares	57,671	58,160	115,831
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Total basic earnings (losses) per share in the period	0.2387	0.2626	0.2501
Diluted numerator			
Net income for the period of each class of shares	57,671	58,160	115,831
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
Weighted number of stock option programs	-	-	-
Weighted average of number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Total diluted earnings (losses) per share in the period	0.2387	0.2626	0.2501

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

37. Assumed commitments

37.1. Operating leases

Stores leased

As of March 31, 2017, the Company had rental contracts entered into with third-parties which Management analyzed and concluded that they may be classified as operating leases.

Notes

The value of rent of real estate properties is always the highest value between: (i) the equivalent to the average rate between 3 and 4% of monthly gross sales, practiced by the store; or (ii) a monthly minimum value restated on annual basis at several indexes representing the inflation. The aforementioned rental agreements are valid from 5 to 15 years and are subject to novation.

In the quarter ended March 31, 2017, rental expenses, net of recoverable taxes, in consolidated, totaled R$ 6,436 (R$ 4,482 in the quarter ended March 31, 2016).

Other leases

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

In the quarter ended March 31, 2017, rental expenses, net of recoverable taxes, in consolidated, totaled R$ 18,001 (R$ 20,879 in the quarter ended March 31, 2016).

Future commitments

Total future commitments derived from operating lease agreements, in amounts on March 31, 2017, totaled a minimum fixed amount of R$391,792,distributed as follow:

	R$
2017 (nine months)	67,798
2018	83,125
2019	82,305
2020	79,159
2021	79,405
Total	391,792

These operations contain usual covenants, such as guarantees against early termination of agreement, among other, with which the Company was compliant on March 31, 2017.

37.2. Input supply agreements

The Company has commitments derived from electric power supply agreement, according to which a minimum monthly volume of 57,359 kw, equivalent to R$1.093, should be acquired, which may be changed with minimum term of six months. On March 31, 2017, the Company fulfilled with the commitments of this agreement.

38. Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance to cover fixed assets and inventories subject to risk of fire, at the technical replacement value, and to cover loss of profits. As of March 31, 2017, the insurance coverage in consolidated was considered sufficient by Management to cover risks involved.

39. Additional information to statements of cash flows

	Parent company		Consolidated	
	03/31/2017	03/31/2016	03/31/2017	03/31/2016
Acquisitions of property, plant and equipment with no cash effect	-	-	-	-
Limits of secured accounts without use	-	-	39,632	23,875

Notes

40. Relevant Fact

On April 20, 2017, the Company informed to the shareholders and to the market in general, through significant event notice, that the Board of Directors, at a meeting held on that date, authorized the call of Special and Annual Meetings for holders of preferred shares of the Company to deliberate on the migration to the special listing segment of the New Market of BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros. The migration will occur after the approval by the holders of preferred shares at Annual Shareholders' Meeting, to be convened in up to thirty (30) days from the significant event notice.

Report on Review of Interim Financial Information

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

Introduction
We have reviewed the accompanying individual and consolidated interim financial information of Alpargatas S.A. (“Company”) contained in the Quarterly Information Form - ITR for the quarter ended March 31, 2017, which comprises the statement of financial position as of March 31, 2017, and the respective statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended, including the footnotes.

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

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

Conclusion on the interim financial information
Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the Quarterly Information referred to above has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, issued by IASB, applicable to the preparation of Quarterly Information - ITR, and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission.

Other matters

Statements of Value Added
The individual and consolidated interim financial information, related to statements of value added for the quarter ended March 31, 2017, prepared under the responsibility of the Company's management, presented as supplementary information for the purposes of IAS 34, were submitted to the review procedures followed together with the review of the Quarterly Information – ITR of the Company. In order to form our opinion, we evaluated whether these statements are reconciled to the interim financial information and to the accounting records, as applicable, and whether their form and content are in accordance with the criteria set on Technical Pronouncement CPC 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that it has not been prepared, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

Corresponding values
The individual and consolidated corresponding values comprising the statement of financial position for the year ended December 31, 2016 were previously audited by other independent

auditors who issued an unmodified audit report on March 10, 2017 and the statements of profit and loss, comprehensive (loss) income, changes in shareholders' equity, cash flows for the three months period ended March 31, 2016 were reviewed by other independent auditors respectively, who issued an unqualified review report on May 06, 2016. The individual and consolidated corresponding values comprising the statements of added-value for the three months period ended March 31, 2016, were submitted to the same review procedures by those independent auditors and, based on their review, those independent auditors issued a report reporting that nothing has come to their attention that causes us to believe that the statement of the added-value has not been prepared, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

São Paulo, May 05, 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6

Original report in Portuguese signed by
Marcelo Pereira Gonçalves
Contador CRC 1SP220026/O-3