Alpargatas S.A.

Financial statements for the semester ended June 30, 2018

KPDS 238486

KPMG Auditores Independentes
Rua Arquiteto Olavo Redig de Campos, 105, 6º andar - Torre A
04711-904 - São Paulo/SP - Brazil
Caixa Postal 79518 - CEP 04707-970 - São Paulo/SP - Brazil
Tel. +55 (11) 3940-1500, Fax +55 (11) 3940-1501
www.kpmg.com.br

Report on the review of quarterly information - ITR

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

Introduction
We have reviewed the interim, individual and consolidated interim financial information of Alpargatas S.A. ("Company"), contained in the Quarterly Information - ITR Form for the quarter ended June 30, 2018, which comprises the balance sheet as of June 30, 2018 and related statements of income, of comprehensive income for the 3 and 6-months period then ended, of changes in shareholders' equity and of cash flows for the quarter then ended, including the explanatory notes.

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

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

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

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

São Paulo, August 10, 2018

KPMG Auditores Independentes
CRC SP014428/O-6

Marcelle Mayume Komukai
Accountant CRC 1SP249703/O-5

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Individual financial statements / Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
1	Total Assets	3,002,770	3,229,678
1,01	Current assets	1,502,159	1,720,234
1.01.01	Cash and cash equivalents	463,077	510,734
1.01.02	Interest earning bank deposits	77,993	77,115
1.01.02.01	Interest earning bank deposits measured at fair value through profit or loss	77,993	77,115
1.01.02.01.01	Trading securities	77,993	77,115
1.01.03	Accounts receivable	434,951	707,751
1.01.03.01	Trade accounts receivable	434,951	707,751
1.01.04	Inventories	465,287	381,966
1.01.06	Recoverable taxes	27,111	24,225
1.01.06.01	Current taxes recoverable	27,111	24,225
1.01.07	Prepaid expenses	19,965	1,186
1.01.07.01	Prepaid expenses	6,014	1,186
1.01.07.02	Prepaid expenses with Advertising	13,951	0
1.01.08	Other Current assets	13,775	17,257
1.01.08.03	Other	13,775	17,257
1.01.08.03.01	Advances to suppliers	3,283	4,703
1.01.08.03.02	Accounts receivable - Employees	4,348	5,977
1.01.08.03.03	Deferred PIS and COFINS	179	153
1.01.08.03.04	Other	5,965	6,424
1,02	Non-current assets	1,500,611	1,509,444
1.02.01	Long term assets	204,045	215,817
1.02.01.07	Deferred taxes	104,181	96,017
1.02.01.07.01	Deferred income tax and social contribution	103,648	95,382
1.02.01.07.02	Deferred PIS and COFINS	533	635
1.02.01.09	Related party credits	45,594	43,565
1.02.01.09.02	Receivables from subsidiaries	45,594	43,565
1.02.01.10	Other non-current assets	54,270	76,235
1.02.01.10.03	Compulsory deposits	73	73
1.02.01.10.04	Judicial deposits and pledges	36,920	20,538
1.02.01.10.05	Recoverable taxes	9,730	10,009
1.02.01.10.06	Other accounts receivable	7,547	45,615
1.02.02	Investments	576,436	558,639
1.02.02.01	Ownership interest	576,291	558,494
1.02.02.01.02	Interest in subsidiaries	576,291	558,494
1.02.02.02	Investment property	145	145
1.02.02.02.01	Other ownership interest	145	145
1.02.03	Property, plant and equipment	612,797	621,721
1.02.03.01	Fixed assets in operation	564,884	570,010
1.02.03.03	Constructions in progress	47,913	51,711
1.02.04	Intangible assets	107,333	113,267
1.02.04.01	Intangible assets	107,333	113,267

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	3,002,770	3,229,678
2,01	Current liabilities	495,667	674,198
2.01.01	Social and labor obligations	85,554	89,972
2.01.01.01	Social charges	6,751	7,063
2.01.01.02	Labor obligations	78,803	82,909
2.01.01.02.01	Salaries and social security charges	78,803	82,909
2.01.02	Suppliers	226,564	270,088
2.01.02.01	Domestic suppliers	164,468	219,332
2.01.02.02	Foreign suppliers	62,096	50,756
2.01.03	Tax liabilities	9,062	15,618
2.01.03.01	Federal tax liabilities	8,633	11,401
2.01.03.01.01	Income tax and social contribution payable	0	2,120
2.01.03.01.02	Other tax obligations	8,633	9,281
2.01.03.02	State tax liabilities	429	4,217
2.01.04	Loans and financing	62,456	237,050
2.01.04.01	Loans and financing	62,456	237,050
2.01.04.01.01	In domestic currency	62,456	237,050
2.01.05	Other liabilities	99,847	49,453
2.01.05.02	Other	99,847	49,453
2.01.05.02.01	Dividends and interest on own capital	36,832	5,044
2.01.05.02.04	Unrealized losses on derivative operations	0	587
2.01.05.02.05	Provisions and other obligations	63,015	43,822
2.01.06	Provisions	12,184	12,017
2.01.06.01	Tax, social security, labor and civil provisions	12,184	12,017
2.01.06.01.02	Social security and labor provisions	12,184	12,017
2,02	Non-current liabilities	376,613	369,090
2.02.01	Loans and financing	334,920	324,702
2.02.01.01	Loans and financing	334,920	324,702
2.02.01.01.01	In domestic currency	334,920	324,702
2.02.02	Other liabilities	28,404	13,571
2.02.02.02	Other	28,404	13,571
2.02.02.02.03	Other liabilities	10,255	2,922
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.06	Long-term incentive plan	17,977	10,477
2.02.04	Provisions	13,289	30,817
2.02.04.01	Tax, social security, labor and civil provisions	13,289	30,817
2.02.04.01.01	Tax provisions	5,593	5,556
2.02.04.01.02	Social security and labor provisions	5,596	5,962
2.02.04.01.04	Civil provisions	2,100	19,299
2,03	Shareholders' equity	2,130,490	2,186,390
2.03.01	Realized capital	648,497	648,497
2.03.02	Capital reserves	108,551	108,551
2.03.02.05	Treasury shares	-64,248	-64,248
2.03.02.07	Other reserves	169,241	169,241
2.03.02.08	Goodwill in the sale of treasury shares	3,558	3,558
2.03.04	Profit reserves	1,546,114	1,578,434

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.07	Tax incentive reserve	1,478,360	1,413,241
2.03.04.08	Additional dividend proposed	0	97,439
2.03.05	Retained Earnings/Losses	-5,708	0
2.03.06	Equity valuation adjustments	12,857	13,225
2.03.07	Accumulated translation adjustments	-179,821	-162,317

Individual financial statements / Statement of income

(In thousands of Reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.01	Income from sales of goods and/or services	488,853	1,083,568	465,007	957,156
3.02	Cost of goods and/or services sold	-299,907	-649,113	-284,203	-600,803
3.03	Gross income	188,946	434,455	180,804	356,353
3.04	Operating expenses/income	-196,986	-327,532	-135,112	-82,735
3.04.01	Sales expenses	-112,749	-233,721	-123,190	-236,186
3.04.02	General and administrative expenses	-39,921	-80,382	-39,202	-80,738
3.04.04	Other operating income	2,274	4,568	3,314	216,977
3.04.05	Other operating expenses	-23,236	-35,690	-7,249	-44,345
3.04.05.01	Amortization of intangible assets	-3,591	-7,446	-3,865	-8,610
3.04.05.02	Other operating expenses	-19,645	-28,244	-3,384	-35,735
3.04.06	Equity in net income of subsidiaries	-23,354	17,693	31,215	61,557
3.05	Income (loss) before financial income and taxes	-8,040	106,923	45,692	273,618
3.06	Financial income (loss)	21,742	23,442	254	-3,836
3.06.01	Financial income	40,742	56,064	16,278	34,232
3.06.01.01	Exchange-rate change	17,612	20,848	5,530	8,225
3.06.01.02	Gains on derivative operations	0	960	775	1,740
3.06.01.03	Other financial income	23,130	34,256	9,973	24,267
3.06.02	Financial expenses	-19,000	-32,622	-16,024	-38,068
3.06.02.01	Exchange-rate change	-8,091	-9,876	-2,083	-7,207
3.06.02.02	Losses on derivative operations	-1,367	-2,095	-596	-1,620
3.06.02.03	Other financial expenses	-9,542	-20,651	-13,345	-29,241
3.07	Income (loss) before income tax	13,702	130,365	45,946	269,782
3.08	Income tax and social contribution	8,834	6,243	10,032	-26,284
3.08.01	Current	0	0	2,205	-8,128
3.08.02	Deferred assets	8,834	6,243	7,827	-18,156
3.09	Net income (loss) from continued operations	22,536	136,608	55,978	243,498
3.10	Net income (loss) from discontinued operations	0	0	0	-1,674
3.11	Income/loss for the period	22,536	136,608	55,978	241,824

Individual financial statements / Statement of income (In thousands of Reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.99	Earnings per share - (Reais / Share)				

Individual financial statements / Statement of comprehensive income (In thousands of Reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
04.01	Net income for the period	22,536	136,608	55,978	241,824
04.02	Other comprehensive income	-15,150	-17,504	12,843	14,667
04.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	-15,150	-17,504	12,886	14,003
04.02.02	Unrealized income (loss) in hedge operations	0	0	-444	561
04.02.03	Deferred tax on unrealized income (loss) in hedge operations	0	0	151	-191
04.02.04	Unrealized income (loss) in hedge operations - Subsidiaries	0	0	250	294
04.03	Comprehensive income for the period	7,386	119,104	68,821	256,491

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

Code of account	Account description	Current accumulated Year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
6.01	Net cash from operational activities	290,413	91,970
6.01.01	Cash generated in operations	168,693	350,800
6.01.01.01	Net income for the period	136,608	243,498
6.01.01.02	Depreciation and amortization	32,167	33,676
6.01.01.03	Income (loss) from sale/write-off of property, plant and equipment	2,798	2,330
6.01.01.04	Equity in net income of subsidiaries	-17,693	-61,557
6.01.01.05	Interest, inflation adjustments, and exchange-rate change	9,689	14,699
6.01.01.06	Provisions for tax, civil and labor risks	7,132	7,254
6.01.01.07	Provision for IR/CSLL	703	10,338
6.01.01.08	Deferred income tax and social contribution	-6,243	18,156
6.01.01.09	Restatement of judicial deposits	-10,501	0
6.01.01.10	Prov. (Reversal) for doubtful accounts	517	8,888
6.01.01.11	Provision (Reversal) for inventory losses	6,347	7,930
6.01.01.12	Provision for property, plant and equipment/intangible asset loss	0	14,337
6.01.01.13	Net cash generated in discontinued operations	0	51,251
6.01.01.14	Provision for Success Fees	7,169	0
6.01.02	Changes in assets and liabilities	121,720	-258,830
6.01.02.01	Trade accounts receivable	266,336	296,312
6.01.02.02	Inventories	-89,668	-143,946
6.01.02.03	Prepaid expenses	-18,779	-19,145
6.01.02.04	Recoverable taxes	-2,607	-11,000
6.01.02.05	Receipt Proc. IPI Credit Premium	37,031	0
6.01.02.06	Suppliers	-43,524	-71,994
6.01.02.07	Taxes payable	-4,436	-218,294
6.01.02.08	Salaries and social security charges	-4,418	-12,276
6.01.02.09	IR/CSLL payment	-2,822	-10,338
6.01.02.10	Accounts receivable - Subsidiaries	0	-27,524
6.01.02.11	Operations with derivatives	-587	-248
6.01.02.12	Amortization of charges on loans and financing	-13,499	-17,843
6.01.02.13	Contingencies	-24,493	-5,089
6.01.02.14	Other	23,186	-17,445
6.02	Net cash used in investment activities	-34,876	35,077
6.02.01	Investment acquisition	-18,336	0
6.02.02	Acquisition of property, plant and equipment, intangible assets	-19,727	-50,356
6.02.03	Interest earning bank deposits	-110,801	-59,010
6.02.04	Redemption of interest earning bank deposits	113,988	144,443
6.03	Net cash from financing activities	-303,194	-107,952
6.03.01	Funding loans and financing	0	4,665
6.03.02	Amortization of loans and financing - Principal	-164,631	-69,734
6.03.03	Payment of dividends and interest on own capital	-138,563	-42,883
6.05	Increase (decrease) in cash and cash equivalents	-47,657	19,095
6.05.01	Opening balance of cash and cash equivalents	510,734	266,327
6.05.02	Closing balance of cash and cash equivalents	463,077	285,422

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–06/30/2018 (In thousands 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	1,578,434	0	-149,092	2,186,390
5.02	Prior-year adjustments	0	0	-4,653	0	0	-4,653
5.02.01	Expected Customer loss adjustment (IFRS 9)	0	0	-4,653	0	0	-4,653
5.03	Adjusted opening balances	648,497	108,551	1,573,781	0	-149,092	2,181,737
5.04	Capital transactions with partners	0	0	-97,351	-73,000	0	-170,351
5.04.06	Dividends	0	0	-97,439	0	0	-97,439
5.04.07	Interest on own capital	0	0	88	-73,000	0	-72,912
5.05	Total comprehensive income	0	0	0	136,608	-17,504	119,104
5.05.01	Net income for the period	0	0	0	136,608	0	136,608
5.05.02	Other comprehensive income	0	0	0	0	-17,504	-17,504
5.05.02.04	Translation adjustments in the period	0	0	0	0	-17,504	-17,504
5.06	Internal changes in shareholders' equity	0	0	69,684	-69,316	-368	0
5.06.01	Constitution of reserves	0	0	69,684	-69,684	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	368	-368	0
5.07	Closing balances	648,497	108,551	1,546,114	-5,708	-166,964	2,130,490

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017 (In thousands 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	515	-74,600	0	-74,085
5.04.06	Dividends	0	0	238	0	0	238
5.04.07	Interest on own capital	0	0	277	-74,600	0	-74,323
5.05	Total comprehensive income	0	0	0	241,824	14,667	256,491
5.05.01	Net income for the period	0	0	0	241,824	0	241,824
5.05.02	Other comprehensive income	0	0	0	0	14,667	14,667
5.05.02.01	Adjustments of financial instruments	0	0	0	0	855	855
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-191	-191
5.05.02.04	Translation adjustments in the period	0	0	0	0	14,003	14,003
5.06	Internal changes in shareholders' equity	0	0	167,389	-167,224	-165	0
5.06.01	Constitution of reserves	0	0	167,389	-167,389	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	165	-165	0
5.07	Closing balances	648,497	108,551	1,533,098	0	-131,717	2,158,429

Individual financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Current accumulated Year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
7.01	Income	1,262,750	1,120,590
7.01.01	Sale of merchandise, products and services	1,258,995	1,125,851
7.01.02	Other income	4,272	3,627
7.01.04	Formation/reversal of allowance for doubtful accounts	-517	-8,888
7.02	Inputs acquired from third parties	-524,359	-457,632
7.02.01	Cost of products, merchandise and services sold	-399,027	-339,315
7.02.02	Materials, Energy, Third-party services and other	-120,572	-101,302
7.02.03	Loss/recovery of asset values	-4,646	-16,288
7.02.04	Other	-114	-727
7.03	Gross added value	738,391	662,958
7.04	Retentions	-32,167	-33,676
7.04.01	Depreciation, amortization and depletion	-32,167	-33,676
7.05	Net added value produced	706,224	629,282
7.06	Added value received as transfer	75,039	95,285
7.06.01	Equity in net income of subsidiaries	17,693	61,557
7.06.02	Financial income	56,064	34,232
7.06.03	Other	1,282	-504
7.06.03.01	Other	1,282	1,170
7.06.03.02	Income from discontinued operations	0	-1,674
7.07	Total added value payable	781,263	724,567
7.08	Distribution of added value	781,263	724,567
7.08.01	Personnel	300,254	312,147
7.08.01.01	Direct remuneration	227,515	242,739
7.08.01.02	Benefits	57,080	53,692
7.08.01.03	Severance Pay Fund (FGTS)	15,659	15,716
7.08.02	Taxes, duties and contributions	281,984	101,159
7.08.02.01	Federal	165,877	-19,105
7.08.02.02	State	114,932	119,230
7.08.02.03	Municipal	1,175	1,034
7.08.03	Third-party capital remuneration	62,417	69,437
7.08.03.01	Interest	33,189	39,029
7.08.03.02	Rentals	13,869	15,323
7.08.03.03	Other	15,359	15,085
7.08.04	Remuneration of own capital	136,608	241,824
7.08.04.01	Interest on own capital	73,000	74,600
7.08.04.03	Retained earnings / Loss for the period	63,608	167,224

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
1	Total assets	3,678,832	3,853,454
1,01	Current assets	2,275,490	2,439,913
1.01.01	Cash and cash equivalents	579,381	629,238
1.01.02	Interest earning bank deposits	77,993	77,115
1.01.02.01	Interest earning bank deposits measured at fair value through profit or loss	77,993	77,115
1.01.02.01.01	Trading securities	77,993	77,115
1.01.03	Accounts receivable	733,204	911,541
1.01.03.01	Trade accounts receivable	733,204	911,541
1.01.04	Inventories	753,747	698,761
1.01.06	Recoverable taxes	70,985	85,158
1.01.06.01	Current taxes recoverable	70,985	85,158
1.01.07	Prepaid expenses	33,027	11,262
1.01.07.01	Prepaid expenses	18,944	11,262
1.01.07.02	Prepaid expenses with Advertising	14,083	0
1.01.08	Other Current assets	27,153	26,838
1.01.08.03	Other	27,153	26,838
1.01.08.03.01	Advance - Suppliers	10,720	9,473
1.01.08.03.02	Accounts receivable - Employees	4,446	6,022
1.01.08.03.03	Deferred PIS and COFINS	179	153
1.01.08.03.04	Other Assets	11,808	11,190
1,02	Non-current assets	1,403,342	1,413,541
1.02.01	Long term assets	215,181	196,742
1.02.01.07	Deferred taxes	136,311	107,041
1.02.01.07.01	Deferred income tax and social contribution	135,778	106,406
1.02.01.07.02	Deferred PIS and COFINS	533	635
1.02.01.10	Other non-current assets	78,870	89,701
1.02.01.10.03	Compulsory deposits	73	73
1.02.01.10.04	Judicial deposits and pledges	38,894	23,255
1.02.01.10.05	Recoverable taxes	26,264	16,564
1.02.01.10.06	Other accounts receivable	13,639	49,809
1.02.02	Investments	2,316	1,320
1.02.02.02	Investment property	2,316	1,320
1.02.02.02.01	Other ownership interest	2,316	1,320
1.02.03	Property, plant and equipment	702,129	721,645
1.02.03.01	Fixed assets in operation	652,099	666,613
1.02.03.03	Constructions in progress	50,030	55,032
1.02.04	Intangible assets	483,716	493,834
1.02.04.01	Intangible assets	483,716	493,834
1.02.04.01.02	Intangible assets	483,716	493,834

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	3,678,832	3,853,454
2,01	Current liabilities	1,023,122	1,121,505
2.01.01	Social and labor obligations	128,104	131,336
2.01.01.01	Social charges	17,665	21,836
2.01.01.02	Labor obligations	110,439	109,500
2.01.02	Suppliers	351,218	388,112
2.01.02.01	Domestic suppliers	167,711	228,676
2.01.02.02	Foreign suppliers	183,507	159,436
2.01.03	Tax liabilities	45,130	32,785
2.01.03.01	Federal tax liabilities	41,932	21,592
2.01.03.01.01	Income tax and social contribution payable	26,563	4,636
2.01.03.01.02	Other tax obligations	15,369	16,956
2.01.03.02	State tax liabilities	3,198	11,193
2.01.04	Loans and financing	282,506	408,941
2.01.04.01	Loans and financing	282,463	408,849
2.01.04.01.01	In domestic currency	76,695	258,705
2.01.04.01.02	In foreign currency	205,768	150,144
2.01.04.03	Financial leases	43	92
2.01.05	Other liabilities	200,431	145,339
2.01.05.02	Other	200,431	145,339
2.01.05.02.01	Dividends and interest on own capital	36,832	5,044
2.01.05.02.04	Liabilities traded from subsidiaries	2,354	4,855
2.01.05.02.05	Unrealized losses on derivative operations	0	587
2.01.05.02.06	Provisions and other obligations	161,245	134,853
2.01.06	Provisions	15,733	14,992
2.01.06.01	Tax, social security, labor and civil provisions	15,733	14,992
2.01.06.01.01	Tax provisions	3,063	2,252
2.01.06.01.02	Social security and labor provisions	12,670	12,740
2,02	Non-current liabilities	453,989	467,560
2.02.01	Loans and financing	334,920	324,702
2.02.01.01	Loans and financing	334,920	324,702
2.02.01.01.01	In domestic currency	334,920	324,702
2.02.02	Other liabilities	47,307	44,974
2.02.02.02	Other	47,307	44,974
2.02.02.02.03	Liabilities traded from subsidiaries	10,703	18,834
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.06	Other liabilities	16,806	13,470
2.02.02.02.07	Long-term incentive plan	19,626	12,498
2.02.03	Deferred taxes	50,356	55,917
2.02.03.01	Deferred income tax and social contribution	50,356	55,917
2.02.04	Provisions	21,406	41,967
2.02.04.01	Tax, social security, labor and civil provisions	21,406	41,967
2.02.04.01.01	Tax provisions	5,593	5,556
2.02.04.01.02	Social security and labor provisions	13,676	17,075
2.02.04.01.03	Civil provisions	2,137	19,336
2,03	Consolidated shareholders' equity	2,201,721	2,264,389

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
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	1,546,114	1,578,434
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.07	Tax incentive reserve	1,478,360	1,413,241
2.03.04.08	Additional dividend proposed	0	97,439
2.03.05	Retained Earnings/Losses	-5,708	0
2.03.06	Equity valuation adjustments	12,857	13,225
2.03.07	Accumulated translation adjustments	-179,821	-162,317
2.03.09	Interest of non-controlling shareholders	71,231	77,999

Consolidated financial statements / Statement of income (In thousands of Reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.01	Income from sales of goods and/or services	890,583	1,792,667	859,585	1,667,045
3.02	Cost of goods and/or services sold	-472,720	-965,969	-468,220	-925,453
3.03	Gross income	417,863	826,698	391,365	741,592
3.04	Operating expenses/income	-379,617	-644,446	-342,821	-469,172
3.04.01	Sales expenses	-282,893	-527,290	-277,570	-497,814
3.04.02	General and administrative expenses	-55,278	-110,095	-54,839	-111,520
3.04.04	Other operating income	3,019	59,862	37,622	251,887
3.04.05	Other operating expenses	-44,465	-66,923	-48,034	-111,725
3.04.05.01	Amortization of intangible assets	-8,835	-16,846	-6,564	-13,958
3.04.05.02	Other operating expenses	-35,630	-50,077	-41,470	-97,767
3.05	Income (loss) before financial income and taxes	38,246	182,252	48,544	272,420
3.06	Financial income (loss)	-31,294	-45,444	-18,347	-30,770
3.06.01	Financial income	42,059	62,395	17,226	36,764
3.06.01.01	Exchange-rate change	18,881	27,249	6,444	9,390
3.06.01.02	Gains on derivative operations	0	960	775	1,740
3.06.01.03	Other financial income	23,178	34,186	10,007	25,634
3.06.02	Financial expenses	-73,353	-107,839	-35,573	-67,534
3.06.02.01	Exchange-rate change	-47,552	-61,370	-9,415	-15,254
3.06.02.02	Losses on derivative operations	-1,367	-2,095	-596	-1,620
3.06.02.03	Other financial expenses	-24,434	-44,374	-25,562	-50,660
3.07	Income (loss) before income tax	6,952	136,808	30,197	241,650
3.08	Income tax and social contribution	11,324	-5,652	24,222	-5,794
3.08.01	Current	-1,146	-24,306	17,934	2,376
3.08.02	Deferred assets	12,470	18,654	6,288	-8,170
3.09	Net income (loss) from continued operations	18,276	131,156	54,419	235,856
3.10	Net income (loss) from discontinued operations	0	0	0	-1,674
3.10.01	Net income (loss) of discontinued operations	0	0	0	-1,674
3.11	Income/loss for the period	18,276	131,156	54,419	234,182

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.11.01	Attributed to the Parent company's partners	22,536	136,608	55,978	241,824
3.11.02	Attributed to non-controlling partners	-4,260	-5,452	-1,559	-7,642
3.99	Earnings per share - (Reais / Share)				

Consolidated financial statements / Statement of comprehensive income (In thousands of Reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
4.01	Consolidated net income for the period	18,276	131,156	54,419	234,182
4.02	Other comprehensive income	-15,424	-18,335	12,843	14,667
4.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	-15,424	-18,335	12,886	14,003
4.02.02	Unrealized income (loss) in hedge operations	0	0	-444	561
4.02.03	Deferred tax on unrealized income (loss) in hedge operations	0	0	151	-191
4.02.04	Unrealized income (loss) in hedge operations - Subsidiaries	0	0	250	294
4.03	Consolidated comprehensive income for the period	2,852	112,821	67,262	248,849
4.03.01	Attributed to the Parent company's partners	7,386	119,104	68,821	256,491
4.03.02	Attributed to non-controlling partners	-4,534	-6,283	-1,559	-7,642

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Current accumulated Year 01/01/2018–	Accumulated of the prior year 01/01/2017–06/30/2017
6.01	Net cash from operational activities	230,329	20,442
6.01.01	Cash generated in operations	235,518	249,465
6.01.01.01	Net income for the period	131,156	235,856
6.01.01.02	Depreciation and amortization	50,574	48,120
6.01.01.03	Income (loss) from sale/written-off of property, plant and	4,702	8,728
6.01.01.04	Interest. Inflation adjustments and exchange-rate change	21,551	24,432
6.01.01.05	Provisions for tax, civil and labor risks	8,661	8,098
6.01.01.06	Provision for IR/CSLL	25,233	29,985
6.01.01.07	Deferred income tax and social contribution	-18,654	8,170
6.01.01.08	Taxes with enforceability suspended	0	-198,624
6.01.01.09	Prov. (Reversal) for doubtful accounts	8,515	10,678
6.01.01.10	Provision (Reversal) for inventory losses	7,112	8,140
6.01.01.11	Provision for property, plant and equipment/intangible asset loss	0	14,337
6.01.01.12	Restatement of judicial deposits	-10,501	0
6.01.01.13	Unrealized gains/losses in derivative operations - Subsidiaries	0	294
6.01.01.14	Net cash generated in discontinued operations	0	51,251
6.01.01.15	Provision for Success Fees	7,169	0
6.01.02	Changes in assets and liabilities	-5,189	-229,023
6.01.02.01	Trade accounts receivable	137,122	153,050
6.01.02.02	Inventories	-102,643	-152,883
6.01.02.03	Prepaid expenses	-21,474	-23,160
6.01.02.04	Recoverable taxes	-4,293	-70,215
6.01.02.05	Receipt Proc. IPI Credit Premium	37,031	0
6.01.02.06	Suppliers	-7,647	-60,967
6.01.02.07	Taxes payable	-10,501	-30,183
6.01.02.08	Salaries and social security charges	3,870	-9,820
6.01.02.09	IR/CSLL payment	-16,315	-27,415
6.01.02.10	Operations with derivatives	-587	-641
6.01.02.11	Amortization of charges on loans and financing	-36,467	-25,396
6.01.02.12	Contingencies	-26,308	-6,297
6.01.02.13	Other	43,023	24,904
6.02	Net cash used in investment activities	-27,429	22,085
6.02.01	Acquisition of property, plant and equipment, intangible assets	-30,616	-63,348
6.02.02	Interest earning bank deposits	-110,801	-59,010
6.02.03	Redemption of interest earning bank deposits	113,988	144,443
6.03	Net cash from financing activities	-259,040	-65,676
6.03.01	Funding loans and financing	203,983	101,937
6.03.02	Amortization of loans and financing - Principal	-319,547	-121,695
6.03.03	Payment of dividends and interest on own capital	-138,563	-42,883
6.03.04	Amortization for debt restructuring of subsidiary	-4,913	-3,035
6.04	Exchange rate change on cash and cash equivalents	6,283	1,965
6.05	Increase (decrease) in cash and cash equivalents	-49,857	-21,184
6.05.01	Opening balance of cash and cash equivalents	629,238	391,347
6.05.02	Closing balance of cash and cash equivalents	579,381	370,163

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–06/30/2018 (In thousands of reais)

Code account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	648,497	108,551	1,578,434	0	-149,092	2,186,390	77,999	2,264,389
5.02	Prior-year adjustments	0	0	-4,653	0	0	-4,653	-485	-5,138
5.02.01	Expected Customer loss adjustment (IFRS 9)	0	0	-4,653	0	0	-4,653	-485	-5,138
5.03	Adjusted opening balances	648,497	108,551	1,573,781	0	-149,092	2,181,737	77,514	2,259,251
5.04	Capital transactions with partners	0	0	-97,351	-73,000	0	-170,351	0	-170,351
5.04.06	Dividends	0	0	-97,439	0	0	-97,439	0	-97,439
5.04.07	Interest on own capital	0	0	88	-73,000	0	-72,912	0	-72,912
5.05	Total comprehensive income	0	0	0	136,608	-17,504	119,104	-6,283	112,821
5.05.01	Net income for the period	0	0	0	136,608	0	136,608	-5,452	131,156
5.05.02	Other comprehensive income	0	0	0	0	-17,504	-17,504	-831	-18,335
5.05.02.04	Translation adjustments in the period	0	0	0	0	-17,504	-17,504	-831	-18,335
5.06	Internal changes in shareholders' equity	0	0	69,684	-69,316	-368	0	0	0
5.06.01	Constitution of reserves	0	0	69,684	-69,684	0	0	0	0
5.06.04	Realization of other income (loss) Comprehensive	0	0	0	368	-368	0	0	0
5.07	Closing balances	648,497	108,551	1,546,114	-5,708	-166,964	2,130,490	71,231	2,201,721

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017 (In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated 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	515	-74,600	0	-74,085	0	-74,085
5.04.06	Dividends	0	0	238	0	0	238	0	238
5.04.07	Interest on own capital	0	0	277	-74,600	0	-74,323	0	-74,323
5.05	Total comprehensive income	0	0	0	241,824	14,667	256,491	-7,642	248,849
5.05.01	Net income for the period	0	0	0	241,824	0	241,824	-7,642	234,182
5.05.02	Other comprehensive income	0	0	0	0	14,667	14,667	0	14,667
5.05.02.01	Adjustments of financial instruments	0	0	0	0	855	855	0	855
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-191	-191	0	-191
5.05.02.04	Translation adjustments in the period	0	0	0	0	14,003	14,003	0	14,003
5.06	Internal changes in shareholders' equity	0	0	167,389	-167,224	-165	0	0	0
5.06.01	Constitution of reserves	0	0	167,389	-167,389	0	0	0	0
5.06.04	Realization of other comprehensive income	0	0	0	165	-165	0	0	0
5.07	Closing balances	648,497	108,551	1,533,098	0	-131,717	2,158,429	82,084	2,240,513

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Current accumulated Year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
7.01	Income	2,068,641	1,941,036
7.01.01	Sale of merchandise, products and services	2,071,202	1,946,886
7.01.02	Other income	5,954	4,828
7.01.04	Formation/reversal of allowance for doubtful accounts	-8,515	-10,678
7.02	Inputs acquired from third parties	-890,363	-870,297
7.02.01	Cost of products, merchandise and services sold	-624,339	-530,703
7.02.02	Materials, Energy, Third-party services and other	-267,512	-323,440
7.02.03	Loss/recovery of asset values	1,606	-15,437
7.02.04	Other	-118	-717
7.03	Gross added value	1,178,278	1,070,739
7.04	Retentions	-50,574	-48,120
7.04.01	Depreciation, amortization and depletion	-50,574	-48,120
7.05	Net added value produced	1,127,704	1,022,619
7.06	Added value received as transfer	64,042	36,667
7.06.02	Financial income	62,395	36,764
7.06.03	Other	1,647	-97
7.06.03.01	Other	1,647	1,577
7.06.03.02	Income from discontinued operations	0	-1,674
7.07	Total added value payable	1,191,746	1,059,286
7.08	Distribution of added value	1,191,746	1,059,286
7.08.01	Personnel	452,149	479,097
7.08.01.01	Direct remuneration	371,175	393,906
7.08.01.02	Benefits	65,315	62,062
7.08.01.03	Severance Pay Fund (FGTS)	15,659	23,129
7.08.02	Taxes, duties and contributions	431,510	221,076
7.08.02.01	Federal	294,455	79,522
7.08.02.02	State	135,754	140,349
7.08.02.03	Municipal	1,301	1,205
7.08.03	Third-party capital remuneration	176,931	124,931
7.08.03.01	Interest	106,173	66,191
7.08.03.02	Rentals	55,178	43,486
7.08.03.03	Other	15,580	15,254
7.08.04	Remuneration of own capital	131,156	234,182
7.08.04.01	Interest on own capital	73,000	74,600
7.08.04.03	Retained earnings / Loss for the period	63,608	167,224
7.08.04.04	Interest of non-controlling shareholders in retained earnings	-5,452	-7,642

1. Operations

1.1. General considerations

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

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

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

The Board of Directors authorized the issue of these financial statements on August 10, 2018.

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

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

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

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

1.3. Disposal of Topper and Rainha operations

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

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

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

The operation in Argentina, estimated to 3Q18, 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.

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 occurred 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 2017, would not be no longer representative of the Timberland brand in Brazil. This decision was in line with the Company's strategy regarding its positioning in the sporting goods market.

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

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

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

1.6 Start-up date of new operations

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

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

2. Basis for preparation of the interim financial statements

a) Statement of conformity

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

b) Basis of presentation

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

3. New standards, amendments and interpretations of standards

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

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

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

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

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

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

The Company recorded the amount of R$ 8,854 in the parent company and R$ 10,233 in the consolidated as a reduction of sales income for the semester ended June 30, 2018.

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

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

- Classification and measurement - financial assets and liabilities

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

- Impairment - Financial and contractual assets

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

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

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

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

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

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

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

c) Accounting pronouncements issued and not yet in effect

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

4. Consolidated financial statements

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

		Interest (%)	
	Main activity	**06/30/2018**	**12/31/2017**
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 Europe S.L.U. - Spain (1)	Import and trading of footwear in the European market	100.00	100.00
Alpargatas S.A.I.C. - Argentina	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	98.35	98.35
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	Premium fashion retail chain with stores in Brazil and abroad	60.00	60.00
Alpargatas Asia Ltd. - Hong Kong	Commercial representation of the brand Havaianas	100.00	100.00
Alpargatas Colômbia SAS - Colombia	Import and trading of footwear in the Colombian market	100.00	100.00
Esportes S.A.	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	95.00	-
Indirect interest (through Alpargatas Europe S.L.U.): (1)			
Alpargatas USA Inc. - United States	Import and trading of footwear in the U.S. market	100.00	100.00
Alpargatas UK Limited - United Kingdom	Import and trading of footwear in the European market	100.00	100.00
Alpargatas France S.A.R.L. - France		100.00	100.00
Alpargatas Itália S.R.L. - Italy		100.00	100.00
Alpargatas Portugal Limited - Portugal		100.00	100.00
Alpargatas Germany GmbH – Germany		100.00	100.00
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
Esportes S.A.	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	5.00	-
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

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

As per definition and general guideline of IAS 29, the characteristics of the economic environment in Argentina indicate that as of July 1, 2018 this country has an hyperinflationary economy. This quarterly information is not affected by this pronouncement, but we point out that the Company will perform the assessment and inflation adjustment of the financial information of this subsidiary as of the third quarter of 2018.

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

5. Tax incentives - Government grant

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

The Company also has tax incentives granted by the federal government through profit from tax-incentive activities in the Northeast Region, which will expire in 2021.

These investment grants and tax incentives are as follows:

		Parent company and Consolidated	
		06/30/2018	06/30/2017
ICMS grant:			
Paraíba	(a)	48,196	40,507
Pernambuco	(b)	6,163	3,207
Minas Gerais	(c)	10,761	7,962
Corporate Income Tax (IRPJ) incentives:			
Northeastern region		-	2,034
Total		65,120	53,710

(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 semesters ended June 30, 2018 and 2017, there were no incentive installments to be accounted for, arising from obligations established by the incentive program, to be complied with by the Company. Tax incentive installments are credited to “Sales taxes” in the statement of income.

(b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of ICMS deemed credit, thus committed to what was agreed with the state government. The Company is compliant with the established agreement, which consists of maintaining a minimum number of direct jobs in the region and reaching gross income of at least R$2,500.

(c) Determination of presumed ICMS credit by Montes Claros plant. The amounts refer to unpaid ICMS installments, thus committed to what was agreed upon with the state government. The Company is in compliance with the established agreement, which consists of investing, generating income and creating direct jobs in Minas Gerais state plant.

6. Cash and cash equivalents and interest earning bank deposits

a) Cash and cash equivalents

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Cash and banks	33,849	35,350	133,343	141,231
Interest earnings bank deposits:				
Post-fixed Bank Deposit Certificate - CDBs (i)	248,180	284,258	256,765	292,182
Post-fixed repurchase and resale agreements (i)	181,048	191,126	189,272	195,825
Total	463,077	510,734	579,380	629,238

(i) As of June 30, 2018, CDBs (Bank Deposit Certificates) and repurchase and resale agreements had an average remuneration of 99.75% of CDI interest rate (99.50% as of December 31, 2017). The maturity terms range from July 2018 to March 2023, with a grace period for redemption of three months or less, and are subject to an insignificant risk of change in value.

b) Interest earnings bank deposits

As of June 30, 2018, they refer to CDBs (Bank Deposit Certificates) and repurchase and resale agreements had an average remuneration of 101.45% of CDI interest rate (101.37% as of December 31, 2017).

	Parent company and Consolidated	
	06/30/2018	12/31/2017
Post-fixed Bank Deposit Certificates - CDBs (i)	77,993	33,271
Post-fixed repurchase and resale agreements (i)	-	43,844
Total	77,993	77,115

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

7. Trade accounts receivable

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

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Domestic market	391,033	671,070	441,393	754,454
Foreign market (i)	16,472	31,559	347,377	205,407
Related parties (Note 20.b)	71,295	48,563	-	-
Allowance for doubtful accounts	(43,849)	(43,441)	(55,566)	(48,320)
Total	434,951	707,751	733,204	911,541

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

a) Trade accounts receivable (third-parties) by maturity age is shown as follows:

Domestic market

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Falling due	335,612	584,232	369,044	653,472
Overdue (days):				
Up to 30	8,002	32,944	17,662	38,242
31–60	2,439	7,425	3,622	10,205
61–90	1,704	1,770	2,378	2,228
91–180	5,402	2,306	7,144	3,954
>181	37,874	42,393	41,543	46,353
Total	391,033	671,070	441,393	754,454

Foreign market

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Falling due	5,043	26,228	276,042	174,206
Overdue (days):				
Up to 30	52	885	41,254	17,034
31–60	304	585	7,608	3,988
61–90	2,566	-	8,413	3,406
91–180	3,875	-	7,156	1,735
>181	4,632	3,861	6,904	5,038
Total	16,472	31,559	347,377	205,407

b) Allowance for doubtful accounts

Changes in the allowance for doubtful accounts are as follows:

	Parent company	Consolidated
Balances at December 31, 2017	(43,441)	(48,320)
First-time adoption of IFRS 9 on January 01, 2018	(5,836)	(6,675)
Additions	(517)	(8,515)
Write-offs to loss	6,431	7,655
Other changes /Exchange-rate change	(486)	289
Balances at June 30, 2018	(43,849)	(55,566)

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

Domestic market

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Falling due	(2,823)	-	(2,825)	-
Overdue (days):				
Up to 30	(567)	(103)	(707)	(103)
31–60	(345)	(272)	(375)	(272)
61–90	(510)	(757)	(527)	(757)
91–180	(2,251)	(2,487)	(2,328)	(2,487)
>181	(32,852)	(35,961)	(34,703)	(37,520)
Total	(39,348)	(39,580)	(41,465)	(41,139)

Foreign market

In days:	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Up to 30	-	-	-	-
31–60	-	-	(288)	(171)
61–90	-	-	(567)	(307)
91–180	-	-	(6,470)	(1,735)
>181	(4,501)	(3,861)	(6,776)	(4,968)
Total	(4,501)	(3,861)	(14,101)	(7,181)

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

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

The provisions are recognized according to the IFRS 9, based on the historical percentages of loss, segregated by category of clients and according to the *aging* of the portfolio. For notes overdue for more than 180 days, the values are fully accrued, except for specific cases where there are real guarantees or renegotiations already approved by management. The balance of the provision in June 2018, based on the policy prior to the adoption of IFRS 9, excluding the effect of write-offs due to actual losses, would be higher by R$ 6,890 in the parent company and R$ 7,275 in the consolidated.

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

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

8. Inventories

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

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Finished goods	300,138	229,220	508,860	459,997
Work in process	26,071	23,282	42,280	45,064
Raw materials	106,783	101,304	128,326	129,594
Imports in transit	28,263	25,350	63,908	57,527
Other	4,032	2,810	10,373	6,579
Total	465,287	381,966	753,747	698,761

Changes in the provision for inventory losses are as follow:

	Parent company	Consolidated
Balances at December 31, 2017	(6,230)	(11,508)
Additions	(6,347)	(7,112)
Write-offs/Exchange-rate change	2,278	4,734
Balances at June 30, 2018	(10,299)	(13,886)

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

9. Recoverable taxes

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Prepayments of income tax and social contribution	1,909	828	2,179	1,088
Withholding income tax – IRRF	10,205	7,806	10,532	8,154
ICMS	5,514	8,283	8,237	10,251
Excise Tax - IPI	1,005	1,744	1,005	1,744
Social Integration Program (PIS) and Contribution for social security funding - COFINS to be offset	2,359	3,739	2,361	3,739
Tax incentive - Brasil Maior Plan	2,322	1,303	2,322	1,303
Credit from INSS lawsuit	6,988	6,988	6,988	6,988
Paex CBS	1,228	1,228	1,228	1,228
SAT refunding	1,254	1,254	1,254	1,254
Alpargatas Europe S.L.U. - Spain:				
Value-Added Tax - VAT	-	-	2,223	3,258
Prepayments of income tax	-	-	21,592	10,751
Alpargatas S.A.I.C. - Argentina:				
Value-Added Tax - VAT	-	-	2,845	9,923
Prepayments of income tax	-	-	11,695	31,541
Export taxes	-	-	2,512	2,609
IIBB/Fishing tax credit	-	-	14,666	5,266
Alpargatas Colômbia SAS - Colombia				
Value-Added Tax - VAT	-	-	885	-
Other	4,057	1,061	4,725	2,625
Total	36,841	34,234	97,249	101,722
Current portion	27,111	24,225	70,985	85,158
Installments - non-current	9,730	10,009	26,264	16,564

10. Income tax and social contribution

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

a) Deferred assets

	Parent company and Consolidated	
	06/30/2018	**12/31/2017**
Assets:		
Parent company:		
Allowance for doubtful accounts	14,743	14,822
Provision for inventory losses	2,744	2,125
Provision for tax, civil and labor risks	4,015	14,063
Provision for long-term incentive plan	6,112	3,562
Provision for loss of property, plant and equipment	3,971	4,002
Recognition adjustment of sales income	-	19,192
Tax losses and the negative social contribution base	40,563	5,607
Impairment of goodwill - Osklen	42,670	42,670
Other temporary differences	9,449	6,102
Total - parent company	124,267	112,145
Subsidiaries:		
Alpargatas S.A.I.C. - Argentina:		
- Provisions for tax, civil and labor risks	2,543	3,814
- Deferred taxes on tax losses	17,554	-
- Provision for inventory losses	3,730	5,285
- Other temporary differences	546	1,900
	24,373	10,999
Alpargatas Europe S.L.U. - Spain:		
- Allowance for doubtful accounts	232	377
- Provision for inventory losses	413	333
- Deferred taxes on unrealized income	1,563	1,096
- Other temporary differences	5,102	1,639
	7,310	3,445
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen		
- Allowance for doubtful accounts	536	532
- Provisions for tax, civil and labor risks	827	873
- Provision for inventory losses	58	-
- Tax losses and the negative social contribution base	13,594	10,198
- Other temporary differences	700	428
	15,715	12,031
- Deferred taxes on unrealized income	5,202	5,555
Total - consolidated	176,867	144,175
Liabilities:		
Parent company:		
Goodwill in the acquisition of subsidiaries - amortized for tax purposes	17,076	16,685
Provision for IR/CS without inflation adjustment of federal judicial deposits.	3,216	-
Transactions with derivative financial instruments	-	(200)
Adjustment to present value - Law 11638	327	278
Total parent company	20,619	16,763

		Parent company and Consolidated	
		06/30/2018	12/31/2017
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Adjustment to present value on renegotiated liabilities and tax difference in valuation of fixed asset items		4,755	8,975
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	(ii)	66,071	67,948
Total - consolidated		91,445	93,686
Parent company – Non-current assets		103,648	95,382
Consolidated – Non-current assets		135,778	106,406
Consolidated – Non-current liabilities		(50,356)	(55,917)

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

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

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

	06/30/2018	12/31/2017
2018 (six months)	22,512	44,215
2019	58,567	28,740
2020	27,703	23,545
2021	24,542	23,540
>2022	43,543	24,135
Total - consolidated	176,867	144,175

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

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

Alpargatas USA Inc. - United States:	
Total temporary differences	287
Tax losses	75,184
Osklen USA Holding Corp - USA:	
Tax losses	12,917
Unrecorded tax credit	88,388

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 tax and social contribution, assets and liabilities for the semester ended June 30, 2018 is as follows:

	Parent company			Consolidated		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Balance at December 31, 2017	112,145	(16,763)	95,382	144,175	(93,686)	50,489
Effects on income (loss)	10,099	(3,856)	6,243	18,585	69	18,654
Exchange-rate change, charges and other changes	2,023	-	2,023	14,107	2,172	16,279
Balance at June 30, 2018	124,267	(20,619)	103,648	176,867	(91,445)	85,422

b) Current

Reconciliation of income tax and social contribution on net income:

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Profit before income tax and social contribution	130,365	269,782	136,808	241,650
Combined tax rate for income tax and social contribution	34%	34%	34%	34%
Expense with income tax and social contribution at the current tax rate	(44,324)	(91,726)	(46,515)	(82,161)
Equity in net income of subsidiaries	6,015	20,929	-	-
Benefits from interest on own capital	24,820	25,364	24,820	25,364
Investment grant - ICMS	21,413	19,214	21,413	19,214
Federal tax grant - IRPJ (Corporate Income Tax)	-	2,034	-	2,034
Tax credit - Argentina (Note 31.i))	-	-	-	11,330
Tax Adjustment from inflation – Argentina	-	-	-	18,421
Tax credit on tax loss not recognized and adjustment of equalization of rates of foreign subsidiaries	-	-	(3,873)	2,061
Other permanent exclusions (additions), net	(1,681)	(2,099)	(1,497)	(2,057)
Total expense with income tax and social contribution	6,243	(26,284)	(5,652)	(5,794)
Current	-	(8,128)	(24,306)	2,376
Deferred assets	6,243	(18,156)	18,654	(8,170)
Effective rate	5%	10%	4%	2%

11. Judicial deposits and pledges

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Tax proceedings	24,134	10,018	24,134	10,018
Civil proceedings	1,894	400	1,902	400
Labor claims	10,892	10,120	12,858	12,837
	36,920	20,538	38,894	23,255

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

In June 2018, the Company recorded as financial income, the inflation adjustment of judicial deposits in the amount of R$ 10,501.

12. Investments

They are represented as follow:

	Parent company	
	06/30/2018	12/31/2017
Investments	428,398	410,601
Goodwill	147,893	147,893
	576,291	558,494

Information as of June 30, 2018	Fibrasil Agrícola e Comercial Ltda.	Alpargatas Europe S.L.U.		Alpargatas Imobiliária S.A.	Alpargatas S.A.I.C. - Argentina		Alpargatas Colômbia SAS		Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen		Alpargatas Asia Ltd. (Hong Kong)	Esportes S.A.	Total
Quantity of shares or quotas held	5,978,751	57,734,570		10,296,177	507,021,800		9,950,500		59,458,402		1	95,000	
Total current assets	423	376,724		8,976	348,722		16,004		125,208		6,826	13	
Total non-current assets	2,255	57,119		3,234	71,982		740		240,467		-	-	
Total current liabilities	1	266,253		46	264,677		5,921		132,394		-	-	
Total non-current liabilities	-	866		-	21,306		-		55,203		-	-	
Capital	5,979	261,533		10,296	68,564		13,135		80,209		7,714	13	
Non-controlling interest	-	-		-	31		-		71,231		-	-	
Shareholders' equity – Controlling shareholders	2,677	166,724		12,164	134,690		10,823		106,847		6,826	13	
Unrealized income in inventories / Unrealized gain from sale of assets	-	(6,614)		-	(1,105)		(1,044)		(1,333)				
	2,677	160,110		12,164	133,585		9,779		105,514		6,826	13	
Net income for the period	-	362,485		56	309,495		339		96,643		-	-	
Net income (loss) for the period	(336)	47,548	(i)	228	(20,538)	(ii)	(2,217)	(vi)	(13,629)	(v)	(862)	-	
Interest – %	100.00	100.00		100.00	98.35	(iii)	100.00		60.00		100.00	95.00	
Book value of investments:													
Balance at December 31, 2017	3,635	92,017		11,935	187,583		-		115,431		-	-	410,601
Capital increase/contribution	-	-		-	-		11,237		-		7,084	15	18,336
Equity in net income of subsidiaries	(336)	50,626	(i)	228	(20,842)		(3,179)	(vi)	(7,942)	(v)	(862)	-	17,693
Exchange-rate change on investments	(622)	17,467		-	(35,424)		1,721		(1,247)		604	(3)	(17,504)
IFRS 9 adjustment	-	-		-	-		-		(728)		-	-	(728)
Balance at June 30, 2018	2,677	160,110		12,164	131,317		9,779		105,514	(iv)	6,826	12	428,398

(i) The difference of R$ 3,078 between income earned by Alpargatas Europe S.L. and equity in net income of subsidiaries for the period refers to realized profit in inventories of subsidiary.
(ii) The difference of R$ (642) between income earned by Alpargatas S.A.I.C. - Argentina and equity in net income of subsidiaries for the year refers to unrealized profit in inventories of subsidiary.
(iii) The other 1.65% interest of Alpargatas S.A.I.C. - Argentina is held by subsidiary Fibrasil Agrícola e Comercial Ltda. and totals R$ 2,222 at June 30, 2018.
(iv) As of June 30, 2018, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. – Osklen was R$ 72,252 (R$ 74,204 as of December 31, 2017).
(v) The difference of R$235 between the income of Terras de Aventuras and the equity in net income of subsidiaries in the period refers to income from sale of point of sale to the subsidiary.
(vi) The difference of R$ (962) between income earned by Alpargatas Colômbia and equity in net income of subsidiaries for the year refers to unrealized profit in inventories of subsidiary.

Information as of June 30, 2017	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
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	273,278	8,051	428,051	120,864	
Total non-current assets	3,982	61,702	3,234	100,369	265,314	
Total current liabilities	-	196,349	69	235,187	95,267	
Total non-current liabilities	-	772	-	64,495	85,700	
Capital	5,979	218,694	10,296	102,795	80,209	
Non-controlling interest	-	-	-	211	82,085	
Shareholders' equity	4,260	137,859	11,216	228,527	123,126	
Unrealized income in inventories / Unrealized gain from sale of assets	-	(3,597)	-	46	(1,568)	
	4,260	134,262	11,216	228,573	121,558	
Net income for the period	-	331,502	54	331,472	91,811	
Net income (loss) for the period	394	48,098 (i)	469	20,460	(19,105)	
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	-	294	-	-	-	294
Equity in net income of subsidiaries	394	52,023 (i)	469	20,133	(11,462)	61,557
Exchange-rate change on investments	(119)	19,579	-	(5,457)	-	14,003
Balance at June 30, 2017	4,260	134,262	11,216	224,803	121,558 (iii)	496,099

(i) The difference of R$ 3,925 between income earned by Alpargatas APS and equity in net income of subsidiaries for the year refers to realized income in inventories of subsidiary.
(ii) The other 1.65% interest of Alpargatas S.A.I.C. - Argentina is held by subsidiary Fibrasil Agrícola e Comercial Ltda. and totals R$3,770 at June 30, 2017.
(iii) As of June 30, 2017, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. – Osklen was R$ 77,771 (R$81,034 as of December 31, 2016).

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

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

Indirect investments through Alpargatas Europe S.L.U.

	Indirect subsidiaries						
Information as of June 30, 2018	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited - United Kingdom	Alpargatas Itália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas Germany GmbH - Germany	Alpargatas USA Inc. - United States	Total indirect subsidiaries
Quantity of shares or quotas held	5,000	1	1	2	25,000	10	
Total current assets	13,102	15,220	10,170	4,998	2,227	44,776	
Total non-current assets	5,912	1,565	8,478	4,808	1,100	21,778	
Total current liabilities	16,225	7,039	15,020	8.890	3,043	132,520	
Total non-current liabilities	-	-	-	-	-	315	
Quotaholders' equity (unsecured liability)	2,789	9,746	3,628	916	284	(66,281)	
Net income for the period	13,744	9,475	13,968	5,218	2,570	63,201	
Net income (loss) for the period	(356)	539	(168)	(1,115)	(262)	(6,382)	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments:							
Balance at December 31, 2017	2,799	8,002	3,358	1,876	501	(103,795)	(87,259)
Capital increase	-	-	-	-	-	50,747	50,747
Equity in net income of subsidiaries	(-356)	539	(168)	(1,115)	(262)	(6,382)	(7,744)
Exchange-rate change on investments	346	1,205	438	155	45	(6,851)	(4,662)
Balance at June 30, 2018	2,789	9,746	3,628	916	284	(66,281)	(48,918)

Information as of June 30, 2017	Indirect subsidiaries							
	Alpargatas Europe S.L.U. - Spain	**Alpargatas France S.A.R.L. - France**	**Alpargatas UK Limited - United Kingdom**	**Alpargatas Itália S.R.L. - Italy**	**Alpargatas Portugal Limited - Portugal**	**Alpargatas Germany GmbH - Germany**	**Alpargatas USA Inc. - United States**	**Total indirect subsidiaries**
Quantity of shares or quotas held	100,000	5,000	1	1	2	25,000	10	
Total current assets	194,666	12,255	9,719	5,956	3,900	1,584	44,150	
Total non-current assets	29,570	5,449	2,143	4.939	3,273	1,056	14,228	
Total current liabilities	63,851	16,768	6,005	8,304	5,690	2,358	136,010	
Total non-current liabilities	430	-	-	-	-	-	342	
Shareholders' equity (unsecured liability)	159,955	936	5,857	2,591	1,483	282	(77,974)	
Net income for the year	235,459	10,981	7,501	9,232	3,905	1,584	62,480	
Net income (loss) for the year	52,209	(850)	7	309	52	(12)	(1,268)	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments:								
Balance at December 31, 2016	91,999	1,701	5,247	2,051	1,298	269	(75,642)	26,923
Equity in net income of subsidiaries	52,209	(850)	7	309	52	(12)	(1,268)	50,447
Exchange-rate change on investments	15,747	85	603	231	133	25	(1,064)	15,760
Balance at June 30, 2017	159,955	936	5,857	2,591	1,483	282	(77,974)	93,130

13. Property, plant and equipment

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

		Parent company					
		06/30/2018			12/31/2017		
	Useful life of depreciation (years)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	10,321	-	10,321	10,321	-	10,321
Buildings and constructions	10 – 80	360,019	(102,113)	257,906	357,314	(97,340)	259,974
Machinery and equipment	2 – 30	513,905	(238,092)	275,813	508,505	(233,179)	275,326
Furniture and fixtures	10	48,707	(29,303)	19,404	47,181	(27,666)	19,515
Vehicles	10	7,118	(5,038)	2,080	7,118	(4,702)	2,416
Leasehold improvements	5 – 10	30,953	(23,567)	7,386	30,576	(21,871)	8,705
Projects in progress	-	47,913	-	47,913	51,711	-	51,711
Other fixed assets	-	3,654	-	3,654	5,525	-	5,525
Provision for losses ("impairment") (ii)	-	(11,680)	-	(11,680)	(11,772)	-	(11,772)
Total		1,010,910	(398,113)	612,797	1,006,479	(384,758)	621,721

		Consolidated					
		06/30/2018			12/31/2017		
	Useful life of depreciation (years)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	11,249	-	11,249	11,715	-	11,715
Buildings and constructions	10 – 80	414,735	(142,871)	271,864	435,290	(155,260)	280,030
Machinery and equipment	2 – 30	602,391	(314,969)	287,422	623,363	(326,971)	296,392
Furniture and fixtures	10	93,323	(58,159)	35,164	96,218	(65,175)	31,043
Vehicles	10	8,358	(6,302)	2,056	8,657	(6,196)	2,461
Leasehold improvements	5 – 10	116,091	(68,787)	47,304	106,602	(60,488)	46,114
Projects in progress	-	50,030	-	50,030	55,032	-	55,032
Other fixed assets	-	8,720	-	8,720	10,630	-	10,630
Provision for losses ("impairment") (ii)	-	(11,680)	-	(11,680)	(11,772)	-	(11,772)
Total		1,293,217	(591,088)	702,129	1,335,735	(614,090)	721,645

(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.

Changes

	Parent company						
	12/31/2017	Additions	Transfers (i)	Depreciation	Write-offs	Other changes	06/30/2018
Property, plant and equipment							
Land	10,321	-	-	-	-	-	10,321
Buildings and constructions	259,974	-	2,752	(4,820)	-	-	257,906
Machinery and equipment	275,326	-	17,271	(16,420)	(439)	75	275,813
Furniture and fixtures	19,515	-	1,844	(1,776)	(179)	-	19,404
Vehicles	2,416	-	-	(336)	-	-	2,080
Leasehold improvements	8,705	-	146	(1,368)	(97)	-	7,386
Projects in progress	51,711	18,832	(22,630)	-	-	-	47,913
Other fixed assets	5,525	-	-	-	(2,083)	212	3,654
Provision for losses ("impairment")	(11,772)	-	-	-	-	92	(11,680)
Total	621,721	18,832	(617)	(24,720)	(2,798)	379	612,797

	Parent company						
	12/31/2016	Additions	Transfers (i)	Depreciation	Write-offs	Other changes	12/31/2017
Property, plant and equipment							
Land	10,321	-	-	-	-	-	10,321
Buildings and constructions	249,964	-	20,370	(9,060)	(1,322)	22	259,974
Machinery and equipment	259,287	-	52,910	(33,737)	(3,253)	119	275,326
Furniture and fixtures	21,914	-	2,588	(4,478)	(651)	142	19,515
Vehicles	2,968	-	174	(699)	(27)	-	2,416
Leasehold improvements	11,100	-	958	(2,831)	(522)	-	8,705
Projects in progress	55,113	74,246	(77,648)	-	-	-	51,711
Other fixed assets	3,788	-	-	-	(135)	1,872	5,525
Provision for losses ("impairment")	(347)	-	-	-	-	(11,425)	(11,772)
Total	614,108	74,246	(648)	(50,805)	(5,910)	(9,270)	621,721

	Consolidated						
	12/31/2017	Additions	Transfers (i)	Depreciation	Write-offs	Exchange-rate change / Other changes	06/30/2018
Property, plant and equipment							
Land	11,715	-	-	-	(155)	(311)	11,249
Buildings and constructions	280,030	56	2,752	(5,473)	(1,045)	(4,456)	271,864
Machinery and equipment	296,392	696	17,271	(17,825)	(439)	(8,673)	287,422
Furniture and fixtures	31,043	2,549	2,689	(3,767)	(673)	3,323	35,164
Vehicles	2,461	-	-	(351)	-	(54)	2,056
Leasehold improvements	46,114	2,814	3,359	(6,311)	(307)	1,635	47,304
Projects in progress (ii)	55,032	19,662	(26,972)	-	-	2,308	50,030
Other fixed assets	10,630	-	-	-	(2,083)	173	8,720
Provision for losses ("impairment") (iii)	(11,772)	-	-	-	-	92	(11,680)
Total	721,645	25,777	(901)	(33,727)	(4,702)	(5,963)	702,129

	Consolidated						
	12/31/2016	Additions	Transfers (i)	Depreciation	Write-offs	Other changes	12/31/2017
Property, plant and equipment							
Land	12,256	-	-	-	-	(541)	11,715
Buildings and constructions	277,445	185	20,370	(10,790)	(1,402)	(5,778)	280,030
Machinery and equipment	287,045	5,232	52,941	(36,413)	(3,273)	(9,140)	296,392
Furniture and fixtures	30,143	4,110	2,595	(7,943)	(741)	2,879	31,043
Vehicles	3,122	-	715	(782)	(27)	(567)	2,461
Leasehold improvements	44,293	3,346	5,547	(13,331)	(725)	6,984	46,114
Projects in progress	60,986	79,291	(85,158)	-	-	(87)	55,032
Other fixed assets	13,440	-	-	-	(135)	(2,675)	10,630
Provision for losses ("impairment")	(6,647)	-	-	-	-	(5,125)	(11,772)
Total	722,083	92,164	(2,990)	(69,259)	(6,303)	(14,050)	721,645

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

(ii) The balances recorded in line item "Projects in progress" refer to the following projects: (1) maintenance and modernization of plants, with investments of approximately R$ 17,971; and (2) several improvements and expansion of the manufacturing process, with investments of approximately R$ 15,247; and (3) other projects R$ 16,812.

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

14. Intangible assets

		Parent company					
		06/30/2018			12/31/2017		
	Useful life of amortization (years)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Business management systems (i)	4 – 10	198,324	(158,948)	39,376	196,688	(151,546)	45,142
Client portfolio	5	27,311	(27,311)	-	27,311	(27,311)	-
Assignment of commercial rights (ii)	5 – 10	6,515	(1,065)	5,450	6,621	(781)	5,840
Without defined useful life:							
Brands, rights and patents	-	1,027	-	1,027	1,027	-	1,027
Goodwill in the acquisition of merged subsidiary	-	53,862	-	53,862	53,862	-	53,862
Projects in progress	-	7,618	-	7,618	7,396	-	7,396
Total		294,657	(187,324)	107,333	292,905	(179,638)	113,267

		Consolidated					
		06/30/2018			12/31/2017		
	Useful life of amortization (years)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Brands, rights and patents	1 – 10	22,598	(22,598)	-	22,034	(22,024)	10
Business management systems (i)	4 – 10	212,397	(164,985)	47,412	206,805	(158,948)	47,857
Assignment of commercial rights (ii)	5 – 10	88,557	(15,221)	73,337	91,299	(12,582)	78,717
Client portfolio	1 – 5	46,903	(42,890)	4,013	47,167	(40,637)	6,530
Non-competition agreement	4	20,850	(15,194)	5,656	20,850	(13,197)	7,653
Without defined useful life:							
Brands, rights and patents	-	143,925	-	143,925	143,916	-	143,916
Goodwill in the acquisition of subsidiaries (iii)	-	201,755	-	201,755	201,755	-	201,755
Projects in progress	-	7,618	-	7,618	7,396	-	7,396
Total		744,603	(260,888)	483,716	741,222	(247,388)	493,834

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

(ii) Refer to amounts paid in the acquisition of the rights to use points of sale where certain Havaianas and Osklen stores are located (consolidated). As of 2017, the cost of acquisition will be amortized over the remaining contractual term and considering the expectation of renewal.

(iii) Refers to the goodwill regarding: (1) CBS S/A – Companhia Brasileira de Sandálias in the amount of R$53,862; (2) Alpargatas A.S.A.I.C. -Argentina in the amount of R$ 96,268; and (3) Osklen in the amount of R$ 51,625.

Changes

	Parent company						
	12/31/2017	Additions	Transfers (i)	Amortizations	Write-offs	Other changes	06/30/2018
Intangible assets							
With defined useful life:							
Business management system	45,142	-	1,290	(7,056)	-	-	39,376
Assignment of commercial rights	5,840	-	-	(390)	-	-	5,450
Without defined useful life:							
Brands, rights and patents	1,027	-	-	-	-	-	1,027
Projects in progress (iii)	7,396	895	(673)	-	-	-	7,618
Goodwill in the acquisition of merged subsidiaries	53,862	-	-	-	-	-	53,862
Total	113,267	895	617	(7,446)	-	-	107,333

	Parent company						
	12/31/2016	Additions	Transfers (i)	Amortizations	Write-offs	Other changes	12/31/2017
Intangible assets							
With defined useful life:							
Business management system	59,626	-	1,403	(15,846)	(7)	(34)	45,142
Assignment of commercial rights	-	-	6,621	(781)	-	-	5,840
Without defined useful life:							
Brands, rights and patents	1,027	-	-	-	-	-	1,027
Projects in progress	7,005	4,046	(3,655)	-	-	-	7,396
Goodwill in the acquisition of merged subsidiaries	-	-	-	-	-	53,862	53,862
Assignment of commercial rights	3,618	-	(3,721)	-	(1,327)	1,430	-
Total	71,276	4,046	648	(16,627)	(1,334)	55,258	113,267

	Consolidated							
	12/31/2017	Additions	Transf.(i)	Amortizations	Impairment	Write-offs	Exchange-rate change / Other changes (ii)	06/30/2018
Intangible assets								
With defined useful life:								
Brands, rights and patents	10	-	-	-	-	-	(10)	-
Business management systems	47,857	3,265	2,183	(7,756)	-	-	1,863	47,412
Assignment of commercial rights	78,717	679	-	(5,607)	-	-	(453)	73,336
Client portfolio	6,530	-	(609)	(1,487)	-	-	(421)	4,013
Non-competition agreement	7,653	-	-	(1,996)	-	-	(1)	5,656
Without defined useful life:								
Brands, rights and patents	143,916	-	-	-	-	-	10	143,926
Projects in progress (iii)	7,396	895	(673)	-	-	-	-	7,618
Goodwill in the acquisition of subsidiaries	201,755	-	-	-	-	-	-	201,755
Total	493,834	4,839	901	(16,846)	-	-	988	483,716

	Consolidated							
	12/31/2016	Additions	Transf.(i)	Amortizations	Impairment	Write-offs	Exchange-rate change / Other changes (ii)	12/31/2017
Intangible assets								
With defined useful life:								
Brands, rights and patents	1,902	-	-	(1,466)	-	-	(426)	10
Business management systems	62,051	2,001	2,135	(18,337)	-	(7)	14	47,857
Assignment of commercial rights	6,267	1,835	82,890	(11,922)	-	(669)	316	78,717
Client portfolio	3,112	5,576	-	(1,845)	-	-	(313)	6,530
Non-competition agreement	11,646	-	-	(3,993)	-	-	-	7,653
Without defined useful life:								
Brands, rights and patents	143,916	-	-	-	-	-	-	143,916
Projects in progress (iii)	5,569	3,872	(2,045)	-	-	-	-	7,396
Goodwill in the acquisition of subsidiaries	327,255	-	-	-	(125,500)	-	-	201,755
Assignment of commercial rights	85,439	-	(79,990)	-	-	(6,879)	1,430	-
Total	647,157	13,284	2,990	(37,563)	(125,500)	(7,555)	1,021	493,834

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

(ii) Mainly refers to exchange-rate change in foreign subsidiaries.

(iii) The balances recorded under the caption “Projects in progress” refer to: on December 31, 2017 to the projects (1) investments in infra-structure and IT, with investment of R$7,396 and on June 30, 2018 to the projects (1) investments in infra-structure and IT, with investment of R$7,618.

15. Suppliers

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Domestic	145,756	207,045	148,999	216,389
Foreigners	62,096	50,756	183,507	159,436
Operation - drawee risk	18,712	12,287	18,712	12,287
Total	226,564	270,088	351,218	388,112

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

The amount as of June 30, 2018, of R$ 18,712 (R$ 12,287 as of December 31, 2017) refers to financial liabilities with suppliers through financial institutions. Due to their characteristics, these financial liabilities were included in cash advance programs using the Company’s credit facilities. The Company understands that this transaction is of a specific nature, maintaining the same maturity date and amounts involved in commercial transactions with suppliers. Therefore, it was not classified separately from the caption “Suppliers”.

16. Loans and financing

		Currency	Index and annual interest rate	Parent company		Consolidated	
				06/30/2018	12/31/2017	06/30/2018	12/31/2017
Denominated in reais:							
FNE (BNB)	(a)		2.98%	84,021	93,312	84,021	93,312
Finame	(b)		3.38%	29,646	33,990	29,646	33,990
Finem	(c)		7.97%	33,068	41,728	33,068	41,728
Exim (BNDES)	(d)		10.87%	-	142,171	-	142,171
Debtor risk	(e)		9.42%	-	-	14,239	21,655
Debentures	(f)		6.66%	250,641	250,551	250,641	250,551
Total in Reais				397,376	561,752	411,615	583,407
Denominated in foreign currency:							
Foreign facility (4131) - Terras deAventura Ind. Artigos Esportivos S.A. - Osklen	(g)	US$	7.46%	-	-	34,708	30,936
"Working capital" - Alpargatas USA	(h)	US$	4.15%	-	-	-	15,058
"Working capital" - Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen	(h)	US$	4.00%	-	-	19,279	16,540
"Line of Credit" - Alpargatas USA	(h)	US$	3.80%	-	-	94,443	67,522
Financial leases -Alpargatas S.A.I.C. - Argentina	(i)	AR$	23.88%	-	-	43	92
“Préstamo” - Alpargatas S.A.I.C. - Argentina	(h)	AR$	34%			28,326	
“Descubiertos” - Alpargatas S.A.I.C. - Argentina	(i)	AR$	41.6%	-	-	29,012	20,088
Total foreign currency				-	-	205,811	150,236
Overall total				397,376	561,752	617,426	733,643
Current liabilities				62,456	237,050	282,506	408,941
Non-current liabilities				334,920	324,702	334,920	324,702

	Parent company	Consolidated
Balance at December 31, 2017	561,752	733,643
Borrowings	-	203,983
Payment of principal	(164,631)	(319,547)
Interest payment	(13,499)	(36,467)
Provision for interest	13,754	25,627
Exchange-rate change	-	10,187
Balance at June 30, 2018	397,376	617,426

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

(b) Loans and financing related to FINAME, which were raised by the parent company between 2010 and 2014, are aimed at financing equipment used by the company for improving and increasing production (usually plant equipment). The average term of operations is 96 months. These financings are monthly amortized, one portion relating to principal value and the other to interest.

(c) From October 2015 to December 2016, the Company received a credit of R$ 57,140 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 was settled in the first quarter of 2018.

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

(f) In December 2017, the Company raised the amount of R$ 250,000,000 (two hundred and fifty million reais) through the issuance of unsecured simple debentures, non-convertible into shares in three series of the first issuance. The proceeds will be used for the ordinary management of its businesses, as provided for in its bylaws. The amortization of funds will be made in full in a single installment on the maturity date of each series, with the first in December 2019, the second in December 2020 and the third in December 2022.

(g) In August 2017, it raised the amount of US$ 9,519,000 (nine million, five hundred and nineteen thousand dollars), maturing in August 2018. On the same date, a swap was purchased to hedge against interest rate, converting the financial charges (2.72% p.a.) into 116.80% of CDI (see note 35.c), designating the derivative financial instrument to hedge fair value.

(h) The loans and financing funded by foreign subsidiaries are guaranteed by Parent company's sureties, guarantees and/or promissory notes, according to the limits approved by the Executive Board and/or Board of Directors.

(i) The loans funded by Alpargatas S.A.I.C. - Argentina regarding the *"Descubiertos line"* are used in the working capital of the operation, and do not have covenants or guarantees.

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

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

	Parent company		Consolidated	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
2019	123,781	118,559	123,781	118,559
2020	123,554	118,559	123,554	118,559
2021	18,559	18,559	18,559	18,559
2022	68,559	68,559	68,559	68,559
>2023	467	466	467	466
Total	334,920	324,702	334,920	324,702

Contractual covenants

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

On June 30, 2018, due to a covenant related to the change of shareholding control (see note 1.2), the Company temporarily reclassified the balance of FINAME loans raised with BNB in the amount of R$ 23,415, from long to short term. The process for obtaining the approvals is still under way.

17. Liabilities traded from subsidiaries

	Consolidated	
	06/30/2018	12/31/2017
Current	2,354	4,855
Non-current	10,703	18,834
Total	13,057	23,689

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

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

The above amounts are shown net of the adjustments to present value, in the amounts of R$ 6,924 and R$ 11,738, respectively, as of June 30, 2018 and December 31, 2017. The adjustment to present value has been calculated considering as rate, the difference between the base rate of Argentina and the fixed rate for restating liabilities, as established according to the terms of the traded liabilities. As at June 30, 2018, 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 totaled R$ 2,296 in profit or loss for the semester ended June 30, 2018 (R$ 920 for the same period of 2017).

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

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

2018 (six months)	463
2019	863
2020	834
>2021	4,764
Total	6,924

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

2020	1,927
>2021	8,776
Total	10,703

Balance at December 31, 2017	23,689
Interest - reversal	(304)
Exchange-rate change	(5,416)
Payments	(4,913)
Balance at June 30, 2018	13,056

18. Tax obligations

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
ICMS	429	4,217	3,198	11,193
Social Integration Program - PIS and Contribution for the Financing of Social Security - COFINS	-	-	56	2,917
Excise Tax - IPI	-	857	-	857
Income tax and social contribution	-	2,120	63	2,050
Brasil Maior Plan	3,441	3,916	3,441	3,916
INSS THIRD PARTIES	315	966	315	966
Alpargatas S.A.I.C. - Argentina:				
Other taxes	-	-	1,899	2,221
Alpargatas Europe S.L.U. - Spain:				
Income tax	-	-	26,500	2,586
Other taxes	-	-	756	961
Other	4,877	3,542	8,902	5,118
Total	9,062	15,618	45,130	32,785

19. Provisions and other obligations

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Royalties payable	5,336	1,197	5,322	1,197
Provision for freight payable	3,089	5,438	9,589	7,619
Advertising payable	2,576	10,597	16,484	13,954
Commissions payable	2,747	2,953	19,155	4,822
Insurance payable	2,864	-	3,253	-
Provision for fees - COFINS lawsuit (Note 22)	7,046	8,046	7,046	8,046
Import expenses - US	-	-	-	2,848
Expenses related to change in controlling interest (i)	3,830	3,957	3,830	3,957
Advances from clients	22,301	5,326	24,398	5,326
Imports in progress	6,835	-	6,835	4,216
Advance from third-parties - Argentina (ii)	-	-	-	36,600
Temporary services – EMEA	-	-	1,043	-
Storage - EMEA/USA	-	-	6,430	3,457
Services payable - EMEA/USA	-	-	26,024	11,118
Other accounts payable (commissions, outsourced services, concessionaires and other)	6,391	6,308	31,836	31,693
Total	63,015	43,822	161,245	134,853

(i) These refer to expenses to be incurred in obtaining approvals for the brand licensing agreements, rental of points of sale and loans with financial institutions, as a result of the transfer of control of the Company, as mentioned in note 1.2, considering the current covenants in the respective contracts.

(ii) Refers to the advance for the sale of real estate in Argentina.

20. Related parties

a) Balances with subsidiaries

Non-current assets and (liabilities)	Parent company 06/30/2018	Parent company 12/31/2017
Alpargatas Imobiliária S.A.	(23)	(23)
Alpargatas S.A.I.C. - Argentina	10,472	8,984
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen (i)	35,159	34,604
Esportes S.A.	(14)	-
Total	45,594	43,565

(i) Refer to two loan agreements in the amounts of R$ 12,000, maturing on March 23, 2019 and bearing interest rate of 107.40% of the CDI, and R$ 20,000, maturing on February 14, 2019 and bearing interest rate of 104.45% of the CDI.

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

b) Balances receivable and payable from subsidiaries' transactions

		Parent company Accounts receivable		Parent company and Consolidated Accounts payable	
		06/30/2018	12/31/2017	06/30/2018	12/31/2017
Alpargatas USA Inc. - United States	(ii)	28,459	17,643	-	-
Alpargatas Europe S.L.U. - Spain	(ii)	25,153	25,258	-	-
Alpargatas S.A.I.C. - Argentina	(ii)	10,463	4,644	-	-
Alpargatas Calzados del Uruguay S.A.		-	1,018	-	-
Alpargatas Colômbia SAS	(ii)	4,679	-	-	-
Terras de Aventura Ind. De Art. - Osklen		2,541	-	-	-
Total		71,295	48,563	-	-

c) Transactions with subsidiaries

Transactions made with subsidiaries are shown below:

		Sale of products/services		Purchase of products/services	
		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Alpargatas S.A.	(i)	57,797	45,270	-	2,363
Alpargatas USA Inc. - United States		-	-	6,857	6,688
Alpargatas Europe S.L.U. - Spain		-	-	41,412	36,958
Alpargatas S.A.I.C. - Argentina		-	-	5,398	1,251
Alpargatas Colômbia SAS		-	-	4,130	-
J&F Investimentos S.A.		-	2,363	-	373
Total		57,797	47,633	57,797	47,633

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

During the semesters ended June 30, 2018 and 2017, 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 December 2018.

d) Related-party transactions

		Parent company and Consolidated Assets			Parent company and Consolidated Liabilities	
		06/30/2018	12/31/2017		06/30/2018	12/31/2017
Banco Itaú-Unibanco	(i)	4,528	19,787	(ii)	53,322	70,371
Banco Itaú Argentina		-	-	(iii)	15,887	20,086
Total		4,528	19,787		69,209	90,457

		Parent company and Consolidated Income			Parent company and Consolidated Expense	
		06/30/2018	06/30/2017		06/30/2018	06/30/2017
Banco Itaú-Unibanco		-	-	(iv)	1,769	4,037
Banco Itaú Argentina		-	-	(iv)	4,114	926
Total		-	-		5,883	4,963

(i) The amounts refer to the balance of financial investments of Alpargatas S.A.

(ii) The values refer to: (1) Finame Loans from Alpargatas S.A. in the amount of R$ 11,029; (2) Finem Loans of Alpargatas S.A. in the amount of R$ 32,583; and (3) drawee risk transactions carried out at Osklen in the amount of R$ 14,635 (see note 16). The transactions were contracted prior to the date of change of shareholding control.

(iii) Refer to loans of Alpargatas S.A.I.C – Argentina as of December 31, 2017 (see Note 16). The transactions were contracted prior to the date of change of shareholding control.

(iv) Refers to interest expense on loans mentioned in item (ii)

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

e) Dividends and interest on own capital payable

	Parent company and Consolidated	
	06/30/2018	12/31/2017
Interest on own capital / Dividends	36,832	5,044

f) Remuneration of key management personnel

The Directors' fees are as follow:

	06/30/2018		
	Remuneration		
	Fixed	Variable (i)	Total
Boards of Directors, Tax Council/Audit Committee	1,712	-	1,712
Directors	4,116	4,201	8,317
Total	5,828	4,201	10,029

	06/30/2017		
	Remuneration		
	Fixed	Variable (i)	Total
Board of Directors and Tax Council	1,724	-	1,724
Directors	4,015	984	4,999
Total	5,739	984	6,723

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

According to Note 27, during the semester ended June 30, 2018, an expense was recognized for the long-term incentive plan amounting to R$ 7,500 (R$ 4,000 in the same period of 2017).

In addition to the Directors' fees, during the semester ended June 30, 2018, the Company made contributions to the private pension plan in the amount of R$ 327 (R$ 158 in the same period of 2017) on behalf of the statutory directors.

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

21. Provision for tax, civil and labor risks

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

		Parent company		Consolidated	
		06/30/2018	12/31/2017	06/30/2018	12/31/2017
Labor claims	(i)	17,780	17,979	24,945	28,414
Tax proceedings	(ii)	5,593	5,556	8,656	7,808
Civil proceedings	(iii)	2,100	19,299	2,100	19,299
Contingent liabilities	(iv)	-	-	1,438	1,438
Total		25,473	42,834	37,139	56,959
Current portion		12,184	12,017	15,733	14,992
Installments - non-current		13,289	30,817	21,406	41,967

(i) 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.

(ii) Basically refers to a COFINS collection of the period from July and September to December 1992, in which the non-taxed differences are disputed, which amount adjusted as at June 30, 2018 amounts to R$4,399. The claim is waiting from a decision in the lower court.

(iii) Refer to civil lawsuits filed against the Company primarily related to moral and material damages arising from discussions of contractual noncompliance regarding consumer and commercial contracts.

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

Changes

	Parent company			
	Labor	**Tax**	**Civil**	**Total**
Balance at December 31, 2017	17,979	5,556	19,299	42,834
Complements	7,017	37	78	7,132
Payments	(7,216)	-	(17,277)	(24,493)
Balance at June 30, 2018	17,780	5,593	2,100	25,473

	Consolidated				
	Labor	**Tax**	**Civil**	**Contingent liabilities**	**Total**
Balance at December 31, 2017	28,414	7,808	19,299	1,438	56,959
Complements	8,543	37	81	-	8,661
Payments / Write-offs / Exchange-rate change	(12,012)	811	(17,280)	-	(28,481)
Balance at June 30, 2018	24,945	8,656	2,100	1,438	37,139

Possible losses

Contingent liabilities with risk of loss classified as possible:

	Parent company and Consolidated	
	06/30/2018	**12/31/2017**
Tax:		
Tax assessment notice - IRRF (Withholding Income Tax) (i)	10,733	10,622
CSLL and IRPJ (ii)	12,120	11,979
Royalties (iii)	7,693	7,600
IPI (iv)	49,512	48,882
Other	8,710	6,540
	88,768	85,623
Civil (indemnity lawsuits)	10,699	10,268
Labor	15,200	15,400

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

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

(iii) Tax assessment notice aimed at collecting II, IPI, PIS-Import and COFINS-Import on amounts remitted abroad as royalties, in the period from 2007 to 2010. The Company was awarded a final and unappealable favorable decision in administrative proceeding in the amount of R$ 51,569. The remaining amount of R$ 7,208 refers to tax assessment notice that is still pending judgment.

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

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

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

In the period from May 1993 to February 1996 judicial deposits have been made and which are accrued.

There is a contingent asset estimated at R$ 350 million related to the periods from March 1996 to May 2008 and January 2015 onwards for COFINS, and March 2002 onwards for PIS, which the Company does not recognize pursuant to pronouncement CPC 25 - Provisions, contingent liabilities and assets.

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

23. Shareholders' equity

a) Capital

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

June 30, 2018:

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

December 31, 2017:

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

b) Treasury shares

The Company has 7,396,377 treasury shares at an average cost of R$ 8.69. In the semester ended June 30, 2018, the “Treasury Shares” account did not record changes.

c) Dividends and interest on own capital

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

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

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

In the semester ended June 30, 2018, Management declared interest on own capital in the gross amount of R$ 73,000 (R$ 64,263, net of Withholding Income Tax - IRRF).

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

	06/30/2018	**12/31/2017**
Management proposal:		
Interest on own capital	73,000	150,300
Dividends	-	97,439
	73,000	247,739
Interest on own capital distributed per share		
Common shares	0.1505	0.3098
Preferred shares	0.1655	0.3407
Dividends distributed per share		
Common shares	-	0.2008
Preferred shares	-	0.2209

On August 10, 2018, the Board of Directors approved the payment of interest on own capital (JCP), in the amount of R$37,600, where:

Management proposal:	
Interest on own capital	37,600
Interest on own capital distributed per share	
Common shares	0.07749
Preferred shares	0.08524

Preferred shares will be entitled to the following advantages: (i) the receipt of dividends per preferred share, which is 10% (ten percent) higher than the dividends assigned to each common share; and (ii) priority in the reimbursement of capital, without premium, up to the amount of the capital represented by these shares, in case of Company’s liquidation.

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 income under current legislation, up to the limit of 20% of the capital.

24. Information per business segment

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

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

Net income per segment is as follows in the semester ended June 30, 2018:

- Domestic operations:
  - Brazil: 58.9%

- Foreign operations:
  - Argentina: 17.3%
  - International Flip Flops: 23.8%

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

Information is shown below:

Statement of income accounts – Continued operations	06/30/2018 Net operating income	Net income (loss)	Depreciation and amortization	Financial income (loss)	Net exchange rate change	come tax and social contribution
Domestic operations:						
Brazil	961,829	89,747	(30,640)	12,731	4,779	5,106
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	94,577	(13,629)	(10,382)	(6,321)	1,375	4,819
Foreign operations:						
Argentina	309,666	(6,412)	(1,811)	(15,954)	(37,272)	3,854
International Flip Flops	426,595	61,450	(7,741)	(1,779)	(3,003)	(19,431)
Consolidated	1,792,667	131,156	(50,574)	(11,323)	(34,121)	(5,652)

Statement of income accounts – Continued operations	06/30/2017 Net operating income	Net income (loss)	Depreciation and amortization	Financial income (loss)	Net exchange rate change	Income tax and social contributio n
Domestic operations:						
Brazil	819,993	155,496	(32,169)	(4,480)	(2,600)	(28,518)
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	91,811	(19,105)	(7,254)	(5,003)	434	6,562
Foreign operations:						
Argentina	331,472	20,460	(2,243)	(13,999)	(3,111)	34,731
International Flip Flops	423,769	71,363	(6,454)	(1,424)	(587)	(18,569)
Interest of non-controlling shareholders	-	7,642	-	-	-	-
Consolidated	1,667,045	235,856	(48,120)	(24,906)	(5,864)	(5,794)

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

Assets and liabilities	06/30/2018 Total assets	Current and non-current liabilities	Addition to fixed and intangible assets	12/31/2017 Total assets	Current and non-current liabilities	Addition to fixed and intangible assets
Domestic operations:						
Brazil	2,376,577	721,742	19,727	2,617,330	910,035	78,292
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	365,675	187,597	1,102	405,059	210,061	2,337
Foreign operations:						
Argentina	398,807	285,708	469	472,135	281,017	8,818
International Flip Flops	537,773	282,064	9,318	358,930	187,952	16,001
Consolidated	3,678,832	1,477,111	30,616	3,853,454	1,589,065	105,448

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

25. Net operating income

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Gross operating income:				
Domestic market	1,173,274	1,019,598	1,302,136	1,148,430
Foreign market	121,677	136,044	837,055	862,141
	1,294,951	1,155,642	2,139,191	2,010,571
Returns and cancellations	(35,956)	(29,790)	(67,990)	(63,685)
Sales taxes	(175,427)	(168,696)	(278,534)	(279,841)
Net operating income	1,083,568	957,156	1,792,667	1,667,045

26. Expenses per type

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

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Cost of goods sold:				
Raw material and material	356,433	298,820	550,174	477,160
Salaries, social charges and benefits	211,734	223,606	302,345	332,582
Depreciation	22,146	21,729	23,654	23,459
Hedge accounting (Note 33.c)	-	1,490	-	1,490
Provision for tax, civil and labor risks	5,847	6,313	6,351	7,059
Other costs	52,953	48,845	83,445	83,703
Total	649,113	600,803	965,969	925,453
Sales expenses:				
Salaries, social charges and benefits	34,766	34,191	104,637	93,256
Profit sharing	4,268	5,674	7,604	7,986
Freight	35,201	30,428	58,203	55,886
Advertising and publicity	85,155	80,417	135,213	129,494
Commissions	4,132	4,099	29,696	29,289
Clients' agreement	-	8,228	-	9,447
Depreciation	1,079	1,257	7,571	7,440
Royalties	15,359	15,030	15,580	15,199
Third party services	10,965	7,521	32,402	27,168
Rental / Leasing	4,112	5,162	41,386	35,959
Travel expenses	2,486	2,087	6,571	5,228
Storage expenses	3,199	2,419	25,162	22,381
Bulk packaging	5,380	13,668	5,380	13,668
Cargo Insurance	2,729	3,369	3,880	4,696
Other	24,890	22,636	54,005	40,717
Total	233,721	236,186	527,290	497,814
General and administrative:				
Salaries, social charges and benefits	38,754	42,186	55,252	61,106
Directors' fees (Note 20.f)	9,967	6,549	10,029	6,723
Third party services	12,340	12,784	19,286	19,216
Depreciation	1,495	1,738	2,502	2,938
Rent and condominium	6,294	6,048	7,423	6,619
Maintenance and repairs	4,000	4,296	4,081	4,418
Other	7,532	7,137	11,522	10,500
Total	80,382	80,738	110,095	111,520

27. Long-term incentive plan

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

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

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

The new plan started on January 1, 2015 and provides five annual programs, from 2015 to 2019. 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 semester ended June 30, 2018, was R$ 7,500 (R$ 4,000 in the semester ended 2017), as contra-entry to the liability account of long-term incentive plan.

28. Employee benefits

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

29. Financial income and expenses, net

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Financial income:				
Yields from financial investments	16,711	18,838	17,144	19,739
Asset interest	5,487	4,147	4,918	5,218
Inflation adjustment of judicial deposits	10,501	-	10,501	-
Other	1,557	1,282	1,623	677
	34,256	24,267	34,186	25,634
Financial expenses:				
Interest and charges on loans and financing	(13,754)	(18,528)	(25,627)	(25,695)
Interest and charges on liabilities traded from subsidiary	-	-	1,248	(2,507)
Tax on Financial Operations - IOF	(252)	(116)	(313)	(496)
Tax on bank operations -Argentina	-	-	(3,501)	(4,281)
Inflation adjustment on taxes	-	-	(1,237)	(639)
Bank expenses	(3,225)	(2,982)	(4,593)	(2,540)
Adjustment to present value	(3,333)	(7,473)	(3,333)	(6,585)
Liability interest	-	(129)	(3,162)	(6,988)
Other	(87)	(13)	(3,856)	(929)
Total	(20,651)	(29,241)	(44,374)	(50,660)
Gains on operations with derivative financial instruments	960	1,740	960	1,740
Losses on operations with derivative financial instruments	(2,096)	(1,620)	(2,096)	(1,620)
	(1,136)	120	(1,136)	120
Total	12,469	(4,855)	(11,323)	(24,906)

30. Net exchange rate change

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Foreign-exchange income	20,848	8,225	27,249	9,390
Foreign exchange costs	(9,876)	(7,207)	(61,370)	(15,254)
	10,972	1,018	(34,121)	(5,864)

31. Other operating income (expenses)

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Other operating income:				
Sale of scrap	439	330	439	330
Income from deductible rate	511	507	511	507
Gain in the sale of property, plant and equipment	329	259	329	758
Income from sale of property in Argentina	-	-	45,543	31
Escrow Osklen	-	235	-	235
Write-off of taxes with enforceability suspended (Note 22)	-	190,518	-	190,518
Credit action premium IPI (iii)	-	22,223	-	22,223
Tax credit - Argentina (ii)	-	-	7,652	33,323
Reimbursement of affected goods	1,936	2,004	1,936	2,004
Other	1,353	901	3,452	1,958
	4,568	216,977	59,862	251,887
Other operating expenses:				
Amortization of intangible assets	(7,446)	(8,610)	(16,846)	(13,958)
Provisions for labor, civil and tax risks (Note 21)	(1,285)	(941)	(1,356)	(1,039)
Long-term incentive plan (Note 27)	(7,500)	(4,000)	(7,500)	(4,000)
Special projects	-	(766)	-	(766)
Severance pay	(381)	(2,008)	(381)	(4,398)
Provision for industrial restructuring	-	(14,695)	-	(14,695)
Provision for losses on property, plant and equipment	-	(7,719)	-	(7,719)
Third-party fees	(14,900)	-	(14,900)	-
Cotton moratorium Argentina (i)	-	-	-	(14,660)
Restructuring - Argentina	-	-	-	(33,462)
Negative goodwill - Points of sale - Osklen	-	-	-	(5,552)
Other	(4,178)	(5,606)	(25,940)	(11,476)
	(35,690)	(44,345)	(66,923)	(111,725)
Total	(31,122)	172,632	(7,061)	140,162

(i) In March 2017, Alpargatas S.A.I.C. - Argentina renegotiated with the domestic tax authority the payment of a debit of taxes levied on cotton purchases, for the years from 2005 to 2012. The payment will be made in sixty (60) monthly installments starting in April 2017.

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

(iii) Updating of the amount of the court-ordered debt payment (*precatório*) according to calculation approved by the Federal Court.

32. Profit sharing

The Company and its subsidiaries grant profit sharing to its employees related to the achievement of operating goals and specific objectives established and approved at the beginning of each year for each plant/unit. In the semesters ended June 30, 2018 and 2017, the following amounts were recognized:

	Parent company		Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Profit sharing program	16,507	29,195	21,803	32,977

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

33. Financial derivative instruments and risk management

a) Sundry considerations and policies

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

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

b) Financial risk management

Financial risk factors

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

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

b.1) *Market risk*

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

(i) Foreign exchange risk

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

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

(ii) Interest rate risk

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

b.2) *Credit risk*

Sales are mainly made to retail and wholesale stores. The credit risk is reduced by the large dispersion of the client portfolio and the procedures of evaluation and concession of credit. As of June 30 2018, the amount recorded for allowance for doubtful accounts was R$ 55,566 (R$ 48,320 as of December 31, 2017). The maximum exposure to credit risk on the base date of June 30, 2018 is the book value of accounts receivable presented in note 7.

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

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

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

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

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

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

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

b.3) *Liquidity risk*

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

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

c) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

	06/30/2018		12/31/2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
NDF - "Non-Deliverable Forward" (Fair value - MtM)	-	-	-	587

The accumulated impacts of derivative instruments of the NDF type on income (loss) for the semester ended June 30, 2018 totaled (R$ 1,136) in Financial Income/Expenses (see note 29).

The settlements of derivative financial instruments of the type NDF in the semester ended June 30, 2018 totaled a cash outflow of R$(977).

Cash flow hedge

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

The accumulated impacts of derivative instruments of the NDF type on income (loss) for the semester ended June 30, 2017 totaled R$ (1,370) of which R$ 120 in Financial Income/Expenses (see note 29) and R$ (1,490) in Costs of Sold Products (see note 26).

Fair value hedge

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

As of June 30, 2018, the Company, through the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. had a position of derivative financial instruments of the type Swap designated as "hedge" of debts in foreign currency, obtained through Foreign Facility 4131, with maturity on August 22, 2018. 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 June 30, 2018 is in the table below:

	06/30/2018		12/31/2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Swap	835	-	-	785

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

Accumulated impacts on transactions in income (loss) for the semester ended June 30, 2018 totaled R$(3,867).

d) Liquidity risk

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

	06/30/2018				
	<1 year	1–2 years	3–5 years	>5 years	Future Flow
Current:					
Obligations from financial lease	43	-	-	-	43
Loans and financing	282,463	123,781	211,139	-	617,383
Loans and financing (charges)	25,432	16,318	14,894	-	56,644
Suppliers	351,218	-	-	-	351,218
Total	659,156	140,099	226,033	-	1,025,288

	12/31/2017				
	<1 year	1–2 years	3–5 years	>5 years	Future Flow
Current:					
Obligations from financial lease	92	-	-	-	92
Loans and financing	408,849	237,118	87,584	-	733,551
Loans and financing (charges)	40,512	40,783	8,746	-	90,041
Suppliers	388,112	-	-	-	388,112
Total	837,565	277,901	96,330	-	1,211,796

e) Capital management

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

	06/30/2018	12/31/2017
Cash and cash equivalents and interest earning bank deposits	657,374	706,353
(-) Short and long-term loans and financing	(617,426)	(733,643)
Net financial position	39,948	(27,290)
Shareholders' equity	2,201,721	2,264,389

f) Foreign exchange exposure

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

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Assets:				
Trade accounts receivable	87,767	80,122	87,767	80,122
Total assets	87,767	80,122	87,767	80,122
Liabilities:				
Suppliers	62,096	50,756	62,096	50,756
Royalties payable	5,336	1,197	5,336	1,197
Total liabilities	67,432	51,953	67,432	51,953
Net exposure	20,335	28,169	20,335	28,169
Derivative financial instruments	-	(29,772)	-	(29,772)
Total exposure for sensitivity analysis purpose	20,335	(1,603)	20,335	(1,603)

g) Market values

On June 30, 2018 and December 31, 2017, the market values of variable cash investments approximate the values recorded in the financial statements since they are linked to the CDI change. The Company adjusts the market value of its prefixed investments recorded in the balance sheet. Loans and financing are 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.

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

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

Accounting classification and fair values

June 30, 2018	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Amortized cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Cash and cash equivalents	446,037	-	-	446,037	-	446,037	446,037
Interest earnings bank deposits	77,993	-	-	77,993	-	77,993	77,993
Foreign currency forward contract	-	835	-	835	-	835	835
	524,030	835	-	524,865	-	524,865	524,865
Financial assets not measured at fair value							
Trade accounts receivable	-	-	733,204	733,204	-	-	-
Other accounts receivable	-	-	25,447	25,447	-	-	-
	-	-	758,651	758,651	-	-	-

June 30, 2018	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Amortized cost	Total	Level 2	Level 3	Total
Financial liabilities measured at fair value							
Loans and financing	-	34,716	-	34,716	34,716	-	34,716
	-	34,716	-	34,716	34,716	-	34,716
Financial liabilities not measured at fair value							
Loans and financing	-	-	617,426	617,426			
Liabilities traded from subsidiary	-	-	13,057	13,057	-	-	-
Suppliers	-	-	351,218	351,218	-	-	-
	-	-	981,701	981,701	-	-	-

December 31, 2017	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Amortized cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Cash and cash equivalents	488,007	-	-	488,007	-	488,007	488,007
Interest earnings bank deposits	77,115	-	-	77,115	-	77,115	77,115
	565,122	-	-	565,122	-	565,122	565,122
Financial assets not measured at fair value							
Trade accounts receivable	-	-	911,541	911,541	-	-	-
Other accounts receivable	-	-	60,999	60,999	-	-	-
	-	-	972,540	972,540	-	-	-

December 31, 2017	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedging instruments	Amortized cost	Total	Level 2	Level 3	Total
Financial liabilities measured at fair value							
Loans and financing	-	30,936	-	30,936	30,936	-	30,936
Foreign currency forward contract	-	1,372	-	1,372	1,372	-	1,372
	-	32,308	-	32,308	32,308	-	32,308
Financial liabilities not measured at fair value							
Loans and financing	-	-	702,707	702,707	702,615	-	702,615
Liabilities traded from subsidiary	-	-	23,689	23,689	-	-	-
Suppliers	-	-	388,112	388,112	-	-	-
	-	-	1,114,508	1,114,508	702,615	-	-

h) Sensitivity analysis of financial instruments

Foreign exchange risk

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

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

		Decreasing scenario		Rising scenario	
	Probable scenario	25%	50%	25%	50%
Impacts of USD changes					
Trade accounts receivable	(3,511)	(21,942)	(43,884)	21,942	43,884
Suppliers	2,484	15,524	31,048	(15,524)	(31,048)
Royalties payable	213	1,334	2,668	(1,334)	(2,668)
Impact on income	(814)	(5,084)	(10,168)	5,084	10,168

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

The Company considers a devaluation of the Brazilian real of 4% against the U.S. dollar as a probable scenario, considering a future exchange rate of R$ 3.70, for December 31, 2018, based on market references.

Interest rate risk

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

The analysis considers the financial assets and liabilities of Alpargatas S.A. at the end of the period and forecasts the financial income and expenses calculated on such balance. Three scenarios are used, where the probable one is the curve of future interest with base date June 30, 2018. For the possible scenario, we assumed an increase of 25 base points on the curve of future interest, equally divided by the 4 meetings of the COPOM (Committee of Monetary Policy) which are scheduled to be held up to the end of year 2018. In the remote scenario, we considered an increase of 100 base points, also equally divided by the number of meetings of the COPOM.

As of June 30, 2018, 100% of investments was indexed at CDI (Interbank Deposit Certificate). Loans comprised 67% of the balance tied to the variable interest curve and 33% of the balance tied to the post-fixed rate or TJLP plus a fixed spread.

	Gain/(loss)		
	Probable scenario	Possible scenario	Remote scenario
Impacts of interest rate change			
Income from interest earning bank deposits	25,533	25,965	27,691
Expenses with interest on loans	(19,557)	(19,855)	(20,627)
Impact on income (loss)	5,976	6,110	7,064

34. Net earnings per share

Consolidated	Common - ON	Preferred - PN (a)	Total
	06/30/2018		
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 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 / diluted numerator			
Net income for the period of each class of shares	65,300	65,854	131,154
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
Total net income per share - diluted	0.2326	0.2559	0.2438

Continued operations	Common - ON	Preferred - PN (a)	Total
	06/30/2017		
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 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 / diluted numerator			
Income/loss for the period attributable to each share class	90,336	91,102	181,438
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
Total net earning/loss or the period per share, diluted	0.3739	0.4114	0.3918

Discontinued operations	Common - ON	Preferred - PN (a)	Total
	06/30/2017		
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 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 / diluted numerator			
Total net earning/loss or the period per share, diluted	(833)	(841)	(1,674)
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
Total diluted earning/loss per share	(0.0034)	(0.0038)	(0.0036)

Consolidated	06/30/2017		
	Common - ON	Preferred - PN (a)	Total
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,396,403)	(7,396,403)
Weighted average 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 / diluted numerator			
Net income (loss) for the period of each class of shares	89,503	90,261	179,764
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
Total diluted earning/loss per share	0.3704	0.4076	0.3882

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

35. Assumed commitments

35.1. Operating leases

Rental

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

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

In the semester ended June 30, 2018, rental expenses, net of recoverable taxes, in consolidated, totaled R$ 12,186 (R$ 14,822 in the semester ended June 30, 2017).

Other leases

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

In the semester ended June 30, 2018, rental expenses, net of recoverable taxes, in consolidated, totaled R$ 38,503 (R$ 39,788 in the semester ended June 30, 2017).

Future commitments

Total future commitments derived from operating lease agreements, in amounts on June 30, 2018, totaled a minimum fixed amount of R$ 271,742, distributed as follows:

2018 (six months)	36,596
2019	55,770
2020	58,635
2021	60,897
2022	59,844
Total	271,742

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

35.2. IFRS 16 - Leases

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

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

35.3. Input supply agreements

The Company has commitments derived from electric power supply agreement, according to which a minimum monthly volume of 13,060 kw, equivalent to R$ 262,838, should be acquired, which may be changed with minimum term of six months. On June 30, 2018, the Company fulfilled with the commitments of this agreement.

36. Insurance coverage

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