Technos S.A.

Interim Financial Information
September 30, 2017

KPDS 201856

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Independent auditor's report on interim financial information

Introduction
We reviewed the individual and consolidated interim financial information of Technos S.A. ("Company"), included in the Quarterly Information (*Formulário de Informações Trimestrais* – ITR) for the quarter ended September 30, 2017, which comprises the balance sheet at September 30, 2017, the statement of income and the statement of comprehensive income for the three and nine months then ended, and the statement of changes in equity and statement of cash flows for the nine months then ended, including the Notes thereto.

The Management of the Company 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 fair presentation of such information pursuant to the rules of the Brazilian Securities Commission (*Comissão de Valores Mobiliários* – CVM), applicable to the preparation of Quarterly Information. Our responsibility is to express an opinion on this interim financial information based on our review.

Reach of the Review
We conducted our review in accordance with Brazilian and International Standards on Review of interim financial information (NBC TR 2410 – *Revisão de Informações Intermediárias Executada pelo Auditor da Entidade* and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information includes asking questions, particularly to those responsible for accounting and financial matters, and conducting analyses and other review procedures. The reach of a review is significantly lower than that of an audit conducted in accordance with audit rules. Accordingly, because we did not obtain reasonable assurance that we had access to all significant matters that could be identified in an audit, we are not issuing an audit opinion.

Conclusion on Interim Financial Information
Based on our review, we believe the individual and consolidated interim financial information included in the Quarterly Information referred to above is fairly presented, in all material aspects, in accordance with CPC 21 (R1) and IAS 34, issued by IASB, applicable to the preparation of Quarterly Information and pursuant to the rules issued by the CVM.

Other Matters

Statements of Value Added
We have also reviewed the individual and consolidated statements of value added (*Demonstrações do Valor Adicionado* – DVA) for the nine months ended September 30, 2017, prepared under the supervision of the Management of the Company. The presentation of statements of value added is required to be made pursuant to the rules issued by the CVM, applicable to the preparation of Quarterly Information, and considered supplementary information for purposes of International Reporting Standards (IFRS), which do not require the presentation of statements of value added. These statements were submitted to the same review procedures described above and we believe

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they are fairly presented, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

Corresponding Amounts
The amounts corresponding to the individual and consolidated balance sheet at December 31, 2016 were previously audited by other independent auditors, who issued a report dated February 22, 2017, with no modifications. The individual and consolidated statement of income and statement of comprehensive income for the three and nine months, and the statement of changes in equity and statement of cash flows for the nine months ended September 30, 2016 were previously reviewed by other independent auditors, who issued a report dated October 27, 2016, with no modifications. The amounts corresponding to the individual and consolidated statements of value added (DVA) for the nine months ended September 30, 2016 were submitted to the same review procedures by such independent auditors, who issued a report stating that the individual and consolidated statements of value added (DVA) are fairly presented, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

Rio de Janeiro, October 26, 2017

KPMG Auditores Independentes
CRC SP-014428/O-6 F-RJ

Marcelo Luiz Ferreira
Accountant CRC RJ-087095/O-7

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REPRESENTATION OF EXECUTIVE OFFICERS ABOUT THE INDEPENDENT AUDITORS' REPORT

FOR PURPOSES OF ARTICLE 25 OF CVM INSTRUCTION NO. 480/09

We, executive officers of Technos S.A., a publicly-traded company headquartered at Avenida das Américas, 3443 – Bloco 4 – Salas 101 to 105 and 108, Barra da Tijuca, in the city of Rio de Janeiro, state of Rio de Janeiro, enrolled with the Corporate Taxpayers' Registry (CNPJ/MF) under No. 09.295.063/0001-97, represent that we reviewed, discussed and agreed with the independent auditors' report about the financial information for the quarter ended September 30, 2017, for purposes of and pursuant to paragraph 1, Item V, of Article 25 of CVM Instruction No. 480, dated December 7, 2009.

Rio de Janeiro, October 26, 2017.

Thiago Frias Picolo Peres – Chief Executive Officer
Victor Valadão Bicalho – Executive Officer
Andre Vercelli – Executive Officer
Maurício Elísio Martins Loureiro – Executive Officer
Erica Luiza Di Puccio Pagano – Executive Officer

REPRESENTATION OF EXECUTIVE OFFICERS ABOUT THE FINANCIAL INFORMATION

FOR PURPOSES OF ARTICLE 25 OF CVM INSTRUCTION NO. 480/09

We, executive officers of Technos S.A., a publicly-traded company headquartered at Avenida das Américas, 3443 – Bloco 4 – Salas 101 to 105 and 108, Barra da Tijuca, in the city of Rio de Janeiro, state of Rio de Janeiro, enrolled with the Corporate Taxpayers' Registry (CNPJ/MF) under No. 09.295.063/0001-97, represent that we reviewed, discussed and agreed with the financial information for the quarter ended September 30, 2017, for purposes of and pursuant to paragraph 1, Item VI, of Article 25 of CVM Instruction No. 480, dated December 7, 2009.

Rio de Janeiro, October 26, 2017.

Thiago Frias Picolo Peres – Chief Executive Officer
Victor Valadão Bicalho – Executive Officer
Andre Vercelli – Executive Officer
Maurício Elísio Martins Loureiro – Executive Officer
Erica Luiza Di Puccio Pagano – Executive Officer

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Technos S.A.

Balance Sheet on September 30, 2017 and December 31, 2016

(In thousands of* Reais*)

		Parent Company		Consolidated	
	Note	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Assets					
Current assets					
Cash and cash equivalents	4	80	144	12,001	16,978
Marketable securities	5	-	-	-	1,053
Trade receivables	6	-	-	172,742	219,620
Dividends receivable	20	6,005	7,255	-	-
Inventories	7	-	-	140,359	125,930
Taxes recoverable	14	1,418	1,302	8,448	7,261
Derivative financial instruments	21	-	-	174	-
Others		279	304	16,371	12,792
		7,782	**9,005**	**350,095**	**383,634**
Non-current assets held for sale		**-**	**-**	667	**-**
		7,782	**9,005**	**350,762**	**383,634**
Non-current assets					
Marketable securities	5	-	-	24,316	23,568
Trade receivables		-	-	-	47
Advances to suppliers		-	-	5,937	6,500
Taxes recoverable	14	-	-	12,971	12,528
Judicial deposits	13	-	-	2,614	1,995
Derivative financial instruments		-	-	140	-
Investments	8	441,276	454,828	-	-
Property and equipment	10	-	-	35,283	35,781
Intangible	9	1	4	262,685	262,765
Others		-	-	16,710	15,690
		441,277	**454,832**	**360,656**	**358,874**
Total assets		**449,059**	**463,837**	**711,418**	**742,508**

The notes are an integral part of the interim financial information.

Technos S.A.

Balance Sheet on September 30, 2017 and December 31, 2016

(In thousands of* Reais*)

		Parent Company		Consolidated	
	Note	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Liabilities					
Current liabilities					
Loans and financings	11	-	-	44,552	60,905
Trade payables	12	16	18	35,740	32,519
Taxes and social contributions payable	14	19	22	5, 243	4,118
Salaries and social charges payable		16	19	11,008	7,025
Dividends payable		4	5	1,375	1,377
Amount payable for the acquisition of equity	8	-	-	1,103	1,103
Derivative financial instruments	21	-	-	897	10,040
Others		2	-	6,325	4,677
		57	**64**	**106,243**	**121,764**
Non-current liabilities					
Loans and financings	11	-	-	44,434	40,614
Deferred income tax and social contribution	14	-	-	54,084	50,670
Provision for contingencies	13	-	-	28,999	31,306
Amount payable for the acquisition of equity	5	-	-	25,936	24,984
Taxes and social contributions payable	14			2,467	-
Derivative financial instruments	21	-	-	131	9,229
Others		-	-	122	168
		-	**-**	**156,173**	**156,971**
		57	**64**	**262,416**	**278,735**
Shareholders' equity	15				
Capital stock		130,583	130,583	130,583	130,583
Shares held in treasury		(11,208)	(11,208)	(11,208)	(11,208)
Expenses from the issue of shares		(10,870)	(10,870)	(10,870)	(10,870)
Capital reserves and options granted		200,967	199,327	200,967	199,327
Revenue reserves		170,049	170,049	170,049	170,049
Carrying value adjustments		(14,096)	(14,108)	(14,096)	(14,108)
Loss for the period		(16,423)	-	(16,423)	-
Total shareholders' equity		**449,002**	**463,773**	**449,002**	**463,773**
Total liabilities and shareholders' equity		**449,059**	**463,837**	**711,418**	**742,508**

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Income

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of Reais*)*

		Parent Company				Consolidated			
	Note	July 1, 2017 to September 30, 2017	January 1, 2017 to September 30, 2017	July 1, 2016 to September 30, 2016	January 1, 2016 to September 30, 2016	July 1, 2017 to September 30, 2017	January 1, 2017 to September 30, 2017	July 1, 2016 to September 30, 2016	January 1, 2016 to September 30, 2016
Net revenue	17	-	-	-	-	76,812	223,045	79,275	244,258
Cost of goods and services sold	18	-	-	-	-	(40,675)	(116,269)	(44,539)	(131,542)
Gross profit		-	-	-	-	**36,137**	**106,776**	**34,736**	**112,716**
Sales expenses	18	-	-	-	-	(28,626)	(86,128)	(29,686)	(88,774)
General and administrative expenses	18	(366)	(1,309)	(399)	(1,219)	(9,275)	(27,368)	(9,403)	(27,210)
Other revenues (expenses), net	18	(35)	(152)	(82)	(95)	(1,128)	(6,090)	(926)	(9,229)
Income (loss) before financial result and equity in the results of investees		**(401)**	**(1,461)**	**(481)**	**(1,314)**	**(2,892)**	**(12,810)**	**(5,279)**	**(12,497)**
		-	-						
Equity income	8	(6,690)	(15,053)	(5,743)	(22,514)	-	-	-	-
Financial income	19	29	100	39	113	16,571	34,751	7,330	60,498
Financial expenses	19	(4)	(9)	(1)	(1)	(18,174)	(34,950)	(8,202))	(69,572)
		25	**91**	**38**	**112**	**(1,603)**	**(199)**	**(872)**	**(9,074)**
Income (loss) before income tax and social contribution		**(7,066)**	**(16,423)**	**(6,186)**	**(23,716)**	**(4,495)**	**(13,009)**	**(6,151)**	**(21,571)**
Income tax and social contribution									
Current	14	-	-	-	-	-	-	178	178
Deferred	14	-	-	-	-	(2,571)	(3,414)	(213)	(2,323)
Net income (loss) attributed to shareholders		**(7,066)**	**(16,423)**	**(6,186)**	**(23,716)**	**(7,066)**	**(16,423)**	**(6,186)**	**(23,716)**
Attributable to									
Shareholders of the Company		-	-	-	-	(7,066)	(16,423)	(6,186)	(23,716)
Non-controlling interest		-	-	-	-	-	-	-	-
		-	-	-	-	**(7,066)**	**(16,423)**	**(6,186)**	**(23,716)**
Basic earnings (loss) per share	15	-	-	-	-	**(0.0914)**	**(0.2125)**	**(0.0800)**	**(0.3068)**
Diluted earnings (loss) per share	15	-	-	-	-	**(0.0914)**	**(0.2125)**	**(0.0800)**	**(0.3068)**

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Comprehensive Income

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of* Reais*)

	Parent Company				Consolidated			
	July 1, 2017 to September 30, 2017	**January 1, 2017 to September 30, 2017**	**July 1, 2016 to September 30, 2016**	**January 1, 2016 to September 30, 2016**	**July 1, 2017 to September 30, 2017**	**January 1, 2017 to September 30, 2017**	**July 1, 2016 to September 30, 2016**	**January 1, 2016 to September 30, 2016**
Net income (loss) for the period	(7,066)	(16,423)	(6,186)	(23,716)	(7,066)	(16,423)	(6,186)	(23,716)
Other components of comprehensive income	-	-	-	-	(3)	12	-	-
Total comprehensive income for the period	**(7,066)**	**(16,423)**	**(6,186)**	**(23,716)**	**(7,069)**	**(16,411)**	**(6,186)**	**(23,716)**
Attributable to								
Shareholders of the Company	-	-	-	-	**(7,069)**	**(16,411)**	**(6,186)**	**(23,716)**
Non-controlling interest	-	-	-	-	-	-	-	-
	-	-	-	-	**(7,069)**	**(16,411)**	**(6,186)**	**(23,716)**

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Changes in Equity

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of Reais*)*

									Profit Reserves						
	Capital stock	**Capital stock to be paid up**	**Shares in treasury**	**Expenses with issue of shares**	**Capital reserves**	**Capital reserves and options granted**	**Carrying value adjustments**	**Reflex tax incentives reserve**	**Legal reserve**	**Profit retention**	**Proposed additional dividend**	**Accumulated earnings (retained losses)**	**Total**	**Non-controlling interest**	**Total equity**
On December 31, 2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
														-	-
Acquisition of own shares (note 15.2)	-														
Stock options (note 16)	-	-	-	-	-	3,299	-	-	-	-	-	-	**3,299**	-	**3,299**
Acquisition of non-controlling interest in subsidiaries (note 8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends distributed															
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	**(23,716)**	**(23,716)**	-	**(23,716)**
On September 30, 2016	**130,583**	-	**(11,208)**	**(10,870)**	**178,802**	**20,825**	**(14,112)**	**52,139**	**15,575**	**101,066**	**3,205**	**(23,716)**	**442,289**	-	**442,289**
On December 31, 2016	**130,583**	-	**(11,208)**	**(10,870)**	**178,802**	**20,525**	**(14,108)**	**52,139**	**15,575**	**99,130**	**3,205**	-	**463,773**	-	**463,773**
Stock options	-	-	-	-	-	1,640	-	-	-	-	-	-	**1,640**	-	**1,640**
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(16,423)	**(16,423)**	-	**(16,423)**
Exchange rate variation in investment abroad in subsidiary	-	-	-	-	-	-	12	-	-	-	-	-	**12**	-	**12**
On September 30, 2017	**130,583**	-	**(11,208)**	**(10,870)**	**178,802**	**22,165**	**(14,096)**	**52,139**	**15,575**	**99,130**	**3,205**	**(16,423)**	**449,002**	-	**449,002**

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Cash Flow

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of* Reais*)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Income (loss) before income tax and social contributions	(16,423)	(23,716)	(13,009)	(21,571)
Non-cash adjustments				
Amortization and depreciation	2	2	9,034	10,193
Allowance (reversal) for recoverable value of inventories	-	-	2,215	(3,213)
Allowance (reversal) for recoverable value of accounts receivable	-	-	896	(1,653)
Allowance for contingencies	-	-	(2,306)	146
Result from the sale of property and equipment	-	-	75	1,027
Reversal of impairment of property and equipment	-	-	(8)	(523)
Equity in the results of investees	15,053	22,514	-	-
Interest on debenture loans	-	-	(310)	2,696
Other interest and exchange rate variation expenses	-	-	1,842	(21,695)
Stock option expenses	152	95	1,640	3,299
Others	-	-	109	(1)
	(1,216)	**(1,103)**	**178**	**(31,295)**
Changes in assets and liabilities				
Decrease (increase) in accounts receivable	-	-	46,029	40,840
Decrease (increase) in inventories	-	-	(16,644)	2,696
Decrease (increase) in recoverable taxes	(116)	(118)	(1,630)	(3,898)
Decrease (increase) in other assets	25	(6)	(5,636)	1,975
Increase (decrease) in suppliers and accounts payable	-	19	(13,418)	41,273
Increase (decrease) in salaries and social charges payable	(3)	6	3,983	4,061
Increase (decrease) in taxes and social contributions payable	(3)	8	3,952	584
	(1,313)	**(1,194)**	**16,454**	**56,236**
Interest paid	-	-	(2,379)	(2,094)
Income tax and social contributions paid	-	-	-	-
Net cash generated by (used in) operational activities	**(1,313)**	**(1,194)**	**14,075**	**54,142**
Cash flows used in investment activities				
Acquisition of equity interest	-	-	(889)	-
Redemption of (investment in) marketable securities	-	-	305	837
Acquisition of property and equipment		-	(5,824)	(5,481)
Amount received from the sale of property and equipment and assets held for sale	-	-	1,646	4,711
Acquisition of intangible assets	-	-	(4,444)	(4,165)
Capital increase and payment in investee	-	-	-	(620)
Dividends received	1,250	1,195	-	-

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Cash Flow

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of* Reais*)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Net cash generated by (used in) investment activities	**1,250**	**1,195**	**(9,206)**	**(4,718)**
Cash flows from financial activities				
Acquisition of own shares held in treasury				
Payment of capital	-	-	-	-
Loans and financings obtained	-	-	87,872	21,050
Loans and financings paid	-	-	(97,716)	(23,785)
Dividends paid to Company shareholders	-	(60)	(2)	(61)
Net cash used in financial activities	**(1)**	**(60)**	**(9,846)**	**(2,796)**
Increase (decrease) in cash and cash equivalents	**(64)**	**(59)**	**(4,977)**	**46,628**
Cash and cash equivalents at beginning of the period (Note 4)	**144**	**67**	**16,978**	**20,016**
Cash and cash equivalents at end of the period (Note 4)	**80**	**8**	**12,001**	**66,644**

The notes are an integral part of the interim financial information.

Technos S.A.

Statement of Value Added

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of* Reais*)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gross revenue at present value	-	-	264,722	287,486
Provision for recoverable value of accounts receivable	-	-	(896)	(1,653)
	-	**-**	**263,826**	**285,833**
Input acquired from third parties				
Cost of goods and services sold	-	-	(88,475)	(101,740)
Materials, energy, outsourced services and others	(306)	(402)	(63,890)	(60,332)
Loss/recovery of assets	-	-	(4,725)	(3,812)
Other income (expenses), net	-	-	(40)	(242)
	(306)	**(402)**	**(157,130)**	**(166,126)**
Gross value added	**(306)**	**(402)**	**106,696**	**119,707**
Depreciation and amortization	**(2)**	**(2)**	**(9,034)**	**(10,193)**
Net value added generated by the company	**(308)**	**(404)**	**97,662**	**109,514**
Value added received through transfer				
Equity in the results of investees	(15,053)	(22,514)	-	-
Financial income	100	113	34,751	60,113
Others	-	-	3,703	2,659
Total value added to distribute	**(15,261)**	**(22,805)**	**136,116**	**172,286**
Distribution of value added				
Salaries and charges	(1,087)	(827)	(68,810)	(75,354)
Federal	(5)	(6)	(20,737)	(23,920)
State	(61)	(78)	(35,888)	(37,673)
Municipal	-	-	(465)	(297)
Tax incentives	-	-	11,044	12,920
Interest and exchange rate variations	-	-	(19,215)	(18,636)
Others	(9)	-	(18,468)	(53,042)
Non-controlling interest	-	-	-	-
Retained earnings (accumulated losses) for the period	16,423	23,716	16,423	23,716
Distributed value added	**15,261**	**22,805**	**(136,116)**	**(172,286)**

Technos S.A.

Statement of Value Added

For the nine-month periods ended September 30, 2017 and 2016

(In thousands of* Reais*)

The notes are an integral part of the interim financial information.

Notes to the Interim Financial Information

(In thousands of* Reais*, unless otherwise stated)

1 General Information

Technos S.A. (the "Parent Company" or "Company") is a publicly-held corporation, headquartered in the city of Rio de Janeiro, State of Rio de Janeiro, Brazil. The Company was incorporated on December 6, 2007 and started operations on January 8, 2008. The Company's purpose is investment in other companies, in Brazil or abroad. On September 30, 2017, the Company held a direct investment of 100% in the capital stock of Technos da Amazônia Indústria e Comércio S.A. ("TASA") and 100% direct and indirect equity interest in the capital stock of SCS Comércio de Acessórios de Modas Ltda. ("SCS"), companies consolidated to this interim financial information (together, the "Group").

The issue of this interim financial information was authorized by the Board of Directors on October XX, 2017.

2 Basis of Preparation

The individual and consolidated quarterly information is being presented in accordance with technical pronouncement CPC 21 (R1) and the International Accounting Standard (IAS 34).

The Company's results of operations are subject to seasonality affecting the retail segment. Sales of the retail segment usually increase in certain periods, such as in the weeks preceding Mothers' Day (May), Valentine's Day (June), Father's Day (August), Children's Day (October), and Christmas (December).

The quarterly financial information has been prepared pursuant to the same consistent accounting policies, principles, methods, and criteria used to prepare the year-end audited financial statements for the fiscal year ended December 31, 2016 and, therefore, they should be jointly read.

3 Critical Estimates in Applying the Group's Accounting Policies

Accounting estimates and judgments are constantly reviewed and are grounded on historical experiences and other factors, including forward-looking events, considered reasonable in the circumstances, consistent with those disclosed in Note 3 to the Company's financial statements for the year ended December 31, 2016.

4 Cash and Cash Equivalents

	Parent Company		Consolidated	
	September 30, 2017	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Cash	-	-	87	17
Short-term bank deposits	80	144	2,444	14,135
Buyback transactions backed by debentures	-	-	9,470	2,826
	80	**144**	**12,001**	**16,978**

The balances held as cash equivalents pay interest at 95% to 105% of the Interbank Deposit Certificate (CDI), on average, and are kept with first-class financial institutions, without any restrictions or penalties for early redemption.

5 Marketable Securities

The Company has securities concentrated in buyback transactions backed by debentures, maturing in the period between October 2017 and March 2019. The Company also invests in investment funds tied to the escrow account in guarantee for payment of trade payables regarding the acquisition of equity interest in Dumont Saab do Brasil, in the amount of R$24,316 on September 30, 2017 (R$23,568 on December 31, 2016), recorded in non-current assets. Both investments pay interest at 100% of the CDI, on average, and are kept with first-class financial institutions.

6 Trade and Other Accounts Receivable

	Consolidated	
	September 30, 2017	**December 31, 2016**
Trade receivables	**178,870**	227,346
Trade receivables from credit cards	**7,785**	7,756
Present value adjustment	**(2,816)**	(5,234)
Provision for impairment of trade receivables	**(11,097)**	(10,201)
Trade receivables, net	**172,742**	**219,667**
Total current assets	**172,742**	**219,620**
Total non-current assets	**-**	**47**
	172,742	**219,667**

The table below sets forth the balance of trade receivables by maturity period:

	Consolidated	
	September 30, 2017	**December 31, 2016**
To come due	**145,237**	189,568
Overdue		
Up to 90 days	**7,377**	13,833
Between 91 and 180 days	**3,952**	6,523
Above 181 days	**30,089**	25,178
Trade and other accounts receivable	**186,655**	**235,102**

The balance of trade receivables, net, approximates fair value and was determined based on discounted cash flows, using the SELIC rate as an average discount rate of 9.91% (14.21% on December 31, 2016), less the provision for impairment of trade receivables.

On September 30, 2017, consolidated trade receivables in the total amount of R$11,097 (R$10,201 on December 31, 2016), overdue for more than 180 days, were recorded as impaired and provisioned for. Trade receivables individually impaired relate mainly to specialized storekeepers and are scattered. Overdue balances are scattered and there is no individual amount per storekeeper higher than 2% of the total overdue balance. For the overdue balances, the Group takes a series of measures, which include administrative collections in order to recover these credits.

Other overdue trade receivables have no provision for estimated impairment of trade receivables, as they refer to a number of clients whose overdue trade receivables have already been negotiated or are under negotiation. Notwithstanding late payments, we do not expect to incur losses, as we expect to receive these amounts.

Changes in the Company's provision for impairment of trade receivables are as follows:

	Consolidated	
	September 30, 2017	**December 31, 2016**
At the beginning of the period	**10,201**	10,872
Provision for impairment of trade receivables	**5,725**	6,278
Reversal of impairment or disposal of provision for impairment of trade receivables	**(4,829)**	(6,949)
Accounting balance	**11,097**	10,201

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Company maintains no security as collateral. No trade notes have been discounted.

Trade receivables are fully maintained in *Reais*.

7 Inventories

	Consolidated	
	September 30, 2017	**December 31, 2016**
Finished goods	94,444	89,589
Products in process	3,378	996
Component parts	77,799	71,026
Imports in transit	63	127
Inventories in transit	4,022	1,324
Provision for loss on inventories	(39,347)	(37,132)
	140,359	**125,930**

The provision for losses on inventories was established in an amount considered adequate by management to absorb losses in the realization of the inventories' balances, as follows:

	Consolidated	
	September 30, 2017	**December 31, 2016**
At the beginning of the period	37,132	39,659
Provision for loss on inventories	2,631	2,894
Reversal of provision for loss on inventories / sale of obsolete inventory	(416)	(5,421)
Accounting balance	**39,347**	**37,132**

8 Investments

The table below sets forth the Company's direct and indirect equity interest:

				Parent Company	
Name	**Type of equity interest**	**Country**	**Purpose**	**September 30, 2017**	**December 31, 2016**
TASA	Direct	Brazil	Manufacture of watches	100%	100%
TASS	Direct	Switzerland	Representation office	100%	100%
SCS	Direct	Brazil	Retail	100%	100%
TOUCH	Direct	Brazil	Retail	100%	100%
MVT	Indirect	Hong Kong	Import and export	100%	100%

In April 2016, TASA incorporated a subsidiary in Hong Kong, called MVT Limited, whose corporate purpose is imports and exports. The subscribed capital stock totaled US$100,000 and is pending payment. MVT commenced its operating activities in July 2016.

The meeting of the Board of Directors held on February 27, 2015 approved the redemption of preferred shares of TASA upon their cancelation and withdrawal, with no capital decrease. The unit redemption price corresponding to the equity price per share, based on the financial statements for the year ended December 31, 2014, totals R$1,605, of which R$502 were paid in 2015 and R$1,103 was expected to be paid by December 31, 2016.

Changes in investments are as follows:

	Parent Company	
	September 30, 2017	**December 31, 2016**
On January 1,	454,828	454,814
Equity in the results of investees	(15,053)	(339)
Interest from reflex adjustment to the subsidiary's equity	14	4
Dividends (a)	-	(20,396)
Capital increase (b)	-	17,900
Stock options	1,487	2,845
	441,276	**454,828**

(a) Balance of dividends fully approved by subsidiary TASA.

(b) Subscription of capital, fully paid, in the amount of R$17,900, pursuant to the 25th amendment to the bylaws of subsidiary SCS on June 30, 2016.

(c) Subsidiary TASA subscribed for and paid in the capital stock of SCS in the amount of R$60,721. As a result, TASA holds an equity interest in the capital stock of SCS of 88.75% and the Parent Company holds an equity interest of 11.25%, pursuant to the 28th amendment to the bylaws of subsidiary SCS, dated July 31, 2017.

The table below sets forth a summary of the main financial information of the Company's direct and indirect subsidiaries:

	Assets	**Liabilities**	**Equity and Liabilities (Deficiency)**	**Revenues**	**Profit (Loss)**
On September 30, 2017					
TASA	609,792	248,963	360,829	219,643	(14,179)
TASS	8	35	(27)	-	-
SCS	70,415	6,789	63,626	14,656	(4,919)
TOUCH	246	226	20	-	-
MVT	1,604	168	1,436	957	11
On December 31, 2016	-	-	-	-	-
TASA	610,308	236,910	373,398	356,895	10,504
TASS	8	35	(27)	-	-
SCS	61,216	53,392	7,824	19,978	(13,532)
TOUCH	246	226	20	-	-
MVT	1,969	495	1,474	868	1,148

The reconciliation between investment in subsidiaries, equity, and net income of subsidiaries is

set forth below:

	September 30, 2017	December 31, 2016
Equity of subsidiaries	425,884	382,689
Less		
Non-realized profit in inventories in transactions among subsidiaries	(1,580)	(1,260)
Adjustments in transactions among subsidiaries	(118)	(89)
Equity of indirect subsidiaries	(57,977)	(1,467)
Percentage variation of equity interest held	112	-
Adjusted equity of subsidiaries	**366,321**	**379,873**
Net income (loss) of subsidiaries	(19,098)	(3,028)
Less		
Non-realized profit in transactions among subsidiaries	(321)	2,689
Equity interest among subsidiaries	4,366	
Adjusted net income (loss) of subsidiaries	**(15,053)**	**(339)**

9 Intangible

	Consolidated				
	Goodwill	**Software**	**Trademarks and Licenses**	**Agreements with Clients**	**Total**
Balance on December 31, 2015	226,838	3,631	25,030	8,218	263,717
Additions	-	4,639	1,378	-	6,017
Transfers	-	(392)	607	-	215
Write off – cost	-	-	(763)	-	(763)
Write off – amortization	-	-	103	-	103
Amortization	-	(1,412)	(1,539)	(3,573)	(6,524)
	226,838	**6,466**	**24,816**	**4,645**	**262,765**
On December 31, 2016					
Cost	226,838	14,071	31,161	17,371	289,441
Accumulated amortization	-	(7,605)	(6,345)	(12,726)	(26,676)
Balance on December 31, 2016	**226,838**	**6,466**	**24,816**	**4,645**	**262,765**
Balance on December 31, 2016	**226,838**	**6,466**	**24,816**	**4,645**	**262,765**
Additions	-	4,006	438	-	4,444
Transfers	-	-	-	-	-
Write off – cost	-	(33)	-	-	(33)
Write off – amortization	-	1	-	-	1
Amortization	-	(1,245)	(571)	(2,676)	(4,492)
On September 30, 2017	**226,838**	**9,195**	**24,683**	**1,969**	**262,685**
Cost	**226,838**	**18,044**	**31,599**	**17,371**	**293,852**
Accumulated amortization	**-**	**(8,849)**	**(6,916)**	**(15,402)**	**(31,167)**
Balance on September 30, 2017	**226,838**	**9,195**	**24,683**	**1,969**	**262,685**

In the third quarter of 2017, amortization expenses in the amount of R$64 (R$68 in the third quarter of 2016) was recorded as "Production Costs," R$1,634 (R$1,806 in the third quarter of 2016) as "Sales expenses," and R$2,794 (R$3,061 in the third quarter of 2016) as "Administrative expenses."

An annual amortization rate between 20% and 100%, calculated using the straight-line method, applies to intangible software, trademarks and licenses, and agreements with clients, except for assets of indefinite useful lives.

10 Property and Equipment

	Land	Buildings	Improvements on Third-party Real Estate	Equipment and Facilities	Vehicles	Furniture and Fixtures	Total
Balance on December 31, 2015	137	11,853	7,004	4,370	5,474	10,759	39,597
Additions	-	388	1,304	167	3,114	2,348	7,321
Transfers	-	58	(243)	254	-	(285)	(216)
Impairment	-	-	-	4	-	5	9
Disposals – cost	-	(1,716)	(7)	-	(3,068)	(224)	(5,015)
Disposals – depreciation	-	126	12	-	732	13	883
Depreciation	-	(635)	(2,680)	(773)	(574)	(2,136)	(6,798)
Balance on December 31, 2016	137	10,074	5,390	4,022	5,678	10,480	35,781
On December 31, 2016							
Cost	137	20,231	19,255	17,206	6,453	23,295	86,677
Accumulated depreciation	-	(10,157)	(13,865)	(13,184)	(775)	(12,915)	(50,896)
Balance on December 31, 2016	137	10,074	5,390	4,022	5,678	10,480	35,781
Balance on December 31, 2016	**137**	**10,074**	**5,390**	**4,022**	**5,678**	**10,480**	**35,781**
Additions	-	215	535	280	1,933	2,861	5,824
Transfers	-	-	-	-	-	-	-
Impairment	-	-	-	3	-	5	8
Disposals – cost	-	-	(1,864)	(139)	(2,199)	(67)	(4,268)
Disposals – depreciation	-	-	1,864	48	541	28	2,481
Depreciation	-	(408)	(1,455)	(574)	(474)	(1,631)	(4,542)
	137	**9,881**	**4,470**	**3,640**	**5,479**	**11,676**	**35,283**
On September 30, 2017							
Cost	**137**	**20,446**	**17,926**	**17,350**	**6,187**	**26,194**	**88,241**
Accumulated depreciation	**-**	**(10,565)**	**(13,456)**	**(13,710)**	**(708)**	**(14,518)**	**(52,957)**
Balance on September 30, 2017	**137**	**9,881**	**4,470**	**3,640**	**5,479**	**11,676**	**35,283**
Useful life in years	**-**	**25**	**3 to 5**	**10**	**10**	**5 to 10**	**-**

In the third quarter of 2017, depreciation expenses in the amount of R$1,138 (RS1,380 in the third quarter of 2016) was recorded as “Production Costs,” R$2,360 (R$2,442 in the third quarter of 2016) as “Sales expenses,” and R$1,259 (R$1,436 in the third quarter of 2016) as “Administrative expenses.”

11 Loans and Financings

In 2016 and 2017, the Company entered into lease-purchase agreements with Banco Santander and Bradesco to finance the renewal of its fleet of vehicles, accruing an average interest of 18.65% p.a. This financing will be settled in 36 monthly installments and the funds will be used according to the fleet renewal schedule. On September 30, 2017, R$2,171 (R$1,055 in 2016) had already been used.

In September 2016, the Company obtained a foreign-currency loan with a first-class bank in the amount of R$20,000 (equivalent to US$6,060), accruing interest based on the exchange rate plus an interest rate of 4.84% p.a., payable and timely maturing on September 15, 2017.

In September 2015, the Company obtained a loan with a first-class bank in the amount of R$141,700 (equivalent to US$36,693), accruing interest based on the exchange rate plus an interest rate of 2.4% p.a. This loan is payable on April 13, 2018. The balance of the debt on September 1, 2017 in the amount of R$66,500 (equivalent to US$21,000) was renegotiated and matures by October 1, 2019. This loan accrues interest based on the exchange rate plus an interest rate of 4.25% p.a. This loan will be accelerated in the event the net debt/EBITDA ratio in December of each year is below 3.50 and the EBTIDA/financial result ratio is below 1.50. These funds were used to settle outstanding debenture obligations. On September 30, 2017, the Company was in compliance with all its covenants.

In September 2017, the Company obtained a loan with a first-class bank in the amount of R$20,000 (equivalent to US$6,424), accruing interest based on the exchange rate plus an interest rate of 4.5% p.a. This loan matures on September 10, 2018.

In order to hedge the exchange rate exposure from bank loans obtained abroad, the Company enters into swap transactions in *Reais* up to the limit of the CDI rate variation, plus an average rate of 3.15% p.a. See Note 21.

The following table sets forth the maturities of the Company's loans on September 30, 2017 and December 31, 2016:

	Consolidated	
	September 30, 2017	**December 31, 2016**
Due in 2017	1,104	60,905
Due in 2018	44,679	40,301
Due in 2019	42,985	313
Due in 2019	218	
	88,986	**101,519**

12 Trade Payables

	Consolidated	
	September 30, 2017	**December 31, 2016**
Domestic suppliers	**8,963**	17,846
Foreign suppliers	**26,777**	14,673
	35,740	**32,519**

13 Provision for Contingencies

	Consolidated			
	Tax	**Labor and Social Security**	**Other Provisions**	**Total**
On December 31, 2015	22,211	6,164	1,046	29,421
Provision in the period	1,953	93	1,927	3,973
Reversal of provision in the period	(1,158)	(664)	(266)	(2,088)
On December 31, 2016	**23,006**	**5,593**	**2,707**	**31,306**
On December 31, 2016	23,006	5,593	2,707	31,306
Provision in the period	1,371	310	270	1,951
Reversal of provision in the period	(4,185)	(73)	-	(4,258)
	-	-	-	-
On September 30, 2017	**20,192**	**5,830**	**2,977**	**28,999**

a. Nature of Contingencies

The Group is party to labor, civil, and tax lawsuits, and other lawsuits in progress, and is discussing such matters at the administrative and judicial levels, which are supported by judicial deposits, as applicable. The provisions for any losses arising from these lawsuits are estimated and updated by Management, based on the opinion of its external legal counsel.

The nature of the liabilities may be summarized as follows:

Tax

These mainly refer to the taxation of Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) on interest on shareholders' equity received from a subsidiary in the period between 2004 and 2005. Taxes payable on disposal of the provision for obsolete inventories, such as Import Duty, Excise Tax (IPI) and Value-added Tax on Sales and Services (ICMS), among others, are also considered.

Labor and Social Security
These consist mainly of employees' claims in connection with disputes about the amount of indemnities paid on dismissals.

As for terms for final decisions, most of the provisioned claims refers to tax matters for which we estimate an average of 3 to 5 years for realization of the relevant liabilities.

b. Possible Losses

The Company is party to tax, civil, and labor lawsuits involving risks of loss classified by Management as possible, based on the evaluation of its legal counsel, for which no provision was recognized, as set forth in the breakdown and estimates below:

	Consolidated	
	September 30, 2017	**December 31, 2016**
Tax	28,433	45,485
Labor	246	1,296
Civil	533	777
	29,212	**47,558**

c. Changes in Judicial Deposits

	Consolidated	
	September 30, 2017	**December 31, 2016**
Initial balance	1,995	678
Judicial deposits in the year	547	2,058
Deposits written off in the year	(31)	(843)
Adjustment for inflation	103	102
	2,614	**1,995**

14 Taxes

a. Deferred Income Tax and Social Contributions

Deferred income tax and social contributions are calculated on income tax losses, the negative base of the social contribution, and the corresponding temporary differences between the income tax bases of assets and liabilities and their carrying amounts in the financial information. The currently defined tax rates are, in general, 6.25% for income tax and 9% for social contributions, and are used to calculate deferred taxes, considering the tax benefit of the income from exploration.

The table below sets forth the deferred income tax and social contributions on September 30, 2017 and December 31, 2016:

	Consolidated	
	September 30, 2017	**December 31, 2016**
Balance of tax assets (liabilities)		
Merger tax benefit	(61,267)	(58,455)
Provision for disposal of obsolete inventories	5,149	4,838
Net exchange rate	(2,726)	(2,735)
Stock options	1,946	1,812
Present value adjustment	254	471
Others	2,560	3,399
	(54,084)	**(50,670)**

Deferred tax assets will be realized within 3 years. Most of the deferred tax liabilities refers to the difference in treatment of the goodwill amortization, which goodwill amortization is only allowed for tax purposes since December 31, 2008. Its realization will occur upon any goodwill impairment loss recorded or upon the disposal of the investment that created such goodwill.

b. Consolidated Income Tax and Social Contribution

	Consolidated	
	September 30, 2017	**September 30, 2016**
Current tax on profits for the period	**-**	**(178)**
Deferred income tax and social contributions	**-**	-
Realization of merger tax credit	**2,812**	**2,424**
Generation (reversal) of temporary differences	**601**	**(101)**
Total deferred tax	**3,413**	**2,323**
Income tax and social contributions expenses charged to the statement of income	**3,413**	**2,145**

The table below sets forth the reconciliation between tax expenses and the result of the multiplication of accounting profit by the Brazilian nominal tax rate in the nine-month periods ended September 30, 2017 and 2016:

	September 30, 2017	**September 30, 2016**
Profit (loss) before income tax and social contributions	**(13,009)**	**(21,571)**
Tax nominal rate – %	**34**	**34**
Income tax and social contributions at nominal rates	**4,423**	**7,334**
Adjustments for the calculation of the effective rate		
Income tax incentive	**-**	**-**
Credits from tax losses and negative base that were not recognized	**-**	**(6,931)**
Tax effects through a method other than taxable profit	**(5,109)**	**(1,869)**
Temporary differences	**(2,728)**	**(679)**
Income tax and social contribution on results for the period	**(3,414)**	**(2,145)**
Current	**-**	**180**
Deferred	**(3,414)**	**(2,325)**
	(3,414)	**(2,145)**
Effective rate – %	**26.23**	**9.94**

c. Payable Taxes

	Consolidated	
	September 30, 2017	**December 31, 2016**
ICMS and IPI payable	3,070	1,296
PIS/COFINS payable	1,032	1,632
PIS/COFINS payable - PERT	2,938	
Withheld income tax and contributions payable	437	1,042
ISS payable	97	99
Others	136	49
	7,710	**4,118**
Current assets	**5,243**	**4,118**
Non-current liabilities	**2,467**	**0**

d. Taxes Recoverable

	Consolidated	
	September 30, 2017	**December 31. 2016**
ICMS and IPI recoverable	9,332	7,438
INSS recoverable	4,565	4,139
IR and CSL recoverable	3,542	4,350
PIS and Cofins recoverable	2,568	2,491
Other recoverable taxes	1,412	1,371
	21,419	**19,789**
Current assets	**8,448**	7,261
Non-current assets	**12,971**	12,528

15 Shareholders' Equity

15.1 Authorized and Subscribed Capital

The authorized capital of the Company amounts to 100,000,000 common shares, without par value, pursuant to the Company's bylaws. On September 30, 2017 and December 31, 2016, the Company's capital stock comprised 78,506,215 fully paid-up registered common shares, without par value.

15.2 Shares Held in Treasury

In a meeting held on August 27, 2014, the Board of Directors approved the program for repurchase of 6,560,049 common shares issued by the Company, representing 10% of a total of 65,600,494 outstanding common shares.

In a meeting held on September 24, 2015, the Board of Directors approved the extension of the program for repurchase of 4,984,808 common shares issued by the Company, representing 8% of a total of 62,310,094 outstanding common shares. The buyback program was extended to September 24, 2016.

The buyback transactions are being carried out at market prices at the BM&FBOVESPA.

On September 30, 2017 and December 31, 2016, the amount of R$11,208 recorded as shares in treasury corresponds to the purchase of 1,207,800 shares for an average price per share of R$9.28.

15.3 Legal Reserve and Additional Proposed Dividend

a. Legal Reserve

The legal reserve is credited annually with 5% of the net income for the year and cannot exceed 20% of the capital stock. The purpose of the legal reserve is to ensure the integrity of the capital stock and it can only be used to offset losses and increase capital.

The additional proposed dividend reserve refers to the proposed dividends to be approved at the General Meeting in compliance with Brazilian Corporation Law.

b. Earnings per Share

(i) Basic

Basic earnings per share for the nine-month periods ended September 30, 2017 and 2016 are calculated by dividing the profit attributable to Company shareholders by the weighted average number of common shares issued during the period, excluding the common shares purchased by the Company and held in treasury.

	September 30, 2017	**September 30, 2016**
Profit (loss) attributable to Company shareholders	(16,423)	(23,716)
Weighted average number of common shares issued (thousands)	77,298	77,298
Basic earnings (losses) per share (R$)	**(0.2125)**	(0.3068)

(ii) Diluted

Diluted net earnings per share for the nine-month periods ended September 30, 2017 and 2016 are calculated by adjusting the weighted average number of outstanding common shares, assuming the conversion of all potentially diluted common shares. The Company has only one category of potentially diluted common shares: stock options. For the stock options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights underlying the outstanding stock options.

The Company found no differences in the calculation of basic and diluted earnings per share on September 30, 2017 and 2016 because the potential common shares decrease losses per share from continued operations. Pursuant to CPC 41 – Earnings per Share, such shares have anti-dilutive effects.

15.4 Carrying Value Adjustments

On May 14, 2010, the Company, through its subsidiary SD Participações, acquired a 10.04% share interest in the voting and total capital of subsidiary TASA. The surplus paid with respect to the equity value of the shares was directly recorded in equity as a capital transaction.

As described in Note 8, on February 27, 2015, subsidiary TASA redeemed all issued preferred shares held by non-controlling shareholders. These transactions generated accounting effects that were directly recorded in equity as "Carrying value adjustment."

15.5 Revenue Reserve—Reflex Tax Incentives

Based on Article 195-A of the Brazilian Corporation Law, the Company appropriated to the tax incentives reserve the portion of the net income arising out of the profit in the exploration of its subsidiary TASA. This amount was excluded from the calculation basis of the mandatory minimum dividend.

16 Stock Option Plan

The information regarding the stock option plans of the Company is consistent with the information disclosed in the financial statements for the year ended December 31, 2015.

The table below sets forth recognized expenses concerning services provided by employees for the periods indicated:

	Consolidated	
	September 30, 2017	**September 30, 2016**
Stock option expenses for the period	**1,640**	**3,299**
	1,640	**3,299**

The table below sets forth the number, weighted average exercise price (WAEP), and variation of stock options for the periods indicated:

	Consolidated			
	September 30, 2017		**December 31, 2016**	
	Number	**WAEP**	**Number**	**WAEP**
Initial balance	**5,425**	**-**	**4,975**	**7.11**
Granted during the period	-	-	750	4.78
Exercised during the period	-	-	(300)	6.36
Expired during the period	-	-	-	-
Final balance	**5,425**	**6.82**	**5,425**	**6.82**

17 Net Revenue

	Consolidated	
	September 30, 2017	**September 30, 2016**
Gross sales of products and services	**304,643**	**320,350**
Returns	**(30,919)**	**(19,588)**
Present value adjustment on sales	**(9,002)**	**(13,276)**
Taxes on sales	**(43,029)**	**(45,175)**
Present value adjustment of sales taxes	**1,352**	**1,947**
Net revenue	**223,045**	**244,258**

Historically, sales of services do not exceed 0.5% of total gross sales of products and services.

The amount of ICMS tax incentives recognized in the income for the period ended September 30, 2017 is R$11,420 (R$13,094 for the period ended September 30, 2016).

18 Costs and Expenses by Nature

The Company has chosen to present its consolidated statement of income by type. The table below sets forth the breakdown of expenses by nature:

	Parent Company		Consolidated	
	September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**
Raw material, products and materials for use and consumption	-	-	(90,298)	(103,629)
Freight and storage expenses	-	-	(11,111)	(9,523)
Personnel expenses	(935)	(826)	(68,729)	(74,304)
Outsourced services	(207)	(221)	(33,055)	(31,227)
Taxes	(62)	(78)	(3,429)	(1,908)
Lease of property and equipment	-	-	(4,055)	(4,003)
Depreciation, amortization and impairment	(3)	(2)	(6,498)	(7,651)
Profit sharing	-	-	-	(1,086)
Stock options	(152)	(95)	(1,641)	(3,299)
Other expenses	(102)	(92)	(14,522)	(17,558)
Amortization at fair value of the acquisition of Dumont	-	-	(2,517)	(2,567)
	(1,461)	**(1,314)**	**(235,855)**	**(256,755)**
Classified as				
Cost of goods sold	-	-	(116,269)	(131,542)
Sales expenses	-	-	(86,128)	(88,774)
Administrative expenses	(1,309)	(1,219)	(27,367)	(27,210)
Other operating expenses, net	(152)	(95)	(6,091)	(9,229)
	(1,461)	**(1,314)**	**(235,855)**	**(256,755)**

19 Financial Result

	Consolidated	
	September 30, 2017	**September 30, 2016**
Financial expenses		
Loans and financings	(4,178)	(5,011)
Losses with derivatives	(13,842)	(47,975)
Exchange rate variation	(14,066)	(13,593)
Other financial expenses	(722)	(243)
Financial discounts granted	(2,142)	(2,750)
	(34,950)	**(69,572)**
Financial income		
Income from investments and marketable securities	3,348	5,003
Realization of present value adjustment	10,076	13,679
Interest for late payment	3,221	1,727
Gains (losses) with exchange rate hedging transactions	354	-
Exchange rate variation	17,720	40,089
Other financial income	32	
	34,751	**60,498**
Financial result	**(199)**	**(9,074)**

20 Related-party Transactions

20.1 Consolidated

a. Key Management Compensation

Key management includes officers and managers. The compensation paid or payable to key management for services provided is set forth below:

	September 30, 2017	**September 30, 2016**
Salaries and social charges of managers	8,946	**9,112**
Compensation and social charges of officers	4,595	**4,935**
Stock options	1,640	**3,299**
	15,181	**17,346**

b. Transactions among Subsidiaries

On September 30, 2017, TASA sold products to SCS in the amount of R$13,167 (R$14,664 in 2016). Sales are made in accordance with the sales practices that TASA applies to its customers.

20.2 Parent Company

Except for dividends receivable from subsidiary TASA recorded on September 30, 2017 in the amount of R$6,005 (R$7,255 on December 31, 2016), there are no other amounts regarding related-party transactions.

21 Derivative Financial Instruments

a. Forward US Dollar Market and Foreign Exchange SWAP (CDI X USD)

The Company enters into transactions with derivative financial instruments in the forward US dollar market and exchange swap (CDI rate X USD BRL) in order to reduce its potential exposure to exchange rate variations of the R$ against the US$ used to settle its imports and loans denominated in foreign currency.

The total fair value of a derivative is classified as current or non-current assets or liabilities with a corresponding entry in the statement of income as financial income (expenses).

It is worth mentioning that the use of foreign exchange derivatives has the sole purpose of (i) hedging the amounts contracted and estimated for purchases from foreign suppliers in the six following months, and (ii) covering loans denominated in foreign currency.

Any exchange rate variation of the R$ against the US$ resulting in loss in derivative instruments tends to be offset by gains upon settlement of foreign exchanges in connection with purchases from foreign suppliers.

The notional amounts of the outstanding forward US dollar contracts on September 30, 2017

were R$25,093, equivalent to US$7,921 (R$21,249, equivalent to US$6,520 on December 31, 2016). The notional amounts of the outstanding swap agreements in *Reais* were R$99,034 (R$100,314 on December 31, 2016). Additionally, on September 30, 2017, the effect of both transactions on the result for the period amounted to R$32,930 (R$19,269 on December 31, 2016). For purposes of sensitivity analysis, probable risk is based on the exchange rate of the U.S. dollar against the *Real* on September 30, 2017. Probable risk of swap agreements is based on the accumulated CDI rate on September 30, 2017.

b. Sensitivity Analysis

			September 30, 2017				
				Scenario			
	Assets	Liabilities	Reference Value	Risk	Probable	25%	50%
Exchange derivative	34	(767)	25,093	Depreciation of US$	(971)	(7,245)	(13,518)
Swap in *Reais* – CDI	280	(261)	99,034	Increase in the domestic interest rate	(6,341)	(20,042)	(20,383)

			December 31, 2016				
				Scenario			
	Assets	Liabilities	Reference Value	Risk	Probable	25%	50%
Exchange derivative	-	(812)	21,249	Depreciation of US$	(1,070)	(6,382)	(11,694)
Swap in *Reais* – CDI	-	(18,457)	100,314	Increase in the domestic interest rate	(26,090)	(29,162)	(31,826)

The closing exchange rate of the last day of the closing month of the period is used in the probable scenario.

22 Objectives and Policies of the Financial Risk Management

22.1 Financial Risk Factors

The Group has and follows a risk management policy that provides guidelines on transactions and requires the diversification of transactions and counterparties. According to this policy, the nature and general position of financial risks are monitored and managed on a regular basis to evaluate their results and their financial impact on cash flows.

In accordance with this policy, market risks are hedged when it is deemed necessary to support the corporate strategy or maintain the level of financial flexibility.

a. Market Risk

(i) Foreign Exchange Risk

The associated risk arises from the variation in the foreign exchange rate in the period between the date the item is purchased (ordered) and the date it is settled. Imports are fully settled within 360 days from shipment to the date the foreign exchange agreement is settled.

To hedge against these variations, the Group uses derivative financial instruments in the forward US dollar market to freeze the exchange rate for some of its purchases. The Group does not apply hedge accounting.

(ii) Cash Flow Risk or Fair Value Associated with Interest Rate Risk

The assets of the Group that are subject to fixed interest rates are (i) the balances of accounts receivable with the same characteristics of financings, measured at fair value through profit or loss, and (ii) interest-yielding financial investments at variable interest rates based on the variation of the interbank deposit certificate.

The interest rate risk of the Company results from long-term loans indexed to variable interest rates, specifically the average daily rate of interbank deposits (DI). The policy of the Group has been to maintain loans indexed to variable interest rates. In 2016 and 2015, loans of the Company indexed to variable interest rates were maintained in *Reais*.

The Company's Management considers the Interbank Deposit Certificate (CDI) to be a rate that is freely used by the market and, for this reason, all agents are somehow directly or indirectly subject to it. Management does not consider the interest rate risk to be a critical factor in its operations.

b. Credit Risk

The Company's sales policy considers the credit risk level it is willing to accept in the course of its business. In order to minimize possible default in accounts receivable, the Company (i) diversifies its receivables, (ii) selects its customers, (iii) monitors financing terms for sales and individual position limits, and (iv) conducts a strict credit analysis based on internal data on the customer's history and data from external sources.

c. Liquidity Risk

Risk of not having sufficient liquid funds to meet the Company's financial obligations due to the mismatch of terms or volumes in expected receipts and payments.

Management monitors its projections of daily receipts and payments in order to avoid unexpected mismatches. Additionally, the Company has access to immediately available credit facilities with first class banks that may be used, if required.

In order to manage liquidity of cash, assumptions for future disbursements and receipts are determined and monitored on a daily basis by the treasury area.

The table below sets forth the breakdown of Technos' non-derivative financial liabilities and the Company's derivative financial liabilities, by maturity range, corresponding to the remaining period, at the balance sheet date, to the maturity date. Derivative financial liabilities are included in the analysis if their maturities are essential for an understanding of the cash flows. The amounts set forth in the table below are the undiscounted cash flows entered into.

	Consolidated			
	Less than one year	**Between one and two years**	**Between two and five years**	**More than five years**
On September 30, 2017	-	-	-	-
Loans and financings	1,104	87,664	218	-
Salaries and social charges	11,008	-	-	-
Accounts payable for the acquisition of equity interest	1,103	25,936	-	-
Suppliers and other obligations	45,900	253	-	-
On December 31, 2016	-	-	-	-
Loans and financings	60,905	40,614	-	-
Accounts payable for the acquisition of equity interest	1,103	-	24,984	-
Salaries and social charges	7,025	-	-	-
Suppliers and other obligations	47,236	9,397	-	-

22.2 Capital Management

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

In order to maintain or adjust the capital structure, Management may review its dividend policy, return capital to shareholders or, also, issue new shares or sell assets to reduce, for example, debt.

The Company monitors capital according to leverage ratios. One of these ratios is obtained by dividing net debt by equity. Net debt is calculated as total loans (including current and noncurrent loans, as shown in the consolidated balance sheet, and payables for the acquisition of noncontrolling interest) less cash and cash equivalents. Equity corresponds to the amount recorded in the balance sheet at the period-end.

On September 30, 2017, the net debt of the Company amounted to R$76,985, corresponding to 17.1% of shareholders' equity (on December 31, 2016, R$74,667, equivalent to 16.9% of shareholders' equity).

Capital is managed considering the consolidated position, rather than the Parent Company.

22.3 Fair Value of Financial Assets and Liabilities

			Consolidated	
	Category	**Classification**	**September 30, 2017**	**December 31, 2016**
Financial assets:				
Cash and cash equivalents	Loans and receivables	No classification	12,001	16,678
Marketable securities	Fair value through profit or loss	Level 2	24,316	24,621
Trade receivables	Loans and receivables	No classification	172,742	219,667
Derivative financial instruments	Fair value through profit or loss	Level 2	314	-
Advances to suppliers	Loans and receivables	No classification	4,022	6,500
Other financial assets	Loans and receivables	No classification	16,371	12,792
Financial liabilities:				
Loans and financings	Amortized cost	No classification	88,986	101,519
Trade payables	Other liabilities	No classification	44,552	32,519
Derivative financial instruments	Fair value through profit or loss	Level 2	1,028	19,269

The balances of trade receivables and trade payables at book value less impairment are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

- The fair value of derivative financial instruments is determined by valuation techniques. These valuation techniques maximize the use of data adopted by the market in which it is available and rely as little as possible on specific estimates of the Company.

- Interest rates of loans and financings are fixed and consistent with market interest rates. Accordingly, the carrying balances informed approximate their respective fair values.

- Cash and cash equivalents, trade payables, advances and other current obligations approximate their respective carrying values, primarily due to the short-term maturity of these instruments.

- Technos applies CPC 40/IFRS 7 to financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by hierarchic level, as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1).

- Inputs other than quoted prices included in level 1 that are adopted by the market for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).

- Inputs for the asset or liability that are not based on data adopted by the market (unobservable inputs) (level 3).

22.4 Financial Instruments by Category

	Consolidated		
	Assets Measured at Fair Value	**Loans and Receivables**	**Total**
September 30, 2017			
Assets as per balance sheet			
Marketable securities	-	172,742	172,742
Trade receivables	-	12,001	12,001
Cash and cash equivalents	-	-	-
Derivative financial instruments	314	-	314
Judicial deposits	2,614	-	2,614
	2,928	**209,059**	**211,987**

	Consolidated		
	Liabilities Measured at Fair Value	**Other Financial Liabilities**	**Total**
September 30, 2017	-	-	-
Liabilities as per balance sheet	-	-	-
Loans and financings	-	88,986	88,986
Amount payable for acquisition of equity interest	-	27,039	27,039
Licenses payable	-	-	-
Derivative financial instruments	1,028	-	1,028
Legal obligations	-	45,125	45,125

	Consolidated		
	Assets Measured at Fair Value	**Loans and Receivables**	**Total**
December 31, 2016			
Assets as per balance sheet			
Marketable securities	-	27,002	27,002
Trade receivables	-	227,274	227,274
Cash and cash equivalents	-	20,016	20,016
Derivative financial instruments	6,515	-	6,515
Judicial deposits	678	-	678
	24,621	232,640	263,261

	Consolidated		
	Liabilities Measured at Fair Value	**Loans and Receivables**	**Total**
December 31, 2016			
Liabilities as per balance sheet			
Loans and financings	-	101,519	101,519
Amount payable for acquisition of equity interest	-	26,087	26,087
Derivatives – swap	19,269	-	19,269
Legal obligations	-	37,364	37,364

19,269	**164,970**	**184,239**

22.5 Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	Consolidated	
	September 30, 2017	**December 31, 2016**
Counterparties without external credit rating	-	-
Domestic customers	-	174,734
Regional and local customers (Department Stores)	-	19,076
Others	-	25,857
Total trade receivables	**-**	**219,667**
Current account, bank deposits, and marketable securities (a)		
AAA	**36,230**	**41,582**
	36,230	**41,582**

(a) Rating obtained from the report of Fitch Ratings Brasil Ltda. The Group only uses financial institutions whose ratings are AAA for its operations with derivative financial instruments (Note 21).

- **Domestic customers –** customers that operate nationwide, which usually have large networks of points of sales that serve the Brazilian territory, without a history of loss.

- **Regional and local customers –** customers that operate regionally or locally, with one or a few points of sales concentrated in the same region, with an occasional history of late payments and low levels of loss.

- **Others –** gift line customers and other customers that do not have a history of recurring relationship with the Group and whose main activity is not the sale of watches.

The Group's credit analysis is mainly based on the history of customers' payments. The credit limit is determined on an individual basis and takes into consideration the financial capacity, history of payments, and the volume of purchases made over the past 12 months. For new customers, the Group consults credit history with credit analysis agencies (SERASA and SPC, among others).

For non-defaulting customers, provided that credit limits are observed, sales are made automatically. The authorization of sales is made manually for customers with a history of default, based on an individual analysis, until the credit history is reestablished. None of the financial assets that are fully performing have been discounted in the last period.

23 Subsequent Events

GRUPO TECHNOS ANNOUNCES 3Q17 EARNINGS RESULTS

Rio de Janeiro, October 26, 2017 – Grupo Technos (BM&FBovespa: TECN3) announces its 3Q results. The following financial and operational information is presented on a
consolidated basis, in compliance with current legislation, unless otherwise indicated.

DATE

10/26/2017

CLOSING PRICE

R$4.83/share

MARKET CAP

R$379.2 million

CONFERENCE CALL

10/27/2017

10:00 a.m. Brasília

Telephones:

Brazil: +55 (11) 2188-0155

USA: +1 (646) 843-6054

USA Toll Free: +44 (203) 051-6929

Connection code: Technos

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3Q17 HIGHLIGHTS

- In 3Q17, our watch sales increased by 5.4% compared to 3Q16;
- Gross margin increased by 3.2 p.p. compared to 3Q16;
- SG&A reached R$37.9 million in 3Q17, a 3% decrease in QoQ;
- Net debt decreased by 26.9% in 3Q17 compared to 3Q16;
- Working capital decreased by 9 days in QoQ, due to the extension in payment terms for domestic and foreign suppliers.

R$ million	3Q16	3Q17	%	2016	2017	%
Gross revenue	97.6	93.9	-3.9%	300.8	273.7	-9.0%
Net revenue	79.3	76.8	-3.1%	244.3	223.0	-8.7%
Gross profit	34.7	36.1	4.0%	112.7	106.8	-5.3%
Gross margin	*43.8%*	*47.0%*	*3.2p.p.*	*46.1%*	*47.9%*	*1.7p.p.*
Net income	-6.2	-7.1	14.2%	-23.7	-16.4	-30.8%
Net margin	*-7.8%*	*-9.2%*	*-1.4p.p.*	*-9.7%*	*-7.4%*	*2.3p.p.*
Adjusted EBITDA	3.1	3.4	7.6%	15.0	7.0	-53.2%
Adjusted EBITDA margin	*4.0%*	*4.4%*	*0.4p.p.*	*6.1%*	*3.2%*	*-3.0p.p.*
Number of watches (000s)	603	635	5.4%	1,778	1,789	0.6%
Average price (R$/product)	158	145	-8.3%	165	150	-9.3%

Adjusted EBITDA – Represents CVM EBITDA (net income plus depreciation and amortization, financial expenses, financial income, current and deferred taxes) adjusted for the realization of deferred tax assets generated by the goodwill premium from the buyout of our controlled company TASA, present value adjustment on sales and sales taxes, non-operational contingency provisions, non-recurring results, recovery of escrow of liabilities generated before the acquisition of Dumont Saab, and stock options plan.

In the third quarter of 2017, we still faced a difficult sell out sales scenario. Sales volume increased by 5.4% in the quarter, with entry price brands accounting for a larger share, in line with our strategy to gain market share in this segment to overcome the decrease in purchasing power in Brazil. Net revenue decreased by 3.1%, a lower decrease compared to YTD. Like in the first quarters, consumers continued to trade down. Our franchise and online channels also had a good performance.

Our gross margin continued to recover, reaching 47.0% in 3Q17 compared to 43.8% in 3Q16, representing a 3.2 p.p. increase. After the strong depreciation of the *Real* in 2015 and beginning of 2016, this exchange rate trend reverted. This effect, together with our internal efforts to reduce costs with foreign suppliers, repricing of our products, and assertive launchings, was responsible for the gain in margin.

Selling expenses decreased by 3.0% in 3Q17 and general and administrative expenses decreased by 0.5%. This decrease in SG&A expenses shows the Company's efforts to restrain expenses, notwithstanding larger investments in strategic projects and high inflation in the period. We maintained our growth strategy by supporting retailers of specialized stores to improve and achieve a more efficient inventory turnover. We maintained investments in (i) sales promoter teams, (ii) the project of co-managed customers, and (iii) the launching of innovative products. At the end of 2016 and early 2017, we invested in the development and modernization of sites and reinforced the online marketing team. We started to reap the fruits of these investments and are watching this channel account for a larger share in our revenues.

We continue to optimize the Company's working capital through careful management of customer payment terms, reduction of inventory coverage, and extension in payment terms for domestic and foreign suppliers. In 3Q17, working capital decreased by R$35.0 million, or 9 fewer days, compared to the same period in 2016.

With the increase in gross profit and cost containment, Adjusted EBITDA totaled R$3.4 million in 3Q17, representing a 7.6% increase compared to 3Q16, and our EBITDA margin reached 4.4%, representing a 0.4 p.p. increase compared to 3Q16.

In 3Q17, we remodeled our debt structure. We repaid R$35.0 million of our debt and extended the maturity of our outstanding balance by two years, to December 2019. In 3Q17, the net debt of the Company decreased by R$5.4 million compared to 2Q17. We highlight the continuous decrease in the net debt of the Company at each quarter.

Gross revenue reached R$93.9 million in 3Q17, representing a decrease of 3.9% versus 3Q16.

R$ Million	3Q16	3Q17	Var %	Var R$	2016	2017	Var %	Var R$
Product Sales	95.2	92.0	-3.4%	-3.2	293.7	267.8	-8.8%	-25.9
Technical Assistance	2.4	1.8	-22.7%	-0.5	7.1	5.9	-16.7%	-1.2
Gross Revenue	**97.6**	**93.9**	**-3.9%**	**-3.8**	**300.8**	**273.7**	**-9.0%**	**-27.0**

PRODUCT SALES

Overview

Gross revenue from product sales decreased from R$95.2 million in 3Q16 to R$92.0 million in 3Q17, representing a decrease of 3.4%. The volume of products sold in the quarter totaled 635 thousand units, representing an increase of 5.4% compared to 3Q16. Average prices reached R$145 in 3Q17, representing a decrease of 8.3% compared to an average price of R$158 in 3Q16.

The average price decrease can be explained by the mix effect, as entry price brands accounted for a larger share in sales.

Analysis by Category

The following table sets forth the breakdown of gross revenue from product sales by product category:

R$ Million	3Q16	3Q17	Var %	Var R$	2016	2017	Var %	Var R$
Classic	46.0	41.8	-9.2%	-4.2	140.3	123.8	-11.7%	-16.4
Sports	11.1	11.8	6.6%	0.7	36.1	33.7	-6.7%	-2.4
Fashion	38.1	38.4	0.6%	0.2	117.3	110.3	-6.0%	-7.0
Total	**95.2**	**92.0**	**-3.4%**	**-3.2**	**293.7**	**267.8**	**-8.8%**	**-25.9**

The following chart sets forth the classification of the brands as used in the Company's results:

CLÁSSICO	ESPORTE	MODA
SKAGEN DENMARK	adidas	DKNY, BURBERRY WATCHES, DIESEL, FOSSIL, A|X, MICHAEL KORS, MARC JACOBS, EMPORIO ARMANI, TORY BURCH
TECHNOS	TIMEX	EURO
Dumont	mormaii	MARINER, Condor, TOUCH, allora

As a percentage of gross revenue, the Classic category decreased from 48.3% in 3Q16 to 45.4% in 3Q17, representing a decrease of 2.9 p.p., with a decrease in gross revenue of R$4.2 million, or 9.2%. As a percentage of gross revenue, the Sports category increased from 11.7% in 3Q16 to 12.9% in 3Q17, with an increase in gross revenue of 6.6%, from R$11.1 million in 3Q16 to R$11.8 million in 3Q17. As a percentage of gross revenue, the Fashion category increased from 40.0% in 3Q16 to 41.7% in 3Q17, representing an increase of 1.7 p.p., with an increase in gross revenue of R$0.2 million, or 0.6%.

Analysis by Distribution Channel

The following table outlines product sales breakdown by distribution channel:

R$ Million	3Q16	3Q17	Var %	Var R$	2016	2017	Var %	Var R$
Specialized Stores	64.7	62.2	-3.8%	-2.5	209.4	190.1	-9.2%	-19.3
Department Stores and Others	30.5	29.8	-2.5%	-0.8	84.2	77.7	-7.7%	-6.5
Total	95.2	92.0	-3.4%	-3.2	293.7	267.8	-8.8%	-25.9

In 3Q17, product sales by distribution channel showed a decrease in gross sales for Department Stores and Others of 2.5% and a decrease in gross sales for Specialized Stores of 3.8% compared to the same period in 2016.

RETAIL AND FRANCHISES

We currently have 69 exclusive points of sale, with Touch representing 52 and Euro 17, representing an increase of two points of sale compared to 2Q17. We currently focus on the improvement of quality and profitability of our franchisees.

We also highlight retail initiatives through websites and outlets. We currently have 10 e-commerce websites. Nine of them are dedicated to Technos, Mormaii, Fossil, Euro, Timex, Touch, Allora, Condor, and Dumont, and one is dedicated to Timecenter, focused on online sales of all our brands. The main goal of our online activity is brand building and brand communication in the virtual environment, as a large number of customers perform online searches before completing their purchases in physical stores.

We currently have ten outlet stores. They are part of our inventory management strategy and represent an alternative for sales of low turnover products outside our traditional sales channels, and have had good results.

GROSS REVENUE

TECHNICAL ASSISTANCE

Gross revenue from technical assistance totaled R$1.8 million in 3Q17, representing a decrease of 22.7%, due to a reduction in the number of service orders in the period.

NET REVENUE

Net revenue totaled R$76.8 million in 3Q17, representing a decrease of 3.1% compared to the same period in 2016.

In 3Q17, present value adjustment on sales decreased by 36.3%. It is important to note that this is a non-cash present value adjustment and that the portion deducted from gross revenue at the time of sale is credited to financial revenue at the time of receipt. Sales taxes continued to decrease less than revenue because of the dynamics between receipt of inventories and the enjoyment of tax benefits.

R$ Million	3Q16	3Q17	Var %	Var R$	2016	2017	Var %	Var R$
Gross Revenue	97.6	93.9	-3.9%	(3.8)	300.8	273.7	-9.0%	(27.0)
Present Value Adjustment on Sales	(4.2)	(2.7)	-36.3%	1.5	(13.3)	(9.0)	-32.2%	4.3
Sales Taxes	(14.8)	(14.8)	-0.2%	0.0	(45.2)	(43.0)	-4.7%	2.1
Present Value Adjustment on Taxes	0.6	0.4	-37.4%	(0.2)	1.9	1.4	-30.5%	(0.6)
Net Revenue	79.3	76.8	-3.1%	(2.5)	244.3	223.0	-8.7%	(21.2)

GROSS PROFIT

Gross profit totaled R$36.1 million in 3Q17, representing an increase of 4.0% compared to 3Q16.

Our gross margin reached 47.0% in 3Q17, representing an increase of 3.2 p.p. compared to the same period in 2016. After the strong depreciation of the *Real* in 2015 and beginning of 2016, exchange rates have been more stable since the second semester of 2016, including an appreciation of the *Real* in the period. This effect, together with our internal efforts to reduce costs with foreign suppliers, repricing of products, and assertive launchings, was responsible for the gain in margin.

SALES EXPENSES

Sales expenses decreased from R$29.7 million in 3Q16, accounting for 37.4% of total net revenue, to R$28.6 million in 3Q17, accounting for 37.3% of total net revenue.

In 3Q17, we made less marketing investments due to seasonality differences between years. On the other hand, expenses related to medium- and long-term strategic projects increased in 3Q17 compared to 3Q16. The execution of these projects leaves us well positioned for a recovery in economy, even though it reduces operational leverage in the short term.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased from R$9.4 million in 3Q16 to R$9.3 million in 3Q17, representing a decrease of 1.4%.

SG&A expenses decreased in 3Q17 compared to 2016, notwithstanding expenses related to new projects focused on our human capital and the accumulated inflation of the period. We continue to pursue efficiency in the management of expenses.

OTHER OPERATING RESULTS, NET

Other operating results totaled an expense of R$1.1 million in 3Q17 compared to an expense of R$0.9 million in 3Q16.

Other operating results, net, increased slightly due to: (i) a lower provision for inventory losses written off in 3Q17 compared to 3Q16; and (ii) non-recurring income in 2016, which weakens the comparison basis.

EBITDA AND ADJUSTED EBITDA

Adjusted EBITDA totaled R$3.4 million in 3Q17, representing an increase of 7.6 % compared to 3Q16. The decrease in sales was offset by an increase in margin and a decrease in expenses.

In 3Q17, we adjusted EBITDA by the following items: (i) provision for taxes on obsolete inventory in the amount of R$0.1 million, (ii) reversal of provision for a non-cash expense resulting from our stock option plan in the amount of R$0.5 million; and (iii) adjustment to present value on sales in the amount of R$2.3 million.

R$ Million	3Q16	3Q17	2016	2017
(=) Net Income	(6.2)	(7.1)	(23.7)	(16.4)
(+) Depreciation and Amortization	(3.2)	(3.1)	(10.3)	(9.0)
(+/-) Financial Result	(1.1)	(1.8)	(9.9)	(0.8)
(+) Current Taxes	0.2	0.0	0.2	0.0
(+/-) Deferred Taxes	(0.2)	(2.6)	(2.3)	(3.4)
(=) EBITDA (CVM 527/12)	(1.8)	0.4	(1.3)	(3.2)
(+/-) Provision for non-recurring contingencies	(0.4)	(0.1)	(1.6)	(0.9)
(+) Other non-cash expenses	(1.0)	(0.6)	(3.4)	(1.7)
(+) Impact of adjustment to present value on operational result	(3.6)	(2.3)	(11.3)	(7.7)
(=) Adjusted EBITDA	3.1	3.4	15.0	7.0

NET FINANCIAL RESULT

In 3Q16, we had net financial debt of R$1.1 million compared to net financial debt of R$1.8 million in 3Q17. Financial expenses are primarily affected by: (i) interest payable on the debt incurred to finance the acquisition of Dumont, which occurred in the second quarter of 2013, subsequently replaced by a 4131 facility with an extended term and reduced risk premium, as disclosed in the notice dated September 24, 2015; (ii) the decrease in the CDI rate applied on our post-fixed debt; and (iii) the exchange rate impact on hedging transactions.

CASH FLOWS

R$ Million	3Q16	3Q17	2016	2017
Net income before income tax and social contributions	(6.2)	(4.5)	(21.6)	(13.0)
(+/-) Non-cash adjustments	4.7	(1.0)	(9.7)	13.2
(+/-) Operational activities	15.7	(5.8)	85.4	13.9
(+/-) Investment activities	(0.9)	(2.8)	(4.7)	(9.2)
(+/-) Financial activities	21.1	(10.5)	(2.8)	(9.8)
(=) Increase (decrease) in cash	34.4	(24.5)	46.6	(5.0)
(+) Cash and cash equivalents at the beginning of the period	32.2	36.5	20.0	17.0
(=) Cash and cash equivalents at the end of the period	66.6	12.0	66.6	12.0

OPERATIONAL ACTIVITIES

In 3Q17, net cash generated by our working capital totaled R$6.4 million. In 3Q17, we highlight: (i) a decrease of R$11.8 million in accounts receivable; (ii) a decrease of R$3.9 million in inventories; and (iii) a decrease of R$9.2 million in accounts payable.

In 3Q16, net cash generated by operational activities totaled R$15.7 million. In 3Q16, we highlight: (i) a decrease of R$10.5 million in accounts receivable; and (ii) an increase of R$8.6 million in accounts payable.

INVESTMENT ACTIVITIES

Net cash utilized by our investment activities is primarily affected by investments in property and equipment and intangible assets, as well as by earnings from the sale of permanent assets. We recorded investments in property and equipment and intangible assets in the amount of R$3.5 million and we received R$0.8 million for the sale of assets.

FINANCIAL ACTIVITIES

Net cash generated by or utilized in our financial activities results primarily from the contracting and payment of loans and the payment of profit sharing and dividends.

CASH RESULT

The activities resulted in a cash decrease of R$24.5 million that, added to the initial amount of R$36.5 million, led to a final cash balance of R$12.0 million in 3Q17.

WORKING CAPITAL

R$ million	3Q16	Days	3Q17	Days
(+) Accounts receivable	188.0	178	172.7	183
(+) Inventories	153.2	281	140.4	287
(-) Accounts payable	28.9	53	35.7	73
(=) Working Capital	**312.3**	**406**	**277.4**	**397**

In 3Q17, working capital totaled R$277.4 million, accounting for 397 days. In 3Q16, working capital totaled R$312.3 million, accounting for 406 days.

The average term of accounts receivable increased by 5 days due to a higher delinquency rate. This increase was slightly lower than that of 2Q16 (9 days versus 2Q16), but the sluggish macroeconomic environment has been leading some customers to request payment term extensions.

Inventories increased by 6 days. Although the number of days increased, inventories decreased by R$12.9 million compared to 3Q16, notwithstanding the adjustment of our purchases in response to falling sales.

Accounts payable increased by 20 days compared to 3Q16 due to the extension in payment terms for domestic and foreign suppliers. Accounts payable increased from R$28.9 million in 3Q16 to R$35.7 million in 3Q17.

NET CASH

In 3Q17, Grupo Technos had net debt of R$77.2 million, representing a decrease of 6.5%, or R$5.4 million, compared to 2Q17. Compared to the same period in 2016, net debt decreased by 26.9%, or R$28.4 million.

R$ million	3Q16	2Q17	3Q17
Gross debt	(172.3)	(119.2)	(89.2)
(-) Cash	66.6	36.5	12.0
(=) (Debt)/Net Cash	**(105.7)**	**(82.7)**	**(77.2)**

INCOME STATEMENT

R$ thousand

	Consolidated	
	3Q16	3Q17
Net revenue	79,275	76,811
Cost of goods sold	(44,539)	(40,674)
Gross profit	**34,736**	**36,137**
Sales expenses	(29,686)	(28,626)
Administrative expenses	(9,403)	(9,275)
Others, net	(926)	(1,128)
Operational profit	**(5,279)**	**(2,892)**
Financial result, net	(872)	(1,603)
Financial income	37,554	16,571
Financial expenses	(38,426)	(18,174)
Income before income tax and social contributions	**(6,151)**	**(4,495)**
Income tax and social contributions	(35)	(2,571)
Current	178	0
Deferred	(213)	(2,571)
Net income	**(6,186)**	**(7,066)**

INCOME STATEMENT

R$ thousand

	Consolidated 2016	Consolidated 2017
Net revenue	244,258	223,045
Cost of goods sold	(131,541)	(116,269)
Gross profit	**112,716**	**106,776**
Sales expenses	(88,774)	(86,128)
Administrative expenses	(27,210)	(27,368)
Others, net	(9,229)	(6,090)
Operational profit	**(12,497)**	**(12,810)**
Financial result, net	(9,074)	(199)
Financial income	90,722	34,751
Financial expenses	(99,796)	(34,950)
Income before income tax and social contributions	**(21,571)**	**(13,009)**
Income tax and social contributions	(2,145)	(3,414)
Current	178	0
Deferred	(2,323)	(3,414)
Net income	**(23,716)**	**(16,423)**

R$ thousand	Consolidated	
	September 30, 2016	September 30, 2017
Assets		
Current		
Cash and cash equivalents	66,644	12,001
Marketable securities	0	0
Accounts receivable	187,988	172,742
Inventories	153,233	140,359
Recoverable taxes	16,360	8,448
Derivative financial instruments	0	174
Other assets	14,916	17,038
	439,141	350,762
Non-current assets		
Long-term assets		
Advances to suppliers	6,687	5,937
Recoverable taxes	7,666	12,971
Marketable securities	26,165	24,316
Judicial deposits	1,770	2,614
Accounts receivable	99	0
Derivative financial instruments	0	140
Other assets	549	16,710
	42,936	62,688
Investments		
Intangible	263,182	262,685
Property and equipment	34,371	35,283
	297,553	297,968
Total assets	**779,630**	**711,418**

R$ thousand	Consolidated	
	September 30, 2016	September 30, 2017
Liabilities		
Current liabilities		
Borrowings	61,170	44,552
Accounts payable	28,889	35,740
Income tax and social contributions payable	6,486	5,423
Amount payable for the acquisition of non-controlling interest	1,103	1,103
Salaries and social charges payable	12,475	11,008
Dividends payable	5,115	1,375
Derivative financial instruments	10,956	897
Licenses payable	0	0
Other payables	5,201	6,325
	131,395	**106,243**
Non-current liabilities		
Borrowings	80,141	44,434
Income tax and social contributions payable	0	2,467
Deferred income tax and social contributions	49,026	54,084
Provision for contingencies	29,567	28,999
Derivative financial instruments	21,974	131
Licenses payable	560	0
Amount payable for the acquisition of equity interest	24,495	25,936
Other payables	183	122
	205,946	**156,173**
Total liabilities	**337,341**	**262,416**
Equity and liabilities		
Capital	130,583	130,583
Treasury shares	(11,208)	(11,208)
Share issuance expenses	(10,870)	(10,870)
Capital reserves	199,627	200,967
Profit reserves	171,985	170,049
Carrying value adjustment	(14,112)	(14,096)
Retained earnings (accumulated losses)	(23,716)	(16,423)
Other comprehensive income	0	0
Total equity	**442,289**	**449,002**
Total equity and liabilities	**779,630**	**711,418**

R$ thousand	Consolidated	
	3Q16	3Q17
Income before income tax and social contributions	(6,151)	(4,495)
Adjustments for items that do not affect cash flow		
Amortization and depreciation	3,248	3,102
Allowance for recoverable value of inventory	(529)	725
Allowance for recoverable value of accounts receivable	(1,060)	1,094
Allowance for contingencies (reversal)	(1,023)	(3,777)
Results from disposal of permanent assets	162	(19)
Impairment of permanent assets	(1)	(2)
Interest on loans	819	(1,403)
Other interest	2,063	(1,305)
Stock option premium	1,017	530
Non-controlling interest	(1)	0
Others	(1)	28
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	10,518	10,770
Decrease (increase) in inventories	(570)	3,132
Decrease (increase) in tax recoverable	(1,853)	1,148
Decrease (increase) in other assets	(3,738)	(881)
Increase (decrease) in suppliers and accounts payable	8,578	(24,041)
Increase (decrease) in salaries and social charges payable	1,296	1,384
Increase (decrease) in taxes, rates and social contributions payable	1,490	3,513
Interest paid	0	(808)
Income tax and social contributions paid	0	0
Net cash (applied in) generated by operational activities	**14,264**	**(11,305)**
Cash flow from investment activities		
Decrease (increase) in securities	(562)	(273)
Reversal of goodwill in acquisition of equity interest	0	0
Acquisition of equity interest	(308)	(11)
Purchases of fixed assets	(1,901)	(1,795)
Amount received from the sale of fixed assets	3,632	784
Purchases of intangible assets	(1,764)	(1,456)
Net cash (applied in) generated by investment activities	**(903)**	**(2,751)**
Cash flow from financial activities		
Borrowings	21,050	87,060
Payment of borrowings	0	(97,512)
Dividends paid to Company shareholders	0	0
Net cash applied in financial activities	**0**	**(10,452)**
Increase (decrease) in cash and cash equivalents	**34,411**	**(24,508)**
Cash and cash equivalents at beginning of period	**32,233**	**36,509**
Cash and cash equivalents at end of period	**66,644**	**12,001**

R$ thousand	Consolidated	
	2016	2017
Income before income tax and social contributions	**(21,571)**	**(13,009)**
Adjustments for items that do not affect cash flow		
Amortization and depreciation	10,193	9,034
Allowance for recoverable value of inventory	(3,213)	2,215
Allowance for recoverable value of accounts receivable	(1,653)	896
Allowance for contingencies (reversal)	146	(2,306)
Results from disposal of permanent assets	1,027	75
Impairment of permanent assets	(523)	(8)
Interest on loans	2,696	(310)
Other interest	(21,695)	1,842
Stock option premium	3,299	1,640
Non-controlling interest	(1)	0
Others	0	109
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	40,840	46,029
Decrease (increase) in inventories	2,696	(16,644)
Decrease (increase) in tax recoverable	(3,898)	(1,630)
Decrease (increase) in other assets	1,975	(5,636)
Increase (decrease) in suppliers and accounts payable	41,273	(13,418)
Increase (decrease) in salaries and social charges payable	4,061	3,983
Increase (decrease) in taxes, rates and social contributions payable	584	3,592
Interest paid	(2,094)	(2,379)
Income tax and social contributions paid	0	0
Net cash (applied in) generated by operational activities	**54,142**	**14,075**
Cash flow from investment activities		
Decrease (increase) in securities	837	305
Acquisition of equity interest	(620)	(889)
Purchases of fixed assets	(5,481)	(5,824)
Amount received from the sale of fixed assets	4,711	1,646
Purchases of intangible assets	(4,165)	(4,444)
Net cash (applied in) generated by investment activities	**(4,718)**	**(9,206)**
Cash flow from financial activities		
Acquisition of own shares kept in treasury	0	0
Borrowings	21,050	87,872
Payment of borrowings	(23,785)	(97,716)
Dividends paid to Company shareholders	(61)	(2)
Net cash applied in financial activities	**(2,796)**	**(9,846)**
Increase (decrease) in cash and cash equivalents	**46,628**	**(4,977)**
Cash and cash equivalents at beginning of period	**20,016**	**16,978**
Cash and cash equivalents at end of period	**66,644**	**12,001**