

(Convenience Translation into English from the
Original Previously Issued in Portuguese)

Luta pela Paz
(Previously denominated
Associação Luta pela Paz)

Financial Statements for the
Year Ended December 31, 2017 and
Independent Auditor's Report

Deloitte Brasil Auditores Independentes Ltda.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Directors, Officers and Management of
Luta pela Paz (Previously denominated Associação Luta pela Paz)

Opinion

We have audited the accompanying financial statements of Luta pela Paz ("Entity"), which comprise the balance sheet as at December 31, 2017, and the statements of surplus (deficit), of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Luta pela Paz as at December 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil applicable to nonprofit entities (ITG 2002 (R1) - Brazilian Accounting Standards for Nonprofit Entities).

Basis for opinion

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

Emphasis of matter

Property donated by NGO Viva Rio

As described in note 1 to the financial statements, the transfer of the ownership of the registered head office of the Entity, a building donated by NGO Viva Rio located at Rua Teixeira Ribeiro, 900, Bonsucesso - Maré, Rio de Janeiro, is currently being legalized. The Management has already sent to the municipal government of Rio de Janeiro the documentation necessary for the ownership transfer to regularize the property's legal situation, but this legalization has not yet been completed. Our opinion is not qualified in respect of this matter.

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Responsibilities of Management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil applicable to nonprofit entities (ITG 2002 (R1) - Brazilian Accounting Standards for Nonprofit Entities), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Other matters

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil

Rio de Janeiro, October 15, 2018

DELOITTE BRASIL
Auditores Independentes Ltda.


Antonio Carlos Brandão de Sousa
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LUTA PELA PAZ

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Brazilian reais - R\$)**

	Note	12/31/2017	12/31/2016
CASH FLOW FROM OPERATING ACTIVITIES			
Surplus (deficit) for the year		67.654	(993.767)
Adjustments to surplus (deficit) for the year:			
Depreciation	5	80.685	62.863
Provisions		688.341	320.321
Income from securities		(141.949)	184.285
Other		1	-
(Increase) decrease in operating assets:			
Sundry advances		19.053	(18.416)
Other current assets		-	1.341
Increase (decrease) in operating liabilities:			
Sports Incentive Law	7	(428.333)	42.192
Wages and payroll taxes payable		(14.372)	(16.779)
Other current liabilities		(62.843)	(20.878)
Net cash provided by (used in) operating activities		<u>208.237</u>	<u>(438.838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Securities		(824.603)	1.657.059
Restricted cash		(238.968)	(195.843)
Additions to property and equipment	5	(66.931)	(67.355)
Net cash provided by (used in) investing activities		<u>(1.130.503)</u>	<u>1.393.861</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(922.266)</u>	<u>955.023</u>
Cash and cash equivalents at the beginning of the year	4	970.991	15.968
Cash and cash equivalents at the end of the year	4	48.725	970.991
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(922.266)</u>	<u>955.023</u>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LUTA PELA PAZ

BALANCE SHEET AS AT DECEMBER 31, 2017
(In Brazilian reais - R\$)

	Note	12/31/2017	12/31/2016
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	4	48.725	970.991
Securities	4	745.877	920.758
Restricted cash	4	437.865	198.897
Restricted securities	7	775.243	1.203.141
Sundry advances		28.738	47.791
Total current assets		<u>2.036.448</u>	<u>3.341.578</u>
NONCURRENT ASSETS			
Restricted securities	4	1.569.331	-
Property and equipment	5	472.855	486.609
Total noncurrent assets		<u>2.042.186</u>	<u>486.609</u>
TOTAL ASSETS		<u>4.078.634</u>	<u>3.828.187</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Sports Incentive Law	7	774.808	1.203.141
Wages and payroll taxes payable	6	2.185.648	1.511.679
Other liabilities		8.794	71.637
Total current liabilities		<u>2.969.250</u>	<u>2.786.457</u>
EQUITY			
Net assets	9	1.041.730	2.035.497
Surplus (deficit) for the year		67.654	(993.767)
Total net assets		<u>1.109.384</u>	<u>1.041.730</u>
TOTAL LIABILITIES AND EQUITY		<u>4.078.634</u>	<u>3.828.187</u>

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LUTA PELA PAZ

STATEMENT OF SURPLUS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Brazilian reais - R\$)

	Note	12/31/2017	12/31/2016
ENDOWMENTS	11	6.695.786	6.291.199
OPERATING EXPENSES			
Personnel expenses	12	(3.170.603)	(3.757.692)
Expenses on projects	13	(3.458.834)	(3.636.211)
Depreciation expenses	5	(80.685)	(62.863)
		(14.336)	(1.165.567)
SURPLUS (DEFICIT) FOR THE YEAR BEFORE FINANCE INCOME (COSTS)		(14.336)	(1.165.567)
Finance income (costs), net	14	81.990	171.800
SURPLUS (DEFICIT) FOR THE YEAR		67.654	(993.767)

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LUTA PELA PAZ

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Brazilian reais - R\$)**

	<u>Net assets</u>	<u>Surplus (deficit) for the year</u>	<u>Total</u>
BALANCE AS AT DECEMBER 31, 2016	2.035.497	(993.767)	1.041.730
Incorporation of the prior year's surplus	(993.767)	993.767	-
Surplus for the year	-	67.654	67.654
BALANCE AS AT DECEMBER 31, 2017	<u>1.041.730</u>	<u>67.654</u>	<u>1.109.384</u>

The accompanying notes are an integral part of these financial statements.

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LUTA PELA PAZ

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FOR THE YEAR ENDED DECEMBER 31, 2017
(In Brazilian reais - R\$)

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LUTA PELA PAZ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

Luta pela Paz ("Entity" or "Luta pela Paz" previously denominated "Associação Luta pela Paz") originates from a project created in 2000 by the Rio de Janeiro NGO Viva Rio, by English researcher and former boxer Luke Dowdney. Thanks to the success and the growth of Luta pela Paz in Rio de Janeiro, the project became independent from NGO Viva Rio in 2007, established as a nonprofit Public Interest Civil Society Organization (OSCIP), with registered head office in Rio de Janeiro, governed by its bylaws and prevailing relevant legislation, for an indefinite duration. The Entity is funded by voluntary endowments and is engaged in providing children and youngsters who live in Complexo da Maré (a complex of 17 slums in Rio de Janeiro) an alternative life, far from armed violence and crime. In an extraordinary general meeting held on November 21, 2017, approval was granted to change the entity's name from Associação Luta Pela Paz to Luta pela Paz.

The transfer of the ownership of the registered head office of the Entity, a building donated by the NGO Viva Rio located at Rua Teixeira Ribeiro, nº 900, Bonsucesso - Maré, Rio de Janeiro, is currently being legalized. The Entity Management has already sent to the municipal government of Rio de Janeiro the documentation necessary for the ownership transfer to regularize the property's legal situation.

Since 2017, the Entity initiated the payment of the Property Tax and Urban Territorial (IPTU) of this property, paying retroactive amounts since 2012.

As at December 31, 2017, the Entity has a total of 49 employees (60 as at December 31, 2016) and benefits directly more than 1,600 youngsters every year (unaudited information).

The Entity's methodology is offered to young people in Rio de Janeiro through several services and the projects described below:

Athletas da Paz Project (Athletes for Peace)

The Athletes for Peace Project integrates Boxing & Martial Arts sports activities with citizenship classes, the purpose of which is to promote the personal development of children and youngsters from 7 to 29 years old living in Complexo da Maré. In addition to these activities, Luta pela Paz also provides psychosocial support to the youngsters by identifying their personal needs and sending them to experts to receive specialized assistance.

Through the systematic collection of information on the youngsters, the Luta pela Paz team is able to diagnose the engagement of youngsters involved in the different project activities, maximizing the impact on the youngsters' development. Questionnaires, interviews, and focus groups are used to analyze the impact of the initiatives on key issues relevant for the growth of the beneficiaries and to restore citizenship.

- Children and youngsters assisted in the year ended December 31, 2017: 1,259 (unaudited information).

Novos Caminhos Project (New Pathways)

Started in 2009, the project's focus is to reach out to and engage youngsters aged 16 to 29, who have been out of school for more than two years, without any type of qualification or job - a socioeconomically vulnerable and marginalized group of people.

In this project, Luta pela Paz offers K-12 education content through an accelerated school program, certifying them through a partnership with a private educational institution ("Colégio Daltro"). Additionally, the Association also offers: professional coaching and technical training, citizenship classes, and individual counseling.

When they complete the K-12 education graduation cycle, the youngsters that enrolled in the project have guaranteed basic education, which they can use as a starting point for the rest of their education (high school and/or technical education), and build new life options.

- Youngsters assisted in the year ended December 31, 2017: 63 (unaudited information).

Reforço Escolar Project (Learning Support)

Started in 2016, the project focuses on accessing and engaging young people aged 10 to 15, who are enrolled in the public elementary school in Maré's neighborhood schools, and who present difficulties of learning or higher risks of dropping out of the educational system.

Luta pela Paz offers supplementary activities besides the formal education, focusing on language content and reasoning from playful and innovative strategies, seeking to relate to Education, preventing/mitigating the risk of school dropout and improving performance (grades). In addition to these activities, the young people are also guaranteed the individual accompaniment carried out by the multidisciplinary social support team, which also carries out family engagement and support.

- Children and youngsters assisted in the year ended December 31, 2017: 60 (unaudited information).

Projeto Especial (Special Project)

The Special Project is an initiative aimed at working with youngsters facing extreme socioeconomic vulnerability and social risk. The project's goal is to take these youngsters away from their vulnerable situations and send them to the job market, and offer them access to education, thus building a sustainable path for the future. The project's success will be progressively attained through a combination of intensive monitoring methods and individual support, scholarship, fast-track education courses, and access to formal jobs in order to establish a long-term solution for the participants.

- Youngsters assisted in the year ended December 31, 2017: 13 (unaudited information)

In addition to these core projects, Luta pela Paz also developed other standalone actions, funded by specific financiers, as follows:

Sports Incentive Law - Campeões Comunitários Project (Community Champions)

The Community Champions Project, launched in August 2016, is financed with funds obtained under the Sports Incentive Law and aims at offering different types of martial arts (Boxing, Judo, Taekwondo and Muay Thai) to children and youngsters of Complexo da Maré at three sites (Sede, Baixa do Sapateiro and Marcílio Dias) with forecast for 620 beneficiaries over a one-year period.

These activities are intended to:

- i. Promote the physical well-being of the project participants through sports training.
 - ii. Promote the emotional well-being and self-confidence of the project participants through sports and citizenship activities.
 - iii. Promote respect for differences through citizenship activities.
 - iv. Ensure the satisfaction of the project participants with the actions carried out.
- Children and youngsters assisted in the year ended December 31, 2017: 994 (unaudited information).

National Training Program - REDE BRASIL (Brazil Network)

The National Training Program (Brazil Network) is an initiative financed by Child Fund. Its main purpose is to replicate in Brazil the successful work already carried out by the international training team (through the Global Alumni Programme), using Brazilian organizations. The program consists of a week of intensive team training from the involved organizations in the Luta pela Paz methodology ("Five Pillars") and organizational development principle - conducted at the Association's head office (in Maré) - in addition to a year of in-class and distance monitoring. In its first edition, seven organizations, from five different Brazilian States were selected, located in areas where the impact of crime and violence on the lives of children and youngsters were in a significant upward trend, based on evidence provided by studies and statistics.

- Children and youngsters indirectly benefited in the year ended December 31, 2017: approximately 4,000 (unaudited information) - include those assisted by the trained organizations.

Na Ativa Project (In Activity)

Launched in 2016, the project aims at engaging youngsters between 16 and 29 years old, residing in Complexo da Maré, who are unemployed and/or without formal professional qualification so as to enable them to enter the job market through partnership with companies based on a recruiting and selection consulting model.

In this project, Luta pela Paz offers classes in three different training modules (basic, specific and technical) at its premises, inserting youngsters in a professional environment with specific rules. Courses differ in terms of length (from three months to one year) and are accompanied by vocational guidance for career planning. At the end of the course, participants are assigned to the job openings offered by the network of partners/companies of Luta pela Paz, which work in conjunction with the association to coordinate the demand for skilled labor. After entering the market, the youngsters are regularly monitored by Luta pela Paz's staff, in conjunction with the representatives of the hiring companies, in order to ensure their retention and growth in the work environment.

- Youngsters assisted in the year ended December 31, 2017: 155 (unaudited information).

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil for nonprofit entities, in conformity with Brazilian Accounting Standard ITG 2002 (R1), approved by Federal Accounting Council (CFC) Resolution 1409/2012.

The financial statements were approved and authorized for publication by the Members' Meeting on October 4, 2018.

2.1. Restatement of comparative balances for the year ended December 31, 2016

The financial statements are being restated on the present date with the objective of better presentation of the effects of securities income presented adjustments to the result for the year in the financial statements for the year ended December 31, 2016 in accordance with the requirements of CPC 03 (R2) - Statement of Cash Flows:

	Published 2016	Adjustment	Represented 2016
Securities income	184,285	(368,570)	(184,285)
Net cash provided by (used in) operating activities	(438,838)	(368,570)	(807,408)
Securities	1,657,059	368,570	2,025,629
Net cash provided by (used in) investing activities	1,393,861	368,570	1,762,431

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Entity are as follows:

a) Measurement basis

The financial statements have been prepared based on the historical cost, except for the financial instruments measured at fair value through profit or loss, when applicable.

b) Functional and reporting currency

These financial statements are being presented in Brazilian reais, which is the Entity's functional currency. All financial information is presented in thousands of Brazilian reais, unless otherwise stated.

c) Use of estimates and judgments

During the process of applying the accounting policies adopted by the Entity, Management adopts judgments and assumptions that may have significant effects on the financial statements. The estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised.

Provisions for risks

Provisions for lawsuits and other matters involving the expectation of future cash disbursement are estimated by Management together with its outside legal counsel, taking into consideration the probable cash disbursement resulting from the outcome of the related discussion. Provisions are measured based on Management's best estimate and on the opinion of its outside legal counsel, about the probability of future cash settlements that a lawsuit might generate for the Entity. The Entity is aware of its exposure to the risk of being brought before a court.

Useful lives of property and equipment with finite useful lives

Depreciation is estimated in order to depreciate the cost of property and equipment on a straight-line basis, except for property and equipment in progress, over their estimated useful lives. The estimated useful lives are determined based on past experience and the best management of knowledge, and are reviewed annually.

d) Financial instruments

Non derivative financial instruments

Include short-term investments, trade and other receivables, including cash and cash equivalents, and trade payables, and are carried at their amortized cost.

Non derivative financial assets*Cash and cash equivalents and securities*

Include cash and short-term investments with original maturities of three months or less on the date of the contract without risk of significant loss.

Restricted securities

The funds that the Entity owns but that are linked to projects that raise funds under the Sports Incentive Law are presented in the following line items: (i) "Restricted securities", represented by the funds that are still being raised or not yet released for the use by the Ministry of Sports; and (ii) "Restricted cash", represented by the funds already released by the Ministry of Sports, but which must be used after a 90-day period, as established in the project's budget.

Non derivative financial liabilities

Financial liabilities are initially recognized on trading date when the Entity becomes a party to the underlying contract. The Entity derecognizes a financial liability when its contractual obligations are discharged, cancelled or settled.

The Entity holds the following non derivative financial liabilities: trade payables and other liabilities.

These financial liabilities are initially recognized at fair value plus any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost under the effective interest method.

Derivative financial instruments

The Association did not conduct derivative transactions in the years ended December 31, 2017 and 2016.

e) Calculation of surplus (deficit) for the year and recognition of endowment revenue

The surplus (deficit) for the year is determined on an accrual basis.

Revenue from voluntary endowments and contributions from third parties originate from individuals and legal entities. These endowments and contributions are usually accounted for when received due to the difficulty to accurately determine the amounts that and the dates when they are received and invested in the projects developed by the Entity (note 1).

Endowments and related arrangements

The endowments linked to projects that raise funds under the Sports Incentive Law are recorded when it can be reliably determined that the established terms and conditions will be complied with, and are recognized as liabilities and allocated to surplus or deficit as the commitments assumed mature as a balancing item to endowments received and existing arrangements.

f) Property and equipment

Recognition and measurement

Property and equipment items are measured at the historical purchase or construction cost, less accumulated depreciation and accumulated impairment losses, when applicable.

Cost includes expenditure directly attributable to the purchase of an asset. The cost of leasehold improvements (property donated currently being formally transferred to the Entity) includes the cost of materials, direct labor, and other costs to bring the property to the condition necessary for the Entity's operation.

Depreciation is recognized on a straight-line basis in surplus or deficit based on the estimated useful life of each property and equipment item.

In 2017, the Entity reviewed the estimate of the remaining useful lives of the property and equipment items and concluded that there was no need for any adjustments to the recognized estimated useful lives. The useful lives estimated by Management are as follows:

- Furniture and fixtures: 10 years.
- Machinery and equipment: 10 years.
- IT equipment: 5 years.
- Leasehold improvements: 25 years.
- Facilities: 5 years.
- Vehicles: 5 years.

The estimated useful life of leasehold improvements takes into consideration the assumption that the donation of the NGO Viva Rio's headquarters to Luta pela Paz will be legalized by the municipal government of Rio de Janeiro.

g) Impairment of long-life assets

Management reviews annually the carrying amount of noncurrent assets to assess events or changes in economic, operating or technological circumstances that might indicate an impairment of noncurrent assets. Management did not identify any indication of impairment in the year ended December 31, 2017.

h) Provisions and current liabilities

A provision is recognized in the balance sheet when the Entity has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recorded based on the best estimates of the risk involved.

The current liabilities are stated at known or estimated amounts plus, when applicable, charges and inflation adjustments incurred through the balance sheet date.

The Association is exposed to tax, labor, and civil lawsuits in the normal course of its operations. The Entity's Management, in accordance with the accounting practices adopted in Brazil, classifies the lawsuits filed against the Entity according to the likelihood of loss, based on the opinion of its legal counsel and, when applicable, supported by specific opinions issued by specialists, as follows: (i) for lawsuits whose likelihood of loss is assessed as probable, the Entity records provisions; (ii) for lawsuits whose likelihood of loss is assessed as possible, the corresponding information is disclosed in the notes to the financial statements; and (iii) for lawsuits whose likelihood of loss is assessed as remote, only the information that, at the Entity's discretion, is considered relevant to fully understand the financial statements is disclosed in the notes to the financial statements.

i) Finance income and costs

Finance income consists basically of interest income on short-term investments. Interest income is recognized in surplus or deficit under the effective interest method. Finance income from funds to be used in projects is recognized against liabilities if it has not yet been fully realized.

Finance costs consist of banking fees charged by financial institutions.

j) New and revised standards and interpretation

Application of new and revised standards that have had no effect or have had no material effect on the financial statements

There are new and revised standards effective beginning January 1, 2017. The adoption of these standards did not have a material impact on the amounts disclosed in the respective disclosures in the year, 2017, and in the prior years.

- Amendments to IAS 7/CPC 3 (R2) - Inclusion of the need to disclose information that allows users of financial statements to assess changes in liabilities arising from financing activities, including changes arising from cash flows.
- Amendments to IAS 12/CPC 32 - Changes in the recognition of deferred tax assets on unrealized losses.
- Yearly improvement cycles 2012-2014 to the International Norms (IFRS): Amendments in IFRS 12/CPC 45 - Disclosures required by IFRS 12/CPC 45 for investments in other entities, in the case of investments in entities held for sale or distribution according to the definitions of IFRS 5/CPC 31.

New and revised standards and interpretations already issued but not yet effective as of December 31, 2017

As part of the commitment of the CPC to adopt in Brazil all the changes introduced by the International Accounting Standards Board (IASB) in the International Financial Reporting Standards (IFRS), certain changes in certain accounting pronouncements have already been disclosed by the IASB, published by the CPC that will enter in force after December 31, 2017. The main accounting pronouncements that have been modified are described below:

- IFRS 9/CPC 48 - Financial Instruments (1) - Covers the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014, being effective on January 1, 2018. It replaces the guidance in IAS 39 (CPC 48), with the following main changes: (i) new classification criteria for financial assets; (ii) new model of impairment for financial assets, a hybrid of expected and incurred losses, replacing the current model of losses incurred; and (iii) easing the requirements for adoption of hedge accounting. Except for disclosure requirements, management understands that this new standard will not materially affect the financial statements of the Entity, considering that donation proceeds are received in cash and therefore do not generate amounts receivable for the Entity at 31 December 2017 and 2016 and that the Entity does not use derivative instruments.
- IFRS 15/CPC 47 - Revenue from Customer Contracts (1) - The standard determines a single comprehensive model for revenue recognition resulting from customer contracts and replaces previous guidance. The standard determines how and when entities will recognize revenues through a simplified, five-step model to be applied to all customer contracts, and requires disclosures that are more informative and relevant to users of financial statements. Except for disclosure requirements, management understands that this new standard will not materially affect the financial statements of the Entity, since revenue is recorded after the net receipt of donations from individuals and legal entities, with no consideration for the delivery of products or services rendered these parties. All funds are invested in the activities described in note 1.
- IFRS 16/CPC 6 (R2) - Leasing (2) - In January 2016, the IASB issued IFRS 16 - Leasing, with the main objective of redefining the recognition of operating leases. The corresponding Technical Pronouncement CPC 06 (R2) - Leasing Operations was issued on December 21, 2017.

The new pronouncement introduces a single model for accounting for leasing contracts, eliminating the distinction between operating and financial leases in the view of lessees, resulting in the accounting of most lease contracts in the balance sheets of lessees. The accounting of lessors remains substantially unchanged and the distinction between operating and financial lease contracts is maintained. IFRS 16 replaces IAS 17 and its interpretations. The Entity is in the process of evaluating the impact that this new standard may have on the financial statements.

- (1) Effective for annual periods beginning on or after January 1, 2018, with early adoption allowed.
- (2) Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

In addition, the Entity understands that the following changes in standards and interpretations should not have a material impact on the financial statements of Luta Pela Paz or are not applicable to its operations.

- IFRS 17 - Insurance Contracts - effective as of 01/01/2021.
- Cycle of annual improvements to International Standards (IFRS), Cycle 2014 - 2016 - Amendments to IFRS 1 and IAS 28 - effective as of 01/01/2018.
- Transfers of Investment Property (amendments to CPC 28/IAS 40) - effective as of 01/01/2019.

- ICPC 21/IFRIC 22 - Transactions in Foreign Currency and Advance - effective as of 01/01/2018.
- IFRIC 23 - Uncertainty about Treatments of Income Tax - effective as of 01/01/2019.
- Cycle of annual improvements to International Standards (IFRS), Cycle 2015 - 2017 - Amendments to IFRS 3 and 11 on holdings previously held in joint operations, IAS 12 on tax consequences of payments of financial instruments classified as equity and IAS 23 on eligible costs for capitalization - effective as of 01/01/2019.

The early adoption of these IFRS is not permitted for entities that disclose their financial statements in accordance with accounting practices adopted in Brazil.

4. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND SECURITIES

	<u>12/31/2017</u>	<u>12/31/2016</u>
Cash and banks	7,158	10,569
Short-term investments	<u>41,567</u>	<u>960,422</u>
Total cash and cash equivalents	<u>48,725</u>	<u>970,991</u>

The existing cash and cash equivalents as at December 31, 2017 arise from endowments made for the social projects to be used in the current costs of the Entity's operations.

Cash and cash equivalents comprise cash, banks and short-term investments, which are highly liquidity and readily convertible into a known cash amount, and subject to an insignificant risk of change in value. The financial investments are in the "Bradesco FIC FI Referencial DI Special" investment fund, remunerated according to the CDI variation ("Interbank Deposit Certificate"). In 2017, the Fund had an average yield of 89.2% of CDI.

	<u>12/31/2017</u>	<u>12/31/2016</u>
Current restricted cash (a)	437,865	198,897
Current securities (b)	745,877	920,758
Noncurrent restricted securities (c)	1,569,331	-

- The funds in "Restricted cash" refers to the funds released by the Ministry of Sports, transferred from "Restricted securities", raised under the Sports Incentive Law to be used in the Entity's projects (note 7).
- The Entity basically holds an investment in investment fund "Bradesco FIC FI Referencial DI Special", which yields interest corresponding to the CDI (Certificate of Interbank Deposit) rate. In 2017, the Fund had an average yield of 89.2% of CDI.
- The Board of Directors' meeting held on May 26, 2017 approved the creation of a financial reserve that may only be used by approval of the fiscal council or the general meeting, and for specific purposes. The same can be increased by values that the Entity understands as spare of availability.

5. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Company cars	Machinery and equipment	IT equipment	Facilities	Total
<u>Cost</u>							
As at December 31, 2015	278,965	136,731	82,739	99,832	103,806	19,972	722,045
Additions	-	10,854	-	6,457	45,102	4,942	67,355
Write-offs	-	-	-	-	-	-	-
As at December 31, 2016	278,965	147,585	82,739	106,289	148,908	24,914	789,400
Additions	-	9,073	-	-	1,233	56,625	66,931
Write-offs	-	-	-	-	-	-	-
As at December 31, 2017	278,965	156,658	82,739	106,289	150,141	81,539	856,331
<u>Depreciation</u>							
As at December 31, 2015	(56,875)	(30,638)	(54,079)	(51,581)	(34,940)	(11,815)	239,928)
Additions	(11,132)	(10,119)	(16,548)	(8,701)	(15,270)	(1,093)	(62,863)
Write-offs	-	-	-	-	-	-	-
As at December 31, 2016	(68,007)	(40,757)	(70,627)	(60,282)	(50,210)	(12,908)	(302,791)
Additions	-	-	-	-	-	-	-
Write-offs	(11,132)	(15,522)	(12,112)	(9,373)	(26,318)	(6,228)	(80,685)
As at December 31, 2017	(79,139)	(56,279)	(82,739)	(69,655)	(76,528)	(19,136)	(383,476)
Property and equipment net as at December 31, 2015	222,090	106,093	28,660	48,251	68,866	8,157	482,117
Property and equipment net as at December 31, 2016	210,958	106,828	12,112	46,007	98,698	12,006	486,609
Property and equipment net as at December 31, 2017	199,826	100,379	-	36,634	73,613	62,403	472,855

The additions made during the year ended December 31, 2017 refer basically to the purchase of furniture and utensils and facilities for the headquarters of Maré and the office of Rua Taylor.

As described in note 1, the Entity's head office was donated by NGO Viva Rio, a process that is still being legalized by the municipal government of Rio de Janeiro. No rent is collected from the Entity by the NGO. The Entity is liable for the costs on its maintenance and the related fees, as well as for the improvements made.

Since 2017, Luta pela Paz began the payment of the Property Tax and Urban Territorial (IPTU) of the property, paying retroactive amounts since 2012.

6. WAGES AND PAYROLL TAXES PAYABLE

	12/31/2017	12/31/2016
Wages and salaries payable	6,944	1,394
Social security charges on services provided (a)	2,016,000	1,327,659
Accrued vacation pay	2,520	51,651
Related taxes	96,194	109,098
Other	63,990	21,877
Total	2,185,648	1,511,679

(a) The Entity, in the normal course of its operations, adopted, until December 31, 2017, practices that represented a risk of pecuniary penalty arising from matters not yet pacified in jurisprudence, whose estimate is provisioned to date.

7. SPORTS INCENTIVE LAW

Total assets

	<u>12/31/2017</u>	<u>12/31/2016</u>
Securities	<u>775,243</u>	<u>1,203,141</u>

Total liabilities

	<u>12/31/2017</u>	<u>12/31/2016</u>
Sports Incentive Law	<u>774,808</u>	<u>1,203,141</u>

Corresponding to funds raised under the Sports Incentive Law (Law 11438/06), to be invested in a specific account at Banco do Brasil and held as Restricted Securities until the closing of the fundraising period and the funds are released only when approved by the Ministry of Sports on schedule and activities release.

The amount must be invested in short-term investment funds or in open market operations, guaranteed by federal government debt. The funds are invested in Banco do Brasil, in the BB Fixed Income Fund Short Term Supreme Public Sector FI. The fund uses its funds in investment fund shares that have a portfolio composed exclusively of pre-fixed or post-fixed federal government securities, as long as they are indexed and/or synthesized to CDI, or by repurchase agreements guaranteed by federal government securities. As of December 31, 2017, the average yield of this fund was 7.88%.

Find below the movement of liabilities:

Community Champions I (see note 1)

Balance as at December 31, 2015	1,160,949
Return (d)	(40,000)
Credit release (c)	(623,747)
Inflation adjustment (b)	62,689
Balance as at December 31, 2016	559,891
Credit release (c)	(564,422)
Inflation adjustment (b)	8,132
Balance as at December 31, 2017	3,601

Peace Athletes (see note 1)

Balance as at December 31, 2016	643,250
Credit release (c)	(397,793)
Inflation adjustment (b)	20,108
Balance as at December 31, 2017	265,565

Community Champions II (see note 1)

Endowment (a)	505,642
Balance as at December 31, 2017	505,642

Total liabilities as at December 31, 2017	<u>774,808</u>
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The Sports Incentive Law allows legal entities and individuals to invest part of their income tax payable in sports projects approved by the Ministry of Sports. Legal entities can invest up to 1% of such amount and individuals can invest up to 6% of income tax payable (Law 11438/06).

The total budgeted amount for the Community Champions Project I, approved for fundraising by the Ministry of Sports, was R\$1,499,283; however, the total amount raised was R\$100,185 up to December 31, 2015.

The total budgeted amount for Athletes for Peace Project and approved for funding by the Ministry of Sport was R\$1,693,983, but the total amount raised was R\$643,250 until December 31, 2016.

- (a) The total budgeted amount for the Community Champions Project II, approved for fundraising by the Ministry of Sports, was R\$1,674,087, however, the total amount raised was R\$505,642 up to December 31, 2017.

The release of resources depends on the success of the capture process of each project, allowing it to be managed in line with the budget presented.

- (b) Resources raised through the Sports Incentive Law are automatically applied in DI fixed income investment fund until its release, with the approval of the Ministry of Sports.
- (c) In the year ended December 31, 2017, the Ministry of Sports authorized the release of R\$564,422 to be used by the Entity in the Community Champions Project I, and R\$397,793 to be used by the Peace Athletes Project which funds were transferred from "Restricted securities" to "Restricted cash".
- (d) This return refers to the amount that a sponsor has deposited in duplicate, and for that reason the amount was returned to it.

8. PROVISION FOR RISKS

Management concluded, based on the opinion of its outside legal counsel, that as at December 31, 2017 and 2016 there were no lawsuits with a likelihood of an unfavorable outcome for the Entity classified either as probable or possible. Therefore, no provision for risks was recognized or disclosed.

9. EQUITY

The equity of Luta pela Paz on December 31, 2017 is comprised of the amount R\$1,041,730 (R\$2,035,497 on December 31, 2016), and is comprised of accumulated surplus (deficit) for the years. The appropriation of the accumulated surplus is approved in the Annual General Meeting held annually.

10. RELATED-PARTY TRANSACTIONS

Fight for Peace International

During the year ended December 31, 2017, it was received by the Fight for Peace International Entity, the amount of R\$465,946 (R\$604,632 on December 31, 2016), with no link to a specific project. Fight for Peace International is an institution founded by Luke Dowdney, associate founder and director of the Entity.

JL Oficina de Ideias e Organização de Eventos Ltda.

During the year ended December 31, 2017, fees were paid in the amount of R\$295,397 (R\$352,394 on December 31, 2016) related to the provision of administrative services. JL has as its shareholder one of the executive officers of the Entity who received from JL during the year ended December 31, 2017 fees in the amount of R\$151,372 (R\$115,534 on December 31, 2016).

Remuneration of key management personnel

The Entity considers its directors as key management persons of the Board of Directors, and only two of them are remunerated for dedicating themselves full-time to the Entity. The compensation of the executive officers during the year ended December 31, 2017 was R\$458,236 (R\$373,354 as of December 31, 2016). Such payments do not consider the payments made to JL, described above.

All amounts paid by the Entity to its directors or related parties were approved by the Annual Shareholders' Meeting held on June 30, 2017 and restated at an Extraordinary General Meeting held on July 2, 2018.

11. REVENUE FROM ENDOWMENTS

	<u>12/31/2017</u>	<u>12/31/2016</u>
<u>Endowments</u>		
Childfund Brasil (e)	-	436,656
Ministry of Sports (d)	962,215	623,747
Fight For Peace International (a)	465,946	604,632
IKEA Foundation (b)	332,339	331,881
Brazilian Olympic Committee (f)	874,535	791,519
International Olympic Committee (g)	864,000	-
Trafigura Foundation (h)	153,894	679,915
Laureus Sport for Good Foundation	224,285	242,494
Empower	24,450	563,980
Unesco (Criança Esperança)	236,241	208,993
Donations from individuals	10,013	154,450
Wise - Swiss Philanthropy (b)	498,000	191,400
Instituto Faz Esport	-	2,363
Brazil Foundation	-	4,194
Instituto Arredondar	68,175	11,654
Comic Relief (j)	441,200	628,325
Junclair	288,236	373,901
Porticus (i)	517,076	-
ACG Participações	200,000	-
Fundação Repsol	38,024	-
Lloyds Brasil	5,071	-
WBHF	25,409	-
Aliança Empreendedora	15,000	-
Rede Brasil	6,500	-
Gemachado Comércio de Alimentos	800	-
Jungle Jiu-Jitsu Eireli ME	290	-
United Kingdom Embassy	-	177,036
International Boxing Association	-	18,808
Stripe Brasil	5,945	2,321
Swedish Postcode	-	390,159
Beyond Sports	-	2,943
Reebok	395,306	211,202
United States of America Embassy	-	600
Srm Consultoria	4,601	2,000
Doare Gestão Fin.	810	6,001
Tinder	-	8,033
Stars Awards Foundation	39,300	-
(-) Returns (c)	(1,875)	(378,008)
Total endowments	<u>6,695,786</u>	<u>6,291,199</u>

- (a) Fight for Peace International is a nonprofit organization (charity), whose founder and director, Luke Dowdney, is also the founder and director of Luta pela Paz. Fight for Peace International and Luta pela Paz are part of an international network of similar organizations, with purposes focused on the Federation's welfare.
- (b) In Activity Project: On July 1, 2016, a funding agreement was entered into with Ikea Foundation and Wise - Swiss Philanthropy in connection with the In Activity Project, both effective through June 30, 2019. This total project amount is EUR585,415 (which represented, in July 2016, R\$2,048,952). Ikea's contract value is EUR281,000 and up to 12/31/2017 was disbursed EUR183,211, leaving EUR97,789 remaining for the coming years).

The financing value of Wise is CHF320,000 and the amount of CHF220,000 was disbursed up to 12/31/2017, leaving a remainder of CHF100,000 for the coming years.

- (c) The returns in the year ended December 31, 2016 refer basically to the surplus relating to projects already completed, i.e., Integrated Center and Athletes for Peace I, under the Sports Incentive Law, which funds were returned to the Ministry of Sports.
- (d) Donation under the Sports Incentive Law (note 7).
- (e) Childfund Brazil (Brazil Network Training Program): On December 16, 2015, an agreement was entered into with Child Fund. The purpose of the agreement is the training of eight Community Organizations in the Five Pillars Methodology adopted by Luta Pela Paz over a twelve-month period, consisting of training, remote consulting and monitoring visits.
- (f) Brazilian Olympic Committee: The Brazilian Olympic Committee sponsors the Community Champions Project. The transfer by the BOC to LLP of the amount in Brazilian reais corresponding to the net amount of US\$249,668.30 in the first phase and US\$270,000.00 (two hundred and seventy thousand dollars) in the second phase, refers to the respective total amount transferred by the IOC to BOC. The project was launched in April 2016 and ended in March 2017.

The main purpose of the Cooperation Term is the combination of efforts between BOC and LPP to train professors with respect to the values and principles that guide sports activities using the funds transferred by the International Olympic Committee to BOC, so as to expand the offer of the following sports to children in Complexo da Maré, thus promoting the sports benefits as a tool for personal growth and social integration: Boxing, Taekwondo, Judo, Mixed Martial Arts and Capoeira.

- (g) International Olympic Committee (IOC): The amount of US\$270,000.00 corresponds to the continuity of the execution of the "Community Champions" project, described above (for execution in 2018), being done via direct transfer to Luta Pela Paz.
- (h) Trafigura Foundation sponsors the New Pathways Project. Trafigura entered into an agreement in the amount of US\$472,000 for a three-year period, effective between July 1, 2014 and June 30, 2017, for the New Pathways educational program.
- (i) Porticus supports the "Special Project". The amounts received in this period correspond to the execution of the activities during the year 2017, according to the project description above.
- (j) Comic Relief supports the "Maré Unida" project. The amounts received in this period correspond to the second year of execution of the activities, as described above.

12. PERSONNEL EXPENSES

	<u>12/31/2017</u>	<u>12/31/2016</u>
Payroll	(1,846,216)	(1,916,027)
Vacation pay	(117,886)	(250,985)
13th salary	(129,071)	(176,519)
Payroll taxes	(691,698)	(850,932)
Medical expenses	(203,824)	(157,001)
Other	(178,908)	(406,228)
Total	<u>(3,170,603)</u>	<u>(3,757,692)</u>

13. EXPENSES ON PROJECTS

	<u>12/31/2017</u>	<u>12/31/2016</u>
Third-party services and related social security charges	(2,030,552)	(1,720,502)
Support costs (meals and transports - youngsters)	(159,620)	(178,990)
Commuting	(82,792)	(109,887)
Snacks and meals	(122,425)	(146,780)
Travel	(41,425)	(107,830)
Telephone	(68,357)	(99,739)
Scholarships	(102,095)	(112,439)
Uniforms	(21,351)	(65,314)
Rental	(81,478)	(160,849)
Electric power	(31,331)	(38,856)
Office supplies	(42,518)	(51,553)
Tax expenses	(1,738)	(1,818)
Maintenance and upkeep	(214,926)	(236,775)
Consumables	(18,818)	(22,162)
Other expenses	(439,408)	(582,717)
Total expenses	<u>(3,458,834)</u>	<u>(3,636,211)</u>

14. FINANCE INCOME (COSTS), NET

	<u>12/31/2017</u>	<u>12/31/2016</u>
Finance income:		
Income from short term investments and securities	<u>141,949</u>	<u>282,532</u>
Finance costs:		
Banking expenses	(11,225)	(12,046)
Fines and interest	(3,956)	(6,803)
IRRF	(28,312)	(70,212)
Other	(16,466)	(21,671)
Total finance costs	<u>(59,959)</u>	<u>(110,732)</u>
Total finance income	<u>81,990</u>	<u>171,800</u>

15. TAXES - IRPJ AND CSLL

As a non-profit Entity, the Entity enjoys the benefit of exemption from the payment of federal taxes levied on the result, in accordance with Articles 167 to 174 of the Income Tax Regulation approved by Decree 3000 of March 26/99 and article 195 of the Federal Constitution.

16. TRANSMISSION TAX CAUSES MORTIS AND DONATION OF ANY GOODS OR RIGHTS (ITCMD)

The Legal Department of the Entity, concluded that ITCMD does not charge donations received by the Entity, due to the tax immunity established in article 150, item VI, line "c" of the Federal Constitution.

In this sense, it should be noted that the Entity, according to the Bylaws (article 3), is a non-profit organization that targets the community, especially children and youth, using sport as a tool for social inclusion and personal development, thus living up to the established constitutional immunity.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Entity operates only with non derivative financial instruments that include short-term investments and other receivables, cash and cash equivalents, and trade payables and other current liabilities.

The carrying amounts recognized in the balance sheet, when compared to the fair values that could be obtained if traded in an active market or, in the absence of such market, the net present value adjusted based on the prevailing market interest rate, approximate their fair values.

In light of the characteristics and the transaction format, and taking into consideration its financial position as at December 31, 2017, the Entity is exposed to the following main risk factors:

- Credit risk

With regard to its cash and cash equivalents, (R\$48,725 as of December 31, 2017), and restricted and non-restricted securities (R\$3,090,451 as of December 31, 2017) the Entity operates with financial institutions considered by Management as "prime financial institutions".

- Liquidity risk

The liquidity risk is the risk that the Entity will have difficulties to discharge its obligations. The Entity's approach to managing the liquidity risk is to ensure that it always has enough liquidity to discharge its obligations on due dates, under normal and stress conditions, without incurring unacceptable losses or damaging the Entity's reputation.

- Market risk

Market risk is the risk that changes in interest rates could result in changes in the Entity's income and expenses. The objective of market risk management is to maintain exposures within acceptable standards and, at the same time, optimize financial returns for the Entity.

The Entity's main assets comprise securities and short-term investments, restricted and unrestricted, pegged to the CDI rate.

As of December 31, 2017, the entity has negative working capital of R\$932,802. To decrease this effect in 2018, the Management will proceed efforts to increase the surplus of the year. It should be emphasized, in case of need, and since it is done through the general meeting, can be used, partially or totally, balance as of December 31, 2017 was R\$1,569,331.

18. COMMITMENTS

In April 2015, the Entity entered into a new lease agreement for the office located at Rua Taylor, 36, Centro, Rio de Janeiro, effective for 48 months. This agreement is adjusted based on the accumulated General Market Price Index (IGP-M/RJ). After verification of structural problems in the property, it was returned with no additional burden to the Entity in accordance with the Key Deed of Delivery on May 2, 2018 signed between the leasee and the leaser in the year ending on December 31, 2018. In 2018, the amount of R\$39,501 related to improvements of this property will be written off from property, plant and equipment.

For the year ended December 31, 2017 operating lease expenses totaled R\$81,028 (R\$144,833 for the year ended December 31, 2016).

19. INSURANCE COVERAGE

The Entity has insurance for its head office, facilities and equipment totaling R\$1,470,000 in insured amount. The insurance coverage as at December 31, 2017 is as follows:

Insured items	Coverage	Insured amount	Insurance company	Effective through
Properties	Fire/lightning/explosion	1,000,000	Bradesco	03/22/2019
	Lightning – school	400,000	Bradesco	03/22/2019
	Electrical damages	50,000	Bradesco	03/22/2019
	Windstorm/smoke	20,000	Bradesco	03/22/2019
	Total	<u>1,470,000</u>		

The risk assumptions adopted, in view of their nature, are not part of the scope of an audit of financial statements and, therefore, were not audited by our independent auditor,

20. SUBSEQUENT EVENTS

Exemption from employer's social security contribution (CEBAS certification)

The Federal Government, through the Ministry of Social Development, granted to Luta pela Paz on July 17, 2018, the certification of a social assistance charity (CEBAS). Due to this certification, the entity will be entitled to the benefits of Law 12.101 of 2009, especially the employer social security contribution, which corresponds to 20% of the payroll expenses.

Main endowments received subsequently

The list below provided information related to the main endowments received by the Entity in 2018:

<u>Donations</u>	<u>Amounts</u>	<u>Project</u>
Petrobras	444,918	Sundry
FFPI	717,087	Sundry
Laureus	165,313	Athletes for Peace
Julius Baer Foundation	206,884	In Activity
COB/COI	206,027	Maré United
Reebok	250,259	Sundry
Sus (Resesve)	525,338	Sundry
Caixa Econômica	94,000	Learning Support
HNG (UFC)	75,036	Sundry
Tom Biggart Funds	49,704	Sundry
Donations from individuals	600	Sundry
Instituto Embraer	30,000	Sundry
Trafigura	25,499	Learning Support
WBHF	18,579	Sundry
Arredondar	10,664	Sundry
British and Commonwealth Society	9,000	Sundry
Stripe Brasil	1,680	Sundry
Total	<u>2,830,588</u>	