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

São Paulo Alpargatas S.A. and Subsidiaries

Financial Statements for the Years Ended December 31, 2009 and 2008 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying individual and consolidated balance sheets of São Paulo Alpargatas S.A. (the "Company") and subsidiaries as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity (Company), cash flows and value added for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's and its subsidiaries' Management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's and its subsidiaries' Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of São Paulo Alpargatas S.A. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations, changes in shareholders' equity (Company), cash flows and value added in operations for the years then ended, in conformity with Brazilian accounting practices.

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

São Paulo, March 12, 2010

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Roberto Bravin
Engagement Partner

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R$, except book value per share)

		Company		Consolidated	
ASSETS	Note	2009	2008	2009	2008
CURRENT ASSETS					
Cash and cash equivalents	6	267.155	142.506	306.614	177.045
Trade accounts receivable	7	345.995	373.351	416.029	432.088
Inventories	8	118.607	147.928	217.956	298.147
Recoverable taxes	9	14.056	19.928	28.534	34.130
Deferred income tax and social contribution	19.a)	17.156	16.743	19.112	21.770
Prepaid expenses		2.636	3.112	4.333	5.455
Assets held for sale		-	-	6.079	-
Other receivables		6.894	14.078	15.291	28.816
Total current assets		772.499	717.646	1.013.948	997.451
NONCURRENT ASSETS					
Long-term assets:					
Assets held for sale		612	612	3.780	7.635
Recoverable taxes	9	4.249	6.415	17.272	22.979
Escrow deposits		13.456	10.439	14.188	10.764
Deferred income tax and social contribution	19.a)	22.510	23.024	33.965	26.087
Due from related parties	16	19.655	27.212	-	-
Other receivables		23.199	21.179	23.574	22.855
Investments:					
Subsidiaries and associates	11	139.776	156.012	77.336	113.232
Other		195	195	524	649
Property, plant and equipment	12	186.942	185.498	293.109	335.044
Intangible assets	12	247.167	246.062	264.190	268.235
Deferred charges	12	7.073	8.415	7.073	8.415
Total noncurrent assets		664.834	685.063	735.011	815.895
TOTAL ASSETS		1.437.333	1.402.709	1.748.959	1.813.346

		Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2009	2008	2009	2008
CURRENT LIABILITIES					
Domestic trade payables		69.464	59.569	79.729	105.182
Foreign trade payables		17.143	23.175	41.939	22.522
Loans and financing	13	35.086	84.761	108.822	182.781
Payroll and related taxes payable		45.519	44.392	71.292	73.471
Reserve for contingencies	17	4.905	4.957	8.143	9.502
Interest on capital and dividends payable		919	1.020	919	1.020
Taxes payable		7.615	4.233	18.234	9.622
Provision for income tax and social contribution		288	1.094	3.395	4.481
Debt restructuring agreements	15	-	-	12.613	18.190
Provisions and other payables	14	25.890	19.169	45.308	34.300
Total current liabilities		206.829	242.370	390.394	461.071
NONCURRENT LIABILITIES					
Loans and financing	13	84.904	121.433	130.003	186.489
Deferred income tax and social contribution	19.a)	34.057	16.272	34.057	16.272
Reserve for contingencies	17	20.257	18.771	29.204	28.723
Taxes with suspended payment and other	18	30.333	25.208	37.943	43.279
Debt restructuring agreements	15	-	-	27.919	50.548
Other payables		4.378	3.473	6.255	6.059
Total noncurrent liabilities		173.929	185.157	265.381	331.370
NONCONTROLLING INTERESTS		-	-	39.176	49.713
SHAREHOLDERS' EQUITY					
Capital	20.a)	391.804	391.804	391.804	391.804
Capital reserves		172.296	172.737	172.296	172.737
Additional paid-in capital		2.165	1.624	2.165	1.624
Earnings reserves		560.955	456.613	558.388	452.623
Valuation adjustments to equity		(42.318)	(19.096)	(42.318)	(19.096)
Treasury shares		(28.327)	(28.500)	(28.327)	(28.500)
Total shareholders' equity		1.056.575	975.182	1.054.008	971.192
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1.437.333	1.402.709	1.748.959	1.813.346
Book value per share - R$		60,66	55,99		

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R$, except earnings per share)

	Note	Company		Consolidated	
		2009	2008	2009	2008
GROSS REVENUE FROM SALES					
Product sales in domestic market		1.578.202	1.601.774	1.729.190	1.728.817
Product sales in foreign market		124.533	137.069	637.725	234.642
		1.702.735	1.738.843	2.366.915	1.963.459
Taxes on sales and discounts		(246.854)	(265.535)	(361.676)	(304.669)
NET SALES REVENUE		1.455.881	1.473.308	2.005.239	1.658.790
Cost of sales		(762.927)	(791.260)	(1.148.282)	(929.959)
GROSS PROFIT		692.954	682.048	856.957	728.831
OPERATING INCOME (EXPENSES)					
Selling		(375.533)	(370.802)	(519.243)	(449.933)
General and administrative		(85.584)	(81.238)	(107.437)	(84.969)
Management fees	24	(5.141)	(5.067)	(5.711)	(5.197)
Equity in subsidiaries and associates	11	(50.353)	(50.999)	(18.711)	(8.074)
Amortization of intangible assets	12	(15.142)	(10.257)	(17.349)	(10.057)
Amortization of deferred charges	12	(2.124)	(2.304)	(2.124)	(2.700)
Amortization of goodwill		-	(9.595)	-	(11.188)
Other operating income (expenses), net	21	2.182	33.404	(4.376)	28.512
		(531.695)	(496.858)	(674.951)	(543.606)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		161.259	185.190	182.006	185.225
Financial income		25.441	20.814	31.629	27.895
Financial expenses		(27.894)	(13.403)	(54.067)	(27.026)
Exchange rate change, net		(7.014)	3.419	(5.323)	4.321
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		151.792	196.020	154.245	190.415
Income tax and social contribution - current	19.b)	(8.380)	(10.797)	(17.043)	(25.492)
Income tax and social contribution - deferred	19.b)	(10.079)	(9.182)	2.058	6.953
Noncontrolling interests		-	-	(4.505)	1.305
NET INCOME		133.333	176.041	134.755	173.181
EARNINGS PER SHARE - R$		7,65	10,11		

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

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SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R$)

			Capital reserves				Earnings reserves						
	Note	Capital	Premium (discount) on sale of treasury shares	Tax incentives - investment grant	Capital reserve	Additional paid-in capital	Legal	Investment grants	Investments	Valuation adjustments to equity	Treasury shares	Retained earnings	Total
BALANCES AS OF DECEMBER 31, 2007 - PURSUANT TO LAW 6404/76		391.804	(1.961)	169.241	8.498	-	40.874	-	327.605	-	(54.500)	-	881.561
First-time adoption of Law 11638/07 and Provisional Act 449/08:													
Investment grants:													
Paraíba State VAT (ICMS) grant		-	-	(78.757)	-	-	-	-	-	-	-	78.757	-
Business income tax (IRPJ) grant		-	-	(6.578)	-	-	-	-	-	-	-	6.578	-
Cumulative translation adjustment of financial statements of foreign subsidiaries/associates	3	-	-	-	-	-	-	-	-	(5.579)	-	5.579	-
Stock options grants	3	-	-	-	-	858	-	-	-	-	-	(858)	-
Recognition of reserve for tax incentives - investment grant	3	-	-	85.335	-	-	-	-	-	-	-	(85.335)	-
BALANCES AS OF DECEMBER 31, 2007 - PURSUANT TO LAW 11638/07 AND PROVISIONAL ACT 449/08, SUBSEQUENT PASSED INTO LAW 11941/09		391.804	(1.961)	169.241	8.498	858	40.874	-	327.605	(5.579)	(54.500)	4.721	881.561
Absorption of retained earnings generated by change in accounting practices - Law 11638/07 and Provisional Act 449/08		-	-	-	-	-	-	-	4.721	-	-	(4.721)	-
Share buyback into treasury to use when options are exercised		-	-	-	-	-	-	-	-	-	(15.754)	-	(15.754)
Cancellation of treasury shares		-	-	-	-	-	-	-	(39.938)	-	39.938	-	-
Sale of treasury shares through exercise of stock options		-	(3.041)	-	-	-	-	-	-	-	1.816	-	(1.225)
Stock options grants	23	-	-	-	-	766	-	-	-	-	-	-	766
Cumulative translation adjustment of financial statements of foreign subsidiaries/associates	11	-	-	-	-	-	-	-	-	(13.517)	-	-	(13.517)
Net income		-	-	-	-	-	-	-	-	-	-	176.041	176.041
Allocation of net income:													
Recognition of reserves:													
Legal		-	-	-	-	-	8.802	-	-	-	-	(8.802)	-
Tax incentives	4 and 20.d)	-	-	-	-	-	-	95.382	-	-	-	(95.382)	-
Investments		-	-	-	-	-	-	-	19.167	-	-	(19.167)	-
Distribution of interest on capital - R$3.01 per share	20.c)	-	-	-	-	-	-	-	-	-	-	(52.690)	(52.690)
BALANCES AS OF DECEMBER 31, 2008		391.804	(5.002)	169.241	8.498	1.624	49.676	95.382	311.555	(19.096)	(28.500)	-	975.182
Share buyback into treasury		-	-	-	-	-	-	-	-	-	(424)	-	(424)
Sale of treasury shares through exercise of stock options		-	(441)	-	-	-	-	-	-	-	597	-	156
Stock options grants	23	-	-	-	-	934	-	-	-	-	-	-	934
Exercise of stock options		-	-	-	-	(393)	-	-	-	-	-	393	-
Cumulative translation adjustment of financial statements of foreign subsidiaries/associates	11	-	-	-	-	-	-	-	-	(23.222)	-	-	(23.222)
Net income		-	-	-	-	-	-	-	-	-	-	133.333	133.333
Allocation of net income:													
Recognition of reserves-													
Tax incentives	4 and 20.d)	-	-	-	-	-	-	106.411	-	-	-	(106.411)	-
Distribution of interest on capital - R$1.69 per share	20.c)	-	-	-	-	-	-	-	(2.069)	-	-	(27.315)	(29.384)
BALANCES AS OF DECEMBER 31, 2009		391.804	(5.443)	169.241	8.498	2.165	49.676	201.793	309.486	(42.318)	(28.327)	-	1.056.575

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

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SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2009	2008	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES					
Net income		133.333	176.041	134.755	173.181
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	12	42.071	37.921	60.530	44.120
Amortization of goodwill		-	9.595	-	11.188
Loss (gain) on sale of property, plant and equipment		520	(5.880)	2.587	(6.252)
Allowance for loss on property, plant and equipment		510	-	510	-
Gain on sale of assets held for sale		-	(1.272)	-	(1.272)
Equity in subsidiaries and associates	11	50.353	50.999	18.711	8.074
Interest, inflation adjustment and exchange rate changes		19.702	14.281	38.705	24.463
Reserve (reversal of reserve) for contingencies		10.474	(1.123)	12.930	(2.682)
Deferred income tax and social contribution	19.b)	10.079	9.182	(2.058)	(6.953)
Allowance for doubtful accounts		958	1.782	1.381	3.572
		268.000	291.526	268.051	247.439
Decrease (increase) in assets:					
Trade accounts receivable		26.398	(55.010)	(1.766)	(52.863)
Inventories		29.321	(31.818)	40.008	(33.110)
Prepaid expenses		476	(741)	617	740
Recoverable taxes		8.037	(10.293)	2.049	(13.445)
Other		(7.825)	(23.571)	(8.197)	(27.724)
Increase (decrease) in liabilities:					
Trade accounts payable		3.863	(25.152)	5.524	(22.137)
Taxes payable		24.395	7.382	32.127	24.784
Payroll and related taxes		1.127	(2.149)	5.425	(3.025)
Due to related parties		7.557	21.824	-	-
Other		(858)	(4.851)	13.095	5.279
OTHER CASH FLOWS FROM OPERATING ACTIVITIES					
Income tax and social contribution paid		(3.570)	(20.494)	(10.401)	(22.771)
Payment of interest paid on loans and financing		(15.724)	(12.159)	(23.957)	(16.069)
Net cash provided by operating activities		341.197	134.494	322.575	87.098
CASH FLOW FROM INVESTING ACTIVITIES					
Investments	11	(57.339)	(25.921)	-	(29.399)
Opening cash balance of acquired subsidiary - Alpargatas S.A.I.C. - Argentina			-	-	28.017
Noncontrolling interests				4.505	(1.305)
Purchase of property, plant and equipment, intangible assets and deferred charges	12	(44.307)	(63.396)	(56.889)	(65.924)
Proceeds from sale of property, plant and equipment		770	12.870	770	12.870
Net cash used in investing activities		(100.876)	(76.447)	(51.614)	(55.741)
CASH FLOW FROM FINANCING ACTIVITIES					
Funds raised through loans and financing		14.426	95.784	83.980	143.804
Amortizations of loans and financing - principal		(101.279)	(15.342)	(171.620)	(55.303)
Share buyback into treasury, net of disposals		(268)	(16.979)	(267)	(16.979)
Stock options grants	23	934	766	934	766
Payment of interest on capital		(29.485)	(52.828)	(29.485)	(52.828)
Restructuring of subsidiary's debt		-	-	(12.897)	-
Net cash provided by (used in) financing activities		(115.672)	11.401	(129.355)	19.460
Exchange rate changes on cash and cash equivalents		-	-	(12.037)	5.751
INCREASE IN CASH AND CASH EQUIVALENTS		124.649	69.448	129.569	56.568
Opening balance of cash and cash equivalents		142.506	73.058	177.045	120.477
Closing balance of cash and cash equivalents		267.155	142.506	306.614	177.045
INCREASE IN CASH AND CASH EQUIVALENTS		124.649	69.448	129.569	56.568
Additional information to the statements of cash flows:					
Purchase of property, plant and equipment not affecting cash (financing and finance leases)		746	-	746	-
Guaranteed accounts limits without utilization		-	-	7.041	4.403

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2009	2008	2009	2008
REVENUES		1.703.178	1.742.882	2.367.545	1.968.758
Sales of goods and products		1.702.735	1.738.843	2.366.915	1.963.459
Allowance for doubtful accounts		(958)	(1.782)	(1.381)	(3.572)
Other revenues		1.401	5.821	2.011	8.871
INPUTS PURCHASED FROM THIRD PARTIES		(1.001.248)	(1.037.189)	(1.376.151)	(1.219.934)
Cost of sales		(574.182)	(587.095)	(864.134)	(871.898)
Materials, electric power, outside services and other		(412.362)	(441.992)	(493.161)	(338.531)
Loss/Recovery of assets		(4.357)	881	(4.590)	1.071
Other		(10.347)	(8.983)	(14.266)	(10.576)
		701.930	705.693	991.394	748.824
RETENTIONS		(42.071)	(37.921)	(60.530)	(44.120)
Depreciation and amortization		(42.071)	(37.921)	(60.530)	(44.120)
VALUE ADDED PRODUCED BY THE COMPANY		659.859	667.772	930.864	704.704
VALUE ADDED RECEIVED IN TRANSFER		(43.110)	(24.848)	(21.592)	18.779
Equity in subsidiaries and associates	11	(50.353)	(50.999)	(18.711)	(8.074)
Financial income - includes inflation and foreign exchange gains		6.944	25.424	(3.348)	26.126
Other		299	727	467	727
VALUE ADDED FOR DISTRIBUTION		616.749	642.924	909.272	723.483
VALUE ADDED DISTRIBUTED		(616.749)	(642.924)	(909.272)	(723.483)
Payroll and related taxes		(255.191)	(263.397)	(423.396)	(309.830)
Taxes and fees		(180.048)	(159.316)	(284.732)	(190.486)
Financial expenses and rentals		(48.177)	(44.170)	(61.883)	(51.291)
Interest on capital	20.c)	(29.384)	(52.690)	(29.384)	(52.690)
Retained earnings (*)		(103.949)	(123.351)	(105.372)	(120.491)
Noncontrolling interests in retained earnings		-	-	(4.505)	1.305

(*) Unrealized earnings from subsidiaries are being eliminated.

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

1. OPERATIONS

São Paulo Alpargatas S.A. (the "Company") is a publicly-held corporation headquartered in the city of São Paulo, listed in the São Paulo Mercantile and Stock Exchange (BMF&BOVESPA).

The Company is primarily engaged in the manufacture and sale of footwear and footwear components; clothing goods; textiles and textile components; leather, resin and natural or synthetic rubber goods; sporting goods; and cotton processing, spinning, weaving and fabric finishing.

The Company also conducts transactions through investments in Brazilian and foreign subsidiaries and associates, as described in notes 5 and 11.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

The financial statements were prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities and Exchange Commission (CVM), in accordance with Brazilian Corporate Law, including the changes introduced by Laws 11638/07 and 11941/09 (formerly Provisional Measure 449/08), including the Pronouncements issued by the Accounting Pronouncements Committee (CPC).

The preparation of financial statements requires Management to make estimates and assumptions to report certain assets, liabilities and other transactions, such as the recognition of necessary reserves for tax, civil and labor risks, losses related to trade accounts payable and inventories, and realization of deferred income tax and social contribution, which represent Company's and subsidiaries' Management best estimate. Actual results could differ from those estimates.

Significant accounting practices adopted are as follows:

a) Functional and reporting currency

Items included in the financial statements of the Company and each one of the subsidiaries included in the consolidated financial statements are measured using the currency of the main economic environment in which the companies operate ("functional currency"). The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency.

b) Foreign currency transactions and balances

Foreign currency-denominated transactions are translated into the Company's functional currency (Brazilian reais) at the exchange rates prevailing on the dates of the transactions. Balance sheet accounts are translated at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation of monetary assets and liabilities denominated in foreign currency are recognized in income.

c) Cash and cash equivalents

Include cash, bank deposits and short-term investments - redeemable in up to 90 days, highly-liquid or convertible at a known cash amount, and subject to immaterial change in value - which are recorded at cost plus income earned through the balance sheet dates, which do not exceed their market or realization value.

d) Financial instruments

(i) Classification

Financial assets and liabilities held by the Company and its subsidiaries are classified into the following categories: (1) financial assets measured at fair value through profit or loss; (2) held-to-maturity financial assets; and (3) loans and receivables. The classification depends on the purpose for which financial assets and liabilities were acquired or contracted.

(1) Financial assets measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss are the financial assets held for trading, when acquired for such purpose, principally in the short term. Derivatives are also classified in this category. Assets in this category are classified as current assets.

Only derivatives are classified in this category, when applicable, for the Company and its subsidiaries. The balances related to gains or losses on unsettled transactions are classified in current assets or current liabilities, and gains or losses arising from changes in fair value are recorded in "Financial income" or "Financial expenses", respectively.

(2) Held-to-maturity financial assets

Comprise investments in certain financial assets classified when contracted, to be held to maturity, measured at acquisition cost, plus income earned according to contractual terms and conditions.

(3) Loans and receivables

Include nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except when applicable, for maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets. As of December 31, 2009 and 2008, for the Company and its subsidiaries, comprise cash and cash equivalents (note 6), loans and financing (note 13), trade accounts payable and trade accounts receivable (note 7).

(ii) Measurement

Regular purchases and sales of financial assets are recognized on transactions, i.e., on the date the Company and its subsidiaries agree to buy or sell the asset. Financial assets at fair value through profit or loss are initially recognized at their fair value and transaction costs are expensed. Loans and receivables are accounted for at the amortized cost.

Gains or losses resulting from changes in the fair value of financial assets measured through profit or loss are recognized in the statement of income in "Financial income" or "Financial expenses", respectively, in the period in which they occur.

(iii) Derivative instruments and hedging activities

Transactions with derivatives, hired by the Company and its subsidiaries, are measured at their fair value and are recognized in income when not recognized in hedge accounting. The nominal values of transactions with derivatives are not recorded in the balance sheets. Unrealized net gains or losses from these transactions, measured at fair value, are recorded in income on the accrual basis, with a contra entry to current assets and current liabilities.

The fair value of derivatives is measured by the Company's and its subsidiaries' treasury department based on information on each transaction and related market information at the balance sheet dates, such as interest rates and exchange coupon. When applicable, this information is compared to positions informed by the trading desks of each financial institution involved.

(iv) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is recorded in the balance sheet when there is a legally enforceable right to set off recognized amounts and intention to either settle them on a net basis, or to recognize the asset and settle the liability simultaneously.

e) Allowance for doubtful accounts

Recorded based on an individual analysis of receivables, analysis of the economic scenario and history of losses reported in prior years, in an amount considered sufficient by the Company's and its subsidiaries' Management to cover probable losses on the collection of receivables, according to amounts in note 7.

f) Inventories

Stated at average cost of acquisition or production, adjusted to fair value. An allowance for inventory losses is recorded, when applicable. Details are disclosed in note 8.

g) Assets held for sale

Refer to properties which have not been used in the operations of the Company and its subsidiaries, represented basically by land and buildings of discontinued operating units.

The book values of properties, which are represented by residual costs on the date they were considered by Management as properties held for sale, do not exceed market values.

Initially classified as noncurrent assets when Management decides to start selling the asset and reclassified as current asset when Management receives a firm proposal for their purchase, for which it classified the likelihood of sale within twelve months.

h) Investments

Investments in subsidiaries and associates are accounted for under the equity method based on the balance sheet of subsidiaries as of the same date as the Company's financial statements.

The Company reviews the accounting practices of the foreign subsidiaries and associates and, should there be any differences with Brazilian accounting practices, adjustments are made to these investments' shareholders' equity and income before computing income and equity in subsidiaries.

At the time of the translation of financial statements of foreign subsidiaries for purposes of determining equity in subsidiaries and consolidation of financial statements, exchange gains and losses are recorded in "Valuation adjustments to equity" in shareholders' equity, which will be reclassified to income for the year, when applicable, at the date the investment is sold.

Unrealized profits on inventories arising from the Group's intercompany sales are eliminated.

Up to December 31, 2008, goodwill generated on the acquisition of subsidiaries was amortized over a ten-year period.

i) Property, plant and equipment

Stated at acquisition or construction cost, less depreciation calculated under the straight--line method, considering the rates described in note 12, and provision for loss, based on analyses of assets which are no longer in use, in an amount considered sufficient to cover probable losses on the realization.

Preoperating expenses are capitalized to property, plant and equipment during the construction period and/or the assets preoperating test period, when applicable.

As mentioned in item n), rights in tangible assets that are maintained or used in the operations of the Company and its subsidiaries, originated from finance leases, are recorded as purchase financing, and a fixed asset and a financing liability are recognized at the beginning of each transaction, where assets are submitted to depreciation calculated at the rates described in note 12.

In addition, the effects of depreciation arising from the first periodical analysis of the remaining useful lives of property, plant and equipment items and intangible assets, pursuant to ICPC 10, will be recorded in the interim financial statements for the first quarter of 2010.

j) Intangible assets

Comprise: (i) industrial trademarks and patents; (ii) software licenses, including implementation costs; (iii) customer portfolios purchased from third parties; and (iv) goodwill on acquisition of subsidiaries. Stated at historical cost and, in cases of assets with finite useful lives, amortized over the periods described in note 12. Assets without finite useful lives, mainly consisting of goodwill paid on the acquisition of subsidiaries, were amortized up to December 31, 2008 over ten years and, beginning December 31, 2009, started to be annually analyzed as regards to their recoverability (impairment) and/or when any impairment loss is present (see details in note 12).

Expenses from ERP systems purchase and implementation are capitalized as intangible assets when it is probable that the future economic benefits they will generate will be higher that their cost, taking into consideration their economic and technological feasibility. Expenses on software development recognized as assets are amortized under the straight-line method over its estimated useful life. Expenses related to software maintenance are recorded in the statement of income when incurred.

k) Deferred charges

Represented substantially by preoperating expenses, less accumulated amortization, calculated under the straight-line method, considering a five-year term.

Pursuant to article 36 of Law 11941/09, for the closing of 2008 annual financial statements, the Company and its subsidiaries assessed the breakdown of expenses recorded under deferred charges and reclassified applicable cost and accumulated amortization values to property, plant and equipment and intangible assets, and the remaining balance as of December 31, 2008, consisting of preoperating expenses, will be maintained in assets, which is being amortized until it is fully realized.

l) Impairment assessment

Property, plant and equipment, intangible assets and other noncurrent assets are tested for impairment annually or whenever significant events or material changes in economic circumstances or in the businesses of the Company and its subsidiaries (internal and external factors) indicate that the carrying value of the underlying assets may not be recoverable. If impairment loss is identified as a result of situations in which the carrying value of an asset exceeds its recoverable amount, the latter defined as the greater of: (i) the value in use, and (ii) net selling price, impairment loss is charged to income.

For impairment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGUs).

m) Research and product development expenses

Stated as an expense when incurred. Details are disclosed in note 12.

n) Leases

Lease classification is made at the inception of the lease. Leases where the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Leases where the Company and its subsidiaries retain substantially all the risks and rewards incidental to ownership are classified as finance leases. These leases are capitalized in balance sheet at the commencement of the lease term at the lower of fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is apportioned between liabilities and the finance charges so as to permit obtaining a constant effective interest rate on the outstanding liability. The corresponding obligations, less finance charges, are classified in current liabilities and noncurrent liabilities, according to the lease term. Property, plant and equipment items purchased through finance leases are depreciated over their economic useful lives, as described in item i), or over the lease term, when it is shorter.

o) Loans and financing

Adjusted for inflation based on inflation and exchange rate change, when applicable, plus charges incurred through the balance sheet dates, according to contractual clauses, as mentioned in note 13. The financial liability of the subsidiary Alpargatas S.A.I.C - Argentina, resulting from debt restructuring agreement with financial institutions, is stated at present value.

p) Other current and noncurrent liabilities

Stated at known or estimated amounts, plus charges and inflation adjustment and exchange rate change incurred through the reporting dates, when applicable.

q) Income tax and social contribution

Calculated based on taxable income, adjusted by additions and deductions, pursuant to prevailing tax legislation. Income tax is calculated at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R$240, and social contribution is calculated at the rate of 9%.

Deferred income tax and social contribution are calculated at the rates of 25% and 9%, respectively, on tax loss carryforwards. The tax benefit on temporary differences is calculated at the combined rate of 34%, taking into consideration the history of the Company’s taxable income and the expected generation of future taxable income, based on profitability studies approved by the Company’s Board of Directors.

The income tax and social contribution of the subsidiaries Alpargatas Imobiliária Ltda. and Fibrasil Agrícola Comercial Ltda. are calculated based on deemed income, taking into consideration the tax rates and legislation prevailing at the balance sheet dates.

r) Provisions

The reserves for legal contingencies are recognized when the Company and its subsidiaries have a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and its present value can be reliably estimated. Reserves are quantified at the present value of the expected disbursement to settle the obligation using the appropriate discount rate, according to related risks.

Adjusted through the balance sheet dates for the probable loss amount, according to the nature of each contingency and based on the opinion of the legal counsel of the Company and its subsidiaries. The basis and nature of the reserve for contingencies are described in note 17.

s) Interest on capital

For corporate and accounting purposes, interest on capital is stated as an allocation of income directly in shareholders' equity. For tax purposes, interest on capital is stated as financial expenses, reducing the income tax and social contribution base.

t) Results of operations and recognition of sales revenues

Revenues and expenses are recognized on the accrual basis. Sales revenues and related costs are recorded when products are delivered to clients.

u) Actuarial assets and liabilities - pension plans

Actuarial losses, calculated by independent experts, are recorded in noncurrent liabilities according to actuarial amounts calculated upon the closing of the annual financial statements. Actuarial gains, when applicable, are recognized in current assets as they can be offset against future contributions of the Company and its subsidiaries to the corresponding plans (see details in note 25).

v) Stock option plan

The Company offers share-based compensation plans to its executives, settled with Company's shares, under which the Company receives services as compensation for stock options granted. The fair value of options granted is recognized as expense in income for the year during the period when the right is vested and after compliance with certain specific conditions. At the financial statement dates, the Company's Management reviews estimates of the number of options vested based on the established conditions and, when applicable, recognizes in income for the year, as a contra entry to shareholders' equity, the effect arising from the review of the initial estimates.

w) Recognition of tax incentives - investment grants

Directly recorded in income for the year; the Paraíba State VAT (ICMS) investment grant is recorded in "Taxes on sales" and the business income tax (IRPJ) investment grant is recorded in "Income tax and social contribution - current". Later allocated to the "Tax incentive reserve - investment grant" account in shareholders' equity, in conformity with CPC 07 - Government Grants and Assistance, as of the balance sheet date.

As explained in note 4, the Company monthly recognizes the incentive related to the Paraíba State grant in the computation of State VAT (ICMS) of the operating units located in that State, since there are no conditions for the recognition of the incentive, as well as nonmonetary assets to be received as part of the incentive plan.

x) Net income and book value per share

Calculated based on the number of shares outstanding at the balance sheet dates.

3. CHANGES IN BRAZILIAN ACCOUNTING PRACTICES

I) Adoption of the accounting pronouncements issued in 2008 (first-time adoption of the accounting practices changed by Law 11638/07 and Provisional Measure 449/08)

Laws 11638/07 and 11941/09 altered, revoked and added new provisions to the Brazilian Corporate Law (Law 6404/76), especially with respect to chapter XV, Fiscal Year and Financial Statements, effective for fiscal years beginning on or after December 31, 2008, and applicable to all entities incorporated as corporations, including public companies and large companies.

These changes were designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (International Financial Reporting Standards - IFRS) and allow regulatory agencies and the Brazilian Securities and Exchange Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

As a result of the enactment of said Law and Provisional Measure, in 2008 several technical pronouncements were issued by CPC, mandatory for financial statements for the year ended December 31, 2008 with impacts on the financial statements for the year ended December 31, 2007, presented for comparative purposes.

The main changes in accounting practices introduced by Law 11638/07 and Provisional Measure 449/08, applicable to the Company and its subsidiaries and adopted in the preparation of the financial statements for the years ended December 31, 2008 and 2007, were as follows:

a) Replacement of the statement of changes in financial position by the statement of cash flows, prepared in accordance with CPC 03 - Statement of Cash Flows.

b) Inclusion of the statement of value added, prepared in accordance with CPC 09 - Statement of Value Added.

c) Creation of a new account group, “Intangible assets”, which includes goodwill, for balance sheet presentation purposes.

d) Requirement for the periodic test of the impairment of amounts recorded in property, plant and equipment, intangible assets and deferred charges, as set forth by CPC 01 - Impairment of Assets (required only for the financial statements for the year ended December 31, 2008). This change did not generate effects to be recorded in the financial statements for the year ended December 31, 2008.

e) Requirement that investments in financial instruments, including derivatives, be accounted for: (i) at fair value or equivalent value for trading securities or available-for--sale securities; and (ii) at the lower of acquisition or historical cost, adjusted pursuant to legal or contractual provisions, and realizable value for held-to-maturity securities.

f) Interest in debentures of employees and management, even in the form of financial instruments, and employee pension and welfare funds, which qualify as expenses, shall be recorded as expenses, according to their nature. This change also affects management and employee share-based compensation, pursuant to CPC 10 - Share-based Payment.

g) Discontinuation of the need to segregate and present "Nonoperating income (expenses)" in the statement of income, as required by Law 11941/09.

h) Cancellation of items "c" and "d" of paragraph 1, article 182, of Law 6404/76, which allowed the recording of: (i) premium received on the issuance of debentures; and (ii) donations and investment grants directly as capital reserves in shareholders' equity.

i) Creation of a new account group, "Valuation adjustments to equity", in shareholders' equity, in order to record certain fair value adjustments, mainly for financial instruments, and certain fair value adjustments related to assets and liabilities as a result of a merger between unrelated parties that results in the transfer of control.

Considering the changes introduced by Laws 11638/07 and 11941/09, the effects on income for the year ended December 31, 2007, recorded under "Accumulated losses" in shareholders' equity, previously determined in conformity with the accounting practices set forth in Law 6404/76, are as follows:

	Company and consolidated
Adjustments for changes in accounting practices:	
Stock option plan expenses (CPC 10)	(858)
Exchange rate change on foreign investments (CPC 02)	5,579
Investment grants - tax incentives (CPC 07)	85,335
Total net effect	90,056

II) New accounting pronouncements issued in 2009 and effective beginning 2010

In continuing the process for convergence of the Brazilian accounting practices established by Law 11638/07, new Pronouncements, Instructions and Technical Interpretations were issued in 2009 in accordance with the IFRSs issued by CPC. Through the date of these financial statements, 26 new Pronouncements, 12 Interpretations and 3 Technical Instructions had been issued by CPC and approved by CVM Resolutions for mandatory adoption beginning 2010.

The Pronouncements, Interpretations and Instructions which will potentially be applicable to the Company and its subsidiaries are:

CPC/ICPC	CVM Resolution	Title
15	580	Business Combinations
16	575	Inventories
18	605	Investments in Associates
20	577	Borrowing Costs
21	581	Interim Financial Reporting
22	582	Segment Reporting
23	592	Accounting Policies, Changes in Accounting Estimates and Correction of Errors
24	593	Subsequent Event
25	594	Provisions, Contingent Liabilities and Contingent Assets
26	595	Presentation of Financial Statements
27	583	Property, Plant and Equipment
28	584	Investment Property
30	597	Revenues
31	598	Noncurrent Assets Held for Sale and Discontinued Operations
32	599	Income Taxes
33	600	Employee Benefits
36	608	Consolidated Statements
37	609	First-time Adoption of IFRS
38	604	Financial Instruments - Recognition and Measurement
39	604	Financial Instruments - Presentation
40	604	Financial Instruments - Disclosures
43	610	First-time Adoption of Accounting Pronouncements CPC 15 to CPC 40
ICPC 4	614	Scope of Technical Pronouncement CPC 10 - Share-based Payment
ICPC 5	615	Technical Pronouncement CPC 10 - Share-based Payment - Treasury and Group Share Transactions
ICPC 8	601	Accounting for Proposed Dividend Payments
ICPC 9	618	Individual, Separate and Consolidated Financial Statements and Application of the Equity Method
ICPC 10	619	Clarifications on Technical Pronouncements CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property

The aforementioned pronouncements and interpretations are applicable for the year ending December 31, 2010 and the 2009 financial statements, to be disclosed together with the 2010 financial statements for comparative purposes. The Company's Management does not expect significant impacts on the Company's income and shareholders' equity arising from the adoption of the new pronouncements and interpretations.

However, Management expects a greater impact in terms of disclosure of financial information in notes, such as those required by CPC 22 - Information by Segment, and by CPCs 39 and 40 - Financial Instruments - Presentation and Disclosures and by the requirements of the presentation of financial information of discontinued operations described in note 11, pursuant to CPC 31.

4. TAX INCENTIVES - INVESTMENT GRANTS

The Company has tax incentives granted by the State governments where the main plants are located, which will expire in 2020. The Company and its subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda. also have federal tax incentives for operating profit in the Northeast Region and Manaus Free Trade Zone.

As mentioned in note 3, the tax benefit related to these grants was also recognized, through December 31, 2007, in shareholders' equity as a reserve for tax incentives, and, beginning January 1, 2008, with the enactment of Laws 11638/07 and 11941/09, the Company began recognizing these tax incentives directly in income, recording, as of the closing of annual financial statements, a tax incentive reserve in shareholders' equity, pursuant to the new Brazilian accounting practices.

Investment grants, including income tax incentives recorded for the years ended December 31, 2009 and 2008, are as follows:

	Company		Consolidated	
	2009	2008	2009	2008
Grant - ICMS (State VAT) State of Paraíba (a)	102,389	87,630	102,389	87,630
Business income tax incentives - North and Northeast Regions (b)	4,022	7,752	5,016	9,100
Total	106,411	95,382	107,405	96,730

(a) Amounts of the investment grant in the State of Paraíba, used as calculation of deemed ICMS (State VAT) credit. The amounts involved correspond to ICMS unpaid installments and, therefore, committed with what was agreed with the State government. The Company is compliant with the established agreement, consisting of expanding the manufacturing facility in that region, increasing its production of footwear and generating direct jobs in plants in the State of Paraíba.

Additionally, on December 31, 2009 and 2008, there were no incentive installments to be recorded in the accounting books, resulting from obligations established by the regulation of the incentive plan, to be complied with by the Company. Tax incentive installments are credited to "Taxes on sales and discounts" in the statement of income for the year.

(b) Credited to "Income tax and social contribution - current" in income for the year (see details in note 19).

5. CONSOLIDATION CRITERIA OF THE FINANCIAL STATEMENTS

1. Definition of subsidiaries for consolidation purposes

Subsidiaries are all the entities whose financial and operating policies are controlled and conducted by the Company and in which the parent company owns half or more of the capital. In the applicable cases, the existence and the effect of potential voting rights, currently exercisable or convertible, are taken into consideration to determine whether the Company controls or not another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Company and cease to be consolidated, when applicable, when control is no longer exercised.

2. Consolidation criteria and subsidiaries included in the consolidated financial statements

The consolidated financial statements have been prepared in accordance with the consolidation criteria established by Brazilian accounting practices and standards issued by the CVM, including the financial statements of the Company and its direct and indirect subsidiaries, as follows:

	Ownership interest - %	
	2009	2008
Direct subsidiaries:		
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	100.00	100.00
CBS S.A. - Companhia Brasileira de Sandálias	100.00	100.00
Fibrasil Agrícola e Comercial Ltda.	100.00	100.00
Alpargatas Imobiliária S.A.	100.00	100.00
Alpargatas Chile Ltda. - Chile	100.00	100.00
Alpargatas Internacional APS - Denmark	100.00	100.00
Alpargatas S.A.I.C. - Argentina (*)	59.96	60.19
Indirect subsidiaries (through Alpargatas Internacional - APS):		
Alpargatas Europe S.L.U. - Spain	100.00	100.00
Alpargatas USA Inc. - United States	100.00	100.00
Alpargatas UK Limited - United Kingdom	100.00	100.00
Alpargatas France S.A.R.L. - France	100.00	100.00
Alpargaras Intália S.R.L. - Italy	100.00	-
Indirect subsidiary (through Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.)-		
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.	100.00	100.00

The financial statements used in preparing the consolidated financial statements were prepared as of the same reporting date, using accounting practices consistent with those described in note 2. The Company's investments in proportion to the parent company's interest in the subsidiaries' shareholders' equity and results, intercompany balances and unrealized revenue, expenses and profits, net of income tax and social contribution, have been eliminated. In the Company's subsidiaries, minority interests have been recorded in a separate caption.

Translation of the financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries were translated into Brazilian reais based on the exchange rates prevailing on the balance sheet dates for the balance sheet accounts and on the average rates for the accounts of the statements of income.

The effects of changes in foreign exchange rates during the year on shareholders' equity at the beginning of year are recognized as a change in shareholders' equity, as the difference between retained earnings or accumulated losses is recognized at the average foreign exchange rates prevailing at yearend. The cumulative amount of the exchange differences is presented as a separate component in shareholders' equity, in "Valuation adjustments to equity". In case of disposal or partial disposal of a foreign subsidiary, the cumulative exchange difference is recognized in the statement of income as part of the gain or loss on the disposal of investment, pursuant to CPC 02.

Elimination of unrealized profits

Net equities presented on December 31, 2009 and 2008 by the parent company differ by R$2,567 and R$3,990, respectively, from those stated in the consolidated financial statements because of the elimination of unrealized profits in subsidiary Alpargatas Internacional APS (calculated on the parent company's sales to indirect subsidiaries). By the same reason, the parent company's net income for the years ended December 31, 2009 and 2008 differ by R$1,422 and R$(2,860), respectively, from those stated in consolidated financial statements. The operating activities of direct and indirect subsidiaries are described in note 11.

(*) Alpargatas S.A.I.C. - Argentina: acquired in December 2007, but its control was only transferred to the Company in October 2008.

Since October 2008, after the transfer of controlling interest, the Company has consolidated this subsidiary's financial statements, which should be considered when analyzing changes in the consolidated statements of income accounts for the year ended December 31, 2009 compared to 2008, which includes only two months of operations of said subsidiary.

For better comparability between the consolidated statements of income for the year ended December 31, 2009, including the operating results of Alpargatas S.A.I.C. - Argentina, and the 2008 consolidated statement of income, the subsidiary's statement of income for the year ended December 31, 2008 is presented as shown below:

Gross sales	449,099
(-) Taxes and rebates	(77,465)
Net revenue from sales	371,634
(-) Cost of sales	(266,185)
Gross profit	105,449
Operating expenses	(61,320)
Financial expenses, net	(17,452)
Other operating expenses, net	(7,960)
Income before income tax and social contribution	18,717
Income tax and social contribution	245
Noncontrolling interests	71
Net income	19,033

6. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	2009	2008	2009	2008
Cash and banks	1,125	1,615	36,766	28,756
Short-term investments:				
Bank certificates of deposit - floating rate CDBs	167,890	67,513	171,708	74,911
Repurchase agreements	98,140	73,378	98,140	73,378
Total	267,155	142,506	306,614	177,045

As of December 31, 2009, CDB investments are made in several financial institutions and yield an average rate equivalent to 102.53% of the interbank deposit certificate (CDI) rate (102.13% as of December 31, 2008) and repurchase agreements refer to several financial certificates with average yield equivalent to 102.31% of the CDI rate (102.34% as of December 31, 2008).

As of December 31, 2009, CDBs and securities related to the repurchase agreements mature between January 2010 and November 2016, but are classified as "Cash and cash equivalents" because they are highly liquid financial assets, subject to an immaterial risk of change in value.

The Company's policy establishes that short-term investments can only be made in financial institutions with a minimum rating of "AA" or "Aaa", awarded by rating agencies. Any Management proposal to invest in financial institutions with a lower rating will depend on the authorization of the Board of Directors.

The Company does not have a treasury policy that establishes criteria to determine the breakdown of cash and cash equivalents; however, the accounting classification of these components used by the Company's and its subsidiaries' Management is described in note 2.c).

7. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2009	2008	2009	2008
Domestic market	338,955	347,690	366,453	367,543
Foreign market	21,713	37,536	67,282	79,232
Advances on foreign exchange contracts	(2,489)	(649)	(2,287)	(649)
Allowance for doubtful accounts	(12,184)	(11,226)	(15,419)	(14,038)
Total	345,995	373,351	416,029	432,088

8. INVENTORIES

	Company		Consolidated	
	2009	2008	2009	2008
Finished goods	89,659	90,009	146,456	180,743
Work in process	8,206	8,780	20,936	23,474
Raw materials	22,790	31,813	51,009	77,697
Imports in transit	2,546	14,189	2,990	15,136
Other	3,281	5,822	8,096	9,962
Allowance for losses on realization	(7,875)	(2,685)	(11,531)	(8,865)
Total	118,607	147,928	217,956	298,147

9. RECOVERABLE TAXES

		Company		Consolidated	
		2009	2008	2009	2008
Prepayments of income tax and social contribution		4,490	5,361	6,089	6,228
State VAT (ICMS)		2,937	2,731	3,811	3,380
Federal VAT (IPI)		194	450	1,728	2,228
PIS and COFINS (taxes on revenue)		1,312	-	1,728	1,632
Federal tax credits arising from final and unappealable court decisions	(a)	9,127	17,182	9,127	17,182
Recoverable taxes - foreign subsidiaries	(b)	-	-	22,029	26,068
Other		245	619	1,294	391
Total		18,305	26,343	45,806	57,109
Current portion		14,056	19,928	28,534	34,130
Noncurrent portion		4,249	6,415	17,272	22,979

(a) Refer to federal tax credits approved by the Brazilian Federal Revenue Service after a final and unappealable decision of the Superior Court of Justice in February 2008 on a lawsuit related to the tax on net income (ILL), in which the Company challenged the constitutionality of the amounts paid from 1989 to 1992. The balance is adjusted by the SELIC rate through the balance sheet dates and was offset against withholding income tax (IRRF) beginning May 2009. Management estimates that the residual balance as of December 31, 2009 will be fully offset throughout 2010.

(b) Refer to recoverable taxes of the subsidiaries Alpargatas S.A.I.C. - Argentina, totaling R$19,020 (R$25,362 as of December 31, 2008), and Alpargatas Chile, totaling R$836 (R$706 as of December 31, 2008), and R$2,173 related to indirect subsidiaries located in Europe, maintained through the holding company Alpargatas Internacional APS. Consist mainly of prepaid income tax and value added tax (VAT), which will be offset against taxes generated by these subsidiaries' future operations.

10. ESCROW DEPOSITS

As of December 31, 2009 and 2008, the balance is chiefly represented by escrow deposits related to labor and tax lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with lawsuits. In the opinion of Management and its legal counsel, the likelihood of unfavorable outcome is not considered probable and, therefore, no reserve for contingencies was recognized.

11. INVESTMENTS

Information as of December 31, 2009	Amapoly Ind. e Com. Ltda.	Locomotiva Ind. e Com. Têxteis Ind. Ltda.	Fibrasil Agríc. e Coml. Ltda.	Alpargatas Internacional APS	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Atlântico Participações S.A.	Alpargatas S.A.I.C.	Alpargatas Chile Ltda.	Total
Number of shares held	-	27,943,728	1,157,111	13,378,615	4,648,060	750,645	-	42,047,157	-	
Capital	-	31,095	1,157	75,724	7,648	20,848	-	32,094	4,726	
Shareholders' equity	-	39,360	2,104	45,068	7,563	(11,613)	-	97,163	(965)	
Net income (loss)	-	3,241	(5)	(60,809)	233	3,473	-	11,312	(3,269)	
Ownership interest (%)	-	100	100	100	100	100	-	59.96	100	
Book value of investments:										
Balances as of December 31, 2007	78,116	-	32,093	122,807	45,511	(3,009)	(10,237)	19,635	1,327	286,243
Capital increase	-	-	-	13,540	-	-	-	12,381	-	25,921
Capital increase (assignment of assets)	-	27,943	-	-	3,000	-	-	28,597	-	59,540
Partial spin-off of assets - industrial textile	(80,921)	-	-	-	-	-	-	-	-	(80,921)
Merger of subsidiary	-	-	-	-	-	(10,396)	9,896	-	-	(500)
Payment of dividends	-	-	(29,984)	-	(39,771)	-	-	-	-	(69,755)
Equity in subsidiaries	2,805	5,024	-	(57,922)	(1,410)	(1,681)	341	3,709	(1,865)	(50,999)
Exchange rate change on investments	-	-	-	(23,602)	-	-	-	10,178	(93)	(13,517)
Balances as of December 31, 2008	-	32,967	2,109	54,823	7,330	(15,086)	-	74,500	(631)	156,012
Capital increase	-	3,152	-	51,432	-	-	-	-	2,755	57,339
Equity in subsidiaries	-	3,241	(5)	(60,809)	233	3,473	-	6,783	(3,269)	(50,353)
Exchange rate change on investments	-	-	-	(378)	-	-	-	(23,024)	180	(23,222)
Balances as of December 31, 2009	-	39,360	2,104	45,068	7,563	(11,613)	-	58,259	(965)	139,776

Goodwill on subsidiaries (note 12):

	CBS S.A. - Companhia Brasileira de Sandálias	Atlântico Participações S.A.	Alpargatas S.A.I.C. - Argentina	Total
Net balance as of December 31, 2009 and 2008	11,498	42,364	96,268	150,130

Indirect investments through the holding company Alpargatas Internacional APS

	Subsidiaries					Associate	
Information as of December 31, 2009	Alpargatas Europe S.L.U.	Alpargatas France S.A.R.L.	Alpargatas UK Limited	Alpargatas Italy S.R.L.	Alpargatas USA Inc.	Tavex Algodonera S.A.	Total
Number of shares held	3,600	5,000	100	1	10	21,683,180	-
Shareholders' equity (deficit)	(23,252)	(802)	(54)	29	(43,008)	413,847	-
Net income (loss)	(23,090)	185	83	4	(22,358)	(100,129)	-
Company's indirect interest (%)	100	100	100	100	100	18.687	-
Book value of investments:							
Balances as of December 31, 2008	(3,550)	(1,205)	(167)	-	(60,283)	113,232	48,027
Capital increase/contribution	-	-	-	23	23,167	-	23,190
Equity in subsidiaries	(23,090)	185	83	4	(22,358)	(18,711)	(63,887)
Exchange rate change on foreign investments	3,388	218	30	2	16,466	(17,185)	2,919
Balances as of December 31, 2009	(23,252)	(802)	(54)	29	(43,008)	77,336	10,249

For the years ended December 31, 2009 and 2008, the loss calculated by foreign subsidiaries refers basically to selling expenses, on marketing and advertising, incurred in connection with the Company's business internationalization process.

Indirect investment through the company Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.

Information as of December 31, 2009	Locomotiva da Amazônia Ind. e Com. de Têxteis Ind. Ltda.
Number of shares held	15,502,155
Capital	15,502
Shareholders' equity	33,256
Net income	4,611
Company's indirect interest (%)	100
Carrying amount of investment:	
Balance as of December 31, 2008	83,955
Payment of dividends	(55,310)
Equity in subsidiaries	4,611
Balance as of December 31, 2009	33,256

Additional information on subsidiaries

Alpargatas S.A.I.C. ("Alpargatas Argentina")

On October 10, 2007, the Company entered into a purchase and sale agreement (the "Agreement") with Newbridge Latin America L.P., Long Bar Argentina LLC, Columbia/HCA Master Retirement Trust, OCM Opportunities Fund II L.P. and others, related to the Company's acquisition of up to 24,101,862 common shares with voting right, representing 34.4994% of the capital of Alpargatas Argentina, for US$2.145 per share, including in this price the company's ownership control premium.

The Agreement established two closes, the first one on the execution date, related to 21,169,893 shares, when the Company disbursed R$82,364, equivalent to US$45,409,000. Additionally, on January 8, 2008, the remaining 2,931,969 shares were purchased at the second close, after compliance with contractual terms and conditions, for R$11,384, equivalent to US$6,289,000.

Also in October 2007, the Company filed with the Comisión Nacional de Valores - CNV from Argentina a request for the registration of a tender offer for the acquisition of 17,815,047 shares with voting right (the "Offer"), representing up to 25.5005% of the capital of Alpargatas Argentina, for AR$5.80 per share. On December 19, 2007, the Company acquired the shares of the Offer for R$59,296, equivalent to US$32,884,000. This transaction generated goodwill of R$41,626, which was amortized up to December 31, 2008, considering a ten-year period starting January 2008.

Subsequently, in June 2008, the Company acquired additional 130,248 common shares, representing 0.1864% of the capital, for R$489.

Considering the portion equivalent to 34.4994% of interest, at the time the Company had delivered its shares to The Bank of New York, which exercised political and economic rights on such shares, as custodian, up to October 23, 2008, when the Company obtained the definite approval of the transaction by the Argentina competition protection agency - Comisión Nacional de Defensa de la Competencia de Argentina - CNDC regarding the acquisition of 24,101,862 common shares, transferred to the Company as of October 30, 2008.

Considering both portions of the acquisition of Alpargatas S.A.I.C. Argentina as from October 30, 2008, the Company became the holder of 42,047,157 registered common shares, with one voting right, representing 59.96% of the capital of Alpargatas S.A.I.C. Argentina, therefore exercising the control of its operations.

Thus, for the close of the financial statements for October 2008, the amounts of investment and goodwill paid in the acquisition were split into the amounts of R$39,955 for investment cost and R$60,736 for goodwill. Since then, the Company began recording the effects of equity in subsidiaries on this portion of the acquisition, in addition to fully consolidating the financial statements of Alpargatas S.A.I.C. Argentina.

As part of the process for the acquisition of all the shares of the subsidiary, on October 6, 2009, the Company filed with Comisión Nacional de Valores - CNV of Argentina a request for the registration of a share takeover bid ("OPA") to buy all the outstanding book-entry common shares and the preferred shares of Alpargatas S.A.I.C. Argentina, representing 40.04% of capital, at the price of AR$3.40 per share. This takeover bid will be held exclusively at Bolsa de Comércio de Buenos Aires (Buenos Aires stock exchange), Argentina.

This request was approved on January 26, 2010, the takeover prospectus was disclosed on February 8, 2010, and the bid started on February 8, 2010, with deadline set for March 12, 2010. Once the OPA is completed, the Company will be the sole controlling shareholder of Alpargatas S.A.I.C. Argentina.

CBS S.A. - Companhia Brasileira de Sandálias

On September 20, 2007, the Company entered into a stock purchase agreement with all shareholders of CBS S.A. - Companhia Brasileira de Sandálias ("CBS"), owner of the "Dupé" brand, among others.

In November 2007, Alpargatas acquired for R$49,500 100% of the shares of CBS, a corporation that had 21.89% of its capital held by individuals and 78.11% by the holding company Atlântico Participações S.A.

On April 15, 2008, the Company merged the holding company Atlântico Participações S.A., becoming the direct holder of 100% of CBS.

Tavex Algodonera S.A.

At the Extraordinary Shareholders' Meeting of Tavex Algodonera S.A. held on June 21, 2007, the shareholders approved a capital increase in Tavex with a capital contribution from noncontrolling shareholders of Santista Têxtil S.A. As a result, Tavex owns 92% of Santista Têxtil S.A. and the Company's interest in Tavex was diluted from 22.164% to 20.504%.

Additionally, at the Extraordinary Shareholders' Meeting of Tavex Algodonera S.A. held on May 8, 2008, the shareholders approved a capital increase in Tavex with a capital contribution of €5,166,000. As a result, the Company, through its subsidiary Alpargatas Internacional APS, had its interest in Tavex diluted from 20.504% to 18.687%.

Even though the Company holds an indirect interest of 18.687%, Management classifies the investment as an associate in which it can influence decision-making as it holds a seat in the Board of Directors in Spain. Thus, according to the Brazilian accounting practices, the Company accounts for this investment under the equity method.

Alpargatas Chile Ltda.

In November 2009, the Company's Management approved the discontinuation of the operations in Chile with own office, and starting 2010 products will be sold through a distributor, under a sales representation agreement.

Establishment of subsidiaries

1. Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a company headquartered in Pouso Alegre, State of Minas Gerais, was established in June 2008 through the partial spin-off of assets of the industrial textiles division, including the investment in the subsidiary Amapoly Indústria e Comércio Ltda. (which changed its name to Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.). This transaction was intended to separate the Company's industrial textiles division.

2. In July, August and September 2008, respectively, the following subsidiaries were established: Alpargatas Europe S.L.U. (Madrid - Spain), Alpargatas France S.A.R.L. (Paris - France) and Alpargatas UK Limited (London - United Kingdom), primarily engaged in the import and sale of footwear.

3. In May 2009, the subsidiary Alpargatas Itália S.R.L. was established, mainly engaged in the import, export, distribution and sale of footwear.

   The activities of the companies in which the Company holds corporate investments interests are as follows:

   - Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. (100% direct interest): company established in June 2008 to segregate the industrial textiles division, including the interest in subsidiary Amapoly Indústria e Comércio Ltda. (whose name was changed to Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.), engaged in the production of PVC and polyester laminates used to manufacture truck covers, backlit and frontlit billboards, banners, tarpaulins and polyethylene laminates, used to manufacture agricultural, home and leisure canvas.

   - CBS S.A. - Companhia Brasileira de Sandálias (direct 100% interest): acquired in November 2007, engaged in the manufacture and sale of rubber sandals.

   - Alpargatas S.A.I.C. - Argentina (59.96% direct interest): acquired in December 2007, although with the transfer of control to the Company in October 2008, engaged in the manufacture and sale of footwear and textile products mainly in the Argentinean market.

   - Tavex Algodonera S.A. (18.687% indirect interest, through the holding company Alpargatas Internacional APS): Spanish publicly-traded company, operating in the areas of cotton processing, spinning, weaving and fabric finishing; sale, import and export of these products; and clothing and related businesses. It also holds equity interests in other companies in Spain and abroad.

   - Alpargatas Europe S.L.U. (Spain), Alpargatas France S.A.R.L. (France), Alpargatas UK Limited (United Kingdom) and Alpargatas Itália S.R.L. (100% indirect interest, through holding company Alpargatas Internacional APS): established in July, August and September 2008 and May 2009, respectively, are engaged in the import and sale in the European market of footwear.

- Alpargatas USA Inc. (100% indirect interest, through the holding company Alpargatas Internacional APS): company derived from the merger of Expasa Florida Inc., is mainly engaged in the import and sale of footwear in the U.S. market.

- Alpargatas Chile Ltda. (100% direct interest): established in November 2007, it is primarily engaged in the import and sale in the Chilean market of footwear. As commented above, the discontinuation of the operations of this subsidiary was approved in November 2009.

Sale of subsidiary

The Company entered into a Share Purchase and Sales Agreement (the "Agreement") on December 22, 2009 for the direct disposal of all the shares of the capital stock of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a limited liability company headquartered in Pouso Alegre - MG, and indirect disposal of all the shares of the capital stock of Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., a limited liability company headquartered in Manaus - AM, for a total price of R$43,000. These disposals are part of the effort to concentrate Alpargatas' activities in the footwear, sports goods and retail segments to maximize the Company's performance in these segments. The discontinuation of this operation should take place in March 2010, once all the conditions precedent set out in the Agreement are met. In conformity with applicable legal provisions, the transaction above will be submitted to the approval of Brazilian competition protection authorities.

In compliance with CVM Official Letter 01/2007, we present below comparative information on the consolidated financial statements of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., including Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.:

BALANCE SHEETS

ASSETS	2009	2008	LIABILITIES AND SHAREHOLDERS' EQUITY	2009	2008
Current assets			Current liabilities		
Cash and cash equivalents	24	88	Trade accounts payable	6,043	5,560
Trade accounts receivable	10,189	11,737	Payroll and related taxes	3,278	3,239
Inventories	10,377	12,765	Taxes payable	1,234	338
Other assets	14,523	2,304	Other payables	1,942	4,148
	35,113	26,894		12,497	13,285
Noncurrent assets	17,577	20,104	Noncurrent liabilities	833	746
			Shareholders' equity	39,360	32,967
TOTAL ASSETS	52,690	46,998	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	52,690	46,998

STATEMENTS OF INCOME	2009	2008
Net revenue from sales	81,221	55,853
Cost of sales	(61,589)	(40,455)
GROSS PROFIT	19,632	15,398
Operating expenses	(15,705)	(7,938)
Financial income (expenses), net	330	(148)
INCOME FROM OPERATIONS	4,257	7,312
(-) Income tax and social contribution	(1,016)	(2,288)
NET INCOME	3,241	5,024

For Company's consolidated net income analysis purposes, the consolidated statements of income presented, excluding the operations of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., are presented as follows:

CONTINUING OPERATIONS	2009	2008
Net revenue from sales	1,924,018	1,602,937
Cost of sales	(1,086,693)	(889,504)
GROSS PROFIT	837,325	713,433
Operating expenses	(659,246)	(535,668)
Financial income (expenses), net	(28,091)	5,338
INCOME FROM OPERATIONS	149,988	183,103
(-) Income tax and social contribution	(13,969)	(16,251)
Noncontrolling interests	(4,505)	1,305
NET INCOME FROM CONTINUING OPERATIONS	131,514	168,157
Discontinued operation	3,241	5,024
TOTAL CONSOLIDATED NET INCOME	134,755	173,181

12. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEFERRED CHARGES

a) Property, plant and equipment

Company	Annual depreciation rate (%)	2009 Cost	2009 Accumulated depreciation	2009 Net	2008 Cost	2008 Accumulated depreciation	2008 Net
Land	-	7,752	-	7,752	7,752	-	7,752
Buildings and construction	4	114,040	(51,303)	62,737	112,286	(45,106)	67,180
Machinery and equipment	10	187,041	(119,664)	67,377	186,430	(111,931)	74,499
Furniture and fixtures	10	18,113	(7,961)	10,152	15,694	(6,846)	8,848
Vehicles	20	3,137	(2,359)	778	3,276	(2,039)	1,237
Leasehold improvements	20	14,243	(5,415)	8,828	10,622	(5,995)	4,627
Projects in progress	-	30,692	-	30,692	22,219	-	22,219
Allowance for losses	-	(1,374)	-	(1,374)	(864)	-	(864)
Total		373,644	(186,702)	186,942	357,415	(171,917)	185,498

Consolidated	Annual depreciation rate (%)	2009 Cost	2009 Accumulated depreciation	2009 Net	2008 Cost	2008 Accumulated depreciation	2008 Net
Land	-	11,524	-	11,524	12,715	-	12,715
Buildings and construction	4	201,269	(103,252)	98,017	228,110	(109,174)	118,936
Machinery and equipment	10	382,866	(263,815)	119,051	455,137	(306,238)	148,899
Furniture and fixtures	10	47,348	(33,773)	13,575	55,295	(42,207)	13,088
Vehicles	20	4,562	(3,504)	1,058	5,503	(3,824)	1,679
Leasehold improvements	20	18,894	(6,648)	12,246	15,071	(7,524)	7,547
Projects in progress	-	36,022	-	36,022	29,671	-	29,671
Other property, plant and equipment	-	2,215	-	2,215	2,940	-	2,940
Finance lease (*)	30	1,161	(155)	1,006	664	-	664
Provision for losses	-	(1,606)	-	(1,606)	(1,096)	-	(1,096)
Total		704,255	(411,147)	293,108	804,010	(468,967)	335,043

(*) Consisting mainly by machinery, furniture and IT equipment, recorded in subsidiaries CBS S.A. - Companhia Brasileira de Sandálias and Alpargatas S.A.I.C. - Argentina.

Additional information on property, plant and equipment

The Company and its subsidiaries are parties to operating lease transactions, mainly in rentals of stores and warehouses for storage of products and goods. Except for rental agreements of certain stores located in shopping centers, where there is a portion of fixed rental and a portion of variable rental (depending on monthly sales), all of these rental agreements have fixed monthly amounts, annually adjusted by usual market inflation indexes.

These transactions include usual restrictive covenants, such as guarantees against early termination, etc. As of December 31, 2009, the Company and its subsidiaries complied with all these clauses, and thus none of the effective rental agreements was characterized as an onerous agreement by the Company's and its subsidiaries' Management, according to the Brazilian accounting practices. In addition, no contingent payment was made by the Company and its subsidiaries during the year then ended.

In the years ended December 31, 2009 and 2008, on a consolidated basis, total expenses incurred on operating lease transactions totaled R$19,507 and R$19,284, respectively.

Additionally, the consolidated expenses on operating lease transactions expected for the next fiscal years are as follows:

2010	20,269
2011	20,895
2012 to 2014	66,719

b) Intangible assets

		Company					
	Annual amortization rate (%)	2009			2008		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	17,849	(17,652)	197	18,058	(17,861)	197
ERP Systems	5 to 10	92,154	(22,331)	69,823	74,926	(12,930)	61,996
Customer portfolio (b)	20	23,085	(4,071)	19,014	8,025	(680)	7,345
Projects in progress	-	3,975	-	3,975	23,058	-	23,058
With indefinite useful lives:							
Goodwill on subsidiaries (a)	-	159,880	(9,750)	150,130	159,880	(9,750)	150,130
Assignment of trade rights (c)	-	4,028	-	4,028	3,336	-	3,336
Total		300,971	(53,804)	247,167	287,283	(41,221)	246,062

		Consolidated					
	Annual amortization rate (%)	2009			2008		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	31,080	(19,062)	12,018	34,902	(17,860)	17,042
ERP Systems	5 to 10	99,531	(24,797)	74,734	81,479	(14,155)	67,324
Customer portfolio (b)	20	23,085	(4,071)	19,014	8,025	(680)	7,345
Projects in progress		3,975	-	3,975	23,058	-	23,058
With indefinite useful lives:							
Goodwill on subsidiaries (a)	-	159,880	(9,750)	150,130	159,880	(9,750)	150,130
Assignment of trade rights (c)	-	4,528	(209)	4,319	3,336	-	3,336
Total		322,079	(57,889)	264,190	310,680	(42,445)	268,235

(a) See breakdown in note 11. As described in notes 2 and 3, considering the accounting changes introduced by Laws 11638/07 and 11941/09, beginning January 1, 2009, the goodwill balance on December 31, 2008 is no longer amortized and its realization is annually tested for impairment.

Accordingly, beginning January 1, 2009, the tax benefit of goodwill on the merger of former subsidiary Atlântico Participações S.A., as shown in note 11, was used in the monthly calculations of income tax and social contribution based on Transition Tax Regime (RTT), pursuant to the provisions of Law 11,941/09, the effects of which are shown in note 19.

In the year ended December 31, 2008, the amount of R$11,188, in goodwill arising on the acquisition of subsidiaries mentioned in note 11, was amortized and is recorded in the statement of income in line account "Amortization of goodwill".

(b) Refers to amounts paid on the acquisition of customer portfolios of former sales representatives of the Company (who basically sold "Havaianas" sandals) in certain European countries. Costs are being amortized under the straight-line method according to the five-year term of future cash flows expected by the Company's Management. As of December 31, 2009, in conformity with Brazilian accounting practices, in view of indications that the Company will obtain the expected future benefits, based on the Company's Management economic projections, no allowance has been recognized regarding these balances.

(c) Refers to amounts paid on the acquisition of rights of use of sales points where certain "Timberland" and "Havaianas" stores are located. Since these are sellable intangible assets and are not impaired over time, they are not amortized and are annually tested for impairment. As of December 31, 2009, in conformity with Brazilian accounting practices, no allowance has been recognized regarding the amounts of such rights as there are no indications of impairment.

Additional information on intangible assets

	Consolidated	
	2009	2008
Research and development expenses of products recorded in income	8,330	8,938

Consolidated amortization expenses of intangible assets estimated for the next years are as follows:

2010	22,106
2011	22,106
2012	20,845
2013	16,038
2014 and thereafter	28,646
Total	109,741

The Company and its subsidiaries do not have internally generated intangible assets.

Goodwill impairment test

As required by Brazilian accounting practices, on the close of the financial statements for the year ended December 31, 2009 the Company's Management tested for impairment recorded goodwill arising on the acquisitions of subsidiaries, as described in note 11, based on the discounted cash flows of CGUs, considering the continuing operations of the acquired business units. The amounts obtained were higher than the carrying amounts and thus no adjustment was recognized.

Change

	Company					
Property, plant and equipment	Balance in 2008	Additions	Transfers (*)	Depreciation	Write-offs	Balance in 2009
Land	7,752	-	-	-	-	7,752
Buildings and construction	67,180	-	1,754	(6,197)	-	62,737
Machinery and equipment	74,499	-	8,646	(15,298)	(470)	67,377
Furniture and fixtures	8,848	-	2,764	(1,420)	(40)	10,152
Vehicles	1,237	-	121	(442)	(138)	778
Leasehold improvements	4,627	-	5,656	(1,448)	(7)	8,828
Projects in progress	22,219	21,101	(12,628)	-	-	30,692
Allowance for losses	(864)	-	-	-	(510)	(1,374)
Total	185,498	21,101	6,313	(24,805)	(1,165)	186,942

	Company					
Intangible assets	Balance in 2008	Additions	Transfers (*)	Amortization	Write-offs	Balance in 2009
With finite useful lives:						
Trademarks, rights and patents	197	-	-	-	-	197
ERP System	61,996	-	20,576	(11,692)	(1,057)	69,823
Customer portfolio	7,345	-	15,439	(3,450)	(320)	19,014
Projects in progress	23,058	23,206	(42,289)	-	-	3,975
With indefinite useful lives:						
Goodwill on subsidiaries	150,130	-	-	-	-	150,130
Assignment of trade rights	3,336	-	692	-	-	4,028
Total	246,062	23,206	(5,582)	(15,142)	(1,377)	247,167
Deferred charges						
Preoperating expenses	9,928	-	(731)	(2,124)	-	7,073
Allowance for losses	(1,513)	-	-	-	1,513	-
Total	8,415	-	(731)	(2,124)	1,513	7,073

(*) Transfers correspond to reclassification of assets from “Projects in progress” to the related definite line accounts of “Property, plant and equipment”, “Intangible assets” and “Deferred charges”, on the termination of the projects.

	Consolidated						
Property, plant and equipment	Balance in 2008	Additions	Transfers (*)	Depreciation	Write--offs	Exchange rate changes (**)	Balance in 2009
Land	12,715	-	-	-	(47)	(1,144)	11,524
Buildings and construction	118,936	773	2,166	(9,009)	-	(14,849)	98,017
Machinery and equipment	148,899	4,765	10,521	(25,754)	(938)	(18,442)	119,051
Furniture and fixtures	13,088	1,664	2,913	(3,025)	(49)	(1,016)	13,575
Vehicles	1,679	88	170	(540)	(214)	(125)	1,058
Leasehold improvements	7,547	755	6,171	(1,977)	(7)	(243)	12,246
Projects in progress	29,671	23,876	(15,578)	-	-	(1,947)	36,022
Other property, plant and equipment	2,940	526	734	(596)	(637)	(752)	2,215
Finance leases	664	610	-	(156)	-	(112)	1,006
Allowance for losses	(1,096)	-	-	-	(510)	-	(1,606)
Total	335,043	33,057	7,097	(41,057)	(2,402)	(38,630)	293,108

Intangible assets	Consolidated						
	Balance in 2008	Additions	Transfers (*)	Amortization	Write--offs	Exchange rate changes (**)	Balance in 2009
With finite useful lives:							
Trademarks, rights and patents	17,042	-	-	(1,564)	-	(3,460)	12,018
ERP System	67,324	-	21,638	(12,335)	(1,893)	-	74,734
Customer portfolio	7,345	-	15,439	(3,450)	(320)	-	19,014
Projects in progress	23,058	23,206	(42,289)	-	-	-	3,975
With indefinite useful lives:							
Goodwill on subsidiaries	150,130	-	-	-	-	-	150,130
Assignment of trade rights	3,336	296	692	-	-	(5)	4,319
Total	268,235	23,502	(4,520)	(17,349)	(2,213)	(3,465)	264,190
DEFERRED CHARGES							
Preoperating expenses	9,928	-	(731)	(2,124)	-	-	7,073
Allowance for losses	(1,513)	-	-	-	1,513	-	-
Total	8,415	-	(731)	(2,124)	1,513	-	7,073

(*) Transfers correspond to reclassification of assets from "Projects in progress" to the related definite line accounts of "Property, plant and equipment", "Intangible assets" and "Deferred charges", on the termination of the projects.

(**) Exchange rate changes arising from the translation of the financial statements of foreign subsidiaries.

13. LOANS AND FINANCING

		Currency	Index and average annual interest rate	Company		Consolidated	
				2009	2008	2009	2008
Denominated in reais:							
FNE (BNB)	(a)	R$	Interest of 8.42%	85,550	99,556	85,550	99,614
FINAME		R$	TJLP + interest of 1.08%	1,272	2,127	1,272	2,127
FINEM - BNDES	(b)	R$	Currency basket + 2.3% interest and TJLP + 2.3% to 2.8% interest + 0.4% commission	17,115	21,663	17,115	21,663
Exim - BNDES	(c)	R$	TJLP + 2.20% interest	16,040	80,660	16,040	80,660
Automatic BNDES - CBS		R$	TJLP + 2.8% and US$ exchange + 2.3% interest	-	-	1,496	2,104
Leases - CBS		R$	Interest of 16.36%	-	-	-	32
Modermaq		R$	Interest of 11.47%	-	23	-	539
Total in reais				119,977	204,029	121,473	206,739
Denominated in foreign currency:							
Working capital - USA	(d)	US$	Interest of 3.8%	-	-	47,423	67,434
Working capital - Europe	(d)	US$/€	Interest of 4.25%	-	-	17,610	21,597
Working capital - Chile		CLP	Interest of 6.04%	-	-	5,113	2,194
Debt restructuring agreements - Alpargatas S.A.I.C. - Argentina	(e)	AR$	Interest of 5.76%	-	-	44,858	64,487
Finance leases - Alpargatas S.A.I.C. - Argentina	(f)	AR$	Interest of 24.91%	-	-	708	-
Working capital - Alpargatas S.A.I.C. - Argentina		AR$	Interest of 20.0%	-	-	113	-
FINIMP - HSBC		US$	Interest of 11.49%	-	2,165	-	2,165
ACE - Banco do Brasil			Interest of 3.2%	13	-	215	-
ACC/prepayment - CBS		US$	Libor + 1.25% interest	-	-	1,312	4,654
Total in foreign currency				13	2,165	117,352	162,531
Grand total				119,990	206,194	238,825	369,270
Current liabilities				35,086	84,761	108,822	182,781
Noncurrent liabilities				84,904	121,433	130,003	186,489

(a) On February 23, 2006, the Company signed with Banco do Nordeste do Brasil - BNB a financing agreement, limited to R$112,000, to fund investment programs in the Northeast Region. Financing is amortized monthly, since 2008, and will be repaid in ten years. The release of funds is linked to the investment disbursement schedule. The guarantee is backed by a bank letter of guarantee.

(b) In October 2007, the Company signed with the National Bank for Economic and Social Development (BNDES) a financing agreement of R$22,180 to fund the implementation of an ERP System. This financing is amortized in monthly installments since November 2008 and will be fully repaid in October 2013. The guarantee is backed by a bank letter of guarantee.

(c) The funds of the Exim agreement entered into with Bradesco and Unibanco banks, totaling R$80,660, were released in August 2008. Accumulated principal amortization incurred in 2009 totals R$63,715. This financing is amortized in monthly installments since September 2009 and will be fully repaid in January 2010. This financing has no guarantees.

(d) Loans and financing raised by foreign subsidiaries are guaranteed by the Company, within the limits approved by the Board of Directors. The maturities of these transactions range from 180 to 360 days.

(e) On September 26, 2001, the subsidiary Alpargatas S.A.I.C. - Argentina requested a preventive debt restructuring from creditors, a decision ratified by the Shareholders' Meeting held on March 1, 2002, and the request was approved by the competent Commercial Court on March 7, 2002.

In December 2005, such Commercial Court, as requested by the subsidiary's Management, issued a decision acknowledging the existence of a pre-agreement with creditors and, on September 15, 2006, after fulfilling certain legal obligations previously required, the subsidiary started to implement the debt restructuring agreement with creditors (see note 15).

The amounts were estimated based on the subsidiary's best judgment and are subject to revision. These balances are stated net of discount to present value and total R$56,381 and R$87,503 as of December 31, 2009 and 2008, respectively.

The discount to present value is being calculated by subsidiary Alpargatas S.A.I.C. - Argentina based on the difference between the Argentinean base rate and the fixed interest discount rate, as established in the debt restructuring agreement with financial institutions. This practice is adopted by the subsidiary since the initial recognition of such agreements and, therefore, it has not been adopted to comply with the requirements of CPC 12 - Discount to Present Value, as first-time adoption of Brazilian accounting practices. As of December 31, 2009, the average discount rate used was 15% per year.

The effects of reversal of the discount to present value are recorded in line account "Financial expenses", on a consolidated basis, and total R$2,743 for the year ended December 31, 2009.

As of December 31, 2009, reversals expected for the next fiscal years, related to the discount to present value balance recognized by the subsidiary, are as follows:

2010	2,728
2011	2,904
2012	3,117
2013	3,234
2014 and thereafter	44,398
Total	56,381

(f) As of December 31, 2009, outstanding future lease installments total R$792 and the difference to the financial present value recorded as of this date corresponds to the financial charges, which will be recorded on the accrual basis in income according to the residual term of the outstanding agreements.

Maturities of long-term loans and financing are as follows:

	Company		Consolidated	
Year	2009	2008	2009	2008
2010	-	36,963	-	43,010
2011	18,822	18,669	22,090	20,063
2012	18,822	18,669	22,037	19,900
2013	18,011	17,883	20,536	19,981
2014	14,039	14,039	17,012	15,961
2015	14,039	14,039	18,117	16,737
2016	1,171	1,171	5,091	5,596
2017	-	-	5,286	4,313
2018	-	-	19,834	40,928
Total	84,904	121,433	130,003	186,489

Other loans are collateralized by the Company's and its subsidiaries' guarantees and properties.

As of December 31, 2009, none of the outstanding loan and financing agreements include restrictive covenants that required the Company and its subsidiaries to maintain certain financial indices.

14. PROVISIONS AND OTHER PAYABLES

	Company		Consolidated	
	2009	2008	2009	2008
Royalties payable	2,106	2,984	2,106	2,984
Provision for freight payable	8,247	3,331	10,044	3,740
Other payables (commissions, outside services, utilities and others)	15,537	12,854	33,158	27,576
Total	25,890	19,169	45,308	34,300

15. DEBT RESTRUCTURING AGREEMENTS

On September 26, 2001, subsidiary Alpargatas S.A.I.C. - Argentina requested a preventive debt restructuring from creditors, a decision ratified by the Shareholders' Meeting held on March 1, 2002, and the request was approved by the competent Commercial Court on March 7, 2002.

In December 2005, such Commercial Court, as requested by the subsidiary's Management, issued a decision acknowledging the existence of a pre-agreement with creditors and, on September 15, 2006, after fulfilling certain legal obligations previously required, the subsidiary started to implement the debt restructuring agreement with creditors.

The amounts are stated in the consolidated financial statements in line account "Debt restructuring agreements", in current and noncurrent liabilities, in the amounts of R$12,613 and R$27,919, respectively (R$18,190 and R$50,548 as of December 31, 2008, respectively). These balances are stated net of discount to present value and total R$9,394 and R$16,780 as of December 31, 2009 and 2008, respectively.

The discount to present value is being calculated by subsidiary Alpargatas S.A.I.C. - Argentina based on the difference between the Argentinean base rate and the fixed interest discount rate, as established in the debt restructuring agreements. This practice is adopted by the subsidiary since the initial recognition of such agreements and, therefore, it has not been adopted to comply with the requirements of CPC 12 - Discount to Present Value for the first-time adoption of the changes in Brazilian accounting practices. As of December 31, 2009, the average discount rate used was 15% per year.

The effects of reversal of the discount to present value are recorded in line account "Financial expenses", on a consolidated basis, and total R$1,944 in income for the year ended December 31, 2009.

As of December 31, 2009, reversals expected for the next fiscal years, related to the discount to present value, are as follows:

2010	1,918
2011	1,791
2012	1,624
2013	1,429
2014 and thereafter	2,632
Total	9,394

16. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related-party balances

	Company	
Noncurrent assets	2009	2008
CBS S.A. - Companhia Brasileira de Sandálias	35,788	29,290
Alpargatas Internacional APS	519	(794)
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	(10,547)	3,419
Alpargatas Imobiliária S.A.	(4,001)	(3,790)
Alpargatas Chile Ltda.	-	1,195
Fibrasil Agrícola e Comercial Ltda.	(2,104)	(2,108)
Total	19,655	27,212

The balance is represented by an intercompany account held by the Company and its subsidiaries due to the centralized management of their cash, and is not subject to financial charges.

Balances receivable and payable from related-party transactions - Company

		Receivables		Payables	
		2009	2008	2009	2008
Alpargatas USA Inc. - United States	(b)	2,780	5,716	-	-
Alpargatas Europe S.L.U. - Spain	(b)	950	-	-	-
Alpargatas Chile Ltda. - Chile		1,090	1,376	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. - Brazil	(d)	-	-	288	-
Camargo Corrêa Group	(c)	-	-	65	2,283
Total		4,820	7,092	353	2,283

Related-party transactions

Related-party transactions are as follows:

		Sale of products and services		Purchase of products and services	
		2009	2008	2009	2008
São Paulo Alpargatas S.A.	(a)	21,021	8,907	19,974	49,400
Alpargatas USA Inc. - United States		-	-	13,797	5,147
Alpargatas Europe S.L.U. - Spain		-	-	6,716	-
Alpargatas Chile Ltda. - Chile		-	-	507	1,936
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda. - Brazil		-	24,740	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. - Brazil		3,598	-	-	1,824
Camargo Corrêa Group:					
Rentals and common area management fees		2,070	1,405	-	-
Shared services - CSC	(e)	12,027	16,083	-	-
Corporate projects		2,264	7,124	-	-
Other		14	48	-	-
Total		40,994	58,307	40,994	58,307

(a) It basically consists of sales of “Havaianas” sandals to subsidiaries in the United States and Europe. Due to the operations model and the distribution channel format defined by Management to start the Company’s operations internationalization process, Havaianas sandals are manufactured in Brazil and subsequently sold to the foreign subsidiaries, and such sales are made at prices lower than those charged to unrelated parties located in Brazil.

In the year ended December 31, 2009, the Company did not record any write-off or allowance for doubtful accounts on balances receivable from its foreign subsidiaries.

(b) Accounts receivable for sales of the products described in item (a), which will be received between January and June 2010.

(c) Accounts payable for the provision of the services described in item (e).

(d) Amounts payable for the purchase of production inputs, mainly canvas for the manufacturing of footwear, purchased from subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.

(e) Consist of costs with shared corporate services, such as telephone, insurance, administrative and IT services, provided under an agreement entered into with the Shared Service Center of the Camargo Corrêa Group.

As of December 31, 2009, except for the guarantees provided to support loans and financing, as described in note 13, the Company and its subsidiaries have not provided any other guarantees to related parties.

17. RESERVES FOR CONTINGENCIES

As of December 31, 2009 and 2008, the Company and its subsidiaries are parties to tax, civil and labor lawsuits arising from assessments by tax authorities and from claims filed by third parties and former employees or from legal proceedings and challenges. Reserves for contingencies were recognized when, in the opinion of Management and its legal counsel, the risk of loss was considered probable. The reserves are as follows:

		Company		Consolidated	
		2009	2008	2009	2008
Labor lawsuits	(a)	15,385	15,437	23,632	25,537
Tax lawsuits	(b)	10,770	6,799	14,104	10,932
Escrow deposits		(3,300)	(2,740)	(3,300)	(2,740)
Civil lawsuits		2,307	4,232	2,911	4,496
Total		25,162	23,728	37,347	38,225
Current liabilities		4,905	4,957	8,143	9,502
Noncurrent liabilities		20,257	18,771	29,204	28,723

(a) Refer to lawsuits filed against the Company and its subsidiaries by former employees claiming principally termination pay, salary premiums, overtime and amounts considered due for joint liability. The accrued amounts refer to the best estimates for each lawsuit considered as loss.

(b) Consist basically of tax notifications related to São Paulo State value added tax (ICMS) and Occupational Accident Insurance (SAT).

Change

	Company				
	Labor	Tax	Civil	Escrow deposits	Total
Balances as of December 31, 2008	15,437	6,799	4,232	(2,740)	23,728
Increases	6,288	3,971	215	(560)	9,914
Payments/reversals	(6,340)	-	(2,140)	-	(8,480)
Balances as of December 31, 2009	15,385	10,770	2,307	(3,300)	25,162

	Consolidated				
	Labor	Tax	Civil	Escrow deposits	Total
Balances as of December 31, 2008	25,537	10,932	4,496	(2,740)	38,225
Increases	6,737	5,466	727	(560)	12,370
Payments/reversals	(8,642)	(2,294)	(2,312)	-	(13,248)
Balances as of December 31, 2009	23,632	14,104	2,911	(3,300)	37,347

Possible losses

The Company and its subsidiaries are parties to tax and civil lawsuits that are not accrued since their risk of loss was classified by Management and its general counsel and outside legal counsel as possible. Contingent liabilities are as follows:

	Company and consolidated	
	2009	2008
Tax:		
Tax deficiency notice - IRRF (*)	7,728	8,923
Other	1,995	416
	9,723	9,339
Civil (compensation actions)	6,033	4,035

(*) Tax deficiency notice for the collection of corporate income tax (IRPJ) credits offset against withholding income tax (IRRF).

Additionally, in December 2005, a company holding the rights to a certain sports brand filed a civil lawsuit against the Company for compensation of losses on alleged breach of the license agreement, which was terminated in prior years. The Company's legal counsel understood that the likelihood of an unfavorable outcome was possible and that the amount involved could not be calculated yet and, therefore, no reserve was recognized for this contingency. In February 2007, there was a decision favorable to the Company resulting in the termination of the lawsuit. This decision is subject to appeal that will be judged by the São Paulo Court of Justice on a date not yet defined.

Taxes in installments program introduced by Law 11941/09

On May 28, 2009, the Federal Government enacted Law 11941, converting Provisional Act 449/08, which, among other amendments to the tax law, offers the options of a new installments program of debts to the Federal Revenue Service of Brazil, the National Institute of Social Security (INSS), and with the National Treasury Attorney General (PGFN), including the remaining balance of debts consolidated in the Tax Debt Refinancing Program (REFIS) (Law 9964/00), Special Installment Plan (PAES) (Law 10684/03) and the Tax Debt Refinancing Program (PAEX) (Provisional Act 303/06), in addition to the regular payments in installments provided for in article 38 of Law 8212/91 and article 10 of Law 10522/02.

The entities that elected paying or paying in installments the debts under this Law are allowed to settle, where applicable, the amounts corresponding to arrears and automatic fines and late-payment interest, including those recorded as debts to the Government, utilizing own tax loss carryforwards, and will benefit from reduced fines, interest and legal charges in percentages that depend on the installment plan chosen.

When the Company joined the installment program created by Law 11941/09, it enrolled a tax bet to the INSS in the total adjusted amount of R$3,485, recognized in changes in the reserves for contingencies, in "Tax contingencies".

Pursuant to the established rules, in order to comply with the first stage of installment program, after having filed with courts a request to withdrawal from lawsuits related to each tax payable in installments, the Company joined the installment program electing an appropriate plan and indicating the generic nature of tax debts, paying the corresponding first installment, in conformity with the rules set out in joint Federal Revenue Service and PGFN Administrative Rule.

The following steps of the tax debt installment plan include the consolidation of tax debts by the PGFN and the Federal Revenue Service; in this step the Company must designate the debts to be paid in installments and the number of installments. This consolidation stage is estimated to take place by the end of the first half of 2010.

18. TAXES WITH SUSPENDED PAYMENT AND OTHER

		Company and consolidated	
		2009	2008
Taxes on revenue (PIS/COFINS) - Law 9718/98		27,119	37,583
Escrow deposits		(27,119)	(25,562)
	(a)	-	12,021
COFINS - deduction of ICMS from tax base		35,439	17,641
Escrow deposits		(8,296)	(7,576)
	(b)	27,143	10,065
Other		3,190	3,122
Total - Company		30,333	25,208
Taxes in installments - PIS and COFINS (CBS S.A. - Companhia Brasileira de Sandálias)	(c)	2,194	7,833
Alpargatas S.A.I.C. - Argentina		5,416	10,238
Total - consolidated		37,943	43,279

(a) COFINS - Law 9718/98

On March 8, 1999, the Company was granted an injunction on the ordinary lawsuit challenging the constitutionality of Law 9718/98 and Constitutional Amendment 20, more specifically on the 1% increase in the COFINS rate and the broadening of COFINS and PIS tax base. This injunction authorized the payment of these contributions as provided for in legislation prevailing until January 1999.

Beginning on that date, the amounts of these taxes for the periods under litigation were recorded in liabilities as taxes with suspended payment, and started to be adjusted for inflation based on SELIC rate, the inflation adjustment effects of which were recorded in line account "Financial expenses" in the statement of income. From September 2002 to January 2004, the Company deposited in escrow the amount under litigation.

In March 2006, after an unfavorable decision rendered by the Federal Supreme Court (STF) on the extraordinary appeal related to the 1% increase in the COFINS rate, the Company decided to pay the amount calculated for the periods from: (i) March 1999 to August 2002; and (ii) February 2004 to March 2006, totaling R$43,041. This decision did not impact the continuity of the litigation related to the period from September 2002 to January 2004, and the Company started to make the payments of the monthly calculations from April 2006, the amount of which was recorded as taxes with suspended payment and escrow deposit, totaling R$27,119, adjusted for inflation.

Law 11941, enacted on May 28, 2009, revokes article 3, paragraph 1, of Law 9718/98, related to the broadening of the PIS and COFINS tax base, which strengthened the grounds challenged by the Company. With this change, considering the decision issued by the STF, which enacted Case Law Decision early August 2009, the Brazilian Institute of Independent Auditors (IBRACON) enacted the Technical Bulletin (CT) 05/09 allowing that part of PIS and COFINS related to the broadening of the tax base was reversed by the companies. On June 30, 2009, the Company reversed the portion corresponding to this liability with suspended payment, totaling R$12,401, recorded in the statement of income for the six-month period then ended, in line account "Other operating revenues".

Therefore, the amounts recorded as of December 31, 2009 refer solely to the portion related to the 1% increase in the COFINS rate, on which the STF issued an unfavorable decision to the Company in August 2009. The Company's lawsuit has not been judged yet; however, based on the judgment of the grounds, it will have an unfavorable outcome, and the escrow deposits will be transferred to the Federal Government.

For the years ended December 31, 2009 and 2008, accrued amounts and escrow deposits are adjusted based on the SELIC rate.

(b) COFINS - deduction of ICMS from tax base

The Company is challenging in court since 1993 the inclusion of ICMS in the COFINS tax base and made escrow deposits from May 1993 to February 1996.

Beginning June 2008, the Company started to use the stay of the lawsuit obtained in an injunction filed with the Federal Supreme Court (STF) to continue deducting ICMS from COFINS tax base; however, the Company is not required to make escrow deposits. Notwithstanding, such amounts are being accrued.

For the years ended December 31, 2009 and 2008, accrued amounts and escrow deposits are adjusted based on the SELIC rate.

(c) Taxes in installments - COFINS and PIS

On July 31, 2003 and September 29, 2006, subsidiary CBS S.A. - Companhia Brasileira de Sandálias joined PAES and PAEX (taxes in installments programs), respectively, to pay COFINS and PIS for the period from January 2003 to July 2004 in 120 installments. As of December 31, 2008, total debt related to these installments was R$7,833.

Tax installment programs created under Law 11941/09 and Provisional Act 470/09

In order to utilize the benefits of the new tax installments program created by Law 11941/09, according to which the entities that elect paying or paying in installments the debts under this Law are allowed to settle, when applicable, the amounts corresponding to arrears and automatic fines and late-payment interest, including those recorded as debts to the Government, utilizing own tax loss carryforwards, and will benefit from reduced fines, interest and legal charges in percentages that depend on the installment plan chosen, subsidiary CBS S.A. - Companhia Brasileira de Sandálias decided to join the new taxes in installments program to include the debts included in the programs PAES and PAEX, and derecognize fines and late-payment interest totaling R$4,094, as shown below:

	2008	Payments	Inflation adjustment	Reversals	2009
PAEX	4,595	1,763	460	(3,292)	-
PAES	4,948	859	113	(1,274)	2,928
Total	9,543	2,622	573	(4,566)	2,928
Current liabilities	1,710				734
Noncurrent liabilities	7,833				2,194

The installment plan was approved by the Federal Revenue Service on December 12, 2009, and is consolidating the PIS and COFINS debts.

Under this installment plan, the subsidiary commits to the timely payment of the monthly installments, as well as other federal taxes calculated on a monthly basis.

Changes in taxes with suspended payment - Company

	2008	Adjustments	Additions	Reversals	2009
PIS/COFINS	37,583	1,937	-	(12,401)	27,119
Escrow deposits	(25,562)	(1,557)	-	-	(27,119)
	12,021	380	-	(12,401)	-
COFINS - ICMS	17,641	1,570	16,228	-	35,439
Escrow deposits	(7,576)	(720)	-	-	(8,296)
	10,065	850	16,228	-	27,143
Other	3,122	68	-	-	3,190
Total	25,208	1,298	16,228	(12,401)	30,333

19. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred income tax and social contribution

	Company and consolidated	
	2009	2008
Current assets - temporary differences:		
Allowance for doubtful accounts	4,143	3,813
Allowance for inventory losses	2,669	907
Reserve for contingencies	1,668	1,685
Other temporary differences	8,676	10,338
Total - Company	17,156	16,743
Subsidiaries:		
Alpargatas S.A.I.C. - Argentina	-	2,916
Alpargatas Chile	634	56
Deferred taxes on unrealized profits	1,322	2,055
Total - consolidated	19,112	21,770
Noncurrent assets:		
Tax loss carryforwards	3,207	6,482
Temporary differences:		
Taxes with suspended payment	11,296	8,575
Reserve for contingencies	5,345	6,017
Other temporary differences	2,662	1,950
	19,303	16,542
Total - Company	22,510	23,024
Subsidiaries:		
Alpargatas Europe S.L.U. - Spain (d)	9,404	-
Alpargatas S.A.I.C. - Argentina	1,472	2,596
Alpargatas Chile	579	467
Total - consolidated	33,965	26,087

	Company and consolidated	
	2009	2008
Noncurrent liabilities:		
Provision for income tax and social contribution - tax loss carryforwards (a)	33,736	19,472
Escrow deposits	(6,277)	(6,277)
Provision for deferred income tax and social contribution on amortized goodwill on acquisition of subsidiaries (b)	1,631	-
Provision for income tax - CSLL deduction from tax base (c)	2,164	-
Provision for income tax - other contingencies	2,803	3,077
Total	34,057	16,272

(a) The Company is challenging in court the right to offset tax loss carryforwards against total income tax and social contribution payable each year without considering the legal 30% cap. As a result, the Company recorded in long-term liabilities the portion in excess of the legal 30% cap that was offset, plus financial charges, based on the SELIC rate.

In view of this challenge, the deferred tax credit was recognized on tax loss carryforwards as if the legal 30% cap for offset had been considered.

If the final court decision is favorable to the Company, the deferred asset will be matched with the related liability, and accrued charges will be reversed and credited to income for the year at that time.

In 2008, the Company reversed part of accrued charges expired, totaling R$6,671.

Tax installment programs created by Law 11941/09

Because the Company joined the federal installment program created by Law 11941/09, it formally dropped this lawsuit and increased the tax liability by R$14,264, including lawsuits previously classified by its legal counsel as remote chances of an unfavorable outcome. The Company concurrently recognized R$11,234 related to deferred income tax and social contribution assets on tax loss carryforwards at hand, which were realized in 2009.

The following steps of the tax debt installment plan include the consolidation of tax debts by the PGFN and the Federal Revenue Service; in this step the Company must designate the debts to be paid in installments and the number of installments. This consolidation stage is estimated to take place by the end of the first half of 2010.

(b) As mentioned in note 12, due to the suspension of the accounting practice entailing the amortization of goodwill arising on the acquisition of subsidiaries, due to the changes in Brazilian accounting practices introduced by Laws 11638/07 and 11941/09, beginning January 1, 2009, the Company started to utilize the tax benefit derived from goodwill arising on the acquisition of the subsidiary CBS S.A. - Companhia Brasileira de Sandálias, after merger of former subsidiary Atlântico Participações S.A., through the Tax Transition Regime (RTT), the effect of which was previously offset at the rate of 1/60 per month, with a monthly amortization amount of R$400, generating a tax impact of R$136 per month. Therefore, as required by the Brazilian accounting practices, the difference between the base of the utilized tax benefits and accounting

amortization is being considered as a temporary difference for deferred income tax and social contribution purposes, and its impact is recorded in noncurrent liabilities.

(c) Provision for income tax - deduction of social contribution from tax base

The Company has filed a lawsuit claiming the deduction of social contribution from income tax base as it understands that it is not an income tax taxable event. In July 2009, the court issued a decision favorable to the Company, which started to deduct social contribution from income tax base, and to accrue these amounts.

(d) Recognition of subsidiary's tax credits

Based on a technical feasibility study, approved by the Board of Directors, Management decided to recognize a deferred income tax credit on tax loss carryforwards taken by subsidiary Alpargatas Europe S.L.U. - Spain since the date the company was incorporated to December 31, 2009, to close the financial statements. Up to December 31, 2009, this subsidiary reported losses due to the start of its operations, when it incurred in several marketing and start-up expenses, as described in note 11. However, based on the Company's economic viability study, which estimates the generation of taxable income starting 2011, Management, in compliance with the requirements set out in CVM Resolution 273/98 and CVM Instruction 371/02, decided to recognize a deferred income tax credit, with estimated realization over the next ten years.

In addition to the tax credits recognized on tax loss carryforwards, there are tax credits on tax loss carryforwards generated by other subsidiaries for which, due to the lack of a taxable income history of such subsidiaries and expected taxable income in the near future, no deferred tax credits are recognized, whose amounts as of December 31, 2009 are as follows:

	Unrecognized tax credit
CBS S.A. - Companhia Brasileira de Sandálias	9,470
Alpargatas USA Inc. - United States	27,321
Alpargatas S.A.I.C. - Argentina	20,266
Total	57,057

In compliance with CVM Resolution 273/98 and CVM Instruction 371/02, Management, based on its projections of future taxable income, estimates that the recorded tax credits will be fully realized over the next five years.

The estimated realization of the amounts recorded in noncurrent assets is as follows:

Company	2009	2008
2010	-	4,605
2011	4,502	6,907
2012	6,753	5,756
2013 and thereafter	11,255	5,756
Total - Company	22,510	23,024
Subsidiaries (2012 and thereafter)	11,455	3,063
Total - consolidated	33,965	26,087

b) Current income tax and social contribution

As of December 31, 2009 and 2008, income tax and social contribution expenses, recorded in income, are represented by:

	Company		Consolidated	
	2009	2008	2009	2008
Income before income tax and social contribution	151,792	196,020	154,245	190,415
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution expenses at statutory rate	(51,609)	(66,647)	(52,443)	(64,741)
Equity in subsidiaries and associates	(17,120)	(17,340)	(6,362)	(2,745)
Interest on capital benefit	9,991	17,915	9,991	17,915
Tax effects of adoption of Tax Transition Regime (RTT) (Laws 11638/07 and 11491/09 adoption):				
Investment grant - ICMS	34,812	29,794	34,812	29,794
Stock option plan expenses	(318)	(260)	(318)	(260)
Federal tax incentive benefit - income tax	4,022	7,752	5,016	9,100
Goodwill amortization (nondeductible portion)	-	(2,586)	-	(2,586)
Unrecognized tax credit on tax loss of foreign subsidiaries	-	-	(8,828)	(15,012)
Other permanent deductions, net	1,763	11,393	3,147	9,996
Income tax and social contribution expenses	(18,459)	(19,979)	(14,985)	(18,539)
Current	(8,380)	(10,797)	(17,043)	(25,492)
Deferred	(10,079)	(9,182)	2,058	6,953

20. SHAREHOLDERS' EQUITY

a) Capital

Paid-in capital as of December 31, 2009 and 2008 is R$391,804, represented by 17,672,794 book-entry shares without par value, of which 9,076,204 are common shares and 8,596,590 are preferred shares.

The Company's bylaws authorize the increase of its capital within a cap of 18,152,408 shares, observing the proportionality among the existing classes of shares, and the Board of Directors shall determine the terms and conditions applicable to the issuance of shares, based on authorized capital cap, as well as whether or not the preemptive rights of current shareholders shall apply, pursuant to article 172 of Law 10303/01.

Subscribed and paid-in capital is held as follows:

December 31, 2009:

	Common shares		Preferred shares		Total	
Shareholders	Number	%	Number	%	Number	%
Controlling shareholders (Camargo Corrêa Group)	6,079,879	66.99	1,717,847	19.98	7,797,726	44.12
Management:						
Board of Directors	1,796,351	19.79	448,000	5.21	2,244,351	12.70
Executive Committee	-	-	-	-	-	-
Supervisory Board	1,100	0.01	9,100	0.11	10,200	0.06
Other shareholders	1,198,874	13.21	6,421,643	74.70	7,620,517	43.12
Total	9,076,204	100.00	8,596,590	100.00	17,672,794	100.00

December 31, 2008:

	Common shares		Preferred shares		Total	
Shareholders	Number	%	Number	%	Number	%
Controlling shareholders (Camargo Corrêa Group)	6,079,879	66.99	1,717,847	19.98	7,797,726	44.12
Management:						
Board of Directors	737,737	8.13	23,100	0.27	760,837	4.30
Executive Committee	-	-	-	-	-	-
Supervisory Board	1,100	0.01	9,100	0.11	10,200	0.06
Other shareholders	2,257,488	24.87	6,846,543	79.64	9,104,031	51.52
Total	9,076,204	100.00	8,596,590	100.00	17,672,794	100.00

b) Share buyback plan

The Board of Directors approved at the meeting held on December 11, 2009 a program for the buyback of Company shares, allowing for the buyback of up to 433,213 preferred shares and 299,632 common shares. Since December 15, 2009, date on which the plan became effective, until December 31, 2009, no share had been bought back in the stock market.

Changes in line account "Treasury shares" for the year ended December 31, 2009 were as follows:

	Number	Average price
Opening balance	254,661	111.91
Sold (exercise of stock options)	(5,340)	111.91
Bought (exercise of stock options)	5,340	79.39
Closing balance	254,661	111.23

c) Dividends and interest on capital

Every year shareholders are entitled to receive mandatory minimum dividends of 25% of net income, calculated in accordance with Brazilian corporate law and the bylaws. In 2009 and 2008, the calculation was made as follows:

	2009	2008
Net income	133,333	176,041
Recognition of legal reserve - 5%	-	(8,802)
Tax incentive reserve	(106,411)	(95,382)
Amount available for distribution	26,922	71,857
Mandatory minimum dividends - 25%	6,731	17,964
Management's proposal:		
Interest on capital	29,384	52,690
Withholding income tax (IRRF) on interest on capital	(4,060)	(7,092)
Interest on capital, net of IRRF	25,324	45,598

The payment of dividends and interest on capital proposed by Management is as follows:

	Per share - R$ (gross)			
	2009		2008	
	Common	Preferred	Common	Preferred
Interest on capital	1,607	1,774	2,884	3,178

d) Tax incentive reserves

Beginning January 1, 2008, tax incentives started to be recorded directly in income, and after the close of the annual financial statements recognized in line account "Tax incentive reserve".

e) Legal reserve

Since the balance of the legal reserve plus capital reserves, addressed by article 182, paragraph 1, of Law 6404/76, exceeded 30% of the capital, the Company decided, in accordance with article 193 of the same Law, not to recognize a legal reserve on net income for 2009.

21. OTHER OPERATING INCOME (EXPENSES), NET

	Company		Consolidated	
	2009	2008	2009	2008
Other operating income:				
Gain on sale of property, plant and equipment	-	1,272	-	1,272
Final and unappealable decisions in lawsuits (*)	11,805	31,980	11,805	31,980
Other	2,561	3,129	2,561	3,129
	14,366	36,381	14,366	36,381
Other operating expenses:				
Reserve for contingencies	(10,474)	(2,977)	(12,930)	(4,655)
Other	(1,710)	-	(5,812)	(3,214)
	(12,184)	(2,977)	(18,742)	(7,869)
Other operating income (expenses), net	2,182	33,404	(4,376)	(28,512)

(*) In the year ended December 31, 2008, the Company recognized gains of R$38,427 related to favorable final and unappealable decisions in lawsuits, as follows:

- R$18,182 - lawsuit related to Federal VAT (IPI) premium credit established by Decree Law 491/69 and Decree 64833/69, where the Company challenged the benefit not granted in the period from May 1989 to October 1990.

- R$17,182 - lawsuit where the Company challenged the constitutionality of the tax on net income (ILL) overpaid in the period from 1989 to 1992, and its inflation adjustment. The total amount, including inflation adjustment paid to federal tax authorities, is recorded in line account “Recoverable taxes” in current assets (see details in note 9.(a)).

- R$1,789 - lawsuit where the Company challenged the constitutionality of the tax on revenue (FINSOCIAL) on the operations of its former subsidiary Spasa Trading Ltda.

- R$1,274 - lawsuit where the Company challenged the constitutionality of the Public Cleansing Tax charged by the city of São Paulo.

These amounts were recorded excluding the related lawyers’ fees, totaling R$31,980. Of the amount of R$38,427, except for the ILL lawsuit of R$17,182, which is recorded in “Recoverable taxes”, in current assets, the remaining R$21,178 is recorded in “Other receivables”, in noncurrent assets.

Additionally, as described in note 18.(a), on June 30, 2009 the Company reversed the liability with suspended payment related to PIS and COFINS - broadening of tax base introduced by Law 9718/98, totaling R$12,401, of which R$11,805 net of lawyers’ fees in the amount of R$596.

22. RISKS AND DERIVATIVES

a) General considerations

The Company and its subsidiaries conduct transactions involving financial instruments, including derivatives, all of which recorded in balance sheet accounts, which are intended to meet their operating and financial needs. The Company contracts short-term investments, loans and financing, as well as derivatives.

These financial instruments are managed based on policies, definition of strategies and establishment of control systems, which are monitored by the Company's Management.

In Company, balances with related parties refer to the management of a single cash (cash and cash equivalents) by the Company, and there are no financial charges on these transactions.

Short-term investments

The Short-term Investments Policy established by the Company's and its subsidiaries' Management elects the financial institutions with which contracts can be entered into, and defines limits for the amounts to be invested in each financial institution; as of December 31, 2009 and 2008, short-term investments are within the limits.

Loans and financing

Loans and financing are recorded based on interest contractually established for each operation, as shown in note 13.

Derivative policies

Due to the financial obligations assumed by the Company and its subsidiaries in foreign currencies, Management, in conformity with the guidelines set out by the Company's Board of Directors, may contract derivative transactions to minimize foreign exchange risks arising from financial liabilities and accounts payable for the import of production inputs, within the exposure limits linked to these risks.

Treasury procedures under the policy in effect include monthly projection and exposure assessment routines for the Company and its subsidiaries, on which Management bases decision-making regarding the use of such financial instruments.

As of December 31, 2009, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

b) Foreign exchange exposure and details on derivative transactions

As of December 31, 2009 and 2008, the main line items linked to foreign currency are described below:

		Company		Consolidated	
		2009	2008	2009	2008
Assets:					
Trade accounts receivable	(i)	21,713	37,536	67,282	79,232
Advances on foreign exchange contracts		(2,489)	(649)	(2,287)	(649)
Total assets		19,224	36,887	64,995	78,583
Liabilities:					
Loans and financing	(ii)	13	2,165	117,352	162,531
Trade accounts payable		17,143	23,175	41,939	22,522
Royalties payable		2,106	2,984	2,106	2,984
Total liabilities		19,262	28,324	161,397	188,037
Net exposure		(38)	8,563	(96,402)	(109,454)
(-) Foreign subsidiaries		-	-	93,619	118,623
Total exposure for sensitivity analysis purpose		(38)	8,563	(2,783)	9,169

(i) Of the consolidated amounts as of December 31, 2009, 68.7% (49.3% in 2008) refers to trade accounts receivable of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europa S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina) and 31.3% (50.7% in 2008) refers to foreign trade accounts receivable of the Company in Brazil.

(ii) Of the consolidated amounts as of December 31, 2009, 98.7% (95.6% in 2008) refers to local currency-denominated borrowings of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina) and 1.3% (4.4% in 2008) refers to transactions in Brazil (FINIMP and Advances on Foreign Exchange Contract (ACCs)), as shown in note 13.

Foreign exchange risk arises from fluctuations in foreign exchange rates on foreign currency-denominated loans and financing, trade accounts receivable and trade accounts payable, and royalties.

As of December 31, 2009, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

c) Fair values

As of December 31, 2009 and 2008, fair values of short-term investments approximate their carrying amounts disclosed in the financial statements due to their short-term nature and because they are pegged to the interbank deposit rate (CDI) fluctuation. Loans and financings are adjusted for inflation based on interest rates contracted according to the usual market conditions and, therefore, balances payable at the balance sheet dates substantially approximate their fair values, including those classified as “noncurrent”.

d) Credit risk

Sales are made substantially to retailers and hypermarkets. The credit risk is reduced due to the higher dispersion of the customer portfolio and credit assessment and granting policies.

e) Sensitivity analysis of financial instruments

Foreign exchange exposure (consolidated)

In the consolidated currency exposure sensitivity analysis as of December 31, 2009 we disregarded the balances of trade accounts receivable and loans and financings of foreign subsidiaries, because they are denominated in the local functional currencies of each one of these subsidiaries, which, according to the Company's Management, are not exposed to currency risks.

Considering the foreign exchange exposures described in item b) above, as of December 31, 2009 the sensitivity analysis of outstanding positions is as follows:

	Gain	
	Possible	Remote
Company risk	scenario	scenario
U.S. dollar depreciation	696	1,392

The possible scenario considers a 25% depreciation of the Brazilian real against the U.S. dollar over the exchange rate at December 31, 2009 of R$1.7412/US$ (R$2.1765/US$), and the remote scenario considers a 50% depreciation (R$2.6118/US$).

Based on these parities above, the result would be a loss of R$696 in the possible scenario and a loss of R$1,392 in the remote scenario.

Management did not consider the sensitivity analysis for the probable scenario because it understands that this scenario reflects the exchange rate fluctuation already recorded in the financial statements for the year ended December 31, 2009.

23. STOCK OPTION PLAN

The Company grants preferred share options to the Executive Committee under a program approved by the Extraordinary Shareholders' Meetings held on April 26, 2002 and October 26, 2006, for the purpose of retaining key management personnel and encouraging them to contribute to the interests and objectives of the Company and its shareholders. The plans are managed by the Company's Human Resources area.

General criteria of the stock option plans

a) Plans created from 2002 to 2008

The vesting period of plans approved in 2002, 2003, 2004 and 2005 is two years, with the vesting of 20% of the options in the second year, 20% in the third year, 20% in the fourth year and 40% in the fifth year after grant date, and a maximum ten-year term to exercise of the options granted.

The vesting period of plans approved in 2006, 2007 and 2008 is three years, with vesting of 30% in the third year, 30% in the fourth year and 40% in the fifth year after grant date, and a maximum five-year and two months term to exercise of the options granted. In these plans option exercise is contingent to the attainment of performance goals, based on internal performance indicators.

The criteria to determine the initial prices for the exercise of the options granted according to the plans are as follows:

(i) 2002-2005 plans: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the São Paulo Mercantile and Stock Exchange (BMF&BOVESPA) in the last 60 trading sessions before the date of approval of each annual plan. The exercise price is adjusted using the General Market Price Index (IGP-M).

(ii) 2006-2008 plans: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the BMF&BOVESPA in the last 60 trading sessions before May 31 of the grant year. The exercise price is adjusted using the Extended Consumer Price Index (IPCA).

b) New plans granted beginning 2009

On July 1, 2009, the Company granted 56,000 stock options with vesting, exercise term and performance conditions similar to the 2006-2008 stock options. The initial exercise price was R$70.57.

Changes in the stock options plans in the period

The table below shows a summary of the stock options plans for the years ended December 31, 2009 and 2008:

	2009		2008	
	Number of options	Weighted average exercise price - R$	Number of options	Weighted average exercise price - R$
Outstanding options at beginning of year	217,654	60.49	238,974	44.76
Options granted	56,000	70.57	27,500	105.09
Options exercised	(5,340)	29.41	(48,820)	25.63
Outstanding options at end of year	268,314	64.56	217,654	60.49

As regards the options exercised during the year ended December 31, 2009, the weighted average market price of preferred shares at yearend was R$79.39 (R$111.32 in 2008).

Outstanding options at end of year

Stock options outstanding have the following features:

	Outstanding options			
Year	Options not exercised at yearend	Remaining contractual life (months)	Exercise price range (R$)	Vested options at yearend
December 31, 2009	268,314	48	18.91 - 162.66	118,984
December 31, 2008	217,654	59	19.24 - 155.94	63,930

Detailed features of the stock options, by plan, are presented as follows:

	December 31, 2009			
Grant date	Options not exercised at yearend	Remaining contractual life (months)	Exercise price (R$)	Vested options at yearend
July 1, 2002	8,900	30	18.91	8,900
July 1, 2003	18,180	42	21.51	18,180
July 1, 2004	54,802	54	27.40	54,802
July 1, 2005	58,438	66	38.80	29,306
July 1, 2006	25,994	18	110.99	7,796
July 1, 2007	18,500	30	162.66	-
July 1, 2008	27,500	42	112.01	-
July 1, 2009	56,000	54	71.77	-
Total	268,314	48	18.91 - 162.66	118,984

	December 31, 2008			
Grant date	Options not exercised at yearend	Remaining contractual life (months)	Exercise price range (R$)	Vested options at yearend
July 1, 2002	8,900	42	19.24	8,900
July 1, 2003	19,960	54	21.88	18,180
July 1, 2004	56,582	66	27.88	22,110
July 1, 2005	60,218	78	39.47	14,740
July 1, 2006	25,994	30	106.40	-
July 1, 2007	18,500	42	155.94	-
July 1, 2008	27,500	54	107.38	-
July 1, 2009	-	-	-	-
Total	217,654	59	19.24 - 155.94	63,930

Impact on the statement of income for the year

The expense related to the fair value of the options granted during the year ended December 31, 2009, according to the elapsed vesting period, was R$934 (R$766 in 2008).

The fair value on grant date of the stock options granted on July 1, 2009 was estimated at R$27.69. The performance conditions were not reflected in the fair values as they are based on internal performance indicators. The expected volatility assumption was based on historic volatility in the three-year period prior to the grant date, and the early exercises were reflected using a Hull-White type binomial valuation model, with a voluntary exercise trigger of 110% of the exercise price.

The main assumptions used in the calculation are as follows:

	Amounts in R$
Share price	78.99
Exercise price	70.57
Expected volatility	39.00%
Expected dividends	3.50%
Risk-free rate (real)	6.75%
Post-vesting rate	10.00%
Fair value	27.69

The table below shows the simulated effects arising from:

(i) Scenario I: exercise of the stock options granted up to December 31, 2009.

(ii) Scenario II: exercise of all vested stock options to be granted under the stock option plan.

In both scenarios, it was assumed that all options were vested on December 31, 2009, based on the Company's shareholders' equity as of this date.

Amounts in Brazilian reais - R$

	Scenario I	Scenario II
Weighted average exercise price	64.56	64.56
Number of preferred shares	8,596,590	8,596,590
Number of outstanding preferred shares	8,341,929	8,341,929
Number of shares to be purchased with exercise of options	268,314	599,660
Book value per outstanding share	126.66	126.66
Book value per share considering exercise of options	122.71	118.16
Dilution of book value per share	3.95	8.50
Percentage dilutive effect	3.12%	6.71%

24. MANAGEMENT COMPENSATION

Overall compensation to the Management of the Company and its subsidiaries is as follows:

			Stock option grant	
	Compensation	Pension plans (c)	Balance of options (number) (a)	Average exercise price R$ (b)
2009	5,711	261	268,314	64.56
2008	5,197	225	217,654	60.49

(a) Refers to the balance of vested and unvested stock options, not exercised, at the balance sheet dates.

(b) Refers to the average exercise price of stock options adjusted through the balance sheet dates.

(c) Refer to the contributions made to the pension plans during the year.

25. EMPLOYEE BENEFITS

The Company and its subsidiaries sponsor two pension plans and grant, through their own pension plan, life annuity and health care benefits for a certain group of former employees and their spouses. The actuarial liability of these plans as of December 31, 2009 is R$3,787 (R$2,694 in 2008), which is recorded in line account “Other payables”, in long-term liabilities. The pension plans are as follows:

a) Pension plan - SPASAPREV

This plan was implemented in May 1991 as a defined benefit plan fully funded by the sponsor’s contributions. In August 2000, the “Super Prev” plan was created as a defined contribution plan, to which employees equivalent to 99% of required reserves have already migrated.

Actuarial amounts recognized are:

	2009
Present value of actuarial obligation	25,389
Fair value of plan assets	(37,565)
Unrecognized actuarial gain	10,133
Total net asset	(2,043)

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for fiscal year 2009 were as follows:

Financial discount rate	11.8
Long-term inflation rate	5.0
General mortality table	AT 83

b) Pension plan - HSBC

This plan is for a closed group of former employees of the Company and is funded by a multiemployer pension fund. This plan covers only participants who are receiving retirement and survivorship benefits.

Actuarial calculation for the HSBC Plan is as follows:

	R$
Present value of actuarial obligation	574
Fair value of plan assets	(3,415)
Unrecognized actuarial gain	646
Total net asset (*)	(2,195)

(*) This asset was not recognized in the Company's financial statements as of December 31, 2009 due to the lack of evidence of reimbursement or deductions from future contributions.

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for fiscal year 2009 were as follows:

Financial discount rate	11.8
Long-term inflation rate	5.0
General mortality table	AT83

c) Pension plan for former employees

The Company sponsors a pension plan for former employees, granting life annuity to participants, extended to their spouses upon participants' death.

There are presently six plan participants: five former employees receiving retirement benefit and one pensioner receiving a survivorship benefit.

Actuarial amounts recognized are:

	R$
Present value of actuarial obligation	1,197
Unrecognized actuarial loss	(86)
Total liability recognized as of December 31, 2009	1,111

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for fiscal year 2009 were as follows:

Financial discount rate	11.8
Long-term inflation rate	5.0
General mortality table	AT83

d) Health care plan for retirees

The Company maintains a health care plan for a group of former employees and their spouses, according to the rules established by the Company.

Actuarial amounts recognized are:

	R$
Present value of actuarial obligation	1,207
Unrecognized actuarial gain	1,469
Total liability recognized as of December 31, 2009	2,676

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for fiscal year 2009 were as follows:

Financial discount rate	11.3
Increase in medical expenses (reduced by 0.5% per year)	3.0 to 4.5
Long-term inflation rate	5.0
General mortality table	AT83

26. PROFIT SHARING

The Company offers its employees a profit sharing program linked to the achievement of operating goals and specific objectives, annually established and approved for each plant/unit. As of December 31, 2009, the Company recognized in income for the year R$18,513, Company, and R$24,581, on a consolidated basis, as employee and management profit sharing; of this amount, R$1,260 refers to the management portion (R$15,009, Company, and R$16,005, on a consolidated basis in 2008, of which R$1,500 refers to the management portion), which is recorded in line account “Payroll and related taxes”, in current liabilities.

27. PLEDGES AND COLLATERALS

As of December 31, 2009, in addition to that disclosed in note 13, pledges and collaterals provided by the Company to the financial institutions amounted to R$3,481 (R$9,162 in 2008), Company, and R$5,370 (R$11,761 in 2008), on a consolidated basis, related to vendor financing transactions.

28. COMMITMENTS ASSUMED

We have commitments deriving from an agreement for the supply of electric power, effective through 2009, providing for the purchase of a minimum monthly volume of 26,413 kW, equivalent to R$779, which can be amended within no less than six months. As of December 31, 2009, the Company was compliant to this agreement's commitments.

29. INSURANCE (Unaudited information)

Insurance coverage for operating risks as of December 31, 2009 is R$1,101,830 of the Value at Risk, with a maximum compensation value of R$290,000, General Civil Liability of R$6,500, Optional Civil Liability - Bodily Injury of R$1,000, and Sundry Risks (Theft) of R$842, with a maximum compensation value of R$150, domestic transportation limited to R$2,000 per shipment and international transportation of US$5 million, both for imports and exports.

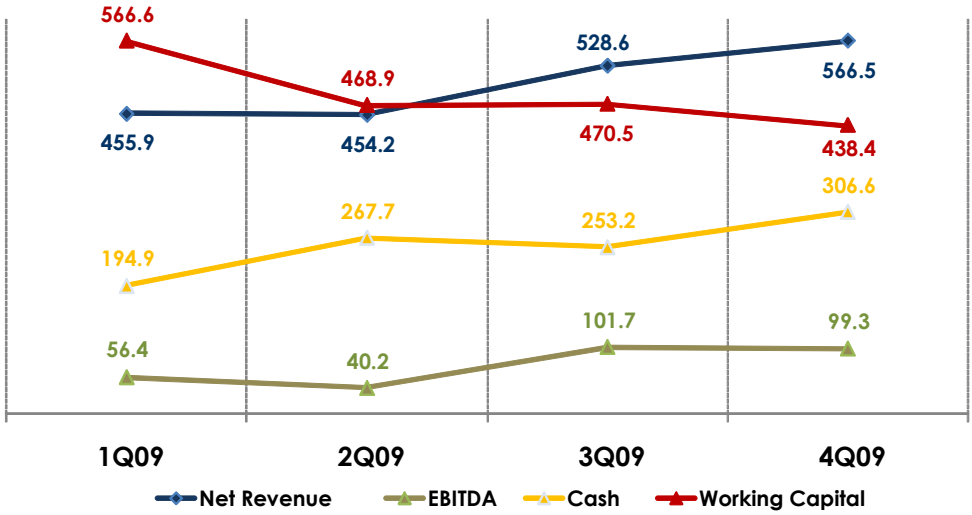
30. APPROVAL FOR ISSUANCE OF THE FINANCIAL STATEMENTS

These financial statements of the Company were approved for issuance by the Board of Directors at the meeting held on March 12, 2010.

INTRODUCTION

2009 was a challenging year. We rapidly adopted measures that mitigated the impact of the world financial crisis on our businesses. We adjusted production levels, selling, general and administrative expenses and production costs to the new scenario. The result of these measures is reflected on Alpargatas' performance by the rapid increase in the main indicators, especially in the second half of the year.

Main Performance Indicators (R$ million) Variation in 2009



Consolidated gross revenue totaled R$2.4 billion, with the sale of 210.0 million pairs of footwear and 8.5 million items of apparel and accessories. We optimized working capital management to accelerate the Cash Conversion Cycle, which pushed up cash generation by R$129.6 million. EBITDA stood at R$297.6 million and net income totaled R$134.7 million. Our brands continued to appeal to consumers worldwide thanks to our efforts to build, reposition and create value for them. We launched the Havaianas and Dupé's 2009/2010 sandal collection, with innovative models, colors and patterns. We inaugurated Espaço Havaianas, in São Paulo, a concept store that features the whole range of the brand's products. Topper began the year with a new positioning. In Brazil and Argentina, we adopted the same visual identity; launched the same products for several sports; and used the same communication approach, with Topper's campaign *Coração Manda* (The Heart Commands). With Rainha, a traditional Alpargatas brand, we strengthened our participation in the value sports brand segment. Mizuno further consolidated its leadership in the running footwear segment. Timberland opened new stores and increased sales to the multibrand channel. Alpargatas' retail ended the year with 170 stores worldwide and continued to expand to support the brands' strategies. In order to concentrate the Company's activities in footwear, sporting goods and retail, we began the process of divestment in the industrial textile business, with the signature of the agreement for the sale of Locomotiva. Our international operations in the United States, Europe and Argentina grew and consolidated their position as important bases for an increasingly global Alpargatas. We obtained the authorization of the *Comisión Nacional de Valores de Argentina* (Securities and Exchange Commission of Argentina) for the tender offer of all Alpargatas Argentina's outstanding shares. From the social viewpoint, the Alpargatas institute developed already renowned sports projects. Sustainability also applied to the environmental area. We improved our water and power consumption indicators and reduced waste volume in relation to production. We are confident that Alpargatas' three strong points – leading brands, talented team and cash generation capacity – ensure us the conditions to grow and continue our successful trajectory.

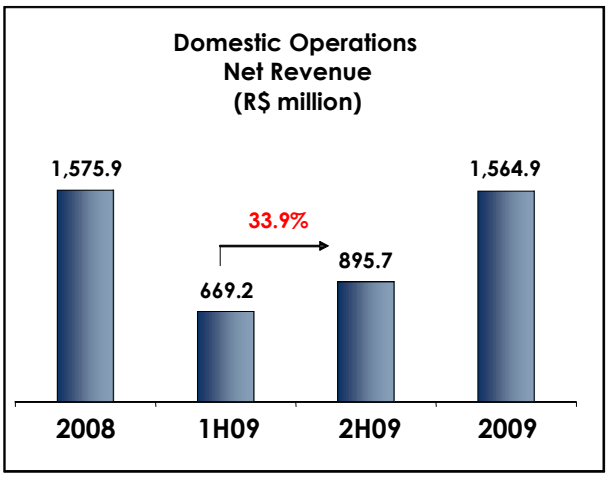
1. BUSINESS SEGMENTS

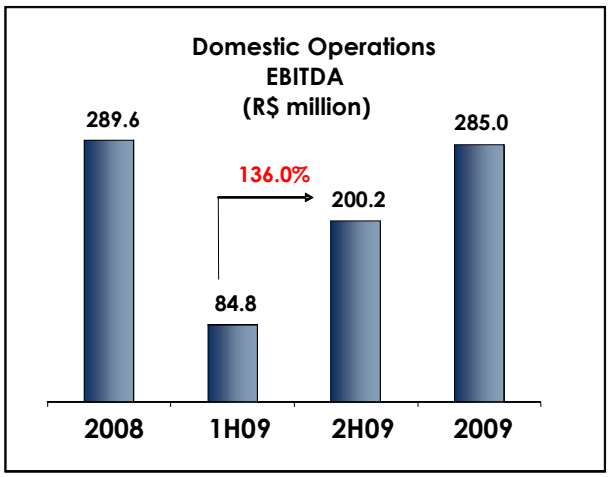
Alpargatas operates in the sandal and sports footwear segments that represented 47% of the Brazilian footwear market. We have a relevant market share in these segments with the brands Havaianas, Dupé, Topper, Rainha, Mizuno and Timberland. Our sourcing flexibility allowed us to face the antidumping measure – surcharge of US$13.85 charged on the price of footwear imported from China – in a competitive manner and without impact on the Company's businesses.

2. BUSINESS PERFORMANCE

DOMESTIC OPERATIONS

Domestic operations grew substantially in the second half of the year. Net revenue and EBITDA increased by 33.9% and 136.0%, respectively, compared to the first half of the year. Strong brands, innovative products, expansion of store chains and lower costs and expenses contributed to this performance.





SALES VOLUME

In 2009, we sold 197.8 million pairs of footwear in Brazil, 6% down on 2008, due to a decline in demand for footwear which had an impact on trade and industry sales, especially in 2Q09. Sales began picking up in 3Q09.

DOMESTIC OPERATIONS SALES VOLUME (million of pairs)	1Q09	2Q09	1H09	3Q09	4Q09	2H09	4Q08	2009	2008
Sandals	43.8	34.3	78.1	52.6	56.2	108.8	59.0	186.9	198.9
Athlectic Footwear	2.2	2.9	5.1	2.9	2.9	5.8	3.1	10.9	11.7
Total	**46.0**	**37.2**	**83.2**	**55.5**	**59.1**	**114.6**	**62.1**	**197.8**	**210.6**

Sandals

The 39.3% increase in sales volume between 1H09 and 2H09 was due to the success of Havaianas' 2009/2010 collection, with 81 models, available in stores since July; advertising campaigns; and marketing actions. The 55 new franchises opened in the year and the concept store Espaço Havaianas, inaugurated in São Paulo, also boosted sandal sales. We sold 186.9 million pairs in 2009, 6% less than in 2008. In addition to the new Havaianas' collection and the concept store, the following events stood out in the period:

- Launch of the Soul Collection, Havaianas' first footwear line. The four models arrived in the São Paulo and European markets in February 2010 and feature components with reference to Havaianas sandals.
- Launch of Dupé's 2009/2010 collection, with 30 models.

Athlectic Footwear

The athlectic footwear volume grew by 13.7% between 1H09 and 2H09. This improvement was due to the success of new Topper; Mizuno's increasing leadership in the running segment and the success of the Rainha brand. Topper began the year with a new positioning. It is now unisex and suitable for several sports and gained visual identity, with its new logo and design. Topper is synonymous with fierceness and boldness also in tennis, basketball, volleyball and running, in addition to soccer – a sport in which it is a market leader in Brazil. The repositioning also took place simultaneously in Argentina, where Topper is a market leader, with a 32% market share. We sold 186.9 million pairs in 2009, 6% less than in 2008. The main facts related to sports brands were:

Topper

- Success of premium soccer footwear sales, especially Speed and light models, and The One Professional, top-of-line footwear, worn by several professional athletes.
- Launch of 18 running, tennis, basketball and volleyball models, especially Running Fast, for running and hiking, and Royal, for tennis.

Mizuno

- Mizuno 10 miles race circuit. The four races were held in São Paulo, Rio de Janeiro, Belo Horizonte and Brasília and were attended by 24 thousand runners
- Launch of new collection that included the Wave Creation 11 model.

Retail

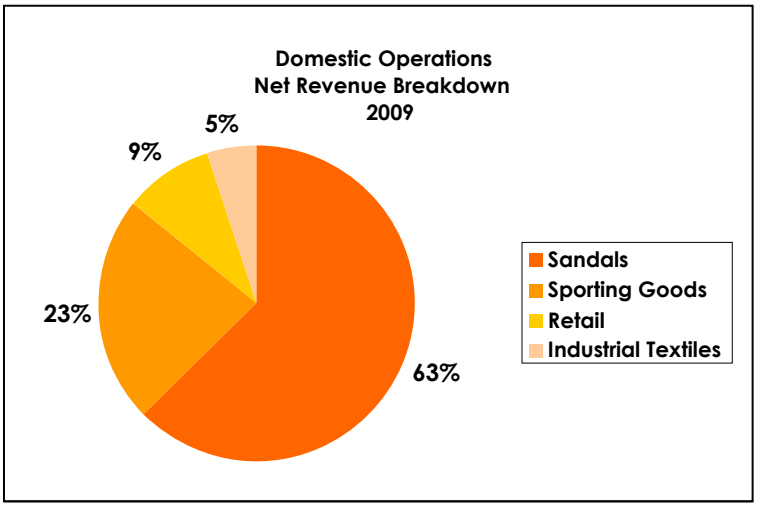
The Havaianas, Timberland and Meggashop store chains have two strategic purposes for Alpargatas: offer consumers all our product lines and protect our brands. Among own stores and franchises, we ended the year with 132 stores, 83% up on 2008.

DOMESTIC OPERATIONS NUMBER OF STORES	2009	2008
Havaianas (own and franchise)	82	26
Timberland (own and franchise)	16	14
Meggashop	24	23
Topper and Mizuno	10	9
Total Stores	**132**	**72**

NET REVENUE

Net revenue totaled R$471.3 million in 4Q09 and R$1,564.9 million in 2009. The decrease in sales volume had only a minor impact on revenue from domestic operations because we improved the product mix, focusing on value-added products, which have higher prices.

DOMESTIC OPERATIONS	4Q09	4Q08	2009	2008
Net Revenue (R$ million)	471.3	475.6	1,564.9	1,575.9



GROSS PROFIT AND GROSS MARGIN

Gross profit totaled R$234.4 million in 4Q09 and R$726.7 million in 2009, 8.9% up on 4Q08 and 2.6% up on 2008. The gross margin came to 49.7% in 4Q09 and 46.4% in 2009. The margins increased due to the reduction in the cost of the main raw materials and greater productivity in the manufacturing of sandals and sports footwear as a result of increased manufacturing efficiency (standard hours x hours spent in production). In 4Q09, the cost of the ten main raw materials dropped by 10.6% and manufacturing efficiency increased by seven percentage points year on year.

DOMESTIC OPERATIONS	4Q09	4Q08	2009	2008
Gross Profit (R$ million)	234.4	215.3	726.7	708.4
Gross Margin (%)	49.7%	45.3%	46.4%	44.9%

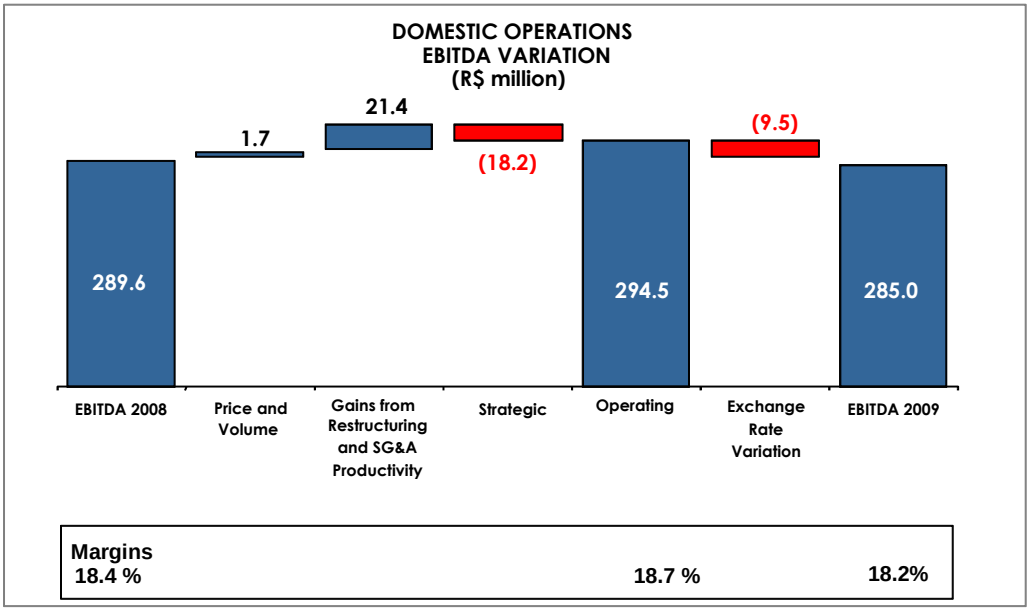
EBITDA

EBITDA totaled R$96.4 million in 4Q09 (12% up on 4Q08) and R$285.0 million in 2009. The EBITDA margin came to 20.4% in 4Q09 and 18.2% in 2009.

DOMESTIC OPERATIONS	4Q09	4Q08	2009	2008
EBITDA (R$ million)	96.4	86.1	285.0	289.6
EBITDA Margin (%)	20.4%	18.1%	18.2%	18.4%

The most relevant factors behind the increase in EBITDA from domestic operations were:

- Gain of R$1.7 million, resulting from price and volume.
- Economy of R$21.4 million resulting from gains from the restructuring announced in 2Q09 and SG&A productivity. The cut of expenses from consultancy, marketing and sales, third parties services and corporate travels led to a decrease in selling, general and administrative expenses.
- Increase of R$18.2 million in strategic investments in brand communication, justifiable in a year of decline in sales.
- R$9.5 million resulting from the impact of the exchange rate variation on imports of finished product. Higher volumes were imported at the beginning of 2009 as a strategy to anticipate the antidumping measure. Excluding the effect of the exchange rate variation, EBITDA totaled R$294.5 million in 2009.



INTERNATIONAL OPERATIONS

The year 2009 was the first complete period of integration with Alpargatas Argentina and operations of Alpargatas Europa. In Argentina, the year was dedicated to creating synergies in order to take the best possible advantage of business opportunities in both countries, particularly Topper's repositioning. Synergy gains include the optimization of raw material purchasing and the replacement of practices and processes designed to achieve operating excellence. After the pre-operational phase in 2008, Alpargatas Europa expanded its operations in the continent in 2009, with the opening of new offices in Bologna and London and an increase in the number of points of sale. The performance indicators of international operations do not include results from exports, which are recorded in the figures of domestic operations.

ALPARGATAS ARGENTINA

SALES VOLUME

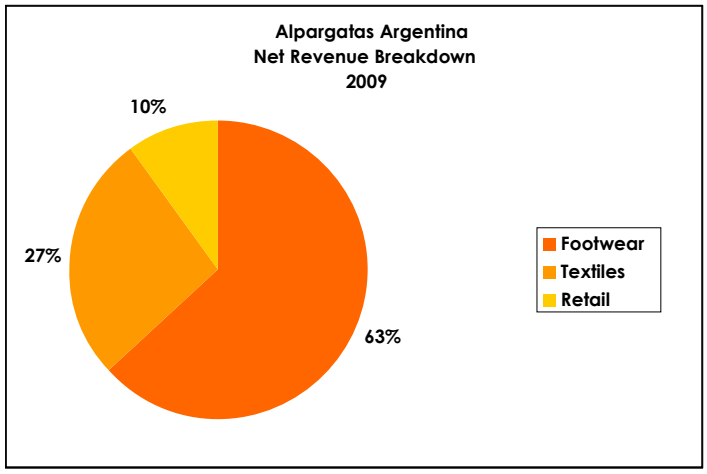
Sales volume came to 8.8 million pairs of footwear in 2009, 7% down on 2008. Volume fell due to the decrease in demand in the Argentine market.

ALPARGATAS ARGENTINA SALES VOLUME (million of pairs)	4Q09	4Q08	2009	2008
Footwear	2.3	2.5	8.8	9.5

NET REVENUE

Net revenue totaled AR$194.0 million in 4Q09, 31.6% up on 4Q08, and AR$717.8 million in 2009, 10.9% up on 2008. Revenue from all the Company's business, especially footwear, grew thanks to richer mix sales. Under BRGAAP (Brazilian accounting principles), Alpargatas Argentina's net revenue totaled R$379.5 million in 2009, 2.1% up on 2008. The difference in revenue figures was a result of the exchange rate variation between the real and the Argentine peso.

ALPARGATAS ARGENTINA NET REVENUE	4Q09	4Q08	2009	2008
AR$ million	194.0	147.4	717.8	647.1
BRGAAP – R$ million	88.4	100.5	379.5	371.6



GROSS PROFIT AND GROSS MARGIN

In 2009, revenue growth, combined with the increased productivity of Argentine plants, led to higher gross profitability. The gross margin in pesos was 30.9% in 4Q09 (versus 25.3% in 4Q08) and 28.6% in 2009 (the same as in 2008). Under BRGAAP, the gross margin reached 30.9% in 4Q09 (5.7 percentage points up on 4Q08) and 28.2% in 2009.

ALPARGATAS ARGENTINA	4Q09	4Q08	2009	2008
Gross Profit (AR $ million)	60.0	37.3	205.3	184.8
Gross Margin in Pesos (%)	30.9%	25.3%	28.6%	28.6%
Gross Profit (BRGAAP - R$ million)	27.4	25.3	107.2	105.4
Gross Margin in Reais (%)	30.9%	25.2%	28.2%	28.4%

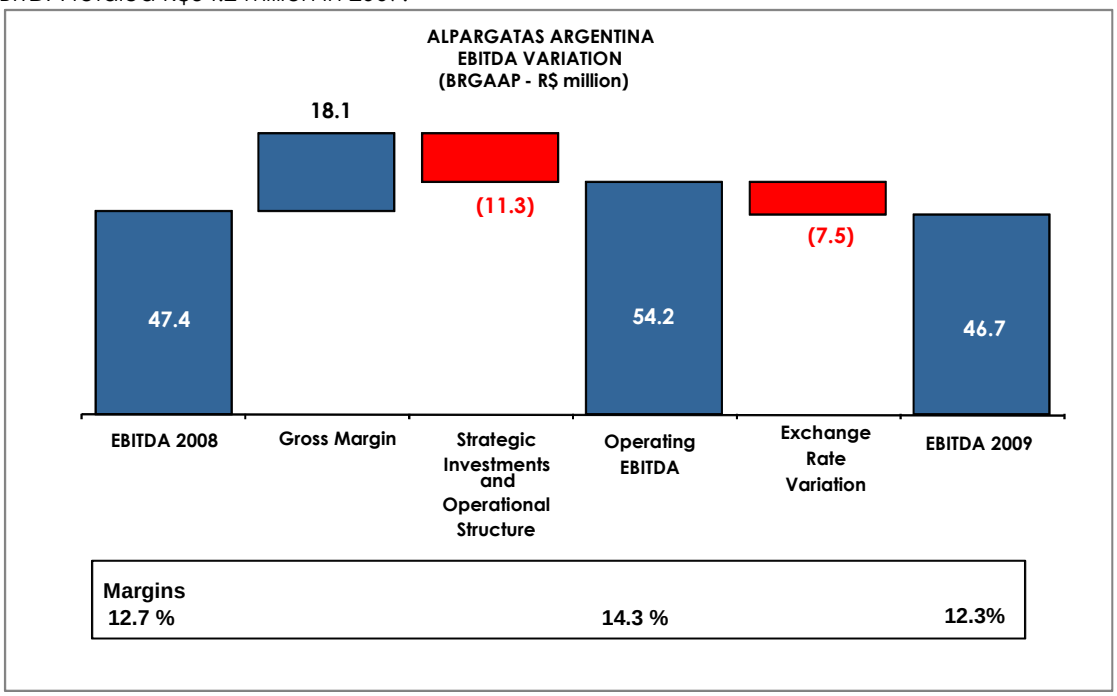
EBITDA

EBITDA totaled AR$29.8 million in 4Q09, 189% up on 4Q08, and AR$91.0 million in 2009, 8% up on 2008. Under BRGAAP, Alpargatas Argentina's EBITDA totaled R$13.5 million in 4Q09, 96% up on 4Q08, and R$46.7 million in 2009, with an EBITDA margin of 12.3%.

ALPARGATAS ARGENTINA	4Q09	4Q08	2009	2008
EBITDA (AR$ milion)	29.8	10.3	91.0	84.2
EBITDA Margin in Pesos (%)	15.4%	7.0%	12.7%	13.0%
EBITDA (BRGAAP- R$ million)	13.5	6.9	46.7	47.4
EBITDA Margin in Reais (%)	15.3%	6.9%	12.3%	12.7%

The most relevant factors behind the variation in Alpargatas Argentina's EBITDA, under BRGAAP, in 2009, were:

- Gain of R$18.1 million in the gross margin due to the increase in revenue, in Argentine pesos.
- Strategic investments and the operational structure absorbed R$11.3 million more than in 2008, chiefly due to the increase in communication expenses for the launch of the new Topper.
- The impact of the appreciation of the real against the Argentine peso on the Company's revenue and expenses led to an exchange loss of R$7.5 million. Excluding the exchange rate variation, EBITDA totaled R$54.2 million in 2009.



ALPARGATAS USA AND ALPARGATAS EUROPE

SALES VOLUME

In 2009, Havaianas' sales volume in the U.S. and Europe reached 3.4 million pairs. Havaianas is a successful case in these regions. Volume increased by 26% although these markets' consumption dropped significantly. This sound performance is the result of successful communication campaigns, increased consumer knowledge of the brand and expansion of points of sale. In Europe, according to the survey on Havaianas' brand image conducted by the research institute Millward Brown in 2009, there was an increase of seven percentage points in the number of consumers who remember it compared to 2008. Similarly, the preference for the brand moved up by ten percentage points and the number of people who bought the sandals grew by five percentage points. Havaianas sandals were sold in approximately 4 thousand stores in Europe and 7 thousand stores in the United States. In order to minimize seasonal effects on the Northern Hemisphere, we launched the first collection of shoes under the Havaianas brand, the Soul Collection.

ALPARGATAS USA and ALPARGATAS EUROPE SALES VOLUME (million of pairs)	4Q09	4Q08	2009	2008
Sandals	0.5	0.3	3.4	2.7

NET REVENUE

The strategy of replacing intermediary distribution channels by own operations has contributed to the increase in the sandals' average price and, subsequently, to revenue growth. Net revenue from the two subsidiaries totaled R$6.8 million in 4Q09, 39% up on 4Q08, and R$60.9 million in 2009, 159% up on 2008.

ALPARGATAS USA and ALPARGATAS EUROPA	4Q09	4Q08	2009	2008
Net Revenue (BRGAAP – R$ million)	6.8	4.9	60.9	23.5

GROSS PROFIT AND GROSS MARGIN

Gross profit from subsidiaries totaled R$23.1 million in 2009, 221% up on 2008. The gross margin was 37.9%, 7.3 percentage points up on 2008. This result was due to the increase in direct sales to large clients, increasing profitability.

ALPARGATAS USA and ALPARGATAS EUROPA	4Q09	4Q08	2009	2008
Gross Profit (BRGAAP - R$ million)	1.3	1.2	23.1	7.2
Gross Margin (%)	19.3%	25.2%	37.9%	30.6%

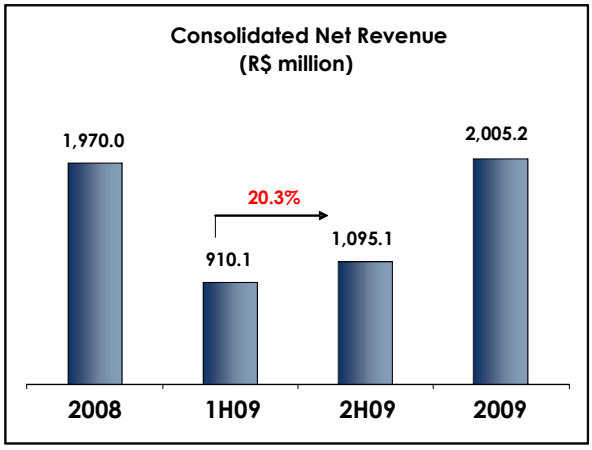
EBITDA

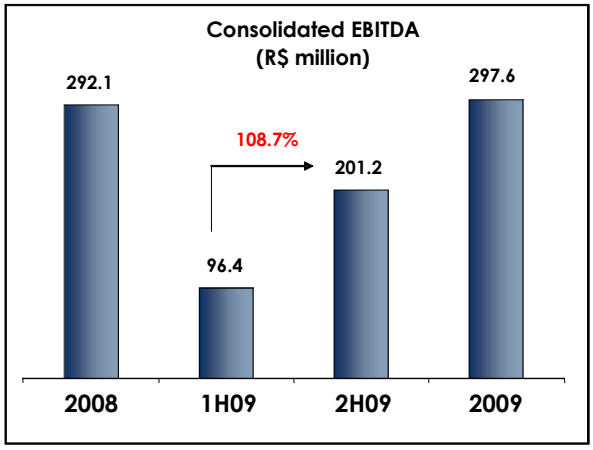
The growing operations require strategic investments in the opening and consolidation of the Havaianas brand in the target markets. These expenses are concentrated in communication and sandal distribution, in addition to administrative and commercial personnel expenses. Although negative, EBITDA from subsidiaries is above the amount foreseen in the business plan.

3. CONSOLIDATED FINANCIAL PERFORMANCE

The comments on consolidated financial performance are based on 4Q09 and 2009 results of São Paulo Alpargatas, consolidated with 100% of the results of the subsidiaries Alpargatas Argentina, Alpargatas USA, Alpargatas Europa, Companhia Brasileira de Sandálias and Locomotiva. Used as a comparison basis, 2008 figures consolidate São Paulo Alpargatas with 100% of the figures of Amapoly (current Locomotiva), Alpargatas USA, Alpargatas Europa, Companhia Brasileira de Sandálias and Alpargatas Argentina (pro forma for the 12 months of 2008). The figures for 2008 and 2009 are in compliance with Law 11,638, which introduced changes to the Brazilian accounting standards.

Our consolidated financial performance improved significantly between the first and the second half of 2009 due to demand recovery and adjustments made to adjust the Company to the new market scenario. Net revenue and EBITDA climbed by 20.3% and 108.7%, respectively, between the two periods.





SALES VOLUME

In 2009, we sold 210.0 million pairs of footwear, versus 222.8 million in 2008. Our brand leadership, innovations in sandals and athlectic footwear and the higher number of points of sale in Brazil and abroad were important sales boosters. Sales began picking up in 3Q09.

CONSOLIDATED SALES VOLUME (million of pairs)	1Q09	2Q09	1H09	3Q09	4Q09	2H09	4Q08	2009	2008
Sandals	45.1	35.5	80.6	53.0	56.7	109.7	59.3	190.3	201.6
Athlectic Footwear	4.3	5.0	9.3	5.2	5.2	10.4	5.6	19.7	21.2
Total	**49.4**	**40.5**	**89.9**	**58.2**	**61.9**	**120.1**	**64.9**	**210.0**	**222.8**

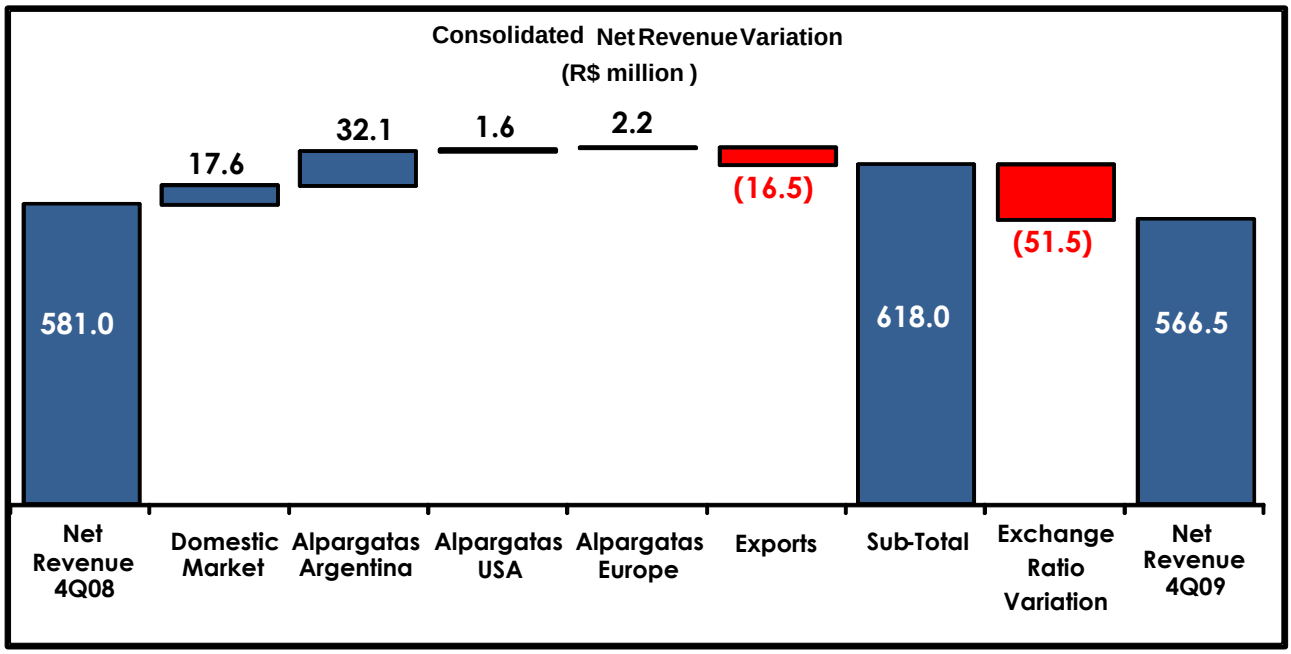
NET REVENUE

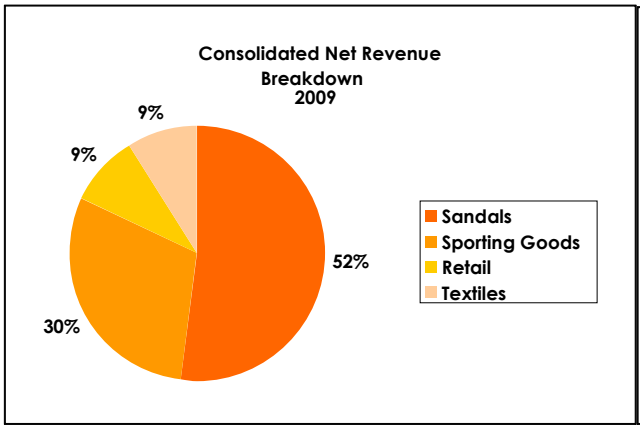
Net revenue totaled R$566.5 million in 4Q09 and R$2,005.2 million in 2009. The 1.7% upturn on the 2008 consolidated net revenue was due to the sale of value-added products, at higher prices, in Brazil and abroad. Excluding the impact of the exchange rate variation, consolidated net revenue climbed by 2.7% on 2008.

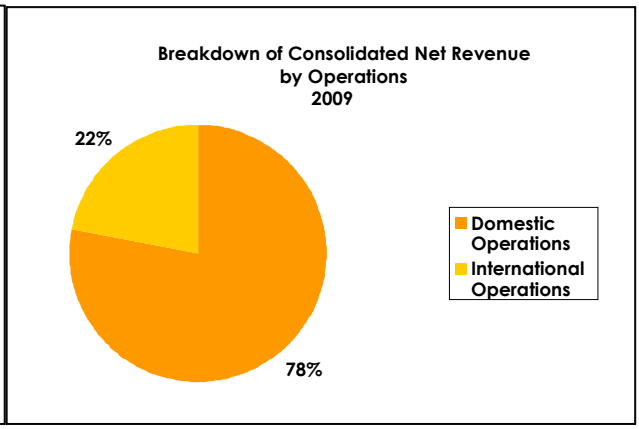
CONSOLIDATED NET REVENUE (R$ million)	4Q09	4Q08	2009	2008
Domestic Operations	471.3	475.6	1,564.9	1,575.9
International Operations	95.2	105.4	440.3	395.1
Total Consolidated Net Revenue	**566.5**	**581.0**	**2,005.2**	**1,971.0**

The most relevant factors behind the change in consolidated net revenue in 4Q09 were:

- Gain of R$17.6 million in revenue from domestic market.
- Gain of R$32.1 million in revenue from Alpargatas Argentina in reais, under BRGAAP.
- Gain of R$3.8 million in revenue from the subsidiaries Alpargatas USA and Alpargatas Europa.
- Decline of R$16.5 million in revenue from exports, due to the restrictions imposed by Argentina on the import of Brazilian footwear and the decline in export volumes to Venezuela, due to the country's economic situation.
- The impact of the appreciation of the real against the currency basket that makes up our revenue resulted in an exchange loss of R$51.5 million.







GROSS PROFIT AND GROSS MARGIN

In 2009, the growth in consolidated gross profitability resulted from the decrease in the cost of the main raw materials, combined with increased manufacturing productivity and subsidiary profitability. Consolidated gross profit stood at R$263.1 million in 4Q09 and R$856.9 million in 2009, 8.7% and 4.3% up on 4Q08 and 2008, respectively. The gross margin was 46.4% in 4Q09 and 42.7% in 2009, 4.8 percentage points and 1.0 percentage point up on 4Q08 and 2008, respectively

CONSOLIDATED GROSS PROFIT AND MARGIN	4Q09	4Q08	2009	2008
Gross Profit (R$ million)	263.1	241.9	856.9	821.0
Gross Margin (%)	46.4%	41.6%	42.7%	41.7%

EBITDA

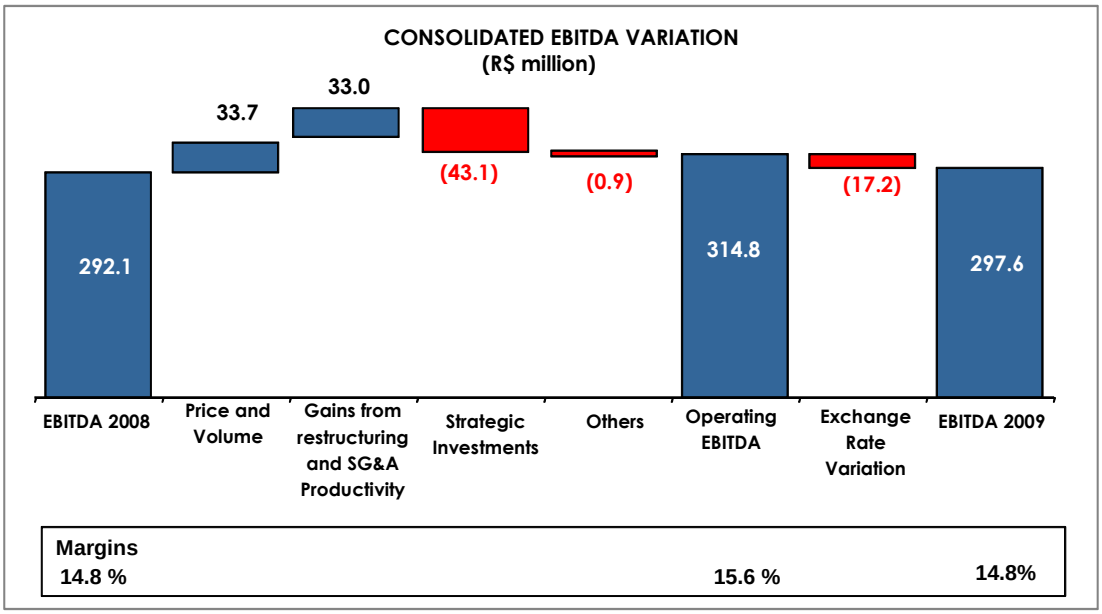
Consolidated EBITDA stood at R$99.3 million in 4Q09 and R$297.6 million in 2009. The EBITDA margin was 17.5% in 4Q09 and 14.8% in 2009 and 2008.

CONSOLIDATED EBITDA (R$ million)	4Q09	4Q08	2009	2008
Profit before financial results and equity in subsidiaries	62.4	71.1	200.7	243.2
(+) Depreciation and Amortization	15.9	15.4	60.5	54.9
(+/-) Items without cash	21.0	(7.3)	36.4	(6.0)
(=) EBITDA	**99.3**	**79.2**	**297.6**	**292.1**
Margins	**17.5%**	**13.6%**	**14.8%**	**14.8%**

EBITDA should not be considered as an alternative to net income as an indicator of our operating performance or to cash flow, as a liquidity indicator. EBITDA does not have a standard definition and its calculation by Alpargatas might not be comparable to that of other companies. Although EBITDA does not provide, according to the Brazilian accounting practices, a measure of the cash flow, Management uses it to measure the Company's operating performance.

The most relevant factors behind the growth in consolidated EBITDA in 2009 were:

- Gain of R$33.7 million resulting from price and volume.
- Economy of R$33.0 million resulting from gains from the restructuring announced in 2Q09 and SG&A productivity. The cut of expenses from consultancy, marketing and sales, third parties services and corporate travels led to a decrease in consolidated selling, general and administrative expenses.
- Increase of R$43.1 million in strategic investments in brand communication and start-up of a subsidiary in Europe.
- R$17.2 million resulting from the negative impact of the exchange rate variation on imports of finished products and revenue and expenses from international operations. Excluding the effect of the exchange rate variation, EBITDA totaled R$314.8 million in 2009.



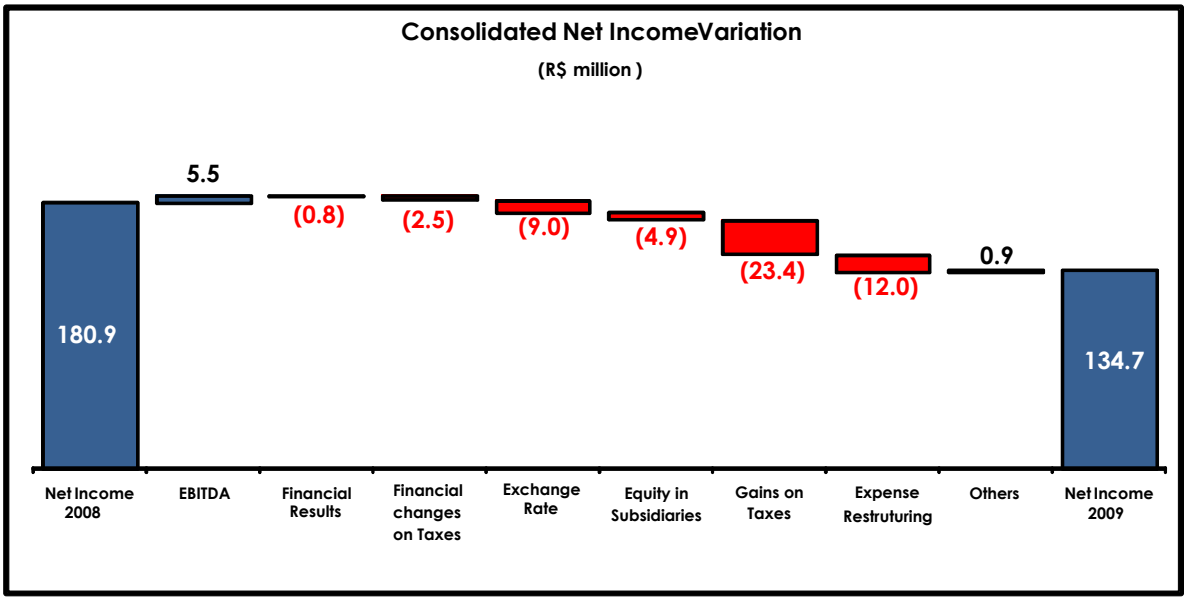
NON-CONTROLLING INTEREST IN ALPARGATAS ARGENTINA

Non-controlling interest totaled R$4.5 million in 2009 (R$7.5 million in 2008) and refers to the 39.8% interest of minority shareholders in Alpargatas Argentina's net income in 2009. The decline was due to the decrease in net income in the year.

NET INCOME

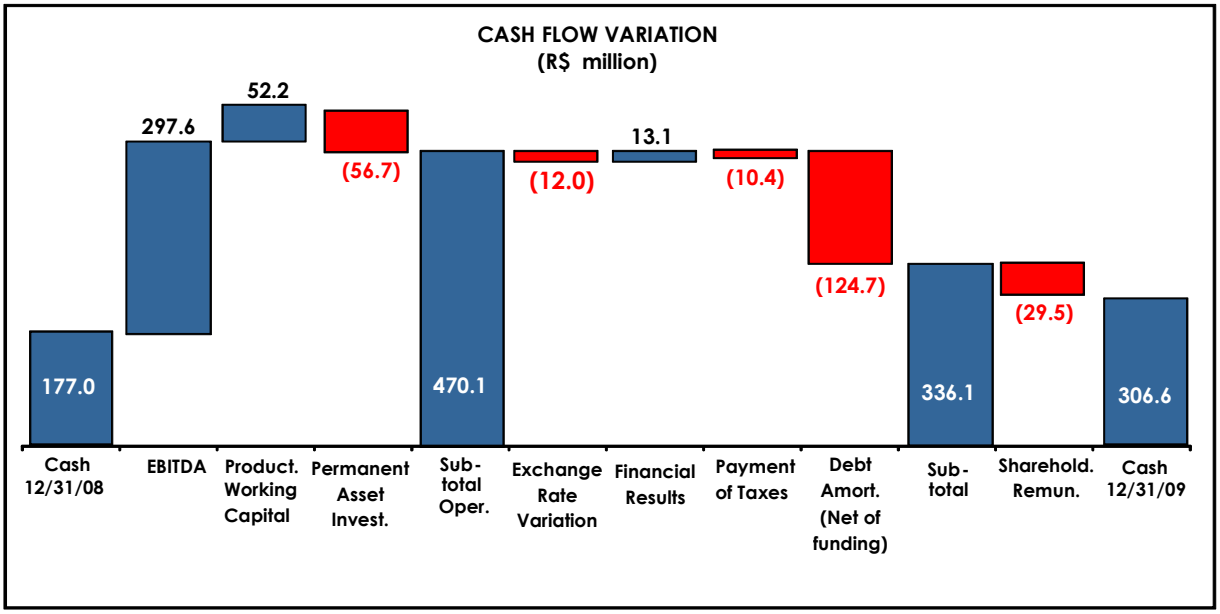
Consolidated net income stood at R$62.0 million in 4Q09 and R$134.7 million in 2009. The net margin came to 10.9% in 4Q09 and 6.7% in 2009. The most relevant factors behind the growth in consolidated net income in 2009 were:

- Increase of R$5.5 million in EBITDA.
- Net financial expenses of R$0.8 million as a result of higher financial expenses.
- Financial charges on taxes in the amount of R$2.5 million.
- Impact of R$9.0 million from the exchange rate variation on trade accounts receivable denominated in foreign currency.
- Negative variation of R$4.9 million in income from the investment in Tavex Corporation.
- Recovery of taxes (tax on net income - ILL) and financial charges on contingent income tax and social contribution, in the total amount of R$23.4 million not recorded in 2009.
- Expenses of R$12.0 million from the Company's restructuring, held in 2Q09.



CASH FLOW

As of December 31, 2009, Alpargatas presented a cash balance of R$306.6 million, R$129.6 million more than in December 31, 2008. The acceleration of the Cash Conversion Cycle (CCC), resulting from the optimization in the management of current accounts, was relevant for this growth. In 2009, we shortened CCC by 36 days, with an increase of 9 days in the average term for payment to suppliers, offsetting the two-day extension of the term for collection from clients and with a 29 day reduction in inventories. The higher income in the period was due to EBITDA, which totaled R$297.6 million thanks to the sound operating performance, especially in the second half of the year. Working capital productivity allowed a gain of R$52.2 million and investments in property, plant and equipment totaled R$56.7 million. Debt amortization (net of funding) and shareholder remuneration were the main cash disbursements, totaling R$154.2 million.



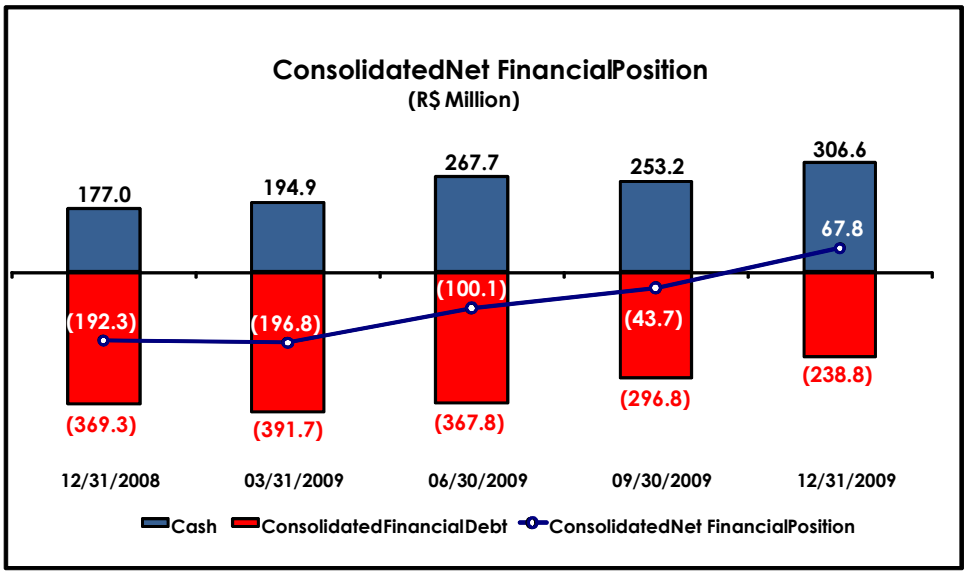
INDEBTEDNESS

As of December 31, 2009, consolidated financial debt totaled R$238.8 million, R$193.1 million of which related to São Paulo Alpargatas and R$45.7 million to Alpargatas Argentina, broken down as follows:

- R$108.8 million (45% of the total) maturing in the short term, 67% of which in foreign currency, with rollover every six months in average, to finance the subsidiaries' working capital. Since they refer to debt taken out by foreign companies, whose revenue is denominated in the currencies of the countries that grant the loans, there is no risk of real exchange rate change.
- R$130.0 million (55% of the total) maturing in the long term, 34% of which in foreign currency.

NET FINANCIAL POSITION

Lower indebtedness and higher cash generation resulted in a net financial position of R$67.8 million as of December 31, 2009, reinforcing Alpargatas' financial soundness. The breakdown of cash, consolidated financial indebtedness and net financial position in 2009 was as follows:



INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

Investments in property, plant and equipment totaled R$56.7 million and focused on upgrading and industrial efficiency gains. Operating cash generation was the main source of income for the amounts spent.

VALUE ADDED

In 2009, Alpargatas generated a value added of R$909.3 million, broken down as follows:

- 47% to employees;
- 31% to the government;
- 15% to shareholders; and
- 7% to lenders.

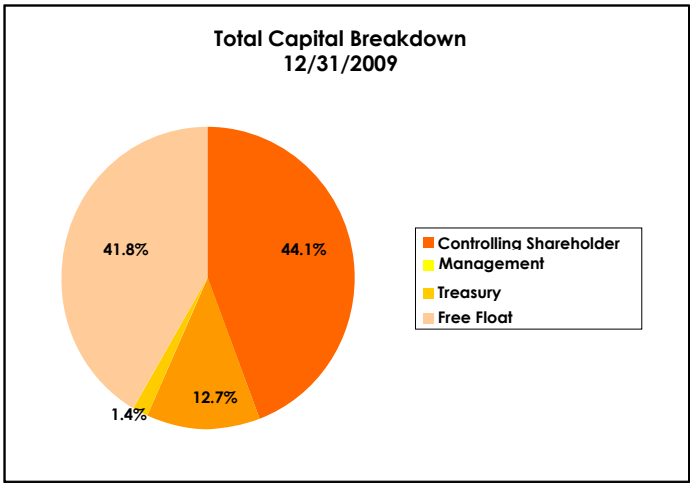
4. SHAREHOLDER REMUNERATION

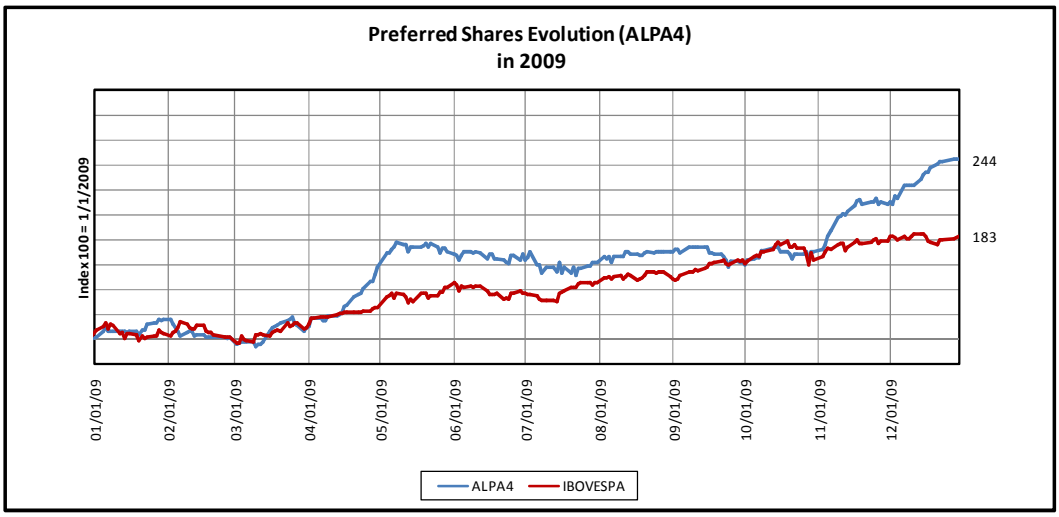
In 2009, shareholder remuneration totaled R$29.5 million. Alpargatas preferred and common shares ended the year at R$114.90 and R$121.00, respectively.

As of December 31, 2009, book value per share was R$60.51. Preferred shares presented higher liquidity and increased by 144%, surpassing the Ibovespa's 83% upturn.

At the end of the year, market cap reached R$2.1 billion, versus R$0.7 billion in 2008.

Of total paid-up capital, 41.8% was free-floating as of December 31, 2009.





5. SOCIAL RESPONSIBILITY

Focused on preparing employees for increasingly global operations, we consolidated the human resource modules of the Alpargatas Management System (Siga) in Argentine and in Europe and began the same process in the United States. At the close of 2009, we employed 15,733 people, 76% of whom were men and around 5% of whom had special needs. Based on the Climate Research carried out in 2008, we developed several initiatives for the management of organizational climate. We trained 1,200 professionals in subjects such as: conflict management, sales techniques, presentation and negotiation techniques, financial education, creativity and innovation. We introduced the Education & Development Portal, a tool that helps us manage training programs and contributes to employees' self-development. We reduced the number of occupational accidents with leave despite the increase in production volume.

The frequency rate and the severity rate were lower thanks to practices focusing on safe working conditions and training programs. We began the process of raising awareness about health and safety also in Argentine operations, with the purpose of consolidating the programs developed in the two countries. Conducted by the Alpargatas Institute, our corporate social responsibility program prioritizes the support to initiatives for the education of children and teenagers. Seven years after its inception, we reviewed its positioning, with actions in four major areas. In this period, 252,000 students benefited from the Institute, 1,034 teachers received training and 525 institutions were upgraded.

6. ENVIRONMENTAL RESPONSIBILITY

We have maintained our commitment to environmental responsibility by investing in actions designed to reduce the impact of our activities on the environment and to develop sustainable products. The pursuit of lower consumption of natural resources and lower waste generation resulted in improved sustainability indicators. Compared to 2008, we reduced power and water consumption and waste generation by manufactured pair by 4%, 13% and 5%, respectively.

We introduced the program of certification of our raw material suppliers, 60% of whom qualified as socially and environmentally correct.

7. CORPORATE GOVERNANCE

Pursuant to CVM Instruction 381/03, the Company and its subsidiaries consult their independent auditor – Deloitte Touche Tohmatsu – to ensure that the provision of other services does not affect its independence and objectivity necessary for the performance of independent audit of financial statements. In 2009, we did not hire services from Deloitte Touche Tohmatsu other than the audit of financial statements.

8. MATERIAL FACTS

- We renewed the share buyback program in order to invest our available cash.
- We obtained the authorization of the Comisión Nacional de Valores da Argentina (Securities and Exchange Commission of Argentina) for the tender offer of all Alpargatas Argentina's outstanding shares at AR$3.40 per share. This will facilitate the process of integration of the Brazilian and Argentine companies and will enable further investments in the industrial, logistics, brand communication and people development areas.
- We signed an agreement with Brasfanta Indústria e Comércio Ltda. for the sale of 100% of the capital of Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. and its subsidiary Locomotiva da Amazônia for the total amount of R$43.0 million. The purpose is to concentrate Alpargatas' activities in footwear, sporting goods and retail in order to maximize its performance in these segments. The closing of the operation is scheduled for March 2010.
- On February 24, 2010, the Extraordinary Shareholders' Meeting approved a 20-for-1 stock split of the Company's preferred and common shares. Beginning February 25, 2010, common and preferred shares began trading at Bovespa at R$6.67 and R$6.50, respectively.

9. EXECUTIVE BOARD'S ASSERTION

Pursuant to article 25 of CVM Instruction 480/09, the Executive Board hereby asserts that it has revised, discussed and agreed with the 2009 financial statements of São Paulo Alpargatas S.A. and with the opinions in the independent auditor's opinion.

10. OUTLOOK

We are prepared to capture the opportunities that may arise in our market because we have strong brands, innovative products, financial soundness and very talented professionals. The next world sporting championships – the World Cup and the Olympics –, to be held outside Brazil, will be a learning opportunity for the events that will be held in the country in 2014 and 2016. We see lots of opportunities to increase the visibility of our brands and expand sales. We believe we are building an innovative, admired and respected Company - a Company that inspires projects that improve the quality of life, respects the environment and applies sustainability principles in all its activities. Finally, a trustworthy Company people want to belong to. All the achievements from 2009 were only possible thanks to our qualities, the support of our shareholders, the acceptance of our products by our consumers, the trust of our clients and the dedication of our employees. Everyone working to make Alpargatas a better, more efficient and winning company.

São Paulo, March 12, 2010
Board of Directors