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

São Paulo Alpargatas S.A.

Financial Statements for the Years Ended December 31, 2010 and 2009 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte Touche Tohmatsu
Rua José Guerra, 127
04719-030 - São Paulo - SP
Brasil

Tel.: +55 (11) 5186-1000
Fax: +55 (11) 5181-2911
www.deloitte.com.br

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying individual and consolidated financial statements of São Paulo Alpargatas S.A. (the "Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as of December 31, 2010, and the statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and the consolidated financial statements in accordance with International Financial Reporting Standards - IFRSs, issued by the International Accounting Standards Board - IASB, and in accordance with accounting practices adopted in Brazil, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte Touche Tohmatsu. All rights reserved.

Opinion on the individual financial statements

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of São Paulo Alpargatas S.A. as of December 31, 2010, and its operating performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of São Paulo Alpargatas S.A. as of December 31, 2010, and its consolidated operating performance and its consolidated cash flows for the year then ended in accordance with IFRSs issued by the IASB and accounting practices adopted in Brazil.

Emphasis of matter

We draw attention to note 3 to the financial statements, which stated that the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of the Company, these accounting practices differ from the IFRSs, applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries and associates by the equity method of accounting, which, for purposes of IFRSs, would be measured at cost or fair value.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added, for the year ended December 31, 2010, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies, and as supplemental information for IFRSs that do not require the presentation of these statements. These statements were subjected to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

São Paulo, March 18, 2011

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

André Rafael de Oliveira
Engagement Partner

© 2011 Deloitte Touche Tohmatsu. All rights reserved.

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2010, DECEMBER 31, 2009 AND JANUARY 1, 2009
(In thousands of Brazilian reais - R$)

		Parent (BR GAAP)			Consolidated (BR GAAP and IFRSs)		
ASSETS	Note	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
CURRENT ASSETS							
Cash and cash equivalents	9	454,094	267,155	142,506	482,488	306,590	177,045
Short-term investments	9	172,177	-	-	172,177	-	
Trade accounts receivable	10	403,494	348,484	374,000	465,433	408,127	432,737
Inventories	11	160,971	118,607	147,928	272,978	207,986	298,147
Recoverable taxes	12	13,451	14,056	19,928	24,685	25,355	34,130
Prepaid expenses		3,187	2,636	3,112	5,783	4,328	5,455
Noncurrent assets held for sale and discontinued operations		-	39,360	-	-	45,442	-
Other receivables		25,034	6,894	14,078	50,247	14,498	28,816
Total current assets		1,232,408	797,192	701,552	1,473,791	1,012,326	976,330
NONCURRENT ASSETS							
Recoverable taxes	12	3,795	4,249	6,415	19,028	16,977	22,979
Judicial deposits	14	11,967	13,456	10,439	12,919	14,001	10,764
Deferred income tax and social contribution	13.a)	43,005	42,295	42,582	61,912	55,706	50,672
Related parties	22	-	19,655	27,212	-	-	
Other receivables		37,165	23,199	21,179	37,641	23,574	22,855
Investments:							
Subsidiaries and associates	15	324,683	278,732	357,222	77,143	91,328	131,358
Others		195	195	195	195	523	649
Property, plant and equipment	16	171,606	188,337	187,624	301,520	328,086	438,626
Intangible assets	16	102,974	97,037	95,931	262,454	259,198	268,235
Total noncurrent assets		695,390	667,155	748,799	772,812	789,393	946,138
TOTAL ASSETS		1,927,798	1,464,347	1,450,351	2,246,603	1,801,719	1,922,468

		Parent (BR GAAP)			Consolidated (BR GAAP and IFRSs)		
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
CURRENT LIABILITIES							
Trade accounts payable	17	158,375	86,607	82,744	212,777	115,625	127,704
Loans and financing	18	150,770	37,575	85,410	226,371	109,345	183,431
Debt restructuring agreements	19	-	-	-	13,367	14,377	18,190
Salaries and related taxes		61,854	45,519	44,392	88,021	68,014	73,470
Accrual for tax, civil and labor risks	23	4,859	4,905	4,957	8,847	8,055	9,502
Interest on capital and dividends		495	919	1,020	495	919	1,020
Taxes and contributions	20	13,756	7,615	4,233	23,135	17,637	9,622
Provision for income tax and social contribution		-	288	1,094	5,494	2,758	4,481
Provisions and other liabilities	21	31,819	25,890	19,169	44,267	54,003	34,300
Total current liabilities		421,928	209,318	243,019	622,774	390,733	461,720
NONCURRENT LIABILITIES							
Loans and financing	18	69,031	84,904	121,433	69,589	86,909	122,002
Debt restructuring agreements	19	-	-	-	63,403	71,013	115,035
Deferred income tax and social contribution	13.a)	38,466	34,057	16,272	50,945	49,080	49,324
Accrual for tax, civil and labor risks	23	22,193	20,257	18,771	30,784	29,202	28,723
Suspended payment taxes and others	24	51,200	30,333	25,208	55,415	37,943	43,279
Related parties	22	9,475	-	-	-	-	-
Other payables		5,030	5,820	4,850	5,620	6,867	7,436
Total noncurrent liabilities		195,395	175,371	186,534	275,756	281,014	365,799
SHAREHOLDERS' EQUITY							
Capital		441,171	391,804	391,804	441,171	391,804	391,804
Capital reserve	25.a)	170,723	172,296	172,737	170,723	172,296	172,737
Additional paid-in capital		3,072	2,165	1,624	3,072	2,165	1,624
Earnings reserve		757,956	558,970	449,763	757,956	558,970	449,763
Other comprehensive income (loss)		(33,165)	(17,250)	33,370	(33,165)	(17,250)	33,370
Treasury shares		(29,282)	(28,327)	(28,500)	(29,282)	(28,327)	(28,500)
Shareholders' equity attributable to controlling shareholders		1,310,475	1,079,658	1,020,798	1,310,475	1,079,658	1,020,798
Noncontrolling interest in subsidiaries' shareholders' equity		-	-	-	37,598	50,314	74,151
Total shareholders' equity		1,310,475	1,079,658	1,020,798	1,348,073	1,129,972	1,094,949
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,927,798	1,464,347	1,450,351	2,246,603	1,801,719	1,922,468

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$, except earnings per share)

	Note	Parent (BR GAAP) 2010	Parent (BR GAAP) 2009	Consolidated (BR GAAP and IFRSs) 2010	Consolidated (BR GAAP and IFRSs) 2009
CONTINUING OPERATIONS					
Net sales	27	1,650,029	1,455,881	2,239,156	1,927,021
Cost of sales	28	(850,178)	(762,927)	(1,217,751)	(1,096,077)
GROSS PROFIT		799,851	692,954	1,021,405	830,944
OPERATING INCOME (EXPENSES)					
Selling	28	(407,983)	(375,533)	(546,472)	(506,192)
General and administrative	28	(92,767)	(85,584)	(111,852)	(105,536)
Management fees	22	(7,997)	(5,141)	(8,539)	(5,711)
Equity in subsidiaries	15	39,342	(61,415)	(9,222)	(18,420)
Amortization of intangible assets	16	(15,471)	(15,142)	(16,821)	(16,706)
Other operating income (expenses), net	33	(18,318)	604	(4,274)	(24,025)
		(503,194)	(542,211)	(697,180)	(676,590)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		296,657	150,743	324,225	154,354
Financial income	31	48,411	25,441	49,907	31,181
Financial expenses	31	(17,619)	(27,894)	(43,279)	(53,766)
Exchange rate changes, net	32	(268)	(7,014)	2,330	(5,506)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		327,181	141,276	333,183	126,263
Current income tax and social contribution	13.b)	(23,161)	(8,380)	(31,214)	(16,028)
Deferred income tax and social contribution	13.b)	(920)	(10,265)	5,242	10,470
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		303,100	122,631	307,211	120,705
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	37	3,241	3,241	3,241	3,241
NET INCOME FOR THE YEAR		306,341	125,872	310,452	123,946
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE					
Controlling shareholders		306,341	125,872	306,341	125,872
Noncontrolling shareholders		-	-	4,111	(1,926)
EARNINGS PER SHARE					
Basic per share (ON) - R$	38	0.8390	0.3395	0.8390	0.3395
Diluted per share (ON) - R$	38	0.8390	0.3395	0.8390	0.3395
Basic per share (PN) - R$	38	0.9233	0.3742	0.9233	0.3742
Diluted per share (PN) - R$	38	0.8955	0.3737	0.8955	0.3737

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

SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Note	Capital	Capital reserves			Additional paid-in capital	Earnings reserves			Other comprehensive income (loss)	Treasury shares	Proposed additional dividends	Retained earnings	Shareholders' equity attributable to controlling shareholders'	Noncontrolling interest in subsidiaries' shareholders' equity	Total shareholders' equity
			Goodwill (negative goodwill) on the disposal of treasury shares	Tax incentives - investment grants	Capital reserve		Legal	Tax incentives	Investments							
BALANCES AT JANUARY 1, 2009 - ORIGINALLY REPORTED (PRIOR TO ADJUSTMENTS FROM FIRST-TIME ADOPTION OF IFRSs AND NEW ACCOUNTING PRONOUNCEMENTS (CPCs) ISSUED IN 2009)		391,804	(5,002)	169,241	8,498	1,624	49,676	95,382	311,555	(19,096)	(28,500)	-	-	975,182	49,713	1,024,895
Adjustments from the first-time adoption of IFRSs and new accounting pronouncements (CPCs) issued in 2009	6	-	-	-	-	-	-	-		52,466	-	-	(6,850)	45,616	24,438	70,054
Absorption of loss from the first-time adoption of new accounting practices		-	-	-	-	-	-	-	(6,850)	-	-		6,850	-	-	-
OPENING BALANCES AT JANUARY 1, 2009 (ADJUSTED BY THE FIRST-TIME ADOPTION OF IFRSs AND NEW ACCOUNTING PRONOUNCEMENTS (CPCs) ISSUED IN 2009)		391,804	(5,002)	169,241	8,498	1,624	49,676	95,382	304,705	33,370	(28,500)	-	-	1,020,798	74,151	1,094,949
Acquisition of shares to be held in treasury		-	-	-	-	-	-	-	-	-	(424)	-	-	(424)	-	(424)
Disposal of treasury shares due to the exercise of stock options		-	(441)	-	-	-	-	-	-	-	597	-		156	-	156
Grant of stock options	29	-	-	-	-	934	-	-	-	-	-	-	-	934	-	934
Exercise of stock options	29	-	-	-	-	(393)	-	-	-	-	-	-	393	-	-	-
Cumulative adjustments from the translation of the financial statements of foreign subsidiaries and associate	15	-	-	-	-		-	-	-	(38,294)	-	-	-	(38,294)	(21,911)	(60,205)
Realization of other comprehensive income (loss) (valuation adjustments to equity of subsidiary and associate)		-	-	-	-	-	-	-	-	(12,326)	-	-	12,326	-	-	-
Net income for the year		-	-	-	-	-	-	-	-		-	-	125,872	125,872	(1,926)	123,946
Allocations of net income for the year:																
Recognition of reserves-																
Tax incentives	8	-	-	-	-	-	-	106,411		-	-	-	(106,411)	-	-	-
Payment of interest on capital - R$1.69 per share	25.e)	-	-	-	-	-	-	-	(2,069)	-	-	-	(27,315)	(29,384)	-	(29,384)
Absorption of profit generated in 2009 through the first-time adoption of new accounting practices		-	-	-	-	-	-	-	4,865	-	-	-	(4,865)	-	-	-
BALANCES AT DECEMBER 31, 2009		391,804	(5,443)	169,241	8,498	2,165	49,676	201,793	307,501	(17,250)	(28,327)	-	-	1,079,658	50,314	1,129,972
Capital increase	25.a)	49,367	-	-	-	-	-	-	(49,367)	-	-	-	-	-	-	-
Acquisition of shares to be held in treasury		-	-	-	-	-	-	-	-	-	(3,465)	-	-	(3,465)	-	(3,465)
Disposal of treasury shares due to the exercise of stock options	29	-	(1,573)	-	-	-	-	-	-	-	2,510	-	-	937	-	937
Grant of stock options	29	-	-	-	-	1,085	-	-	-	-	-	-	-	1,085	-	1,085
Exercise of stock options	15	-	-	-	-	(178)	-	-	-	-	-	-	178		-	-
Cumulative adjustments from the translation of the financial statements of foreign subsidiaries and associate	15	-	-	-	-	-	-	-	-	(12,361)	-	-	-	(12,361)	(3,435)	(15,796)
Acquisition of noncontrolling interest in subsidiary	15	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,392)	(13,392)
Negative goodwill on the acquisition of noncontrolling interest in subsidiary		-	-	-	-	-	-	-	1,692	-	-	-	-	1,692	-	1,692
Realization of other comprehensive income (loss) (valuation adjustments to equity of subsidiary and associate)		-	-	-	-	-	-	-	-	(3,554)	-	-	3,554	-	-	-
Net income for the year		-	-	-	-	-	-	-	-	-	-	-	306,341	306,341	4,111	310,452
Allocations of net income for the year:																
Recognition of reserves-																
Tax incentives	8	-	-	-	-	-	-	131,207	-	-	-	-	(131,207)	-	-	-
Investments		-	-	-	-	-	-	-	115,454	-	-	-	(115,454)	-	-	-
Payment of interest on capital - R$0.18 per share	25.c)	-	-	-	-	-	-	-	-	-	-	-	(63,412)	(63,412)	-	(63,412)
Dividends declared on March 18, 2011 - R$0.07 per share	25.c)	-	-	-	-	-	-	-	(24,150)	-	-	24,150	-	-	-	-
OPENING BALANCES AT DECEMBER 31, 2010		441,171	(7,016)	169,241	8,498	3,072	49,676	333,000	351,130	(33,165)	(29,282)	24,150	-	1,310,475	37,598	1,348,073

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Note	Parent		Consolidated	
		2010	2009	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES					
Net income for the year from continuing operations		303,100	122,631	307,211	120,705
Adjustments to reconcile net income from continuing operations to cash provided by operating activities:					
Net income for the year from discontinued operations	37	3,241	3,241	3,241	3,241
Depreciation and amortization	16	33,900	39,947	50,771	65,703
Loss on the sale/write-off of property, plant and equipment items		6,160	520	8,368	2,242
Allowance for impairment losses on property, plant and equipment		172	510	172	19,263
Income from the sale of assets held for sale		(2,005)	-	(16,310)	-
Equity in subsidiaries	15	(39,342)	61,415	9,222	18,420
Interest, monetary restatements and exchange rate changes		8,906	19,702	24,647	38,705
Accrual for tax, civil and labor risks	23	15,010	9,914	16,419	12,638
Deferred income tax and social contribution	13.b)	920	10,265	(5,242)	(10,470)
Grant of shares	29	1,085	934	1,085	934
Provision for inventory losses	11	(2,250)	5,190	(1,582)	2,526
Allowance for doubtful accounts	10. c)	902	957	3,472	860
		329,799	275,226	401,474	274,767
Decrease (increase) in assets:					
Trade accounts receivable		(54,559)	24,558	(65,385)	(2,885)
Inventories		(41,882)	24,131	(72,405)	37,003
Prepaid expenses		(593)	476	(1,608)	617
Recoverable taxes		1,418	8,037	(4,472)	2,050
Others		13,168	1,059	(16,251)	(16,703)
Increase (decrease) in liabilities:					
Trade accounts payable		75,391	3,863	101,454	6,326
Taxes payable		37,520	24,395	43,250	40,153
Salaries and related taxes		17,731	1,126	22,047	5,426
Others		11,540	(2,516)	(7,251)	9,375
OTHER CASH FLOWS FROM OPERATING ACTIVITIES					
Payment of income tax and social contribution		(12,969)	(3,570)	(19,471)	(10,401)
Payment of interest on loans and financing		(11,947)	(13,884)	(15,292)	(21,357)
Net cash provided by operating activities		364,617	342,901	366,090	324,371
CASH FLOW FROM INVESTING ACTIVITIES					
Investments in subsidiary	15	(16,159)	(57,339)	-	-
Acquisition of noncontrolling interest	15		-	(11,700)	-
Acquisition of property, plant and equipment and intangible assets	16	(29,438)	(44,307)	(49,077)	(56,828)
Closing balance of cash and cash equivalents of subsidiary sold		(14,256)	-	-	-
Short-term investments		(166,761)	-	(166,761)	-
Receipts on the sale of property, plant and equipment		15,900	-	19,100	770
Net cash used in investing activities		(210,714)	(101,646)	(208,438)	(56,058)
CASH FLOW FROM FINANCING ACTIVITIES					
Borrowings and financing		134,565	14,426	287,222	83,980
Repayment of borrowings and financing - principal		(35,165)	(101,279)	(184,873)	(171,620)
Acquisition of shares to be held in treasury, net of disposals		(2,528)	(268)	(2,528)	(268)
Payment of interest on capital		(63,836)	(29,485)	(63,836)	(29,485)
Amortization of debt restructuring agreements of subsidiary		-	-	(14,872)	(9,338)
Net cash provided by (used in) financing activities		33,036	(116,606)	21,113	(126,731)
Effect of exchange rate on cash and cash equivalents		-	-	(2,867)	(12,037)
INCREASE IN CASH AND CASH EQUIVALENTS		186,939	124,649	175,898	129,545
Cash and cash equivalents at beginning of the year		267,155	142,506	306,590	177,045
Cash and cash equivalents at end of the year		454,094	267,155	482,488	306,590
INCREASE IN CASH AND CASH EQUIVALENTS		186,939	124,649	175,898	129,545
ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS					
Acquisition of property, plant and equipment without cash effect (financing and finance leases)		2,407	746	2,407	746
Limits of unused secured accounts		-	-	27,453	7,041

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Note	Parent		Consolidated	
		2010	2009	2010	2009
REVENUES		1,976,758	1,703,179	2,720,976	2,367,544
Sale of goods and products		1,928,316	1,702,735	2,658,984	2,366,914
Allowance for doubtful accounts	10	(902)	(957)	(3,121)	(1,381)
Other revenues		49,344	1,401	65,113	2,011
INPUTS PURCHASED FROM THIRD PARTIES		(1,166,275)	(1,002,827)	(1,517,652)	(1,391,402)
Cost of sales		(636,801)	(574,182)	(921,172)	(864,718)
Materials, electric power, outside services and others		(526,672)	(413,941)	(591,050)	(492,661)
Losses/recovery of assets		(773)	(4,357)	(847)	(19,757)
Others		(2,029)	(10,347)	(4,583)	(14,266)
		810,483	700,352	1,203,324	976,142
RETENTIONS		(33,900)	(39,947)	(51,701)	(69,297)
Depreciation and amortization	16	(33,900)	(39,947)	(51,701)	(69,297)
VALUE ADDED CREATED BY THE COMPANY		776,583	660,405	1,151,623	906,845
VALUE ADDED RECEIVED IN TRANSFER		84,301	(50,931)	25,257	(21,301)
Equity in subsidiaries	15	39,342	(61,415)	(9,222)	(18,420)
Income from discontinued operation	37	3,241	3,241	-	-
Financial income - includes exchange rate changes		40,624	6,943	33,195	(3,348)
Others		1,094	300	1,284	467
VALUE ADDED FOR DISTRIBUTION		860,884	609,474	1,176,880	885,544
VALUE ADDED FOR DISTRIBUTION		(860,884)	(609,474)	(1,176,880)	(885,544)
Salaries and related taxes		(292,738)	(255,191)	(451,150)	(423,396)
Taxes, fees and contributions		(217,460)	(180,233)	(352,435)	(276,320)
Financial expenses and rents		(44,345)	(48,178)	(62,843)	(61,882)
Interest on capital	25.e)	(63,412)	(29,384)	(63,412)	(29,384)
Retained earnings from continuing operations		(242,929)	(96,488)	(242,929)	(96,488)
Noncontrolling interest in retained earnings		-	-	(4,111)	1,926

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 COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Note	Parent (BR GAAP)		Consolidated (BR GAAP and IFRSs)	
		2010	2009	2010	2009
Net income for the year from continuing operations		303,100	122,631	307,211	120,705
Net income for the year from discontinued operations		3,241	3,241	3,241	3,241
NET INCOME FOR THE YEAR		306,341	125,872	310,452	123,946
Other comprehensive income (loss):					
Losses on translation of financial statements of foreign subsidiaries	15	(12,361)	(38,294)	(15,796)	(60,205)
Realization of the initial cost attributable to property, plant and equipment of subsidiary Alpargatas S.A.I.C - Argentina and associate Tavex Algodonera S.A. - Spain		3,554	12,326	3,554	12,326
Total comprehensive income for the year		297,534	99,904	298,210	76,067
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO					
Controlling shareholders		297,534	99,904	297,534	99,904
Noncontrolling shareholders		-	-	676	(23,837)

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

1. GENERAL INFORMATION

1.1. General considerations

São Paulo Alpargatas S.A. (the "Company") is a publicly-traded corporation headquartered in the city of São Paulo, at Rua Funchal, 160, listed in the São Paulo Stock Exchange - BMF&BOVESPA under the ticker symbol "ALPA4".

The Company and its subsidiaries ("Alpargatas Group" or the "Group") are primarily engaged in the manufacture and sale of footwear and footwear components; apparel items; textiles and textile components; leather, resin and natural or synthetic rubber goods; and sporting goods.

The direct and indirect subsidiaries and associate through which the Company conducts activities in Brazil and abroad are described in note 7.

1.2. Change in equity interest

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 preferred shares of Alpargatas S.A.I.C. - Argentina, representing 40.04% of capital, at the price of AR$3.40 (three pesos and forty cents) per share. This takeover bid was held exclusively at "Bolsa de Comercio de Buenos Aires", Argentina, and was completed on March 12, 2010, upon the acquisition of 7,265,327 shares, at the price of AR$3.40 (three pesos and forty cents) per share. These shares, together with the 42,047,157 shares already held, grant the Company a total of 49,312,481 shares, representing 70.32% of the total capital of Alpargatas S.A.I.C. - Argentina.

In addition, in June 2010, the Company acquired 257,290 shares at AR$3.33 (three pesos and thirty-three cents) each. These shares, together with the 49,312,481 shares already held, granted the Company a total of 49,569,771 shares, representing 70.69% of the total capital of Alpargatas S.A.I.C. - Argentina, held by the Company as of December 31, 2010.

1.3. Discontinued operation

The Company entered into a Share Purchase and Sale Agreement on December 22, 2009 (the "Agreement") for the direct sale of all the shares in subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a limited-liability company headquartered in Pouso Alegre, State of Minas Gerais, and the indirect sale of all the shares in Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., a limited liability company headquartered in Manaus, State of Amazonas, for the total price of R$43,000. This transaction was completed on April 20, 2010. Details are disclosed in note 37.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of compliance

The Company's financial statements comprise:

- The consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board - IASB, and the accounting practices adopted in Brazil, identified as Consolidated ("BR GAAP - IFRSs").

- The individual financial statements of the parent company prepared in accordance with accounting practices adopted in Brazil, identified as Parent (BR GAAP).

  The accounting practices adopted in Brazil comprise the policies set out in Brazilian Corporate Law and the pronouncements, instructions and interpretations issued by the Accounting Pronouncements Committee ("CPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

The individual financial statements present the valuation of investments in subsidiaries and associates under the equity method, pursuant to prevailing Brazilian legislation. Accordingly, these individual financial statements are not considered as being in conformity with IFRSs, which require the valuation of these investments in the Company's separate financial statements at cost or fair value; however, equity in subsidiaries is prescribed by Brazilian Corporate Law.

As there is no difference between the consolidated shareholders' equity and the consolidated net income attributable to the owners of the Company, disclosed in the consolidated financial statements prepared in accordance with IFRSs and the accounting practices adopted in Brazil, and the Company's shareholders' equity and net income, disclosed in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company opted for presenting these individual and consolidated financial statements in a single set, side by side.

2.2. Basis of preparation

The financial statements have been prepared based on the historical cost, except for certain financial instruments measured at their fair values, as described in the following accounting practices. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

The Company's consolidated financial statements for the years ended December 31, 2010 and 2009 are the first to be prepared in accordance with IFRSs, with the transition date being set at January 1, 2009. When preparing the individual financial statements, the Company adopted the changes in accounting practices adopted in Brazil introduced by CPC 15 - Business Combinations to 40 - Financial Instruments - Disclosure. The effects from adopting the IFRSs and new pronouncements issued by the CPC are presented in note 6. The main accounting practices adopted by the Company are summarized in note 3.

3. SIGNIFICANT ACCOUNTING PRACTICES

The main accounting practices were consistently applied for all the years reported and for the individual (BR GAAP) and consolidated (BR GAAP and IFRSs) financial statements, as follows:

a) General principles and revenue recognition

Assets, liabilities, income and expenses are stated on the accrual basis. Sales revenue is recognized when all risks and benefits inherent to product and good ownership are transferred to the buyers and when it is probable that the economic benefits associated with the transaction will flow to the Company. Sales revenue is stated net of deductions, including taxes on sales.

b) Recognition of tax incentives - investment grants

Revenue from tax incentives, received as a monetary asset, is recognized in income or loss when received to match costs incurred and investments made by the Company and its subsidiaries in the locations where the tax incentive is granted.

The Paraíba and Pernambuco State VAT (ICMS) investment grant is credited to “Taxes on sales” and the Corporate Income Tax (IRPJ) investment grant is credited to “Income tax and social contribution - current”. Subsequently, at year end, these incentives are allocated to line item “Capital reserve - tax incentives - investment grant” in shareholders’ equity.

As described in note 8, the Company and it subsidiary CBS S.A. - Companhia Brasileira de Sandálias monthly recognizes the incentives related to the States of Paraíba and Pernambuco grants in the computation of State VAT (ICMS) of the operating units located in those States, since there are no conditions for the recognition of the incentive.

c) Cash and cash equivalents and short-term investments

i) 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 - that are recorded at cost plus income earned through the balance sheet dates, which do not exceed their fair or realizable value.

ii) Short-term investments

Comprise short-term investments redeemable over 90 days from investment date, not considered by the Company’s and its subsidiaries’ Management as highly liquid or classified as held-to-maturity. They are stated at cost, plus income earned through the balance sheet dates, which does not exceed their fair or realizable value.

d) Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded in the balance sheet at their original amounts, less an allowance for doubtful accounts which is recognized based on an individual analysis of receivables, analysis of the economic scenario and history of losses reported in prior years by aging list, in an amount considered sufficient by the Company’s and its subsidiaries’ Management to cover probable losses on the collection of receivables, as shown in note 10.

Due to the fact that accounts receivable are normally settled within 60 days, their carrying amounts substantially represent their fair values at the balance sheet dates.

e) Inventories

Stated at average cost of acquisition or production, adjusted to fair value and probable losses, when applicable. Details are disclosed in note 11.

f) Leases

Leases are classified as finance leases when lease agreement terms substantially transfer all the risks and rewards incidental to ownership to the lessee.

Finance leases are classified when contracted. Leases in which 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.

Finance leases are capitalized in the balance sheet at the commencement of the lease term at the lower of the 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 balance. The corresponding obligations, less finance charge, 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, at the rates described in note 16 or over the lease term, when it is shorter.

g) Property, plant and equipment

Property, plant and equipment is stated at acquisition or construction cost, plus interest capitalized during the construction period, in the case of qualifying assets, less accumulated depreciation and allowance for impairment losses on discontinued assets without expectation of reuse or realization. Depreciation is calculated under the straight-line method based on the estimated economic useful lives of the assets, as mentioned in note 16. The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

The balance of property, plant and equipment includes all expenses allocated to the assets on their construction and/or preoperating test phases.

As mentioned in item f), rights on tangible assets that are maintained or used in the operations of the Company and its subsidiaries, originated from finance leases, are recorded as financed purchase, and a fixed asset and a financing liability are recognized at the beginning of each transaction. Assets are submitted to depreciation calculated based on the estimated useful lives of assets.

An item of property, plant and equipment is written off on sale or when no future economic benefits are expected from its continuing use. Gains and losses on sales are calculated by comparing the proceeds from the sale to the item’s net book value and are recognized in the statement of income.

The Company and its subsidiaries opted not to review the historical costs of property, plant and equipment items or use the deemed cost criterion, in accordance with paragraphs 20 to 29 of ICPC 10 - Interpretation on the First-time Adoption to Property, Plant and Equipment and Investment Properties of Technical Pronouncements CPCs 27, 28, 37 and 43, to account for the opening balance of property, plant and equipment on the first-time adoption of CPC 27 - Property, Plant and Equipment and ICPC 10. Company's Management understands that its property, plant and equipment items are stated at amounts that approximate their fair values since substantial investments were made in the expansion and renovation of plants over the last five years, including the replacement and acquisition of new industrial equipment; therefore, based on information prepared by the Company's qualified professionals, there was no need to revaluate the amounts of the Company's and its subsidiaries' assets. However, this alternative was adopted by the Company on the initial recognition of the cost of property, plant and equipment of subsidiary Alpargatas S.A.I.C. - Argentina and associate Tavex Algodonera S.A., which are recognized in the subsidiary's and associate's financial statements, respectively, as described in note 6.

The depreciation effects arising from the first periodic review of the remaining economic useful lives of property, plant and equipment items, as prescribed by Pronouncement "ICPC 10 - Clarifications on the First-time Adoption of CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property", were recognized prospectively from January 1, 2010, as stated in note 4.g).

h) Intangible assets

Intangible assets with finite useful lives acquired separately are stated at cost, less accumulated amortization and impairment losses, when applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives acquired separately are stated at cost, less impairment losses, when applicable.

They comprise: (i) trademarks, (ii) assignment of commercial use rights, (iii) software licenses, including implementation costs, (iv) customer bases purchased from third parties, and (v) goodwill on acquisition of subsidiaries (Consolidated). Assets with finite useful lives are amortized over the terms described in note 16. 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 at the closing of financial statements as of December 31, 2009, started to be annually analyzed as regards their recoverability (impairment) and/or when any impairment loss is present (see details in note 16).

Software (including corresponding implementation expenses) and ERP systems licenses purchased are capitalized and amortized at the rates described in note 16, and expenses on software maintenance are recognized as expenses when incurred.

Expenses on 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 than 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.

Separately purchased trademarks and patents are stated at their historic cost. Trademarks and patents acquired in a business combination are recognized at fair value on the acquisition date as they have a finite useful life and are stated at cost less accumulated amortization. Amortization is calculated under the straight-line method at the annual rates described in note 16.

Expenses on the research and development of products are recorded as expenses for the year, when incurred. Details are disclosed in note 16.

i) Acquisitions of subsidiaries prior to the date of transition to IFRSs

In conformity with accounting practices adopted in Brazil prior to Law 11638/07, the difference between the amount paid and the shareholders' equity of the acquired subsidiary was recorded as goodwill, based on the expected future earnings of the acquiree. When the Company identifies circumstances that indicate that the residual amount of the goodwill might be impaired, it recognizes an allowance for impairment losses. Beginning January 1, 2009, the balance of goodwill was no longer amortized for accounting purposes and started to be evaluated based on the expected realization, as prescribed by IAS 36/CPC 01 - Impairment of Assets. The Company adopted the option allowed by IFRS 1 - First-time Adoption of International Financial Reporting Standards and did not adjust goodwill on acquisitions of subsidiaries made before January 1, 2009, keeping the acquisitions at their carrying amounts at the transition date in conformity with IFRS 1.

j) Impairment of assets (except goodwill)

The Company and its subsidiaries analyze on an annual basis whether there is evidence that the carrying amount of an asset might be impaired. If there is any evidence, they estimate the recoverable value of the asset. The recoverable value of an asset is the higher of: (a) its fair value less costs to sell, and (b) its value-in-use. The value-in-use is equivalent to discounted cash flows (before taxes) arising from the continuous use of the asset. When the residual amount of the asset exceeds its recoverable value, the Company recognizes an impairment loss.

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

k) Impairment of goodwill

For impairment testing purposes, Management defined that cash-generating units correspond to each business segment to which goodwill was allocated and are annually tested for impairment or more frequently when there are indications that the CGU may be impaired. If the recoverable amount of a CGU is lower that its carrying amount, impairment losses are firstly allocated to write down the carrying amount of any goodwill allocated to CGU and subsequently to the other assets of the CGU, prorated to the carrying amount of each of its assets. An impairment loss on goodwill is not reversed in a subsequent period. This practice is only applicable to assets with definite useful lives. When a subsidiary is sold, the goodwill is included in the calculation of the gains or losses on the sale.

l) Reserves for tax, civil and labor risks

The reserve for risks related to tax, civil and labor is 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 funds 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 Group's legal counsel. The basis and nature of the reserve for risks are described in note 23.

m) Taxation

Current taxes

The provision for income tax and social contribution is based on taxable income for the year. Taxable income differs from the income shown in the statement of income because it excludes taxable or deductible income or expenses for other years, in addition to permanently excluding nontaxable or nondeductible items. The provision for income tax is calculated individually by each Group company, based on the rates effective at yearend; except for foreign subsidiaries, to which the tax rates effective in each of the countries where they are located are applicable, the income tax and social contribution of the Company and its subsidiaries in Brazil are calculated at the rates of 25% and 9%, respectively. The income tax and social contribution of 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.

Current income tax and social contribution expenses are calculated using the laws and regulations enacted at the balance sheet date, pursuant to Brazilian tax regulations. Management periodically measures the positions assumed in the income tax return regarding the situations in which applicable tax regulations are subject to possibly different interpretations and, when appropriate, recognizes provisions based on the amounts it expects to pay to tax authorities.

Deferred taxes

Deferred income tax is recognized on temporary differences at the end of each reporting period between the asset and liability balances recognized in the financial statements and the related tax bases adopted to calculate the taxable income, including tax loss carryforwards, when applicable. Deferred tax liabilities are usually recognized on all the temporary taxable differences and deferred tax assets are recognized on all the temporary deductible differences, only when it is likely that the entity will present future taxable income at a sufficient amount so that these deductible temporary differences can be utilized.

The recoverability of the deferred tax asset balance is reviewed at the end of each reporting period and, when it is no longer probable that future taxable income will be available to allow the recovery of all or part of assets, the asset balance is adjusted based on the expected recoverable amount.

Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially approved. The measurement of deferred tax assets and liabilities reflects the tax consequences of how the Company expects, at the end of each reporting period, to recover or settle these assets' and liabilities' carrying amounts.

Deferred tax assets and liabilities are offset only when the current tax asset can be offset against the current tax liability and when they are related to taxes managed by the same tax authority and the Company has the intention to settle the net amount of its current tax assets and liabilities.

Current and deferred income tax

Current and deferred income tax are recognized as expenses or income in income (loss) for the period, except when related to items recognized directly in other comprehensive income or shareholders' equity, when taxes are also recognized directly in other comprehensive income or shareholders' equity, or when arising on the initial recognition of a business combination. In the case of a business combination, the tax effect is considered in accounting for the business combination, when applicable.

Details are disclosed in note 13.

n) Functional and reporting currency

The items in the financial statements of the Parent and each of the subsidiaries included in the consolidated financial statements are measured based on the functional currency of each of these companies, which corresponds to the currency of the main economic environments where they operate.

In the consolidated financial statements, income and expenses, and balance sheet balances of each Group company are translated into Brazilian reais, which is the Company's functional currency and also the reporting currency of the Company's financial statements.

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 monetary liabilities denominated in foreign currency are recognized in income (loss).

Translation

In preparing the consolidated financial statements, the statements of income and cash flows, and all other changes in assets and liabilities are translated into Brazilian reais are the average exchange rate, which is considered a rate close to the exchange rate prevailing at the date of the underlying transactions. The balance sheet is translated into Brazilian reais at the exchange rates prevailing at year end.

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 is recognized at the average foreign exchange rates prevailing at yearend. The cumulative amount of the exchange differences is presented as a separate component from other reserves in shareholders' equity. In case of total or partial disposal of interest in a Group company, through sale or as a result of capital payment, the cumulative exchange difference is recognized in the statement of income as part of the gain or loss on the disposal of the investment.

o) Financial instruments

Classification

Financial assets and liabilities held by the Company and its subsidiaries are classified into the following categories, when applicable: (1) financial assets measured at fair value trough profit or loss; (2) held-to-maturity financial assets; (3) available-for-sale financial assets; (4) loans and receivables. The classification depends on the intent for which financial assets and financial liabilities were acquired or contracted.

Financial assets

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

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

Only derivative instruments 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 under the captions “Financial income’ or “Financial expenses”, respectively.

(2) Held-to-maturity financial assets

Comprise investments in certain financial assets that the Company intends to hold to maturity, which are measured at acquisition cost, plus income earned according to contractual terms and conditions.

(3) Available-for-sale financial assets

When applicable, nonderivative financial assets are included in this category, such as securities and/or shares quoted in active markets, or which are not quoted in an active market but whose fair values can be reasonably estimated. As of December 31, 2010, and January 1 and December 31, 2009, the Company and its subsidiaries did not have financial instruments recorded in their financial statements under this category.

(4) Loans and receivables

Include nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets, when applicable. As of December 31, 2010, and January 1 and December 31, 2009, in the case of the Company and its subsidiaries, they comprise cash and cash equivalents, short-term investments (note 9), balances receivable from related parties (note 22), and trade accounts receivable (note 10).

Financial liabilities

Represented by bank loans and financing and the liability relating to composition with creditors arising from the debt restructuring of subsidiary Alpargatas S.A.I.C. - Argentina (note 19) and intercompany balances payable (note 22); except for bank account, the other financial liabilities are stated at their original amounts, plus interest, inflation adjustment and exchange rate changes incurred through the balance sheet dates.

Financial liabilities are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized cost under the effective interest method and the financial expense is recognized based on effective compensation.

Effective interest rate method

Used to calculate the amortized cost of a debt instrument and allocate its interest income over the related period. The effective interest rate is the rate that discounts estimated future cash receipts (including fees paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition.

Measurement

Regular way purchases and sales of financial assets are recognized on the trade date, i.e., on the date the Company undertakes to buy or sell the asset. Financial assets at fair value through profit or loss are initially recognized at fair value, and transaction costs are recorded in the statement of income. Loans and receivables are accounted for at amortized cost.

Gains or losses resulting from changes in the fair value of financial assets at fair value 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.

Offsetting of financial instruments

Financial assets and financial 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.

Derivatives and hedging activities

When applicable, transactions with derivatives, contracted by the Company and its subsidiaries, are measured at their fair value, and the related changes are recognized in income or loss for the year, when not recognized in a hedge accounting. The nominal amounts of transactions with derivatives are not recorded in the balance sheets. Unrealized net gains or losses from these transactions, measured at their fair values, are recorded in income or loss 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 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.

p) Share-based compensation

The fair value of call options granted set on the grant date is recognized on a straight-line basis as expenses in income or loss for the year over the vesting period, based on the Company's estimates on which options granted will become eventually vested, with a corresponding increase in shareholders' equity. At yearend, the Company reviews its estimates on the number of equity instruments to be vested, and the review impact with respect to original estimates, if any, is recognized in income or loss for the year, so that accumulated expenses reflect the estimates reviewed, including the corresponding adjustment to shareholders' equity in line item "Additional paid-in capital" that recorded the benefit to employees.

q) Profit sharing

The Company and its subsidiaries recognize a profit sharing liability and expense, which is contingent on the attainment of operating goals and specific objectives set and approved at the beginning of each year. The Company and its subsidiaries recognize an accrual for profit sharing when it is contractually obliged or when there is a past practice that created a constructive obligation.

r) Dividends and interest on capital

When applicable, the proposed distribution of dividends and interest on capital made by the Company's Management that does not exceed mandatory minimum dividends is recognized in line item "Dividends and interest on capital payable" as it is considered as a legal obligation under the Company's bylaws; however, when applicable, the portion of dividends and interest on capital exceeding mandatory minimum dividends, approved by Management after the reporting period but before the issuance of the financial statements is authorized, is recognized in line item "Dividends and interest on capital", in shareholders' equity, and their effects are disclosed in an explanatory note.

For corporate and accounting purposes, interest on capital is stated as allocation of income directly in shareholders' equity. For tax purposes, interest on capital is stated as a financial expense, thus reducing the income tax and social contribution basis.

s) Actuarial gains and losses on pension plan

The costs related to the contributions made by the Company and its subsidiaries to pension plans are recognized on the accrual basis. Actuarial gains and losses recorded in the employees' healthcare plan are recorded in net income/loss in accordance with IAS 19/ CPC 33 - Employee Benefits, based on the actuarial calculation prepared by an independent actuary, as described in note 30.

t) Earnings per share

Stated as basic and diluted earnings, as described in note 38.

u) Assets held for sale and income (loss) from discontinued operations

The Company classifies an asset as held for sale when its carrying amount is recovered through sale. To qualify for this, the asset or group of assets held for sale should be available for immediate sale “as is”, subject only to the regular and customary terms for the sale of such assets held for sale. Hence, its sale should be reasonably certain.

For the sale to be highly likely, Management should be committed to the asset sales plan and should be firmly dedicated to locate a buyer and complete the plan. Additionally, the asset held for sale should be actually offered for sale at a reasonable price based on its current fair value. Also, sales are expected to be completed within one year starting on the held-for-sale classification date.

The group of assets held for sale is measured at the lower of the carrying amount and the fair value, less selling expenses. If the carrying amount is higher than the fair value, an impairment loss is recognized as a contra entry to profit or loss. Any reversal or gain will only be recorded up to the limit of the recognized loss.

Depreciation of assets held for trading ceases when a group of assets is designated as held for sale. The assets and liabilities in the group of discontinued assets are recorded in single asset and liability line items.

Gain or loss on discontinued operations is stated as a single amount in the statements of income and cash flows, comprising total profit or loss after income tax, less any impairment loss. Net cash flows from operating, investing and financing activities of discontinued operations are described in note 37.

v) Segment reporting

Reporting of operating segments is consistent with the internal report provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources to the operating segments and assessing their performance, is represented by the Company’s CEO.

w) Accounting practice applicable only to the individual financial statements - Investments

Investments in subsidiaries and associates are accounted for under the equity method.

x) Statement of value added (DVA)

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law, as an integral part of its individual financial statements, and as additional disclosure of the consolidated financial statements, since this statement is neither required by nor mandatory under IFRSs.

DVA was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 - Statement of Value Added. Firstly, this statement presents the wealth created by the Company, which is represented by revenues (gross sales revenue, including taxes thereon, other revenues and the effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, electric power and outsourced services, including taxes levied at the time of the purchase, effects of losses and recovery of assets, depreciation and amortization) and value added received from third parties (equity in earnings (loss) of subsidiaries, financial and other income). The second part of DVA presents the distribution of wealth among personnel, taxes, fees and contributions, lenders and lessors, and shareholders.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In applying the accounting practices described in note 3, Management makes judgments and estimates regarding the reported assets and liabilities' carrying amounts that are not easily obtained from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in future periods if the revision affects both current and future periods.

Below are the main accounting judgments and estimates:

a) Sales revenue recognition

To make this judgment, Management considered the detailed criteria for the recognition of revenue from the sale of products and, in particular, if the Company and its subsidiaries had transferred to the buyer the main risks and rewards incidental to the ownership of products. After an accurate measurement of the Company's and its subsidiaries' liabilities related to the adjustment work and of the limitations agreed on the possibility of additional services or replacement of products being requested by customers, Management concluded that the main risks and rewards were transferred and that the recognition of revenue in the current year was appropriate.

b) Deferred income tax and social contribution

The Company and its subsidiaries recognize deferred assets and liabilities based on the differences between the carrying amount recorded in the financial statements and the tax base of the assets and liabilities using the effective rates. Management regularly reviews the deferred tax assets considering the possibility of recovery, based on the history of earnings generated and the projected future taxable income based on a technical feasibility study.

c) Reserves for tax, civil and labor risks

The Company and its subsidiaries are parties to several lawsuits and administrative proceedings, as described in note 23. Reserves are recognized for all contingent liabilities relating to lawsuits that represent probable losses that can be reliably estimated. The likelihood of loss is assessed based on available evidences, the hierarchy of laws,

jurisprudence available, most recent court decisions, and their relevance within the legal system, and the assessment made by outside legal counsel. Management believes that these reserves for tax, civil, and labor risks are accurately presented in the financial statements.

d) Allowance for doubtful accounts

The allowance for doubtful accounts is recognized based on the criterion described in note 3 d).

e) Allowance for slow-moving and obsolete inventories

The allowance for slow-moving and obsolete inventories is recognized based on the policy set by Management that takes into consideration the estimated future sales and the balance of inventories on the balance sheet dates.

f) Pension and healthcare plans

The present value of pension and healthcare plans depends on a series of factors that are determined based on actuarial calculations that update a series of assumptions, such as, for example, discount rate and others, as described in note 30. Changes in any of these assumptions could affect actual results.

g) Impairment of goodwill

To determine if goodwill is impaired, it is necessary to make an estimate of the value in use of the cash-generating units to which goodwill was allocated. The calculation of the value in use requires Management to estimate the expected future cash flows arising from the cash-generating units and an adequate discount rate to calculate the present value.

The carrying amount of goodwill as of December 31, 2010 and 2009 and January 1, 2009 was R$150,130. Information on the calculation of recoverable amount is included in note 16.

h) Useful lives of property, plant and equipment and intangible assets

As described in note 16, the Company and its subsidiaries review the estimated useful lives of property, plant and equipment items on an annual basis, at the end of each reporting period. The Company and its subsidiaries have performed the first periodical analysis of the remaining useful lives of property, plant and equipment and intangible assets with finite useful lives regulated by ICPC 10 - Clarifications on CPC Technical Pronouncements 27 - Property, Plant and Equipment and 28 - Investment Property, whose effects were recorded beginning January 1, 2010.

Considering that assets will be held through the end of their useful lives, this review resulted in a decrease in depreciation expenses in the current year and over the three subsequent years, as follows:

	R$
2010	8,096
2011	7,656
2012	6,690
2013	4,190
Total	26,632

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company did not early adopt the following new and revised pronouncements and interpretations already issued but not yet in effect:

Pronouncement or interpretation	Description	Applicable to fiscal years beginning on or after
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
IFRS 1	Elimination of Fixed Dates for First-time Adopters of IFRSs	July 1, 2011
IFRS 7	Disclosures - Transfers of Financial Assets	July 1, 2011
IFRS 9	Financial Instruments - Measurement and Classification	January 1, 2013
IAS 12	Deferred Taxes - Recovery of the Underlying Assets when the Asset Is Measured under IAS 40 Fair Value Framework	January 1, 2012
IAS 32 (revised)	Changes Related to the Rights of Issuance	February 1, 2010
IFRIC 14 (revised)	Prepayment of a Minimum Funding Requirement	January 1, 2011

The Accounting Pronouncements Committee ("CPC") has not yet issued the pronouncements and amendments related to the new and revised IFRSs presented above. Because of the CPC's and the CVM's commitment to keep the set of standards issued updated according to the changes made by the International Accounting Standards Board (IASB), it is expected that such pronouncements and amendments be issued by CPC and approved by CVM by the date they become effective.

The Company's Management will assess the impacts of the adoption of these pronouncements and interpretations on the financial statements, which will be adopted when they become effective.

6. EFFECTS OF THE ADOPTION OF IFRSs AND THE NEW CPC PRONOUNCEMENTS

6.1. Effects of adopting IFRSs on the consolidated financial statements

6.1.1. Adoption of IFRSs

The consolidated financial statements (identified as Consolidated) for the year ended December 31, 2010, as described in note 2, are the first to be presented in conformity with the IFRSs. The Company applied the accounting practices set out in note 3 to all periods presented, which includes the balance sheet at the transition date, defined as January 1, 2009. For the measurement of the adjustments of the opening balances and preparation of the transition date balance sheet, the Company applied the mandatory exceptions and certain optional exemptions to the retrospective application prescribed by IFRS 1 and CPC 37(R1) - First-time Adoption of International Financial Reporting Standards, as described in the notes below.

6.1.2. Reconciliation of previous accounting practices

Effects of adopting IFRSs on the consolidated balance sheet

		Consolidated					
		At 12/31/2009 (last financial statements in BR GAAP			At 01/01/2009 (transtition date)		
ASSETS	Note	Previous accounting practices	Effect of transition to IFRS	IFRS	Previous accounting practices	Effect of tranition to IFRS	IFRS
CURRENT ASSETS							
Cash and cash equivalents	h)	306,614	(24)	306,590	177,045	-	177,045
Trade accounts receivable	f) and h)	416,029	(7,902)	408,127	432,088	649	432,737
Inventories	h)	217,956	(9,970)	207,986	298,147	-	298,147
Recoverable taxes	h)	28,534	(3,179)	25,355	34,130	-	34,130
Deferred income tax and social contribution	e)	19,112	(19,112)	-	21,770	(21,770)	-
Prepaid expenses	h)	4,333	(5)	4,328	5,455	-	5,455
Assets held for sale and discontinued operations	h)	6,079	39,360	45,439	-	-	-
Other receivables	h)	15,291	(790)	14,501	28,816	-	28,816
Total current assets		1,013,948	(1,622)	1,012,326	997,451	(21,121)	976,330
NONCURRENT ASSETS							
Long-term receivables:							
Assets held for sale	h)	3,780	(3,780)	-	7,635	(7,635)	-
Recoverable taxes	h)	17,272	(295)	16,977	22,979	-	22,979
Judicial deposits	h)	14,188	(187)	14,001	10,764	-	10,764
Deferred income tax and social contribution	e)	33,965	21,741	55,706	26,087	24,585	50,672
Other receivables		23,574	-	23,574	22,855	-	22,855
Investments:							
Subsidiaries and associates	c)	77,336	13,992	91,328	113,232	18,126	131,358
Others	h)	524	(1)	523	649	-	649
Property, plant and equipment	b) and h)	293,892	34,194	328,086	336,558	102,068	438,626
Intangible assets	h)	264,190	(4,992)	259,198	268,235	-	268,235
Deferred charges	a)	6,290	(6,290)	-	6,901	(6,901)	-
Total noncurrent assets		735,011	54,382	789,393	815,895	130,243	946,138
TOTAL ASSETS		1,748,959	52,760	1,801,719	1,813,346	109,122	1,922,468

		Consolidated					
		At 12/31/2009 (last financial statements in BR GAAP			At 01/01/2009 (transtition date)		
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Previous accounting practices	Effect of transition to IFRS	IFRS	Previous accounting practices	Effect of transition to IFRS	IFRS
CURRENT LIABILITIES							
Trade accounts payable	h)	121,668	(6,043)	115,625	127,704	-	127,704
Loans and financing	f) and h)	108,822	523	109,345	182,781	649	183,430
Debt restructuring agreements	k)	12,613	1,764	14,377	18,190	-	181,190
Salaries and related taxes payable	h)	71,292	(3,278)	68,014	73,471	-	73,471
Accural for tax, civil and labor risks	h	8,143	(88)	8,055	9,502	-	9,502
Interest on capital and dividends payable		919	-	919	1,020	-	1,020
Taxes and contributions	h)	18,234	(597)	17,637	9,622	-	9,622
Provision for income tax and social contribution	h)	3,395	(637)	2,758	4,481	-	4,481
Provisions and other liabilities	h)	45,308	8,695	54,003	34,300	-	34,300
Total noncurrent liabilities		390,394	339	390,733	461,071	649	461,720
NONCURRENT LIABILITIES							
Loans and financing	k)	130,003	(43,094)	86,909	186,489	(64,487)	122,002
Debt restructuring agreements	k)	27,919	43,094	71,013	50,548	64,487	115,035
Deferred income tax and social contribution		34,057	15,023	49,080	16,272	33,052	49,324
Accrual for tax, civil and labor risks	h)	29,204	(2)	29,202	28,723	-	28,723
Suspended payment taxes and others		37,943	-	37,943	43,279	-	43,279
Other payables	d)	6,255	612	6,867	6,059	1,377	7,436
Total noncurrent liabilities		265,381	15,633	281,014	331,370	34,429	365,799
SHAREHOLDERS' EQUITY							
Capital		391,804	-	391,804	391,804	-	391,804
Capital reserve		172,296	-	172,296	172,737	-	172,737
Additional paid-in capital		2,165	-	2,165	1,624	-	1,624
Earnings reserve		558,388	583	558,970	452,623	(2,860)	449,763
Valuation adjustments to equity		(42,318)	25,067	(17,250)	(19,096)	52,466	33,370
Treasury shares		(28,327)	-	(28,327)	(28,500)	-	(28,500)
Sharesholders' equity attributable to the controlling shareholders		1,054,008	25,650	1,079,658	971,192	49,606	1,020,798
Noncontrolling interest in sharesholders' equity of subsidiaries	g)	39,176	11,138	50,314	49,713	24,438	74,151
Total shareholders' equity		1,093184	36,788	1,129,972	1,020,905	74,044	1,094,494
TOTAL LIABILIES AND SHAREHOLDERS' EQUITY		1,748,959	52,760	1,801,719	1,813,346	109,122	1,922,468

Effects of adopting IFRSs on the consolidated statement of income

		Consolidated		
		December 31, 2009		
CONTINUING OPERATIONS	Note	Previous accounting practices	Effect of first-time adoption of IFRS	IFRS
NET SALES	h)	2,005,239	(78,218)	1,927,021
Cost of sales	b) and h)	(1,148,282)	52,205	(1,96,077)
GROSS PROFIT		856,957	(26,013)	830,944
OPERATING INCOME (EXPENSES)				
Selling	h)	(519,243)	13,051	(506,192)
General and administrative	h)	(107,437)	1,901	(105,536)
Management fees		(5,711)	-	(5,711)
Equity in subsidiaries	c)	(18,711)	291	(18,420)
Amortization of intangible assets	h)	(17,349)	643	(16,706)
Amortization of deferred charges	a)	(611)	611	-
Other operating income (expenses), net	b) and d)	(5,889)	(18,136)	(24,025)
		(674,951)	(1,639)	(676,590)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		182,006	(27,652)	154,354
Financial income	h)	31,629	(448)	31,181
Financial expenses	h)	(54,067)	301	(53,766)
Exchange rate changes, net	h)	(5,323)	(183)	(5,506)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		154,245	(27,982)	126,263
Current income tax and social contribution	h)	(17,043)	1,015	(16,028)
Deferred income tax and social contribution		2,058	8,412	10,470
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		139,260	(18,555)	120,705
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	h)	-	3,241	3,241
NET INCOME FOR THE YEAR		139,260	(15,314)	123,946
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE				
Controlling sharesholders		134,755	(8,883)	125,872
Noncontrolling shareholders		4,505	(6,431)	(1,926)

Reconciliation of consolidated shareholders' equity

	Note	12/31/2009	01/01/2009 (Transition date)
Consolidated shareholders' equity under previous accounting practices		1,054,008	971,192
Adjustments due to the first-time adoption of IFRSs			
Reclassification of noncontrolling interests	g)	39,176	49,713
Adoption of the initial cost of property, plant and equipment of subsidiary Alpargatas Argentina - S.A.I.C., net of taxes	b)	38,546	61,381
Adoption of the initial cost of property, plant and equipment and other differences in practices of associate Tavex Algodonera S.A. - Spain, net of taxes	c)	18,417	18,126
Currency translation adjustments on the effects of adoption of subsidiary Alpargatas Argentina - S.A.I.C. and associate Tavex Algodonera S.A.		(15,072)	-
Actuarial liability (remeasurement of corridors)	d)	(1,442)	(1,377)
Write-off of deferred charges	a)	(6,290)	(6,901)
Tax effects on adjustments of actuarial liability and write-off of deferred charges		2,629	2,815
Consolidated shareholders' equity in accordance with IFRSs and BR GAAP		1,129,972	1,094,949
Attributable to controlling shareholders		1,079,658	1,020,798
Attributable to noncontrolling shareholders		50,314	74,151

Reconciliation of consolidated cash flows for the year ended December 31, 2009

	Consolidated (BR GAAP and IFRSs) (Statement of cash flows for the year ended December 31, 2009		
	Previous accounting practices	Effects of transition to IFRSs	BR GAAP and IFRSs
Net cash provided by operating activities	322,575	3,722	326,297
Net cash provided by investing activities	(51,614)	(6,370)	(57,984)
Net cash provided by financing activities	(129,355)	2,624	(126,731)
Increase (decrease) in cash and cash equivalents	129,569	(24)	129,545
Effects of exchange rate changes of cash and cash equivalents	(12,037)	-	(12,037)
Cash and cash equivalents at beginning of year	177,045	-	177,045
Cash and cash equivalents at end of year	306,614	(24)	306,590

6.1.3. Application of IFRS 1 - First-time Adoption of International Financial Reporting Standards (IFRSs)

The Company's consolidated financial statements for the year ended December 31, 2010 are the first to be prepared in accordance with IFRSs. The Company and its subsidiaries prepared the opening balance sheet as of January 1, 2009 under IFRS 1, and applied the mandatory exceptions and certain exemptions retrospectively in fully adopting IFRSs, as described below:

6.1.3.1. Exemptions retrospectively adopted in the full adoption of IFRSs

The Company and its subsidiaries adopted the following optional exemptions, in fully applying IFRS retrospectively:

a) Exemption for business combination - the Company elected not to remeasure business acquisitions carried out prior to the transition date to IFRSs, in conformity with IFRS 3 - Business Combinations (equivalent to CPC 15). Accordingly, goodwill on acquisitions prior to January 1, 2009 was maintained in balances net of amortization, calculated on the transition date according to accounting practices adopted in Brazil. Business combinations carried out by the Company prior to the transition date: CBS S.A. - Companhia Brasileira de Sandálias and Alpargatas S.A.I.C. - Argentina, in 2007 and 2008, respectively.

b) Exemption for remeasurement at fair value of tangible and intangible assets - the Company and its subsidiaries elected not to remeasure the fair value of tangible and intangible assets on transition date but instead elected to recognize acquisition cost in accordance with previous accounting practices. This option was due to the substantial investments in property, plant and equipment over the last five years through the expansion and renovation of plants (as mentioned in note 3 g).

c) Exemption related to the measurement of compound financial instruments (derivatives) - the Company and its subsidiaries did not have compound financial instruments on the date of transition to IFRSs.

d) Exemption relating to the classification of financial instruments - the Company and its subsidiaries elected to classify and measure their financial instruments according to IAS 32 - Financial Instruments: Presentation and IAS 39 - Financial Instruments: Recognition and Measurement (equivalent to CPCs 38 and 39) at the date of transition to IFRSs. All financial instruments contracted after the transition date were analyzed and classified at the transaction contract date in accordance with IFRSs.

e) Exemption relating to the recognition of accumulated translation differences - the Company already recorded adjustment to accumulated translation differences in the foreign subsidiaries' and associates' financial statements in line item "Other comprehensive income or loss"; therefore, it has not adopted the aforementioned exemption.

f) Exemption relating to the capitalization of borrowing costs to property, plant and equipment projects - the Company and its subsidiaries elected to capitalize borrowing costs after the transition date.

g) Exemption relating to the accounting for concession and insurance contracts - the Company and its subsidiaries do not have transactions eligible to such exemption.

6.1.3.2. Mandatory exemptions for full adoption

a) Exemption for nonrecognition of financial assets and financial liabilities - the Company and its subsidiaries concluded that there were no financial assets and financial liabilities that should be excluded from accounting records on the date of transition to IFRSs.

b) Exemption relating to the accounting for hedge transactions - the Company has no hedge transaction in accordance with IFRSs on the transition date, and, accordingly, no adjustments were recorded.

c) Exemption from estimates - the Company did not make any adjustment to the accounting estimates recognized according to the previous accounting practices (BR GAAP) since it believes that such estimates were in accordance with IFRSs on the date of transition.

d) Exemption relating to assets classified as available for sale and discontinued operations - the Company did not have assets classified as available for sale or discontinued operations on the date of transition to IFRSs and, consequently, no adjustments were recorded.

6.1.4. Notes to the reconciliations:

The transition to IFRSs resulted in the following changes in accounting practices:

a) Write-off of deferred charges

According to previous accounting practices, the Company recorded in line item “Deferred charges” preoperating expenses that would effectively contribute to the increase in income or loss in another year. These expenses and costs do not meet the definition of asset according to IFRSs and were recorded in deferred charges as prescribed in Provisional Act 449/09, which was subsequently converted into Law 11941/09.

b) Adoption of initial cost of property, plant and equipment of subsidiary Alpargatas S.A.I.C. Argentina

As mentioned in note 3 g), the Company and its subsidiaries opted not to review the historical acquisition costs of property, plant and equipment items according to the deemed cost criterion, as prescribed in IFRS 1 - First-time Adoption of International Financial Reporting Standards, CPC 27 - Property, Plant and Equipment and ICPC 10 - Clarifications on the First-time Adoption of CPCs 27, 28, 37 and 43 to Property, Plant and Equipment and Investment Property, to account for the opening balance of property, plant and equipment. However, for purposes of initial recognition of property, plant and equipment balances of subsidiary Alpargatas S.A.I.C. - Argentina, on transition date, the Company used property, plant and equipment balances recorded in the financial statements prepared in accordance with Argentinean accounting practices (AR GAAP), which include the effects arising from inflation adjustment differences, which have been disregarded in preparing the Company’s consolidated financial statements, previously prepared in accordance with BR GAAP. In adopting IFRSs for the first time these effects were recognized as initial cost of property, plant and equipment on January 1, 2009, in the amounts of R$36,943 in the Parent and R$61,381 in the Consolidated, net of taxes.

c) Effects of the first-time adoption of IFRSs arising from associate Tavex Algodonera S.A. - Spain

For purposes of initial recognition of property, plant and equipment balances of associate Tavex Algodonera S.A. headquartered in Spain, the Company recognized the effects arising from the adoption of the deemed cost criterion previously recorded by this associate in adopting IFRS for the first time in 2006. Additionally, other adjustments arising from differences in accounting practices between the IFRSs adopted by the associate and the BR GAAP previously adopted to calculate equity in subsidiaries and associates in the Company were recognized in adopting IFRSs for the first time. In adopting IFRS for the first time these effects were recognized as initial cost of investment on January 1, 2009, in the amount of R$18,126, net of taxes.

d) Adoption of the IFRS 1 exemption rule with respect to the deferral of actuarial gains and losses in accordance with IAS 19/CPC 33 - Employee Benefits

According to previous accounting practices, for purposes of accounting for actuarial gains and losses on defined benefit pension plans, the Company deferred actuarial gains and losses based on the estimated time of service to be provided by the plan's employees and has not recorded these deferred gains and losses in the financial statements. Pursuant to IFRS 1, in adopting IFRSs for the first time, these deferred gains and losses were recorded against retained earnings on transition date; the Company may continue to adopt the deferral principle or not after the first-time adoption of IFRSs. The Company decided to maintain actuarial corridors to account for actuarial gains and losses after the date of transition to IFRSs on January 1, 2009.

e) Classification of deferred income tax and social contribution assets in noncurrent assets, as prescribed by IAS 1/CPC 26 - Presentation of Financial Statements

Since the close of the financial statements for the year ended December 31, 2010, with comparative effects in the balance sheets as of January 1 and December 31, 2009, the Company and its subsidiaries reclassified the balances of deferred income tax and social contribution assets to noncurrent assets.

As a result of the adoption of this accounting practice, the balances of deferred income tax and social contribution recorded in the balance sheets as of January 1 and December 31, 2009 were reclassified from current assets to noncurrent assets, in the amounts of R$21,770 and 19,112, respectively.

f) Classification of advances on foreign exchange contracts (ACE) in accordance with IAS 32/CPC39 - Financial Instruments - Presentation

Pursuant to IAS 32/CPC39 - Financial Instruments - Presentation, since the close of the financial statements for the year ended December 31, 2010, with comparative effects in the balance sheets as of January 1 and December 31, 2009, the Company and its subsidiaries reclassified the outstanding balances of advances on foreign exchange contracts (ACE), previously classified in current assets as a reduction of the balances of trade accounts receivable, to current liabilities, in line item "Loans and financing". The adoption of such requirement resulted in the reclassification of the balances of advances on ACEs on January 1 and December 31, 2009, in the amounts of R$649 and 2,287, respectively, as a reduction of current assets to current liabilities.

g) Noncontrolling interest (minority interest) in investments in subsidiaries in accordance with IAS 1/CPC 26 - Presentation of Financial Statements

Pursuant to IAS 1/CPC 26 - Presentation of Financial Statements, noncontrolling interest (also known as minority interest) was added to and recognized in shareholders' equity instead of a specific line item above shareholders' equity.

h) Classification of assets held for sale and income/loss from discontinued operations in accordance with IFRS 5/CPC 31

For 2009, the Company reclassified the balance of net assets relating to the discontinued operations of Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., which was disposed of in April 2010, as described in notes 3.u) and 37, and classified income/loss from discontinued operations for the year then ended, as prescribed by IFRS 5/CPC 31 - Noncurrent Assets Held for Sale and Discontinued Operations, as further described in note 37.

Additionally, other balances relating to property, plant and equipment items previously classified as "available for sale", not classified under IFRS 5/CPC 31, were reclassified to property, plant and equipment on the date of transition to IFRSs.

i) Earnings per share in accordance with IAS 33/CPC 41 - Earnings per Share

Earnings per share were calculated based on the net income for the year for continuing operations, taking into account the weighted average number of shares issued by the Company during the year. According to accounting practices previously adopted, earnings per share were calculated taking into account the total number of shares issued, regardless of the class (either common or preferred) at year end.

j) Disclosure of financial information by segment pursuant to IFRS 8/CPC 22 - Segment Reporting

As per requirements of IFRS 8/CPC 22 - Segment Reporting, since the close of the financial statements for the year ended December 31, 2010, with comparative effects in the financial statements as of December 31, 2009, the Company started to report financial information by geographic region as stated in note 26.

k) Reclassification of debt restructuring agreements - Alpargatas S.A.I.C. - Argentina

Pursuant to IAS 32/CPC 39 - Financial Instruments - Presentation, since the close of the financial statements for the year ended December 31, 2010, with comparative effects in the balance sheets as of January 1 and December 31, 2009, the Company decided to reclassify the portion of outstanding balances relating to the debt restructuring agreements arising from composition with creditors carried out by subsidiary Alpargatas Argentina - S.A.I.C., as described in note 19, previously classified in current and noncurrent liabilities in line item "Loans and financing", and started to classify all transactions under line item "Debt restructuring agreements". This reclassification resulted in the increase in the balance of line item "Debt restructuring agreements", in the amounts of R$64,487 in noncurrent liabilities on January 1, 2009, R$1,764 in current liabilities and R$43,094 in noncurrent liabilities on December 31, 2009.

6.2. Effects of adopting the new accounting pronouncements issued by the CPC on individual financial statements

6.2.1. Adoption of new accounting practices adopted in Brazil

In preparing its individual financial statements (identified as Parent), the Company adopted all the pronouncements and the related interpretations and guidance issued by CPC and approved by CVM, which together with the accounting practices included in the Brazilian Corporate Law are called the accounting practices adopted in Brazil (BR GAAP).

The Company applied the accounting policies set out in note 3 to all reporting periods, which includes the opening balance sheet as of January 1, 2009. In measuring the adjustments to and preparing this opening balance sheet, the Company applied the requirements set out in CPC 43 (R1) First-time Adoption of CPCs 15 to 40, and adjusted its individual financial statements so that when consolidated they produced the same amounts of equity, attributable to the owners of the Company, and net income of the consolidation prepared in accordance with IFRSs by applying IFRS 1 and CPC 37 (R1) First-time Adoption of International Financial Reporting Standards. Accordingly, the Company made to its individual financial statements the adjustments made upon the adoption of IFRSs in the consolidated financial statements, as described in note 6.1.2. This procedure was adopted to obtain the same net income and equity attributable to the owners of the Company in the individual and consolidated financial statements.

6.2.2. Reconciliation of previous accounting practices

Effects of adopting the new accounting practices on the Parent's balance sheet

		Parent					
		At 12/31/2009 (last financial statements in BR GAAP			At 01/01/2009 (transtition date)		
ASSETS	Note	Previous BR GAAP	Effect of adoption of new accounting practices	Restated BR GAAP	Previous BR GAAP	Effect of adoption of new accounting practices	Restated BR GAAP
CURRENT ASSETS							
Cash and cash equivalents		267,155	-	267,155	142,506	-	142,506
Trade accounts receivable	f)	345,995	2,489	348,484	373,351	649	374,000
Inventories		118,607	-	118,607	147,928	-	147,928
Recoverable taxes		14,056	-	14,056	19,928	-	19,928
Deferred income tax and social contribution	e)	17,156	(17,156)	-	16,473	(16,473)	-
Prepaid expenses		2,636	-	2,636	3,112	-	3,112
Assets held for sale and discontinued operations	g)	-	39,360	39,360	-	-	-
Other receivables		6,894	-	6,894	14,078	-	14,078
Total current assets		772,499	24,693	797,192	717,646	(16,094)	701,552
NONCURRENT ASSETS							
Long-term receivalbes:							
Assets for sale	g)	612	(612)	-	612	(612)	-
Recoverable taxes		4,249	-	4,249	6,415	-	6,415
Judicial deposits		13,456	-	13,456	10,439	-	10,439
Deferred income tax and social contribution	e)	22,510	19,785	42,295	23,024	19,558	42,582
Related parties		19,655	-	19,655	27,212	-	27,212
Other receivables		23,199	-	23,199	21,179	-	21,179
Investiments:							
Subsidiaries and associates	b), c), h) and j)	139,776	138,956	278,732	156,012	201,209	357,221
Other		195	-	195	195	-	195
Propoerty, plant and equipment		187,725	612	188,337	187,012	612	187,624
Intangible assets		247,167	(150,130)	97,037	246,062	(150,130)	95,932
Deferred charges		6,290	(6,290)	-	6,901	(6,901)	-
Total noncurrent assets		664,834	2,321	667,155	685,063	63,736	748,799
TOTAL ASSETS		1,437,333	27,014	1,464,347	1,402,709	47,642	1,450,351

		Parent					
		At 12/31/2009 (last financial statements in BR GAAP			At 01/01/2009 (transtition date)		
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Previous BR GAAP	Effect of adoption of new accounting practices	Restated BR GAAP	Previous BR GAAP	Effect of adoption of new accounting practices	Restated BR GAAP
CURRENT LIABILITIES							
Trade accounts payable		86,607	-	86,607	82,744	-	82,744
Loans and financing	f)	35,086	2,489	37,575	84,761	649	85,410
Salaries and related taxes payable		45,519	-	45,519	44,392	-	44,392
Accrual for tax, civil and labor risks		4,905	-	4,905	4,957	-	4,957
Interest on capital and dividends payable		919	-	919	1,020	-	1,020
Taxes and contributions		7,615	-	7,615	4,233	-	4,233
Provision for income tax and social contribution		288	-	288	1,094	-	1,094
Provisions and other liabilies		25,890	-	25,890	19,169	-	19,169
Total noncurrent liabilities		206,829	2,489	209,318	242,370	649	243,019
NONCURRENT LIABILITIES							
Loans and financing		84,904	-	84,904	121,433	-	121,433
Deferred income tax and social contribution		34,057	-	34,057	16,272	-	16,272
Accrual for tax, civil and labor risks		20,257	-	20,257	18,771	-	18,771
Suspended-payment taxes and other		30,333	-	30,333	25,208	-	25,208
Other payables	d)	4,378	1,442	5,820	3,473	1,377	4,850
Total noncurrent liabilities		173,929	1,442	175,371	185,157	1,377	186,534
SHAREHOLDERS' EQUITY							
Capital		391,804	-	391,804	391,804	-	391,804
Capital reserve		172,296	-	172,296	172,737	-	172,737
Additional paid-in capital		2,165	-	2,165	1,624	-	1,624
Earnings reserve		560,955	(1,984)	558,970	456,613	(6,850)	449,763
Valuation adjustments to equity		(42,318)	25,067	(17,250)	(19,096)	52,466	33,370
Treasury shares		(28,327)	-	(28,327)	(28,500)	-	(28,500)
Sharesholders' equity attributable to the controlling shareholders		1,056,575	23,083	1,079,658	975,182	45,616	1,020,798
TOTAL LIABILIES AND SHAREHOLDERS' EQUITY		1,437,333	27,014	1,464,347	1,402,709	47,642	1,450,351

Effects of adopting the new accounting practices on the Parent's statement of income

		Parent		
		December 31, 2009		
CONTINUING OPERATIONS	Note	Previous accounting practices	Effect of adoption of new accounting practices	Restated BR GAAP
NET SALES		1,455,881	-	1,455,881
Cost of sales		(762,927)	-	(762,927)
GROSS PROFIT		692,954	-	692,954
OPERATIONG INCOME (EXPENSES)				
Selling		(375,533)	-	(375,533)
General and administrative		(85,584)	-	(85,584)
Management fees		(5,141)	-	(5,141)
Equity in subsidiaries	b), c), g) and j)	(50,353)	(11,062)	(61,415)
Amortization of intangible assets		(15,142)	-	(15,142)
Amortization of deferred charges	a)	(611)	611	-
Other operating income (expenses), net	d)	669	(65)	604
		(531,695)	(10,516)	(542,211)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		161,259	(10,516)	150,743
Financial income		25,441	-	25,411
Financial expenses		(27,894)	-	(27,894)
Exchange rate changes, net		(7,014)	-	(7,014)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		151,792	(10,516)	141,276
Current income tax and social contribution		(8,380)	-	(8,380)
Deferred income tax and social contribution		(10,079)	(186)	(10,265)
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		133,333	(10,702)	122,631
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	g)	-	3,241	3,241
NET INCOME FOR THE YEAR		133,333	(7,461)	125,872
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE				
Controlling sharesholders		133,333	(7,461)	125,872
Noncontrolling shareholders		-	-	-

Reconciliation of shareholder's equity - Parent

	Note	12/31/2009	01/01/2009 (Transition date)
Parent's shareholders' equity in accordance with previous accounting practices (previous BR GAAP)		1,056,575	975,182
Adjustments from the first-time adoption of the new accounting practices			
Elimination of unrealized profits on inventories	j)	(2,568)	(3,990)
Adoption of initial cost of property, plant and equipment of subsidiary Alpargatas Argentina - S.A.I.C., net of taxes	b)	27,409	36,943
Adoption of initial cost of property, plant and equipment and other differences in practices of associate Tavex Algodonera S.A. - Spain, net of taxes	c)	18,417	18,126
Currency translation adjustments on the effects of adoption of subsidiary Alpargatas Argentina and associate Tavex Algodonera S.A.		(15,072)	-
Actuarial liability (remeasurement of corridors)	d)	(1,442)	(1,377)
Write-off of deferred charges	a)	(6,290)	(6,901)
Tax effects on adjustments of actuarial liability and write-off of deferred charges		2,629	2,815
Parent's shareholders' equity in accordance with restated BR GAAP		1,079,658	1,020,798

Reconciliation of consolidated cash flow for the year ended December 31, 2009

	Parent (Statement of cash flows for the year ended December 31, 2009		
	Previous BR GAAP	Effects of adoption of new practices	Restated BR GAAP
Net cash provided by operating activities	341,197	1,704	342,901
Net cash provided by investing activities	(100,876)	(770)	(101,646)
Net cash provided by financing activities	(115,672)	(934)	(116,606)
Increase in cash and cash equivalents	124,649	-	124,649
Cash and cash equivalents at beginning of year	142,506	-	142,506
Cash and cash equivalents at end of year	267,155	-	267,155

6.2.3. Notes to the reconciliations:

a) Write-off of deferred charges

See note 6.1.4.a).

b) Adoption of initial cost of property, plant and equipment of subsidiary Alpargatas Argentina - S.A.I.C.

See note 6.1.4.b).

c) Effects of first-time adoption of IFRSs arising from associate Tavex Algodonera S.A. - Spain

See note 6.1.4.c).

d) Adoption of the IFRS1 exemption rule with respect to the deferral of actuarial gains and losses in accordance with IAS 19/CPC 33 - Employee Benefits

See note 6.1.4.d).

e) Classification of deferred income tax and social contribution assets in noncurrent assets, as prescribed by IAS 1/CPC CPC 26 - Presentation of Financial Statements

Since the close of the financial statements for the year ended December 31, 2010, with comparative effects in the balance sheets as of January 1 and December 31, 2009, the Company and its subsidiaries reclassified the balances of deferred income tax and social contribution assets to noncurrent assets.

As a result of the adoption of this accounting practice, the balances of deferred income tax and social contribution recorded in the balance sheets as of January 1 and December 31, 2009 were reclassified from current assets to noncurrent assets, in the amounts of R$16,743 and 17,156, respectively.

f) Classification of advances on foreign exchange contracts (ACE) in accordance with IAS 32/CPC39 - Financial Instruments - Presentation

See note 6.1.4 f).

g) Classification of noncurrent assets held for sale and income/loss from discontinued operations in accordance with IFRS 5 and CPC 31 - Noncurrent Assets Held for Sale and Discontinued Operations

See note 6.1.4 h).

h) Reclassification of goodwill on the acquisition of subsidiaries to the group of investments for presentation of the individual financial statements

For purposes of presentation of the individual financial statements as of January 1 and December 31, 2009, the balances of goodwill on the acquisition of subsidiaries in the amount of R$150,130 were reclassified from intangible assets.

i) Earnings per share in accordance with IAS 33/CPC 41 - Earnings per Share

See note 6.1.4 i).

j) Elimination of unrealized profits from the Parent's sales to subsidiaries - IAS 28 - Investments in Subsidiaries and Associates and ICPC 09 - Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements, and Application of the Equity Method of Accounting

Pursuant to IAS 28 and ICPC 09, unrealized profit or loss from the Parent's sales to a subsidiary were eliminated in the individual financial statements, in order to eliminate differences between individual and consolidated shareholders' equity and net income (loss). On January 1 and December 31, 2009, the amounts of R$3,990 and R$2,568 were eliminated from the Parent's shareholders' equity for the years then ended, respectively, and R$1,422 from net income for the year ended December 31, 2009.

7. CONSOLIDATED FINANCIAL STATEMENTS

Consolidation basis

The consolidated financial statements have been prepared based on the historical cost and include the Company's and its subsidiaries' financial statements on the same base date in accordance with the accounting practices described in note 3. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The subsidiaries were fully consolidated, including the related calculation of noncontrolling interest, including assets, liabilities, income and expenses, according to their nature, and the deductions of: (a) balances of investments and shareholders' equity; and (b) balances of checking accounts and other balances, recorded under assets and/or liabilities, jointly held by the Group companies, including unrealized profit, if any. The balance sheets of foreign subsidiaries in a functional currency different from Brazilian real (in pesos, euros or US dollars) were translated into Brazilian reais at the exchange rates on the balance sheet dates. The statements of income of foreign subsidiaries were translated into Brazilian reais at the average annual exchange rates. Differences arising from the use of different translation rates are recorded in shareholders' equity, under the caption "Valuation adjustments to equity", which will be reclassified to net income for the year, when applicable, on the investment disposal date.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and comprehensive income from the actual acquisition date up to the actual disposal date, as applicable.

The consolidated financial statements are presented in Brazilian reais, which is the Company's functional currency.

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

Definition of subsidiaries

Subsidiaries are all the entities whose financial and operating policies are controlled and conducted by the Company and in which the parent owns half or more of the interest. In the applicable cases, the existence and the effect of potential voting right, currently exercisable or convertible, are taken into consideration to determine whether the Company controls another entity. Subsidiaries are fully consolidated from the date in which control is transferred to the Company and cease to be consolidated, when applicable, when control is no longer exercised.

The consolidation comprises the financial statements of the Company and the following direct and indirect subsidiaries:

	Interest and voting rights - %		
	12/31/2010	12/31/2009	01/01/2009
Direct ownership interest:			
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	100.00	100.00
CBS S.A. - Companhia Brasileira de Sandálias	100.00	100.00	100.00
Fibrasil Agrícola e Comercial Ltda.	100.00	100.00	100.00
Alpargatas Imobiliária S.A.	100.00	100.00	100.00
Alpargatas Chile Ltda. - Chile	100.00	100.00	100.00
Alpargatas Internacional APS - Denmark	100.00	100.00	100.00
Alpargatas S.A.I.C. - Argentina	70.69	59.96	59.96
Indirect ownership interest (through Alpargatas Internacional - APS):			
Alpargatas Europe S.L.U. - Spain	100.00	100.00	100.00
Alpargatas USA Inc. - United States	100.00	100.00	100.00
Alpargatas UK Limited - United Kingdom	100.00	100.00	100.00
Alpargatas France S.A.R.L. - France	100.00	100.00	100.00
Alpargatas Itália S.R.L. - Italy	100.00	100.00	100.00
Indirect ownership interest (through Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.):			
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.	-	100.00	100.00

- Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. (discontinued operation - note 37): organized in June 2008 to segregate the operations of the industrial textiles division, including the interest in the subsidiary Amapoly Indústria e Comércio Ltda. (changed its corporate name to Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.). It was engaged in production of PVC and polyester laminates for use in the manufacture of tarpaulins, backlights, frontlights, banners, awnings, and polyethylene laminates used in the manufacture of covers for agribusiness, home and leisure.

- CBS S.A. - Companhia Brasileira de Sandálias: acquired in November 2007, engaged in the manufacture and sale of rubber sandals.

- Fibrasil Agrícola e Comercial Ltda.: acquired in November 1989. It is engaged in import and export activities in general; purchase, sale and lease of own properties and holding interest in other companies, in Brazil or abroad.

- Alpargatas Imobiliária S.A.: organized in January 2005. It is engaged in the purchase, sale and lease of own properties; and holding interest in other companies, in Brazil or abroad.

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

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

- Alpargatas USA Inc. (United States) (100% indirect interest, through holding company Alpargatas Internacional APS - Denmark): organized after the merger of Expasa Florida Inc. and engaged in the import and sale of footwear in the US market.

- Alpargatas Chile Ltda. (Chile): organized in November 2007, it is primarily engaged in the import and sale of footwear in the Chilean market. In November 2009, the Company's Management approved the discontinuation of the operations of this subsidiary, and starting 2010 products will be sold through a distributor, under a sales representation agreement.

Changes in the Group's equity interests in existing subsidiaries

In the consolidated financial statements, the changes in the Group's equity interests in subsidiaries that do not result in the loss of control of the subsidiaries by the Group are recognized as capital transactions. The carrying amounts of the Group's interests and noncontrolling interests are adjusted to reflect the changes in their interests in the subsidiaries. The difference between the amount based on which noncontrolling interests are adjusted and the fair values of considerations paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses the control over a subsidiary, the gain or loss from the disposal of control is calculated based on the difference between: (i) the sum of the fair value of considerations received and the fair value of the residual interest; and (ii) the prior-year balance of the subsidiary's assets (including goodwill) and liabilities and noncontrolling interests, if any. When the subsidiary's assets are stated at their fair values and the corresponding accumulated gain or loss was recognized under line item "Other comprehensive income (loss)" and added to the shareholders' equity, the amounts previously recognized in "Other comprehensive income (loss)" and added to shareholders' equity are recorded as if the Company had directly disposed of the corresponding assets (i.e., reclassified to income or loss or transferred directly to line item "Retained earnings", as prescribed by the applicable IFRSs). The fair value of any investment in former subsidiary on the date of disposal of control is considered as the fair value on initial recognition for subsequent accounting, in accordance with IAS 39/CPC38 - Financial Instruments - Recognition and Measurement or, when applicable, at cost on the initial recognition of an investment in an associate or jointly-controlled entity.

8. TAX INCENTIVES - INVESTMENT GRANTS

The Company and its subsidiaries have tax incentives granted by the state governments where the main plants are located, which will expire between 2018 and 2020. The Company and its subsidiaries also enjoy federal government grants through the profit from exploration in the Northeast Region based on which income tax reductions/exemptions are granted. Beginning January 1, 2008, with the enactment of Law 11638/07, tax incentives were recognized directly in net income, and were allocated, at year end, to a tax incentive reserve in shareholders' equity, as prescribed in the new accounting practices adopted in Brazil.

Investment grants, including income tax incentives, recorded for the years ended December 31, 2010 and 2009 are as follows:

		Parent		Consolidated	
		2010	2009	2010	2009
ICMS incentive:					
Paraíba	(a)	118,052	102,389	118,052	102,389
Pernambuco	(b)	-	-	8,586	3,086
IRPJ incentives-					
Northeast Region	(c)	13,155	4,022	17,062	4,069
Total		131,207	106,411	143,700	109,544

(a) Amounts of the investment grant of State of Paraíba, used as calculation of deemed ICMS (state VAT) credit. The amounts refer to unpaid ICMS 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, 2010 and 2009, 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) Amounts of the investment grant in the State of Pernambuco, used in the calculation of deemed ICMS (state VAT) credit and, therefore, committed with what was agreed with the state government and subsidiary CBS S.A. - Companhia Brasileira de Sandálias. The subsidiary is compliant with the established agreement, consisting of maintaining a minimum number of direct jobs in the region and reaching gross revenue of at least R$2,500 per month.

(c) Credited to "Income tax and social contribution - current" in the statement of income for the year (see details in note 13). The increase in the tax incentive is due to the beginning of manufacturing and sale of Havaianas sandals in the Carpina Unit - PE through subsidiary CBS S.A. - Companhia Brasileira de Sandálias and extension of the tax incentive in the State of Paraíba.

9. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

a) Cash and cash equivalents

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Cash and banks	7,381	1,125	1,615	31,552	36,743	28,756
Short-term investments:						
Bank deposit certificates - floating CDBs	133,878	167,890	67,513	133,878	167,890	67,513
Repurchase commitments	312,835	98,140	73,378	312,835	98,140	73,378
Other - Alpargatas S.A.I.C. - Argentina				3,408	3,817	7,398
Other - Alpargatas Europa - Spain	-	-	-	815	-	-
Total	454,094	267,155	142,506	482,488	306,590	177,045

As of December 31, 2010, CDB investments are distributed across several financial institutions at an average yield of 102.39% of the interbank deposit certificate (CDI) (102.53% as of December 31, 2009 and 102.13% as of January 1, 2009) and repurchase commitments are distributed across several financial institutions an average yield of 101.55% of the CDI rate (102.31% as of December 31, 2009 and 102.34% as of January 1, 2009).

As of December 31, 2010, the redemption terms of CDBs and securities relating to repurchase commitments range between January 2011 and November 2016; however, they are classified as “Cash and cash equivalents” since they are considered as immediately redeemable financial assets, subject to an immaterial risk of change in value.

The Company’s treasury policy establishes that short-term investment can only be realized in financial institutions with a minimum rating of “BBB” or “Baa”, classified by rating agencies. Any Management proposal to invest in financial institutions with an inferior rating will depend on the authorization of the Board of Directors.

The Company’s treasury policy does not establish criteria to determine the breakdown of cash and cash equivalents; however, the accounting classification of these components used by the Management of the Company and its subsidiaries is described in note 3 c).

b) Short-term investments

As of December 31, 2010, short-term investments, Parent and Consolidated, refer to CDBs and Repurchase Commitments with average yield of 107.99% of CDI broken down as follows:

Floating CDBs	77,549
Repurchase commitments	94,628
Total	172,177

Classified in current assets as they can be redeemed 180 days after the investment date and are stated separately from line item “Cash and cash equivalents” because there is no reasonable assurance they can be immediately redeemed without an immaterial risk of change in value.

10. TRADE ACCOUNTS RECEIVABLE

a) Composed by:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Domestic market	385,834	338,954	349,902	405,391	355,761	369,755
Foreign market	16,760	16,894	24,785	78,412	67,264	77,020
Related parties (note 22 b)	13,986	4,820	10,540	-	-	-
Allowance for doubtful accounts	(13,086)	(12,184)	(11,227)	(18,370)	(14,898)	(14,038)
Total	403,494	348,484	374,000	465,433	408,127	432,737

Financial assets included in trade accounts receivable are classified as “loans and receivables”, stated at amortized cost. Their carrying amounts are equivalent to fair values. Foreign trade accounts receivable is substantially denominated in US dollars, euros and Argentinean pesos.

b) Aging list of trade accounts receivable

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Current	372,799	314,110	313,956	424,036	361,268	356,462
Past-due:						
Up to 30 days	15,980	17,252	30,085	22,426	23,024	40,120
From 31 to 60 days	4,038	3,346	4,644	7,204	4,972	6,955
Over 61 days	23,763	25,960	36,542	30,137	33,761	43,238
	416,580	360,668	385,227	483,803	423,025	446,775

c) Allowance for doubtful accounts

Changes in allowance for doubtful accounts are as follows:

	Parent	Consolidated
Balances at January 1, 2009	(11,227)	(14,038)
Additions	(7,342)	(9,277)
Reversals and write-offs	6,385	8,417
Balances at December 31, 2009	(12,184)	(14,898)
Additions	(3,028)	(6,588)
Reversals and write-offs	2,126	3,116
Balances at December 31, 2010	(13,086)	(18,370)

The consolidated aging list of trade accounts receivable, included in the allowance for doubtful accounts, is as follows:

	12/31/2010	12/31/2009	01/01/2009
Up to 30 days	74	63	66
From 31 to 90 days	320	145	215
Over 90 days	17,976	14,690	13,757
Total	18,370	14,898	14,038

The expense on the recognition of the allowance for doubtful accounts was recorded under the caption “Selling expenses” in the statement of income.

Maximum exposure to credit risk at the reporting date is the carrying amount of each aging range, as shown in the aging list above. Except for some defaulting customers with rescheduled debts, for which Company and its subsidiaries have letters of credit and properties as collaterals, other past due trade accounts receivable, which are included in the allowance for doubtful accounts, are not collateralized.

11. INVENTORIES

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Finished products	96,359	89,659	90,009	164,429	145,025	181,123
Work in process	12,546	8,206	8,780	26,517	19,496	23,474
Raw materials	41,617	22,790	31,813	70,599	44,653	77,065
Imports in transit	14,957	2,546	14,189	14,957	2,546	15,136
Others	1,117	3,281	5,822	6,285	7,657	10,214
Allowance for inventory losses	(5,625)	(7,875)	(2,685)	(9,809)	(11,391)	(8,865)
Total	160,971	118,607	147,928	272,978	207,986	298,147

Changes in the allowance for inventory losses on the realization of inventories are as follows:

	Parent		Consolidated	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Balances at January 1	(7,875)	(2,685)	(11,391)	(8,865)
Additions	(1,375)	(6,983)	(2,832)	(8,408)
Reversals/write-offs	3,625	1,793	4,414	5,882
Balances at December 31	(5,625)	(7,875)	(9,809)	(11,391)

12. RECOVERABLE TAXES

		Parent			Consolidated		
		12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Prepayments of income tax and social contribution		7.385	4.489	5.361	9.657	5.054	6.228
State VAT (ICMS)		3.241	2.937	2.731	3.389	3.126	3.381
Federal VAT (IPI)		87	194	450	87	194	2.228
Taxes on revenue (PIS and COFINS) to offset		1.086	1.312	-	1.418	1.661	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)	-	-	-	22.754	22.029	26.068
Others		5.447	246	619	6.408	1.141	390
Total		17.246	18.305	26.343	43.713	42.332	57.109
Current portion		13.451	14.056	19.928	24.685	25.355	34.130
Noncurrent portion		3.795	4.249	6.415	19.028	16.977	22.979

(a) Refers 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 amounts paid from 1989 to 1992. As of December 31, 2009 and January 1, 2009, the balance is adjusted by the SELIC rate through the balance sheet dates and started to be offset against withholding income tax (IRRF) beginning May 2009. It was fully offset throughout 2010.

(b) Refers to recoverable taxes of the subsidiaries Alpargatas S.A.I.C. - Argentina, totaling R$20,696 (R$19,020 as of December 31, 2009 and R$25,362 as of January 1, 2009), and Alpargatas Chile, totaling R$555 (R$836 as of December 31, 2009 and R$706 as of January 1, 2009), and R$1,503 (R$2,173 as of December 31, 2009 and as of January 1, 2009 there was no outstanding balance), related to indirect subsidiaries located in Europe, whose investments are maintained through the holding company Alpargatas Internacional APS. Consists mainly of prepayment of income tax and taxes on value added amounts (IVA), which will be offset against the future operations of these subsidiaries.

13. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

		Parent and Consolidated		
		12/31/2010	12/31/2009	01/01/2009
Noncurrent assets:				
Allowance for doubtful accounts		4,449	4,143	3,817
Allowance for inventory losses		1,913	2,678	913
Accrual for tax, civil and labor risks		6,963	7,013	7,702
Reserve for suspended-payment taxes		15,844	11,296	8,575
Write-off of deferred charges		1,328	2,139	2,346
Other temporary differences		9,301	11,820	12,748
Tax loss carryforward		3,207	3,207	6,481
Total - Parent		43,005	42,295	42,582
Subsidiaries:				
Alpargatas S.A.I.C. - Argentina		448	1,472	2,596
Alpargatas Europe S.L.U. - Spain	(d)	8,567	9,404	2,916
Alpargatas Chile		2,046	1,213	524
CBS S.A. - Companhia Brasileira de Sandálias	(d)	9,127	-	-
Unrealized profits on inventories		765	1,322	2,054
(-) Provision for realization risk (Alpargatas Chile)		(2,046)	-	-
Total - Consolidated		61,912	55,706	50,672
Noncurrent liabilities:				
Tax loss carryforwards (IRPJ and CSLL)	(a)	34,849	33,736	19,472
Judicial deposits		(6,277)	(6,277)	(6,277)
Amortized goodwill on acquisition of subsidiaries	(b)	3,261	1,631	-
IRPJ - CSLL deduction from IRPJ tax base	(c)	3,830	2,164	-
Provision for IRPJ - other contingencies		2,803	2,803	3,077
Total - Parent		38,466	34,057	16,272
Subsidiary				
Alpargatas S.A.I.C. - Argentina		12,479	15,023	33,052
Total - Consolidated		50,945	49,080	49,324

(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 noncurrent liabilities the portion in excess of the legal 30% cap that it 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.

Tax installment programs created by Law 11941/09

Because of its joining the federal installment program created by Law 11941/09, on November 30, 2009 the Company formally dropped this lawsuit and increased the tax liability by R$14,264, including lawsuits previously classified by its legal counsel with 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 issue, which were realized within 2009.

The following steps of the tax debt installment plan include the consolidation of tax debts by the National Treasury Attorney General (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 2011.

(b) As mentioned in note 3, due to the cancellation of the amortization of goodwill on the acquisition of subsidiaries, in accordance with the changes in accounting practices adopted in Brazil enacted by Laws 11638/07 and 11941/09, beginning January 1, 2009 the Company started to enjoy the goodwill tax benefit from the acquisition of subsidiary CBS S.A. - Sociedade Brasileira de Sandálias, after the merger of the former subsidiary Atlântico Participações S.A., through the Transitional Tax Regime (RTT), whose effect was offset previously at the ratio of 1-60th per month, with a monthly amortization value of R$400, which has been resulting in a tax effect of R$136/month. Therefore, as required by the accounting practices adopted in Brazil, the difference between the base of the utilized tax benefits and accounting amortization is being considered a temporary difference for deferred income tax and social contribution purposes, and its impact is recorded in noncurrent liabilities.

(c) IRPJ - CSLL deduction from IRPJ tax base

The Company filed a lawsuit claiming the deduction of social contribution from IRPJ 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 and it started to deduct social contribution from IRPJ tax base, and to accrue these amounts.

(d) Recognition of tax credit from subsidiaries

Alpargatas Europe S.L.U. - Spain

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 this company was incorporated to December 31, 2010, to close the Company's financial statements for the year ended December 31, 2009. 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 15. However, based on the subsidiary's technical feasibility study, which estimates the generation of taxable income beginning 2011, Management, in compliance with CPC 32 and IAS 12 - Income Taxes, decided to recognize the deferred tax credit, which is expected to be realized through 2015.

CBS S.A. - Companhia Brasileira de Sandálias

In June 2010 this subsidiary recognized a tax credit on tax loss carryforwards, based to the expected future generation of taxable income, as prescribed in CPC 32 and IAS 12 - Income Taxes. Recognized credit began to be offset and is expected to be realized through 2012.

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

	12/31/2010	12/31/2009	01/01/2009
2009	-	-	16,742
2010	-	17,156	5,168
2011	15,499	5,028	7,752
2012	5,501	7,543	6,460
2013	8,252	6,284	6,460
2014 and thereafter	13,753	6,284	-
Total - Parent	43,005	42,295	42,582
Subsidiaries (2012 and thereafter):	18,907	13,411	8,090
Total - Consolidated	61,912	55,706	50,672

Additionally, on December 31, 2010 the Company recorded unrecognized tax credits on tax loss carryforwards and temporary differences in the consolidated financial statements, resulting from its foreign subsidiaries, which, in view of the lack of projected future taxable income over the next years, were not recorded in the financial statements of the corresponding foreign subsidiaries.

Unrecognized tax credits, calculated at the prevailing tax rates in the related countries where the subsidiaries are located, are stated as follows:

Total temporary differences	2,548
Tax loss carryforwards:	
Alpargatas USA	30,796
Alpargatas France	724
Alpargatas UK	46
	34,114

Tax credits on tax loss carryforwards generated by subsidiaries have no offset date (expiry date).

Changes in deferred income tax and social contribution assets and liabilities for the reported annual periods are stated as follows:

	12/31/2009	(Charged) credited in the statement of income	Exchange rate change, charges and other changes	12/31/2010
Noncurrent assets:				
Parent:				
Allowance for doubtful accounts	4,143	306	-	4,449
Allowance for inventory losses	2,678	(765)	-	1,913
Accrual for tax, civil and labor risks	7,013	(50)	-	6,963
Reserve for suspended-payment taxes	11,296	4,548	-	15,844
Write-off of deferred charges	2,139	(811)	-	1,328
Other temporary differences	11,819	(2,518)	-	9,301
Tax loss carryforward	3,207	-	-	3,207
Total - Parent	42,295	710	-	43,005
Subsidiaries:				
Alpargatas S.A.I.C. - Argentina	1,472	(889)	(135)	448
Alpargatas Europe S.L.U. - Spain	9,404	-	(837)	8,567
Alpargatas Chile	1,213	-	833	2,046
CBS- Companhia Brasileira de Sandálias	-	7,367	1,760	9,127
Unrealized profits on inventories	1,322	(557)	-	765
(-) Provision for realization risk	-	-	(2,046)	(2,046)
Total - Consolidated	55,706	6,630	(425)	61,912

	12/31/2009	(Charged) credited in the statement of income	Exchange rate change, charges and other changes	12/31/2010
Noncurrent liabilities:				
Parent:				
Tax loss carryforwards (IRPJ and CSLL	(33,736)	-	(1,113)	(34,849)
Judicial deposits	6,277	-	-	6,277
Amortized goodwill on acquisition of subsidiaries	(1,631)	(1,630)	-	(3,261)
IRPJ - CSLL deduction from IRPJ tax base	(2,164)	-	(1,666)	(3,830)
Provision for IRPJ - other contingencies	(2,803)	-	-	(2,803)
Total - Parent	(34,057)	(1,630)	(2,779)	(38,466)
Subsidiary-				
Alpargatas S.A.I.C. - Argentina	(15,023)	242	2,302	(12,479)
Total - Consolidated	(49,080)	(1,388)	(477)	(50,945)
Total assets and liabilities, net - Parent		(920)		
Total assets and liabilities, net - Consolidated		5,242		

	01/01/2009	(Charged) credited in the statement of income	Exchange rate change, charges and other changes	12/31/2009
Noncurrent assets:				
Parent:				
Allowance for doubtful accounts	3,817	326	-	4,143
Allowance for inventory losses	913	1,766	-	2,678
Accrual for tax, civil and labor risks	7,702	(689)	-	7,013
Reserve for suspended-payment taxes	8,575	2,721	-	11,296
Write-off of deferred charges	2,346	(208)	-	2,139
Other temporary differences	12,748	(929)	-	11,819
Tax loss carryforward	6,481	(3,274)	-	3,207
Total - Parent	42,582	(287)	-	42,295
Subsidiaries:				
Alpargatas S.A.I.C. - Argentina	2,596	(283)	(841)	1,472
Alpargatas Europe S.L.U. - Spain	2,916	9,231	(2,743)	9,404
Alpargatas Chile	523	660	30	1,213
Unrealized profits on inventories	2,054	(732)	-	1,322
Total - Consolidated	50,671	8,589	(3,554)	55,706
Noncurrent liabilities:				
Parent:				
Tax loss carryforwards (IRPJ and CSLL)	(19,472)	(8,621)	(5,643)	(33,736)
Judicial deposits	6,277	-	-	6,277
Amortized goodwill on acquisition of subsidiaries	-	(1,631)	-	(1,631)
IRPJ - CSLL deduction from IRPJ tax base	-	-	(2,164)	(2,164)
Provision for IRPJ - other contingencies	(3,077)	274	-	(2,803)
Total - Parent	(16,272)	(9,978)	(7,807)	(34,057)
Subsidiary-				
Alpargatas S.A.I.C. - Argentina	(33,052)	11,859	6,170	(15,023)
Total - Consolidated	(49,324)	1,881	(1,637)	(49,080)
Total assets and liabilities, net - Parent		(10,265)		
Total assets and liabilities, net - Consolidated		10,470		

b) Current

Reconciliation of income tax and social contribution on net income:

	Parent		Consolidated	
	2010	2009	2010	2009
Income before income tax and social contribution	327,181	141,276	333,183	126,263
Combined IRPJ/CSLL tax rate	34%	34%	34%	34%
Income tax and social contribution expenses at statutory rate	(111,242)	(48,034)	(113,282)	(42,929)
Equity in subsidiaries	13,376	(20,881)	(3,135)	(6,263)
Interest on capital benefit	21,560	9,991	21,560	9,991
Tax effects from adopting the Transitional Tax Regime (RTT):				
Investment grant - ICMS	40,138	34,812	43,057	35,861
Stock option plan expenses	(369)	(318)	(369)	(318)
Federal government grant - IRPJ (note 8)	13,155	4,022	17,062	4,069
Effect of taxation of subsidiary based on deemed income	-	-	4,377	-
Unrecognized tax credit on tax loss of subsidiaries	-	-	(4,828)	(8,828)
Use of Parent's unrecognized tax credit in prior years	-	-	8,524	-
Other permanent (additions) deductions, net	(699)	1,763	1,062	2,859
Income tax and social contribution expenses	(24,081)	(18,645)	(25,972)	(5,558)
Curren	(23,161)	(8,380)	(31,214)	(16,028)
Deferred	(920)	(10,265)	5,242	10,470

14. JUDICIAL DEPOSITS

Represent the Company's and its subsidiaries' restricted assets and refer to amounts deposited and held in courts until the resolution of the pending litigation to which they are related.

As of December 31, 2010 and 2009 and January 1, 2009, balances are represented basically by judicial deposits related to labor and tax lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with lawsuits. Based on Management's and its legal counsel's opinion, the likelihood of loss is not considered as probable and, therefore, no accrual for tax, civil and labor risks was recognized.

Judicial deposits are as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Tax lawsuits	6,096	5,912	6,095	6,823	5,911	6,098
Labor claims	5,871	7,544	4,344	6,096	8,090	4,666
	11,967	13,456	10,439	12,919	14,001	10,764

15. INVESTMENTS

Investments are as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Investments	174,553	128,602	207,092	77,143	91,328	131,358
Goodwill	150,130	150,130	150,130	-	-	-
	324,683	278,732	357,222	77,143	91,328	131,358

Information at December 31, 2010	Locomotiva Ind. e Com. Têxteis Indl. Ltda.	Fibrasil Agríc. e Coml. Ltda.	Alpargatas Internacional APS	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Alpargatas Chile Ltda.	Total
Number of shares held	-	1,157,111	30,004,124	5,585,855	750,645	49,569,771	-	
Capital	-	1,157	67,864	8,766	20,848	29,409	8,700	
Shareholders' equity	-	2,104	32,404	22,979	28,353	127,922	(126)	
Profit from inventories	-	-	(1,465)	-	-	-	(21)	
			30,939				(147)	
Net income (loss) for the year	-	-	(23,661)	14,298	39,966	13,946	(2,573)	
Ownership interest (%)	-	100	100	100	100	70,69	100	
Carrying amount of investments:								
Balance at January 1, 2009	32,967	2,109	69,126	7,330	(15,086)	111,443	(797)	207,092
Capital increase	3,152	-	51,432	-	-	-	2,755	57,339
Net income from discontinued operation	3,241	-	-	-	-	-	-	3,241
Discontinued operation	(39,360)	-	-	-	-	-	-	(39,360)
Equity in subsidiaries		(5)	(59,017)	233	3,473	(2,751)	(3,348)	(61,415)
Exchange rate on investments	-	-	(4,802)	-	-	(33,671)	180	(38,294)
Balance at December 31, 2009	-	2,104	56,738	7,563	(11,613)	75,021	(1,211)	128,602
Capital increase	-	-	601	-	-	13,392	3,857	17,851
Capital increase (assignment of assets)	-	-	-	1,118	-	-	-	1,118
Equity in subsidiaries		-	(22,353)	14,298	39,966	9,779	(2,347)	39,343
Exchange rate on investments	-	-	(4,047)	-	-	(7,867)	(446)	(12,360)
Balance at December 31, 2010	-	2,104	30,939	22,979	28,353	90,325	(147)	174,553

As of December 31, 2010 and 2009 and January 1, 2009, goodwill on subsidiaries is as follows:

CBS S.A. - Companhia Brasileira de Sandálias	Atlântico Participações S.A.	Alpargatas S.A.I.C. - Argentina	Total
11,498	42,364	96,268	150,130

[page intentionally left in blank]

Indirect investments through the holding company Alpargatas Internacional APS

Information at December 31, 2010	Alpargatas Europe S.L.U.	Alpargatas France S.A.R.L.	Alpargatas UK Limited	Alpargatas Italy Limited	Alpargatas Portugal Limited	Alpargatas USA Inc.	Tavex Algodonera S.A.	Total
Number of shares held	3,600	5,000	100	1	1	10	21,683,180	
Shareholders' equity (deficit)	(19.973)	(579)	51	48	11	(54,445)	412,817	
Net income (loss) for the year	1,263	140	123	23	-	(14,108)	(45,962)	
Company's indirect interest (%)	100	100	100	100	100	100	18,687	
Carrying amount of investments:								
Balance at January 1, 2009	(3,550)	(1,205)	(167)	-	-	(60,283)	131,358	66,153
Capital increase/contribution	-	-	-	23	-	23,167	-	23,190
Equity in subsidiaries	(23.090)	185	83	4	-	(22,358)	(18,309)	(63,485)
Exchange rate on investments	3.388	218	30	2	-	16,466	(21,721)	(1,617)
Balance at December 31, 2009	(23,252)	(802)	(54)	29	-	(43,008)	91,328	24,241
Capital increase	-	-	-	-	11	-	-	11
Equity in subsidiaries	1.263	140	123	23	-	(14,108)	(9,222)	(21,781)
Exchange rate on investments	2.016	83	(18)	(4)	-	2,671	(4,963)	(215)
Balance at December 31, 2010	(19,973)	(579)	51	48	11	(54,445)	77,143	2,256

[this page intentionally left blank]

For the years ended December 31, 2010 and 2009, the loss recorded by subsidiaries Alpargatas France, Alpargatas UK, Alpargatas Itália and Alpargatas USA refers basically to marketing and advertising expenses incurred in connection with the Company's internationalization process.

Additional information on acquisitions of subsidiaries

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

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

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 thousand. Additionally, on January 8, 2008, the 2,931,969 remaining shares were acquired on the second close, carried out after compliance with the conditions set forth in the Agreement, in the total amount of R$11,384, equivalent to US$6,289 thousand.

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 voting shares ("Offer"), representing up to 25.5005% of Alpargatas Argentina's capital, 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 thousand. This transaction generated goodwill of R$41,626, which was amortized by 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% 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 final approval of the transaction by the Argentinean competition protection agency - "Comisión Nacional de Defensa de la Competencia de Argentina - CNDC" regarding the acquisition of 24,101,862 common shares, which were transferred to the Company on October 30, 2008.

Considering both portions of the acquisition of Alpargatas 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 Alpargatas Argentina's capital, 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 on acquisition were split off at the amounts booked of R$39,955 of investment cost and R$60,736 of goodwill. Thereafter, the Company started to record the effects of equity in subsidiaries on this portion of the acquisition and fully consolidate the financial statements of Alpargatas S.A.I.C. - Argentina.

As part of the process for the acquisition 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 preferred shares of Alpargatas S.A.I.C. - Argentina, representing 40.04% of capital, at the price of AR$3.40 per share, to be carried out exclusively at the Buenos Aires Stock Exchange (Argentina).

On March 12, 2010, the public offering for the acquisition of the shares issued by Alpargatas S.A.I.C. - Argentina was concluded. The Company acquired 7,265,327 shares at AR$3.40 each. These shares, together with the 42,047,157 shares already held, grant the Company a total of 49,312,481 shares, representing 70.32% of the Alpargatas S.A.I.C. - Argentina's total capital. The investment and negative goodwill paid in this acquisition were broken down into R$12,916 and R$1,624, respectively.

In addition, in June 2010, the Company acquired 257,290 shares at AR$3.33 each. With these shares, together with the 49,312,481 shares already held, Alpargatas became the holder of 49,569,771 shares, representing 70.69% of the Alpargatas S.A.I.C. - Argentina's total capital. The investment and negative goodwill paid in this acquisition were broken down into R$476 and R$68, respectively.

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.

Tavex Algodonera S.A.'s Extraordinary Shareholders' Meeting, held on May 8, 2008, approved the capital increase in Tavex through a capital contribution of €$5,166 thousand. As a result, the Company, through its subsidiary Alpargatas Internacional APS, has 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 accounting practices adopted in Brazil, the Company accounts for this investment under the equity method.

16. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

a) Property, plant equipment

	Parent							
	Annual weighted average depreciation rate (%)	12/31/2010			12/31/2009			01/01/2009
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Net
Land	-	8,803		8,803	7,752	-	7,752	7,752
Buildings and construction	4	117,526	(54,520)	63,006	114,040	(51,303)	62,737	67,180
Machinery and equipment	8	190,288	(121,553)	68,735	187,041	(119,664)	67,377	74,498
Furniture and fixtures	10	19,895	(9,342)	10,553	18,113	(7,961)	10,152	8,848
Vehicles	15	3,071	(2,052)	1,019	3,137	(2,359)	778	1,237
Leasehold improvements	20	14,805	(7,290)	7,515	14,243	(5,415)	8,828	4,627
Projects in progress	-	11,879	-	11,879	31,475	-	31,475	23,734
Other fixed assets	-	545	-	545	612	-	612	612
Allowance for losses	-	(449)	-	(449)	(1,374)	-	(1,374)	(864)
Total		366,363	(194,757)	171,606	375,039	(186,702)	188,337	187,624

	Consolidated							
	Annual weighted average depreciation rate (%)	12/31/2010			12/31/2009			01/01/2009
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Net
Land	-	14,338		14,338	13,700	-	13,700	16,942
Buildings and construction	4	269,756	(145,602)	124,154	279,236	(149,228)	130,008	167,001
Machinery and equipment	8	511,902	(386,951)	124,951	535,919	(403,577)	132,342	188,985
Furniture and fixtures	10	73,452	(58,546)	14,906	71,268	(57,325)	13,943	13,860
Vehicles	15	5,329	(4,029)	1,300	5,424	(4,422)	1,002	1,679
Leasehold improvements	20	18,472	(10,013)	8,459	16,690	(7,018)	9,672	8,641
Projects in progress	-	21,034	-	21,034	36,770	-	36,770	31,762
Other fixed assets	-	6,860	-	6,860	7,191	-	7,191	10,852
Allowance for losses	-	(14,482)	-	(14,482)	(16,542)	-	(16,542)	(1,096)
Total		906,661	(605,141)	301,520	949,656	(621,570)	328,086	438,626

Additional information on property, plant and equipment

1) Review of the useful life of property, plant and equipment

The Company and its subsidiaries carried out the first periodic analysis on the remaining economic useful lives of property, plant and equipment, as required by ICPC 10 - Clarifications on CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property, whose effects were recorded beginning January 1, 2010. Due to the review of these accounting estimates, a positive impact was recognized in depreciation for 2010 compared to the depreciation recorded in 2009, in the amount of R$8,096.

2) Assets pledged as collateral

As of December 31, 2010, the Company and its subsidiaries have property, plant and equipment items pledged as collateral in bank loan and financing transactions, as well as items listed in the defense of lawsuits, as shown below:

Machinery and equipment	8,770
Buildings	6,919
IT equipment	473
Total	16,162

3) Impairment test

The Company and its subsidiaries tested property, plant and equipment for impairment at years ended 2010 and 2009, based on the discounted cash flow model for its cash-generating units. For 2009, subsidiary Alpargatas S.A.I.C. - Argentina recorded a provision for asset impairment of its textile division in the amount of R$18,148.

b) Intangible assets

		Parent						
	Annual amortization rate (%)	12/31/2010			12/31/2009			01/01/2009
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net	Net
With finite useful lives:								
Trademarks, rights and patents	10	17,849	(17,652)	197	17,849	(17,652)	197	197
ERP system	10	97,090	(32,395)	64,695	92,154	(21,548)	70,606	62,697
Customer portfolio (a)	20	27,311	(9,446)	17,865	23,085	(4,071)	19,014	7,345
Projects in progress		16,114		16,114	3,192	-	3,192	22,357
With indefinite useful lives-								
Assignment of trade rights (c)	-	4,297	(194)	4,103	4,028	-	4,028	3,335
Total		162,661	(59,687)	102,974	140,308	(43,271)	97,037	95,932

		Consolidated						
	Annual amortization rate (%)	12/31/2010			12/31/2009			01/01/2009
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net	Net
With finite useful lives:								
Trademarks, rights and patents	10	31.077	(21.530)	9.547	31.290	(19.062)	12.228	17.050
ERP system	10	97.090	(32.395)	64.695	92.154	(21.548)	70.606	68.018
Customer portfolio (a)	20	27.311	(9.446)	17.865	23.085	(4.071)	19.014	7.345
Projects in progress		16.114		16.114	3.192	-	3.192	22.357
With indefinite useful lives:								
Goodwill on subsidiaries (b)	-	150.130	-	150.130	150.130	-	150.130	150.130
Assignment of trade rights (c)	-	4.297	(194)	4.103	4.028	-	4.028	3.335
Total		336.019	(63.565)	262.454	303.879	(44.687))	259.198	268.235

(a) 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, 2010, in view of indications that the Company will obtain the expected future benefits, based on the Company's Management economic projections, no allowance for impairment was recognized on these balances.

(b) See the breakdown in note 15. As mentioned in note 3, items h) and k), considering the accounting changes introduced by Laws 11638/07 and 11941/09, as from January 1, 2009, the goodwill balance on December 31, 2008 was no longer amortized and has been tested for impairment annually. Accordingly, beginning January 1, 2009, the tax benefit of goodwill on the merger of former subsidiary Atlântico Participações S.A., as shown in note 15, was used in the monthly calculations of income tax and social contribution based on Transition Tax Regime (RTT), pursuant to the provisions of Law 11941/09, the effects of which are shown in note 13 a).

(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, 2010, no allowance has been recognized regarding the amounts of these rights since there is no indication of impairment loss.

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

2010	16,707
2011	16,105
2012	15,384
2013	15,349
2014 and thereafter	44,676
Total	108,221

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

Additional information on intangible assets

1) Product research and development expenses

	Consolidated	
	2010	2009
Research and development expenses of products recorded in income	9,651	8,330

2) Goodwill impairment test

As of December 31, 2010, the Company tested goodwill for impairment based on the value in use, using the discounted cash flow model for the Cash-generating Units (UGCs). The value in use is estimated based on assumptions, judgments and estimates on future cash flows and represents the Company's best estimates approved by the Board of Directors. The Company's asset impairment test did not indicate the need to recognize impairment losses.

The goodwill is allocated to the UGCs identified, as follows:

	12/31/2010	12/31/2009	01/01/2009
Goodwill arising from acquisition of CBS - Companhia Brasileira de Sandálias (allocated to CGU/Brazilian Shoes Segment)	53,862	53,862	53,862
Goodwill arising from acquisition of Alpargatas S.A.I.C. - Argentina (allocated to CGU/Argentine Shoes Segment)	96,268	96,268	96,268
	150,130	150,130	150,130

The methodology adopted to determine the CGU value is the discounted cash flow, consisting of the determination of free cash flows in a specific period based on the following:

- Income/loss from operations.
- Income/loss from depreciation on property, plant and equipment recorded in income/loss for the period.
- Additional net working capital requirements determined according to the Company's financial cycle.

The balances of cash flows by period are calculated at present value, discounted based on the Weighted Average Cost of Capital - WACC rate. This rate considers several financing, debt and own capital components adopted by the Company to fund its operations. São Paulo Alpargatas S.A.'s own capital cost was calculated based on the Capital Asset Pricing Model - CAPM.

A five-year cash flow period was taken into consideration in accordance with the Company's projections, plus the residual value calculated based on the cash balance on the fifth year, discounted at present value based on the WACC, less the expected growth in operations.

As of December 31, 2010, the main assumptions adopted to calculate the value in use for the CGUs are as follows:

CGU - Brazil

Operating income/loss R$ (million) (i)	622.2
Perpetuity - "g" (ii)	4.5%
WACC discount rate (iii)	11.9%

UGC - Argentina

Operating income/loss R$ (million) (i)	114.8
Perpetuity - "g" (ii)	7.3%
WACC discount rate (iii)	20.7%

(i) Average operating income/loss for a five-year period.

(ii) Growth rate of cash flow based on perpetuity.

(iii) Discount rate calculated before taxes.

Management calculated operating income/loss based on past performance and expected market growth. The weighted average growth rates adopted are consistent with the projections included in the segment reports. The discount rates adopted are equivalent to the rates before taxes and reflect the specific risks related to the operational segments in which each CGU is included.

c) Changes

	Parent					
Property, plant equipment	12/31/2009	Additions	Transfers (*)	Depreciation	Write-offs	12/31/2010
Land	7,752	-	1,051	-	-	8,803
Buildings and construction	62,737	-	3,484	(3,215)	-	63,006
Machinery and equipment	67,377	-	14,657	(11,077)	(2,222)	68,735
Furniture and fixtures	10,152	-	2,157	(1,643)	(113)	10,553
Vehicles	778	-	417	(123)	(53)	1,019
Leasehold improvements	8,828	-	1,194	(2,371)	(136)	7,515
Projects in progress	31,475	13,665	(32,387)	-	(874)	11,879
Other fixed assets	612	-	-	-	(67)	545
Allowance for losses	(1,374)	-	-	-	925	(449)
Total	188,337	13,665	(9,427)	(18,429)	(2,540)	171,606

	Parent					
Intangible assets	12/31/2009	Additions	Transfers (*)	Amortization	Write-offs	12/31/2010
With finite useful lives:						
Trademarks, rights and patents	197	-	-	-	-	197
ERP system	70,606	-	7,696	(10,041)	(3,566)	64,695
Customer portfolio	19,014	-	4,449	(5,430)	(168)	17,865
Projects in progress	3,192	15,773	(2,851)	-	-	16,114
With indefinite useful lives-						
Assignment of trade rights	4,028	-	133	-	(58)	4,103
Total	97,037	15,773	9,427	(15,471)	(3,792)	102,974
Total	285,374	29,438	-	(33,900)	(6,332)	274,580

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

	Consolidated						
Property, plant equipment	12/31/2009	Additions	Transfers (*)	Depreciation	Write-offs	Foreign exchange variation (**)	12/31/2010
					0000000		
Land	13,700	27	1,051	-		(440)	14,338
Buildings and construction	130,008	1,863	3,872	(6,328)	(5)	(5,256)	124,154
Machinery and equipment	132,342	5,375	16,102	(20,600)	(3,597)	(4,671)	124,951
Furniture and fixtures	13,943	3,147	2,123	(3,662)	(222)	(423)	14,906
Vehicles	1,002	132	417	(203)	(53)	5	1,300
Leasehold improvements	9,672	1,120	1,194	(3,157)	(721)	351	8,459
Projects in progress	36,770	20,587	(33,501)	-	(874)	(1,948)	21,034
Other fixed assets	7,191	1,053	(340)	-	(67)	(977)	6,860
Allowance for losses	(16,542)	-	-	-	791	1,269	(14,482)
Total	328,086	33,304	(9,082)	(33,950)	(4,748)	(12,090)	301,520

	Consolidated						
Intangible assets	12/31/2009	Additions	Transfers (*)	Depreciation	Write-offs	Foreign exchange variation (**)	12/31/2010
With finite useful lives:							
Trademarks, rights and patents	12,228	-	(345)	(1,350)	-	(986)	9,547
ERP system	70,606	-	7,696	(10,041)	(3,566)	-	64,695
Customer portfolio	19,014	-	4,449	(5,430)	(168)	-	17,865
Projects in progress	3,192	15,773	(2,851)	-	-	-	16,114
With indefinite useful lives:							
Goodwill on subsidiaries	150,130	-	-	-	-	-	150,130
Assignment of trade rights	4,028	-	133	-	(58)	-	4,103
Total	259,198	15,773	9,082	(16,821)	(3,792)		262,454
Total	587,284	49,077	-	(50,771)	(8,540)	(13,076)	563,974

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

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

17. TRADE ACCOUNTS PAYABLE

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Domestic	132,265	69,464	59,569	143,737	74,485	105,182
Foreign	26,110	17,143	23,175	69,040	41,140	22,522
Total	158,375	86,607	82,744	212,777	115,625	127,704

The balance of foreign trade accounts payable refers mainly to amounts denominated in US dollars.

18. LOANS AND FINANCING

		Currency	Index and annual average interest rate	Parent			Consolidated		
				12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Denominated in Brazilian reais:									
FNE (BNB)	(a)		Interest of 8.42%	71,487	85,550	99,556	71,487	85,550	99,614
FINAME			Interest of 5.81%	3,972	1,272	2,127	3,972	1,272	2,127
FINEM - BNDES	(b)		Currency basket and TJLP 8.99%	12,609	17,115	21,663	12,609	17,115	21,663
EXIM - BNDES	(c)		Fixed rate: 7.00% p.y.	110,870	16,040	80,660	110,870	16,040	80,660
Banco Santander - Assignment of receivables	(d)		Interest of 12.28% p.y. (average)	20,863	-	-	20,863	-	-
Modermaq			Interest of 11.47%	-	-	23	-	-	539
Leases - CBS	(f)		Interest of 16.36%	-	-	-	-	-	32
Automatic BNDES - CBS			TJLP + 2.8% and US$ variation + interest of 2.3%	-	-	-	951	1,496	2,104
Total in reais				219,801	119,977	204,029	220,752	121,473	206,739
Denominated in foreign currency:									
Working capital - Alpargatas USA	(e)	US$	Interest of 1.719%	-	-	-	56,964	47,423	67,434
Working capital - Alpargatas Europa	(e)	€	Interest of 4.25%	-				17,610	21,597
Working capital - Alpargatas International APS		€	Interest of 2.42%	-	-	-	15,643	-	-
Working capital - Alpargatas Chile	(e)	CLP	Interest of 6.20%	-	-	-	971	5,113	2,194
Finance leases - Alpargatas S.A.I.C. - Argentina	(f)	AR$	Interest of 24.09%	-	-	-	486	708	-
Working capital - Alpargatas S.A.I.C. - Argentina		AR$	Interest of 10.83%	-	-	-	1,142	113	-
ACE - Banco do Brasil		US$	Interest of 3.20%	-	2,502	2,814	-	2,502	2,814
ACC/prepayment - CBS		US$	Libor + interest of 1.25%	-	-	-	2	1,312	4,654
Total in foreign currency				-	2,502	2,814	75,208	74,781	98,693
Grand total				219,801	122,479	206,843	295,960	196,254	305,432
Current liabilities				150,770	37,575	85,410	226,371	109,345	183,430
Noncurrent liabilities				69,031	84,904	121,433	69,589	86,909	122,002

(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. The 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 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 letter of bank of guarantee.

(c) In August 2008, the Company received R$79,800 related to the financing of the credit line of BNDES-EXIM Pré Embarque signed with Bradesco and Unibanco, payable into zero installment, falling due between September 2009 and January 2010. In October 2010, the Company received R$110,500 related to the new financing of the same credit line of BNDES-EXIM, with agreements executed with Alfa and Bradesco, payable in one single installment, maturing in December 2011.

(d) In October 2010, the Company executed with Banco Santander the receivable assignment agreement with a limit of R$30,000. The average term of the transactions is 90 days. The assignments are repaid to Santander in accordance with trade accounts receivable.

(e) 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 ranged from 180 to 360 days.

(f) As of December 31, 2010, outstanding future lease installments totaled R$577 and the difference between the present value recorded in the consolidated at the base date corresponds to the financial charges, which will be recorded on an accrual basis in the income statement according to the residual term of the outstanding agreements.

Maturities of noncurrent liabilities are as follows:

	Parent			Consolidated		
Year	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
2010	-	-	36,963	-	-	37,532
2011	-	18,822	18,669	-	20,827	18,669
2012	19,302	18,822	18,669	19,841	18,822	18,669
2013	18,494	18,011	17,883	18,513	18,011	17,883
2014	14,534	14,039	14,039	14,534	14,039	14,039
2015	14,534	14,039	14,039	14,534	14,039	14,039
2016	1,664	1,171	1,171	1,664	1,171	1,171
2017	445	-	-	445	-	-
2018	29	-	-	29	-	-
2019	29	-	-	29	-	-
Total	69,031	84,904	121,433	69,589	86,909	122,002

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

a) Finance lease agreements

Lease obligations are effectively guaranteed, since the leased asset is reversed to the lessor in case of default.

Financial obligations are broken down as follows:

	12/31/2010	12/31/2009	01/01/2009
Gross finance lease obligations - minimum leasing payments:			
Less than a year	405	656	33
More than a year and less than five years	172	330	-
	577	986	33
Future financing charges on finance lease	(91)	(278)	(1)
Finance lease obligations - accounting balance	486	708	32

b) Restrictive covenants

As of December 31, 2010 and 2009 and January 1, 2009, loan and financing agreements entered into by the Company and its subsidiaries do not contain restrictive covenants establishing obligations as to the maintenance of financial ratios by the Company and its subsidiaries.

19. 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 reported in the consolidated financial statements under the caption "Debt restructuring agreements", in current and noncurrent liabilities, at the amounts of R$13,367 and R$63,403 as of December 31, 2010 (R$14,377 and R$71,013 as of December 31, 2009 and R$18,190 and R$115,035 as of January 1, 2009), net of the adjustments to present value, in the amounts of R$55,926, R$65,775 and R$104,283, respectively, as of December 31, 2010 and 2009 and January 1, 2009.

The adjustment to present value is calculated by subsidiary Alpargatas S.A.I.C. - Argentina based on the difference between the Argentinean basic interest rate and the fixed inflation adjustment rate of liabilities, as established in the debt restructuring agreements. As of December 31, 2010, the average discount rate adopted for the adjustment to present value was 15% per year.

The effects of the reversal of the adjustment to present value are recorded in the account "Financial expenses", in the Consolidated, and totaled R$4,667 in income or loss for the year ended December 31, 2010 (R$4,687 for the year 2009).

Total liabilities are subject to annual interest from 1% to 3%, with maturity over 15 and 25 years and grace period from 6 to 10 years as of the agreement dates.

As of December 31, 2010, reversals expected for the next fiscal years, related to the discount to present value are as follows:

2011	4,303
2012	4,330
2013	4,258
2014 and thereafter	43,035
Total	55,926

20. TAXES PAYABLE

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
ICMS payable	5,901	1,867	1,852	5,901	1,867	2,539
PIS/COFINS payable	6,578	5,173	1,515	9,229	7,228	1,365
Other withholding taxes payable	754	575	499	1,074	690	949
IPI payable	523	-	-	752	-	653
Taxes payable - foreign subsidiaries	-	-	-	5,445	7,118	3,666
Other	-	-	367	734	734	450
	13,756	7,615	4,233	23,135	17,637	9,622

21. PROVISIONS AND OTHER PAYABLES

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Royalties payable	5,945	2,106	2,985	5,945	2,106	2,985
Provision for freight payable	12,078	8,247	3,331	12,805	8,680	3,740
Other payables (commissions, outside services, utilities and others)	13,796	15,537	12,853	25,517	43,217	27,575
Total	31,819	25,890	19,169	44,267	54,003	34,300

22. RELATED PARTIES

a) Related-party balances

	Parent		
Noncurrent assets (liabilities)	12/31/2010	12/31/2009	01/01/2009
CBS S.A. - Companhia Brasileira de Sandálias	(525)	35,788	29,292
Alpargatas Internacional APS	(14)	519	(794)
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	(10,547)	3,419
Alpargatas Imobiliária S.A.	(6,832)	(4,001)	(3,791)
Alpargatas Chile Ltda.	-	-	1,195
Fibrasil Agrícola e Comercial Ltda.	(2,104)	(2,104)	(2,109)
Total	(9,475)	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.

b) Balances receivable and payable from related-party transactions - Parent

		Parent			Parent and Consolidated		
		Trade accounts receivable			Trade accounts payable		
		12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Alpargatas USA Inc. - United States	(b)	4,007	2,780	5,716	-	-	-
Alpargatas Europe S.L.U. - Spain	(b)	9,979	950	3,448	-	-	-
Alpargatas Chile Ltda. - Chile		-	1,090	1,376	-	-	-
Camargo Corrêa Group	(c)	-	-	-	318	65	2,283
Total		13,986	4,820	10,540	318	65	2,283

c) Related-party transactions

Related-party transactions are as follows:

	Sale of products/services		Purchase of products/services	
	2010	2009	2010	2009
São Paulo Alpargatas S.A. (a)	35,827	21,021	21,034	19,973
Alpargatas USA Inc. - United States	-	-	9,278	13,797
Alpargatas Europe S.L.U. - Spain	-	-	26,550	6,716
Alpargatas Chile Ltda. - Chile	-	-	-	508
CBS S.A. - Companhia Brasileira de Sandálias	1,098	-	-	-
Locomotiva Ind. e Com. de Têxteis Ltda. - Brasil	1,070	3,598	-	-
Camargo Corrêa Group:				
Rentals and common area management fees	2,276	2,070	-	-
Shared services - CSC (d)	12,471	12,027	-	-
Corporate projects	3,909	2,264	-	-
Others	211	14	-	-
	56,862	40,994	56,862	40,994

(a) It basically consists of sales of “Havaianas” sandals to subsidiaries in the United States and Europe. Due to the operating model and the design of the distribution channel adopted to start on the Company’s internationalization process, where products are manufactured in Brazil and subsequently sold to foreign subsidiaries for resale, such sales are normally made at prices lower than those charged from unrelated parties located abroad.

For the year ended December 31, 2010, 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 2011.

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

(d) 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, 2010, except for the guarantees provide to support loans and financing, as described in note 18, the Company and its subsidiaries have not provided any other guarantees to related parties.

d) Compensation of key management personnel

Overall compensation to the Company's Management is as follows:

	2010				
	Compensation			Stock option grant	
	Fixed	Variable (a)	Total	Option balance (number) (b)	Average exercise price - R$ (c)
Board of Directors and Supervisory Board	1,915	-	1,915	-	-
Statutory officers	2,724	3,900	6,624	5,252,900	3.84
	4,639	3,900	8,539	5,252,900	

	2009				
	Compensation			Stock option grant	
	Fixed	Variable (a)	Total	Option balance (number) (b)	Average exercise price - R$ (c)
Board of Directors and Supervisory Board	1,938	-	1,938	-	-
Statutory officers	2,513	1,260	3,773	268,314	64.56
	4,451	1,260	5,711	268,314	

(a) Refers to the profit sharing for the year. The amounts include potential additions to and/or reversals of the prior-year provision due to the final determination of the goals set to directors and officers, whether statutory or non-statutory.

(b) Refers to vested and non-vested options not exercised on the balance sheet date; as of December 31, 2009, it considers the effects from the stock split on February 24, 2010.

(c) Refers to the weighted average exercise price of the option on the date of the concession plans, adjusted for inflation through the balance sheet date.

During the year ended December 31, 2010, in addition to Management's compensation, the Company made contributions to the private pension plan in the amount of R$259 (R$261 in 2009) on behalf of the statutory officers.

During the years ended 2010 and 2009, the Board of Directors and Supervisory Board were comprised of ten directors and the Executive Board was comprised of three members, both in 2010 and 2009.

Pursuant to Brazilian Corporate Law and the Company's Bylaws, it is the shareholders' responsibility to establish Management's overall annual compensation amount at the Shareholders' Meeting. At the Annual Shareholders' Meeting held on April 29, 2010, Management's overall compensation for 2010 was of up to R$7,894 (R$8,432 in 2009).

23. ACCRUAL FOR TAX, CIVIL AND LABOR RISKS

As of December 31, 2010 and 2009, 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. Accruals for risks were recognized when, in the opinion of Management and its legal counsel, the risk of loss was considered probable. These accruals are as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Labor lawsuits (a)	15,339	15,385	15,437	23,818	23,542	25,537
Tax lawsuits (b)	12,858	10,770	6,799	16,403	14,104	10,932
Judicial deposits	(3,300)	(3,300)	(2,740)	(3,300)	(3,300)	(2,740)
Civil lawsuits	2,155	2,307	4,232	2,710	2,911	4,496
	27,052	25,162	23,728	39,631	37,257	38,225
Current portion	4,859	4,905	4,957	8,847	8,055	9,502
Noncurrent portion	22,193	20,257	18,771	30,784	29,202	28,723

(a) Refer to lawsuits filed against the Company and its subsidiaries by former and current employees, whose claims basically refer to severance 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).

Changes

	Parent				
	Labor	Tax	Civil	Judicial deposits	Total
Balance as of January 1, 2009	15,437	6,799	4,232	(2,740)	23,728
Additions (reversals)	6,288	3,971	215	(560)	9,914
Payments	(6,340)	-	(2,140)	-	(8,480)
Balance as of December 31, 2009	15,385	10,770	2,307	(3,300)	25,162
Additions (reversals)	12,508	2,654	(152)	-	15,010
Payments	(12,554)	(566)	-	-	(13,120)
Balance as of December 31, 2010	15,339	12,858	2,155	(3,300)	27,052

	Consolidated				
	Labor	Tax	Civil	Judicial deposits	Total
Balance as of January 1, 2009	25,537	10,932	4,496	(2,740)	38,225
Additions (reversals)	7,005	5,466	727	(560)	12,638
Payments	(9,000)	(2,294)	(2,312)	-	(13,606)
Balance as of December 31, 2009	23,542	14,104	2,911	(3,300)	37,257
Additions (reversals)	13,303	3,278	(162)	-	16,419
Payments	(13,027)	(979)	(39)	-	(14,045)
Balance as of December 31, 2010	23,818	16,403	2,710	(3,300)	39,631

Possible losses

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

	Parent and Consolidated		
	2010	2009	January 1, 2009
Tax:			
Tax deficiency notice - IRRF (*)	8,050	7,728	8,923
CSLL and IRPJ	3,581	-	-
Other	4,181	1,995	416
	15,812	9,723	9,339
Civil (compensation actions)	6,321	6,033	4,035

(*) Tax deficiency notice for the collection of IRPJ offset against IRPJ credits.

Additionally, in December 2005, a company holding the rights to a certain sports brand filed a civil claim 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 accrual was recognized for this contingency. In February 2007, there was a decision favorable to the Company resulting in the termination of the claim. This decision is subject to appeal that will be judged by the São Paulo Court of Justice on a date not yet defined.

Tax installments programs introduced by Law 11941/09

On May 28, 2009, Federal Government published Law 11941/09, as a result of the conversion of Provisional Act 449/08, which, among other changes to tax law, established the possibility of a new installment payment of tax debts managed by the Federal Revenue Service of Brazil and the National Institute of Social Security (INSS), and of debts with the PGFN, including the remaining balance of consolidated debts in the Tax Debt Refinancing Program (REFIS) (Law 9964/00), in the Special Installment Plan (PAES) (Law 10684/03) and the Tax Debt Refinancing Program (PAEX) (Provisional Act 303/06), in addition to the regular payment 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, 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.

In joining the installment payment program introduced by Law 11941/09, the Company recorded, on November 30, 2009, tax debits with INSS in the adjusted amount of R$3,485.

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 2011.

24. TAXES WITH SUSPENDED PAYMENT AND OTHERS

		Parent and Consolidated		
		12/31/2010	12/31/2009	01/01/2009
PIS/COFINS - Law 9718/98		28,429	27,119	37,583
Judicial deposits		(28,429)	(27,119)	(25,562)
	(a)	-	-	12,021
COFINS - deduction of ICMS from tax base		56,972	35,439	17,641
Judicial deposits		(9,101)	(8,296)	(7,576)
	(b)	47,871	27,143	10,065
Others		3,329	3,190	3,122
Total - Parent		51,200	30,333	25,208
Taxes in installments - PIS and COFINS (CBS S.A. - Sociedade Brasileira de Sandálias)	(c)	1,699	2,194	7,833
Alpargatas S.A.I.C. - Argentina		2,516	5,416	10,238
Total - Consolidated		55,415	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% in 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 monetary restatement effects of which were recorded in "Financial expenses" in the statement of income. From September 2002 to January 2004, the Company deposited in judicial 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 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 judicial deposit, totaling R$28,429 (R$27,119 as of December 31, 2009), adjusted for inflation.

Law 11941, enacted on May 28, 2009, revoked article 3, paragraph 1, of Law 9718/98, which addressed 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 STF, the Brazilian Institute of Independent Auditors (IBRACON) issued the Technical Bulletin (CT) 05/09 allowing part of PIS and COFINS related to the broadening of the tax base to be 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 "Other operating revenues".

Therefore, the amounts recorded as of December 31, 2010 and 2009 refer solely to the portion related to the 1% increase in COFINS rate, on which 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 judicial deposits will be transferred to the Federal Government.

For the years ended December 31, 2010 and 2009 and as of January 1, 2009, the accrued amounts, as well as judicial deposits, are adjusted for inflation 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 judicial deposits from May 1993 to February 1996.

As from June 2008, the Company started to use the stay of the lawsuit obtained in an Injunction filed with STF to continue deducting ICMS from COFINS tax base; however, the Company is not required to make judicial deposits. Notwithstanding, it still accrues such amounts.

For the years ended December 31, 2010 and 2009 and as of January 1, 2009, the accrued amounts, as well as judicial deposits, were adjusted for inflation based on the SELIC rate.

(c) Taxes in installments - COFINS and PIS

On July 31, 2003 and September 29, 2006, the 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.

Tax installment programs introduced by Law 11941/09 and Provisional Act 470/09

In order to benefit from the new payment plan in installments introduced by Law 11941/09, since the entities that opted for paying or dividing in installments the debts under this Law may settle the amounts corresponding to default and automatic fines and late payment interest, including those related to debts to the government, using tax loss carryforwards, and will benefit from reduced fines, interest and legal charges whose reduction percentage depends on the installment payment option chosen, the subsidiary CBS S.A. - Companhia Brasileira de Sandálias elected to join the new installment payment program, including PAES and PAEX debts, offsetting fines and interest in arrears, in the amount of R$4,566, as follows:

	PAEX - Provisional Act 470/09	PAES - Law 11941/09	Total	Current liabilities	Noncurrent liabilities
Balance as of January 1, 2009	4,595	4,948	9,543	1,710	7,833
Payments	(1,763)	(859)	(2,622)		
Monetary restatement	460	113	573		
Reversals	(3,292)	(1,274)	(4,566)		
Balance as of December 31, 2009	-	2,928	2,928	734	2,194
Payments	-	(732)	(732)		
Monetary	-	237	237		
Balance as of December 31, 2010	-	2,433	2,433	734	1,699

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 - Parent

	01/01/2009	Monetary restatements	Additions/ reversals	12/31/2009
PIS/COFINS	37,583	1,937	(12,401)	27,119
Judicial deposits	(25,562)	(1,557)	-	(27,119)
	12,021	380	(12,401)	-
COFINS - ICMS	17,641	1,570	16,228	35,439
Judicial deposits	(7,576)	(720)	-	(8,296)
	10,065	850	16,228	27,143
Others	3,122	68	-	3,190
Total	25,208	1,298	3,827	30,333

	12/31/2009	Monetary Restatements	Additions/ reversals	12/31/2010
PIS/COFINS	27,119	1,310	-	28,429
Judicial deposits	(27,119)	(1,310)	-	(28,429)
	-	-		-
COFINS - ICMS	35,439	3,086	18,447	56,972
Judicial deposits	(8,296)	(805)	-	(9,101)
	27,143	2,281	18,447	47,871
Others	3,190	139	-	3,329
Total	30,333	2,420	18,447	51,200

25. SHAREHOLDERS' EQUITY

a) Capital

As of December 31, 2010, paid-in capital increased to R$441,171 compared to R$391,804 recorded as of December 31, 2009 and January 1, 2009, after an increase through the payment of the earnings reserve in the amount of R$49,367.

As of December 31, 2009 and January 1, 2009, capital comprised 17,672,794 registered shares without par value, of which 9,076,204 are common and 8,596,590 are preferred shares.

On February 24, 2010, the Company split its common and preferred shares at the ratio of 1:20, and the total number of its shares increased to 353,455,880 registered shares without par value, of which 181,524,080 are common shares and 171,931,800 are preferred shares.

This stock split was designed to benefit investors as it allowed the amount of shares to be adjusted to ideal market levels, resulting in a more accessible trading lot (100 shares), thus increasing share liquidity.

As a result of the change in the Company's bylaws, the authorized capital limit is 363,048,160 preferred shares, and the Board of Directors shall determine the terms and conditions applicable to the issuance of shares, based on the authorized capital limit, as well as whether 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:

As of December 31, 2010:

Shareholders	Common shares		Preferred shares		Total	
	Number	%	Number	%	Number	%
Controlling shareholders (Camargo Corrêa Group)	121,597,580	66.99	34,356,940	19.98	155,954,520	44.12
Management:						
Board of Directors	35,951,900	19.81	7,329,980	4.26	43,281,880	12.25
Supervisory Board	22,000	0.01	182,000	0.11	204,000	0.06
Other shareholders	23,952,600	13.19	130,062,880	75.65	154,015,480	43.57
Total	181,524,080	100.00	171,931,800	100.00	353,455,880	100.00

As of December 31, 2009:

Shareholders	Common shares		Preferred shares		Total	
	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
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

b) Share buyback plan

The Board of Directors' meeting, held on March 12, 2010, approved the cancellation of the Company's buyback plan approved on December 11, 2009, in view of the stock split of February 24, 2010. Accordingly, a new share purchase plan was approved establishing the acquisition of up to 8,664,266 preferred shares and 5,992,650 common shares. From March 15, 2010, date on which the plan is effective, to December 31, 2010, no share was acquired in the stock market.

Changes in "Treasury shares" account for the year ended December 31, 2010 were as follows:

	Number of shares	Average price per share - R$
As of January 1, 2009	254,661	111.91
Deductions	(5,340)	111.91
Purchase of shares	5,340	79.39
As of December 31, 2009	254,661	111.23
(+) Effect of the stock split on 2/24/2010	4,838,559	
Balance after the stock split	5,093,220	5.59
Sold (exercise of stock options)	(548,500)	2.25
Acquired (exercise of stock options)	548,500	8.20
As of December 31, 2010	5,093,220	5.75

c) Dividends and interest on capital

Every year shareholders are entitled to receive minimum dividends of 25% of net income, calculated in accordance with Brazilian Corporate Law and the bylaws. In 2010 and 2009, the calculation was made as follows:

	2010	2009
Net income for the year (*)	306,341	133,333
Tax incentive reserve	(131,207)	(106,411)
Amount available for distribution	175,134	26,922
Mandatory minimum dividends - 25%	43,784	6,731
Management's proposal:		
Interest on capital	63,412	29,384
IRRF on interest on capital	(7,586)	(4,060)
Interest on capital, net of IRRF	55,826	25,324
Proposed interim dividends	24,150	-
Total	79,976	25,324

(*) In 2009, calculated in accordance with the accounting practices enacted by Laws 11638/07 and 11941/09, without the adoption of the new technical pronouncements issued in 2009. The prior-year financial statements were restated to allow the comparability with the financial statements for the current year, due to changes in the accounting practices described in note 6.

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

	Per share - R$ (gross)			
	12/31/2010		12/31/2009 (*)	
	Preferred shares	Common shares	Preferred shares	Common shares
Interest on capital	0.1911	0.1737	1.7740	1.6070
Dividends	0.0727	0.0661		

(*) Balance after the stock split.

On March 18, 2011, the Board of Directors approved "ad referendum" the Annual Shareholders' Meeting, to be held on April 26, 2011, the proposed dividends in the amount of R$24,150, relating to the earnings retention reserve recognized in 2005, which, added to the interest on capital paid in 2010 in the amount of R$63,412, correspond to R$87,562.

d) Goodwill (negative goodwill) on the sale of treasury shares

Refers to the goodwill or negative goodwill on the sale of treasury shares mainly arising from the exercise of the stock option plans.

e) Tax incentive reserve

Beginning January 1, 2008, tax incentives started to be recorded directly in income, and, thereafter, on the close of the financial statements, recognized in line item "Tax incentive reserve" under earnings reserve.

f) 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 2010 and 2009.

g) Earnings retention reserve

On December 31, 2010, the earnings retention reserve was recorded as set forth in article 196 of Law 6404/76 for future investments, in the amount of R$375,280 (R$307,501 as of December 31, 2009). The retention for 2010 is based on the capital budget prepared by Management and approved by the Board of Directors, on March 18, 2011, which will be submitted to approval at the Annual Shareholders' Meeting to be held on April 26, 2011.

26. SEGMENT INFORMATION REPORTING

IFRS 8/CPC 22 rules - Segment Reporting require segment reporting consistently with managerial reports provided and revised by the chief operating decision-maker to assess the performance of each segment and the allocation of funds. The Company's chief operating decision-maker is the CEO.

Although the Company has a matrix management structure in which sales revenues are analyzed by the chief decision-maker at various levels because products manufactured and sold by the Company and its subsidiaries are divided among various brands of shoes, sports items, sandals and clothing, operations are managed according to the geographic areas divided as follows: (i) Domestic Operations: Company's and its subsidiaries' performance in Brazil; and (ii) Foreign Operations: subsidiaries' performance in Argentina and subsidiaries' consolidated performance in the United States and Europe, as well as direct exports and Tavex Corporation S.A.'s exports, in which the Company holds an interest of 18.67%.

Net revenue by segment is represented as follows in 2010:

- Domestic Operations:
  - Brazil: 72.4%
- Foreign Operations:
  - - Argentina: 18.4%
  - Europe, United States and Exports: 9.2%

The accounting policies of each segment are those applied by the Company and described in note 3. The performance of each segment was determined based on the net operating revenues, net income and capital allocated (total assets less current liabilities and noncurrent liabilities) in each segment. This measurement basis includes financial effects, income tax and social contribution, depreciation and amortization and is consistent with the amounts reported in the consolidated financial statements.

The financial information related to the Company's segments for the years ended December 31, 2010 and 2009 is summarized in the tables below:

	12/31/2010					
Income and expense accounts	Net operating revenues	Net income (loss) for the year	Depreciation and amortization	Financial income (expenses)	Net foreign exchange variation	Income tax and social contribution
Domestic operations-						
Brazil	1,621,829	282,134	(36,769)	31,166	1,186	(18,094)
International operations:						
Argentina	411,163	13,946	(11,120)	(22,414)	619	(8,682)
Europe/USA/Exports	206,164	19,483	(2,882)	(2,124)	525	804
TAVEX	-	(9,222)	-	-	-	-
Noncontrolling interest	-	4,111	-	-	-	-
Consolidated	2,239,156	310,952	(50,771)	6,628	2,330	(25,972)

	12/31/2009					
Income and expense accounts	Net operating revenues	Net income (loss) for the year	Depreciation and amortization	Financial income (expenses)	Net foreign exchange variation	Income tax and social contribution
Domestic operations-						
Brazil	1,374,895	158,724	(42,916)	1,160	4,616	(17,938)
International operations:						
Argentina	379,513	(4,589)	(20,093)	(18,428)	(374)	2,730
Europe/USA/Exports	172,613	(9,843)	(2,694)	(5,317)	(9,748)	9,650
TAVEX	-	(18,420)	-	-	-	-
Noncontrolling interest	-	(1,926)	-	-	-	-
Consolidated	1,927,021	123,946	(65,703)	(22,585)	(5,506)	(5,558)

	12/31/2010			12/31/2009		
Balance sheet accounts	Total assets	Current and noncurrent liabilities	Addition to property, plant and equipment and intangible assets	Total assets	Current and noncurrent liabilities	Addition to property, plant and equipment and intangible assets
Domestic operations-						
Brazil	1,766,935	622,316	31,475	1,310,526	419,909	46,942
International operations:						
Brazil - exports	44,594	1,466	-	57,266	2,309	-
Argentina	306,188	178,266	15,014	294,199	168,864	8,436
Europe/USA	51,743	96,482	2,588	48,400	80,665	1,450
TAVEX	77,143	-	-	91,328	-	-
Consolidated	2,246,603	898,530	49,077	1,801,719	671,747	56,828

The Company's portfolio is diluted and no individual client accounts for more than 6% of sales revenues.

In 2010, consolidated net revenues per segment are as follows: sandals - R$1,204,818, sporting goods - R$723,455, retail - R$205,196 and other - R$105,687 (R$1,034,062, R$632,830, R$185,180 and R$74,949, respectively in 2009).

27. NET SALES

	Parent		Consolidated	
	2010	2009	2010	2009
Gross operating revenue:				
Domestic market	1,799,432	1,627,869	1,957,472	1,680,333
Foreign market	128,884	124,533	719,322	646,911
	1,928,316	1,752,402	2,676,794	2,327,244
Returns and cancelations	(32,139)	(49,667)	(52,721)	(62,166)
Taxes on sales	(246,148)	(246,854)	(384,917)	(338,057)
Net operating revenue	1,650,029	1,455,881	2,239,156	1,927,021

28. EXPENSES BY NATURE

The Company's statement of income is presented based on a classification of the expenses according to their function. The expenses by nature are as follows:

	Parent		Consolidated	
	2010	2009	2010	2009
Cost of sales:				
Raw material	566,221	485,175	716,650	592,184
Payroll, related taxes and benefits	166,266	139,138	289,439	239,789
Other costs	117,691	138,614	211,812	264,104
Total	850,178	762,927	1,217,751	1,096,077
Selling expenses:				
Payroll, related taxes and benefits	65,154	62,362	99,617	96,070
Freights	58,035	48,723	73,743	57,811
Advertising and publicity	169,390	118,803	205,755	158,830
Others	115,404	145,645	167,357	193,481
	407,983	375,533	546,472	506,192
General and administrative expenses:				
Payroll, related taxes and benefits	52,293	49,119	64,306	61,857
Third-party services	28,367	23,669	31,656	26,862
Others	12,107	12,796	15,890	16,817
	92,767	85,584	111,852	105,536

29. STOCK OPTION PLANS

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 Human Resources Department of the Company.

General criteria of the stock option plans

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 between 2006 and 2009 is three years, with vesting of 30% in the third year (two-month period exercise period), 30% in the fourth year (two-month period exercise period), and 40% in the fifth year after grant date, and a maximum five-year term to exercise of the options granted. As regards to these plans, the option exercise is contingent to the attainment of performance goals, based on internal performance indicators.

For the 2010 program, the grace period for the exercise of the options was the same adopted for the 2006-2009 plans; however, the maximum period for the exercise of the options granted is different for each tranche, corresponding to three years after the maturity date of each grace period. As regards to these plans, the 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 sixty 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) 2006-2009 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 sixty trading sessions before May 31 of the grant year. The exercise price is adjusted using the Extended Consumer Price Index (IPCA).

(iii) 2010 plan: 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 sixty trading sessions before May 31 of the grant year. This exercise price is not adjusted based on any index.

Changes in the stock options plans

The table below shows the changes in the stock options plans for the years ended December 31, 2010 and 2009:

	2010		2009	
	Stock options	Weighted average exercise price - R$	Stock options	Weighted average exercise price -R$
Outstanding options at beginning of year	268.314	64.56	217.654	60.49
(+) Stock split on 02/24/10	5,097,966	-	-	-
(=) Outstanding options at beginning of year after the stock split	5,366,280	3.23	217,654	60.49
Options granted	631,000	6.21	56,000	70.57
Options exercised	(548,500)	2.25	(5,340)	29.41
Options cancelled	(195,880)	3.58	-	-
Outstanding options at end of year	5,252,900	3.84	268,314	64.56

Outstanding options at end of year

Stock options outstanding have the following features:

	Outstanding options			
Year	Options not exercised at end of year	Remaining contractual life (months)	Exercise price rate - R$	Options exercisable at end of year
December 31, 2010	5,252,900 (*)	37	1.05 - 8.61 (*)	2,594,760 (*)
December 31, 2009	268,314	42	18.91 - 162.66	118,984

(*) Volumes and amounts after the split of shares on February 24, 2010.

Detailed features of the stock options, by plan:

	12/31/2010			
Grant date	Options not exercised at end of year (*)	Remaining contractual life (months)	Exercise price - R$ (*)	Options exercisable at end of year (*)
July 1, 2002	178,000	18	1.05	178,000
July 1, 2003	363,600	30	1.20	363,600
July 1, 2004	808,200	42	1.52	808,200
July 1, 2005	889,240	54	2.16	889,240
July 1, 2006	432,860	6	5.88	244,720
July 1, 2007	280,000	18	8.61	111,000
July 1, 2008	550,000	30	5.93	-
July 1, 2009	1,120,000	42	3.80	-
July 1, 2010	631,000	90	6.21	-
Total	5,252,900	37	1.05 - 8.61	2,594,760

(*) Volumes and amounts after the split of shares on February 24, 2010.

	31/12/2009			
Grant date	Options not exercised at end of year	Remaining contractual life (months)	Exercise price - R$	Options exercisable at end of year
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	42	18.91 - 162.66	118,984

For accounting purposes, the fair value of options was estimated using a binomial valuation model. The expenses recorded in the statement of income relating to stock option plans totaled R$1,085 for the year ended December 31, 2010 compared to R$934 for the year ended December 31, 2009. For calculation of expenses, a probability of attainment of performance conditions of 100% (for 2006-2010 grants) and an expected stock cancellation rate of 0% were adopted.

On the grant date, the fair value of stock options granted on July 1, 2010 totaled R$3.70. The performance conditions were not reflected in the fair value since they are based on internal performance indicators. The expected volatility assumption was based on historic volatility in the five-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 150% of the exercise price.

The main assumptions used in the calculation are as follows:

	Amounts in R$
Share price	7.75
Exercise price	6.21
Expected volatility	38.00%
Expected dividends	3.00%
Risk-free rate (nominal rate)	12.25%
Post-vesting rate	10.00%
Fair value	3.70

The table below shows the simulated effects arising from:

(i) Scenario I: exercise of the stock options granted up to December 31, 2010.

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

In both scenarios, we assumed that all options were vested on December 31, 2010, based on the Company's shareholders' equity as of this date.

Amounts in Brazilian reais - R$:

	Scenario I	Scenario II
Weighted average exercise price	3.84	3.84
Number of preferred shares	171,931,800	171,931,800
Number of outstanding preferred shares	166,838,580	166,838,580
Number of shares to be purchased with exercise of options	5,252,900	11,993,200
Book value per outstanding share	7.85	7.85
Book value per share considering the exercise of options	7.61	7.32
Dilution of book value per share	0.24	0.53
Percentage dilution	3.05%	6.64%

30. EMPLOYEE BENEFITS

The Company and its subsidiaries sponsor two supplementary 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, 2010 is R$2,330 (R$4,136 in 2009), which is recorded in "Other payables" under long-term liabilities. The supplementary 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.

The actuarial amounts are as follows:

	2010
Present value of actuarial obligation	27,562
Fair value of plan assets	(38,980)
Unrecognized actuarial gain	7,875
Total net asset	(3,543)

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for the year ended 2010 were as follows:

Financial discount rate	10.5
Long-term inflation rate	4.5
General mortality table	AT83

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 survivors' benefits.

Actuarial calculation for the HSBC plan is as follows:

	R$
Present value of actuarial obligation	595
Fair value of plan assets	(3,582)
Unrecognized actuarial gain	189
Total net asset (*)	(2,798)

(*) This asset was not recognized in the Company's financial statements as of December 31, 2010 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 the year ended 2010 were as follows:

Financial discount rate	10.5
Long-term inflation rate	4.5
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	1,242
Unrecognized actuarial loss	(253)
Total liability recognized as of December 31, 2010	989

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for the year ended 2010 were as follows:

Financial discount rate	10.5
Long-term inflation rate	4.5
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	1,031
Unrecognized actuarial gain	310
Total liability recognized as of December 31, 2010	1,341

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for the year ended 2010 were as follows:

Financial discount rate	10.5
Long-term inflation rate	4.5
General mortality table	AT83

31. FINANCIAL INCOME (EXPENSES), NET

	Parent		Consolidated	
	2010	2009	2010	2009
Financial income:				
Interest on short-term investments	42,968	18,866	43,590	21,232
Interest receivable	2,023	4,308	2,439	7,721
Other	3,420	2,267	3,878	2,228
	48,411	25,441	49,907	31,181
Financial expenses:				
Interest on loans and financing	(9,871)	(16,373)	(12,324)	(28,947)
Interest payable on debt restructuring	-	-	(13,288)	(6,429)
IOF	(229)	(559)	(5,856)	(5,541)
Inflation adjustment of taxes	(4,522)	(7,559)	(4,546)	(4,435)
Other	(2,997)	(3,403)	(7,265)	(8,414)
	(17,619)	(27,894)	(43,279)	(53,766)

32. EXCHANGE VARIATION, NET

	Parent		Consolidated	
	2010	2009	2010	2009
Exchange gain	6,648	14,609	7,629	19,663
Exchange loss	(6,916)	(21,623)	(5,299)	(25,169)
	(268)	(7,014)	2,330	(5,506)

33. OTHER OPERATING INCOME (EXPENSES), NET

	Parent		Consolidated	
	2010	2009	2010	2009
Other operating income:				
Income from subsidiary's sales	2,005	-	2,005	-
Income on sale of property, plant and equipment	1,546	-	14,305	-
Final and unappealable decisions in lawsuits (*)	4,125	11,805	9,707	11,805
Other	-	3,100	-	2,561
	7,676	14,905	26,017	14,366
Other operating expenses:				
Loss on write-off of property, plant and equipment	(2,161)	-	(2,161)	-
Provisions for labor, civil and tax risks (note 23)	(15,010)	(10,474)	(16,419)	(13,198)
Impairment of property, plant and equipment - Alpargatas S.A.I.C. Argentina (note 16)	-	-	-	(18,148)
Other	(8,823)	(3,827)	(11,711)	(7,045)
	(25,994)	(14,301)	(30,291)	(38,391)
Other operating income (expenses), net	(18,318)	604	(4,274)	(24,025)

(*) 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, or R$11,805 excluding lawyers' fees in the amount of R$596.

In 2010, this refers to the favorable outcome on the lawsuit filed against INSS relating to the increase in the rate for September 1989, in the amount of R$4,403, of which R$4,125 net of attorneys' fees of R$276.

34. 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. For the years ended December 31, 2010 and 2009, profit sharing recognized in the statement of income was as follows:

	Parent		Consolidated	
	2010	2009	2010	2009
Profit sharing program	31,810	18,513	39,952	24,581

Profit sharing is recorded in "Payroll and related taxes" under current liabilities.

35. PLEDGES AND COLLATERALS

As of December 31, 2010 and 2009 and January 1, 2009, in addition to the information disclosed in note 18, pledges and collaterals provided by the Company to financial institutions related to vendor financing transactions were as follows:

Parent			Consolidated		
12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
3,810	3,481	9,162	3,810	5,370	11,761

For the years ended, the Company did not record losses arising from the guarantees pledged.

36. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) General considerations and policies

The Company and its subsidiaries conduct transactions involving financial instruments, including derivatives, when applicable, 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.

Treasury procedures set by the policy in effect include monthly projection routines and assessment of the consolidated foreign exchange exposure for the Company and its subsidiaries, based on which Management makes its decisions.

Short-term investments

The Short-term Investment Policy established by Company's and its subsidiaries' Management elects the financial institutions with which the agreements may be entered into based on the evaluation of the credit rating attributed to the counterparty, maximum exposure percentage by institution based on the rating and bank's maximum net equity percentage. As of December 31, 2010 and 2009 and January 1, 2009, short-term investments were made according to such limits.

Loans and financing

Loans and financing are recorded based on interest contractually established for each operation, as shown in note 18.

Current accounts with related parties

In Parent, 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.

Derivative policy

Due to the financial obligations in foreign currencies assumed by the Company and its subsidiaries, Management, pursuant to guidelines established by the Board of Directors, may contract derivative transactions to minimize foreign exchange risks arising from financial liabilities and accounts payable 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, 2010 and 2009, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

b) Financial risk management

Financial risk factors

The Company's and subsidiaries' activities expose them to several financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program is focused on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance, using derivatives to protect certain risk exposures.

Risk management is carried out by the Company's treasury and the policies must be approved by the Board of Directors. The treasury area identifies, assesses and contracts financial instruments in order to hedge the Company against potential financial risks, mainly those arising from interest and exchange rates.

b1) Market risk

The Company is exposed to market risks arising from its business activities. These risks mainly comprise possible changes in exchange and interest rates.

i) Currency risk

Due to different types of receivables and financial liabilities assumed by the Company in foreign currencies, the Exchange Rate Hedging Policy was implemented, establishing exposure limits linked to this risk.

This policy considers foreign currency-denominated amounts from receivables and payables related to commitments already made and recorded in the financial statements arising from the Company's operations, and future cash flows.

ii) Interest rate risk

The Company's interest rate risk arises from short-term investments, loans and financing in the short and long term. The Company's Management adopts the policy of maintaining its rates of exposure to asset and liability interest rates pegged to floating rates. Short-term investments and loans and financing are adjusted based on the fixed CDI rate, pursuant to the agreements entered into with financial institutions.

b2) Credit risk

Sales are mainly made to retailers and wholesalers and retailers. The credit risk is reduced due to the higher dispersion of the customer portfolio and credit assessment and granting policies. The result of this management is reflected in "Allowance for doubtful accounts", as explained in note 10.

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

The risk of not settling transactions with financial institutions is low, as these are considered by the market as prime banks.

b3) Liquidity risk

Effectively managing liquidity risk implies to maintain enough cash and securities, funds available through credit facilities used and the ability to gain market share. Due to the active nature of the Company's and its subsidiaries' businesses, the treasury area is flexible in raising funds through the maintenance of committed credit lines.

Management monitors the Company's consolidated liquidity level considering the expected cash flow against unused credit lines and cash and cash equivalents. The table below analyzes financial liabilities, by maturity ranges, corresponding to the remaining period in the balance sheet compared to the contractual maturity date. Amounts presented in the table are undiscounted cash flows contracted.

c) Financial liabilities

The carrying amounts of financial liabilities are measured by the amortized cost method, and its corresponding fair values are as follows:

	01/01/2009						
	Less than one year	Between one and two years	Between three and five years	Over five years	Fair value January 1, 2009	Discount effects	Carrying value January 1, 2009
Current:							
Finance lease transactions	33	-	-	-	33	(1)	32
Loans and financing	183,398	-	-	-	183,398	-	183,398
Trade accounts payable	127,704	-	-	-	127,704	-	127,704
Noncurrent-							
Loans and financing	37,532	18,669	36,552	29,249	122,002	-	122,002

	12/31/2009						
	Less than one year	Between one and two years	Between three and five years	Over five years	Fair value December 31, 2009	Discount effects	Carrying value December 31, 2009
Current:							
Finance lease transactions	656	-	-	-	656	(185)	471
Loans and financing	108,874	-	-	-	108,874	-	108,874
Trade accounts payable	115,625	-	-	-	115,625	-	115,625
Noncurrent-							
Finance lease transactions	330	-	-	-	330	(93)	237
Loans and financing	20,497	18,822	32,050	15,210	86,579	-	86,672

	12/31/2010						
	Less than one year	Between one and two years	Between three and five years	Over five years	Fair value December 31, 2010	Discount effects	Carrying value December 31, 2010
Current:							
Finance lease transactions	405	-	-	-	405	(70)	335
Loans and financing	226,036	-	-	-	226,036	-	226,036
Trade accounts payable	212,777	-	-	-	212,777	-	212,777
Noncurrent:							
Finance lease transactions	172	-	-	-	172	(21)	151
Loans and financing	19,669	18,513	29,068	2,167	69,417	-	69,438

d) Capital management

The objectives of the Company in managing its capital are to ensure that the Company is continuously capable of offering return to its shareholders and benefits to other related stakeholders, and maintain an ideal capital structure to reduce this cost.

The net financial position is equivalent to total cash, cash equivalents and short-term investments, less short- and long-term loans and financing.

	2010	2009	January 1, 2009
Cash, cash equivalents and short-term investments	654,665	306,590	177,045
(-) Short- and long-term loans and financing	(295,960)	(196,254)	(305,432)
Net financial position	358,705	110,336	(128,387)
Shareholders' equity	1,348,073	1,129,972	1,094,949

e) Exchange rate exposure

		Parent		Consolidated	
		12/31/2010	12/31/2009	12/31/2010	12/31/2009
Assets-					
Trade accounts receivable	(i)	30,746	21,714	78,412	67,264
Total assets		30,746	21,714	78,412	67,264
Liabilities:					
Loans and financing	(ii)	-	2,502	75,208	74,781
Trade accounts payable		26,110	17,143	69,040	41,140
Royalties payable		5,945	2,106	5,945	2,106
Total liabilities		32,055	21,751	150,193	118,027
Net exposure		(1,309)	(37)	(71,781)	(50,763)
(-) Foreign subsidiaries		-	-	72,365	51,644
Total exposure for sensitivity analysis purpose		(1,309)	(37)	584	881

(i) Of the consolidated amounts as of December 31, 2010, 76.4% (71.6% as of December 31, 2009) refers to trade accounts receivable of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina) and 23.6% (28.4% as of December 31, 2009) refers to foreign trade accounts receivable of the Company in Brazil.

(ii) Of the consolidated amounts as of December 31, 2010, 100% (94.9% as of December 31, 2009) refers to local currency-denominated loans of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina), as shown in note 18.

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, 2010 and 2009, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

f) Fair values

As of December 31, 2010 and 2009 and January 1, 2009, the fair values of short-term investments approximate their carrying amounts since they are pegged to the interbank deposit rate (CDI) fluctuation. Loans and financing are adjusted for inflation based on interest rates contracted according to the usual market conditions and, therefore, balances payable at the balance sheet date substantially approximate their fair values, including those classified as “noncurrent”.

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

It is estimated that the amounts of trade accounts receivable and trade accounts payable recognized at their carrying amounts approximate their fair value in view of the short term of the transactions conducted.

The Company and its subsidiaries use hierarchy rules to measure the fair value of their financial instruments, as set out in IFRS 7/CPC 40, for financial instruments measured in the balance sheet, what requires the disclosure of the fair value measurements at the following hierarchy level:

- Prices quoted (nonadjusted) in active markets for identical assets and liabilities (Level 1).

- In addition to the quoted prices, included in Level 1, inputs used by the market for assets or liabilities, whether directly (e.g. prices) or indirectly (e.g., derived from prices) (Level 2).

- Exemptions for assets or liabilities that are not based on the data adopted by the market (i.e., unobservable inputs) (Level 3).

The fair value of the financial instruments traded in active markets (such as held-for-trading and available-for-sale securities) is based on market prices at the balance sheet date. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for the financial assets held by the Group is the price of current competitors. These instruments are included in Level 1.

The fair value of financial instruments not traded in active markets (for example, over-the--counter derivatives) is determined using valuation techniques. These valuation techniques make maximum use of market inputs, where available, and rely as little as possible on entity specific inputs. If all relevant inputs required for the fair value of an instrument are adopted by the market, the instrument will be included in Level 2.

If one or more than one material input is not based on market inputs, the instrument is included in Level 3.

Specific valuation techniques used to measure financial instruments, according to Level 2 rules, include:

- Quoted market prices or quotations of financial institutions or brokers for similar instruments.

- The fair value of interest rate swaps is measured as the present value of future cash flows estimated based on the yield curves adopted by the market.

- The fair value of foreign exchange futures contracts is determined using future exchange rates at the balance sheet date, using the amount resulting from the discount to present value.

- Other techniques, such as the analysis of discounted cash flows, are used to determine the fair value of the remaining financial instruments.

The Company and its subsidiaries do not have financial instruments stated at fair value for the years ended December 31, 2010 and 2009.

g) Sensitivity analysis of financial instruments

Currency risk

In the consolidated currency exposure sensitivity analysis as of December 31, 2010, the Company disregarded the balances of trade accounts receivable and loans and financing 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 (e) above, as of December 31, 2010, the sensitivity analysis of outstanding positions is as follows:

	Loss	
Company's risk	Possible scenario	Remote scenario
US dollar depreciation	(146)	(292)

The possible scenario considers a 25% appreciation of the Brazilian real against the US dollar over the exchange rate as of December 31, 2010 of R$1.6662/US$1.00 (R$1.2497/US$1.00), and the remote scenario considers a 50% appreciation (R$0.8331/US$1.00).

In light of the parities considered, results would correspond to a loss of R$146 in the possible scenario and a loss of R$292 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, 2010.

Interest rate risk

The sensitivity analysis was determined based on the exposure to interest rates of nonderivative financial instruments at the end of the reporting period. For financial assets indexed to the CDI rate and liabilities indexed to the floating TJLP rate, the analysis is prepared assuming that the net amount between the asset and liability outstanding at the end of the reporting period remained outstanding throughout the year. A 5 percentage point increase or decrease is used to internally present the interest rate risks to Management's key personnel and corresponds to Management's assessment of the possible changes in interest rates.

Had interest rates been 5% higher and all other variables remained stable, net income for the year ended December 31, 2010 would have increased by approximately R$22,000 (increase of R$13,000 in 2009). This is mainly due to the Company's net exposure to the CDI rate on short-term investments, considering that the financial liabilities are mainly stated at fixed rates, as shown in note 18.

The Company's sensitivity to interest rates increased during current year mainly due to the increase in the balance of cash and cash equivalents and short-term investments indexed to the CDI rate.

37. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Company entered into a Share Purchase and Sales Agreement on December 22, 2009 (the "Agreement") for the direct sale of all the shares in subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a limited liability company headquartered in Pouso Alegre, MG, and the indirect sale of all the shares in Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., a limited liability company headquartered in Manaus, State of Amazonas.

The disposal of this cash-generating unit, denominated Industrial Textile segment, is part of the effort to concentrate the Company's activities in the footwear, sporting goods and retail segments to maximize its performance in these segments. This operation was completed on April 20, 2010. This operation generated a capital gain in the amount of R$2,005, of which R$505 was recorded due to the disposal of investment and R$1,500 was recorded in September 2010 due to the price adjustment in accordance with contractual clause.

As of December 31, 2009, upon classification as discontinued operation and group of assets held for sale, the net assets of this unit, as well as the income or loss from discontinued operations, for the year ended December 31, 2009 and for the period between January 1 and April 20, 2010, are as follows:

(i) Net assets

ASSETS		LIABILITIES	
CURRENT		CURRENT	
Cash and cash equivalents	24	Trade accounts payable	6,043
Customers	10,189	Payroll and related taxes	3,278
Inventories	10,377	Taxes payable	1,234
Other receivables	14,523	Other payables	1,942
	35,113		12,497
NONCURRENT		NONCURRENT	
Others	17,577	Other payables	833
	17,577		
TOTAL ASSETS	52,690	TOTAL LIABILITIES	13,330
NET ASSETS	39,360		

(ii) Income from discontinued operations

	2010 (a)	2009 (b)
Net revenue from sales	27,859	81,221
Cost of products sold	(19,531)	(61,589)
Gross profit	8,328	19,632
Operating expenses	(4,380)	(15,705)
Net financial income	48	330
Operating income	3,996	4,257
(-) Income tax and social contribution	(755)	(1,016)
Net income from discontinued operations	3,241	3,241

(a) From January 1 to April 20, 2010.

(b) Comprising year 2009.

(iii) Cash flows from discontinued operations

	2010	2009
Arising from operations	664	(1,982)
Net cash used in investing activities	(70)	1,919
Net cash provided by (used in) discontinued operations	594	(63)

Additionally, as of December 31, 2009, subsidiary Alpargatas S.A.I.C. - Argentina offered for sale the assets of its textile unit in the amount of R$6,082, which were sold in 2010.

38. EARNINGS PER SHARE

	2010		
	Common - ON	Preferred - PN (a)	Total
Denominator			
Total weighted average number of shares	181,524,080	171,931,800	353,455,880
Weighted number of treasury shares	-	(5,091,717)	(5,091,717)
Weighted average number of outstanding shares	181,524,080	166,840,083	348,364,163
% of shares	52.11%	47.89%	100.00%
Numerator - Basic			
Net income for the year from continuing operations attributable to each class of shares	150,680	152,420	303,100
Net income for the year from discontinued operations attributable to each class of shares	1,611	1,630	3,241
Net income for the year attributable to each class of shares	152,291	154,050	306,341
Basic earnings per share for the year from continuing operations	0.8301	0.9136	0.8701
Basic earnings per share for the year from discontinued operations	0.0089	0.0098	0.0093
Basic earnings per share for the year	0.8390	0.9233	0.8794
Numerator - Diluted			
Weighted average number of outstanding shares	181,524,080	166,840,083	348,364,163
Weighted number of shares in stock option plans	-	5,186,003	5,186,003
Weighted average number of outstanding shares	181,524,080	172,026,086	353,550,166
Diluted earnings per share for the year from continuing operations	0.8301	0.8860	0.8573
Diluted earnings per share for the year from discontinued operations	0.0089	0.0095	0.0092
Diluted earnings per share for the year	0.8390	0.8955	0.8665

	2009 (b)		
	Common - ON	Preferred - PN (a)	Total
Denominator			
Total weighted average number of shares	181,524,080	171,931,800	353,455,880
Weighted number of treasury shares	-	(254,646)	(254,646)
Weighted average number of outstanding shares	181,524,080	171,677,154	353,201,234
% of shares	51.39%	48.61%	100.00%
Numerator - Basic			
Net income for the year from continuing operations attributable to each class of shares	60,045	62,586	122,631
Net income for the year from discontinued operations attributable to each class of shares	1,587	1,654	3,241
Net income for the year attributable to each class of shares	61,632	64,240	125,872
Basic earnings per share for the year from continuing operations	0.3308	0.3646	0.3472
Basic earnings per share for the year from discontinued operations	0.0087	0.0096	0.0092
Basic earnings per share for the year	0.3395	0.3742	0.3564
Numerator - Diluted			
Weighted average number of outstanding shares	181,524,080	171,677,154	353,201,234
Weighted number of shares in stock option plans	-	242,221	242,221
Weighted average number of outstanding shares	181,524,080	171,919,375	353,443,455
Diluted earnings per share for the year from continuing operations	0.3308	0.3640	0.3470
Diluted earnings per share for the year from discontinued operations	0.0087	0.0096	0.0092
Diluted earnings per share for the year	0.3395	0.3737	0.3561

(a) Preferred shares are entitled to dividends 10% greater than those of common shares.

(b) Considering the stock split carried out on February 24, 2010.

39. COMMITMENTS ASSUMED

39.1. Operating leases

Stores leased

As of December 31, 2010, the Company had lease agreements with third parties for its stores. Management reviewed these agreements and concluded that they qualify as operating leases.

The lease amount of properties is the greater of: (i) the equivalent to the average rate between 3% and 4% of the store's monthly gross sales; or (ii) the minimum monthly amount annually adjusted using various inflation indexes. The average monthly lease expenses paid totaled R$650 (R$558 in 2009). Such lease agreements mature between 5 and 15 years, subject to renewal.

For the year ended December 31, 2010, rental expenses, net of recoverable taxes, totaled R$7,801 (R$6,697 in 2009) in consolidated.

Other leases

The Company also has warehouse lease agreements for the warehousing of products and goods and commercial offices with monthly fixed amounts, adjusted annually based on usual market inflation indices.

For the year ended December 31, 2010, rental expenses, net of recoverable taxes, totaled R$17,687 (R$19,507 in 2009) in consolidated.

Future commitments

Total future commitments arising from operating lease agreements totaled a minimum fixed amount of R$75,862 as of December 31, 2010, distributed as follows:

Year	R$
2011	16,829
2012	15,763
2013	15,176
2014 to 2015	28,094
	75,862

Such transactions are subject to usual restrictive clauses, such as guarantees for early termination of agreement, among others; these clauses, as of December 31, 2010, were complied with by the Company and, therefore, no effective lease agreement on such date was characterized as onerous agreement by the Company's Management. In addition, no contingent payment was made by the Company during the year ended 2010.

39.2. Inputs supply contracts

The Company has commitments deriving from an agreement for the supply of electric power effective through 2010, providing for the purchase of a minimum monthly volume of 24,773 kW, equivalent to R$599, which can be amended within no less than six months. As of December 31, 2010, the Company was compliant to this agreement's commitments.

40. INSURANCE COVERAGE (UNAUDITED INFORMATION)

The Company and its subsidiaries have an insurance policy that considers principally risk concentration and materiality, providing it with a level of insurance coverage considered sufficient by Management according to the type of its activities and advice of the insurance brokers. As of December 31, 2010, insurance coverage is as follows:

- Operational risks - R$540,891.
- Material damages - R$891,468.
- Loss of profits - R$566,000 (maximum limit).
- General civil liability - R$8,000.
- Optional civil liability - R$1,000.

41. RESTATEMENT OF INTERIM FINANCIAL STATEMENTS - ITR - RECONCILIATION OF THE EFFECTS FROM THE FIRST-TIME ADOPTION OF IFRS ON QUARTERLY INCOME/LOSS AND SHAREHOLDERS' EQUITY

In compliance with article 2-A of CVM Resolution 603/09, as amended by CVM Resolution 656, of January 25, 2011, the Company, since it has not presented the Interim Financial Statements - ITR for the quarters of 2010 up to the date of disclosure of these financial statements, presents below the effects on income (loss) and shareholders' equity of each quarter of 2010 compared to 2009, arising from the adoption of the International Financial Reporting Standards - IFRS and the new technical pronouncements (CPCs) issued in 2009, as follows:

a) Shareholders' equity reconciliation

		Consolidated		
	Note	03/31/2010	06/30/2010	09/30/2010
Shareholders' equity under previous BR GAAP				
Under accounting practice - Laws 11638/07 and 11941/09 (before adoption of IFRSs and new CPCs issued in 2009)		1,111,225	1,169,587	1,235,171
Adjustment for first-time adoption of IFRSs and new accounting pronouncements issued in 2009:				
Alpargatas S.A.I.C. - Argentina				
Initial cost of property, plant and equipment		34,281	33,878	33,662
Accumulated adjustment from conversion of financial stetements		(10,513)	(10,472)	(11,727)
Impairment of property, plant and equipment		(7,309)	(7,309)	(7,309)
	6.2.3. b)	16,459	16,097	14,626
Tavex Algodonera S.A. - Spain				
Deemed cost of property, plant and equipment		15,523	15,523	15,523
Accumulated adjustment from conversion of financial statements		(5,139)	(6,527)	(5,766)
Other practical differences		3,169	3,881	3,570
	6.2.3. c)	13,553	12,877	13,327
Negative goodwill on the acquisition of noncontrollers in subsidiaries	15	1,692	1,692	1,692
São Paulo Alpargatas S.A.				
Actuarial liability (effect restatement)	6.2.3. d)	(1,442)	(1,442)	(1,442)
Offset of deferred assets	6.2.3. a)	(5,691)	(5,103)	(4,526)
Deferred income tax and social contribution on adjustments above		2,425	2,225	2,029
		(4,708)	(4,320)	(3,939)
Total adjustments to shareholders' equity		26,996	26,346	25,706
Shareholders' equity under BR GAAP and IFRSs				
Under accounting practice - Laws 11638/07 and 11941/09 (after adoption of IFRSs and new CPCs issued in 2009)		1,138,221	1,195,933	1,260,877

	Note	Parent 03/31/2010	06/30/2010	09/30/2010
Shareholders' equity under BR GAAP				
Under accounting practice - Law 11638/07 and 11941/09 (before adoption of IFRSs and new CPCs issued in 2009)		1,114,275	1,170,700	1,236,385
Adjustment for first-time adoption of IFRSs and new accounting pronouncements issued in 2009:				
Actuarial liability (effect restatement)	6.2.3. d)	(1,442)	(1,442)	(1,442)
Offset of deferred assets	6.2.3. a)	(5,691)	(5,103)	(4,526)
Deferred income tax and social contribution on adjustments above		2,425	2,225	2,029
Elimination of unrealized profits on inventories, net of taxes	6.2.3. j)	(3,050)	(1,113)	(1,214)
Negative goodwill on the acquisition of noncontrollers in subsidiaries	15	1,692	1,692	1,692
Equity in subsidiaries		30,012	28,974	27,953
Total adjustments to shareholders' equity		23,946	25,233	24,492
Shareholders' equity under BR GAAP and IFRSs				
Under accounting practice - Laws 11638/07 and 11941/09 (after adoption of IFRSs and new CPCs issued in 2009)		1,138,221	1,195,933	1,260,877

b) Reconciliation of the effects on quarterly income (loss)

	Note	Parent 03/31/2010	03/31/2009	06/30/2010	06/30/2009	09/30/2010	09/30/2009
Net income in BR GAAP							
Under accounting practice - Laws 11638/07 and 11941/09 (before adoption of IFRSs and new CPCs issued in 2009)		70,012	23,438	153,164	19,256	234,727	71,797
Adjustment for first-time adoption of IFRSs and new accounting pronouncements issued in 2009:							
Write-off of deferred charges	6.2.3 a)	599	153	1,187	306	1,764	459
Deferred income tax and social contribution on the adjustments above		(204)	(52)	(404)	(104)	(600)	(156)
Elimination of unrealized profits on inventories, net of tax effects	6.2.3. j)	(484)	(2,936)	1,454	(15)	1,352	939
Equity in subsidiaries		(162)	(1,853)	147	(1,752)	(380)	(9,399)
Total adjustments to net income		(251)	(4,688)	2,384	(1,565)	2,136	(8,157)
Net income in BR GAAP and IFRSs							
Under accounting practice - Laws 11638/07 and 11941/09 (after adoption of IFRSs and new CPCs issued in 2009)		69,761	18,750	155,548	17,691	236,863	63,640

	Note	Consolidated 03/31/2010	03/31/2009	06/30/2010	06/30/2009	09/30/2010	09/30/2009
Net income under previous BR GAAP							
Under accounting practice - Laws 11638/07 and 11941/09 (before adoption of IFRSs and new CPCs issued in 2009)		69,528	20,502	154,618	19,241	236,079	72,736
Adjustment for first-time adoption of IFRSs and new accounting pronouncements issued in 2009:							
Alpargatas S.A.I.C. (Argentina) - "ASAIC"							
Impairment of property, plant and equipment		-	-	-	-	-	(7,309)
Initial cost of property, plant and equipment		(437)	(968)	(840)	(1,370)	(1,056)	(2,084)
	6.2.3. b)	(437)	(968)	(840)	(1,370)	(1,056)	(9,393)
Tavex Algodonera S.A. - Spain							
Other differences in the practices		275	(885)	987	(382)	676	(6)
	6.2.3. c)	275	(885)	987	(382)	676	(6)

	Note	Consolidated					
		03/31/2010	03/31/2009	06/30/2010	06/30/2009	09/30/2010	09/30/2009
São Paulo Alpargatas S.A. (a)							
Write-off of deferred charges	6.2.3 a)	599	153	1,187	306	1,764	459
Deferred income tax and social contribution on the adjustments above		(204)	(52)	(404)	(104)	(600)	(156)
		395	101	783	202	1,164	303
Total adjustments to net income		233	(1,752)	930	(1,550)	784	(9,096)
Net income in BR GAAP and IFRSs							
Under accounting practice - Laws 11638/07 and 11941/09 (after adoption of IFRSs and new CPCs issued in 2009)		69,761	18,750	155,548	17,691	236,863	63,640

These interim financial statements were subject to the special review procedures adopted by the Company's independent auditors in accordance with CVM requirements for interim financial statements (NPA 06 of IBRACON), including the adjustments arising from the adoption of new accounting practices, and, therefore, were not subject to audit procedures.

42. APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUANCE

These financial statements were approved for issuance by the Board of Directors at the meeting held on March 18, 2011.