# Financial Statements

## Alpargatas S.A.

December 31, 2012
with Independent Auditor's Report

**Alpargatas S.A.**

Financial statements

December 31, 2012 and 2011

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**A free translation from Portuguese into English of Independent Auditor's Report on individual financial statements in accordance with accounting practices adopted in Brazil and on consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil**

# Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
**Alpargatas S.A.**
São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Alpargatas S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2012, and the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

## 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 the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Independent auditor's 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 in 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 Company's 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 practices 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion on the individual financial statements**

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Alpargatas S.A. as of December 31, 2012, its financial 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 referred to above present fairly, in all material respects, the consolidated financial position of Alpargatas S.A. as of December 31, 2012, its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil.

## Emphasis of matter

As mentioned in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Alpargatas S.A., such practices are different to IFRS, applicable to separate financial statements, only regarding assessment of investments in subsidiaries, affiliate companies and jointly controlled entities under the equity method, whereas, for IFRS purposes, it would be under the cost or fair value method. We did not express any qualified opinion with respect to this matter.

**Other matters**

**Statements of value added**

We have also audited the individual and consolidated statements of value added (SVA) for the year ended December 31, 2012, prepared under the responsibility of the Company's management, the presentation of which is required by Brazilian Corporation Law for publicly held companies, and as supplementary information under IFRS, whereby no SVA presentation is required. These statements have been subject to the same auditing procedures described above and, in our opinion these are presented fairly, in all material respects, in relation to the overall financial statements.

**Audit of prior year amounts**

Amounts corresponding to year ended December 31, 2011, presented for comparison purposes, were previously audited by another independent auditor, who issued an unmodified report dated March 16, 2012.

**Restatement o prior-year financial statements**

As mentioned in Note 40, for this year, Alpargatas S.A. decided to retroactively adjust the classification of part of its short-term investments, previously classified as cash equivalents. As part of our audit of the 2012 financial statements, we have also audited the adjustments mentioned in Note 40, in order to restate the comparative financial statements. In our opinion, such adjustments are presented fairly and appropriately, in all material respects.

We have not been engaged to audit, review or apply any other procedures on the financial statements of the Company for 2011 and 2010. Therefore we express no opinion or any assurance on the overall 2011 and 2010 financial statements.

São Paulo, March 15, 2013

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-6

Waldyr Passetto Junior
Accountant CRC-1SP173518/O-8

**A free translation from Portuguese into English of individual financial statements in accordance with accounting practices adopted in Brazil and of consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil**

# Alpargatas S.A.

Balance sheets
December 31, 2012 and 2011
(In thousands of reais – R$)

| | Note | Company (BR GAAP) | | | Consolidated (BR GAAP and IFRS) | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | 2011 (restated) | 2010 (restated) | 2012 | 2011 (restated) | 2010 (restated) |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 8 | **82,533** | 163,131 | 454,095 | **122,830** | 222,210 | 482,489 |
| Short-term investments | 8 | **458,833** | 448,744 | 172,176 | **494,078** | 448,744 | 172,176 |
| Trade accounts receivable | 9 | **604,367** | 433,456 | 364,634 | **694,169** | 505,858 | 426,573 |
| Inventories | 10 | **248,323** | 198,200 | 183,878 | **443,938** | 351,023 | 295,885 |
| Taxes recoverable | 11 | **33,968** | 15,886 | 13,451 | **54,461** | 26,000 | 22,909 |
| Prepaid expenses | | **3,563** | 6,293 | 3,187 | **6,583** | 11,433 | 5,783 |
| Other receivables | | **24,901** | 26,241 | 25,034 | **22,928** | 42,312 | 50,247 |
| Total current assets | | **1,456,488** | 1,291,951 | 1,216,455 | **1,838,987** | 1,607,580 | 1,456,062 |
| Noncurrent assets | | | | | | | |
| Taxes recoverable | 11 | **8,609** | 6,490 | 3,795 | **28,300** | 25,848 | 19,028 |
| Judicial deposits | 13 | **11,685** | 13,665 | 11,698 | **12,203** | 14,528 | 12,650 |
| Deferred income and social contribution taxes | 12.a) | **32,888** | 41,148 | 39,744 | **52,554** | 57,125 | 58,003 |
| Related parties | 21 | **4,536** | 1,448 | - | **-** | - | - |
| Other receivables | | **34,717** | 21,948 | 37,434 | **36,843** | 23,248 | 37,910 |
| Investments: | | | | | | | |
| Subsidiaries and affiliates | 14 | **358,945** | 357,172 | 324,683 | **33,369** | 74,267 | 77,143 |
| Other | | **195** | 195 | 195 | **195** | 195 | 195 |
| Property, plant and equipment | 15 | **362,923** | 204,700 | 171,606 | **494,369** | 341,980 | 301,520 |
| Intangible assets | 15 | **77,323** | 96,221 | 102,974 | **243,909** | 263,398 | 262,454 |
| Total noncurrent assets | | **891,821** | 742,987 | 692,129 | **901,742** | 800,589 | 768,903 |
| Total assets | | **2,348,309** | 2,034,938 | 1,908,584 | **2,740,729** | 2,408,169 | 2,224,965 |

| | Note | Company (BR GAAP) | | | Consolidated (BR GAAP and IFRS) | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | 2011 (restated) | 2010 (restated) | 2012 | 2011 (restated) | 2010 (restated) |
| Liabilities and equity | | | | | | | |
| Current liabilities | | | | | | | |
| Trade accounts payable | 16 | **280,840** | 218,573 | 158,375 | **359,079** | 297,150 | 212,777 |
| Loans and financing | 17 | **69,601** | 67,824 | 150,770 | **188,406** | 180,077 | 226,371 |
| Debt-restructuring agreements of subsidiaries | 18 | **-** | - | - | **11,687** | 14,758 | 13,367 |
| Labor and social security liabilities | | **73,836** | 64,745 | 61,854 | **109,466** | 98,897 | 88,021 |
| Provision for tax, civil and labor claims | 22 | **5,851** | 7,183 | 4,859 | **11,383** | 11,436 | 8,847 |
| Interest on equity and dividends payable | 21 | **1,725** | 843 | 495 | **1,725** | 843 | 495 |
| Taxes payable | 19 | **11,031** | 4,127 | 7,241 | **13,496** | 13,556 | 20,338 |
| Provisions and other liabilities | 20 | **44,406** | 27,107 | 22,381 | **60,217** | 47,623 | 34,829 |
| Total current liabilities | | **487,290** | 390,402 | 405,975 | **755,459** | 664,340 | 605,045 |
| Noncurrent liabilities | | | | | | | |
| Loans and financing | 17 | **64,581** | 53,907 | 69,031 | **110,347** | 55,856 | 69,589 |
| Debt-restructuring agreements of subsidiaries | 18 | **-** | - | - | **60,773** | 63,537 | 63,403 |
| Deferred income and social contribution taxes | 12.a) | **-** | - | - | **-** | 11,881 | 11,831 |
| Provision for tax, civil and labor claims | 22 | **18,985** | 18,465 | 22,193 | **25,768** | 26,245 | 30,784 |
| Suspended tax payments and other | 23 | **114,109** | 86,654 | 86,405 | **114,109** | 86,780 | 90,620 |
| Tax payment in installments – Law No. 11941/09 | | **874** | 875 | - | **874** | 875 | - |
| Related parties | 21 | **-** | - | 9,475 | **-** | - | - |
| Other liabilities | | **6,846** | 6,947 | 5,030 | **12,501** | 8,796 | 5,620 |
| Total noncurrent liabilities | | **205,395** | 166,848 | 192,134 | **324,372** | 253,970 | 271,847 |
| Equity | | | | | | | |
| Capital | 24.a) | **562,158** | 518,922 | 441,171 | **562,158** | 518,922 | 441,171 |
| Capital reserves | | **163,183** | 163,522 | 170,723 | **163,183** | 163,522 | 170,723 |
| Additional paid in capital | | **4,673** | 3,579 | 3,072 | **4,673** | 3,579 | 3,072 |
| Income reserve | | **988,953** | 865,824 | 733,806 | **988,953** | 865,824 | 733,806 |
| Equity valuation adjustment | | **(45,815)** | (33,572) | (33,165) | **(45,815)** | (33,572) | (33,165) |
| Treasury shares | | **(42,828)** | (40,587) | (29,282) | **(42,828)** | (40,587) | (29,282) |
| Additional dividend proposed | | **25,300** | - | 24,150 | **25,300** | - | 24,150 |
| Equity attributed to controlling shareholders | | **1,655,624** | 1,477,688 | 1,310,475 | **1,655,624** | .,477,688 | 1,310,475 |
| Non-controlling interest in subsidiaries' equity | | **-** | - | - | **5,274** | 12,171 | 37,598 |
| Total equity | | **1,655,624** | 1,477,688 | 1,310,475 | **1,660,898** | .,489,859 | 1,348,073 |
| Total liabilities and equity | | **2,348,309** | 2,034,938 | 1,908,584 | **2,740,729** | ?,408,169 | 2,224,965 |

See accompanying notes.

## Alpargatas S.A.

Income statements
Years ended December 31, 2012 and 2011
(In thousands of reais, except for earnings per share)

| | Note | Company (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|---|---|---|---|---|
| | | **2012** | **2011** | **2012** | **2011** |
| Continued operations | | | | | |
| Net operating revenue | 26 | **2,258,278** | 1,891,127 | **3,006,982** | 2,574,700 |
| Cost of products sold | 27 | **(1,255,245)** | (986,637) | **(1,734,176)** | (1,420,772) |
| Gross profit | | **1,003,033** | 904,490 | **1,272,806** | 1,153,928 |
| Operating income (expenses) | | | | | |
| Selling expenses | 27 | **(542,146)** | (492,721) | **(745,952)** | (663,238) |
| General and administrative expenses | 27 | **(117,140)** | (112,169) | **(139,424)** | (132,027) |
| Key management personnel compensation | 21 | **(9,925)** | (10,134) | **(12,314)** | (12,167) |
| Equity pickup | 14 | **(23,269)** | 11,345 | **(42,864)** | (5,657) |
| Other operating expenses, net | 32 | **(42,482)** | (22,516) | **(40,493)** | (29,024) |
| | | **(734,962)** | (626,195) | **(981,047)** | (842,113) |
| Operating income before financial income/expenses | | **268,071** | 278,295 | **291,759** | 311,815 |
| Financial income | 30 | **56,866** | 77,283 | **61,768** | 80,830 |
| Financial expenses | 30 | **(17,158)** | (25,630) | **(55,067)** | (51,214) |
| Foreign exchange variation, net | 31 | **3,587** | (923) | **1,393** | (567) |
| Income before income and social contribution taxes | | **311,366** | 329,025 | **299,853** | 340,864 |
| Current income and social contribution taxes | 12.b) | **(23,123)** | (23,009) | **(26,821)** | (32,136) |
| Deferred income and social contribution taxes | 12.b) | **(8,260)** | 1,404 | **7,504** | 339 |
| Net income for the year | | **279,983** | 307,420 | **280,536** | 309,067 |
| Net income for the year attributable to | | | | | |
| Controlling shareholders | | **279,983** | 307,420 | **279,983** | 307,420 |
| Non-controlling shareholders | | **-** | - | **553** | 1,647 |
| Earnings per share for the year | | | | | |
| Basic earnings per common share – R$ | 36 | **0.7178** | 0.7874 | **0.7178** | 0.7874 |
| Diluted earnings per common share – R$ | 36 | **0.7090** | 0.7785 | **0.7090** | 0.7785 |
| Basic earnings per preferred share – R$ | 36 | **0.7900** | 0.8665 | **0.7900** | 0.8665 |
| Diluted earnings per preferred share – R$ | 36 | **0.7811** | 0.8579 | **0.7811** | 0.8579 |

See accompanying notes.

## Alpargatas S.A.

Statements of comprehensive income
Years ended December 31, 2012 and 2011
(In thousands of reais – R$)

| | Note | Company (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|---|---|---|---|---|
| | | **2012** | **2011** | **2012** | **2011** |
| Net income for the year from continued operations | | **279,983** | 307,420 | **280,536** | 309,067 |
| Net income for the year from discontinued operations | | **-** | - | **-** | - |
| Net income for the year | | **279,983** | 307,420 | **280,536** | 309,067 |
| Other comprehensive income: | | | | | |
| Gains/losses on translation of financial statements of subsidiaries abroad | **14** | **(10,857)** | 2,539 | **(10,916)** | 974 |
| Total comprehensive income for the year | | **269,126** | 309,959 | **269,620** | 310,041 |
| Total comprehensive income for the year attributable to: | | | | | |
| Controlling shareholders | | **269,126** | 309,959 | **269,126** | 309,959 |
| Non-controlling shareholders | | **-** | - | **494** | 82 |

See accompanying notes.

# Alpargatas S.A.

Statements of changes in equity
Years ended December 31, 2012 and 2011
(In thousands of reais – R$)

| | | | Capital reserves | | | | Income reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Capital | Goodwill (negative goodwill) on sale of treasury shares | Tax incentives – investment grants | Capital reserve | Additional paid in capital | Legal reserve | Tax incentives | For investments | Treasury shares | Additional dividend proposed | Equity valuation adjustment | Retained earnings | Equity attributed to controlling shareholders | Non-controlling interest in subsidiaries' equity | Total equity |
| Balances at December 31, 2010 | | 441,171 | (7,016) | 169,241 | 8,498 | 3,072 | 49,676 | 333,000 | 351,130 | (29,282) | 24,150 | (33,165) | - | 1,310,475 | 37,598 | 1,348,073 |
| Net income for the year | | - | - | - | - | - | - | - | - | - | - | - | 307,420 | 307,420 | 1,647 | 309,067 |
| Other comprehensive income | | - | - | - | - | - | - | - | - | - | - | 2,539 | - | 2,539 | (1,565) | 974 |
| Total comprehensive income | | - | - | - | - | - | - | - | - | - | - | 2,539 | 307,420 | 309,959 | 82 | 310,041 |
| Capital increase | 24.a) | 77,751 | - | - | - | - | - | - | (77,751) | - | - | - | - | - | - | - |
| Acquisition of shares for treasury share purposes | | - | - | - | - | - | - | - | - | (24,252) | - | - | - | (24,252) | - | (24,252) |
| Sale of treasury shares for exercised stock options | 28 | - | (7,201) | - | - | - | - | - | - | 12,947 | - | - | - | 5,746 | - | 5,746 |
| Stock option plan granted | 28 | - | - | - | - | 1,551 | - | - | - | - | - | - | - | 1,551 | - | 1,551 |
| Exercised call options | 14 | - | - | - | - | (1,044) | - | - | - | - | - | - | 1,044 | | - | - |
| Purchase of non-controlling interest in subsidiary | 14 | - | - | - | - | - | - | - | - | - | - | - | - | - | (25,509) | (25,509) |
| Goodwill generated on purchase of non-controlling interest in subsidiary | 14 | - | - | - | - | - | - | - | (23,284) | - | - | - | - | (23,284) | - | (23,284) |
| Realization of cost attributed to property, plant and equipment of subsidiary and affiliate | | - | - | - | - | - | - | - | | - | - | (2,946) | 2,946 | - | - | - |
| Unclaimed interest on equity capital and dividends | | - | - | - | - | - | - | - | - | - | - | - | 243 | 243 | - | 243 |
| Payment of dividends declared on March 18, 2011 - R$0.07 per share | 24.c) | - | - | - | - | - | - | - | - | - | (24,150) | - | - | (24,150) | - | (24,150) |
| Allocation of net income for the year: | | | | | | | | | | | | | | | | |
| Establishment of reserves- | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| For tax incentives | 7 | - | - | - | - | - | - | 146,544 | - | - | - | - | (146,544) | - | - | - |
| For investment | | - | - | - | - | - | - | - | 86,509 | - | - | - | (86,509) | - | - | - |
| Payment of IOE - R$0.22 per share | 24.c) | - | - | - | - | - | - | - | - | - | - | - | (78,600) | (78,600) | - | (78,600) |
| Balances at December 31, 2011 | | **518,922** | **(14,217)** | **169,241** | **8,498** | **3,579** | **49,676** | **479,544** | **336,604** | **(40,587)** | **-** | **(33,572)** | **-** | **1,477,688** | **12,171** | **1,489,859** |

# Alpargatas S.A.

Statements of changes in equity (Continued)
Years ended December 31, 2012 and 2011
(In thousands of reais – R$)

| | | | Capital reserves | | | | Income reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Capital | Goodwill (negative goodwill) on sale of treasury shares | Tax incentives – investment grants | Capital reserve | Additional paid in capital | Legal reserve | Tax incentives | For investments | Treasury shares | Additional dividend proposed | Equity valuation adjustment | Retained earnings | Equity attributed to controlling shareholders | Non-controlling interest in subsidiaries' equity | Total equity |
| Balances at December 31, 2011 | | **518,922** | **(14,217)** | **169,241** | **8,498** | **3,579** | **49,676** | **479,544** | **336,604** | **(40,587)** | **-** | **(33,572)** | **-** | **1,477,688** | **12,171** | **1,489,859** |
| Net income for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **279,983** | **279,983** | **553** | **280,536** |
| Other comprehensive income | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(10,857)** | **-** | **(10,857)** | **(59)** | **(10,916)** |
| Total comprehensive income | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(10,857)** | **279,983** | **269,126** | **494** | **269,620** |
| Capital increase | 24.a) | **43,236** | **-** | **-** | **-** | **-** | **-** | **-** | **(43,236)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Acquisition of shares for treasury share purposes | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(5,723)** | **-** | **-** | **-** | **(5,723)** | **-** | **(5,723)** |
| Sale of treasury shares for exercised stock options | 28 | **-** | **(339)** | **-** | **-** | **-** | **-** | **-** | **-** | **3,482** | **-** | **-** | **-** | **3,143** | **-** | **3,143** |
| Stock option plan granted | 28 | **-** | **-** | **-** | **-** | **2,033** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,033** | **-** | **2,033** |
| Exercised call options | 14 | **-** | **-** | **-** | **-** | **(939)** | **-** | **-** | **-** | **-** | **-** | **-** | **939** | **-** | **-** | **-** |
| Purchase of non-controlling interest in subsidiary | 14 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(7,391)** | **(7,391)** |
| Goodwill generated on purchase of non-controlling interest in subsidiary | 14 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(5,358)** | **-** | **-** | **-** | **-** | **(5,358)** | **-** | **(5,358)** |
| Realization of cost attributed to property, plant and equipment of subsidiary and affiliate | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,386)** | **1,386** | **-** | **-** | **-** |
| Realization of other comprehensive income through investment write-off | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(465)** | **(465)** | **-** | **(465)** |
| Unclaimed interest on equity capital and dividends | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **180** | **180** | **-** | **180** |
| Allocation of net income for the year: | | | | | | | | | | | | | | | | |
| Establishment of reserves- | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| For tax incentives | 7 | **-** | **-** | **-** | **-** | **-** | **-** | **146,348** | **-** | **-** | **-** | **-** | **(146,348)** | **-** | **-** | **-** |
| For investment | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **25,375** | **-** | **-** | **-** | **(25,375)** | **-** | **-** | **-** |
| Payment of IOE - R$0.22 per share | 24.c) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(85,000)** | **(85,000)** | **-** | **(85,000)** |
| Payment of dividends declared on March 15, 2013 - R$0.07 per share | 24.c) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **25,300** | **-** | **(25,300)** | **-** | **-** | **-** |
| Balances at December 31, 2012 | | **562,158** | **(14,556)** | **169,241** | **8,498** | **4,673** | **49,676** | **625,892** | **313,385** | **(42,828)** | **25,300** | **(45,815)** | **-** | **1,655,624** | **5,274** | **1,660,898** |

See accompanying notes.

# Alpargatas S.A.

Cash flow statements
Years ended December 31, 2012 and 2011
(In thousands of reais – R$)

| | Note | Company (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|---|---|---|---|---|
| | | 2012 | 2011 (restated) | 2012 | 2011 (restated) |
| Cash flow from operating activities | | | | | |
| Net income for the year from continued operations | | **279,983** | 307,420 | **280,536** | 309,067 |
| Adjustments to reconcile net income for the year from continued operations to net cash generated by operating activities: | | | | | |
| Depreciation and amortization | 15 | **42,148** | 39,076 | **60,198** | 54,035 |
| Loss on sale/write-off of property, plant and equipment | | **3,122** | 2,297 | **6,840** | 2,707 |
| Provision for impairment of property, plant and equipment | | **650** | - | **1,047** | - |
| Equity pickup | 14 | **23,269** | (11,345) | **42,864** | 5,657 |
| Interest, monetary and exchange variation | | **8,619** | (1,738) | **29,025** | 11,912 |
| Provision for tax, civil and labor claims | 22 | **9,095** | 10,225 | **8,549** | 11,073 |
| Deferred income and social contribution taxes | 12.b) | **8,260** | (1,404) | **(7,504)** | (339) |
| Suspended tax payments | 23 | **21,362** | 22,497 | **21,362** | 22,497 |
| Stock option plan granted | 28 | **2,033** | 1,551 | **2,033** | 1,551 |
| Reversal of provision for inventory losses | 10 | **4,735** | (1,305) | **5,991** | (565) |
| Allowance for doubtful accounts | 9.c) | **4,398** | 3,491 | **7,423** | 6,079 |
| | | **407,674** | 370,765 | **458,364** | 423,674 |
| Decrease (increase) in assets: | | | | | |
| Trade accounts receivable | | **(175,309)** | (72,313) | **(198,631)** | (82,264) |
| Inventories | | **(54,858)** | (13,017) | **(102,463)** | (46,630) |
| Prepaid expenses | | **2,730** | (3,106) | **4,946** | (5,444) |
| Taxes recoverable | | **(20,201)** | (5,129) | **(32,004)** | (8,279) |
| Other | | **(15,097)** | (983) | **5,338** | (304) |
| Increase (decrease) in liabilities: | | | | | |
| Trade accounts payable | | **62,267** | 60,198 | **62,912** | 79,633 |
| Taxes payable | | **22,793** | 6,671 | **32,854** | 10,441 |
| Payment of income and social contribution taxes | | **(15,121)** | (11,133) | **(31,562)** | (23,638) |
| Tax payment in installments – Law No. 11941/09 | | **-** | (28,528) | **-** | (29,176) |
| Labor and social security liabilities | | **9,091** | 2,892 | **11,475** | 9,358 |
| Payment of interest on loans and financing | | **(7,881)** | (16,331) | **(18,972)** | (19,580) |
| Other | | **18,292** | (5,909) | **6,717** | 4,610 |
| Net cash generated by operating activities | | **234,380** | 284,077 | **198,974** | 312,401 |
| Cash flow from investing activities | | | | | |
| Investments in subsidiary | 14 | **(53,975)** | (49,433) | **-** | - |
| Acquisition of property, plant, equipment and intangible assets | 15 | **(185,245)** | (62,977) | **(205,510)** | (89,744) |
| Short-term investments | | **(7,436)** | (254,810) | **(40,776)** | (254,810) |
| Received for sale of property, plant and equipment | | **5,650** | 15,723 | **5,650** | 30,096 |
| Net cash used in investing activities | | **(241,006)** | (351,497) | **(240,636)** | (314,458) |
| Cash flow from financing activities | | | | | |
| Loans and financing raised | | **149,574** | 88,346 | **367,237** | 259,769 |
| Repayment of loans and financing (principal) | | **(137,027)** | (191,225) | **(312,531)** | (336,755) |
| Acquisition of shares to be held in treasury, net of disposals | | **(2,580)** | (18,506) | **(2,580)** | (18,506) |
| Purchase of non-controlling interest | 14 | **-** | - | **(12,749)** | (48,793) |
| Payment of interest on equity capital and dividends | | **(83,939)** | (102,159) | **(83,939)** | (102,159) |
| Payment of debt-restructuring agreements of subsidiaries | | **-** | - | **(12,841)** | (12,100) |
| Net cash used in financing activities | | **(73,972)** | (223,544) | **(57,403)** | (258,544) |
| Effect of exchange variation on cash and cash equivalents | | **-** | - | **(315)** | 322 |
| Decrease in cash and cash equivalents | | **(80,598)** | **(290,964)** | **(99,380)** | **(260,279)** |
| Cash and cash equivalents at beginning of period | | **163,131** | **454,095** | **222,210** | 482,489 |
| Cash and cash equivalents at end of period | | **82,533** | **163,131** | **122,830** | 222,210 |
| Decrease in cash and cash equivalents | | **(80,598)** | **(290,964)** | **(99,380)** | (260,279) |

See accompanying notes.

# Alpargatas S.A.

Statements of value added
Years ended December 31, 2012 and 2011
(In thousands of reais – R$)

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| Income | | **2,696,793** | 2,228,454 | **3,606,384** | 3,036,484 |
| Goods and products sold | | **2,689,863** | 2,208,381 | **3,577,781** | 3,016,367 |
| Allowance for doubtful accounts | 9.c) | **(2,751)** | (3,491) | **(5,776)** | (6,079) |
| Other income | | **9,681** | 23,564 | **34,379** | 26,196 |
| Inputs acquired from third parties | | **(1,640,504)** | (1,327,279) | **(2,059,051)** | (1,704,483) |
| Cost of goods and products sold | | **(993,166)** | (741,863) | **(1,257,945)** | (1,001,378) |
| Materials, electricity, outsourced services and other | | **(639,423)** | (571,493) | **(790,583)** | (688,978) |
| Impairment of asset | | **(5,051)** | (8,787) | **(7,659)** | (8,991) |
| Other | | **(2,864)** | (5,136) | **(2,864)** | (5,136) |
| | | **1,056,289** | 901,175 | **1,547,333** | 1,332,001 |
| Retentions | | **(42,148)** | (39,076) | **(60,198)** | (54,035) |
| Depreciation and amortization | 15 | **(42,148)** | (39,076) | **(60,198)** | (54,035) |
| Value added generated by the Company | | **1.014.141** | 862,099 | **1,487,135** | 1,277,966 |
| Value added received in transfer | | **50.393** | 100,525 | **38,438** | 86,338 |
| Equity pickup | 14 | **(23,269)** | 11,345 | **(42,864)** | (5,657) |
| Financial income – including exchange variation | | **73,637** | 88,826 | **80,957** | 91,641 |
| Other | | **25** | 354 | **345** | 354 |
| Value added to be distributed | | **1,064,534** | 962,624 | **1,525,573** | 1,364,304 |
| Distribution of value added | | **(1,064,534)** | (962,624) | **(1,525,573)** | (1,364,304) |
| Salaries and related charges | | **(364,011)** | (312,715) | **(610,981)** | (517,424) |
| Taxes, fees and contributions | | **(327,663)** | (261,263) | **(499,604)** | (423,948) |
| Financial expenses and rentals | | **(92,877)** | (81,226) | **(134,452)** | (113,865) |
| Interest on equity | 24.c) | **(85,000)** | (78,600) | **(85,000)** | (78,600) |
| Dividends | | **(25,300)** | - | **(25,300)** | - |
| Retained earnings | | **(169,683)** | (228,820) | **(169,683)** | (228,820) |
| Non-controlling interest in retained earnings | | **-** | - | **(553)** | (1,647) |

See accompanying notes.

# 1. Operations

## 1.1. General conditions

Alpargatas S.A. (the "Company") is a publicly-held corporation headquartered in the city of São Paulo, at Avenida Doutor Cardoso de Melo, 1336, listed in the São Paulo Stock Exchange (BMF&BOVESPA) under the ticker symbols "ALPA4" and "ALPA3".

On April 26, 2011, the Special Shareholders' Meeting approved the change in the Company's corporate name from São Paulo Alpargatas S.A. to Alpargatas S.A.

The Company and its subsidiaries (hereinafter collectively referred to as "Alpargatas Group" or "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 sports items.

Direct and indirect subsidiaries and affiliate through which the Company carries out activities in Brazil and abroad are described in Note 6.

## 1.2. Increased interest in subsidiary Alpargatas S.A.I.C. - Argentina

Details on acquisition and increase in interest in subsidiary Alpargatas S.A.I.C. – Argentina are set out in Note 14.

## 1.3. Ownership reorganization in subsidiary Alpargatas S.A.I.C. – Argentina

In order to streamline the ownership structure of Alpargatas S.A.I.C. - Argentina, generating synergies and higher efficiency, at a meeting held on December 20, 2011, the Company's Board of Directors approved ownership reorganization to merge eight subsidiaries. The reorganization became effective as from April 1, 2012, according to the conditions and effects provided for by articles 82 to 87 of Law No. 19550 of Argentina Business Companies, standards from *"Comisión Nacional de Valores - CNV"*, *"Buenos Aires Trade Regulations - BCBA"* and other applicable legal and regulatory standards.

The ownership restructuring was approved in Special General Meetings held on April 25 and 26, 2012.

# 2. Basis for preparation and presentation of financial statements

## 2.1. Statement of compliance

The Company's financial statements comprise:

- The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil, and

- Company's individual financial statements prepared in accordance with accounting practices adopted in Brazil are identified as "Company" or "Individual."

The accounting practices adopted in Brazil comprise those set out in Brazilian Corporation Law and pronouncements, guidance and interpretations issued by the Brazilian Financial Accounting Standards Board (CPC), approved by the Brazilian Securities and Exchange Commission (CVM).

Individual financial statements include measurement of investments in subsidiaries and affiliate under the equity method, under current Brazilian Corporation Law in force. Accordingly, these individual financial statements are not considered as compliant with the IFRS, which require the valuation of these investments in the Company's separate financial statements at cost or fair value; however, equity pickup is prescribed by Brazilian Corporate Law.

### 2.2. Basis for preparation

The financial statements were prepared based on historical cost, except, where applicable, for certain financial instruments measured at fair value, as described in the following accounting practices. The historical cost is usually based on the fair value of consideration paid in exchange for the assets.

## 3. Summary of significant accounting practices

The financial statements were prepared in line with the accounting practices described herein for all years stated and for the individual (BR GAAP) and consolidated (BR GAAP and IFRS) financial statements:

a) General principles and revenue recognition criteria

Assets, liabilities, revenues and expenses are computed on an accrual basis. Revenue from sales is recognized in the income statement when: (i) risks and benefits inherent in the products or goods sold are transferred to buyer; (ii) when the Company's receivables are likely to be received; and (iii) when management is no longer involved with the products/goods. Revenue from sales is stated net of deductions, including taxes on sales.

b) Recognition of tax incentives – subventions for investments

Revenue from tax incentives, received as monetary assets, is recognized in profit or loss when received, against costs and investments incurred by the Company and its subsidiaries in locations where the tax incentive is granted.

Investment grant of State Value-Added Tax (ICMS) of Paraíba and Pernambuco States is recorded as credit under Taxes on Sales, whereas investment grant of the Corporate Income Tax (IRPJ) is recorded as credit under Current Income and Social Contribution Taxes. Therefore, at year end, these grants are allocated to Capital Reserve – Tax incentives – Investment Grants, in equity.

As mentioned in Note 7, the Company and its subsidiary CBS S.A. - Companhia Brasileira de Sandálias monthly recognize incentives relating to Paraíba and Pernambuco State grants in ICMS calculation for operating units located in these states, as there are no conditions or commitments to be previously met before incentives are recognized.

c) Cash equivalents and short-term investments

(i) Cash and cash equivalents

These include cash, bank deposits on demand and temporary investments and redeemable within 90 days, as from investment date, or redeemable in 90 days or more, but considered highly liquid,

as they are not intended to or cannot b redeemed in the short term, with the security issuer, for a cash amount wit insignificant risk of change in value. Temporary investments are recorded at cost, plus earnings through the balance sheet date, which does not exceed their market value or realizable value.

(ii) Short-term investments

These comprise investments redeemable in 90 days or more from investment date, or those redeemable in 90 days or more and that cannot be early redeemed with no risks of change in value. Short-term investments are recorded at cost, plus earnings through the balance sheet date, which does not exceed their market value or realizable value.

d) Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded and held in the balance sheet at that nominal value of securities representing these receivables, less allowance for doubtful accounts. The ADA is set up considering an individual analysis of receivables, of the economic environment and the history of losses recorded in prior years by maturity range, at an amount considered sufficient by management of the Company and its subsidiaries to cover any doubtful accounts, according to amounts stated in Note 9.

Because trade accounts receivable are usually settled within 60 days or less, average, book values substantially represent fair values as of the balance sheet dates.

e) Inventories

These are recorded at average acquisition or production cost, and then marked to market, considering any losses. Details are disclosed in Note 10.

f) Lease agreements

These are classified as finance lease whenever the lease agreement terms substantially transfer all ownership risks and benefits of the asset item to the Company and its subsidiaries.

Finance lease agreements are classifies when they are taken out. Leases in which the lessor retains a significant portion of ownership risks and benefits are classified as operating leases. Operating lease payments are recorded as expenses for the year under the straight-line method whilst the lease agreement remains effective.

Finance leases are capitalized in the balance sheet at commencement of the agreement at the lower of leased item fair value and present value of minimum lease payments.

Part of each finance lease payment is allocated to liabilities and part to unallocated financial charges, so that a constant effective interest rate is obtained on the outstanding debt balance. The corresponding liabilities, net of financial charges, are classified in current and noncurrent liabilities according to the lease agreement term. The leased item is depreciated over its economic useful life, at the rates mentioned in Note 15.

g) Property, plant and equipment

These items are recorded at acquisition or construction cost, plus, where applicable, interest capitalized during the construction period, for qualifying assets, and net of accumulated depreciation and provision for impairment for suspended asset items with no expected reuse or realization. Depreciation is calculated under the straight-line method, based on the estimated useful life of each asset item, at the rates mentioned in Note 15. The estimated useful life and the depreciation method are reviewed at each year end, and the effect of any changes in estimates is carried on a prospective basis.

property, plant and equipment balance includes all expenses that can be allocated to the asset item during its construction and/or pre-operating test phases.

As mentioned in item “f)”, rights related to tangible assets to be used in maintenance of the Company's and its subsidiaries’ activities, and which arise from a finance lease agreement, are recorded as a purchase in installments. A property, plant and equipmentitem and a financial liability are recognized at the beginning of each transaction, and the asset items are subject to the depreciations calculated considering the estimated useful lives of these assets.

A property, plant and equipment item is written off after it is disposed of or when future economic benefits are no longer likely to result from the ongoing use of such asset item. Disposal gains and losses are computed by comparing the sale to the net book value, and then recorded in profit or loss.

h) Intangible assets

Intangible assets separately acquired

Intangible assets with finite useful lives separately acquired are recorded at cost, less amortization and, where applicable, accumulated impairment. Amortization is recognized on a straight-line basis based on the estimated useful lives of the assets. The estimated useful life and the amortization method are reviewed at each year end, and the effect of any changes in estimates is recorded on a prospective basis. Intangible assets with indefinite useful lives separately acquired are recorded at cost, less accumulated impairment, where applicable.

These include: (i) trademarks; (ii) assignment of business use rights; (iii) licenses of software use, including those related to implementation costs, (iv) client portfolios acquired from third parties; and (v) goodwill on acquisition of subsidiaries (in Consolidated). Finite useful life assets are amortized according to the terms mentioned in Note 15. Indefinite useful life intangible assets, mainly comprising goodwill on acquisition of subsidiaries, were amortized through December 2008 considering a ten-year period; as from January 1, 2009, they were annually tested for impairment and/or when impairment evidence was found (see assumption details in Note 15).

Licenses of software use, including related implementation expenses and business management systems acquired, are capitalized and amortized at the rates mentioned in Note 15; expenses related to maintenance thereof are recognized as expenses when incurred.

Expenses with business management system acquisition and implementation are capitalized as an intangible asset when future economic benefits generated thereby are likely to exceed their corresponding cost, considering their economic and technological feasibility. Expenses with software development recognized as assets are amortized under the straight-line method over the estimated useful life thereof. Expenses with software maintenance are recognized in profit or loss for the year when incurred.

Trademarks and patents acquired separately are stated at historical cost. Trademarks and patents acquired in a business combination are recognized at fair value as of acquisition date, as they have finite useful lives, and are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis, considering the rates mentioned in Note 15.

Expenses with research and development of products

These are recorded as expenses for the year, when incurred. Details are disclosed in Note 15.

i) Subsidiaries acquired before transition to the IFRS

In compliance with the accounting practices adopted in Brazil prior to Law No. 11638/07, the difference between the amount paid and equity of the subsidiary acquired was recorded as goodwill, economically grounded on the expected future profitability of the business acquired, and then amortized over the useful life determined upon recognition. As from January 1, 2009, goodwill balance was no longer amortized for accounting purposes and started to be assessed considering its realization, as required by technical pronouncement CPC 01/IAS 36 – Impairment of Assets. The Company adopted the option provided by IFRS 01 – First-Time Adoption of the International Financial Reporting Standards and did not adjust goodwill on subsidiaries acquired prior to January 1, 2009, which were kept at their book values on transition date, in compliance with IFRS 01.

j) Testing assets for impairment (except for goodwill)

The Company and its subsidiaries annually test their assets for impairment. If impairment evidence is found, the recoverable amount of the asset is then estimated. The recoverable amount of an asset item is the higher of its fair value less cost to sell and value in use. The value in use is equivalent to the discounted cash flows (before taxes) resulting from ongoing use of the asset. When net book value of an asset item exceeds its recoverable amount, a provision for impairment is recognized.

For the purposes of measuring the recoverable amount, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash generating units - CGU).

k) Testing assets for impairment

In order to test assets for impairment, management defined that the UGC correspond to each business segment wherein goodwill was used. Impairment test are conducted on an annual basis or more frequently if there is evidence that the UGC may be impaired. If the recoverable value of the UGC is less than its book value, it is first allocated for reduction of the book value of any goodwill allocated to such UGC and then for reduction of other UGC assets on a pro rata basis, based on the book value of each unit asset. Impairment loss recognized for goodwill is not reversed in subsequent period. In disposing of a subsidiary, goodwill attributable thereto, in any, is included in disposal gain or loss computation.

l) Provision for tax, civil and labor risks

Provisions are recognized when the Company and its subsidiaries have a present or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits, and the amount can be reliably estimated. Provisions are adjusted to present value of the outflow expected to settle the obligation, at the discount rate appropriate to the risks related to the liability.

It is restated through the balance sheet dates at the amounts estimated for probable losses, in light of the nature of the claims and supported by the opinion of the Company's and its subsidiaries' legal advisers. The grounds for and nature of the provisions and contingencies are mentioned in Note 22.

m) Taxation

m.1) Taxes on sales

Revenues from domestic sales are subject to the following taxes and contributions, at the basic rates below:

- State value-added tax (ICMS) – 7% - 18% (i)

- Social contribution tax on gross revenue for social security financing (COFINS) – 7.65% (ii)
- - Social contribution tax on gross revenue for social integration program (PIS) – 1.65% (ii)
- Social security contribution tax (INSS) – 1.5%

(i) The Company and its subsidiary CBS S.A. - Companhia Brasileira de Sandálias have ICMS incentives granted as detailed in Note 7.

(ii) Tax credits from non-cumulative PIS and COFINS regimes are stated as reduction of costs of goods and products sold in profit or loss for the year.

Sales are stated in statement of income for the year net of taxes and contributions (net operating revenue).

m.2) Income taxes

Current taxes

Provision for income tax is based on taxable profit for the year. Taxable profit is different from profit stated in the income statement, as it excludes taxable or deductible revenues and expenses in other years, in addition to permanently excluding non-taxable or non-deductible items. The provision for income tax is calculated individually for each Group company, at rates in force at each year end. In Brazil, income and social contribution taxes were calculated at the rates of 25% and 9%, respectively; in companies abroad, those taxes are determined at the rates in force in the countries they are located. Subsidiaries Alpargatas Imobiliária Ltda. and Fibrasil Agrícola e Comercial Ltda. calculate income and social contribution taxes under the regime whereby taxation considers a percentage of the Company's revenue, considering rates and legislation in force as of the balance sheet dates.

Current income tax expenses are calculated based on laws and tax legislation prevailing at the balance sheet date, in accordance with Brazilian tax legislation. Management periodically reviews positions taken in tax returns regarding situations in which applicable tax regulation is subject to interpretation that may be different, as the case may be, and sets up provisions, where appropriate, based on expected amounts payable to Tax Authorities.

Deferred taxes

Deferred income and social contribution taxes (“deferred taxes”) are recognized on temporary differences, at the balance sheet date, between assets and liabilities recognized in the financial statements and corresponding tax bases used in computing taxable profit, including tax losses, where applicable. Deferred tax liabilities are generally recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences only when the Company is likely to recognize future taxable profit at an amount sufficient for such deductible temporary differences to be used.

Impairment of deferred tax assets is reviewed as of the balance sheet dates and, when taxable profit is no longer likely to be available to fully or partially recover the asset, the asset balance is adjusted to the amount expected to be recovered.

Deferred tax assets and liabilities are measured at rates applicable for the period in which liabilities are expected to be settled or assets are expected to be realized, at rates set forth in prevailing tax legislation at the balance sheet dates, or when new legislation is substantially approved. Measurement of deferred tax assets and liabilities reflects tax consequences that

would arise if the Company recovered or settled book value of such assets and liabilities as it expected at the balance sheet dates.

Deferred tax assets and liabilities are only offset when the legal right to offset current tax asset against current tax liabilities exists, when such taxes are managed by the same tax authorities, and the Company intends to settle the net value of its current tax assets and liabilities.

Current and deferred income taxes

These are recognized as expenses or revenues in profit or loss for the year, unless they relate to items recorded directly in other comprehensive income or equity – whereupon taxes will also be recognized directly in other comprehensive income and equity –, or result from initial recognition of a business combination. As for business combination, where applicable, the tax effect is considered when carrying the business combination.

Details are disclosed in Note 12.

n) Functional and reporting currency

Items included in the financial statements of the Company and each consolidated subsidiary are measured considering these companies' functional currency, which is the currency of the main economic environment where they operate.

For the purposes of the consolidated financial statements, profit or loss and balance sheet balances of each Group company were translated into reais, which is the functional and reporting currency of the Company's financial statements.

Transactions and balances in foreign currency

Transactions in foreign currency are translated into the Company's functional currency (reais) at the exchange rates in force on transaction dates. Balance sheet account balances were translated at the exchange rate in force as of the balance sheet date. Exchange gains and losses resulting from settlement of these transactions and translation of monetary assets and liabilities denominated in foreign currency are recognized in profit or loss for the year.

Translation

In preparing the consolidated financial statements, the income and cash flow statements and all changes in assets and liabilities were translated into reais at the average exchange rate, considering an amount close to exchange rate in force as of transaction dates. Balance sheet accounts are translated into reais at the exchange rate as of the balance sheet dates.

The effects of exchange rate variations for the year, on equity at the beginning of the year, are recorded a change in equity. Likewise, the retained earnings difference for the year is recorded at the average exchange rate and at the exchange rate at the end of the year. The resulting accumulated exchange differences are stated as a separate component in equity - "Equity valuation adjustment." As regards full or partial disposal of interest in a Group Company, through sale or as a result of capital payment, cumulative translation adjustment is recognized in profit or loss as part of investment disposal gains or losses.

o) Financial instruments

Classification

Financial assets of the Company and its subsidiaries are classified under the following categories, where applicable: (i) financial assets measured at fair value through profit or loss; (ii) financial assets held to maturity; (iii) financial assets available for sale, and (iv) lending and receivables. Classification depends on the purpose for which each financial was acquired or taken out.

Financial assets

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

Financial assets measured at fair value through profit or loss are financial assets held for trading, whenever acquired for this purpose, especially in the short-term. Derivative financial instruments are also classified in this category. Assets in this category are classified as current assets.

Where applicable, derivative financial instruments are also classified in this category. Gains or losses resulting from unsettled transactions are classified as current assets or liabilities, and changes in fair value are recorded under Financial Income or Financial Liabilities, respectively. At December 31, 2012 and 2011, the Company and its subsidiaries had no financial instruments recorded in their financial statements under this classification.

(ii) Financial assets held to maturity

These include investments in certain financial assets classified upon initial acquisition to be held o maturity. They are measured at acquisition cost, plus earnings according to contractual terms and conditions. At December 31, 2012 and 2011, the Company and its subsidiaries had no financial instruments recorded in their financial statements under this classification.

(iii) Financial assets available for sale

Where applicable, this category includes non-derivative financial assets, such as securities and/or shares quoted in active markets or not quoted in active markets, but whose amounts can be reasonably estimated. At December 31, 2012 and 2011, financial assets available for sale of the Company and its subsidiaries comprise cash and cash equivalents and short-term investments (Note 8).

(iv) Lending and receivables

This classification includes non-derivative financial assets, with payments that are fixed or determinable, which cannot be quoted in an active market. They are recorded under current assets, except for applicable cases, those with maturity exceeding 12 months after the balance sheet date (these are classified as noncurrent assets). At December 31, 2012 and 2011, lending and receivables comprise trade accounts receivable (Note 9) and relate-party receivables (Note 21).

Financial liabilities measured at fair value through profit or loss

Financial liabilities are recorded under this classification when they are held for trading or designated at fair value through profit or loss.

Other financial liabilities

They are measured at amortized cost, under the effective interest rate method. At December 31, 2012 and 2011, these comprise loans and financing taken out from banks (Note 17), trade accounts payable (Note 16) and traded bonds of subsidiary Alpargatas S.A.I.C. - Argentina (Note 18), which are stated at original value, except for trade accounts payable, plus interest and exchange and monetary variations through the balance sheet dates.

Effective interest rate method

The effective interest rate method is used to calculate the amortized cost of a debt instrument and allocate its interest income over the corresponding period. The effective interest rate is the rate discounting future estimated cash receipts (including all fees and amounts paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or deductions) over the estimated life of the debt instrument, or, when appropriate, over a shorter period, to net book value upon initial recognition.

Measurement

Regular purchases and sales of financial assets are recognized on the negotiation date, i.e., on the date the Company assumes the obligation to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognized at fair value; transaction costs are deducted in profit or loss. Lending and receivables are accounted for at amortized cost.

Gains and losses arising from variation in fair value of financial assets measured at fair value through profit or loss are recorded as Financial Income or Financial Expenses, respectively, in profit or lossfor the period they are incurred.

Financial instruments offset

Financial assets and liabilities are offset, and net value is reported in the balance sheet whenever there is a legally enforceable right to offset the recognized amounts and the Company intends to settle them on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting

When applicable, derivative financial instruments, taken out by the Company and its subsidiaries, are measured at fair value with changes recorded against profit or loss for the year, or designated in as hedge accounting. Nominal value o derivative financial instrument operations are not recorded in the balance sheet. Unrealized gains or losses from this operations, computed at fair value, are recorded in profit or loss on an accrual basis, against current assets and liabilities.

Fair value the derivative financial instruments is calculated by the Company’s treasury based on information of each operation engaged and on the corresponding market information on the balance sheet dates, such as interest rate and exchange coupon. Where applicable, such information is compared to the financial position reported by the trading desks of each financial institution involved.

p) Share-based payment

Over the vesting period, fair value of stock options granted, which is determined on the grant date, is recorded as an expense in profit or lossfor the year under the straight-line method, based on Company's estimates on which options granted may be acquired, with corresponding equity increase. At each year end, Company reviews its estimates on the number of equity instruments which will be acquired, and the impact of this review, if any, is posted to profit or lossfor the year, so that accumulated expenses reflect the reviewed estimates. Options Granted Recognized, in equity, in which employee benefits were recorded, is adjusted accordingly, in compliance with technical pronouncement CPC 10/IFRS 02 – Share-based Payment.

q) Profit sharing

The Company and its subsidiaries recognize a liability and an expense for profit sharing to employees. Profit sharing is linked to fulfillment o operational goals and specific objectives, which are set and approved at the beginning of each year. The Company and its subsidiaries recognize a provision when they are contractually bound to or when a past practice created an obligation that was not formalized.

r) Dividends and interest on equity

Where applicable, dividend and interest on equity distribution proposed by Company's management within the portion of minimum mandatory dividends is recorded as current liabilities under Dividends and interest on equity Payable, as it is considered a legal obligation provided for in the Company's articles of incorporation; however, where applicable, the portion of dividends exceeding minimum mandatory dividend, reported by management after the financial statements reporting period, but before the date such financial statements were authorized to be issued, is recorded under Additional Dividend Proposed, in equity, with effects disclosed in an explanatory note.

For corporate and accounting purposes, interest on equity is posted as allocation of net income directly to equity. For tax purposes, it is treated as a financial expense, with deduction from income and social contribution tax bases.

s) Employee benefits and private pension plan actuarial gains and losses

Costs related to contributions made by the Company and its subsidiaries to the private pension plans are recognized as expenses in profit or loss when the services entitling employees to these benefits are provided (accrual regime). Actuarial gains and losses computed in the health plan extension to employees are posted to profit or loss according to the criteria contained in CPC 33/IAS 19 – Employee Benefits, based on an actuarial calculation prepared by an independent actuary, as detailed in Note 29.

t) Earnings per share

Presented as basic and diluted EPS, as set out in Note 36.

u) Assets held for sale and gains/losses from discontinued operations

The Company classifies an asset item as held for sale if its book value is expected to be recovered in the sale transaction. Therefore, the asset or group of assets held for sale must be available for immediate sale in its current state, subject to the terms that are usual to the sale of such asset only. The sale is then highly likely.

For a sale to be highly likely, management must be committed to the asset sale plan, and a firm program to locate a buyer and complete the plan must be in place. In addition, the sale price of the asset item held for sale must be reasonable vis-à-vis its current fair value. Also, the sale should be

expected to be completed within no longer than one year as from classification as held for sale.

The group of asset held for sale is measured for the lower of book value and fair value less cost to sell. If the book value exceeds fair value, a provision for impairment is recognized against profit or loss. Any reversal or gain will only be recorded to the limit of the loss recognized.

Depreciation of an asset item held for sale ceases when the asset is designated as held for sale.

v) Segment information

Information per segment is consistent with the internal report provided for the key operating-decision taker. The key operating-decision taker, in charge of allocating funds and assessing performance of operating segments, is represented by the Company's Chief Executive Officer. Details are disclosed in Note 25.

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

Investments in subsidiaries and affiliate are valued under the equity method. Details are disclosed in Note 14.

x) Investments in affiliates

The Company's investment in its affiliate is recorded under the equity method. An affiliate company is an entity on which the Company exercises significant influence. Under the equity method, investments in affiliate companies are recorded in the balance sheet at cost, plus changes after interest in affiliate is acquired. Goodwill related to an affiliate company is included in the book value of the investment and is not subject to amortization. Because goodwill based on future profitability is included in the book value of investment in the affiliate company (not separately recognized), it is not separately tested for impairment.

The income statement reflects a portion of the affiliate company's profit or loss. When a change is posted directly to the affiliate's equity, the Company recognizes its portion in changes occurred and discloses this fact, where applicable, in the statement of changes in equity. Unrealized gains and losses, arising from transactions between the Group and its affiliate, are eliminated according to the equity interest held in such affiliate.

Equity interest held in the affiliate company is reported in the income statement as equity pickup, representing net income attributable to affiliate's shareholders.

The affiliate's financial statements are prepared for the same reporting period of the Group's. Whenever necessary, adjustments are made so that accounting practices are in line with those adopted by the Group.

After applying the equity method, the Company determines whether it is necessary to recognize additional impairment loss on its investment in its affiliate company. The Company determines, at each balance sheet closing date, whether there is objective evidence that such investment in the affiliate company is subject to impairment loss. If impairment is identified, the Company calculates impairment loss as the difference between affiliate's recoverable amount and book value, and recognizes the resulting amount in the income statement.

When significant influence on affiliate is lost, the Company then assesses and recognized investment at fair value. Any difference between affiliate's book value when significant influence is lost and remaining investment fair value and revenues from sales are recognized in profit or loss.

y) Statement of Added Value ("SVA")

The purpose of this statement is to disclose the wealth created by the Company and its distribution over a given reporting period, and is presented by the Company, as required by the Brazilian Corporation Law as part of its individual financial statements and as supplementary information to the consolidated financial statements, as this statement is not considered or required by the IFRS.

The SVA was prepared based information obtained from the accounting records that are used as a basis for financial statements preparation, and following provisions set forth in CPC 09 – Statement of Value Added. In its first part, the SVA presents the wealth created by the Company, represented by its revenue (gross revenue from sales, including taxes levied thereon, other revenues and effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of goods and products sold, and acquisition of materials, energy and services from third parties, including taxes levied on acquisition, the effect of impairment, depreciation and amortization) and the value added received from third parties (equity pickup, financial income and other income). The second part of the SVA presents how such wealth is distributed between personnel, taxes, charges and contributions, debt remuneration and equity remuneration.

## 4. Significant accounting judgments, estimates and assumptions

In applying the accounting policies, management must make judgments and prepare estimates regarding the book values of assets and liabilities that are not easily obtained from other sources. The estimates and related assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from those estimates.

The estimates and underlying assumptions are continuously reviewed. The effects of the reviews of accounting estimates are recognized in the period in which the estimates are reviewed, if such review impacts only this period, or also in subsequent periods, if the review impacts both the present and future periods.

Significant accounting judgments and estimates are as follows:

a) Sales revenue recognition

For this judgment, management considered the detailed criteria to recognize revenue from products sold and, particularly, if the Company and its subsidiaries have transferred all significant product ownership risks and benefits to buyer.

b) Deferred income and social contribution taxes

The Company and its subsidiaries recognize deferred assets and liabilities based on the difference between the book value presented in the financial statements and the tax base of assets and liabilities using rates in force. Management regularly reviews deferred tax assets and liabilities in terms of recovery, considering the history of profit generated and projected future taxable profit, according a technical feasibility study.

c) Provision for tax, civil and labor risks

The Company and its subsidiaries are parties to several lawsuits and administrative proceedings, as mentioned in Note 22. Provisions are set up for all claim-related risks representing probable losses estimated with a certain reliability level. Assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of outside legal advisers. Management believes that the provision for tax, civil and labor claims is fairly presented in the financial statements.

d) Allowance for doubtful accounts

The allowance for doubtful accounts is set up based on the criteria set out in Note 3.d).

e) Provision for slow-moving and obsolescence inventory

The provision for slow-moving and obsolescence inventory is set up based on a policy defined by management, which considers future sales expectation and inventory balance existing as of balance sheet dates.

f) Private pension and health plans

Current value of private pension and health plans depends on a number of factors determined based on actuarial calculations, which restate various assumptions, such as the discount rate, disclosed in Note 29. Change in any of these assumptions could affect the results presented.

g) Testing assets for impairment

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

Book value of goodwill as of December 31, 2012 and 2011 is R$150,130. Details of the assumptions used in impairment calculation are set out in Note 15.

h) Useful life of property, plant and equipment

The Company and its subsidiaries annually review the estimated useful life of its property, plant and equipment items.

## 5. New standards, amendments and standard interpretations

We have listed below standards issued yet not effective to the date the Company's financial statements were issued. This list of standards and interpretations issued includes those that the Company reasonably expects to impact its reporting, financial position or performance when applied in the future. The Company intends to adopt such standards when they become effective.

| Standard | Main requirements | Effectiveness |
|---|---|---|
| Amendments to IAS 32 – Financial Instruments: Presentation | Classification of offsetting rights | Applicable to years beginning on or after January 1, 2014. |
| IFRS 09 – Financial Instruments: Classification and measurement | Effect on financial asset classification and measurement | Applicable to years beginning on or after January 1, 2013. |
| Amendments to IFRS 07 – Disclosures: Offsetting Financial Assets and Financial Liabilities | Disclosures are required for all financial instruments recognized that are not offset in accordance with IAS 32 Financial Instruments: | Applicable to years beginning on or after January 1, 2014. |
| IAS 28 (revised in 2011) - Investments in Associates and Joint Ventures | IAS 28 revised to include amendments introduced by IFRS 10, 11 and 12. | Applicable to years beginning on or after January 1, 2013. |
| IAS 27 (revised in 2011) – Separate financial statements | IAS 27 requirements related to consolidated financial statements that are replaced by IFRS 10. The requirements for separate financial statements remain. | Applicable to years beginning on or after January 1, 2013. |
| IFRS 10 – Consolidated Financial Statements | Replaced IAS 27 in connection with requirements applicable to consolidated financial statements and SIC 12. IFRS 10 determined a single control-based consolidation model, regardless of the nature of the investment. | Applicable to years beginning on or after January 1, 2013. |
| IFRS 11 – Joint Arrangements | Eliminated the proportionate consolidation model for jointly controlled entities, maintaining only the equity method. It also eliminated the concept of "jointly controlled assets," maintaining only "jointly controlled operations," and "jointly controlled entities." | Applicable to years beginning on or after January 1, 2013. |

| Standard | Main requirements | Effectiveness |
|---|---|---|
| IFRS 12 - Disclosure of Interests in Other Entities | Increases disclosure requirements for investments in companies on which the Company has significant influence. | Applicable to years beginning on or after January 1, 2013. |
| IFRS 13 - Fair Value Measurements | Replaces and consolidates all guidance and requirements related to fair value measurement contained in other IFRS pronouncements in one single pronouncement. IFRS 13 defines fair value and provides guidance on how to determine the fair value, in addition to the disclosure requirements for fair value measurement. However, it does not introduce any new requirements or amendments in respect to the items that should be measured at fair value, which remain in the original pronouncement. | Applicable to years beginning on or after January 1, 2013. |
| Amendments to IAS 19 – Employee benefits | Elimination of the corridor approach and the concept of expected returns on plan assets, to simple clarifications on appreciation, depreciation and reformulation. | Applicable to years beginning on or after January 1, 2013. |
| Amendments to IAS 01 – Presentation of Financial Statements | Introduces the requirement that items recorded in other comprehensive income be segregated and aggregated between items that are and are not subsequently reclassified to the profit or loss. | Applicable to years beginning on or after January 1, 2013. |

CPC has not issued the corresponding pronouncements and amendments related to the new and revised IFRS referred to above. Given CPC and CVM commitment to keep all standards issued updated based on amendments made by IASB, such pronouncements and amendments are expected to be issued by CPC and approved by CVM until they are mandatorily applicable.

Management will assess impacts on the financial statements upon adoption of these pronouncements and interpretations, and will adopt them as they become effective, after approval by CVM.

## 6. Consolidated financial statements

Consolidation criteria, definition of subsidiary and changes in interest held in existing subsidiaries

Consolidation criteria

The consolidated financial statements were prepared based on the historical cost and include the financial statements of the Company and its subsidiaries for the same reporting period and consistently with the accounting practices mentioned in Note 3. Control is obtained when the Company has the power to control financial and operational policies of a company and earn benefits from its activities.

Subsidiaries were fully consolidated, with the corresponding non-controlling interest calculation, including assets, liabilities, revenues and expenses by nature of account. The following was eliminated: (a) investments and equity balances, and (b) bank accounts and other assets and/or liabilities balances held between Group companies, including in the event of unrealized gains. The balance sheet of subsidiaries abroad whose functional currency is other than real (Argentine peso, euro or US dollar) was translated into reais at the exchange rates as of the balance sheet dates. The income statement of subsidiaries abroad was translated into reais at average exchange rates. Differences arising from the use of different translation rates are recorded as Equity Valuation Adjustment, in equity, which will be then reclassified to profit or loss for the year, where applicable, on the date the investment is disposed of.

profit or loss of subsidiaries acquired or sold over the year are included in the consolidated income statements and statement of comprehensive income as of the date they were effectively acquired to the sale date, as applicable.

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

The Company reviews the accounting practices adopted by subsidiaries abroad and, if they are different from those adopted in Brazil, it adjusts its subsidiaries' equity and profit or loss for the year before determining its profit or loss and equity pickup.

Definition of subsidiaries

Subsidiaries are all companies whose financial and operational policies are controlled and conducted by the Company, and in which, usually, the Company holds more than 50% of interest. Where applicable, the existence and the effect of potential voting rights, which are currently enforceable or convertible, are considered when assessing whether the company holds control over another company. Subsidiaries are fully consolidated as from the date the control is transferred to the Company; consolidation ceases when such control ceases to exist, where applicable.

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

| | Interest and voting power - % | |
|---|---|---|
| | 2012 | 2011 |
| Direct interest: | | |
| CBS S.A. - Companhia Brasileira de Sandálias | 100.00 | 100.00 |
| Fibrasil Agrícola e Comercial Ltda. | 100.00 | 100.00 |
| Alpargatas Imobiliária S.A. | 100.00 | 100.00 |
| Alpargatas Chile Ltda. – Chile | - | 100.00 |
| Alpargatas Internacional APS – Denmark | 100.00 | 100.00 |
| Alpargatas S.A.I.C. - Argentina | 96.42 | 91.45 |
| Indirect interest (through Alpargatas Internacional APS): | | |
| Alpargatas Europe S.L.U. – Spain | 100.00 | 100.00 |
| Alpargatas USA Inc. - USA | 100.00 | 100.00 |
| Alpargatas UK Limited - UK | 100.00 | 100.00 |
| Alpargatas France S.A.R.L. - France | 100.00 | 100.00 |
| Alpargatas Itália S.R.L. – Italy | 100.00 | 100.00 |
| Alpargatas Portugal Limited – Portugal | 100.00 | 100.00 |

- CBS S.A. - Companhia Brasileira de Sandálias: acquired in November 2007. It is engaged in the manufacture and sale of rubber sandals.
- Fibrasil Agrícola e Comercial Ltda.: acquired in November 1989. It is engaged in the import and export activities in general, purchase, sale and lease of own properties, and holding interest in other companies, in Brazil or abroad. The subsidiary is currently dormant.
- 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 October 2007, but its control was transferred to the Company in October 2008. It is engaged in the manufacture and sale of footwear and textile products mainly in the Argentine market.
- Alpargatas Europe S.L.U. - Spain, Alpargatas France S.A.R.L. - France, Alpargatas UK Limited - United Kingdom, Alpargatas Italia S.R.L. - Italy and Alpargatas Portugal Limited - Portugal: organized in July, August and September 2008, and April and May 2009, respectively. They are primarily engaged in the import and sale of footwear in the European market.
- Alpargatas USA Inc. - United States: organized after the merger of Expasa Florida Inc. in December 2006. It is primarily engaged in the import and sale of footwear in the U.S. 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, Company management approved the discontinuation of the operations of this subsidiary, and, since May 2010, the Company sells its products through an independent distributor, under a sales representation agreement.

Changes in interest of existing subsidiaries

In the consolidated financial statements, changes in interest held by the Company in subsidiaries not resulting in loss of control over such subsidiaries are recorded as capital transactions. Accounting balances of the Company's and non-controlling interests are adjusted so as to reflect changes in the corresponding interests held in subsidiaries. The difference between the amount based on which interest in subsidiaries is adjusted and fair value of considerations paid or received is posted directly to equity and attributed to controlling shareholders.

When the Company no longer holds control over a subsidiary, gains or losses from disposal are calculated by the difference between: (a) total fair value of considerations received and fair value of residual interest, and (b) previous balance of assets (including goodwill) and liabilities of the subsidiary and non-controlling interest, if any. When assets of the subsidiary are recorded at fair value and the corresponding gains or

losses carryforward are recognized as Other Comprehensive Income, and accumulated in equity, amounts previously recognized as Other Comprehensive Income and accumulated in equity are recorded as though the Company had disposed of the corresponding assets (i.e., reclassified them to profit or loss or transferred them directly to Retained Earnings, as required by applicable IFRS). Fair value of any investments held in a former subsidiary on the date control ceases to exist is considered as fair value upon initial recognition for subsequent measurement, as under CPC CPC 38/IAS 39 – Financial Instruments: Recognition and Measurement, or, where applicable, as cost upon initial recognition of investment in an affiliate or jointly controlled entity.

## 7. Tax incentives – investment grants

The Company and its subsidiaries have tax incentives granted by state governments where the main plants are located, which will expire between 2018 and 2020. The Company and its subsidiaries also have tax incentives granted by federal governments through profit from tax incentive operations in the Northeast Region.

Investment grants, including income tax incentives, recorded for the years ended December 31, 2012 and 2011, are as follows:

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| State Value-Added Tax (ICMS) incentive: | | | | | |
| Paraíba | (a) | 132,195 | 133,971 | 132,196 | 133,971 |
| Pernambuco | (b) | - | - | 7,815 | 9,009 |
| Income tax incentives: | | | | | |
| Northeast Region | (c) | 14,153 | 12,573 | 17,331 | 16,004 |
| Total | | 146,348 | 146,544 | 157,342 | 158,984 |

(a) Amounts of the investment grant in the State of Paraíba, used in the calculation of matching ICMS credit, calculated by Santa Rita, Campina Grande and João Pessoa plants. The amounts refer to unpaid ICMS installments, thus committed to what was agreed with the state government. The Company is compliant with the established agreement, which consists of expanding the manufacturing facilities in that region, increasing its production of footwear and generating direct jobs in plants in the State of Paraíba.

Additionally, for the years ended December 31, 2012 and 2011, there were no incentive installments to be accounted for, arising from obligations established by the incentive program, to be complied with by the Company. Tax incentive installments are credited to “Sales taxes” in the income statement.

(b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of matching ICMS credit, thus committed to what was agreed with the state government by subsidiary CBS S.A. - Companhia Brasileira de Sandálias. The subsidiary is compliant with the established agreement, which consists of maintaining a minimum number of direct jobs in the region and reaching gross revenue of at least R$2,500 per month.

(c) These are credited to Current Income and Social Contribution Taxes in the income statement (see details in Note 12.b)).

## 8. Cash, cash equivalents and short-term investments

a) Cash and cash equivalents

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cash and banks | 1,483 | 458 | 18,400 | 14,847 |
| Interest-bearing bank account (i) | - | 644 | - | 2,458 |
| Short-term investments: | | | | |
| Bank deposit certificates (CDB) – fixed and floating rates (ii) | 5,826 | 33,561 | 8,176 | 36,963 |
| Repurchase agreements (ii) | 75,224 | 128,468 | 94,953 | 166,851 |
| Other - Alpargatas S.A.I.C. - Argentina (iii) | - | - | 1,301 | 809 |
| Other - Alpargatas Europe S.L.U. - Spain (iv) | - | - | - | 282 |
| Total | 82,533 | 163,131 | 122,830 | 222,210 |

The Company's short-term investment policy establishes that short-term investments can only be made in first-tier financial institutions with a minimum rating classified by credit rating agencies Fitch, Standard & Poor's, or Moody's. Any management's proposal to invest in financial institutions whose rating is below the minimum required in policy will depend on Board of Directors' approval.

The Company's policy does not establish criteria for determining breakdown of "Cash and cash equivalents." However, the accounting classification of cash and cash equivalent components used by management of the Company and its subsidiaries is described in Note 3.c).

Short-term investments classified as cash equivalents by the Company and its subsidiaries are as follows:

(i) At December 31, 2012, the Company and its subsidiaries held a balance in an interest-bearing bank account (20% of CDI variation as of December 31, 2011).

(ii) At December 31, 2012, CDB were distributed among various financial institutions with average yield of 104.17% of CDI (103.53% as of December 31, 2011), and repurchase agreements were distributed among various financial institutions with average yield of 101.58% of CDI (103.25% as of December 31, 2011). At December 31, 2012, CDB and securities relating to repurchase agreements mature between January 2013 and November 2016 and are classified as "Cash and cash equivalents," as they are redeemable within 90 days or as they are considered as financial assets with immediate redemption guaranteed, subject to insignificant risk of change in value.

(iii) Short-term investments held by subsidiary Alpargatas S.A.I.C. - Argentina as of December 31, 2012 are represented by fixed-income securities with average annual yield of 6.19% (3.38% at December 31, 2011).

b) Short-term investments

At December 31, 2012, these refer to CDB and repurchase agreements with average yield of 116.16% of CDI (102.56% at December 31, 2011).

The Company acquired National Treasury Notes – type B (NTN-B) pegged to Brazil's Extended Consumer Price Index (IPCA) plus interest of 6% p.a., maturing in August 2020.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Fixed and floating CDB | 137,834 | 110,385 | 137,834 | 110,385 |
| Repurchase agreements | 313,604 | 328,249 | 348,849 | 328,249 |
| National Treasury Notes – type B (NTN-B) | 7,395 | 10,110 | 7,395 | 10,110 |
| Total | 458,833 | 448,744 | 494,078 | 448,744 |

## 9. Trade accounts receivable

a) Breakdown:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Domestic market | 573,804 | 413,346 | 597,845 | 436,915 |
| Foreign market | 25,994 | 17,309 | 123,452 | 93,393 |
| Related parties (Note 21.b)) | 23,896 | 19,377 | - | - |
| Allowance for doubtful accounts | (19,327) | (16,576) | (27,128) | (24,450) |
| Total | 604,367 | 433,456 | 694,169 | 505,858 |

Trade accounts receivable are classified as Lending and Receivables, stated at amortized cost. Net book value thereof approximates fair value, as described in Note 3.d) to significant accounting practices. Foreign trade accounts receivable are stated in US dollars, Euro and Argentine pesos.

b) Aging list

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Falling due | 586,072 | 396,982 | 650,369 | 452,512 |
| Overdue: | | | | |
| Up to 30 days | 13,491 | 20,627 | 23,542 | 30,114 |
| From 31 to 90 years | 12,835 | 4,994 | 20,858 | 10,954 |
| Above 91 days | 11,296 | 27,429 | 26,528 | 36,728 |
| Total | 623,694 | 450,032 | 721,297 | 530,308 |

c) Allowance for doubtful accounts

Changes in allowance for doubtful accounts are as follows:

| | Company | Consolidated |
|---|---|---|
| Balances at December 31, 2011 | (16,576) | (24,450) |
| Additions | (4,398) | (7,618) |
| Reversals | - | 195 |
| Write-offs | 1,647 | 4,745 |
| Balances at December 31, 2012 | (19,327) | (27,128) |

Aging list of trade accounts receivable included in the allowance for doubtful accounts is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Up to 30 days | - | - | (315) | (298) |
| From 31 to 90 years | (1,396) | (41) | (2,238) | (983) |
| Above 91 days | (17,931) | (16,535) | (24,575) | (23,169) |
| Total | (19,327) | (16,576) | (27,128) | (24,450) |

Additions to and reversals of ADA are recorded under Selling Expenses, in profit or loss.

Maximum exposure to credit risk as of the financial statements date is the carrying amount of each aging range, as detailed in the aging list of trade accounts receivable above. No provision for losses was set up for defaulting customers with rescheduled debts, for which the Company and its subsidiaries have letters of credit and properties as collaterals. For other past-due trade accounts receivable, which are not collateralized, an allowance for doubtful accounts was set up.

## 10. Inventories

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Finished products | 163,931 | 114,366 | 303,476 | 218,866 |
| Work in progress | 12,272 | 11,560 | 30,413 | 29,707 |
| Raw materials | 45,263 | 38,858 | 80,090 | 69,149 |
| Imports in transit | 24,536 | 12,777 | 24,536 | 13,552 |
| Other | 11,376 | 24,959 | 20,658 | 28,993 |
| Provision for inventory losses | (9,055) | (4,320) | (15,235) | (9,244) |
| Total | 248,323 | 198,200 | 443,938 | 351,023 |

Changes in provision for inventory losses are as follows:

| | Company | Consolidated |
|---|---|---|
| Balances at December 31, 2011 | (4,320) | (9,244) |
| Additions | (4,949) | (7,184) |
| Reversals | - | 1,744 |
| Write-offs / exchange variation | 214 | (551) |
| Balances at December 31, 2012 | (9,055) | (15,235) |

## 11. Taxes recoverable

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Prepayment of income and social contribution taxes | 17,486 | 10,270 | 19,937 | 12,250 |
| Withholding income tax (IRRF) | 1,001 | 4,013 | 1,444 | 2,054 |
| State value-added tax (ICMS) | 2,216 | 2,687 | 2,778 | 2,874 |
| Federal value-added tax (IPI) | 50 | 108 | 50 | 108 |
| Contribution tax on gross revenue for social integration Program (PIS) and social contribution tax on gross revenue for social security financing (COFINS) | 7,473 | 4,785 | 8,327 | 5,275 |
| Tax incentive – *Brasil Maior* | 6,611 | - | 7,185 | - |
| Value added tax (VAT) - Alpargatas Europe | - | - | 3,360 | 2,046 |
| Prepayment of income tax - Alpargatas S.A.I.C. - Argentina | - | - | 23,401 | 15,880 |
| Value added tax (VAT) – Argentina | - | - | 6,880 | 8,326 |
| Other | 7,740 | 513 | 9,399 | 3,035 |
| Total | 42,577 | 22,376 | 82,761 | 51,848 |
| | | | | |
| Current portion | 33,968 | 15,886 | 54,461 | 26,000 |
| Noncurrent portion | 8,609 | 6,490 | 28,300 | 25,848 |

## 12. Income and social contribution taxes

a) Deferred

| | | Company and Consolidated | |
|---|---|---|---|
| | | 2012 | 2011 |
| Assets: | | | |
| Allowance for doubtful accounts | | 6,571 | 5,636 |
| Provision for inventory losses | | 3,079 | 1,469 |
| Provision for tax, civil and labor claims | | 7,712 | 8,050 |
| Provision for suspended tax payments | | 26,647 | 20,853 |
| Write-off of deferred charges | | 70 | 601 |
| Adjustments to recognition of sales revenue | | 2,240 | 3,721 |
| Other temporary differences | | 3,594 | 6,508 |
| Total – Company | | 49,913 | 46,838 |
| | | | |
| Subsidiaries: | | | |
| Alpargatas S.A.I.C. - Argentina | | | |
| - Provision for trust | | 6,926 | 7,259 |
| - Provisions for tax, civil and labor claims | | 6,617 | 7,253 |
| - Deferred tax on tax losses | (iii) | 13,943 | 4,896 |
| - Allowance for doubtful accounts | | 1,713 | 1,660 |
| - Provision for inventory losses | | 1,644 | 1,693 |
| - Other temporary differences | | 6,106 | 3,975 |
| | | 36,949 | 26,736 |
| Alpargatas Europe S.L.U. – Spain: | | | |
| - Tax losses | (i) | 10,681 | 9,750 |
| CBS S.A. - Companhia Brasileira de Sandálias: | | | |
| - Temporary differences | | 1,308 | 1,816 |
| - Income and social contribution tax losses | (i) | 1,371 | 3,376 |
| | | 2,679 | 5,192 |
| | | | |
| Deferred taxes on unrealized profits | | 2,790 | 1,035 |
| | | | |
| Total - consolidated | | 103,012 | 89,551 |
| | | | |
| Liabilities: | | | |
| Company: | | | |
| Goodwill on acquisition of subsidiaries amortized for tax purposes | (ii) | 7,321 | 5,690 |
| Provision for IR/CSLL on difference of useful life of property, plant and equipment (depreciation) | | 7,237 | - |
| Provision for CSLL - 25% on depreciation | | 2,467 | - |
| Total Company | | 17,025 | 5,690 |
| | | | |
| Subsidiaries: | | | |
| Alpargatas S.A.I.C. – Argentina: | | | |
| - Present value adjustment to renegotiated obligations and tax difference on valuation of property, plant and equipment items | | 33,240 | 38,617 |
| Alpargatas USA Inc. - USA | | 193 | - |
| Total - consolidated | | 50,458 | 44,307 |
| | | | |
| Total net – Company | | 32,888 | 41,148 |
| Total net – consolidated | | 52,554 | 45,244 |

(i) *Recognition of tax credits of subsidiaries*

*Alpargatas Europe S.L.U. - Spain*

For the closing of the financial statements for the year ended December 31, 2009, based on a technical feasibility study, approved by the Board of Directors, management decided to recognize deferred income tax credit on income tax losses incurred by subsidiary Alpargatas Europe S.L.U. - Spain. Based on projections of future taxable profit of the subsidiary as from 2011, management, in compliance with CPC 32 and IAS 12 - Income Taxes, decided to recognize deferred tax credit, which is expected to be realized until 2015. According to the Spanish tax law, the maximum statute of limitations of income tax losses is 18 years from the date they are incurred.

*CBS S.A. - Companhia Brasileira de Sandálias*

In June 2010, CBS S.A. - Companhia Brasileira de Sandálias recognized tax credit on income and social contribution tax losses, based on the expected future generation of taxable profit, as prescribed in CPC 32 and IAS 12. Recognized credit is now offset and is expected to be realized through 2013.

(ii) *Goodwill on acquisition of subsidiaries amortized for tax purposes*

Due to cancellation of amortization of goodwill on subsidiary acquisition, in accordance with amendments to accounting practices adopted in Brazil enacted by Laws No. 11638/07 and No. 11941/09, beginning January 1, 2009, the Company started enjoying goodwill tax benefit on acquisition of subsidiary CBS S.A. - Companhia Brasileira de Sandálias, after the merger of former subsidiary Atlântico Participações S.A., through the Transition Tax Regime (RTT), effect whose effect was offset previously at the ratio of 1/60 per month, with monthly amortization of R$400, which has resulted in a R$136/month tax effect. Therefore, as required by accounting practices adopted in Brazil, the difference between the base for enjoying tax benefits and accounting amortization is considered a temporary difference for deferred income and social contribution taxes (IRPJ and CSLL).

(iii) *Establishment of tax credit generated by corporate reorganization*

In June 2012, Alpargatas S.A.I.C. – Argentina recorded tax credit amounting to R$11,837 stemming from merger of subsidiaries, as mentioned in Note 1.3.

Realization of deferred tax credits (consolidated) is expected as follows:

| | 2012 | 2011 |
|---|---|---|
| 2012 | - | 26,874 |
| 2013 | 23,536 | 13,249 |
| 2014 | 17,027 | 10,731 |
| 2015 | 7,435 | 7,540 |
| 2016 onwards | 55,014 | 31,157 |
| Total - consolidated | 103,012 | 89,551 |

At December 31, 2012, the Company had unrecognized tax credits on income tax losses and temporary differences not recognized in the consolidated financial statements, generated by its subsidiaries abroad, which, in view of the lack of projected taxable profit for the following years, were not recorded by the corresponding subsidiaries abroad.

Tax credits calculated at rates in force in the corresponding countries where the subsidiaries are located are as follows:

| | R$ |
|---|---|
| Total temporary differences | 876 |
| Tax losses: | |
| Alpargatas USA Inc. - USA | 41,972 |
| Alpargatas France S.A.R.L. - France | 87 |
| Total | 42,935 |

Tax credits on income tax losses generated by subsidiaries have no offset date (expiry).

Changes in deferred income and social contribution tax assets and liabilities or the years ended December 31, 2012 and 2011 are as follows:

| | 2011 | (Debited) / credited in the income statement | Exchange variation, charges and other changes | 2012 |
|---|---|---|---|---|
| Assets: | | | | |
| Company: | | | | |
| Allowance for doubtful accounts | 5,636 | 935 | - | 6,571 |
| Provision for inventory losses | 1,469 | 1,610 | - | 3,079 |
| Provision for tax, civil and labor claims | 8,050 | (338) | - | 7,712 |
| Provision for suspended tax payments | 20,853 | 5,794 | - | 26,647 |
| Write-off of deferred charges | 601 | (531) | - | 70 |
| Adjustments to recognition of sales revenue | 3,721 | (1,481) | - | 2,240 |
| Other temporary differences | 6,508 | (2,914) | - | 3,594 |
| Total – Company | 46,838 | 3,075 | - | 49,913 |
| Subsidiaries: | | | | |
| Alpargatas S.A.I.C. - Argentina: | | | | |
| Provision for trust | 7,259 | - | (333) | 6,926 |
| Provision for tax, civil and labor claims | 7,253 | (313) | (323) | 6,617 |
| Deferred tax on tax losses | 4,896 | 10,267 | (1,220) | 13,943 |
| Allowance for doubtful accounts | 1,660 | 134 | (81) | 1,713 |
| Provision for inventory losses | 1,693 | 30 | (79) | 1,644 |
| Other temporary differences | 3,975 | 2,365 | (234) | 6,106 |
| | 26,736 | 12,483 | (2,270) | 36,949 |
| Alpargatas Europe S.L.U. – Spain | 9,750 | 326 | 605 | 10,681 |
| CBS S.A. - Companhia Brasileira de Sandálias: | | | | |
| Temporary differences | 1,816 | (508) | - | 1,308 |
| Income and social contribution tax losses | 3,376 | (2,005) | - | 1,371 |
| | 5,192 | (2,513) | - | 2,679 |

| | 2011 | (Debited) / credited in the income statement | Exchange variation, charges and other changes | 2012 |
|---|---|---|---|---|
| Deferred taxes on unrealized profits | 1,035 | 1,747 | 8 | 2,790 |
| Total - consolidated | 89,551 | 15,118 | (1,657) | 103,012 |
| Liabilities: | | | | |
| Company: | | | | |
| Goodwill on acquisition of subsidiaries amortized for tax purposes | 5,690 | 1,631 | - | 7,321 |
| Provision for IR/CSLL on difference of useful life of property, plant and equipment (depreciation) | - | 7,237 | - | 7,237 |
| Provision for CSLL - 25% on depreciation | - | 2,467 | - | 2,467 |
| Total – Company | 5,690 | 11,335 | - | 17,025 |
| Subsidiaries: | | | | |
| Alpargatas S.A.I.C. – Argentina: | | | | |
| Present value adjustment to negotiated obligations and tax difference on valuation of property, plant and equipment items | 38,617 | (3,721) | (1,656) | 33,240 |
| Alpargatas USA Inc. - USA | - | - | 193 | 193 |
| Total - consolidated | 44,307 | 7,614 | (1,463) | 50,458 |
| Total net – Company | | (8.260) | | |
| Total net – consolidated | | 7.504 | | |

| | 2010 | (Debited) / credited in the income statement | Exchange variation, charges and other changes | 2011 |
|---|---|---|---|---|
| Assets: | | | | |
| Company: | | | | |
| Allowance for doubtful accounts | 4,449 | 1,187 | - | 5,636 |
| Provision for inventory losses | 1,913 | (444) | - | 1,469 |
| Provision for contingencies | 6,963 | 1,087 | - | 8,050 |
| Provision for suspended tax payments | 15,844 | 5,009 | - | 20,853 |
| Write-off of deferred charges | 1,328 | (727) | - | 601 |
| Adjustments to recognition of sales revenue | 5,477 | (1,756) | - | 3,721 |
| Other temporary differences | 3,824 | 2,684 | - | 6,508 |
| Income and social contribution tax losses | 3,207 | (3,207) | - | - |
| Total – Company | 43,005 | 3,833 | - | 46,838 |
| Subsidiaries: | | | | |
| Alpargatas S.A.I.C. – Argentina | | | | |
| Provision for trust | 13,516 | (6,321) | 64 | 7,259 |
| Provision for tax and labor claims | 7,829 | 3,716 | 604 | 12,149 |
| Allowance for doubtful accounts | 1,180 | 403 | 77 | 1,660 |
| Provision for inventory losses | 1,171 | 442 | 80 | 1,693 |
| Other temporary differences | 3,637 | 204 | 134 | 3,975 |

| | 2010 | (Debited) / credited in the income statement | Exchange variation, charges and other changes | 2011 |
|---|---|---|---|---|
| | 27,333 | (1,556) | 959 | 26,736 |
| Alpargatas Europe S.L.U – Spain | 8,567 | 657 | 526 | 9,750 |
| Alpargatas Chile | 2,046 | - | (2,046) | - |
| CBS - Companhia Brasileira de Sandálias | | | | |
| Total temporary differences | 1,970 | (154) | - | 1,816 |
| Income and social contribution tax losses | 7,157 | (2,392) | (1,389) | 3,376 |
| | 9,127 | (2,546) | (1,389) | 5,192 |
| Unrealized income in inventories | 765 | 270 | - | 1,035 |
| (-) Allowance for bad debt | (2,046) | - | 2,046 | - |
| Total - consolidated | 88,797 | 658 | 96 | 89,551 |
| | | | | |
| Liabilities: | | | | |
| Company: | | | | |
| Goodwill on acquisition of subsidiaries | 3,261 | 2,429 | - | 5,690 |
| Total – Company | 3,261 | 2,429 | - | 5,690 |
| | | | | |
| Subsidiaries: | | | | |
| Alpargatas S.A.I.C. - Argentina | | | | |
| Debt restructuring and valuation of property, plant and equipment items | 39,364 | (2,110) | 1,363 | 38,617 |
| Total - consolidated | 42,625 | 319 | 1,363 | 44,307 |
| | | | | |
| Total net – Company | | 1,404 | | |
| Total net – consolidated | | 339 | | |

b) Current

Reconciliation of income and social contribution taxes:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Income before income and social contribution taxes | 311,366 | 329,025 | 299,854 | 340,864 |
| Combined rate of income and social contribution taxes | 34% | 34% | 34% | 34% |
| Expected income and social contribution tax expenses at the tax rate in force | (105,864) | (111,869) | (101,950) | (115,894) |
| Equity pickup | (7,911) | 3,857 | (14,574) | (1,923) |
| Benefit of interest on equity | 28,900 | 26,724 | 28,900 | 26,724 |
| Tax effects from adoption of RTT: | | | | |
| Investment grant – ICMS | 43,396 | 45,550 | 46,053 | 48,613 |
| Stock option plan granted | (691) | (431) | (691) | (431) |
| Federal government subsidies – IRPJ (Note 7) | 14,153 | 12,573 | 17,331 | 16,004 |
| *Lei do Bem* benefits (Law No. 11196/05) | 1,109 | 1,558 | 1,109 | 1,558 |
| Use of tax credit of subsidiaries not recognized in prior years | - | - | (5,486) | (5,879) |
| Deferred tax adjustment – useful life difference - IFRS x Tax | (4,746) | - | (4,746) | - |
| Tax credit recorded due to merger in subsidiary Alpargatas S.A.I.C. – Argentina | - | - | 11,837 | - |
| Other permanent exclusions (additions), net | 271 | 433 | 2,900 | (569) |
| Income and social contribution tax expenses | (31,383) | (21,605) | (19,317) | (31,797) |
| | | | | |
| Current | (23,123) | (23,009) | (26,821) | (32,136) |
| Deferred | (8,260) | 1,404 | 7,504 | 339 |

## 13. Judicial deposits

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

At December 31, 2012, 2011, balances are basically represented by judicial deposits related to labor and tax claims. Such deposits, which involve no current obligations, were necessary to proceed with the claims. Management and its legal advisers have not rated the likelihood of an unfavorable outcome as probable and, therefore, set up no provision for tax, civil and labor contingencies.

These comprise:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Tax claims | 6,571 | 6,571 | 6,681 | 6,680 |
| Civil claims | - | - | 20 | - |
| Labor claims | 5,114 | 7,094 | 5,502 | 7,848 |
| | 11,685 | 13,665 | 12,203 | 14,528 |

## 14. Investments

These comprise:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Investments | 208,815 | 207,042 | 33,369 | 74,267 |
| Goodwill | 150,130 | 150,130 | - | - |
| | 358,945 | 357,172 | 33,369 | 74,267 |

| Information at December 31, 2012 | Fibrasil Agrícola e Comercial Ltda. | Alpargatas Internacional APS - Denmark | Alpargatas Imobiliária S.A. | CBS S.A. - Companhia Brasileira de Sandálias | Alpargatas S.A.I.C. - Argentina | Alpargatas Chile Ltda. - Chile | Total |
|---|---|---|---|---|---|---|---|
| Number of shares or units of interest held | 1,157,111 | 45,532,752 | 5,585,855 | 750,645 | 67,611,095 | - | |
| Total assets | 2,351 | 117,481 | 18,715 | 106,190 | 402,846 | - | |
| Total liabilities | - | 133,278 | 1 | 39,218 | 255,579 | - | |
| Capital | 1,157 | 123,259 | 8,766 | 20,848 | 29,171 | - | |
| Equity (capital deficiency) | 2,351 | (15,796) | 18,714 | 66,971 | 147,267 | - | |
| Unrealized income in inventories | | (5,295) | | (122) | - | | |
| | | (21,091) | | 66,849 | 147,267 | | |
| Net revenue for the year | - | 154,554 | 81 | 134,496 | 524,348 | - | |
| Net income (loss) for the year | 129 | (57,901) | 880 | 24,468 | 12,412 | 106 | |
| Equity interest - % | 100.00 | 100.00 | 100.00 | 100.00 | 96.42 | - | |
| Investment book value: | | | | | | | |
| Balance at December 31, 2011 | 2,222 | 2,175 | 17,834 | 54,755 | 130,162 | (106) | 207,042 |
| Capital increase | - | 41,227 | - | - | - | - | 41,227 |
| Acquisition of shares | - | - | - | - | 7,391 | - | 7,391 |
| Payment of dividends | - | - | - | (12,252) | - | - | (12,252) |
| Disposal of investments | - | - | - | - | - | (467) | (467) |
| Equity pickup | 129 | (60,783) | 880 | 24,346 | 12,053 | 106 | (23,269) |
| Exchange variation on investments | - | (3,710) | - | - | (7,614) | 467 | (10,857) |
| Balance at December 31, 2012 | 2,351 | (21,091) | 18,714 | 66,849 | 141,992 | - | 208,815 |

| Information at December 31, 2011 | Fibrasil Agrícola e Comercial Ltda. | Alpargatas Internacional APS - Denmark | Alpargatas Imobiliária S.A. | CBS S.A. - Companhia Brasileira de Sandálias | Alpargatas S.A.I.C. - Argentina | Alpargatas Chile Ltda. - Chile | Total |
|---|---|---|---|---|---|---|---|
| Number of shares or units of interest held | 1,157,111 | 30,393,854 | 5,585,855 | 750,645 | 64,126,833 | - | |
| Total assets | 2,224 | 143,502 | 17,853 | 84,757 | 384,469 | 24 | |
| Total liabilities | 2 | 139,341 | 19 | 30,002 | 242,113 | 130 | |
| Capital | 1,157 | 74,464 | 8,766 | 20,848 | 30,573 | 9,180 | |
| Equity (capital deficiency) | 2,222 | 4,161 | 17,834 | 54,755 | 142,356 | (106) | |
| Unrealized income in inventories | | (1,986) | | | (24) | | |
| | | 2,175 | | | 142,332 | | |
| Net revenue for the year | - | 121,118 | 92 | 126,977 | 477,502 | 22 | |
| Net income (loss) for the year | 118 | (23,847) | 1,356 | 27,448 | 8,763 | (310) | |
| Equity interest - % | 100.00 | 100.00 | 100.00 | 100.00 | 91.45 | 100.00 | |
| Investment book value: | | | | | | | |
| Balance at December 31, 2010 | 2,104 | 30,939 | 22,979 | 28,353 | 90,325 | (147) | 174,553 |
| Capital increase | - | 306 | - | - | - | 334 | 640 |
| Acquisition of shares | - | - | - | - | 25,509 | - | 25,509 |
| Payment of dividends | - | - | (6,501) | (1,046) | - | - | (7,547) |
| Equity pickup | 118 | (24,367) | 1,356 | 27,448 | 7,082 | (292) | 11,345 |
| Exchange variation on investments | - | (4,703) | - | - | 7,246 | (1) | 2,542 |
| Balance at December 31, 2011 | 2,222 | 2,175 | 17,834 | 54,755 | 130,162 | (106) | 207,042 |

At December 31, 2012 and 2011, 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 |

## Indirect investments through holding company Alpargatas Internacional APS

| Information at December 31, 2012 | Indirect subsidiaries | | | | | | | Affiliate | |
|---|---|---|---|---|---|---|---|---|---|
| | **Alpargatas Europe S.L.U. - Spain** | **Alpargatas France S.A.R.L. - France** | **Alpargatas UK Limited - UK** | **Alpargatas Itália S.R.L. - Italy** | **Alpargatas Portugal Limited - Portugal** | **Alpargatas USA Inc. - USA** | **Total indirect subsidiaries** | **Grupo Tavex S.A.** | **Total** |
| Number of shares or units of interest held | 100,000 | 5,000 | 1 | 1 | 2 | 10 | | 21,683,180 | |
| Total assets | 38,469 | 4,590 | 1,423 | 2,635 | 357 | 28,442 | | 1,471,702 | |
| Total liabilities | 62,658 | 4,845 | 1,075 | 2,503 | 58 | 88,620 | | 1,293,121 | |
| Equity (capital deficiency) | (24,189) | (255) | 348 | 132 | 299 | (60,178) | | 178,581 | |
| Net revenue for the year | 98,012 | 6,052 | 4,914 | 4,619 | 1,916 | 39,041 | | 1,086,031 | |
| Net income (loss) for the year | (570) | 515 | 199 | 39 | 123 | (14,599) | | (229,378) | |
| Indirect interest - % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | | 18,687 | |
| Investment book value: | | | | | | | | | |
| Balance at December 31, 2011 | (22,472) | (726) | 125 | (15) | 152 | (79,087) | (102,023) | 74,267 | (27,756) |
| Capital increase/payment | 96 | - | - | - | - | 40,840 | 40,936 | - | 40,936 |
| Equity pickup | (570) | 515 | 199 | 39 | 123 | (14,599) | (14,293) | (42,864) | (57,157) |
| Exchange variation on investments | (1,243) | (44) | 24 | 108 | 24 | (7,332) | (8,463) | 1,966 | (6,497) |
| Balance at December 31, 2012 | (24,189) | (255) | 348 | 132 | 299 | (60,178) | (83,843) | 33,369 | (50,474) |

| Information at December 31, 2011 | Indirect subsidiaries | | | | | | | Affiliate | |
|---|---|---|---|---|---|---|---|---|---|
| | **Alpargatas Europe S.L.U. - Spain** | **Alpargatas France S.A.R.L. - France** | **Alpargatas UK Limited - UK** | **Alpargatas Itália S.R.L. - Italy** | **Alpargatas Portugal Limited - Portugal** | **Alpargatas USA Inc. - USA** | **Total indirect subsidiaries** | **Grupo Tavex S.A.** | **Total** |
| Number of shares or units of interest held | 100,000 | 5,000 | 1 | 1 | 2 | 10 | | 21,683,180 | |
| Total assets | 33,458 | 2,424 | 1,393 | 1,793 | 356 | 21,135 | | 1,670,091 | |
| Total liabilities | 55,930 | 3,150 | 1,268 | 1,808 | 204 | 100,222 | | 1,272,653 | |
| Equity (capital deficiency) | (22,472) | (726) | 125 | (15) | 152 | (79,087) | | 397,438 | |
| Net revenue for the year | 83,853 | 4,077 | 3,537 | 3,180 | 1,618 | 24,856 | | 1,197,570 | |
| Net income (loss) for the year | (1,025) | (89) | 112 | (65) | 134 | (15,958) | | (30,270) | |
| Indirect interest - % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | | 18,687 | |
| Investment book value: | | | | | | | | | |
| Balance at December 31, 2010 | (19,973) | (579) | 51 | 48 | 11 | (54,445) | (74,887) | 77,143 | 2,256 |
| Equity pickup | (1,025) | (89) | 112 | (65) | 134 | (15,958), | (16,891) | (5,657) | (22,548) |
| Exchange variation on investments | (1,474) | (58) | (38) | 2 | 7 | (8,684) | (10,245) | 2,781 | (7,464) |
| Balance at December 31, 2011 | (22,472) | (726) | 125 | (15) | 152 | (79,087) | (102,023) | 74,267 | (27,756) |

Additional information on acquisition of subsidiaries

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

Continuing the non-controlling interest acquisition process, in April 2011, the Company acquired further 11,483,857 shares for AR$8.71 (eight pesos and seventy cents) per share. These shares, together with the 49,569,771 shares already held, total 61,053,628 shares comprising 87.067% of total capital of Alpargatas S.A.I.C. – Argentina. The amounts of investment and goodwill paid in this acquisition were broken down into R$20,242 and R$18,999, respectively.

In July 2011, the Company acquired 3,073,205 shares with a par value of US$1.98 (one dollar and ninety-eight cents) each. These shares, together with the 61,053,628 shares already held, grant the Company a total of 64,126,833 shares, comprising 91.4502% of total capital of Alpargatas S.A.I.C. - Argentina. The consideration paid in this acquisition was broken down into R$5,267 referring to acquisition cost and R$4,285 referring to goodwill, respectively.

Total of the two 2011 acquisitions amounted to R$23,509 referring to acquisition of non-controlling interest and R$23,284 of goodwill.

Furthermore, continuing the process to acquire all outstanding shares of the subsidiary, on October 11, 2011, the Company filed with Argentina's Comisión Nacional de Valores - CNV an application for the registration of a share takeover bid ("OPA") to acquire all outstanding book-entry common shares and preferred shares of Alpargatas S.A.I.C. - Argentina with a par value of AR$8.14 each.

In March 2012, the CNV approved the referred to request.

In May 2012, the Company acquired 2,971,857 shares with a par value of AR$8.14 (eight pesos and fourteen cents) each. These shares, together with the 64,126,833 shares already held, grant the Company a total of 67,098,690 shares, comprising 95.69% of total capital of Alpargatas S.A.I.C. – Argentina. The consideration paid in this acquisition was broken down into R$6,235 referring to acquisition cost and R$4,633 referring to goodwill, respectively.

In July 2012, the Company acquired 512,405 shares with a par value of AR$8.14 (eight pesos and fourteen cents) each. These shares, together with the 67,098,690 shares already held, grant the Company a total of 67,611,095 shares, comprising 96.42% of total capital of Alpargatas S.A.I.C. – Argentina.. The consideration paid in this acquisition was broken down into R$1,156 referring to acquisition cost and R$725 referring to goodwill, respectively.

On July 25, 2012, the Company disclosed a material fact notice communicating the shareholders and the market in general that it would file with CNV, a Declaration of Acquisition and Implementation of Offering of Residual Interest of all outstanding common and preferred shares of Alpargatas S.A.I.C. - Argentina, at the value of AR$8.14 (eight Argentinean pesos and fourteen cents) each. On August 1, 2012, this declaration was filed with CNV.

*CBS S.A. - Companhia Brasileira de Sandálias*

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

In November 2007, the Company acquired, for R$49,500, all shares representing the capital of CBS S.A. - Companhia Brasileira de Sandálias, 21.89% of which were held by individuals and 78.11% by a holding company named Atlântico Participações S.A.

On April 15, 2008, holding Atlântico Participações S.A. was merged into the Company, which then directly held 100% of interest in CBS S.A. - Companhia Brasileira de Sandálias.

Additional information on affiliates

*Grupo Tavex S.A.*

Although the Company holds indirect interest of 18.687%, management considers the investment as an affiliate, decisions of which are influenced thereby, by maintaining a seat on the Board of Directors of Tavex in Spain. Therefore, in accordance with accounting practices adopted in Brazil, the Company has been valuing the investment under the equity method.

On February 13, 2012, controlling shareholder, Camargo Correa S.A., disclosed a material fact notice communicating that it had received an indicative non-binding offer from a Private Equity fund for selling the package of shares held in Grupo Tavex S.A., including the interest held by the Company of 18.687%, with a par value of € 0.41 each. Such transaction was not carried out. Given that this investment cannot be considered as available for sale, Company management, based on the requirements of IAS 28, tested such investment for impairment as of December 31, 2011, taking into account the cash flow discounted from future operations of the affiliate, in accordance with the plans approved by the investee's Board for the following five years. Net cash flows obtained by projections were adjusted to present value and subject to a sensitivity analysis at discount rates between 11% and 15%, and there was no need to set up provision for impairment losses based on the valor in use thereof.

Affiliate Grupo Tavex S.A. has undergone operational restructurings so as to gain competitiveness and profitability. In 2012, the affiliate's management reviewed the company's financial plan so as to adjust it to the most probable profit generation scenario, considering current economic situation. This review indicated, among other factors, that the Company will generate no taxable profit sufficient to fully use its deferred tax assets. Thus, adjusting the deferred tax asset account was necessary, which, together with operating losses, resulted tin negative equity pickup for Alpargatas S.A. amounting to R$42,864 for the year ended December 31, 2012.

The independent auditor of Grupo Tavex S.A. issued an audit report dated February 27, 2013 emphasizing the restructuring process that the affiliate is going through, that the corresponding implementation costs and the development of the economic and consumption situation have made it difficult for the activity levels expected by the affiliate's management to be met, and have contributed to generation of loss over the past years. In addition to significant adjustment to the 2012 profit or loss vis-à-vis the expected profit or loss, the independent auditor pointed out that, as of December 31, 2012, Grupo Tavex S.A. recorded working capital deficiency amounting to 114 million Euros. In this context, the independent auditor of Grupo Tavex S.A. indicted uncertainty as to the affiliate's ability to continue as a going-concern and that its management reviewed its business plan to adjust it to current situation and to the market where it operates. The business plan indicates that the Group operations for the following years would reach the profitability level required. The auditor also pointed out that the affiliate's management is taking timely actions to meet the short-term bank

loan schedule, so as to obtain the necessary financial suport and to realize certain real estate assets the Group has as available for sale.

Considering the adjustments made by the affiliate company for 2012, Alpargatas management assesses that the book value of investments will be recovered and that there is no evidence of additional losses.

## 15. Property, plant and equipment and intangible assets

a) Property, plant and equipment

| | | Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | | | 2011 | | |
| | Weighted average annual depreciation rate (%) | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| Land | - | 9,650 | - | 9,650 | 9,650 | - | 9,650 |
| Buildings and constructions | 4 | 124,539 | (61,031) | 63,508 | 117,913 | (57,684) | 60,229 |
| Machinery and equipment | 8 | 216,122 | (131,384) | 84,738 | 198,976 | (125,657) | 73,319 |
| Furniture and fixtures | 10 | 28,696 | (12,622) | 16,074 | 21,879 | (10,674) | 11,205 |
| Vehicles | 15 | 3,283 | (2,209) | 1,074 | 2,829 | (1,878) | 951 |
| Leasehold improvements | 20 | 23,701 | (9,287) | 14,414 | 14,177 | (8,766) | 5,411 |
| Construction in progress | - | 174,866 | - | 174,866 | 44,686 | - | 44,686 |
| Other property, plant and equipment | - | 545 | - | 545 | 545 | - | 545 |
| Provision for impairment | - | (1,099) | - | (1,099) | (449) | - | (449) |
| Portion of government subsidies to be allocated from land | | (847) | - | (847) | (847) | - | (847) |
| Total | | 579,456 | (216,533) | 362,923 | 409,359 | (204,659) | 204,700 |

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | | | 2011 | | |
| | Weighted average annual depreciation rate (%) | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| Land | - | 14,503 | - | 14,503 | 15,373 | - | 15,373 |
| Buildings and constructions | 4 | 312,327 | (182,988) | 129,339 | 283,519 | (152,588) | 130,931 |
| Machinery and equipment | 8 | 474,616 | (340,123) | 134,493 | 520,881 | (397,389) | 123,492 |
| Furniture and fixtures | 10 | 82,519 | (60,619) | 21,900 | 80,165 | (61,920) | 18,245 |
| Vehicles | 15 | 5,547 | (4,195) | 1,352 | 5,287 | (3,946) | 1,341 |
| Leasehold improvements | 20 | 28,692 | (12,435) | 16,257 | 20,016 | (12,586) | 7,430 |
| Construction in progress | - | 188,421 | - | 188,421 | 56,034 | - | 56,034 |
| Other property, plant and equipment | - | 4,384 | - | 4,384 | 5,016 | - | 5,016 |
| Provision for losses | - | (1,647) | - | (1,647) | (585) | - | (585) |
| Portion of government subsidies to be allocated from land | | (847) | - | (847) | (847) | - | (847) |
| Provision for impairment | | (13,786) | - | (13,786) | (14,450) | - | (14,450) |
| Total | | 1,094,729 | (600,360) | 494,369 | 970,409 | (628,429) | 341,980 |

*Addition information on property, plant and equipment*

(i) *Review of property, plant and equipment useful lives*

Management of the Company and its subsidiaries did not change the remaining economic useful lives of property, plant and equipment items for the year ended December 31, 2012, due to the lack of significant changes in the conditions for the use thereof.

(ii) *Assets pledged as collateral*

At December 31, 2012, the Company and its subsidiaries had property, plant and equipment items pledged as collateral in bank loans and financing transactions, as well as items listed in the defense of lawsuits, as follows:

| | R$ |
|---|---|
| Buildings and constructions | 112 |
| Machinery and equipment | 5,743 |
| Other | 47 |
| Total | 5,902 |

(iii) *Asset impairment test*

There were no risk factors indicating the need for an impairment test of assets of the Company and its subsidiaries for the year, or facts indicating that the impairment loss recognized in subsidiary Alpargatas S.A.I.C. Argentina did not exist any longer or had decreased.

The Company and its subsidiaries initially assess impairment of property, plant and equipment for the closing of 2008, using the discounted cash flow model for their UGCs. Except for the assessment for the closing of 2009, as detailed below, for all other years, including 2012, through analysis of factors internal and external to the Companies' operations, the Group identified no indication of realization risks; therefore, no provision was recorded.

For 2009, subsidiary Alpargatas S.A.I.C. - Argentina recorded provision for impairment of assets for its textile operations, amounting to R$13,786 as of December 31, 2012.

b) Intangible assets

| | | Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | | | 2011 | | |
| | Annual amortization rate (%) | Cost | Accumulated amortization | Net | Cost | Accumulated amortization | Net |
| Finite useful life: | | | | | | | |
| Trademarks, rights and patents | 10 | 17,849 | (17,652) | 197 | 17,849 | (17,652) | 197 |
| ERP systems (iv) | 5-10 | 124,479 | (60,503) | 63,976 | 120,756 | (45,696) | 75,060 |
| Customer portfolio (i) | 20 | 27,311 | (20,729) | 6,582 | 27,311 | (15,088) | 12,223 |
| Construction in progress | | 2,505 | - | 2,505 | 4,678 | - | 4,678 |
| Indefinite useful life: | | | | | | | |
| Assignment of trade rights (iii) | - | 4,257 | (194) | 4,063 | 4,297 | (234) | 4,063 |
| Total | | 176,401 | (99,078) | 77,323 | 174,891 | (78,670) | 96,221 |

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | | | 2011 | | |
| | Annual amortization rate (%) | Cost | Accumulated amortization | Net | Cost | Accumulated amortization | Net |
| Finite useful life: | | | | | | | |
| Trademarks, rights and patents | 10 | 25,988 | (17,652) | 8,336 | 26,650 | (17,652) | 8,998 |
| ERP systems (iv) | 5-10 | 129,889 | (65,086) | 64,803 | 124,689 | (47,941) | 76,748 |
| Customer portfolio (i) | 20 | 31,571 | (20,729) | 10,842 | 32,326 | (15,088) | 17,238 |
| Construction in progress | | 2,505 | - | 2,505 | 4,678 | - | 4,678 |
| Indefinite useful life: | | | | | | | |
| Goodwill on acquisition of subsidiaries (ii) | | 150,130 | - | 150,130 | 150,130 | - | 150,130 |
| Assignment of trade rights (iii) | - | 7,487 | (194) | 7,293 | 5,840 | (234) | 5,606 |
| Total | | 347,570 | (103,661) | 243,909 | 344,313 | (80,915) | 263,398 |

(i) This refers to amounts paid on acquisition of customer portfolios of former sales representatives of the Company (which basically sold "Havaianas" sandals) in certain European countries, for which the Company is now acting by means of its indirect subsidiaries located in Europe. Costs are amortized on a straight-line basis according to the five-year term of future cash flows expected by Company management. At December 31, 2012, in view of indications that the Company will enjoy expected future benefits, based on the Company management's economic projections, no provision for impairment losses was set up on these balances.

(ii) See breakdown in Note 14. Considering the accounting changes introduced by Laws No. 11638/07 and No. 11941/09, beginning January 1, 2009, the goodwill balance as of December 31, 2008 was no longer amortized and is tested for impairment annually. Accordingly, beginning January 1, 2009, tax benefit of goodwill on the merger of former subsidiary Atlântico Participações S.A., as described in Note 14, was used in the monthly calculations of income and social contribution taxes based on the Transition Tax Regime (RTT), pursuant to provisions of Law No. 11941/09, whose effects are described in Note 12.a).

(iii) This substantially refers to amounts paid on acquisition of rights of use of points of sale where certain "Timberland" and "Concept Havaianas" stores are located. As these are sellable intangible assets, they are not amortized, but are subject to annual impairment test.

(iv) This refers to expenses incurred in acquisition, development and implementation of ERP systems that are used by the Company and its subsidiaries. These are represented substantially by SAP/R3, WMS and LINX and costs incurred in the value chain management project. Expenses are amortized on a straight-line basis, according to the ten-year term of future benefit expected by Company management for SAP/R3 management system and five-year term for other systems. At December 31, 2012, in view of indications that the Company will enjoy expected future benefits for these systems and projects, no provision for impairment losses was set up on these balances.

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

| | |
|---|---|
| 2013 | 23,942 |
| 2014 | 24,250 |
| 2015 | 18,610 |
| 2016 onwards | 17,179 |
| Total | 83,981 |

Additional information on intangible assets

(i) *Expenses with research and development of products*

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| Expenses with research and development of products recorded in profit or loss: | 19,205 | 14,408 |

(ii) *Impairment of goodwill*

At December 31, 2012, the Company tested goodwill for impairment, based on its value in use, using the discounted cash flow model for the UGCs. The value-in-use estimate process involves the use of assumptions, judgment and estimates on future cash flows, and represents the Company's best estimate approved by the Board of Directors. According to the impairment test, the Company does not need to recognize impairment losses.

UGC's recoverable amount was calculated based on their value in use, through cash flows based on financial projections approved by management for the five-year period, at the average discount rate after taxes. Cash flows, for periods after the five-year period, were extrapolated at a fixed annual growth rate, which does not exceed expected market and/or GDP growth. Management believes that any additional changes in assumption on which recoverable amounts were based would not cause their book value to exceed their recoverable amount. Key assumptions used in UGC value in use calculations were: (1) net revenue growth focusing upon geographical

expansion; (2) operational expansion, and (3) launch of higher value-added products. Geographical expansion is expected in both domestic and foreign markets, with little explored growth potential. The projected gross margin reflects growth in sales, expansion of the “Brand Extension” line, franchises, higher value-added products and improved operational efficiency.

The methodology used to determine the UGC value is the discounted cash flow, which is the determination of free cash flows for a period, in view of:

- Operating income (expenses)

- Return of operating income (expenses) of depreciation/amortization on property, plant, equipment and intangible assets, allocated to profit or loss for the year.

- Need of additional net working capital determined based on the Company’s financial cycle.

Cash flow balances for the year are calculated at present value, discounted through a rate which determines the Weighted Average Cost of Capital (WACC). This rate considers a number of components of the financing, debt and equity used by the Company to fund its operations. The Company’s equity cost was calculated under the Capital Asset Pricing Model (CAPM) method.

Key assumption used in value-in-use calculation as of December 31, 2012 for UGCs were as follows:

UGC - Brazil

| | |
|---|---|
| Operating income (expenses) R$ (million) (1) | 731.4 |
| Perpetuity (2) | 3.7% |
| WACC discount rate (3) | 11.8% |

UGC - Argentina

| | |
|---|---|
| Operating income (expenses) R$ (million) (1) | 113.3 |
| Perpetuity (2) | 3.0% |
| WACC discount rate (3) | 17.6% |

1. Average operating income (expenses) for the five-year period.

2. Perpetual cash flow growth rate.

3. Discount rate calculated before taxes.

Management estimated budgeted operating income (expenses) based on past performance and on its expected market development. The weighted average growth rates used are in line with the forecasts included in reports for the industry. The discount rates used correspond to pre-tax rates and reflect specific risks related to the operating segments in which each UGC operates.

c) Changes

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2011** | **Additions** | **Transfers (i)** | **Depreciation** | **Write-offs** | **Impairment** | **2012** |
| Property, plant and equipment | | | | | | | |
| Land | 9,650 | - | - | - | - | - | 9,650 |
| Buildings and constructions | 60,229 | - | 7,000 | (3,420) | (301) | - | 63,508 |
| Machinery and equipment | 73,319 | - | 25,314 | (12,813) | (1,082) | - | 84,738 |
| Furniture and fixtures | 11,205 | - | 7,244 | (2,235) | (140) | - | 16,074 |
| Vehicles | 951 | - | 274 | (145) | (6) | - | 1,074 |
| Leasehold improvements | 5,411 | - | 12,967 | (3,039) | (925) | - | 14,414 |
| Construction in progress | 44,686 | 184,632 | (54,452) | - | - | - | 174,866 |
| Other property, plant and equipment | 545 | - | - | - | - | - | 545 |
| Provision for impairment | (449) | - | - | - | - | (650) | (1,099) |
| Portion of government subsidies to be allocated from land | (847) | | - | - | - | - | (847) |
| Total | 204,700 | 184,632 | (1,653) | (21,652) | (2,454) | (650) | 362,923 |

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2011** | **Additions** | **Transfers (i)** | **Amortization** | **Write-offs** | **Impairment** | **2012** |
| Intangible assets | | | | | | | |
| Finite useful life: | | | | | | | |
| Trademarks, rights and patents | 197 | - | - | - | - | - | 197 |
| ERP systems | 75,060 | - | 4,439 | (14,855) | (668) | - | 63,976 |
| Customer portfolio | 12,223 | - | - | (5,641) | - | - | 6,582 |
| Construction in progress | 4,678 | 613 | (2,786) | - | - | - | 2,505 |
| Indefinite useful life: | | | | | | | |
| Assignment of trade rights | 4,063 | - | - | - | - | - | 4,063 |
| Total | 96,221 | 613 | 1,653 | (20,496) | (668) | - | 77,323 |
| Total | 300,921 | 185,245 | - | (42,148) | (3,122) | (650) | 440,246 |

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | Additions | Transfers (i) | Depreciation | Write-offs | Impairment | Exchange variation (ii) | 2012 |
| Property, plant and equipment | | | | | | | | |
| Land | 15,373 | - | - | - | (718) | - | (152) | 14,503 |
| Buildings and constructions | 130,931 | 2,421 | 6,743 | (7,555) | (874) | - | (2,327) | 129,339 |
| Machinery and equipment | 123,492 | 816 | 32,590 | (19,507) | (1,551) | - | (1,347) | 134,493 |
| Furniture and fixtures | 18,245 | 1,465 | 7,651 | (5,068) | (297) | - | (96) | 21,900 |
| Vehicles | 1,341 | - | 281 | (245) | (6) | - | (19) | 1,352 |
| Leasehold improvements | 7,430 | 15 | 12,917 | (3,880) | (925) | - | 700 | 16,257 |
| Construction in progress (iii) | 56,034 | 197,247 | (62,079) | - | - | - | (2,781) | 188,421 |
| Other property, plant and equipment | 5,016 | 649 | - | - | (603) | - | (678) | 4,384 |
| Provision for impairment | (15,035) | - | - | - | - | (1,047) | 649 | (15,433) |
| Portion of government subsidies to be allocated from land | (847) | - | - | - | - | - | - | (847) |
| Total | 341,980 | 202,613 | (1,897) | (36,255) | (4,974) | (1,047) | (6,051) | 494,369 |

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | Additions | Transfers (i) | Amortization | Write-offs | Impairment | Exchange variation (ii) | 2012 |
| Intangible assets | | | | | | | | |
| Finite useful life: | | | | | | | | |
| Trademarks, rights and patents | 8,998 | - | - | (1,389) | - | - | 727 | 8,336 |
| ERP systems | 76,748 | 597 | 4,390 | (15,509) | (1,736) | - | 313 | 64,803 |
| Customer portfolio | 17,238 | - | - | (6,651) | (130) | - | 385 | 10,842 |
| Construction in progress (iii) | 4,678 | 613 | (2,786) | - | - | - | - | 2,505 |
| Indefinite useful life: | | | | | | | | |
| Goodwill on acquisition of subsidiaries | 150,130 | - | - | - | - | - | - | 150,130 |
| Assignment of trade rights | 5,606 | 1,687 | 293 | (394) | - | - | 101 | 7,293 |
| Provision for losses | - | - | - | - | - | - | - | - |
| Total | 263,398 | 2,897 | 1,897 | (23,943) | (1,866) | - | 1,526 | 243,909 |
| Total | 605,378 | 205,510 | - | (60,198) | (6,840) | (1,047) | (4,525) | 738,278 |

(i) Transfers correspond to reclassification of assets from Construction in Progress to the related definite accounts of Property, Plant and Equipment and Intangible Assets, upon completion of projects.

(ii) Exchange variation resulting from translation of the financial statements of subsidiaries abroad.

(iii) Additions recorded as Construction in Progress refer to these projects: (1) construction of a new sandal plant in the city of Montes Claros, Minas Gerais State, with investment of R$ 126,136; (2) improvements in Company's new head office building in the city of São Paulo, São Paulo State, with investment of approximately R$21,502; (3) various improvements and expansion of

the plant process, with investment of approximately R$39,193; (4) internationalization of the Havaianas sandals, with investment of R$3,948, and (5) other projects R$6,468.

## 16. Trade accounts payable

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Domestic suppliers | 181,043 | 177,612 | 198,220 | 194,580 |
| Foreign suppliers | 99,797 | 40,961 | 160,859 | 102,570 |
| Total | 280,840 | 218,573 | 359,079 | 297,150 |

Foreign supplier balances mostly refer to amounts denominated in US dollars.

## 17. Loans and financing

| | | Currency | Index and annual interest rate | Company | | Consolidated | |
|---|---|---|---|---|---|---|---|
| | | | | 2012 | 2011 | 2012 | 2011 |
| Denominated in reais: | | | | | | | |
| FNE (BNB) | (a) | | 7.92% | 43,361 | 57,424 | 43,361 | 57,424 |
| Finame | | | 6.56% | 6,898 | 8,321 | 6,898 | 8,321 |
| Finem (BNDES) | (b) | | Currency basket and TJLP + 8.04% | 3,775 | 8,245 | 3,775 | 8,245 |
| Exim (BNDES) | (c) | | 8.00% | 30,498 | - | 30,498 | - |
| Assignment of receivables | (d) | | 7.62% | 49,650 | 42,947 | 49,650 | 42,947 |
| Automatic Finem (BNDES) – CBS | | | TJLP + 2.8% | - | - | - | 369 |
| Total in reais | | | | 134,182 | 116,937 | 134,182 | 117,306 |
| Denominated in foreign currency: | | | | | | | |
| Finimp – Import financing | (e) | US$ | 2.77% | - | 4,794 | - | 4,794 |
| "Working capital" - Alpargatas USA | (f) | US$ | 1.81% | - | - | 73,532 | 82,616 |
| "Working capital" - Alpargatas Europe | (f) | € | 2.32% | - | - | 7,241 | - |
| "Working capital" - Alpargatas International APS | (f) | € | 2.45% | - | - | 10,807 | 17,131 |
| Finance lease transactions - Alpargatas S.A.I.C. – Argentina | | AR$ | 19.45% | - | - | 79 | 225 |
| "Working capital" - Alpargatas S.A.I.C. - Argentina | (g) | AR$ | 18.21% | - | - | 72,912 | 13,819 |
| ACC/prepayment - CBS | | US$ | - | - | - | - | 42 |
| Total in foreign currency | | | | - | 4,794 | 164,571 | 118,627 |
| Grand total | | | | 134,182 | 121,731 | 298,753 | 235,933 |
| Current liabilities | | | | 69,601 | 67,824 | 188,406 | 180,077 |
| Noncurrent liabilities | | | | 64,581 | 53,907 | 110,347 | 55,856 |

(a) On February 23, 2006, the Company entered into a financing agreement with Banco do Nordeste do Brasil - BNB, limited to R$112,000, to fund investment programs in the Northeast Region. The financing has been monthly repaid since 2008, with settlement expected in ten years. Release of funds is linked to the investment disbursement schedule. The guarantee is backed by a bank surety letter.

(b) In October 2007, the Company entered into a R$22,180 financing agreement with the Brazilian Development Bank (BNDES), to fund the ERP system implementation project. This financing has been monthly repaid since November 2008, with settlement expected for October 2013. The guarantee is backed by a bank surety letter.

(c) In September 2012, the Company received R$ 30,000 credit referring to the BNDES-EXIM Pre-Shipment financing executed with Banco Alfa de Investimentos. The financing will be repaid in six installments, maturing between May and October 2014.

(d) In October 2010, the Company entered into a receivables-assignment agreement with Banco Santander. The average operation term is 90 days. Assignments are repaid to Santander as amounts are received from customers.

(e) In September 2011, the Company entered in to import financing agreements (Finimp) with Banco Itaú BBA. These transactions were settled within 180 days and the loan was terminated in March 2012.

(f) Loans and financing raised by foreign subsidiaries are guaranteed by the Company, within the limits approved by the Board of Directors. These transactions are settled within 180 and 360 days.

(g) Loans and financing raised by Alpargatas S.A.I.C in Argentina are used for working capital purposes. Only one loan with BBVA Banco Francés, amounting to R$ 41,600, was guaranteed by Alpargatas S.A. Other operations have no covenants or guarantees.
Other loans are guarantee by promissory notes and chattel mortgage of Company's and its subsidiaries' assets, except for working capital operations of Alpargatas S.A.I.C.

Maturities of noncurrent liabilities are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Year | | | | |
| 2013 | - | 19,326 | - | 21,266 |
| 2014 | 45,324 | 15,323 | 86,930 | 15,332 |
| 2015 | 15,324 | 15,324 | 19,483 | 15,324 |
| 2016 | 2,454 | 2,454 | 2,454 | 2,454 |
| 2017 | 1,187 | 1,187 | 1,188 | 1,187 |
| 2018 | 264 | 264 | 264 | 264 |
| 2019 | 28 | 29 | 28 | 29 |
| Total | 64,581 | 53,907 | 110,347 | 55,856 |

Covenants

At December 31, 2012 and 2011, loan and financing agreements held by the Company and its subsidiaries had no covenants setting forth obligations requiring that the Company maintain any financial indexes.

## 18. Debt-restructuring agreements of subsidiaries

On September 26, 2001, subsidiary Alpargatas S.A.I.C. - Argentina requested a preventive debt restructuring from creditors, a decision ratified by the General 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 subsidiary 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.

Amounts are reported in the consolidated financial statements as Debt-restructuring Agreements, in current and noncurrent liabilities, amounting to R$11,687 and R$60,773, respectively, as of December 31, 2012 (R$14,758 and R$63,537, respectively, as of December 31, 2011), net of present value adjustments, amounting to R$46,439 and R$53,630, respectively, as of December 31, 2012 and 2011.

The present value adjustment is calculated based on the difference between the Argentine basic interest rate and the fixed adjustment rate of liabilities, as established in debt-restructuring agreements. At December 31, 2012, the average discount rate used for present value adjustment purposes was 15% p.a.

The effects of the net reversal of the present value adjustment are recorded as Financial Expenses, in the consolidated, and totaled R$5,092 in profit or loss for the year ended December 31, 2012 (R$4,185 for the year ended December 31, 2011).

Total liabilities are subject to annual interest rate ranging from 1% to 3% and mature between 15 and 25 years, with grace period of 6 to 10 years, as from agreement execution date.

At December 31, 2012, PVA reversals expected for the following periods are as follows:

| | |
|---|---|
| 2013 | 4,173 |
| 2014 | 4,072 |
| 2015 | 3,928 |
| 2016 onwards | 34,266 |
| Total | 46,439 |

Expected maturities of noncurrent liabilities are as follows:

| | |
|---|---|
| 2013 | 8,528 |
| 2014 | 8,842 |
| 2015 onwards | 43,403 |
| Total | 60,773 |

| | |
|---|---|
| Balance at December 31, 2011 | 78,295 |
| Interest | 10,523 |
| Exchange variation | (3,517) |
| Payment | (12,841) |
| Balance at December 31, 2012 | 72,460 |

## 19. Tax liabilities

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| State value-added tax (ICMS) | 3,516 | 1,383 | 3,433 | 1,595 |
| Contribution tax on gross revenue for social integration Program (PIS) and social contribution tax on gross revenue for social security financing (COFINS) | 5,341 | 1,145 | 5,435 | 1,554 |
| Federal value-added tax (IPI) | 337 | 212 | 337 | 212 |
| Income and social contribution taxes | - | - | - | 2,233 |
| Alpargatas S.A.I.C. - Argentina: | | | | |
| Income tax | - | - | 149 | 2,553 |
| Value-added Tax (VAT) | - | - | 395 | 2,193 |
| Other taxes | - | - | 1,359 | 1,266 |
| Alpargatas Europe S.L.U. - Spain - Value-added Tax (VAT) | - | - | 517 | 306 |
| Other | 1,837 | 1,387 | 1,871 | 1,644 |
| | 11,031 | 4,127 | 13,496 | 13,556 |

## 20. Provisions and other liabilities

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Royalties payable | 17,735 | 13,448 | 17,735 | 13,448 |
| Provision for freight payable | 11,670 | 8,467 | 11,778 | 9,138 |
| Commercial agreement termination commitments | - | - | - | 5,014 |
| Other accounts payable (commissions, third-party services, concessionaires and other) | 15,001 | 5,192 | 30,704 | 20,023 |
| Total | 44,406 | 27,107 | 60,217 | 47,623 |

## 21. Related parties

a) Related-party balances

| | Company | |
|---|---|---|
| Noncurrent assets (liabilities) | 2012 | 2011 |
| CBS S.A. - Companhia Brasileira de Sandálias | 4,707 | 1,445 |
| Alpargatas Internacional APS | (20) | (18) |
| Alpargatas Imobiliária S.A. | (151) | 19 |
| Fibrasil Agrícola e Comercial Ltda. | - | 2 |
| Total | 4,536 | 1,448 |

The balance is represented by a bank account held by the Company and its subsidiaries, for centralized management of cash and cash equivalents, not subject to financial charges.

b) Related-party receivables and payables

| | | Company Receivables | | Company and Consolidated Payables | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| Alpargatas USA Inc. - USA | (ii) | 12,232 | 8,808 | - | - |
| Alpargatas Europe S.L.U. - Spain | (ii) | 10,773 | 8,814 | - | - |
| Alpargatas S.A.I.C. – Argentina | | 891 | 1,755 | - | - |
| Grupo Camargo Corrêa | (iii) | - | - | 338 | 794 |
| Total | | 23,896 | 19,377 | 338 | 794 |

c) Dividends and interest on equity payable

| | Company and Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| Interest on equity | 1,725 | 843 |

d) Related-party transactions

Breakdown of related-party transactions is as follows:

| | | Sale of products/services | | | Purchase of products/services | |
|---|---|---|---|---|---|---|
| | | 2012 | 2011 | | 2012 | 2011 |
| Alpargatas S.A. | (i) | 58,676 | 39,458 | (iv) | 21,503 | 18,582 |
| Alpargatas USA Inc. - USA | | - | - | (i) | 18,954 | 10,091 |
| Alpargatas Europe S.L.U. - Spain | | - | - | (i) | 39,706 | 27,751 |
| Alpargatas S.A.I.C. - Argentina | | - | - | (i) | 16 | 1,616 |
| CBS S.A. - Companhia Brasileira de Sandálias | (iv) | 5,785 | 2,806 | | - | - |
| Grupo Camargo Corrêa (parent company): | | | | | | |
| Rental and condominium fees | (iv) | 595 | 2,109 | | - | - |
| Shared services - CSC | (iv) | 13,028 | 12,250 | | - | - |
| Corporate projects | (iv) | 2,064 | 1,345 | | - | - |
| Other | | 31 | 72 | | - | - |
| | | 80,179 | 58,040 | | 80,179 | 58,040 |

(i) These basically consist of sales of “Havaianas” sandals to subsidiaries located in the United States and Europe, due to the operating model and design of the distribution channel established for Company’s international transactions, in which products are manufactured in Brazil and subsequently sold to foreign subsidiaries for resale.

For the years ended December 31, 2012 and 2011, the Company recorded no reversal of or allowance for doubtful accounts for receivables from its subsidiaries abroad.

(ii) Receivables for the sale of products mentioned in item (i), which will be received between January and June 2013.

(iii) Payables for rendering of services described in item (iv).

(iv) These substantially comprise shared corporate service costs, such as telephone, insurance administrative and IT services, provided under an agreement entered into with the Shared Service Center of Grupo Camargo Corrêa. These also include sales of semi-finished products of subsidiary CBS S.A. - Companhia Brasileira de Sandálias to the Company.

At December 31, 2012, except for the guarantees provided to support loans and financing, as described in Note 17, the Company and its subsidiaries did not provide any other guarantees to related parties.

e) Key management personnel compensation

Total key management personnel compensation is as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Compensation | | | Options granted | |
| | Fixed | Variable (i) | Total | Options balance (number) (ii) | Average strike price - R$ (iii) |
| Board of directors and supervisory board | 2,803 | - | 2,803 | - | - |
| Officers | 4,824 | 4,687 | 9,511 | 4,394,464 | 6.86 |
| | 7,627 | 4,687 | 12,314 | 4,394,464 | |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Compensation | | | Options granted | |
| | Fixed | Variable (i) | Total | Options balance (number) (ii) | Average strike price - R$ (iii) |
| Board of directors and supervisory board | 2,731 | - | 2,731 | - | - |
| Officers | 4,206 | 5,230 | 9,436 | 4,222,303 | 5.04 |
| | 6,937 | 5,230 | 12,167 | 4,222,303 | |

(i) This refers to profit sharing recorded for the year. The amounts include additions to and/or reversals of prior-year provision due to the final determination of goals set to statutory officers.

(ii) This refers to vested and non-vested options not exercised as of the balance sheet date.

(iii) This refers to the weighted average strike price of the option at the time options are granted, monetarily restated through the balance sheet date.

As detailed in Note 28, for the year ended December 31, 2012, expenses with the stock option plan were recognized in the amount of R$2,033 (R$1,551 as of December 31, 2011).

In addition to management compensation, for the year ended December 31, 2012, the Company contributed R$377 to the private pension plan (R$305 as of December 31, 2011) on behalf of statutory officers.

Total annual management compensation for 2012 was set at R$12,127 in the General Shareholders' Meeting held on April 25, 2012.

## 22. Provision for tax, civil and labor claims

At December 31, 2012 and 2011, the Company and its subsidiaries are parties to tax, civil and labor claims arising from tax notices by tax authorities and from claims filed by third parties and former employees or from legal proceedings and challenges. For these contingencies, provisions were set up when, in the management's and its legal advisers' opinion, the likelihood of an unfavorable outcome was considered as probable. These provisions are as follows:

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| Labor claims | (a) | 16,331 | 17,663 | 22,679 | 24,449 |
| Tax claims | (b) | 9,328 | 9,056 | 14,766 | 13,255 |
| Judicial deposits | (b) | (4,179) | (4,179) | (4,179) | (4,179) |
| Civil claims | | 3,356 | 3,108 | 3,885 | 4,156 |
| | | 24,836 | 25,648 | 37,151 | 37,681 |
| Current portion | | 5,851 | 7,183 | 11,383 | 11,436 |
| Noncurrent portion | | 18,985 | 18,465 | 25,768 | 26,245 |

(a) These refers to claims filed against the Company and its subsidiaries by former employees, whose claims are basically for payment of severance pay, salary premiums, overtime, and amounts related to vicarious liability. The provisioned amounts refer to the best estimates for each lawsuit whose likelihood of an unfavorable outcome has been rated as probable.

(b) These basically include: (i) COFINS tax notice for July and from September to December 1992, issued against the Company, which challenges differences not taxed, whose amount restated as of December 31, 2012 is R$3,844; and (ii) challenge of the difference of the Accident Prevention Factor - FAP and Occupational Accident Insurance – SAT collected, totaling R$5,106, in which the Company challenges collection at the maximum rate applied in the industry. The lawsuit is pending judgment by a higher court, and judicial deposit for this purpose amounts to R$4,179.

Changes

| | Company | | | | |
|---|---|---|---|---|---|
| | Labor | Tax | Civil | Judicial deposits | Total |
| Balance at December 31, 2011 | 17,663 | 9,056 | 3,108 | (4,179) | 25,648 |
| Additions | 8,237 | 317 | 609 | - | 9,163 |
| Reversals | - | - | (68) | - | (68) |
| Payments | (9,569) | (45) | (293) | - | (9,907) |
| Balance at December 31, 2012 | 16,331 | 9,328 | 3,356 | (4,179) | 24,836 |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Labor | Tax | Civil | Judicial deposits | Total |
| Balance at December 31, 2011 | 24,449 | 13,254 | 4,157 | (4,179) | 37,681 |
| Additions | 8,986 | 677 | 609 | - | 10,272 |
| Reversals | (1,655) | - | (68) | - | (1,723) |
| Payments/exchange variation | (9,101) | 835 | (813) | - | (9,079) |
| Balance at December 31, 2012 | 22,679 | 14,766 | 3,885 | (4,179) | 37,151 |

Possible losses

The Company and its subsidiaries are parties to tax and civil claims for which no provision was set up, as the likelihood of an unfavorable outcome therefor was classified by management and its legal advisers as possible. Contingent liabilities are as follows:

| | Company and Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| Tax: | | |
| Tax notice - IRRF (a) | 8,723 | 8,439 |
| CSLL and IRPJ (b) | 9,573 | 3,781 |
| Royalties (c) | 53,090 | 49,160 |
| IPI (d) | 38,424 | 36,494 |
| Other | 10,590 | 6,797 |
| | 120,400 | 104,671 |
| Civil (damages) | 5,732 | 5,655 |

(a) Tax notice for collection of Withholding Income Tax (IRRF) offset against IRPJ tax credits.

(b) Tax notices related to non-approval of tax debts offset against IRPJ and CSLL tax credits.

(c) Tax notices seeking at collection of II, IPI, PIS-Imports and COFINS-Imports on amounts remitted to parties abroad for royalty purposes, from 2007 to 2010.

(d) Tax delinquency notices related to the non-approval of IPI credit offset in the acquisition of tax exempt inputs from former subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., from July 2004 to June 2008.

Additionally, in December 2005, a company holding the rights to a certain sports brand filed a civil claim against the Company for damages on alleged breach of the license agreement, which was terminated in prior years. In the opinion of the Company's legal advisers, the likelihood of an unfavorable outcome was considered as possible and the amount involved could not be calculated yet; therefore, no provision was recognized to cover such contingency. In February 2007, a favorable decision was awarded to the Company, which led the termination of the proceeding. An appeal was filed by the plaintiff against this decision; it will be judged by the São Paulo State Court of Justice on a date to be defined yet.

## 23. Suspended tax payments

| | | Company and Consolidated | |
|---|---|---|---|
| | | 2012 | 2011 |
| PIS/COFINS – Law No. 9718/98 | | 31,226 | 30,008 |
| Judicial deposits | | (31,226) | (30,008) |
| | (a) | - | - |
| COFINS – exclusion of ICMS from tax base | | 111,391 | 83,484 |
| Judicial deposits | | (10,942) | (10,106) |
| | (b) | 100,449 | 73,378 |
| IRPJ – exclusion of CSLL from IRPJ tax base | | 10,498 | 6,906 |
| Provision for IRPJ (other contingencies) | | - | 2,803 |
| Other | | 3,162 | 3,567 |
| Total – Company | | 114,109 | 86,654 |
| Alpargatas S.A.I.C. - Argentina | | - | 126 |
| Total - consolidated | | 114,109 | 86,780 |

(a) COFINS – Law No. 9718/98

On March 8, 1999, the Company was granted an injunction on the ordinary lawsuit challenging the unconstitutionality of Law No. 9718/98 and Constitutional Amendment No. 20, more specifically the 1% increase in COFINS rate and broadening of COFINS and PIS tax base. This injunction authorized the payment of these contributions as provided for in legislation prevailing until January 1999.

As of that date, amounts of these contributions determined for the periods under litigation were recorded in liabilities as suspended tax payments and started to be adjusted for inflation at the SELIC rate, monetary restatement effects of which were recorded as Financial Expenses in profit or loss for the year. From September 2002 to January 2004, the Company made judicial deposits of the amounts challenged.

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 from September 2002 to January 2004, amount of which was recorded as suspended tax payment and judicial deposit, totaling R$28,804, adjusted for inflation. The Company started to make monthly payments as from April 2006.

Law No. 11941/09 revoked article 3, paragraph 1, of Law No. 9718/98, which addressed the broadening of PIS and COFINS tax base, which strengthened the grounds challenged by the Company. Based on such amendment, considering the decision issued by STF, the Brazilian Institute of Independent Auditors (IBRACON) issued Technical Bulletin (CT) 05/09 allowing part of PIS and COFINS related to the broadening of tax base to be reversed by some companies. On June 30, 2009, the Company reversed the portion corresponding to this liability with suspended payment, totaling R$12,401.

Therefore, amounts recorded as of December 31, 2012 and 2011 refer solely to the portion related to the 1% increase in COFINS rate, on which STF awarded an unfavorable decision to the Company in August 2009. At December 31, 2012, the Company's lawsuit was still pending judgment; 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.

At December 31, 2012 and 2011, amounts provisioned and judicial deposits were monetarily restated at SELIC rate.

(b) COFINS – exclusion of ICMS from tax base

Since 1993, the Company has been challenging in court the inclusion of ICMS in COFINS tax base, and made judicial deposits from 1993 to February 1996.

From June 2008, the Company started to use the suspended tax payment obtained in an Injunction filed with STF to continue excluding ICMS from COFINS tax base; however, the Company is no longer required to make judicial deposits. Notwithstanding, such amounts have been recorded as liability with suspended payment.

At December 31, 2012, the proceeding was pending judgment by STF; therefore, the Company has monetarily restated liabilities and judicial deposits at SELIC rate.

Changes in suspended tax payments – Company and consolidated

| | 2011 | Restatements | Additions/ (reversals) | 2012 |
|---|---|---|---|---|
| PIS/COFINS | 30,008 | 1,218 | - | 31,226 |
| Judicial deposits | (30,008) | (1,218) | - | (31,226) |
| | - | - | - | - |
| COFINS – ICMS | 83,484 | 6,319 | 21,588 | 111,391 |
| Judicial deposits | (10,106) | (836) | - | (10,942) |
| | 73,378 | 5,483 | 21,588 | 100,449 |
| IRPJ – exclusion of CSLL from IRPJ tax base | 6,906 | 477 | 3,115 | 10,498 |
| Provision for IRPJ (other contingencies) | 2,803 | - | (2,803) | - |
| | 9,709 | 477 | 312 | 10,498 |
| Other | 3,567 | 133 | (538) | 3,162 |
| Total | 86,654 | 6,093 | 21,362 | 114,109 |

## 24. Equity

a) Capital

At December 31, 2012, paid-in capital amounted to R$562,158, after increase with payment of amount earmarked for 2006 investment reserve, approved on April 25, 2012, with issue of 35,345,588 new shares, of which 18,152,408 are common shares and 17,193,180 are preferred shares, including treasury shares. The bonus shares were issued at the proportion of 10 shares per 100 shares held on April 25, 2012.

Given the May 2, 2012 bonus shares, total number of shares was represented by 388,801,468 registered shares, with no par value, of which 199,676,488 were common shares and 189,124,980 were preferred shares.

As a result of the amendment to the Company's Articles of Incorporation, authorized capital limit is 399,352,976 preferred shares, and the Board of Directors shall determine the terms and conditions applicable to the issue 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 No. 10303/01.

Breakdown of subscribed and paid-in capital was as follows:

At December 31, 2012:

| Shareholders | Common shares Number of shares | % | Preferred shares Number of shares | % | Total Number of shares | % |
|---|---|---|---|---|---|---|
| Controlling shareholders (Grupo Camargo Corrêa) | 133,757,338 | 66.99 | 37,792,634 | 19.98 | 171,549,972 | 44.12 |
| Management: | | | | | | |
| Board of Directors | 39,560,580 | 19.81 | 7,948,700 | 4.20 | 47,509,280 | 12.22 |
| Supervisory Board | 24,200 | 0.01 | 222,200 | 0.12 | 246,400 | 0.06 |
| Other shareholders | 26,334,370 | 13.19 | 143,161,446 | 75.70 | 169,495,816 | 43.60 |
| Total | 199,676,488 | 100.00 | 189,124,980 | 100.00 | 388,801,468 | 100.00 |

At December 31, 2011:

| Shareholders | Common shares Number of shares | % | Preferred shares Number of shares | % | Total Number of shares | % |
|---|---|---|---|---|---|---|
| Controlling shareholders (Grupo Camargo Corrêa) | 121,597,580 | 66.99 | 34,356,940 | 19.98 | 155,954,520 | 44.12 |
| Management: | | | | | | |
| Board of Directors | 35,963,700 | 19.81 | 7,199,980 | 4.19 | 43,163,680 | 12.21 |
| Supervisory Board | 22,000 | 0.01 | 202,000 | 0.12 | 224,000 | 0.06 |
| Other shareholders | 23,940,800 | 13.19 | 130,172,880 | 75.71 | 154,113,680 | 43.61 |
| Total | 181,524,080 | 100.00 | 171,931,800 | 100.00 | 353,455,880 | 100.00 |

b) Share buyback plan

In Board of Directors' meeting held on December 7, 2012, the buyback plan of up to 9,530,692 preferred shares and up to 6,591,915 common shares was approved. The authorization shall be effective for no longer than 361 days, from December 10, 2012 to December 6, 2013. The Company acquired no own preferred or common shares in the last program, authorized on December 9, 2011, effective from December 12, 2011 to December 9, 2012.

For the year ended December 31, 2012, changes in Treasury Shares were as follows:

Changes:

| | Number of shares | Average cost - R$ |
|---|---|---|
| At December 31, 2011 | 5,093,220 | 7.97 |
| Disposals (*) | 436,920 | 7.97 |
| Acquisitions (*) | (436,920) | (13.10) |
| Bonus shares | 509,322 | 0.73 |
| Balance at December 31, 2012 | 5,602,542 | 7.64 |

(*)Disposals and acquisitions referring to stock option plans.

c) Dividends and interest on equity

Every year, shareholders are entitled to receive minimum dividends of 25% of net income, calculated under the Brazilian Corporation Law and the Company's articles of incorporation. In 2012 and 2011, calculation was as follows:

| | 2012 | 2011 |
|---|---|---|

| | | |
|---|---|---|
| **Net income for the year – Company** | **279,983** | **307,420** |
| Establishment of tax incentive reserve | (146,348) | (146,544) |
| **Amount available for distribution** | **133,635** | **160,876** |
| Minimum mandatory dividends (25%) | 33,409 | 40,219 |
| | | |
| **Management proposal:** | | |
| Interest on equity | 85,000 | 78,600 |
| Dividends | 25,300 | - |
| | 110,300 | 78,600 |
| | | |
| **Interest on equity distributed per share** | | |
| Common shares | 0.21706 | 0.21530 |
| Preferred shares | 0.23876 | 0.23680 |
| | | |
| **Dividends distributed per share** | | |
| Common shares | 0.06300 | **-** |
| Preferred shares | 0.06931 | **-** |

On March 15, 2013, the Board of Directors approved, "ad referendum" of the General Shareholders' Meeting, to be held on April 24, 2013, the proposal for dividend payment, amounting to R$25,300, which, together with the R$85,000 interest on equity paid in 2012, total R$ 110,300.

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

This refers to goodwill or negative goodwill generated on sale of treasury shares, mainly arising from the exercise of the stock option plans mentioned in Note 28.

e) Tax incentive reserve

As from January 1, 2008, tax incentives were posted directly to profit or loss, and the, upon closing of annual financial statements, recognized as Tax Incentive Reserve, under Income Reserves.

## 25. Business segment information

CPC 22/IFRS 08 – Segment Reporting requires segment reporting consistently with managerial reports provided and revised by the chief operating decision-maker to assess performance of each segment and allocation of funds. The Company's chief operating decision-maker is the CEO.

While the Company has a matrix management structure in which sales revenues are analyzed by the chief operating decision-maker at various levels, considering that products manufactured and sold by the Company and its subsidiaries are divided into various brands of shoes, sports items, sandals and clothing, operations are managed according to geographic areas divided into as follows: (i) Domestic Operations: performance of the Company and its subsidiaries in Brazil, and (ii) Foreign Operations: performance of subsidiaries in Argentina and consolidated performance of subsidiaries in the USA and Europe, as well as direct exports and Tavex Corporation S.A., company in which the Company holds 18.687% interest.

For the year ended December 31, 2012, net revenue by segment is as follows:

- Domestic Operations:
  - Brazil: 71.9%

- Foreign Operations:
  - Argentina: 17.4%
  - Europe, USA and exports: 10.7%

Accounting policies of each segment are the same as those applied in the preparation of the Company's financial statements. Performance of each segment was determined based on net operating revenue, net income and capital allocated (total assets less current liabilities and noncurrent liabilities) in each segment. This basis of measurement includes financial effects, income and social contribution taxes, depreciation and amortization and is consistent with the amounts reported in the consolidated financial statements.

Information is as follows:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| Profit or loss accounts | Net operating revenue | Net income (loss) | Depreciation and amortization | Financial income (expenses) | Net exchange variation | Income and social contribution taxes |
| Domestic Operations: | | | | | | |
| Brazil | 2,162,247 | 283,035 | (42,568) | 43,018 | (3,120) | (33,670) |
| Foreign Operations: | | | | | | |
| Argentina | 524,348 | 11,858 | (10,651) | (34,557) | 1,376 | 15,186 |
| Europe/ USA / exports | 320,387 | 27,954 | (6,979) | (1,760) | 3,137 | (833) |
| Grupo Tavex S.A. | - | (42,864) | - | - | - | - |
| Non-controlling interest | - | 553 | - | - | - | - |
| Consolidated | 3,006,982 | 280,536 | (60,198) | 6,701 | 1,393 | (19,317) |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| Profit or loss accounts | Net operating revenue | Net income (loss) | Depreciation and amortization | Financial income (expenses) | Net exchange variation | Income and social contribution taxes |
| Domestic Operations: | | | | | | |
| Brazil | 1,858,833 | 313,481 | (41,087) | 54,906 | (4,414) | (26,319) |
| Foreign Operations: | | | | | | |
| Argentina | 477,502 | 7,106 | (9,245) | (23,832) | 1,000 | (5,922) |
| Europe/ USA / exports | 238,365 | (7,510) | (3,703) | (1,458) | 2,847 | 444 |
| Grupo Tavex S.A. | - | (5,657) | - | - | - | - |
| Non-controlling interest | - | 1,647 | - | - | - | - |
| Consolidated | 2,574,700 | 309,067 | (54,035) | 29,616 | (567) | (31,797) |

Balance sheet balances as of December 31, 2012 and 2011 were as follows.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| 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 | 2,166,954 | 680,299 | 191,682 | 1,863,862 | 557,942 | 71,214 |
| Foreign Operations: | | | | | | |
| Brazil – exports | 53,469 | 10,694 | - | 43,055 | 5,631 | - |
| Argentina | 402,845 | 255,579 | 9,880 | 345,852 | 203,497 | 13,930 |
| Europe / USA | 84,092 | 133,259 | 3,948 | 69,252 | 139,359 | 9,337 |
| Grupo Tavex S.A. | 33,369 | - | - | 74,267 | - | - |
| Consolidated | 2,740,729 | 1,079,831 | 205,510 | 2,396,288 | 906,429 | 94,481 |

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

## 26. Net operating revenue

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Gross operating revenue: | | | | |
| Domestic market | 2,537,800 | 2,113,904 | 3,075,653 | 2,249,812 |
| Foreign market | 207,506 | 144,371 | 610,868 | 848,225 |
| | 2,745,306 | 2,258,275 | 3,686,521 | 3,098,037 |
| Returns and cancelations | (55,443) | (49,893) | (108,741) | (81,671) |
| Sales taxes | (431,585) | (317,255) | (570,798) | (441,666) |
| Net operating revenue | 2,258,278 | 1,891,127 | 3,006,982 | 2,574,700 |

## 27. Expenses by nature

The Company presented its income statement using a classification of expenses based on the nature thereof. Expenses by nature are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of products sold: | | | | |
| Raw materials | 896,701 | 613,914 | 1,127,323 | 803,597 |
| Salaries, social charges and benefits | 239,243 | 213,019 | 440,685 | 361,828 |
| Depreciation | 16,051 | 11,430 | 26,963 | 19,151 |
| Other costs | 103,250 | 148,274 | 139,205 | 236,196 |
| Total | 1,255,245 | 986,637 | 1,734,176 | 1,420,772 |
| Selling expenses: | | | | |
| Salaries, social charges and benefits | 75,543 | 54,529 | 122,640 | 82,795 |
| Freights | 81,878 | 48,032 | 104,477 | 63,017 |
| Advertising and publicity | 211,043 | 134,883 | 266,749 | 169,583 |
| Commissions | 16,032 | 12,158 | 29,768 | 20,645 |
| Depreciation | 3,140 | 3,234 | 5,588 | 5,103 |
| Royalties | 35,511 | 18,386 | 37,388 | 18,842 |
| Third-party services | 11,645 | 16,521 | 24,164 | 27,747 |
| Rental / leases | 11,978 | 12,012 | 19,272 | 18,677 |
| Travel expenses | 4,995 | 5,166 | 8,297 | 8,673 |
| Storage expenses | 2,977 | 4,908 | 25,933 | 6,948 |
| Transportation insurance | 6,724 | 5,265 | 9,501 | 8,862 |
| Other | 80,680 | 177,627 | 92,175 | 232,346 |
| | 542,146 | 492,721 | 745,952 | 663,238 |
| General and administrative expenses: | | | | |
| Salaries, social charges and benefits | 58,151 | 61,159 | 74,324 | 73,274 |
| Management fees (Note 21.e)) | 9,925 | 10,134 | 12,314 | 12,167 |
| Third-party services | 28,307 | 36,193 | 32,919 | 41,168 |
| Depreciation | 2,435 | 949 | 4,139 | 2,014 |
| Other | 28,247 | 13,868 | 28,042 | 15,571 |
| | 127,065 | 122,303 | 151,738 | 144,194 |

## 28. Stock option plans

The Company grants preferred stock options to some employees under a program approved in Special Shareholders' Meetings held on April 26, 2002, October 26, 2006 and April 29, 2011, for the purpose of retaining 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 stock option plans

For the 2002, 2003, 2004 and 2005 programs, the vesting period is two years, with 20% vested in the second year, 20% in the third year, 20% in the fourth year, and 40% in the fifth year after the grant. Options may be exercised within ten years after the grant.

For the 2006 to 2009 programs, the vesting period is three years, with 30% vested in the third year (two-month exercise period), 30% in the fourth year (two-month exercise period), and

40% in the fifth year. Options may be exercised within five years and two months after the grant. For these programs, exercising the options is contingent to the attainment of performance goals, based on internal performance indicators.

For the 2010 to 2012 programs, the vesting period was that of the 2006-2009 programs, but, for each tranche, options may be exercised within three years after each vesting period. For these programs, exercising the options is also contingent to the attainment of performance goals, based on internal performance indicators.

The criteria to determine initial strike prices of options under the plan are:

(i) 2002 to 2005 programs: initial strike price equivalent to the weighted average of the volume of the Company's preferred shares traded on the São Paulo Stock Exchange (BMF&BOVESPA) in the 60 floors prior to the approval of each annual program. The strike price is adjusted at the General Market Price Index (IGP-M).

(ii) 2006 to 2009 programs: initial strike price equivalent to the weighted average of the volume of the Company's preferred shares traded on the São Paulo Stock Exchange (BMF&BOVESPA) in the 60 floors prior to May 31 of the year options were granted. The strike price is adjusted at Brazil's Extended Consumer Price Index (IPCA).

(iii) 2010 to 2012 programs: strike price equivalent to the weighted average of the volume of the Company's preferred shares traded on the São Paulo Stock Exchange (BMF&BOVESPA) in the 60 floors prior to May 31 of the year options were granted. The strike price is not adjusted at any index.

Changes in stock option plans

Changes in stock option plans for the years ended December 31, 2012 and 2011 are as follows. Number and prices reported as of December 31, 2011 were restated at the ratio or 1:10 bonus shares approved in special shareholders' meeting held on April 25, 2012.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average strike price R$ | Number of options | Weighted average strike price R$ |
| Outstanding options at beginning of period/year | 4,222,303 | 5.04 | 5,778,190 | 3.49 |
| Options granted | 933,581 | 2.51 | 623,279 | 1.49 |
| Options exercised | (436,920) | 7.19 | (2,098,866) | 2.64 |
| Options canceled | (324,500) | 4.78 | (80,300) | 0.11 |
| Outstanding options at end of period/year | 4,394,464 | 6.86 | 4,222,303 | 5.04 |

Outstanding stock option are as follows:

| | Outstanding options | | | |
|---|---|---|---|---|
| | Options not exercised at end of year/period | Remaining contractual life (months) | Strike price range R$ | Options exercisable at end of year/period |
| December 31, 2012 | 4,394,464 | 50 | 1.57-14.51 | 1,445,884 |
| December 31, 2011 | 4.222.303 | 52 | 1.45-10.12 | 1.408.924 |

Characteristics of outstanding stock options, by plan, are detailed below:

| | 2012 | | | |
|---|---|---|---|---|
| **Data da outorga** | **Options not exercised at end of year** | **Remaining contractual life (months)** | **Strike price (R$)** | **Options exercisable at end of year** |
| July 1, 2004 | 78,320 | 18 | 1.57 | 78,320 |
| July 1, 2005 | 978,164 | 30 | 2.22 | 978,164 |
| July 1, 2008 | 385,000 | 8 | 6.08 | 217,800 |
| July 1, 2009 | 838,420 | 20 | 3.89 | 171,600 |
| July 1, 2010 | 557,700 | 66 | 5.65 | - |
| July 1, 2011 | 795,860 | 78 | 10.12 | - |
| July 1, 2012 | 761,000 | 90 | 14.51 | - |
| Total | 4,394,464 | 50 | 1.57-14.51 | 1,445,884 |

| | 2011 | | | |
|---|---|---|---|---|
| **Grant date** | **Options not exercised at end of year** | **Remaining contractual life (months)** | **Strike price (R$)** | **Options exercisable at end of year** |
| July 1, 2004 | 78,320 | 30 | 1.45 | 78,320 |
| July 1, 2005 | 978,164 | 42 | 2.06 | 978,164 |
| July 1, 2007 | 284,240 | 8 | 8.34 | 220,440 |
| July 1, 2008 | 478,500 | 20 | 5.75 | 132,000 |
| July 1, 2009 | 1,166,000 | 32 | 3.68 | - |
| July 1, 2010 | 613,800 | 78 | 5.65 | - |
| July 1, 2011 | 623,279 | 90 | 10.12 | - |
| Total | 4,222,303 | 52 | 1.45-10.12 | 1,408,924 |

For accounting purposes, the fair value of options was estimated by using a binomial valuation model. The accounting expense recorded in the profit or loss account relating to stock option plans totaled R$2,033 for the year ended December 31, 2012 compared to R$1,551 for the year ended December 31, 2011. To calculate the 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 grant date, estimated fair value of stock options granted on July 1, 2011 was R$4.91. Performance conditions were not reflected on the fair value, as they are based on internal performance indicators. The expected volatility assumption was based on a five-year historical volatility previous to the grant date, and early exercises were reflected by using a Hull-White binomial valuation model, with voluntary exercise trigger of 150% of the strike price.

Major hypotheses used in referred to calculation are as follows:

| | **Amounts stated in (R$)** |
|---|---|
| Price per share | 13.40 |
| Strike price | 14.51 |
| Expected volatility | 38% |
| Expected dividends | 2.5% |
| Risk-free rate (nominal rate) | 9.5% |
| Post-vesting rate | 10% |
| Fair value | 4,99 |

The following are simulated effects arising from:

(i) Scenario I: exercise of the stock options granted through December 31, 2012.
(ii) Scenario II: exercise of all options to be granted under the stock option plan.

In both scenarios, it was assumed that all options were exercisable at December 31, 2012, based on Company's equity at that reporting date.

Amounts in reais:

| | Scenario I | Scenario II |
|---|---|---|
| Weighted average strike price | 6.86 | 6.86 |
| Number of preferred shares | 189,124,980 | 189,124,980 |
| Number of outstanding preferred shares | 183,522,438 | 183,522,438 |
| Number of shares to be acquired by exercising the options | 4,394,464 | 13,200,000 |
| Book value per outstanding share | 4.33 | 4.33 |
| Book value per share considering the exercise of options | 4.23 | 4.03 |
| Dilution of book value per share | 0.10 | 0.30 |
| Percentage dilution | 2.32% | 6.98% |

## 29. Employee benefits

The Company and its subsidiaries sponsor two supplementary pension plans and also provide, by means of an 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, recognized as of December 31, 2012, amounts to R$886 (R$1,973 as of December 31, 2011).

Supplementary pension plans are as follows:

a) Pension plan - ALPAPREV

Implemented in May 1991 and structured as a defined benefit plan, it is fully funded by sponsor's contributions. In August 2000, "Super Prev" plan was created and structured as a defined contribution plan; employees equivalent to 99% of the required reserves were already transferred to this plan.

Actuarial amounts are:

| | 2012 | 2011 |
|---|---|---|
| **a. Reconciliation of assets and liabilities** | | |
| Present value of actuarial liability | 38,198 | 29,877 |
| Fair value of plan assets | (43,033) | (38,913) |
| Present value of unfunded actuarial liabilities | - | - |
| Unrecognized actuarial gains/(losses) | 1,502 | 1,502 |
| Effect of the limit in paragraph 58 (b) | - | 4,714 |
| Total net liabilities /(assets) (*) | (3,333) | (2,820) |

(*) This asset item was not recognized in the Company's financial statements as of December 31, 2012, given the need for actuarial surplus to cover future risk fluctuations in the plan.

| | 2012 | 2011 |
|---|---|---|
| **b. Total expenses recognized in** profit or loss | | |
| Cost of current service | 575 | 523 |
| Interest on actuarial liabilities | 2,949 | 2,763 |
| Earnings expected from assets | (4,533) | (4,332) |
| Amortization of actuarial (gains) or losses, net | 5,999 | 3,368 |
| Effect of the limit in paragraph 58 (b) | (4,714) | (938) |
| (Gains)/losses recognized due to settlement impact | - | - |
| Total unrecognized expenses/(income) | 276 | 1,384 |

| | 2012 | 2011 |
|---|---|---|
| **c. Changes in net actuarial (assets) liabilities** | | |
| Actuarial liabilities / (assets) at beginning of year, net | (2,821) | (3,543) |
| Unrecognized expenses/(income) | 276 | 1,384 |
| Sponsor's effective contributions | (788) | (661) |
| Benefits paid directly by the Company for the year | - | - |
| Actuarial liabilities / (assets) at end of year, net | (3,333) | (2,820) |

| | 2012 | 2011 |
|---|---|---|
| **d. Changes in net actuarial liabilities** | | |
| Obligations at beginning of period | 29,877 | 27,562 |
| Cost of current service (with interest, net of participant contribution) | 575 | 523 |
| Interest on actuarial liabilities | 2,949 | 2,763 |
| Benefits paid for the year | (2,456) | (2,143) |
| Participant contribution transferred for the year | - | - |
| Actuarial (gain)/loss | 7,253 | 1,172 |
| Impact of early plan payment | - | - |
| Present value of obligations expected at end of year | 38,198 | 29,877 |

| | 2012 | 2011 |
|---|---|---|
| **e. Changes in plan assets** | | |
| Fair value of assets at beginning of year | 38,913 | 38,980 |
| Participant contribution transferred for the year | - | - |
| Sponsor's contributions transferred for the year | 788 | 661 |
| Benefit payment for the year | (2,456) | (2,143) |
| Earnings expected from assets | 4,533 | 4,332 |
| Actuarial gains / (losses) on plan assets | 1,255 | (2,917) |
| Fair value of assets at end of year | 43,033 | 38,913 |

| **f. Expenses expected for 2013** | |
|---|---|
| Cost of current service | 850 |
| Interest on actuarial liabilities | 2,930 |
| Earnings expected from plan assets | (3,345) |
| Total unrecognized expenses/(income), net | 435 |

Assumptions adopted by the independent actuary in calculating the actuarial liability for 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| **Actuarial assumptions** | | |
| Annual interest | 3.5% | 5.5% |
| Actuarial growth | 3.0% | 3.0% |
| Plan benefit adjustment | 0.0% | 0.0% |
| Inflation | 4.6% | 4.5% |
| Plan benefit capacity | 0.98 | 0.98 |
| Mortality table | AT-2000 | AT-2000 |
| Disability table | Mercer Disability | Mercer Disability |
| Disability morbidity table | IAPB-57 | IAPB-57 |
| Retirement | Mercer Retirement | Mercer Retirement |
| Turnover | Mercer Service | Mercer Service |
| Medical inflation | N/A | N/A |

b) Pension plan - HSBC

Intended to a closed group of former employees of the Company, by using a multi-sponsored supplementary private pension fund as a financial vehicle. This plan includes only participants currently receiving retirement and death pension benefits.

Actuarial amounts are:

| | 2012 | 2011 |
|---|---|---|
| **a. Reconciliation of assets and liabilities** | | |
| Present value of actuarial liability | 566 | 497 |
| Fair value of plan assets | (4,247) | (3,802) |
| Present value of unfunded actuarial liabilities | - | - |
| Unrecognized actuarial gains/(losses) | 84 | 84 |
| Effect of the limit in paragraph 58 (b) | - | 58 |
| Total net liabilities /(assets) (*) | (3,597) | (3,163) |

(*) This asset item was not recognized in the Company's financial statements as of December 31, 2012 as there is no evidence of refund or rebate of future contributions.

| | 2012 | 2011 |
|---|---|---|
| **b. Total expenses recognized in** profit or loss | | |
| Cost of current service | - | - |
| Interest on actuarial liabilities | 48 | 61 |
| Earnings expected from assets | (455) | (407) |
| Amortization of actuarial (gains) or losses, net | 31 | 28 |
| Effect of the limit in paragraph 58 (b) | (58) | (47) |
| (Gains)/losses recognized due to settlement impact | - | - |
| Total unrecognized expenses/(income) | (434) | (365) |

| | 2012 | 2011 |
|---|---|---|
| **c. Changes in net actuarial (assets) liabilities** | | |
| Actuarial liabilities / (assets) at beginning of year, net | (3,163) | (2,798) |
| Unrecognized expenses/(income) | (434) | (365) |
| Sponsor's effective contributions | - | - |
| Benefits paid directly by the Company for the year | - | - |
| Actuarial liabilities / (assets) at end of year, net | (3,597) | (3,163) |

| | 2012 | 2011 |
|---|---|---|
| **d. Changes in net actuarial liabilities** | | |
| Obligations at beginning of period | 497 | 595 |
| Cost of current service (with interest, net of participant contribution) | - | - |
| Interest on actuarial liabilities | 48 | 61 |
| Benefits paid for the year | (80) | (75) |
| Participant contribution transferred for the year | - | - |
| Actuarial (gain)/loss | 101 | (84) |
| Impact of early plan payment | - | - |
| Present value of obligations expected at end of year | 566 | 497 |

| | 2012 | 2011 |
|---|---|---|

| **e. Changes in plan assets** | | |
|---|---|---|
| Fair value of assets at beginning of year | 3,802 | 3,582 |
| Participant contribution transferred for the year | - | - |
| Sponsor's contributions transferred for the year | - | - |
| Benefit payment for the year | (80) | (75) |
| Earnings expected from assets | 455 | 407 |
| Actuarial gains / (losses) on plan assets | 70 | (112) |
| Fair value of assets at end of year | 4,247 | 3,802 |

| **f. Expenses expected for 2013** | |
|---|---|
| Cost of current service | - |
| Interest on actuarial liabilities | 42 |
| Earnings expected from plan assets | (336) |
| Total unrecognized expenses/(income), net | (294) |

Assumptions adopted by the independent actuary in calculating the actuarial liability for 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| **Actuarial assumptions** | | |
| Annual interest | 3.5% | 5.5% |
| Actuarial growth | 3.0% | 3.0% |
| Plan benefit adjustment | 0.0% | 0.0% |
| Inflation | 4.6% | 4.5% |
| Plan benefit capacity | 0.98 | 0.98 |
| Mortality table | AT-2000 | AT-2000 |
| Disability table | Mercer Disability | Mercer Disability |
| Disability morbidity table | IAPB-57 | IAPB-57 |
| Retirement | Mercer Retirement | Mercer Retirement |
| Turnover | Mercer Service | Mercer Service |
| Medical inflation | N/A | N/A |

c) Own pension plan for former employees

The Company sponsors its own private pension plan for former employees. This plan grants life annuity to participants and can be extended to their spouses in the event of death.

It currently has six participants, of which five are former employees with retirement benefits, and one receiving death pension annuity.

Actuarial amounts are:

| | 2012 | 2011 |
|---|---|---|
| **a. Reconciliation of assets and liabilities** | | |
| Present value of actuarial liability | - | - |
| Fair value of plan assets | - | - |
| Present value of unfunded actuarial liabilities | 274 | 1,312 |
| Unrecognized actuarial gains/(losses) | - | - |
| Effect of the limit in paragraph 58 (b) | (81) | (345) |
| Total net liabilities /(assets) | 193 | 967 |

| | 2012 | 2011 |
|---|---|---|
| **b. Total expenses recognized in** profit or loss | | |
| Cost of current service | - | - |
| Interest on actuarial liabilities | 121 | 117 |
| Earnings expected from assets | - | - |
| Amortization of actuarial (gains) or losses, net | 214 | 129 |
| Effect of the limit in paragraph 58 (b) | - | - |
| (Gains)/losses recognized due to settlement impact | (820) | - |
| Total unrecognized expenses/(income) | (485) | 246 |

| | 2012 | 2011 |
|---|---|---|
| **c. Changes in net actuarial (assets) liabilities** | | |
| Actuarial liabilities / (assets) at beginning of year, net | 966 | 989 |
| Unrecognized expenses/(income) | (485) | 246 |
| Sponsor's effective contributions | - | - |
| Benefits paid directly by the Company for the year | (289) | (268) |
| Actuarial liabilities / (assets) at end of year, net | 192 | 967 |

| | 2012 | 2011 |
|---|---|---|
| **d. Changes in net actuarial liabilities** | | |
| Obligations at beginning of period | 1,312 | 1,242 |
| Cost of current service (with interest, net of participant contribution) | - | - |
| Interest on actuarial liabilities | 121 | 117 |
| Benefits paid for the year | (289) | (268) |
| Participant contribution transferred for the year | - | - |
| Actuarial (gain)/loss | 293 | 221 |
| Impact of early plan payment | (1,163) | - |
| Present value of obligations expected at end of year | 274 | 1,312 |

| | 2012 | 2011 |
|---|---|---|

| **e. Changes in plan assets** | | |
|---|---|---|
| Fair value of assets at beginning of year | - | - |
| Participant contribution transferred for the year | - | - |
| Sponsor's contributions transferred for the year | 289 | 268 |
| Benefit payment for the year | (289) | (268) |
| Earnings expected from assets | - | - |
| Actuarial gains / (losses) on plan assets | - | - |
| Fair value of assets at end of year | - | - |

| **f. Expenses expected for 2013** | |
|---|---|
| Cost of current service | - |
| Interest on actuarial liabilities | 20 |
| Earnings expected from plan assets | - |
| Total unrecognized expenses/(income), net | 20 |

Assumptions adopted by the independent actuary in calculating the actuarial liability for 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| **Actuarial assumptions** | | |
| Annual interest | 3.5% | 5.5% |
| Actuarial growth | 3.0% | 3.0% |
| Plan benefit adjustment | 0.0% | 0.0% |
| Inflation | 4.6% | 4.5% |
| Plan benefit capacity | 0.98 | 0.98 |
| Mortality table | AT-2000 | AT-2000 |
| Disability table | Mercer Disability | Mercer Disability |
| Disability morbidity table | IAPB-57 | IAPB-57 |
| Retirement | Mercer Retirement | Mercer Retirement |
| Turnover | Mercer Service | Mercer Service |
| Medical inflation | N/A | N/A |

d) Health plans for retired employees

The Company maintains a health plan for a certain group of former employees and their spouses, under rules established by it.

Actuarial amounts are:

| | 2012 | 2011 |
|---|---|---|
| **a. Reconciliation of assets and liabilities** | | |
| Present value of actuarial liability | - | - |
| Fair value of plan assets | - | - |
| Present value of unfunded actuarial liabilities | 796 | 1,305 |
| Unrecognized actuarial gains/(losses) | (103) | (299) |
| Effect of the limit in paragraph 58 (b) | - | - |
| Total net liabilities /(assets) | 693 | 1,006 |

| | 2012 | 2011 |
|---|---|---|
| **b. Total expenses recognized in** profit or loss | | |
| Cost of current service | - | - |
| Interest on actuarial liabilities | 122 | 101 |
| Earnings expected from assets | - | - |
| Amortization of actuarial (gains) or losses, net | 168 | (210) |
| Effect of the limit in paragraph 58 (b) | - | - |
| (Gains)/losses recognized due to settlement impact | (479) | - |
| Total unrecognized expenses/(income) | (189) | (109) |

| | 2012 | 2011 |
|---|---|---|
| **c. Changes in net actuarial (assets) liabilities** | | |
| Actuarial liabilities / (assets) at beginning of year, net | 1,006 | 1,344 |
| Unrecognized expenses/(income) | (189) | (109) |
| Sponsor's effective contributions | (124) | (229) |
| Benefits paid directly by the Company for the year | - | - |
| Actuarial liabilities / (assets) at end of year, net | 693 | 1,006 |

| | 2012 | 2011 |
|---|---|---|
| **d. Changes in net actuarial liabilities** | | |
| Obligations at beginning of period | 1,305 | 1,031 |
| Cost of current service (with interest, net of participant contribution) | - | - |
| Interest on actuarial liabilities | 122 | 101 |
| Benefits paid for the year | (124) | (229) |
| Participant contribution transferred for the year | - | - |
| Actuarial (gain)/loss | 44 | 402 |
| Impact of early plan payment | (551) | - |
| Present value of obligations expected at end of year | 796 | 1,305 |

| | 2012 | 2011 |
|---|---|---|

| **e. Changes in plan assets** | | |
|---|---|---|
| Fair value of assets at beginning of year | - | - |
| Participant contribution transferred for the year | - | - |
| Sponsor's contributions transferred for the year | 124 | 229 |
| Benefit payment for the year | (124) | (229) |
| Earnings expected from assets | - | - |
| Actuarial gains / (losses) on plan assets | - | - |
| Fair value of assets at end of year | - | - |

| **f. Expenses expected for 2013** | |
|---|---|
| Cost of current service | - |
| Interest on actuarial liabilities | 62 |
| Earnings expected from plan assets | - |
| Total unrecognized expenses/(income), net | 62 |

Assumptions adopted by the independent actuary in calculating the actuarial liability for 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| **Actuarial assumptions** | | |
| Annual interest | 3.5% | 5.5% |
| Actuarial growth | 3.0% | 3.0% |
| Plan benefit adjustment | 0.0% | 0.0% |
| Inflation | 4.6% | 4.5% |
| Plan benefit capacity | 0.98 | 0.98 |
| Mortality table | AT-2000 | AT-2000 |
| Disability table | Mercer Disability | Mercer Disability |
| Disability morbidity table | IAPB-57 | IAPB-57 |
| Retirement | Mercer Retirement | Mercer Retirement |
| Turnover | Mercer Service | Mercer Service |
| Medical inflation | 3.0% | 3.0% |

## 30. Financial income and expenses, net

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Financial income: | | | | |
| Short-term investment yields | 50,514 | 70,585 | 54,791 | 72,868 |
| Interest receivable | 4,858 | 2,495 | 5,206 | 2,629 |
| Other | 1,494 | 4,203 | 1,771 | 5,333 |
| | 56,866 | 77,283 | 61,768 | 80,830 |
| Financial expenses: | | | | |
| Interest and charges on loans and financing | (5,948) | (13,947) | (17,735) | (16,906) |
| Interest and charges on debt restructuring of subsidiaries | - | - | (10,523) | (10,691) |
| Tax on financial transactions (IOF) | (444) | (406) | (3,069) | (406) |
| Tax on bank transactions (Argentina) | - | - | (8,207) | (6,884) |
| Inflation adjustment of taxes | (5,532) | (6,350) | (5,532) | (6,351) |
| Other | (5,234) | (4,927) | (10,001) | (9,976) |
| | (17,158) | (25,630) | (55,067) | (51,214) |
| | 39,708 | 51,653 | 6,701 | 29,616 |

## 31. Foreign exchange variation, net

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Exchange gains | 16,771 | 11,543 | 19,189 | 10,811 |
| Exchange losses | (13,184) | (12,466) | (17,796) | (11,378) |
| | 3,587 | (923) | 1,393 | (567) |

## 32. Other operating income (expenses)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Other operating income: | | | | |
| Receivable Eletrobrás (a) | 7,726 | 19,765 | 7,726 | 19,765 |
| Tax credits (CBS) | - | - | - | 2,158 |
| Income from sale of properties (Argentina) | - | - | 17,640 | - |
| Income from sale of brand (Argentina) | - | - | 5,031 | - |
| Other | 2,622 | 2,474 | 4,952 | 5,784 |
| | 10,348 | 22,239 | 35,349 | 27,707 |
| Other operating expenses: | | | | |
| Amortization of intangible assets | (20,496) | (18,611) | (23,944) | (20,184) |
| Provisions for tax, civil and labor claims (Note 22) | (9,095) | (10,225) | (8,549) | (11,074) |
| Commercial agreement termination | - | - | - | (7,676) |
| Restructuring - Argentina | - | - | (17,370) | - |
| Other | (23,239) | (15,919) | (25,979) | (17,797) |
| | (52,830) | (44,755) | (75,842) | (56,731) |
| | (42,482) | (22,516) | (40,493) | (29,024) |

(a) This refers to a lawsuit filed by the Company for reimbursement of compulsory loans made to Eletrobras with full inflation adjustment and interest on principal. The Brazilian High Court of Justice (STJ) awarded a favorable decision to taxpayers upon RESP 1003955 and RESP 1028592 decision, under the sequence of repeated appeals, in accordance with article 543-C of the Code of Civil Procedure, whereby a decision was awarded to all proceedings addressing the matter. In turn, through judgment of Interlocutory Appeal No. 735933 filed by Eletrobrás, the Federal Supreme Court (STF) ratified the understanding of STJ in the sense that the discussion of the matter is not constitutional. Although the lawsuit filed by the Company has not yet been awarded a final decision, a decision that the understanding expressed by STJ should be applied to the matter was issued.

In March 2012, the Company received R$7,726 in addition to the credit right assignment and acquisition agreement and other covenants for third parties unrelated to the Companies of the Group, to which all risks and benefits arising from such lawsuit were transferred, for R$19,765, entered into in December 2011. The Company, however, ensured its right to supplement sales amount based on information that could be obtained in the future from electric power operators.

## 33. Profit sharing

The Company and its subsidiaries provide their employees with profit sharing contingent upon achievement of operating goals and specific objectives, annually established and approved for each plant/unit. For the years ended December 31, 2012 and 2011, profit sharing recognized in profit or loss was as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Profit sharing | 28,161 | 27,145 | 35,275 | 33,030 |

Profit sharing is recorded as Salaries and Social Charges Payable, under current liabilities.

## 34. Pledges and collaterals

At December 31, 2012 and 2011, in addition to the information disclosed in Notes 15 and 17, pledges and collaterals provided by the Company to financial institutions related to vendor financing transactions were R$478 and R$ 2,007, respectively.

For the years ended December 31, 2012 and 2011, the Company recorded no losses arising from these pledges and collaterals.

## 35. Risk management and financial instruments

a) General considerations and policies

The Company and its subsidiaries are engaged in transactions involving financial instruments, including derivatives, where applicable, which are recorded in balance sheet accounts in order to meet their operating and financial needs.

These financial instruments are managed by means of policies, definition of strategies and establishment of control systems, which are monitored by Company management.

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

*Short-term investments*

The short-term investment policy established by management of the Company and its subsidiaries elects financial institutions with which agreements may be entered into based on the evaluation of credit rating of the counterparty in question, maximum exposure percentage by institution based on the rating and bank's maximum equity percentage. At December 31, 2012 and 2011, short-term investment were within these limits.

*Related-party current accounts*

In the Company's financial statements, related-party balances refer to single cash (cash and cash equivalents) managed by the Company, with no financial charges on these transactions.

*Policies for taking out derivative financial instruments*

Given the financial liabilities in foreign currency assumed by the Company and its subsidiaries, management, pursuant to guidelines established by the Company's Board of Directors, may take out derivative financial instrument transactions to minimize currency risks arising from financial liabilities and accounts payable for import of productive inputs within the exposure limits linked to these risks.

Treasury procedures set by the policy in effect include monthly projection routines and assessment of the currency exposure of the Company and its subsidiaries, based on which management makes its decisions as to taking out these financial instruments.

At December 31, 2012 and 2011, the Company and its subsidiaries had no outstanding operations involving derivative financial instruments.

b) Financial risk management

*Financial risk factors*

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

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

b.1) *Market risk*

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

i) Currency risk

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

This policy considers foreign currency-denominated amounts from accounts receivable and payable 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 and short and long-term loans and financing. Company management makes it a policy to maintain the rates of its exposures at asset and liability interest rates pegged to floating rates. Short-term investments, loans and financing are restated at floating CDI rate, pursuant to agreements entered into with financial institutions.

b.2) *Credit risk*

Sales are mainly made to retailers and wholesalers. The credit risk is reduced due to the high dilution of the customer portfolio, credit assessment and granting policies. The result of this management is reflected under Allowance for Doubtful Accounts, as described in Note 9.

The Company and its subsidiaries are also subject to credit risks related to financial instruments taken out for the management of their business.
The risk of not settling transactions with financial institutions is low, as these are considered by the market as first-tier banks.

b.3) *Liquidity risk*

Effectively managing liquidity risk implies maintaining enough cash and marketable 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' business, the Treasury Department 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 following table, in item c), analyzes financial liabilities, by maturity ranges, corresponding to the remaining period in the balance sheet vis-à-vis the contractual maturity date. Amounts presented in the table are undiscounted cash flows contracted.

c) Financial liabilities

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

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year | Between one and two years | Between three and five years | More than five years | Fair value | Discount effect | Carrying amount |
| Current portion: | | | | | | | |
| Finance lease liabilities | 76 | - | - | - | 76 | (4) | 72 |
| Loans and financing | 188,334 | - | - | - | 188,334 | - | 188,334 |
| Trade accounts payable | 359,079 | - | - | - | 359,079 | - | 359,079 |
| Noncurrent portion: | | | | | | | |
| Finance lease liabilities | - | 7 | - | - | 7 | - | 7 |
| Loans and financing | - | 86,922 | 23,125 | 293 | 110,340 | - | 110,340 |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year | Between one and two years | Between three and five years | More than five years | Fair value | Discount effect | Carrying amount |
| Current portion: | | | | | | | |
| Finance lease liabilities | 215 | - | - | - | 215 | (32) | 183 |
| Loans and financing | 179,894 | - | - | - | 179,894 | - | 179,894 |
| Trade accounts payable | 297,150 | - | - | - | 297,150 | - | 297,150 |
| Noncurrent portion: | | | | | | | |
| Finance lease liabilities | - | 48 | - | - | 48 | (6) | 42 |
| Loans and financing | - | 21,224 | 33,110 | 1,480 | 55,814 | - | 55,814 |

d) Capital management

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

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

| | 2012 | 2011 |
|---|---|---|
| Cash, cash equivalents and short-term investments | 616,908 | 670,954 |
| (-) Short and long-term loans and financing | (298,753) | (235,933) |
| Net financial position | 318,155 | 435,021 |
| Equity | 1,660,898 | 1,489,859 |

e) Exposure to currency risk

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| Assets: | | | | | |
| Trade accounts receivable | (i) | 49,890 | 36,686 | 123,452 | 93,393 |
| Total assets | | 49,890 | 36,686 | 123,452 | 93,393 |
| Liabilities: | | | | | |
| Loans and financing | (ii) | - | 4,794 | 164,571 | 118,627 |
| Trade accounts payable | | 99,797 | 40,961 | 160,859 | 102,570 |
| Royalties payable | | 17,735 | 13,448 | 17,735 | 13,448 |
| Total liabilities | | 117,532 | 59,203 | 343,165 | 234,645 |
| Net exposure | | (67,642) | (22,517) | (219,714) | (141,252) |
| (-) Subsidiaries abroad | | - | - | 157,455 | 122,460 |
| Total exposure for sensitivity analysis purposes | | (67,642) | (22,517) | (62,259) | (18,792) |

(i) In the consolidated as of December 31, 2012, 74.6% (77.4% as of December 31, 2011) refer to trade accounts receivable of subsidiaries abroad (Alpargatas USA Inc. - USA, Alpargatas Europe S.L.U. - Spain, Alpargatas Chile Ltda. - Chile and Alpargatas S.A.I.C. - Argentina) and 25.4% refer to foreign trade accounts receivable of the Company in Brazil.

(ii) In the consolidated as of December 31, 2012, 100.0% (95.9% as of December 31, 2011) refer to currency-denominated loans of subsidiaries abroad (Alpargatas USA Inc. - USA, Alpargatas Europe S.L.U. - Spain and Alpargatas S.A.I.C. - Argentina), as mentioned in Note 17.

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

f) Market value

At December 31, 2012 and 2011, market values of short-term investments approximate the amounts recorded in the financial statements as they are pegged to the CDI rate fluctuation. Loans and financing are adjusted for inflation based on interest rates contracted according to the usual market conditions; therefore, balances payable as of the balance sheet dates substantially approximate their market values, including those classified as “noncurrent”, considering the type of the corresponding financing.

The fair value of financial instruments that are not traded in active markets (for example, OTC derivatives) is determined by using valuation techniques. The Company and its subsidiaries use various methods and define assumptions that are based on market conditions existing as of the balance sheet date. The fair value of forward exchange contracts is determined based on forward exchange rates quoted as of 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 market value in view of the short term of transactions conducted.

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

- Prices quoted (unadjusted) in active market for identical assets and liabilities (Level 1).
- Information, in addition to quoted prices, included in Level 1, used by the market for assets or liabilities, either directly (that is, based on prices) or indirectly (that is, deriving 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 as of the balance sheet date. A market is considered active if quoted prices are readily and regularly available from a stock 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 that are not traded in active markets (for example, OTC derivatives) is determined by using valuation techniques. These valuation techniques make maximum use of data adopted by the market, when available, and rely as little as possible on entity's specific estimates. If all material information required for the fair value of an instrument is adopted by the market, the instrument will be included in Level 2.

If any material information is not based on the data adopted by the market, the instrument will be 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 at the present value of future cash flows estimated based on the yield curves adopted by the market.
- The fair value of future exchange contracts is determined at future exchange rates as of the balance sheet date, and the amount resulting therefrom is discounted 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 had no financial instruments measured at fair value for the years ended December 31, 2012 and 2011.

g) Sensitivity analysis of financial instruments

Currency risk

For the consolidated currency exposure sensitivity analysis as of December 31, 2012, effects of which reflect only the impacts on monetary assets and liabilities, the Company did not consider the balances of trade accounts receivable and loans and financing of foreign subsidiaries, as they are denominated in local functional currencies of each of these subsidiaries; therefore, Company management understands that there is no currency exposure risk for such subsidiaries.

Considering currency exposures described in item (e) above, as of December 31, 2012, the sensitivity analysis of outstanding positions is as follows:

| | Gain/(Loss) | | |
|---|---|---|---|
| | **Probable scenario** | **Possible scenario** | **Remote scenario** |
| Company's risk | | | |
| US dollar appreciation / (depreciation) | 716 | (15,565) | (31,130) |

The probable scenario considers 1.15% appreciation of the Brazilian real against the US dollar at the average exchange rate of R$ 2.0200, based on market reference.

The possible scenario considers 25% depreciation o the Brazilian real against the US dollar at the exchange rate as of December 31, 2012 of R$2.0435/US$ (R$2.5544/US$), whereas the remote scenario considers 50% depreciation (R$3.0653/US$).

Interest rate risk

The sensitivity analysis was determined based on the exposure to interest rates of non-derivative financial instruments at the end of each reporting period. For financial assets pegged to the CDI rate and liabilities pegged 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 3 percentage point increase or decrease is used to internally present the interest rate risks to key management personnel and corresponds to management's assessment of possible changes in interest rates.

Had interest rates been 3 percentage points higher or lower and all other variables remained stable, net income for the year ended December 31, 2012 would have increased or decreased by approximately R$18,822. This is mainly due to the Company's net exposure to the CDI rate on short-term investments, considering that financial liabilities are mainly stated at fixed rates, as described in Note 17.

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

## 36. Earnings per share

| | 2012 | | |
|---|---|---|---|
| | Common – ON | Preferred - PN (a) | Total |
| Denominator | | | |
| Weighted average total number of shares | 193,907,504 | 183,660,846 | 377,568,350 |
| Weighted average number of treasury shares | - | (5,438,411) | (5,438,411) |
| Weighted average number of outstanding shares | 193,907,504 | 178,222,435 | 372,129,939 |
| % of shares vis-à-vis total | 52.11% | 47.89% | 100.00% |
| Numerator – Basic | | | |
| Net income for the year attributable to each class of shares | 139,195 | 140,788 | 279,983 |
| Weighted average number of outstanding shares | 193,907,504 | 178,222,435 | 372,129,939 |
| Total basic earnings per share for the year | 0.7178 | 0.7900 | 0.7524 |
| Numerator – Diluted | | | |
| Net income for the year attributable to each class of shares | 137,490 | 142,493 | 279,983 |
| Weighted average number of outstanding shares | 193,907,504 | 178,222,435 | 372,129,939 |
| Weighted average number shares in the stock option plans | - | 4,196,004 | 4,196,004 |
| Weighted average number of outstanding shares | 193,907,504 | 182,418,439 | 376,325,943 |
| % of shares vis-à-vis total | 51.53% | 48.47% | 100.00% |
| Total diluted earnings per share for the year | 0.7090 | 0.7811 | 0.7440 |

| | 2011 | | |
|---|---|---|---|
| | Common – ON | Preferred - PN (a) | Total |
| Denominator | | | |
| Weighted average total number of shares | 193,907,504 | 183,660,846 | 377,568,350 |
| Weighted average number of treasury shares | - | (5,082,711) | (5,082,711) |
| Weighted average number of outstanding shares | 193,907,504 | 178,578,135 | 372,485,639 |
| % of shares vis-à-vis total | 52.06% | 47.94% | 100.00% |
| Numerator – Basic | | | |
| Net income for the year attributable to each class of shares | 152,674 | 154,746 | 307,420 |
| Weighted average number of outstanding shares | 193,907,504 | 178,578,135 | 372,485,639 |
| Total basic earnings per share for the year | 0.7874 | 0.8665 | 0.8253 |
| Numerator – Diluted | | | |
| Net income for the year attributable to each class of shares | 150,963 | 156,457 | 307,420 |
| Weighted average number of outstanding shares | 193,907,504 | 178,578,135 | 372,485,639 |
| Weighted average number shares in the stock option plans | - | 3,789,581 | 3,789,581 |
| Weighted average number of outstanding shares | 193,907,504 | 182,367,716 | 376,275,220 |
| % of shares vis-à-vis total | 51.53% | 48.47% | 100.00% |
| Total diluted earnings per share for the year | 0.7785 | 0.8579 | 0.8170 |

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

Due to the bonus of shares, disclosed in Note 24.a), the number of common and preferred shares as of December 31, 2011 was adjusted to reflect the current number of shares, as required by paragraph 64 of Accounting Pronouncement CPC 41 - Earnings per Share.

## 37. Commitments made

### 37.1. Operating lease

Stores leased

At December 31, 2012 and 2011, the Company had lease agreements entered into with third parties, agreements of which the Company analyzed and concluded to fall under the classification of operating lease agreement.

The amount of lease of real estate is always the higher of: (i) the equivalent to the average rate between 3 and 43% of gross monthly sales, carried out by the store, or (ii) a minimum monthly amount updated on an annual basis by several inflation-related indices. Average monthly expenses with lease payment was R$860 (R$830 as of December 31, 2011). The referred to lease agreements are effective for 5 to 15 years, and are renewable.

For the year ended December 31, 2012, lease expenses, net of taxes recoverable, in the consolidated, totaled R$10,325 (R$9,959 for the year ended December 31, 2011).

Other Leases

The Company also has lease agreements for warehouses where products and goods are stored and commercial offices with monthly fixed amounts, adjusted annually at usual market inflation rates.

In August 2011, the Company entered into a lease agreement to set up its head office in new office space in 2012. The agreement is effective for 10 years, beginning September 2011, grace period of which is 90 days from such date. The monthly lease payment amounts to R$893, annually adjusted at the accumulated positive variation of General Market Price Index (IGP-M) / FGV.

For the year ended December 31, 2012, lease expenses, net of taxes recoverable, in the consolidated, totaled R$30,675 (R$21,241 for the year ended December 31, 2011).

Future commitments

Total future commitments arising from the abovementioned operating lease agreements, at amounts for the year ended December 31, 2012, totaled fixed minimum of R$143,786, distributed as follows:

| Year | **R$** |
|---|---|
| 2013 | 31,255 |
| 2014 | 31,428 |
| 2015 | 29,517 |
| 2016 to 2017 | 51,586 |
| | 143,786 |

Such transactions are subject to usual covenants, such as guarantees for early termination, among others. At December 31, 2012, the Company was compliant with these covenants; therefore, no effective lease agreement at such date was considered as onerous by Company management. In addition, no contingent payment was made by the Company for the year ended December 31, 2012.

### 37.2. Input supply agreements

The Company has commitments deriving from an electric power supply agreement effective through 2012, providing for the purchase of a minimum monthly volume of 28,348 kw, equivalent to R$745, which can be amended not in six months. At December 31, 2012, the Company was compliant with the commitments in the agreement.

### 37.3. Service agreement for construction of new plant in Montes Claros, Minas Gerais State, and equipment supply

The Company has commitments arising from engineering service and equipment supply agreements regarding construction of a new plant in the city of Montes Claros - MG. At December 31, 2012, these commitments amounted to R$106,063, regarding construction in progress, and R$54,403, regarding plant equipment to be acquired from various suppliers.

## 38. Insurance coverage

The Company and its subsidiaries made it a policy to take out insurance for property, plant and equipment and inventory items subject to fire, for the technical replacement amount and to cover loss of profits. At December 31, 2012, consolidated insurance coverage was considered sufficient by management for the risks involved.

## 39. Additional information to cash flow statements

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Dividends received with settlement of subsidiary's current account | - | 7,545 | - | - |
| Non-cash acquisitions of property, plant and equipment | - | 4,737 | - | 4,737 |
| Unused secured account limits | - | - | 14,919 | 36,933 |

## 40. Correction of errors

### 40.1. Cash equivalents and short-term investments

Through December 31, 2011, the Company classified temporary investments redeemable within 90 days from balance sheet date as cash and cash equivalents in lieu of considering redemption from investment date upon initial recognition: whether as short-term investments or cash equivalents. In addition, for certain temporary investments classified as cash equivalents, the issuer had no formal guarantees that amounts could be readily convertible with no material yield losses. In order to adjust balances to the prevailing accounting standards, the Company reclassified the following items:

| | Company | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | Restated | Reclassification | Original | Restated | Reclassification | Original |
| At December 31, 2011 | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 163,131 | (288,257) | 451,388 | 222,210 | (288,257) | 510,467 |
| Short-term investments | 448,744 | 288,257 | 160,487 | 448,744 | 288,257 | 160,487 |
| At December 1, 2011 | | | | | | |
| Cash and cash equivalents | 454,095 | (40,867) | 494,962 | 482,489 | (40,867) | 523,356 |
| Short-term investments | 172,176 | 40,867 | 131,309 | 172,176 | 40,867 | 131,309 |

## 40.2. Cash flow statements

Given the aforementioned reclassifications from cash equivalents to short-term investments, the following are restated in the cash flow statements:

| | Company | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | Restated | Reclassification | Original | Restated | Reclassification | Original |
| Operating activities | 284,077 | (20,325) | 304,402 | 312,401 | (20,235) | 332,726 |
| Investing activities | (351,497) | (227,065) | (124,432) | (314,458) | (227,065) | (87,393) |
| Decrease in cash and cash equivalents | (290,964) | (247,390) | (43,574) | (260,279) | (247,390) | (12,889) |

## 40.3. Deferred income and social contribution tax assets and liabilities

In order to comply with CPC 32 / IAS 12 paragraph 74, the Company reclassified the 2011 deferred income and social contribution tax balances to present their net values:

| | Company | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | Restated | Reclassification | Original | Restated | Reclassification | Original |
| At December 31, 2011 | | | | | | |
| Deferred income tax assets | 41,148 | (5,690) | 46,838 | 57,125 | (32,426) | 89,551 |
| Deferred income tax liabilities | - | 5,690 | (5,690) | (11,881) | 32,426 | (44,307) |
| At December 1, 2011 | | | | | | |
| Deferred income tax assets | 39,744 | (3,261) | 43,005 | 58,003 | (30,794) | 88,797 |
| Deferred income tax liabilities | - | 3,261 | (3,261) | (11,831) | 30,794 | (42,625) |

## 41. Subsequent events

On October 10, 2012, the Company disclosed a material fact notice communicating the initial acquisition of 30% (thirty percent) of Terras de Aventura Indústria de Artigos Esportivos S.A. ("Osklen") capital. Conclusion of this acquisition was subject to fulfillment of certain conditions.

On November 16, 2012, the acquisition was approved by the Brazilian Antitrust Law System (SBDC).

On March 4, 2013, said conditions were fulfilled and the Company acquired, under the share purchase and sale agreement terms, 30% of Osklen capital. On this date, the Company paid

the first installment, amounting to R$67,500. This amount is equivalent to the percentage acquired multiplied by 13 times the effective EBITDA of Osklen for the period between March 1, 2013 and February 28, 2014, less net debt (Acquisition Price). Second installment payment corresponds to the acquisition price less the first installment, and will be made 15 months after this date.

The Company will have the option to purchase further 30% of Osklen capital within 60 days after the second installment is paid, for the same amount of the acquisition price.

## 42. Material fact notice

On December 26, 2012, the Company disclosed a material fact notice communicating it took out financing totaling R$187,332, to be invested in the new Havaianas plant in Montes Claros - MG.

Interest rates are fixed at 2.5% p.a., cost which is very competitive and leverages the Company's capital structure. Payment term is 10 years, with a two-year grace period. This amount will be fully released by the lender over 2013.

## 43. Approval for disclosure of the financial statements

These financial statements of the Company were approved for disclosure by the Board of Directors in meeting held on March 15, 2013.