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

São Paulo Alpargatas S.A. and Subsidiaries

Interim Financial Statements for the Six-month Period Ended June 30, 2010 and Independent Accountants' Review Report

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

1. We have reviewed the accounting information included in the accompanying interim financial statements of São Paulo Alpargatas S.A. (the "Company") and its subsidiaries for the six-month period ended June 30, 2010, consisting of the balance sheets, the related statements of income, changes in shareholders' equity and cash flows, the related notes and the performance report, prepared under the responsibility of the Company's and its subsidiaries' Management.

2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Brazilian Federal Accounting Council (CFC), and consisted, principally, of: (a) inquiries of and discussions with certain officials of the Company and its subsidiaries who have responsibility for accounting, financial and operating matters about the main criteria adopted in the preparation of the interim financial statements referred to in paragraph 1; and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiaries.

3. Based on our review, we are not aware of any material modifications that should be made to the accounting information included in the interim financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities and Exchange Commission (CVM) applicable to the interim financial statements.

4. As mentioned in note 3, during 2009, CVM approved new technical pronouncements, interpretations and instructions issued by the Accounting Pronouncements Committee (CPC), mandatory for adoption beginning 2010, which changed the Brazilian accounting practices. As permitted by CVM Resolution 603/09, the Company's Management elected to present its interim financial statements in accordance with the Brazilian accounting standards adopted through December 31, 2009, rather than early adopting the standards effective for fiscal year ending December 31, 2010. The Company disclosed the basis of presentation of its interim financial statements in note 3, including a summary of the main changes that might impact its financial statements for the year ending December 31, 2010, as well as clarifications on the reasons for not presenting an estimate of their possible effects on shareholders' equity and net income, as required by said Resolution.

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

São Paulo, August 13, 2010

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Reynaldo Awad Saad
Engagement Partner

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF JUNE 30, 2010 AND MARCH 31, 2010
(In thousands of Brazilian reais - R$, except book value per share)

	Company		Consolidated	
ASSETS	06/30/10	03/31/10	06/30/10	03/31/10
CURRENT ASSETS				
Cash and cash equivalents	381,429	361,441	428,234	406,408
Short-term investments	35,051	-	35,051	-
Trade accounts receivable	303,510	308,289	380,865	387,701
Inventories	149,156	127,623	240,299	221,241
Recoverable taxes	5,836	6,370	18,385	20,849
Deferred income tax and social contribution	16,747	17,673	20,351	19,704
Prepaid expenses	10,321	10,920	12,819	12,374
Assets held for sale	-	-	-	7,346
Receivable from the sale of subsidiary	14,555	-	22,300	-
Other receivables	10,359	6,347	22,590	15,728
Total current assets	926,964	838,663	1,180,894	1,091,351
NONCURRENT ASSETS				
Long-term assets:				
Assets held for sale	612	612	3,781	3,781
Recoverable taxes	2,904	3,430	19,761	16,463
Judicial deposits	12,167	13,296	12,860	14,138
Deferred income tax and social contribution	24,576	23,202	40,871	34,690
Related parties	6,982	1,770	-	-
Receivable from the sale of subsidiary	14,300	-	19,355	-
Other receivables	22,374	22,721	22,526	23,157
Investments:				
Subsidiaries and associates	149,105	164,524	70,560	74,865
Other	195	195	585	545
Property, plant and equipment	171,434	173,693	266,590	277,467
Intangible assets	253,668	255,599	265,197	273,423
Deferred charges	5,234	6,474	5,404	6,474
Total noncurrent assets	663,551	665,516	727,490	725,003
TOTAL ASSETS	1,590,515	1,504,179	1,908,384	1,816,354

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

	Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	06/30/10	03/31/10	06/30/10	03/31/10
CURRENT LIABILITIES				
Trade accounts payable	148,350	99,268	194,458	136,959
Loans and financing	19,008	19,040	92,409	95,564
Payroll and related taxes	48,292	57,328	72,685	83,676
Accrual for contingencies	2,330	5,734	5,736	8,923
Interest on capital and dividends payable	920	11,221	920	11,221
Taxes payable	1,872	5,070	14,366	19,812
Debt restructuring agreements	-	-	13,184	12,831
Provisions and other payables	23,854	19,331	50,575	43,557
Total current liabilities	244,626	216,992	444,333	412,543
NONCURRENT LIABILITIES				
Loans and financing	75,763	80,229	121,403	124,848
Deferred income tax and social contribution	33,516	33,947	33,516	33,947
Accrual for contingencies	20,999	20,588	30,081	29,629
Taxes with suspended payment and other	39,531	33,294	45,992	40,347
Debt restructuring agreements	-	-	26,448	27,337
Other payables	5,380	4,854	6,301	6,606
Total noncurrent liabilities	175,189	172,912	263,741	262,714
NONCONTROLLING INTERESTS	-	-	30,723	29,872
SHAREHOLDERS' EQUITY				
Capital	441,171	391,804	441,171	391,804
Capital reserves	172,223	174,461	172,223	174,461
Earnings reserves	634,588	618,955	633,475	615,905
Valuation adjustments to equity	(48,817)	(42,618)	(48,817)	(42,618)
Treasury shares	(28,465)	(28,327)	(28,465)	(28,327)
Total shareholders' equity	1,170,700	1,114,275	1,169,587	1,111,225
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,590,515	1,504,179	1,908,384	1,816,354
Book value per share - R$	3.36	3.20		

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS AND QUARTERS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$, except earnings (loss) per share)

	Company			
	04/01/10 to 06/30/10	01/01/10 to 06/30/10	04/01/09 to 06/30/09	01/01/09 to 06/30/09
GROSS REVENUE FROM SALES				
Sales of products	440,157	859,691	359,357	745,900
Taxes on sales	(63,431)	(120,211)	(51,993)	(109,050)
NET SALES REVENUE	376,726	739,480	307,364	636,850
Cost of sales	(197,326)	(379,622)	(179,404)	(364,263)
GROSS PROFIT	179,400	359,858	127,960	272,587
OPERATING INCOME (EXPENSES)				
Selling	(95,284)	(180,768)	(94,172)	(174,125)
General and administrative	(22,169)	(48,949)	(17,591)	(41,758)
Equity in subsidiaries and associates	31,878	46,797	(21,364)	(34,539)
Amortization of intangible assets	(3,947)	(7,886)	(2,981)	(5,206)
Amortization of deferred charges	(588)	(1,187)	(1,399)	(2,562)
Other operating income (expenses), net	(7,518)	(13,438)	8,557	12,172
	(97,628)	(205,431)	(128,950)	(246,018)
OPERATING INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSES)	81,772	154,427	(990)	26,569
Financial income	9,853	17,338	6,226	12,636
Financial expenses	(3,959)	(7,583)	(6,320)	(12,641)
Exchange rate change, net	(455)	(1,063)	(6,505)	(6,760)
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	87,211	163,119	(7,589)	19,804
Income tax and social contribution - current	(4,100)	(10,797)	1,925	-
Income tax and social contribution - deferred	41	842	1,482	(548)
Noncontrolling interests	-	-	-	-
NET INCOME (LOSS) FOR THE PERIOD	83,152	153,164	(4,182)	19,256
EARNINGS (LOSS) PER SHARE - R$	0.23869	0.43967	(0.24010)	1.10552

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS AND QUARTERS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$, except earnings (loss) per share)

	Consolidated			
	04/01/10 to 06/30/10	01/01/10 to 06/30/10	04/01/09 to 06/30/09	01/01/09 to 06/30/09
GROSS REVENUE FROM SALES				
Sales of products	633,300	1,242,685	535,291	1,075,275
Taxes on sales	(89,601)	(175,794)	(81,080)	(165,133)
NET SALES REVENUE	543,699	1,066,891	454,211	910,142
Cost of sales	(295,823)	(569,446)	(281,472)	(557,664)
GROSS PROFIT	247,876	497,445	172,739	352,478
OPERATING INCOME (EXPENSES)				
Selling	(140,638)	(261,011)	(137,267)	(248,780)
General and administrative	(27,703)	(60,125)	(22,473)	(53,048)
Equity in subsidiaries and associates	(1,358)	(4,519)	(8,412)	(12,864)
Amortization of intangible assets	(4,432)	(8,881)	(3,525)	(6,344)
Amortization of deferred charges	(473)	(1,072)	(1,414)	(2,591)
Other operating income (expenses), net	11,002	4,758	7,274	9,348
	(163,602)	(330,850)	(165,817)	(314,279)
OPERATING INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSES)	84,274	166,595	6,922	38,199
Financial income	9,908	18,108	8,492	15,754
Financial expenses	(10,594)	(20,521)	(13,983)	(29,580)
Exchange rate change, net	1,939	576	(3,207)	(4,983)
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	85,527	164,758	(1,776)	19,390
Income tax and social contribution - current	(6,856)	(16,247)	2,232	(692)
Income tax and social contribution - deferred	7,918	8,262	(237)	1,338
Noncontrolling interests	(1,499)	(2,155)	(1,480)	(795)
NET INCOME (LOSS) FOR THE PERIOD	85,090	154,618	(1,261)	19,241
EARNINGS (LOSS) PER SHARE - R$	0.24426	0.44384	(0.07240)	1.10466

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

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

SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010
(In thousands of Brazilian reais - R$)

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF DECEMBER 31, 2009	391,804	174,461	532,628	-	(42,318)	1,056,575
Net income for the six-month period	-	-	-	153,164	-	153,164
Allocations:	-	-	121,152	(153,164)	-	(32,012)
Interest on capital	-	-	-	(32,012)	-	(32,012)
Other	-	-	121,152	(121,152)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:	-	-	-	-	(6,499)	(6,499)
Accumulated translation adjustment	-	-	-	-	(6,499)	(6,499)
Stock options grants	-	467	-	-	-	467
Treasury shares	-	(2,705)	1,710	-	-	(995)
BALANCES AS OF JUNE 30, 2010	441,171	172,223	606,123	-	(48,817)	1,170,700

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

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

SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE QUARTER ENDED JUNE 30, 2010
(In thousands of Brazilian reais - R$)

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF MARCH 31, 2010	391,804	174,461	590,628	-	(42,618)	1,114,275
Net income for the quarter	-	-	-	83,152	-	83,152
Allocations:	-	-	63,152	(83,152)	-	(20,000)
Interest on capital	-	-	-	(20,000)	-	(20,000)
Other	-	-	63,152	(63,152)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:	-	-	-	-	(6,199)	(6,199)
Accumulated translation adjustment	-	-	-	-	(6,199)	(6,199)
Stock options grants	-	467	-	-	-	467
Treasury shares	-	(2,705)	1,710	-	-	(995)
BALANCES AS OF JUNE 30, 2010	441,171	172,223	606,123	-	(48,817)	1,170,700

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

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

SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONSOLIDATED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010
(In thousands of Brazilian reais - R$)

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF DECEMBER 31, 2009	391,804	174,461	530,062	-	(42,318)	1,054,009
Net income for the six-month period	-	-	-	154,618	-	154,618
Allocations:	-	-	122,606	(154,618)	-	(32,012)
Interest on capital	-	-	-	(32,012)	-	(32,012)
Other	-	-	122,606	(122,606)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:	-	-	-	-	(6,499)	(6,499)
Accumulated translation adjustment	-	-	-	-	(6,499)	(6,499)
Stock options grants	-	467	-	-	-	467
Treasury shares	-	(2,705)	1,709	-	-	(996)
BALANCES AS OF JUNE 30, 2010	441,171	172,223	605,010	-	(48,817)	1,169,587

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

SÃO PAULO ALPARGATAS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONSOLIDATED)
FOR THE QUARTER ENDED JUNE 30, 2010
(In thousands of Brazilian reais - R$)

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF MARCH 31, 2010	391,804	174,461	587,578	-	(42,618)	1,111,225
Net income for the quarter	-	-	-	85,090	-	85,090
Allocations:	-	-	65,090	(85,090)	-	(20,000)
Interest on capital	-	-	-	(20,000)	-	(20,000)
Other	-	-	65,090	(65,090)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:	-	-	-	-	(6,199)	(6,199)
Accumulated translation adjustment	-	-	-	-	(6,199)	(6,199)
Stock options grants	-	467	-	-	-	467
Treasury shares	-	(2,705)	1,709	-	-	(996)
BALANCES AS OF JUNE 30, 2010	441,171	172,223	605,010	-	(48,817)	1,169,587

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS AND QUARTERS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Company			
	04/01/10 to 06/30/10	01/01/10 to 06/30/10	04/01/09 to 06/30/09	01/01/09 to 06/30/09
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	83,152	153,164	(4,182)	19,256
Adjustments to reconcile net income (loss) for the period to net cash provided by operating activities:				
Depreciation and amortization	9,914	20,426	10,382	19,651
Loss (gain) on sale of property, plant and equipment	140	476	-	-
Equity in subsidiaries and associates	(31,878)	(46,797)	21,364	34,539
Interest, inflation adjustment and exchange rate changes	3,175	6,167	5,045	10,756
Accrual for contingencies	2,223	6,520	80	(287)
Gain in the sale of subsidiary	(505)	(505)	-	-
Deferred income tax and social contribution	(41)	(842)	(1,482)	548
Exchange rate on investments	-	-	-	-
Allowance for doubtful accounts	73	2,939	(2,718)	(4,298)
	66,253	141,548	28,489	80,165
Decrease (increase) in assets:				
Trade accounts receivable	4,706	39,546	64,931	121,477
Inventories	(21,533)	(30,549)	9,002	(16,525)
Prepaid expenses	598	(7,686)	3,000	(7,147)
Recoverable taxes	1,060	9,565	3,784	(4,497)
Increase (decrease) in liabilities:				
Trade accounts payable	49,082	61,743	29,238	1,820
Taxes payable	2,229	2,113	(11,315)	(6,848)
Payroll and related taxes	(9,036)	2,773	(13,674)	(7,968)
Income tax and social contribution payable	2,294	2,090	3,540	2,776
Due to related parties	(5,212)	12,673	(447)	(3,433)
Other	(3,967)	(12,005)	3,245	(223)
OTHER CASH FLOW FROM OPERATING ACTIVITIES				
Income tax and social contribution paid	(3,421)	(4,283)	(3,570)	(3,570)
Interest paid on loans and financings	(2,101)	(4,359)	(3,863)	(7,840)
Net cash provided by operating activities	80,952	213,169	112,360	148,187
CASH FLOW FROM INVESTING ACTIVITIES				
Noncontrolling interests	(407)	(10,536)	(8,746)	(8,746)
Purchase of property, plant and equipment, intangible assets and deferred charges	(4,624)	(10,056)	(6,578)	(23,117)
Closing balance of cash in subsidiary sold	-	-	-	-
Proceeds from sale of property, plant and equipment	14,400	14,400	330	550
Short-term investments	(35,051)	(35,051)	-	-
Goodwill transfer	22	22	-	-
Noncontrolling interests	-	-	-	-
Net cash used in investing activities	(25,660)	(41,221)	(14,994)	(31,313)
CASH FLOW FROM FINANCING ACTIVITIES				
Funds raised through loans and financing	235	235	1,471	2,341
Amortization of loans and financing - principal	(4,709)	(25,370)	(7,375)	(12,645)
Share buyback into treasury, net of disposals	(994)	(994)	-	-
Dividends and interest on capital paid	(30,303)	(32,012)	(13,287)	(15,312)
Stock option grants	467	467	369	369
Restructuring of subsidiary's debt	-	-	-	-
Net cash provided by (used in) financing activities	(35,304)	(57,674)	(18,822)	(25,247)
Exchange rate changes on cash and cash equivalents	-	-	-	-
INCREASE IN CASH AND CASH EQUIVALENTS	19,988	114,274	78,544	91,627
Opening balance of cash and cash equivalents	361,441	267,155	155,589	142,506
Closing balance of cash and cash equivalents	381,429	381,429	234,133	234,133
INCREASE IN CASH AND CASH EQUIVALENTS	19,988	114,274	78,544	91,627

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS AND QUARTERS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Consolidated			
	04/01/10 to 06/30/10	01/01/10 to 06/30/10	04/01/09 to 06/30/09	01/01/09 to 06/30/09
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	85,090	154,618	(1,261)	19,241
Adjustments to reconcile net income (loss) for the period to net cash provided by operating activities:				
Depreciation and amortization	13,185	27,866	15,648	30,561
Loss (gain) on sale of property, plant and equipment	(13,738)	(12,185)	-	-
Equity in subsidiaries and associates	1,358	4,519	8,412	12,864
Interest, inflation adjustment and exchange rate changes	7,258	15,049	12,389	22,080
Accrual for contingencies	2,821	7,512	(139)	(464)
Gain in the sale of subsidiary	(505)	(505)	-	-
Deferred income tax and social contribution	(7,918)	(8,262)	30	(1,338)
Exchange rate on investments	-	-	(4,102)	(4,102)
Allowance for doubtful accounts	379	3,236	(3,153)	(4,188)
	87,930	191,848	27,824	74,654
Decrease (increase) in assets:				
Trade accounts receivable	(4,388)	20,450	36,588	87,873
Inventories	(31,647)	(34,784)	22,170	(9,523)
Prepaid expenses	(540)	(8,591)	2,439	(8,427)
Recoverable taxes	(5,282)	3,124	2,458	(10,881)
Increase (decrease) in liabilities:				
Trade accounts payable	68,241	83,986	27,550	(6,298)
Taxes payable	(470)	(1,017)	(13,009)	(4,341)
Payroll and related taxes	(6,091)	6,300	(12,596)	(9,199)
Income tax and social contribution payable	3,413	6,462	2,101	3,588
Due to related parties	-	-	-	-
Other	(1,035)	(16,620)	15,292	15,516
OTHER CASH FLOW FROM OPERATING ACTIVITIES				
Income tax and social contribution paid	(4,481)	(7,716)	(4,764)	(4,764)
Interest paid on loans and financings	(3,129)	(7,213)	(6,396)	(11,318)
Net cash provided by operating activities	102,521	236,229	99,657	116,880
CASH FLOW FROM INVESTING ACTIVITIES				
Noncontrolling interests	-	-	-	-
Purchase of property, plant and equipment, intangible assets and deferred charges	(9,947)	(19,965)	(8,405)	(27,491)
Closing balance of cash in subsidiary sold	(14,280)	(14,280)	-	
Proceeds from sale of property, plant and equipment	17,600	17,600	330	550
Short-term investments	(35,051)	(35,051)	-	-
Goodwill transfer	-	-	-	-
Noncontrolling interests	1,499	2,155	1,461	795
Net cash used in investing activities	(40,179)	(49,541)	(6,614)	(26,146)
CASH FLOW FROM FINANCING ACTIVITIES				
Funds raised through loans and financing	44,862	68,733	(440)	61,316
Amortization of loans and financing - principal	(51,286)	(94,826)	2,699	(34,206)
Share buyback into treasury, net of disposals	(994)	(994)	-	-
Dividends and interest on capital paid	(30,303)	(32,012)	(13,287)	(15,312)
Stock option grants	467	467	369	369
Restructuring of subsidiary's debt	(2,331)	(5,196)	(586)	(5,244)
Net cash provided by (used in) financing activities	(39,585)	(63,828)	(11,245)	6,923
Exchange rate changes on cash and cash equivalents	(931)	(1,240)	(8,998)	(6,993)
INCREASE IN CASH AND CASH EQUIVALENTS	21,826	121,620	72,800	90,664
Opening balance of cash and cash equivalents	406,408	306,614	194,909	177,045
Closing balance of cash and cash equivalents	428,234	428,234	267,709	267,709
INCREASE IN CASH AND CASH EQUIVALENTS	21,826	121,620	72,800	90,664

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

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

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$)

1. OPERATIONS

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

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

The financial statements were prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities and Exchange Commission (CVM), in accordance with Brazilian Corporate Law, including the changes introduced by Laws 11638/07 and 11941/09 (formerly Provisional Act 449/08), including the pronouncements issued by the Accounting Pronouncements Committee (CPC), which were applied consistently with the accounting practices described in note 2 to the Company's financial statements for the year ended December 31, 2009, disclosed on March 12, 2010.

These financial statements do not include the pronouncements issued by CPC in 2009 effective for the financial statements for the year ending December 31, 2010, which, as permitted by CVM Resolution 603/09, will be adopted by the Company and its subsidiaries in preparing the 2010 financial statements.

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

Significant accounting practices adopted are as follows:

a) Functional and reporting currency

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

b) Foreign currency transactions and balances

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

c) Cash and cash equivalents and short-term investments

(i) Cash and cash equivalents

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

(ii) Short-term investments

Comprise short-term investments with maturities greater than 90 days at investment date, not considered as highly-liquid or classified as held-to-maturity. They are stated at cost, plus income earned through the balance sheet dates, which does not exceed their fair or realizable value.

d) Financial instruments

(i) Classification

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

(1) <u>Financial assets measured at fair value through profit or loss</u>

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

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

(2) Held-to-maturity financial assets

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

(3) Loans and receivables

Include nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except, when applicable, for maturities greater than 12 months after the balance sheet dates, which are classified as noncurrent assets. As of June 30 and March 31, 2010, for the Company and its subsidiaries, comprise cash and cash equivalents (note 6), loans and financing (note 13), and trade accounts receivable (note 7).

(ii) Measurement

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

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

(iii) Derivative instruments and hedging activities

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

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

(iv) Offsetting of financial instruments

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

e) Allowance for doubtful accounts

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

f) Inventories

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

g) Assets held for sale

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

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

Initially classified as noncurrent assets when Management decides to start selling the asset and reclassified as current assets when Management receives a firm proposal for their purchase, for which it classified the likelihood of sale within 12 months.

h) Investments

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

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

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

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

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

i) Property, plant and equipment

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

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

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

In addition, the effects of depreciation arising from the first periodical analysis of the remaining economic useful lives of property, plant and equipment items and intangible assets, regulated by Pronouncement ICPC 10 - Clarifications on CPC Technical Pronouncements 27 - Property, Plant and Equipment and 28 - Investment Property, whose effects were recorded as from January 1, 2010 (see details in note 12).

j) Intangible assets

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

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

k) Deferred charges

Represented substantially by preoperating expenses, less accumulated amortization, calculated under the straight-line method, considering a five-year term, which will be amortized up to its full realization, as permitted by article 299-A of Law 11941/09 (former Provisional Act 449/08).

l) Impairment assessment

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

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

m) Research and product development expenses

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

n) Leases

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

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

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

o) Loans and financing

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

p) Other current and noncurrent liabilities

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

q) Income tax and social contribution

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

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

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

r) Provisions

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

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

s) Interest on capital

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

t) Results of operations and recognition of sales revenues

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

u) Actuarial assets and liabilities - pension plans

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

v) Stock option plan

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

w) Recognition of tax incentives - investment grants

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

As explained in note 4, the Company monthly recognizes the incentive related to the States of Paraíba and Pernambuco grants in the computation of the ICMS of the operating units located in those States, since there are no conditions for the recognition of the incentive, as well as nonmonetary assets to be received as part of the incentive plan.

x) Net income and book value per share

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

y) Reclassifications

The amortization of charges on bank borrowings and financing disclosed in the statement of cash flows (Company and consolidated) for the six-month period ended June 30, 2009 was reclassified to make it comparable with the six-month period ended June 30, 2010.

3. CHANGES IN BRAZILIAN ACCOUNTING PRACTICES

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

Laws 11638/07 and 11941/09 (formerly Provisional Act 449/08) altered, revoked and added new provisions to Brazilian Corporate Law (Law 6404/76), especially with respect to chapter XV, Fiscal Year and Financial Statements, effective for fiscal years beginning on or after December 31, 2008, and applicable to all entities incorporated as corporations, including public companies and large companies.

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

As a result of the enactment of said Law and Provisional Act, in 2008 several technical pronouncements were issued by CPC, mandatory for financial statements for the year ended December 31, 2008.

The main changes in accounting practices introduced by Law 11638/07 and Provisional Act 449/08 applicable to the Company and its subsidiaries, and adopted in preparing the financial statements for the years ended December 31, 2009 and 2008, were as follows:

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

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

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

d) Requirement for the periodic testing of the impairment of amounts recorded in property, plant and equipment, intangible assets and deferred charges, as set forth by CPC 01 - Impairment of Assets (required for the financial statements for the year ended December 31, 2008). This change did not generate effects to be recorded in the financial statements for the years ended December 31, 2009 and 2008.

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

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

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

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

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

II) New accounting pronouncements issued in 2009 effective for the financial statements for the year ending December 31, 2010

In continuing the process of convergence of the Brazilian accounting practices established by Law 11638/07 with the IFRS, new Technical Pronouncements, Instructions and Interpretations were issued by CPC in 2009 in conformity with such international accounting standards.

Through the reporting date, several new Technical Pronouncements, Interpretations and Instructions had been issued by CPC and approved by CVM Resolutions for mandatory adoption in the financial statements for the year ending December 31, 2010, with early adoption permitted for interim periods.

As commented in note 2, the Company elected to prepare its 2010 interim financial statements in accordance with the accounting practices and CPC Technical Pronouncements, Interpretations and Instructions effective through December 31, 2009, as permitted by CVM Resolution 603/09.

The Pronouncements, Interpretations and Instruction issued in 2009 effective for the preparation of the financial statements for the year ending December 31, 2010 that may be applicable to and impact the financial statements of the Company and its subsidiaries are as follows:

CPC/ ICPC	CVM Resolution	Title
15	580	Business Combinations
16	575	Inventories
18	605	Investments in Associates
20	577	Borrowing Costs
21	581	Interim Financial Reporting
22	582	Segment Reporting
23	592	Accounting Policies, Changes in Accounting Estimates and Correction of Error
24	593	Subsequent Event
25	594	Provisions, Contingent Liabilities and Contingent Assets
26	595	Presentation of Financial Statements
27	583	Property, Plant and Equipment
28	584	Investment Property
30	597	Revenues
31	598	Noncurrent Assets Held for Sale and Discontinued Operations
32	599	Income Taxes
33	600	Employee Benefits
36	608	Consolidated Statements
37	609	First-time Adoption of IFRS

CPC/ ICPC	CVM Resolution	Title
38	604	Financial Instruments: Recognition and Measurement
39	604	Financial Instruments: Presentation
40	604	Financial Instruments: Disclosures
43	610	First-time Adoption of Accounting Pronouncements CPC 15 to CPC 40
ICPC 4	614	Scope of Technical Pronouncement CPC 10 - Share-based Payment
ICPC 5	615	Technical Pronouncement CPC 10 - Share-based Payment - Treasury and Group Share Transactions
ICPC 8	601	Accounting for Proposed Dividend Payments
ICPC 9	618	Individual, Separate and Consolidated Financial Statements and Application of the Equity Method
ICPC 10	619	Clarifications on Technical Pronouncements CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property

These Pronouncements and Interpretations are applicable in the preparation of the financial statements for the year ending December 31, 2010 and the 2009 financial statements to be disclosed together with the 2010 financial statements for comparative purposes.

The Management of the Company and its subsidiaries is assessing the accounting and disclosure effects that the new pronouncements might have on their financial statements, and this assessment is contingent upon adjustments of the Company and its subsidiaries' processes for the generation of financial information.

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

In addition, in view of the adoption of the new accounting pronouncements issued by CPC in 2009 for the preparation of the financial statements for the year ending December 31, 2010, as provided for by CVM Circular Letter 01/2010, the Company will restate the interim financial statements for the quarters ended June 30 and March 31, 2010 and the quarter ending September 30, 2010, considering that possible adjustments may arise from their adoption.

4. TAX INCENTIVES - INVESTMENT GRANTS

The Company and its subsidiaries have tax incentives granted by the State governments where the main plants are located, which will expire between 2018 and 2020. The Company and its subsidiaries also have Federal tax incentives for operating profit in the Northeast Region. As discussed in note 3, beginning January 1, 2008, with the enactment of Law 11638/07, the Company began recognizing these tax incentives directly in the statement of income and recognizes a reserve for tax incentive in shareholders' equity at yearend, pursuant to the new Brazilian accounting practices.

Investment grants, including income tax incentives recorded for the six-month periods ended June 30, 2010 and 2009, are as follows:

		Company		Consolidated	
		06/30/10	06/30/09	06/30/10	06/30/09
ICMS investment grant in:					
State of Paraíba	(a)	55,760	38,548	55,760	38,548
State of Pernambuco	(b)	-	-	3,522	457
Business income tax incentives in:					
North Region	(c)	-	-	569	588
Northeast Region	(d)	443	-	1,883	-
Total		56,203	38,548	61,734	39,593

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

Additionally, in the six-month periods ended June 30, 2010 and 2009, there were no incentive installments to be recorded in the accounting books, resulting from obligations established by the regulation of the incentive plan, to be complied with by the Company. Tax incentive installments are credited to the caption “Taxes on sales and discounts” in the statement of income for the year.

(b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of deemed ICMS credit and, therefore, committed with what was agreed with the State government. The Company is compliant with the established agreement, consisting of maintaining a minimum number of direct jobs in the region and reaching gross revenue of at least R$2,500 per month.

(c) Credited to the caption “Income tax and social contribution - current” in the statement of income for the year (see details in note 19).

(d) Amounts related to the discontinued operations of Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.

5. CONSOLIDATION CRITERIA OF THE FINANCIAL STATEMENTS

a) Definition of subsidiaries for consolidation purposes

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

b) Consolidation criteria and subsidiaries included in the consolidated financial statements

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

	Ownership interest - %		
	06/2010	03/2010	06/2009
Direct subsidiaries:			
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	100.00	100.00
CBS S.A. - Companhia Brasileira de Sandálias	100.00	100.00	100.00
Fibrasil Agrícola e Comercial Ltda.	100.00	100.00	100.00
Alpargatas Imobiliária S.A.	100.00	100.00	100.00
Alpargatas Chile Ltda. - Chile	100.00	100.00	100.00
Alpargatas Internacional APS - Denmark	100.00	100.00	100.00
Alpargatas S.A.I.C. - Argentina	70.69	70.32	59.96
Indirect subsidiaries (through Alpargatas Internacional - APS):			
Alpargatas Europe S.L.U. - Spain	100.00	100.00	100.00
Alpargatas USA Inc. - United States	100.00	100.00	100.00
Alpargatas UK Limited - United Kingdom	100.00	100.00	100.00
Alpargatas France S.A.R.L. - France	100.00	100.00	100.00
Alpargatas Itália S.R.L. - Italy	100.00	100.00	-
Indirect subsidiary (through Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.)-			
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.	-	100.00	100.00

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

Translation of the financial statements of foreign subsidiaries

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

The cumulative amount of the exchange differences is presented as a separate component in shareholders' equity, in the caption "Valuation adjustments to equity". In case of disposal or partial disposal of a foreign subsidiary, the cumulative related exchange difference is recognized in the statement of income as part of the gain or loss on the related disposal of investment, pursuant to CPC 02.

Elimination of unrealized profits

The reconciliation of individual and consolidated net income for the six-month periods ended June 30, 2010 and 2009 and shareholders' equity as of June 30, 2010 and March 31, 2010 is as follows:

	Net income		Shareholders' equity	
	06/30/10	06/30/09	06/30/10	03/31/10
Company	153,164	19,256	1,170,700	1,114,275
Unrealized profit	1,454	(15)	(1,113)	(3,050)
Consolidated	154,618	19,241	1,169,587	1,111,225

The operating activities of direct and indirect subsidiaries are described in note 11.

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

a) Cash and cash equivalents

	Company		Consolidated	
	06/30/10	03/31/10	06/30/10	03/31/10
Cash and banks	1,618	918	37,777	30,262
Short-term investments:				
Bank certificates of deposit - floating rate CDBs	120,908	143,722	120,908	143,722
Repurchase agreements	258,903	216,801	258,903	216,801
Alpargatas Argentina	-	-	9,963	13,338
Alpargatas Europe	-	-	683	2,285
Total	381,429	361,441	428,234	406,408

As of June 30, 2010, CDB investments are made in several financial institutions and yield an average rate equivalent to 101.43% of the interbank deposit certificate (CDI) rate (101.35% as of March 31, 2010), and repurchase agreements refer to several financial certificates with average yield equivalent to 101.86% of the CDI rate (101.94% as of March 31, 2010).

As of June 30, 2010, CDBs and securities related to the repurchase agreements mature between August 2010 and November 2016, but are classified as "Cash and cash equivalents" because they are highly-liquid financial assets, subject to an immaterial risk of change in value.

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

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

b) Short-term investments

As of June 30, 2010, short-term investments, Company and consolidated, refer to CDBs and repurchase agreements with average yield of 104.2% of CDI, broken down as follows:

Bank certificates of deposit - floating CDBs	24,336
Repurchase agreements	10,715
Total	35,051

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

7. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	06/30/10	03/31/10	06/30/10	03/31/10
Domestic market	281,219	288,187	296,364	315,853
Foreign market	16,107	15,909	103,156	90,965
Related parties (note 16)	21,307	20,084	-	-
Advances on foreign exchange contracts	-	(841)	-	(841)
Allowance for doubtful accounts	(15,123)	(15,050)	(18,655)	(18,276)
Total	303,510	308,289	380,865	387,701

8. INVENTORIES

	Company		Consolidated	
	06/30/10	03/31/10	06/30/10	03/31/10
Finished goods	96,377	88,219	146,967	141,149
Work in process	13,856	10,610	26,322	25,436
Raw materials	28,587	26,547	54,679	53,780
Imports in transit	15,381	7,804	15,381	8,128
Other	2,570	2,320	7,718	4,699
Allowance for losses on realization	(7,615)	(7,877)	(10,768)	(11,951)
Total	149,156	127,623	240,299	221,241

9. RECOVERABLE TAXES

		Company		Consolidated	
		06/30/10	03/31/10	06/30/10	03/31/10
Prepayments of income tax and social contribution		3,912	4,613	7,476	5,977
State VAT (ICMS)		2,904	3,811	3,098	4,593
Federal VAT (IPI)		20	263	20	2,029
PIS and COFINS (taxes on revenue)		884	448	1,239	865
Federal tax credits arising from final and unappealable court decisions	(a)	491	331	491	331
Recoverable taxes - foreign subsidiaries	(b)	-	-	24,371	22,131
Other		529	334	1,451	1,386
Total		8,740	9,800	38,146	37,312
Current portion		5,836	6,370	18,385	20,849
Noncurrent portion		2,904	3,430	19,761	16,463

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

(b) Refer to recoverable taxes of the subsidiaries Alpargatas S.A.I.C. - Argentina, totaling R$22,624 (R$18,585 as of March 31, 2010), and Alpargatas Chile, totaling R$488 (R$456 as of March 31, 2010), and R$1,259 (R$3,090 as of March 31, 2010) related to indirect subsidiaries located in Europe, whose investments are maintained through the holding company Alpargatas Internacional APS. Consist mainly of prepaid income tax and value added tax (VAT), which will be offset against taxes generated by these subsidiaries' future operations.

10. JUDICIAL DEPOSITS

Represented basically by judicial deposits related to labor and tax lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with lawsuits. In the opinion of Management and its legal counsel, the likelihood of unfavorable outcome is not considered probable and, therefore, no accrual for contingencies was recognized.

11. INVESTMENTS

Information as of June 30, 2010	Locomotiva Ind. e Com. Têxteis Ind. Ltda.	Fibrasil Agríc. e Com. Ltda.	Alpargatas Internacional APS	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Alpargatas Chile Ltda.	Total
Number of shares held	-	1,157,111	30,004,124	5,585,855	750,645	49,312,484	-	
Capital	-	1,157	66,572	8,766	20,848	32,144	4,438	
Shareholders' equity	-	2,104	42,388	22,574	10,699	104,205	(2,324)	
Net income (loss) for the quarter	-	-	3,837	(12)	8,304	2,021	(1,444)	
Ownership interest (%)	-	100	100	100	100	70.69	100	
Book value of investments:								
Balances as of December 31, 2009	39,360	2,104	45,068	7,563	(11,613)	58,259	(965)	139,776
Capital increase	-	-	-	-	-	10,129	-	10,129
Capital increase (assignment of assets)	-	-	-	1,118	-	-	-	1,118
Partial spin-off of assets	(1,118)	-	-	-	-	-	-	(1,118)
Equity in subsidiaries	2,881	-	3,837	(12)	8,304	1,353	(1,444)	14,919
Exchange rate change on investments	-	-	(753)	-	-	429	24	(300)
Balances as of March 31, 2010	41,123	2,104	48,152	8,669	(3,309)	70,170	(2,385)	164,524
Capital increase	-	-	-	-	-	385	-	385
Sale of investments	(41,483)	-	-	-	-	-	-	(41,483)
Equity in subsidiaries	360	-	(440)	13,905	14,008	3,787	258	31,878
Exchange rate change on investments	-	-	(5,324)	-	-	(678)	(197)	(6,199)
Balances as of June 30, 2010	-	2,104	42,388	22,574	10,699	73,664	(2,324)	149,105

Goodwill on subsidiaries (note 12)

	CBS S.A. - Companhia Brasileira de Sandálias	Atlântico Participações S.A.	Alpargatas S.A.I.C. - Argentina	Total
Net balance as of:				
June 30, 2010	11,498	42,364	97,454	151,316
March 31, 2010	11,498	42,364	97,432	151,294

Indirect investments through the holding company Alpargatas Internacional APS

	Subsidiaries					Associate	
Information as of June 30, 2010	Alpargatas Europe S.L.U.	Alpargatas France S.A.R.L.	Alpargatas UK Limited	Alpargatas Italy S.R.L.	Alpargatas USA Inc.	Tavex Algodonera S.A.	Total
Number of shares held	3,600	5,000	100	1	10	21,683,180	
Shareholders' equity (deficit)	(5,023)	(1,746)	(706)	(581)	(50,401)	377,586	
Net income (loss)	16,695	(1,127)	(713)	(657)	(5,930)	(18,386)	
Company's indirect interest (%)	100	100	100	100	100	18.687	
Book value of investments:							
Balances as of December 31, 2009	(23,252)	(802)	(54)	29	(43,008)	77,336	10,249
Equity in subsidiaries	8,467	(740)	(543)	(844)	886	(3,161)	4,065
Exchange rate change on foreign investments	815	58	21	29	(988)	690	625
Balances as of March 31, 2010	(13,970)	(1,484)	(576)	(786)	(43,110)	74,865	14,939
Equity in subsidiaries	8,228	(387)	(170)	187	(6,816)	(1,358)	(316)
Exchange rate change on foreign investments	719	125	40	18	(475)	(2,947)	(2,520)
Balances as of June 30, 2010	(5,023)	(1,746)	(706)	(581)	(50,401)	70,560	12,103

For the six-month period ended June 30, 2010, the loss recorded by the foreign subsidiaries Alpargatas France, Alpargatas UK, Alpargatas Italy and Alpargatas USA refers basically to publicity and advertising expenses incurred in connection with the Company's internationalization process.

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

Information as of April 20, 2010	Locomotiva da Amazônia Ind. e Com. de Têxteis Ind. Ltda.
Investment balances:	
Balances as of December 31, 2009	33,256
Equity	2,357
Balances as of March 31, 2010	35,613
Equity	-
Balances as of June 30, 2010	-

Additional information on subsidiaries

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

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

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

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

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

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

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

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

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

On March 12, 2010, the public offering of shares of Alpargatas S.A.I.C. - Argentina was concluded. The Company acquired 7,265,327 shares at AR$3.40 each. These shares, together with the 42,047,157 shares already held, grant the Company a total of 49,312,484 shares, representing 70.32% of the total capital of Alpargatas S.A.I.C. - Argentina. The amounts of investment and goodwill paid in this acquisition were split into R$10,129 and R$1,164, respectively.

In addition, in June 2010, the Company acquired 257,290 shares at AR$3.33 each. With these shares, together with the 49,312,484 shares already held, Alpargatas became the holder of 49,569,774 shares, representing 70.69% of the total capital of Alpargatas S.A.I.C. - Argentina The amounts of investment and goodwill paid in this acquisition were broken down into R$385 and R$22, respectively.

CBS S.A. - Companhia Brasileira de Sandálias

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

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

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

Tavex Algodonera S.A.

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

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

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

Alpargatas Chile Ltda.

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

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

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

- Alpargatas S.A.I.C. - Argentina (70.69% direct interest): acquired in December 2007, with the transfer of control to the Company only in October 2008, is engaged in the manufacture and sale of footwear and textile products mainly in the Argentinean market.

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

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

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

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

Sale of subsidiary

The Company entered into a Share Purchase and Sales Agreement (the "Agreement") on December 22, 2009 for the direct disposal of all the shares of the capital stock of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a limited-liability company headquartered in Pouso Alegre - MG, and indirect disposal of all the shares of the capital stock of Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., a limited-liability company headquartered in Manaus - AM, for a total price of R$43,000.

These disposals are part of the effort to concentrate Alpargatas' activities in the footwear, sports goods and retail segments to maximize the Company's performance in these segments. This transaction was closed on April 20, 2010. Said transaction generated a capital gain of R$505.

In compliance with CVM Official Letter 01/2007, we present below comparative information on the consolidated financial statements of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., including its subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., considering the result of discontinued operations between January 1 and April 20, 2010:

BALANCE SHEETS

ASSETS	03/31/10	LIABILITIES AND SHAREHOLDERS' EQUITY	03/31/10
Current assets:		Current liabilities:	
Cash and cash equivalents	619	Trade accounts payable	8,887
Trade accounts receivable	13,500	Payroll and related taxes	4,047
Inventories	10,493	Taxes payable	384
Other assets	16,724	Other payables	1,759
	41,336		15,077
Noncurrent assets	15,697	Noncurrent liabilities	833
		Shareholders' equity	41,123
TOTAL ASSETS	57,033	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	57,033

STATEMENTS OF INCOME	06/2010 (a)	06/2009 (b)
Net sales revenue	27,859	36,953
Cost of sales	(19,531)	(27,754)
GROSS PROFIT	8,328	9,199
Operating expenses	(4,380)	(7,132)
Financial result, net	48	184
INCOME FROM OPERATIONS	3,996	2,251
(-) Income tax and social contribution	(755)	(518)
NET INCOME	3,241	1,733

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

(b) From January 1 to June 30, 2009.

For purposes of analyzing the Company's consolidated net income for the six-month period ended June 30, 2010, the consolidated statements of income presented, excluding the operations of subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., are as follows:

CONTINUING OPERATIONS	06/2010	06/2009
Net revenue from sales	1,039,032	873,189
Cost of sales	(549,915)	(529,910)
GROSS PROFIT	489,117	343,279
Operating expenses, net	(326,470)	(307,147)
Financial expenses, net	(1,885)	(18,993)
INCOME FROM OPERATIONS	160,762	17,139
Income tax and social contribution	(7,230)	1,164
Noncontrolling interests	(2,155)	(795)
NET INCOME FROM CONTINUING OPERATIONS	151,377	17,508
Discontinued operation	3,241	1,733
TOTAL CONSOLIDATED NET INCOME	154,618	19,241

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

a) Property, plant and equipment

Company	Annual average depreciation rate (%)	06/30/10 Cost	06/30/10 Accumulated depreciation	06/30/10 Net	03/31/10 Cost	03/31/10 Accumulated depreciation	03/31/10 Net
Land	-	8,803	-	8,803	7,752	-	7,752
Buildings and construction	5	114,345	(53,639)	60,706	114,155	(52,488)	61,667
Machinery and equipment	10	187,582	(123,757)	63,825	185,917	(121,412)	64,505
Furniture and fixtures	10	19,869	(8,711)	11,158	18,450	(8,330)	10,120
Vehicles	14	3,105	(2,161)	944	3,137	(2,406)	731
Leasehold improvements	20	14,769	(6,832)	7,937	14,243	(6,126)	8,117
Projects in progress	-	18,510	-	18,510	21,250	-	21,250
Allowance for losses	-	(449)	-	(449)	(449)	-	(449)
Total		366,534	(195,100)	171,434	364,455	(190,762)	173,693

Consolidated	Annual average depreciation rate (%)	06/30/10 Cost	06/30/10 Accumulated depreciation	06/30/10 Net	03/31/10 Cost	03/31/10 Accumulated depreciation	03/31/10 Net
Land	-	11,955	-	11,955	11,386	-	11,386
Buildings and construction	5	194,831	(100,151)	94,680	203,094	(104,657)	98,437
Machinery and equipment	10	365,121	(259,703)	105,418	382,189	(268,242)	113,947
Furniture and fixtures	10	48,021	(34,006)	14,015	47,512	(33,864)	13,648
Vehicles	14	4,327	(3,199)	1,128	4,540	(3,550)	990
Leasehold improvements	20	17,610	(8,251)	9,359	16,884	(7,471)	9,413
Projects in progress	-	29,182	-	29,182	28,311	-	28,311
Other property, plant and equipment	-	627	-	627	891	-	891
Finance lease (*)	30	1,162	(487)	675	1,480	(355)	1,125
Provision for losses	-	(449)	-	(449)	(681)	-	(681)
Total		672,387	(405,797)	266,590	695,606	(418,139)	277,467

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

Additional information on property, plant and equipment

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

These transactions include the usual restrictive covenants, such as guarantees against early termination, etc. As of June 30, 2010, the Company and its subsidiaries complied with all these covenants, and thus none of the effective lease agreements was characterized as an onerous agreement by the Company's and its subsidiaries' Management, according to the Brazilian accounting practices. In addition, no contingent payment was made by the Company and its subsidiaries in the six-month period ended June 30, 2010.

In the six-month periods ended June 30, 2010 and 2009, expenses incurred on operating lease transactions, on a consolidated basis, totaled R$8,638 and R$9,064, respectively.

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

2010 (six months)	8,625
2011	17,582
2012	18,259
2013	18,756
2015 and thereafter	38,443

The Company and its subsidiaries have performed the first periodical analysis of the remaining useful lives of property, plant and equipment and intangible assets regulated by Pronouncement ICPC 10 - Clarifications on CPC Technical Pronouncements 27 - Property, Plant and Equipment and 28 - Investment Property, whose effects were recorded beginning January 1, 2010. As a result of the review of this accounting estimate, which was intended to adjust the remaining useful lives of assets, and, consequently, the depreciation over the remaining useful lives of the assets, a positive impact of R$3,169 as compared to the prior quarter was recorded in depreciation for the first half of 2010.

b) Intangible assets

	Annual average amortization rate (%)	Company					
		06/30/10			03/31/10		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	17,849	(17,652)	197	17,849	(17,652)	197
ERP Systems	10	94,177	(27,458)	66,719	93,959	(24,885)	69,074
Customer portfolio (a)	20	27,311	(6,741)	20,570	27,534	(5,396)	22,138
Projects in progress	-	10,705	-	10,705	8,868	-	8,868
With indefinite useful lives:							
Goodwill on subsidiaries (b)	-	161,066	(9,750)	151,316	161,044	(9,750)	151,294
Assignment of trade rights (c)	-	4,161	-	4,161	4,028	-	4,028
Total		315,269	(61,601)	253,668	313,282	(57,683)	255,599

	Annual average amortization rate (%)	Consolidated					
		06/30/10			03/31/10		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	34,695	(24,630)	10,065	34,695	(23,452)	11,243
ERP Systems	10	97,614	(29,234)	68,380	103,096	(27,515)	75,581
Customer portfolio (a)	20	27,311	(6,741)	20,570	27,534	(5,396)	22,138
Projects in progress	-	10,705	-	10,705	8,868	-	8,868
With indefinite useful lives:							
Goodwill on subsidiaries (b)	-	161,066	(9,750)	151,316	161,044	(9,750)	151,294
Assignment of trade rights (c)	-	4,161	-	4,161	4,313	(14)	4,299
Total		335,552	(70,355)	265,197	339,550	(66,127)	273,423

(a) Refers to amounts paid on the acquisition of customer portfolios of former sales representatives of the Company (who basically sold "Havaianas" sandals) in certain European countries. Costs are being amortized under the straight-line method according to the five-year term of future cash flows expected by the Company's Management. As of June 30, 2010, in conformity with Brazilian accounting practices, in view of indications that the Company will obtain the expected future benefits, based on the Company's Management economic projections, no allowance has been recognized regarding these balances.

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

Accordingly, beginning January 1, 2009, the tax benefit of goodwill on the merger of former subsidiary Atlântico Participações S.A., as shown in note 11, was used in the monthly calculations of income tax and social contribution based on Transition Tax Regime (RTT), pursuant to the provisions of Law 11941/09, the effects of which are shown in note 19.

(c) Refers to amounts paid on the acquisition of rights of use of sales points where certain "Timberland" and "Havaianas" stores are located. Since these are sellable intangible assets and are not impaired over time, they are not amortized and are annually tested for impairment. As of June 30, 2010, in conformity with Brazilian accounting practices, no allowance has been recognized regarding the amounts of such rights as there are no indications of impairment.

Additional information on intangible assets

	Consolidated	
	06/30/10	06/30/09
Research and development expenses of products recorded in income	4,076	4,585

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

2010 (six months)	9,913
2011	19,874
2012	19,761
2013	19,534
2014 and thereafter	40,638
Total	109,720

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

Goodwill impairment test

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

Change

	Company					
Property, plant and equipment	Balance on 03/31/10	Additions	Transfers (*)	Depreciation	Write--offs	Balance on 06/30/10
Land	7,752	-	1,051	-	-	8,803
Buildings and construction	61,667	-	190	(1,151)	-	60,706
Machinery and equipment	64,505	-	2,529	(3,095)	(114)	63,825
Furniture and fixtures	10,120	-	1,419	(381)	-	11,158
Vehicles	731	-	258	(45)	-	944
Leasehold improvements	8,117	-	527	(707)	-	7,937
Projects in progress	21,250	1,701	(4,612)	-	171	18,510
Allowance for losses	(449)	-	-	-	-	(449)
Total	173,693	1,701	1,362	(5,379)	57	171,434

	Company					
Intangible assets	Balance on 03/31/10	Additions	Transfers (*)	Amortization	Write--offs	Balance on 06/30/10
With finite useful lives:						
Trademarks, rights and patents	197	-	-	-	-	197
ERP System	69,074	-	221	(2,573)	(3)	66,719
Customer portfolio	22,138	-	-	(1,374)	(194)	20,570
Projects in progress	8,868	2,923	(1,086)	-	-	10,705
With indefinite useful lives:						
Goodwill on subsidiaries	151,294	-	22	-	-	151,316
Assignment of trade rights	4,028	-	133	-	-	4,161
Total	255,599	2,923	(710)	(3,947)	(197)	253,668
Deferred charges-						
Preoperating expenses	6,474	-	(652)	(588)	-	5,234
Total	6,474	-	(652)	(588)	-	5,234

(*) Transfers correspond to reclassification of assets from the caption "Projects in progress" to the related definite account balance in the captions of "Property, plant and equipment" and "Intangible assets", on the termination of the projects.

	Consolidated						
Property, plant and equipment	Balance on 03/31/10	Additions	Transfers (*)	Depreciation	Write--offs	Exchange rate changes (**)	Balance on 06/30/10
Land	11,386	-	1,051	-	(476)	(6)	11,955
Buildings and construction	98,437	70	(785)	(1,707)	(1,155)	(180)	94,680
Machinery and equipment	113,947	306	3,982	(4,856)	(7,756)	(205)	105,418
Furniture and fixtures	13,648	472	1,429	(711)	(921)	98	14,015
Vehicles	990	1	258	(65)	(54)	(2)	1,128
Leasehold improvements	9,413	41	926	(799)	(3)	(219)	9,359
Projects in progress	28,311	5,830	(5,207)	-	(256)	504	29,182
Other property, plant and equipment	891	-	-	-	(156)	(108)	627
Finance leases	1,125	118	(291)	(142)	-	(135)	675
Allowance for losses	(681)	-	-	-	232	-	(449)
Total	277,467	6,838	1,363	(8,280)	(10,545)	(253)	266,590

	Consolidated						
Intangible assets	Balance on 03/31/10	Additions	Transfers (*)	Amortization	Write--offs	Exchange rate changes (**)	Balance on 03/31/10
With finite useful lives:							
Trademarks, rights and patents	11,243	-	-	(315)	-	(863)	10,065
ERP System	75,581	186	199	(2,732)	(4,839)	(15)	68,380
Customer portfolio	22,138	-	-	(1,374)	(194)	-	20,570
Projects in progress	8,868	2,923	(1,086)	-	-	-	10,705
With indefinite useful lives:							
Goodwill on subsidiaries	151,294	-	22	-	-	-	151,316
Assignment of trade rights	4,299	-	(16)	(11)	-	(111)	4,161
Total	273,423	3,109	(881)	(4,432)	(5,033)	(989)	265,197
Deferred charges-							
Preoperating expenses	6,474	-	(482)	(473)	(115)	-	5,404
Total	6,474	-	(482)	(473)	(115)	-	5,404

(*) Transfers correspond to reclassification of assets from the caption “Projects in progress” to the related definite account balance in the captions “Property, plant and equipment” and “Intangible assets”, on the termination of the projects.

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

13. LOANS AND FINANCING

		Currency	Index and average annual interest rate	Company		Consolidated	
				06/30/10	03/31/10	06/30/10	03/31/10
Denominated in reais							
FNE (BNB)	(a)	R$	Interest of 8.42%	78,501	82,034	78,501	82,034
FINAME		R$	Interest of 6.67%	1,340	1,188	1,340	1,188
FINEM - BNDES	(b)	R$	Currency basket + 2.3% interest and TJLP + 2.3% to 2.8% interest + 0.4% commission	14,930	16,041	14,930	16,041
Automatic BNDES - CBS		R$	TJLP + 2.8% and US$ exchange + 2.3% interest	-	-	1,229	1,364
Total in reais				94,771	99,263	96,000	100,627

		Currency	Index and average annual interest rate	Company		Consolidated	
				06/30/10	03/31/10	06/30/10	03/31/10
Denominated in foreign currency							
Working capital - USA	(c)	US$	Interest of 1.88%	-	-	50,040	51,121
Working capital - Europe	(c)	US$/€	Interest of 3.2%		-	15,612	17,103
Working capital - Chile		CLP	Interest of 6.16%	-	-	4,714	5,224
Debt restructuring agreements - Alpargatas S.A.I.C. - Argentina	(d)	AR$	Interest of 7.1%	-	-	46,655	45,403
Finance leases - Alpargatas S.A.I.C. - Argentina	(e)	AR$	Interest of 27.91%	-	-	787	894
Working capital - Alpargatas S.A.I.C. - Argentina		AR$	Interest of 20.0%	-	-	2	30
ACE - Banco do Brasil			Interest of 2.4%	-	6	-	6
ACC/prepayment - CBS		US$	Libor + 1.25% interest	-	-	2	4
Total in foreign currency				-	6	117,812	119,785
Grand total				94,771	99,269	213,812	220,412
Current liabilities				19,008	19,040	92,409	95,564
Noncurrent liabilities				75,763	80,229	121,403	124,848

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

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

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

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

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

The amounts were estimated based on the subsidiary's best judgment and are subject to revision. These balances are stated net of discount to present value and total R$55,035 and R$55,838 as of June 30 and March 31, 2010, respectively.

The adjustment to present value is being calculated by subsidiary Alpargatas S.A.I.C. - Argentina based on the difference between the Argentinean base rate and the fixed interest discount rate, as established in the debt restructuring agreement with financial institutions. This practice is adopted by the subsidiary since the initial recognition of such agreements and, therefore, it has not been adopted to comply with the requirements of CPC 12 - Adjustment to Present Value, as first-time adoption of Brazilian accounting practices. As of June 30, 2010, the average discount rate used was 15% per year.

The effects of reversal of the adjustment to present value are recorded under the caption "Financial expenses", on a consolidated basis, and total R$683 for the six-month period ended June 30, 2010.

As of June 30, 2010, reversals expected for the next fiscal years, related to the adjustment to present value balance recognized by the subsidiary, are as follows:

2010 (six months)	1,384
2011	2,905
2012	3,118
2013	3,235
2014 and thereafter	44,393
Total	55,035

Total liabilities assumed have a term of 15 to 25 years and grace period of 6 to 10 years as from the date in which agreements were entered into.

(e) As of June 30, 2010, outstanding future lease installments total R$938 and the difference to the financial present value recorded as of this date corresponds to the financial charges, which will be recorded on the accrual basis in the statement of income according to the residual term of the outstanding agreements.

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

	Company		Consolidated	
Year	06/30/10	03/31/10	06/30/10	03/31/10
2011	9,420	14,125	10,674	15,726
2012	18,867	18,834	22,341	22,214
2013	18,053	18,021	20,767	20,649
2014	14,069	14,039	17,224	17,299
2015	14,069	14,039	18,372	18,008
2016	1,199	1,171	5,334	5,178
2017	29	-	5,628	5,425
2018	29	-	5,279	5,088
2019	28	-	4,893	4,377
2020	-	-	10,891	10,884
Total	75,763	80,229	121,403	124,848

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

As of June 30, 2010, none of the outstanding loan and financing agreements includes restrictive covenants that required the Company and its subsidiaries to maintain certain financial indices.

14. PROVISIONS AND OTHER PAYABLES

	Company		Consolidated	
	06/30/10	03/31/10	06/30/10	03/31/10
Royalties payable	2,270	368	2,270	368
Accrual for freight payable	8,233	7,855	8,650	9,531
Other payables (commissions, outside services, utilities and others)	13,351	11,108	39,655	33,658
Total	23,854	19,331	50,575	43,557

15. DEBT RESTRUCTURING AGREEMENTS

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

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

The amounts are disclosed in the consolidated financial statements in line item "Debt restructuring agreements", in current and noncurrent liabilities, and total R$13,184 and R$26,448, respectively (R$12,831 and R$27,337 as of March 31, 2010, respectively). These balances are stated net of adjustments to present value and total R$8,389 and R$8,907 as of June 30 and March 31, 2010, respectively.

The adjustment to present value is being calculated by the subsidiary Alpargatas S.A.I.C. - Argentina based on the difference between the Argentinean base rate and the fixed interest adjustment rate, as established in the debt restructuring agreement. As of June 30, 2010, the average adjustment rate used was 15% per year.

The effects of reversal of the adjustment to present value are recorded in the caption "Financial expenses", on a consolidated basis, and total R$501 for the six-month period ended June 30, 2010.

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

As of June 30, 2010, reversals expected for the next fiscal years, related to the adjustment to present value, are as follows:

2010	896
2011	1,794
2012	1,627
2013	1,431
2014 and thereafter	2,641
Total	8,389

16. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related-party balances

	Company	
Noncurrent assets	06/30/10	03/31/10
CBS S.A. - Companhia Brasileira de Sandálias	16,245	21,591
Alpargatas Internacional APS	40	38
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	(13,817)
Alpargatas Imobiliária S.A.	(7,199)	(3,938)
Fibrasil Agrícola e Comercial Ltda.	(2,104)	(2,104)
Total	6,982	1,770

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

Balances receivable and payable from related-party transactions - Company

		Receivables		Payables	
		06/30/10	03/31/10	06/30/10	03/31/10
Alpargatas USA Inc. - United States	(b)	6,148	4,670	-	-
Alpargatas Europe S.L.U. - Spain	(b)	14,792	15,051	-	-
Alpargatas Chile Ltda. - Chile		367	363	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. - Brazil	(d)	-	-	-	473
Camargo Corrêa Group	(c)	-	-	245	243
Total		21,307	20,084	245	716

Related-party transactions

Related-party transactions are as follows:

		Sale of products and services		Purchase of products and services	
		06/30/10	06/30/09	06/30/10	06/30/09
São Paulo Alpargatas S.A.	(a)	22,561	18,146	8,860	10,483
Alpargatas USA Inc. - United States		-	-	6,112	12,220
Alpargatas Europe S.L.U. - Spain		-	-	16,450	5,700
Alpargatas Chile Ltda. - Chile		-	-	-	226
CBS S.A. - Companhia Brasileira de Sandálias		304	-	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. - Brazil	(d)	1,070	1,883	-	-
Camargo Corrêa Group:					
Rentals and common area management fees		1,169	909	-	-
Shared services - CSC	(e)	6,071	6,422	-	-
Corporate projects		223	1,269	-	-
Other		24	-	-	-
Total		31,422	28,629	31,422	28,629

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

In the six-month period ended June 30, 2010, the Company did not record any write-off or allowance for doubtful accounts on balances receivable from its foreign subsidiaries.

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

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

(d) Accounts payable recorded for the purchase of production inputs, mainly canvas for the manufacturing of footwear, from subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. through the transaction date.

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

As of June 30, 2010, except for the guarantees provided to support loans and financing, as described in note 13, the Company and its subsidiaries have not provided any other guarantees to related parties.

17. ACCRUAL FOR CONTINGENCIES

As of June 30 and March 31, 2010, the Company and its subsidiaries are parties to tax, civil and labor lawsuits arising from assessments by tax authorities and from claims filed by third parties and former employees or from legal proceedings and challenges. Accruals for contingencies were recognized when, in the opinion of Management and its legal counsel, the risk of loss was considered probable. The accruals are as follows:

		Company		Consolidated	
		06/30/10	03/31/10	06/30/10	03/31/10
Labor lawsuits	(a)	12,810	16,215	21,124	24,358
Tax lawsuits	(b)	11,793	11,238	15,396	14,718
Judicial deposits		(3,571)	(3,438)	(3,571)	(3,438)
Civil lawsuits		2,297	2,307	2,868	2,914
Total		23,329	26,322	35,817	38,552
Current liabilities		2,330	5,734	5,736	8,923
Noncurrent liabilities		20,999	20,588	30,081	29,629

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

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

Change

	Company				
	Labor	Tax	Civil	Judicial deposits	Total
Balances as of December 31, 2009	15,385	10,770	2,307	(3,300)	25,162
Increases	3,829	468	-	(138)	4,159
Payments/reversals	(2,999)	-	-	-	(2,999)
Balances as of March 31, 2010	16,215	11,238	2,307	(3,438)	26,322
Increases	1,605	607	11	(133)	2,090
Payments/reversals	(5,010)	(52)	(21)	-	(5,083)
Balances as of June 30, 2010	12,810	11,793	2,297	(3,571)	23,329

	Consolidated				
	Labor	Tax	Civil	Judicial deposits	Total
Balances as of December 31, 2009	23,632	14,104	2,911	(3,300)	37,347
Increases	4,088	603	-	(138)	4,553
Payments/reversals	(3,362)	11	3	-	(3,348)
Balances as of March 31, 2010	24,358	14,718	2,914	(3,438)	38,552
Increases	1,999	867	(45)	(133)	2,688
Payments/reversals	(5,233)	(189)	(1)	-	(5,423)
Balances as of June 30, 2010	21,124	15,396	2,868	(3,571)	35,817

Possible losses

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

	Company and consolidated	
	06/30/10	03/31/10
Tax:		
Tax deficiency notice - IRRF (*)	7,848	7,798
Income taxes (IRPL and CSLL)	3,477	3,451
Other	4,121	2,054
	15,446	13,303
Civil (compensation actions)	6,640	6,033

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

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

Taxes in installments program introduced by Law 11941/09

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

The entities that elected paying or paying in installments the debts under the Law 11941/09 are allowed to settle, where applicable, the amounts corresponding to arrears and automatic fines and late-payment interest, including those recorded as debts to the Government, utilizing own tax loss carryforwards, and will benefit from reduced fines, interest and legal charges in percentages that depend on the installment plan chosen.

When the Company joined the installment program created by Law 11941/09, it enrolled a tax debt to the INSS in the total adjusted amount of R$3,485.

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

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

18. TAXES WITH SUSPENDED PAYMENT AND OTHER

		Company and consolidated	
		06/30/10	03/31/10
Taxes on revenue (PIS/COFINS) - Law 9718/98		27,713	27,402
Judicial deposits		(27,713)	(27,402)
	(a)	-	-
COFINS - deduction of ICMS from tax base		44,892	38,530
Judicial deposits		(8,650)	(8,463)
	(b)	36,242	30,067
Other		3,289	3,227
Total - Company		39,531	33,294
Taxes in installments - PIS and COFINS (CBS S.A. - Companhia Brasileira de Sandálias)	(c)	2,290	2,238
Alpargatas S.A.I.C. - Argentina		4,171	4,815
Total - consolidated		45,992	40,347

(a) COFINS - Law 9718/98

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

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

In March 2006, after an unfavorable decision rendered by the Federal Supreme Court (STF) on the extraordinary appeal related to the 1% increase in the COFINS rate, the Company decided to pay the amount calculated for the periods from: (i) March 1999 to August 2002; and (ii) February 2004 to March 2006, totaling R$43,041. This decision did not impact the continuity of the litigation related to the period from September 2002 to January 2004, and the Company started to make the payments of the monthly calculations from April 2006, the amount of which was recorded as tax with suspended payment and judicial deposit, totaling R$27,713, adjusted for inflation.

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

Therefore, the amounts recorded as of March 31, 2010 refer solely to the portion related to the 1% increase in the COFINS rate, on which STF issued an unfavorable decision to the Company in August 2009. The Company's lawsuit has not been judged yet; however, based on the judgment of the grounds, it will have an unfavorable outcome, and the judicial deposits will be transferred to the Federal Government.

As of June 30 and March 31, 2010, accrued amounts and judicial deposits are adjusted based on the SELIC rate.

(b) COFINS - deduction of ICMS from tax base

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

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

As of June 30 and March 31, 2010, accrued amounts and judicial deposits are adjusted based on the SELIC rate.

(c) Taxes in installments - COFINS and PIS

On July 31, 2003 and September 29, 2006, the subsidiary CBS S.A. - Companhia Brasileira de Sandálias joined PAES and PAEX (taxes in installments programs), respectively, to pay COFINS and PIS for the period from January 2003 to July 2004 in 120 installments.

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

In order to utilize the benefits of the new tax installments program created by Law 11941/09, according to which the entities that elect paying or paying in installments the debts under this Law are allowed to settle, when applicable, the amounts corresponding to arrears and automatic fines and late-payment interest, including those recorded as debts to the Government, utilizing own tax loss carryforwards, and will benefit from reduced fines, interest and legal charges in percentages that depend on the installment plan chosen, the subsidiary CBS S.A. - Companhia Brasileira de Sandálias decided to join the new taxes in installments program to include the debts included in the programs PAES and PAEX, and derecognize fines and late-payment interest totaling R$4,566, as shown below:

	PAEX	PAES	Total	Current liabilities	Noncurrent liabilities
Balances as of December 31, 2008	4,595	4,948	9,543	1,710	7,833
Payments	(1,763)	(859)	(2,622)		
Inflation adjustment	460	113	573		
Reversals	(3,292)	(1,274)	(4,566)		
Balances as of December 31, 2009	-	2,928	2,928	734	2,194
Payments	-	(183)	(183)		
Inflation adjustment	-	56	56		
Balances as of March 31, 2010	-	2,801	2,801	563	2,238
Payments	-	(183)	(183)	-	-
Inflation adjustment	-	62	62		
Balances as of June 30, 2010	-	2,680	2,680	390	2,290

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

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

Changes in taxes with suspended payment - Company

	03/31/10	Adjustments	Additions	06/30/10
PIS/COFINS	27,402	311	-	27,713
Judicial deposits	(27,402)	(311)	-	(27,713)
	-	-	-	-

	03/31/10	Adjustments	Additions	06/30/10
COFINS - ICMS	38,530	864	5,498	44,892
Judicial deposits	(8,463)	(187)	-	(8,650)
	30,067	677	5,498	36,242
Other	3,227	62	-	3,289
Total	33,294	739	5,498	39,531

19. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred income tax and social contribution

		Company and consolidated	
		06/30/10	03/31/10
Current assets - temporary differences:			
Allowance for doubtful accounts		5,142	5,117
Allowance for inventory losses		2,581	2,670
Accrual for contingencies		1,273	1,950
Other temporary differences		7,751	7,936
Total - Company		16,747	17,673
Subsidiaries:			
Alpargatas Chile		515	459
CBS S.A. - Companhia Brasileira de Sandálias	(d)	2,516	-
Deferred taxes on unrealized profits		573	1,572
Total - consolidated		20,351	19,704
Noncurrent assets:			
Tax loss carryforwards		3,207	3,207
Temporary differences:			
Taxes with suspended payment		13,321	12,273
Accrual for contingencies		5,359	5,362
Other temporary differences		2,689	2,360
		21,369	19,995
Total - Company		24,576	23,202
Subsidiaries:			
Alpargatas Europe S.L.U. - Spain	(d)	8,267	9,000
Alpargatas S.A.I.C. - Argentina		1,154	1,731
Alpargatas Chile		865	757
CBS S.A. - Companhia Brasileira de Sandálias	(d)	6,009	-
Total - consolidated		40,871	34,690

		Company and consolidated	
		06/30/10	03/31/10
Noncurrent liabilities:			
Provision for income tax and social contribution - tax loss carryforwards	(a)	34,188	33,901
Judicial deposits		(6,277)	(6,277)
Provision for deferred income tax and social contribution on amortized goodwill on acquisition of subsidiaries	(b)	2,446	2,038
Provision for income tax - CSLL deduction from tax base	(c)	1,513	1,482
Provision for income tax - other contingencies		1,646	2,803
Total		33,516	33,947

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

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

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

Tax installment programs created by Law 11941/09

After joining the Federal tax installment program created by Law 11941/09, the Company withdrew this lawsuit and, for the year ended December 31, 2009, recorded a supplemental accrual of R$14,264 for contingent liabilities, including lawsuits previously assessed by its legal counsel as remote loss.

At the same time, the Company recognized R$11,234 related to deferred income tax and social contribution assets on the respective tax loss carryforwards, which were realized within 2009.

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

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

amount of R$400, generating a tax impact of R$136 per month. Therefore, as required by the Brazilian accounting practices, the difference between the base of the utilized tax benefits and accounting amortization is being considered as a temporary difference for deferred income tax and social contribution purposes, and its impact is recorded in noncurrent liabilities.

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

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

(d) Subsidiary's tax credits

Alpargatas Europe S.L.U. - Spain

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

CBS S.A. - Companhia Brasileira de Sandálias

For the close of the interim financial statements for the six-month period ended June 30, 2010, this subsidiary recognized tax credits on tax loss carryforwards based on the estimated generation of future taxable income. Recognized credit began to be offset from December 2009 and is expected to be realized through 2012.

Alpargatas USA Inc.

As of June 30, 2010, there are tax credits on tax loss carryforwards generated by this company amounting to R$30,333 not recognized due to the lack of taxable income recorded by this subsidiary and expected taxable income in a near future.

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

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

Company	06/30/10	03/31/10
2012	4,915	4,640
2013	7,373	6,960
2014 and thereafter	12,288	11,602
Total - Company	24,576	23,202
Subsidiaries (2012 and thereafter)	16,295	11,488
Total - consolidated	40,871	34,690

b) Current income tax and social contribution

As of June 30, 2010 and 2009, income tax and social contribution expenses, recorded in the statement of income, are represented by:

	Company		Consolidated	
	06/30/10	06/30/09	06/30/10	06/30/09
Income before income tax and social contribution	163,119	19,804	164,758	19,390
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution expenses at statutory rate	(55,460)	(6,733)	(56,018)	(6,593)
Equity in subsidiaries and associates	15,911	(11,743)	(1,537)	(4,374)
Interest on capital benefit	10,884	6,622	10,884	6,622
Tax effects of the adoption of RTT (Laws 11638/07 and 11491/09 adoption):				
Investment grant - ICMS	18,958	13,106	20,156	13,261
Federal tax incentive benefit - income tax	443	-	2,452	588
Stock option plan expenses	(159)	(126)	(159)	(126)
Effect of taxation of subsidiary based on deemed income	-	-	4,377	-
Recognized (unrecognized) tax credit on tax loss of foreign subsidiaries	-	-	8,524	-
Utilized (unrecognized) tax credit on tax loss of subsidiaries	-	-	2,433	(8,860)
Other permanent deductions, net	(532)	(1,674)	903	128
Income tax and social contribution expenses	(9,955)	(548)	(7,985)	646
Current	(10,797)	-	(16,247)	(692)
Deferred	842	(548)	8,262	1,338

20. SHAREHOLDERS' EQUITY

a) Capital

As of June 30, 2010, paid-in capital increased to R$441,171 (R$391,804 as of March 31, 2010) after a capital increase resulting from the capitalization of the earnings reserve amounting to R$49,367.

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

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

As a result of the change in the Company's bylaws, the authorized capital limit is 363,048,160 preferred shares, and the Board of Directors shall determine the terms and conditions applicable to the issuance of shares, based on the authorized capital limit, as well as whether the preemptive rights of current shareholders shall apply, pursuant to article 172 of Law 10303/01.

Subscribed and paid-in capital is held as follows:

On June 30, 2010:

	Common shares		Preferred shares		Total	
Shareholders	Number	%	Number	%	Number	%
Controlling shareholders (Camargo Corrêa Group)	121,597,580	66.99	34,356,940	19.98	155,954,520	44.12
Management:						
Board of Directors	35,929,200	19.79	8,431,980	4.90	44,361,180	12.55
Supervisory Board	22,000	0.01	182,000	0.11	204,000	0.06
Other shareholders	23,975,300	13.21	128,960,880	75.01	152,936,180	43.27
Total	181,524,080	100.00	171,931,800	100.00	353,455,880	100.00

On March 31, 2010:

	Common shares		Preferred shares		Total	
Shareholders	Number	%	Number	%	Number	%
Controlling shareholders (Camargo Corrêa Group)	121,597,580	66.99	34,356,940	19.98	155,954,520	44.12
Management:						
Board of Directors	35,926,900	19.79	8,951,980	5.21	44,878,880	12.70
Supervisory Board	22,000	0.01	182,000	0.11	204,000	0.06
Other shareholders	23,977,600	13.21	128,440,880	74.70	152,418,480	43.12
Total	181,524,080	100.00	171,931,800	100.00	353,455,880	100.00

b) Share buyback plan

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

In the six-month period ended June 30, 2010, changes in treasury shares were as follows:

	Number	Average price
Balance at December 31, 2009	254,661	111.91
(+) Effect of the stock split on 02/24/2010	4,838,559	-
(=) Balance after the stock split at June 30, 2010	5,093,220	5.59

c) Dividends and interest on capital

Every year shareholders are entitled to receive minimum dividends of 25% of net income, calculated in accordance with Brazilian corporate law and the bylaws.

In the six-month period ended June 30, 2010, interest on capital was declared by Management in the total gross amount of R$32,012 (R$27,948, net of IRRF), as follows:

Quarter ended at March 31, 2010	12,012
Quarter ended at June 30, 2010	20,000
Total	32,012

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

	Per share - R$ (gross)			
	06/30/10		03/31/10	
	Common	Common	Common	Common
Interest on capital	0.0548	0.0603	0.0329	0.0362

d) Tax incentive reserves

Beginning January 1, 2008, tax incentives started to be recorded directly in income, and after the close of the annual financial statements recognized under the caption “Tax incentive reserve”.

21. OTHER OPERATING INCOME (EXPENSES), NET

		Company		Consolidated	
		06/30/10	06/30/09	06/30/10	06/30/09
Other operating income:					
Gain on sale of subsidiary (note 11)		505	-	505	-
Gain on sale of properties		-	-	14,305	-
Gains on favorable final and unappealable court decisions	(*)	-	11,805	-	11,805
Alpargatas S.A.I.C. tax credit		-	-	4,927	-
Other		-	2,561	-	2,561
		505	14,366	19,737	14,366

	Company		Consolidated	
	06/30/10	06/30/09	06/30/10	06/30/09
Other operating expenses:				
Accrual for contingencies	(5,491)	(2,194)	(6,185)	(2,320)
Amortization of intangible assets/deferred charges	(9,073)	(7,768)	(9,953)	(8,935)
Other	(8,452)	-	(8,794)	(2,698)
	(23,016)	(9,962)	(24,932)	(13,953)
Other operating income (expenses), net	(22,511)	4,404	(5,195)	413

(*) As described in note 18.(a), at the close of the six-month period ended June 30, 2009 the Company reversed the liability with suspended payment related to PIS and COFINS - broadening of tax base introduced by Law 9718/98 - totaling R$12,401, or R$11,805 less attorneys' fees amounting to R$596.

22. RISKS AND DERIVATIVES

a) General considerations

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

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

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

Short-term investments

The short-term investments policy established by the Company's and its subsidiaries' Management elects the financial institutions with which contracts can be entered into, and defines limits for the amounts to be invested in each financial institution; as of June 30 and March 31, 2010, short-term investments are within the limits.

Loans and financing

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

Derivative policies

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

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

As of June 30, 2010, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

b) Foreign exchange exposure

		Company		Consolidated	
		06/30/10	03/31/10	06/30/10	03/31/10
Assets:					
Trade accounts receivable	(i)	37,414	35,993	103,156	90,965
Advances on foreign exchange contracts		-	(841)	-	(841)
Total assets		37,414	35,152	103,156	90,124
Liabilities:					
Loans and financing	(ii)	-	6	117,812	119,785
Trade accounts payable		34,829	19,312	73,726	44,391
Royalties payable		2,270	368	2,270	368
Total liabilities		37,099	19,686	193,808	164,544
Net exposure		315	15,466	(90,652)	(74,420)
(-) Foreign subsidiaries		-	-	95,433	71,662
Total exposure for sensitivity analysis purpose		315	15,466	4,781	(2,758)

(i) Of the consolidated amounts as of June 30, 2010, 80.1% (77.8% on March 31, 2010) refers to trade accounts receivable of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina) and 19.9% (22.2% as of March 31, 2010) refers to foreign trade accounts receivable of the Company in Brazil.

(ii) Of the consolidated amounts as of June 30, 2010, 100% (99.99% as of March 31, 2010) refers to local currency-denominated borrowings of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina); 0.01% as of March 31, 2010 refers to transactions in Brazil (Advances on Foreign Exchange Contract - ACCs), as shown in note 13.

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

As of June 30, 2010, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

c) Fair values

As of June 30 and March 31, 2010, fair values of short-term investments approximate their carrying amounts disclosed in the financial statements due to their short-term nature and because they are pegged to the CDI fluctuation. Loans and financing are adjusted for inflation based on interest rates contracted according to the usual market conditions and, therefore, balances payable at the balance sheet dates substantially approximate their fair values, including those classified as "Noncurrent".

d) Credit risk

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

e) Sensitivity analysis of financial instruments

Foreign exchange exposure (consolidated)

In the consolidated currency exposure sensitivity analysis as of June 30, 2010, the Company disregarded the balances of trade accounts receivable and loans and financing of foreign subsidiaries, because they are denominated in the local functional currencies of each one of these subsidiaries, which, according to the Company's Management, are not exposed to currency risks.

Considering the foreign exchange exposures described in item b) above, as of June 30, 2010, the sensitivity analysis of outstanding positions is as follows:

	Loss	
	Possible	Remote
Company risk	scenario	scenario
U.S. dollar depreciation	1,195	2,390

The possible scenario considers a 25% appreciation of the Brazilian real against the U.S. dollar over the exchange rate as of June 30, 2010 of R$1.8015/US$1.00 (R$1.3511/US$1.00), and the remote scenario considers a 50% appreciation (R$0.9007/US$1.00).

Based on the parities above, the result would be a loss of R$1,195 in the possible scenario and a loss of R$2,390 in the remote scenario.

Management did not consider the sensitivity analysis for the probable scenario because it understands that this scenario reflects the exchange rate fluctuation already recorded in the financial statements for the six-month period ended June 30, 2010.

23. STOCK OPTION PLAN

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

General criteria of the stock option plans

Plans created from 2002 to 2009

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

The vesting period of plans approved in 2006, 2007, 2008 and 2009 is three years, with vesting of 30% in the third year, 30% in the fourth year and 40% in the fifth year after grant date, and a maximum five-year and two months term to exercise of the options granted. In these plans, option exercise is contingent to the attainment of performance goals, based on internal performance indicators.

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

(i) 2002-2005 plans: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the BMF&BOVESPA in the last 60 trading sessions before the date of approval of each annual plan. The exercise price is adjusted using the general market price index (IGP-M).

(ii) 2006-2009 plans: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the BMF&BOVESPA in the last 60 trading sessions before May 31 of the grant year. The exercise price is adjusted using the extended consumer price index (IPCA).

Changes in the stock options plans in the period

The table below shows a summary of the stock options plans as of June 30 and March 31, 2010:

	06/30/10	
	Number of options	Weighted average exercise price - R$
Outstanding options at beginning of the period (01/01/10)	268,314	64.56
(+) Stock split on 02/24/10	5,097,966	-
(=) Outstanding options at beginning of six-month period after stock split	5,366,280	3.23
Options granted	-	-
Options exercised	-	-
Outstanding options at end of March 31, 2010	5,366,280	3.30
Options granted	-	-
Options exercised	(218,160)	3.42
Outstanding options at end of June 30, 2010	5,148,120	3.42

Outstanding options at quarter-end

Stock options outstanding at end of each period are as follows:

	Outstanding options			
	Options not exercised at quarter-end	Remaining contractual life (months)	Exercise price range (R$)	Vested options at quarter-end
June 30, 2010	5,148,120	42	0.99 - 8.38	2,161,520

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

	06/30/10			
Grant date	Options not exercised at quarter-end (*)	Remaining contractual life (months)	Exercise price (R$) (*)	Vested options at quarter-end
July 1, 2002	178,000	27	0.95	178,000
July 1, 2003	363,600	39	1.08	363,600
July 1, 2004	950,600	51	1.37	950,600
July 1, 2005	1,096,040	63	1.94	513,400
July 1, 2006	519,880	15	5.55	155,920
July 1, 2007	370,000	27	8.13	-
July 1, 2008	550,000	39	5.60	-
July 1, 2009	1,120,000	51	3.59	-
Total	5,148,120	45	0.99 - 8.38	2,161,520

(*) Amounts after share split.

	03/31/10			
Grant date	Options not exercised at quarter-end (*)	Remaining contractual life (months)	Exercise price (R$) (*)	Vested options at quarter-end
July 1, 2002	178,000	27	0.97	178,000
July 1, 2003	363,600	39	1.10	363,600
July 1, 2004	1,096,040	51	1.41	1,096,040
July 1, 2005	1,168,760	63	1.99	586,120
July 1, 2006	519,880	15	5.66	155,920
July 1, 2007	370,000	27	8.30	-
July 1, 2008	550,000	39	5.72	-
July 1, 2009	1,120,000	51	3.66	-
Total	5,366,280	45	0.97 - 8.30	2,379,680

(*) Amounts after share split.

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

The main assumptions used in the calculation are as follows:

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

The table below shows the simulated effects arising from:

(i) Scenario I: exercise of the stock options granted up to June 30, 2010.

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

In both scenarios, it was assumed that all options were vested on June 30, 2010, based on the Company's shareholders' equity as of that date.

Amounts in Brazilian reais - R$

	Scenario I	Scenario II
Weighted average exercise price	3.42	3.42
Number of preferred shares	171,931,800	171,931,800
Number of outstanding preferred shares	166,787,580	166,838,580
Number of shares to be purchased with exercise of options	5,148,120	11,993,200
Book value per outstanding share	3.36	3.36
Book value per share considering exercise of options	3.26	3.13
Dilution of book value per share	0.10	0.23
Percentage dilutive effect	2.98%	6.84%

24. MANAGEMENT COMPENSATION

Overall compensation to Management of the Company and its subsidiaries on the six-month period is as follows:

			Stock option grant	
	Compensation	Pension plans (c)	Balance of options (number) (a)	Average exercise price - R$ (b)
June 30, 2010	2,288	129	5,148,120 (d)	3.42 (d)
June 30, 2009	2,204	110	217,654	69.48

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

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

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

(d) Number and price after stock split.

25. EMPLOYEE BENEFITS

The Company and its subsidiaries sponsor two pension plans and grant, through their own pension plan, life annuity and health care benefits for a certain group of former employees and their spouses. The actuarial liability of these plans as of June 30 and March 31, 2010 is R$3,787, which is recorded under the caption “Other payables”, in long-term liabilities. The pension plans are as follows:

a) Pension plan - SPASAPREV

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

Actuarial amounts recognized as of June 30 and March 31, 2010 are as follows:

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

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

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

b) Pension plan - HSBC

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

Actuarial amounts recognized as of June 30 and March 31, 2010 related to the HSBC pension plan are as follows:

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

(*) This asset was not recognized in the Company's financial statements as of June 30 and March 31, 2010 due to the lack of evidence of reimbursement or deductions from future contributions.

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

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

c) Pension plan for former employees

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

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

Actuarial amounts recognized as of June 30 and March 31, 2010 are as follows:

Present value of actuarial obligation	1,197
Unrecognized actuarial loss	(86)
Total liability accrued	1,111

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

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

d) Health care plan for retirees

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

Actuarial amounts recognized as of June 30 and March 31, 2010 are as follows:

Present value of actuarial obligation	1,207
Unrecognized actuarial gain	1,469
Total liability accrued	2,676

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

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

26. PROFIT SHARING

The Company offers its employees a profit sharing plan linked to the achievement of operating goals and specific objectives annually set and approved for each plant/unit. In the six-month periods ended June 30, 2010 and 2009, the following amounts were recognized in the statement of income:

	Company		Consolidated	
	06/30/10	06/30/09	06/30/10	06/30/09
Profit sharing program	15,820	7,181	19,996	8,045

Profit sharing is recorded in payroll and related taxes account in current liabilities.

27. PLEDGES AND COLLATERALS

As of June 30 and March 31, 2010, in addition to the information disclosed in note 13, pledges and collaterals provided by the Company to financial institutions related to vendor financing transactions were as follows:

	Company		Consolidated	
	06/30/10	03/31/10	06/30/10	03/31/10
Vendor financing	3,838	5,756	3,838	8,107

In the quarters ended June 30 and March 31, 2010, the Company did not record losses arising from the guarantees pledged.

28. COMMITMENTS ASSUMED

The Company and its subsidiaries have commitments deriving from an agreement for the supply of electric power, effective through 2010, providing for the purchase of a minimum monthly volume of 24,383 kW, equivalent to R$583, which can be amended within no less than six months. As of June 30, 2010, the Company was compliant to this agreement's commitments.

29. INSURANCE (UNAUDITED INFORMATION)

The Company and its subsidiaries have insurance coverage for property, plant and equipment and inventories subject to risk of fire, in the amount of actual cash value replacement, and for coverage of loss of profits. As of June 30, 2010, insurance coverage (consolidated) is considered sufficient by Management to cover the related risks.

30. APPROVAL FOR ISSUANCE OF THE FINANCIAL STATEMENTS

These interim financial statements were approved for issuance by the Board of Directors at the meeting held on August 13, 2010.

1. SUMMARY

With its second quarter 2010 (2Q10) results, Alpargatas has now experienced vigorous and accelerated growth in revenues and profitability for four quarters running. We attribute this to the following factors:

- Efficient brand management in Brazil and overseas.
- Innovative product launches that inspire consumer loyalty.
- Optimized services rendered to the sales channels.
- Increased productivity.
- Cash generation.

Traditionally growth in performance indicators is lower in the second quarter than the first due to seasonal factors. This year the situation was compounded by the World Cup, which affected retail performance on the days on which the Brazilian team played. Even so, in 2Q10 sandals and sporting goods total sales volume grew by 27.2% and consolidated net revenues increased by 23.5% compared with 2Q09. If we exclude the exchange variation effect, the increase in revenues in 2Q10 was even greater: 31.6%. Consolidated net revenues for the first half of 2010 totaled R$ 1. 0 billion, 18.9% up on the first half of 2009.

With the finalization of the sale of the company Locomotiva in April of this year, the company's numbers were excluded from São Paulo Alpargatas' consolidated revenues, costs, expenses and net result for 2010 and 2009 (to enable comparability), maintaining the proceeds of the sale of the company in the net profit for 2010. Thus the indicators presented in the following tables are ***pro forma.*** As for net revenues, Alpargatas' main performance indicators showed growth in 2Q10 and 1H10.

Consolidated Results *pro forma* (R$ million, except margins)	2Q10	2Q09	▲	1H10	1H09	▲
Net revenues	540.3	437.6	+ 23.5%	1,039.9	874.8	+18.9%
Gross profit	246.8	168.9	+ 46.1%	489.1	343.3	+ 42.5%
EBITDA	87.2	39.2	+ 122.4%	189.5	92.4	+ 105.1%
Net income	84.7	- 1.4	-	151.4	17.5	+ 765.1%
Gross margin	45.7%	38.6%	+ 7.1 p.p	47.0%	39.2%	+ 7.8 p.p
EBITDA margin	16.1%	8.9%	+ 7.2 p.p	18.2%	10.6%	+ 7.6 p.p
Net margin	15.7%	-	-	14.9%	2.2%	+ 12.7 p.p

Consolidated Balance Sheet *pro forma* (R$ million)	1H10	1H09	▲
Cash	463.3	267.4	+ 73.3%
Financial Indebtedness	213.8	367.8	- 41.9%
Net financial position	249.5	(100.4)	-

The strong performance in the first six months of 2010 is the result of Alpargatas' strategic discipline, which is focused on managing the company's brands. We continue to consolidate our sandal and sporting goods brands in the Brazilian market and to gain share in the international market by selling our products in more countries and by increasing the number of sales outlets through which our products are commercialized.

1.1. Domestic Operations

Accounting for 69% of consolidated net revenues in 1H10, Brazil's performance is the result of the strength of the Havaianas, Dupé, Topper, Rainha, Mizuno and Timberland brands, whose innovative products captured the upturn in demand in the footwear sector. Domestic consumption continued to grow in 2Q10, continuing the trend initiated in the third quarter of last year. The combination of lower unemployment, better income distribution and controlled inflation increased Brazilian consumer confidence, driving our sales. In 2Q10, net revenues from domestic operations were 30.4% higher than in 2Q09. In 1H10, the increase was 27.1% compared with 1H09. With the aim of concentrating Alpargatas' activities in footwear, clothing and accessories and maximizing performance in these segments, in April we concluded the sale of the industrial textile company Locomotiva.

1.2. International Operations

Accounting for 31% of consolidated net revenues in 1H10, the company's international business continued to grow in 2Q10, with a strong performance in sales and profitability. In Argentina we continued to invest in footwear launches and communication of the Topper brand. Alpargatas Argentina's performance advanced in the 2Q10 and in the first half of the year. Revenues in pesos increased by 19.7% in 2Q10, against 2Q09, and by 23.2% in 1H10, compared with 1H09. We continued to invest in Havaianas and Dupé in the overseas market, with particular emphasis on brand communication, the number of sales outlets and consumer behavior studies. The strategy of growing Havaianas and Dupé international sales through company-owned operations has produced higher earnings through the elimination of intermediaries. As a result, in 2Q10 net revenues from Alpargatas USA, Alpargatas Europe and export sales were 32.4% higher than in 2Q09. The increase in 1H10 was 16.1% compared with 1H09. Revenues from the international operations also increased in the original currencies in 1H10, especially worthy of note being Alpargatas Argentina, with a 24.3% increase in pesos; Alpargatas Europe, with a 141.1% increase in euros; and Alpargatas USA, with a 4.3% increase in dollars.

1.3. Cash Generation

One of the strengths of the Alpargatas business model is our cash generation capacity, which continues to show outstanding performance. In the 12-month period ending June 30th, 2010, operational cash generation reached the mark of R$ 415.2 million. The acceleration of the Cash Conversion Cycle by 36 days from June 2009 to June 2010 heightened working capital productivity and contributed to a cash increase of R$ 77.6 million.

1.4. Sustainability

We grew the company without neglecting socio-environmental responsibility. The Instituto Alpargatas maintained its strong performance and its position as one of the main social organizations in the states in which Alpargatas has operations. In 2010 alone, 64 thousand students are benefiting from 31 educational projects in place with 262 partnering institutions. We are contributing to improving the education of the young people who will be responsible for building Brazil's future. We increased production volumes whilst preserving natural resources. In comparison with 2009, in 1H10 we reduced energy consumption by 7%, water consumption by 25% and waste generation by 10% per pair manufactured, even with the significant rise in production volumes at all our plants. These reductions also helped lower production costs and improve Alpargatas' earnings

1.5. Strategic Projects

In 2Q10, we progressed with the Supply Chain Project, which will enable cost reductions and an increase in service levels for our customers. We concluded the review of our long-term strategic planning which will ensure the execution of Alpargatas' vision of being a global company with increasingly strong brand management capabilities.

We are convinced that Alpargatas' three major strengths – leading brands, a talented team and financial solidity will enable us to grow and continue to drive better results for our shareholders and for society as a whole.

2. PERFORMANCE OF DOMESTIC OPERATIONS

2.1. Sales Volume

Domestic Operations Sales Volume (million of pairs/pieces)	2Q10	2Q09	▲	1H10	1H09	▲
Sandals	39.6	31.0	+ 27.7%	85.5	69.7	+ 22.7%
Sporting Goods	4.6	4.3	+ 7.0%	8.0	7.6	+ 5.2%
Total	44.2	35.3	+ 25.2%	93.5	77.3	+ 21.0%

We commercialized a total of 44.2 million pairs of sandals and footwear, pieces of clothing and accessories in 2Q10, a 25.2% increase over 2Q09. During the six month period, volume increased 21% compared with 1H09, reaching 93.5 million.

2.1.1. Sandals

In 2Q10, the total volume of Havaianas sandals and accessories and Dupé sandals grew 27.7% compared with 2Q09, totaling 39.6 million pairs/pieces. For the semester, the increase was 22.7% against 1H09, with a total of 85.5 million pairs/pieces sold. This produced a 29% growth in revenues compared with 1H09, due to the higher added value of the products commercialized.

In 2Q10 alone, the higher added value Havaianas lines accounted for 28% of the sales mix, compared with 24% in 2Q09. It is worth noting that because of seasonal factors the added value component of the sandals mix in the second quarter (fall/winter) is normally lower than in the first quarter of the year, which is high summer. The main sandals highlights for the semester were:

- Launch of 33 Havaianas and 8 Dupé models for the World Cup.
- Specific electronic and print media for World Cup models.
- Launch of the Havaianas and Dupé 2010/2011 collections.
- Start up of sales of Soul Collection footwear – second Havaianas brand extension – in Europe and in the Espaço Havaianas, in São Paulo.
- Another Havaianas partnership promoting sustainability, more specifically preserving the oceans. This is with the NGO Conservation International, which is active in some 40 countries. The partnership will adopt the successful model used with the NGO IPÊ, dedicated to preserving biodiversity in Brazil. In both partnerships part of the revenues from exclusive models is channeled into research supporting the respective causes.
- Introduction of licensing for the children's sandals line, with four international properties

2.1.2. Sporting Goods

Sporting goods (footwear, apparel and accessories) sales volume grew 7% in 2Q10 compared with 2Q09; comparing 1H10 with 1H09 the growth rate was 5.2%. A total of 4.6 and 8.0 million pairs/pieces were commercialized respectively in the two periods. The business has experienced strong growth in revenues and profitability. Compared with 1H09, revenues increased by 22.2%, the result of higher added value footwear sales and higher average prices. The focus on the new Topper positioning continued to evolve with the launch of innovative models for different types of sports. In Brazil, the company ran a rugby campaign in electronic and digital media, since Topper will be commercializing rugby products and is sponsoring the men's national team and the six-time champion women's team. Alpargatas also maintained its "Coração Manda" campaign, which stresses the characteristics of drive and irreverence that differentiate Topper from its competitors and promote identification with consumers. The brand's link with soccer was reinforced with the launch of footwear, apparel and accessories associated with the World Cup, such as:

- Dominator Brasil and New Casual Brasil footwear for indoor football.
- Topper balls for the Brazilian, Argentinean and South African national teams.
- Shirts of a number of national teams taking part in the championship.

Topper was also responsible for the launch of the São Paulo Football Federation KV ball. Mizuno launched the premium Creation 11 (with New Dynamotion Fit technology), Nirvana 6, Prorunner 13 and Inspire 6 models and sponsored the Mizuno 10-mile circuit. Rainha launched the Flow, Flame, Force and Refraction footwear models in the active running segment.

2.1.3. Retail

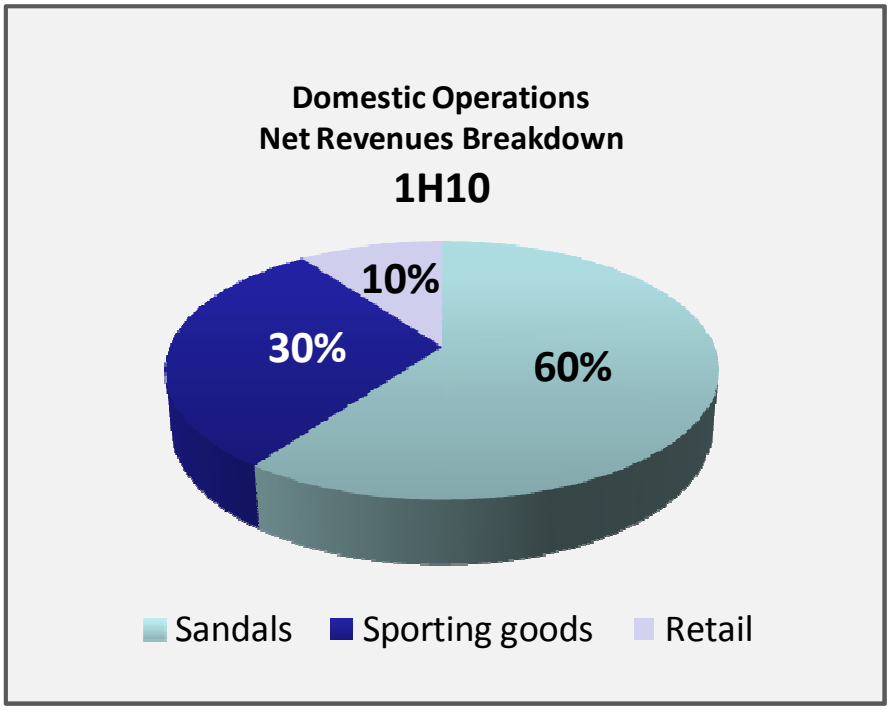
The Retail business unit manages the Havaianas, Mizuno, Topper and Meggashop store chains and the Timberland brand in the Brazilian market, as well as e-commerce operations. This business offers Alpargatas numerous advantages: it provides high visibility and a differentiated brand shopping experience; it increases sales volumes and identifies consumer trends, needs and aspirations. In 2Q10 and 1H10, the business grew respectively 20.8% and 33.2% in terms of the volume of footwear, apparel and accessories commercialized compared with the same

periods of the previous year. Net revenues for 1H10 increased 19.4% compared with 1H09, due to the upturn in consumption and the higher number of sales outlets, in particular Havaianas franchises. The number of Havaianas franchisees increased from 47 in June, 2009, to 89 in June, 2010. Espaço Havaianas, the brand's showcase store in São Paulo, continues to attract a growing contingent of brand fans. In 1H10, the volume of pairs /pieces sold in the brand's concept store increased 77% compared with the same period of the previous year. Timberland products, commercialized in the multibrand channel, performed well with the launch of Canyon and Trekker boots, Bolden and Fast-Track trainers, as well as the Jardins line of casual footwear. We ended the semester with 138 Alpargatas brand stores, compared with 98 in June, 2009.

2.2. Net Revenues

Domestic Operations	2Q10	2Q09	▲	1H10	1H09	▲
Net revenues – R$ million	368.6	282.8	+ 30.4%	720.4	566.8	+ 27.1%

The 25.2% rise in sandals and sporting goods sales volumes in 2Q10, together with the 4.13% increase in the average price of footwear in the same period, led to growth of 30.4% and 27.1% respectively in 2Q10 and 1H10, compared with the same periods of 2009. Net revenues totaled R$ 368.6 million in 2Q10 and R$ 720.4 million in 1H10. In 1H10, 60% of the revenues from domestic operations were generated by the Sandals business; 30% by Sporting Goods; and 10% by Alpargatas Retail.



2.3. Gross Profit and Margin

Domestic Operations	2Q10	2Q09	▲	1H10	1H09	▲
Gross profit – R$ million	172.6	111.3	+ 55.1%	351.2	223.3	+ 57.3%
Margin	46.8%	39.3%	+ 7.5 p.p	48.7%	39.4%	+ 9.3 p.p

Gross profit from domestic operations totaled R$ 172.6 million in 2Q10 and R$ 351.2 million in 1H10, 55.1% and 57.3% up on the same periods of the previous year. Gross margin for 2Q10 increased 7.5 percentage points compared with 2Q09, reaching 46.8%. In 1H10, gross margin was 48.7%, or 9.3 percentage points above the 1H09 margin. The growth in gross profit in Alpargatas' domestic operations was due to:

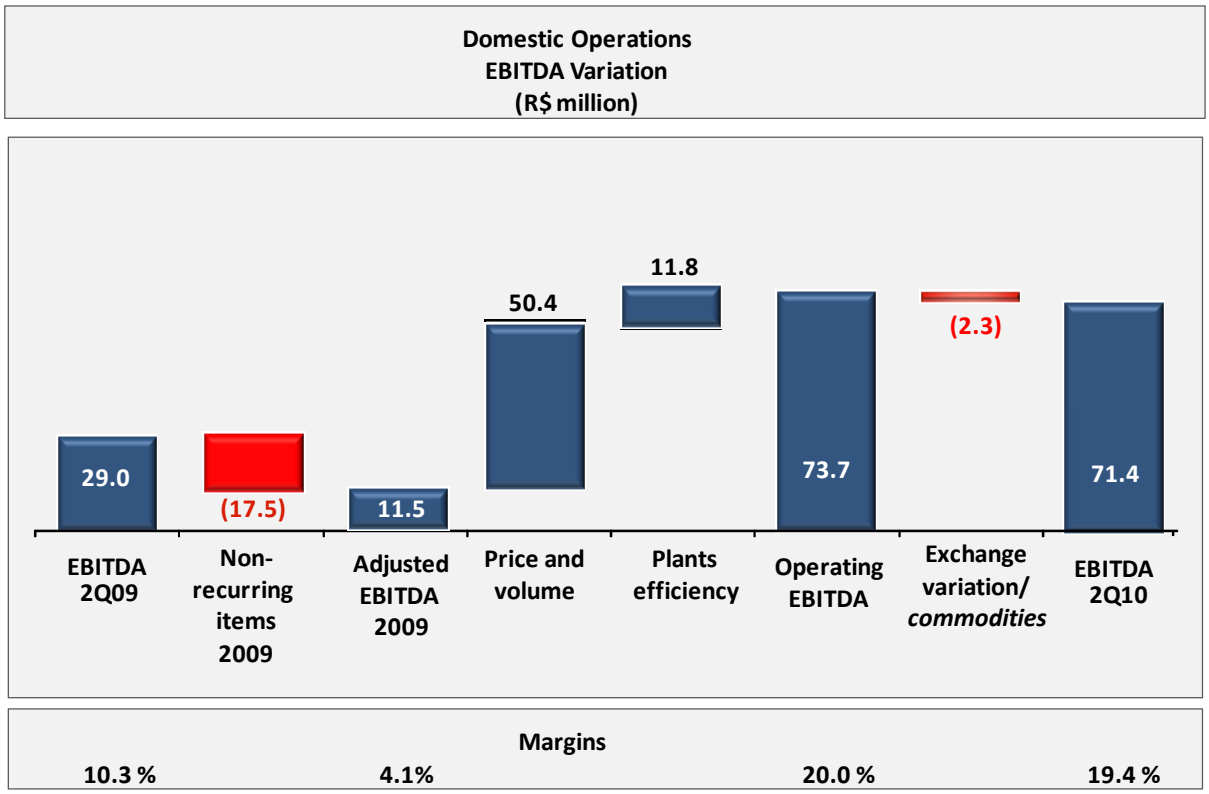
- Growth in revenues due to higher sales volumes and average prices.
- Operational improvements generating greater manufacturing efficiency.
- Dilution of fixed costs through higher production volumes.
- Reduction of cost of finished imported products resulting from the appreciation of the real.

2.4. EBITDA

Domestic Operations	2Q10	2Q09	▲	1H10	1H09	▲
EBITDA – R$ million	71.4	29.0	+ 146.2%	149.9	60.3	+ 148.6%
Margin	19.4%	10.3%	+ 9.1 p.p	20.8%	10.6%	+ 10.2 p.p

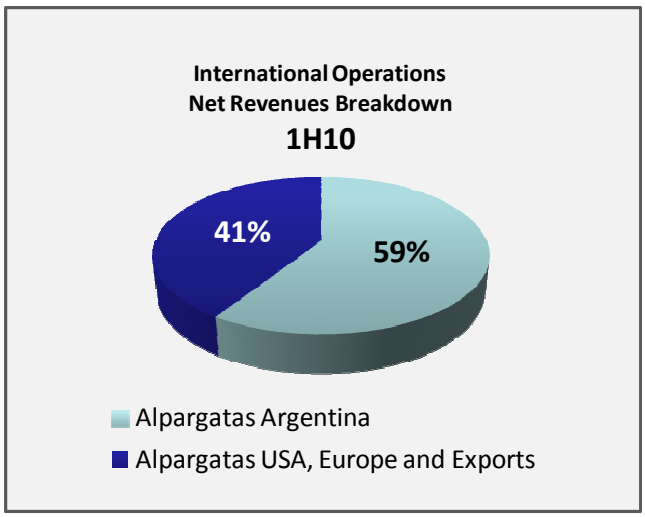
EBITDA for domestic operations totaled R$ 71.4 million in 2Q10 and R$ 149.9 million in 1H10, respective increases of 146.2% and 148.6% over the same periods in 2009. EBITDA margin for 2Q10 increased 9.1 p.p. compared with 2Q09, reaching 19.4%. In 1H10, the margin was 20.8%, or 10.2 p.p. higher than the 1H09 margin. The main factors driving the variation in EBITDA for domestic operations from 2Q09 to 2Q10 were:

- Non-recurring items that had a positive impact on 2009 EBITDA, the main one being tax recovery (PIS/Cofins/Cide).
- Gain of R$ 50.4 million resulting from higher prices and sales volumes.
- A gain of R$ 11.8 million resulting from plants efficiency.



3. PERFORMANCE OF INTERNATIONAL OPERATIONS

For 2Q10 and 1H10 and for the corresponding periods of 2009, we included exports from Brazil under international operations. Consequently, the consolidated numbers for international operations represent Alpargatas Argentina, Alpargatas USA, Alpargatas Europe and Brazilian exports. In 1H10, Alpargatas Argentina accounted for 59% of net revenues from international operations in reais, while Alpargatas USA, Alpargatas Europe and Brazilian exports made up the remaining 41%.



During the semester, our revenues in foreign currencies showed significant growth due to higher average prices and increased sales volumes. However, when converted to reais and stated in terms of BRGAAP, these revenues are impacted by the appreciation of the real during the six-month period. In 2Q10 alone, the real appreciated 17.5% against the Argentinean peso, 13.6% against the dollar and 19.4% against the euro, compared with 2Q09. The growth in revenues from the international operations in 1H10 is presented in the following table in the respective currencies. This growth was important for Alpargatas' consolidated performance.

International Operations Net Revenue Growth in Foreign Currencies	1H10 X 1H09
Alpargatas Argentina (Argentine peso)	**+ 23.2%**
Alpargatas USA (US dollar)	**+ 4.3%**
Alpargatas Europe (Euro)	**+ 141.1%**
Exports (Dollar)	**+ 3.9%**

3.1. ALPARGATAS ARGENTINA

An important element in our internationalization strategy, Alpargatas Argentina has a significant market share in the country with the Topper brand. Integration with a number of business areas in Brazil, combined with the talent on tap in the company, is driving revenue and profit growth and exceeding the return on investment projected when we acquired control of the company. In compliance with the condition imposed by the Argentine Internal Trade Department for the acquisition of 60.18% of Alpargatas Argentina's capital, we sold off the Pampero brand at the beginning of July.

3.1.1. Sales volume

Alpargatas Argentina Sales Volume (million of pairs/pieces)	2Q10	2Q09	▲	1H10	1H09	▲
Sporting Goods	**2.5**	**2.6**	**- 3.8%**	**5.0**	**5.2**	**- 3.8%**

Sales volume totaled 2.5 million pairs/pieces of sporting goods in 2Q10, a slight reduction compared with 2Q09, accumulating 5.0 million in the 1H10. The drop in sales was due to a lack of product, particularly imported goods affected by the antidumping measures adopted in the country. This situation will not be repeated in 3Q10 because we are adopting corrective actions.

3.1.2. Net revenues

Alpargatas Argentina Net Revenues	2Q10	2Q09	▲	1H10	1H09	▲
ARGAAP – million of pesos	224.0	187.1	+ 19.7%	407.6	330.8	+ 23.2%
BRGAAP – million of reais	102.6	102.6	-	188.4	195.1	- 3.4%

In accordance with ARGAAP, net revenues totaled AR$ 224.0 million in 2Q10, 19.7% up on 2Q09. For 1H10, net revenues were AR$ 407.6 million, a 23.2% increase over 1H09. This strong 1H10 performance in pesos was due to revenue increases of 14.5% in Footwear, 53.6% in Textiles and 7.9% in Retail, compared with 1H09. In accordance with BRGAAP, coincidentally Alpargatas Argentina's revenues totaled R$ 102.6 million in 2Q10 and 2Q09, and R$ 188.4 million in 1H10, or 96.6% of the 1H09 net revenues, a decrease which is explained by the appreciation of the real and differences between Brazilian and Argentinean accounting methods. Of Alpargatas Argentina's total net revenues in reais, 58% came from Footwear, 32% from Textiles and 10% from Retail.



3.1.3. Gross Profit and Margin

Alpargatas Argentina Gross Profit and margin	2Q10	2Q09	▲	1H10	1H09	▲
ARGAAP – million of pesos	63.3	53.2	+ 19.0%	120.3	90.4	+ 33.1%
BRGAAP – million of reais	28.5	27.5	+ 3.6%	54.0	50.9	+ 6.1%
Margin in Pesos	28.3%	28.4%	-0.1 p.p	29.5%	27.3%	+ 2.2 p.p
Margin in Reais	27.8%	26.8%	+ 1.0 p.p	28.7%	26.1%	+ 2.6 p.p

In terms of ARGAAP, Alpargatas Argentina's gross profit was AR$ 63.3 million in 2Q10, 19% up on 2Q09. The gross margin of 28.3% was practically the same as 2Q09. In 1H10, gross profit was AR$ 120.3 million, 33.1% higher than in 1H09. At 29.5%, gross margin was 2.2 p.p. higher than in 1H09. By BRGAAP, gross profit for the 2Q10 was R$ 28.5 million, an increase of 3.6%. Gross margin was 27.8%, one percentage point higher than 2Q09. For 1H10, gross profit totaled R$ 54.0 million, 6.1% higher than 1H09. Gross margin grew by 2.6 p.p., increasing from 26.1% in the 1H09 to 28.7% in the 1H10. The increase in gross profit in Argentina was due to revenue growth associated with increased manufacturing productivity. The combination of these factors led to an increase in gross margin of 3.0 p.p. in Footwear; 5.4 p.p. in Textiles and 2.6 p.p. in Retail, compared with the 1H09 margins.

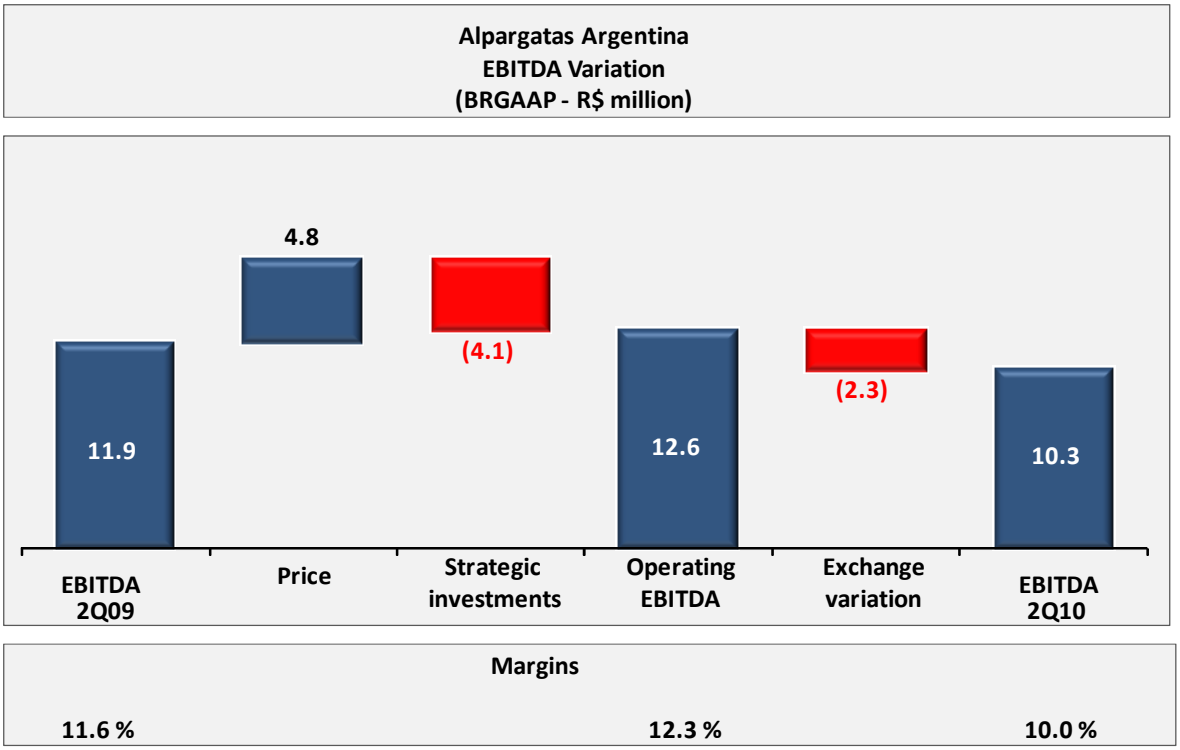
3.1.4. EBITDA

Alpargatas Argentina EBITDA and Margin	2Q10	2Q09	▲	1H10	1H09	▲
BRGAAP – million of pesos	22.3	20.4	+ 9.3%	46.1	34.9	+ 32.1%
BRGAAP – million of reais	10.3	11.9	- 13.4%	21.4	20.6	+ 3.9%
Margin in Pesos	10.0%	10.9%	-0.9 p.p	11.3%	10.6%	+ 0.7 p.p
Margin in Reais	10.0%	11.6%	- 1.6 p.p	11.4%	10.6%	+ 0.8 p.p

Alpargatas Argentina's EBITDA was AR$ 22.3 million in 2Q10, 9.3% up on 2Q09, due to growth in revenues and gross profit. EBITDA margin was 10.0%, compared with 10.9% in the year ago quarter, due to the increased share of textiles in this quarter's results. In 1H10, EBITDA totaled AR$ 46.1 million, 32.1% up on 1H09. At 11.3%, EBITDA margin was 0.7 p.p. higher than in 1H09. In terms of BRGAAP, EBITDA for 2Q10 was R$ 10.3 million – corresponding to 86.6% of the 2Q09 figure, explained by the appreciation of the real –, with an EBITDA margin of 10.0%. Accumulated EBITDA in the semester continues strong. In 1H10, EBITDA was R$ 21.4 million, 3.9% higher than in 1H09. EBITDA margin increased by 0.8 p.p., from 10.6% in 1H09 to 11.4% in 1H10.

The most relevant factors explaining the variation in Alpargatas Argentina's EBITDA from 2Q09 to 2Q10 in reais are:

- Gain of R$ 4.8 million from price adjustments.
- Strategic investments increased by R$ 4.1 million compared with 2Q09, with higher expenditure on Topper brand communication and administrative and commercial management processes.
- Loss of R$ 2.3 million through exchange variation. Discounting the exchange effect, Alpargatas Argentina's EBITDA was R$ 12.6 million in 2Q10, 5.9% higher than in 2Q09, with margin increasing to 12.3%.



3.2. ALPARGATAS USA, EUROPE AND EXPORTS

The internationalization of the Havaianas brand, initiated with exports through distributors at the end of the 1990's, was complemented strategically by the Alpargatas USA and Alpargatas Europe direct operations. The investments the company is undertaking in these companies with the objective of consolidating Havaianas as the preferred global sandal brand are already producing positive results in the form of increased sales volumes and revenues and higher profitability. We are meeting the challenges of globalizing Havaianas by:

- Increasing our knowledge of the culture/consumer habits in these markets.
- Working more closely with our main clients, offering higher service levels.
- Expanding the number of sandals sales points abroad.

3.2.1. Sales Volume

Alpargatas USA, Europe and Exports Sales Volume (million of pairs/pieces)	2Q10	2Q09	▲	1H10	1H09	▲
Sandals and Sporting Goods	7.5	4.7	+ 59.6%	14.1	11.3	+ 24.8%

In 2Q10, the volume of Havaianas and Dupé sandals commercialized by Alpargatas USA and Alpargatas Europa, together with the sandals and sporting goods exported from Brazil to markets not serviced by the company's own operations, reached 7.5 million pairs/pieces, a 59.6% increase over 2Q09. In 1H10, the volume was 14.1 million pairs/pieces, 24.8% up on 1H09. Consumption in the American market remained flat due to the impact of the global financial crisis on the US economy, which affected sandal sales in the country. The main highlights for the subsidiaries include the opening of Havaianas stores in Barcelona, in California and in New York, as well as the start up of sales of the Soul Collection, the first Havaianas closed footwear, at leading sales outlets in Europe. There were a series of Havaianas brand events during the World Cup. In South Africa, the brand was present through print advertising in local magazines and marketing actions in shopping malls throughout the country. In the United States and Europe, the brand was showcased during World Cup games with displays in leading stores, such as Barney's in New York and Courir in Paris.

3.2.2. Net Revenues

Alpargatas USA, Europe and Exports Net Revenues	2Q10	2Q09	▲	1H10	1H09	▲
BRGAAP – million of reais	69.1	52.2	+ 32.4%	131.1	112.9	+ 16.1%

With the increase in sales volumes, net revenues from Alpargatas USA, Alpargatas Europe and Brazilian exports totaled R$ 69.1 million in 2Q10, 32.4% up on 2Q09. For 1H10, net revenues reached R$ 131.1 million, a 16.1% increase over 1H09.

3.2.3. Gross Profit and Margin

Alpargatas USA , Europe and Exports Gross Profit and Margin	2Q10	2Q09	▲	1H10	1H09	▲
BRGAAP – million of reais	45.6	30.1	+ 51.5%	83.9	69.1	+ 21.4%
Margin	66.0%	57.6%	+ 8.4 p.p	64.0%	61.3%	+ 2.7 p.p

Gross profit for Alpargatas USA, Alpargatas Europe and exports from Brazil totaled R$ 45.6 million in 2Q10, 51.5% up on 2Q09. The gross margin of 66.0% was 8.4 p.p. higher than the 2Q09 margin.

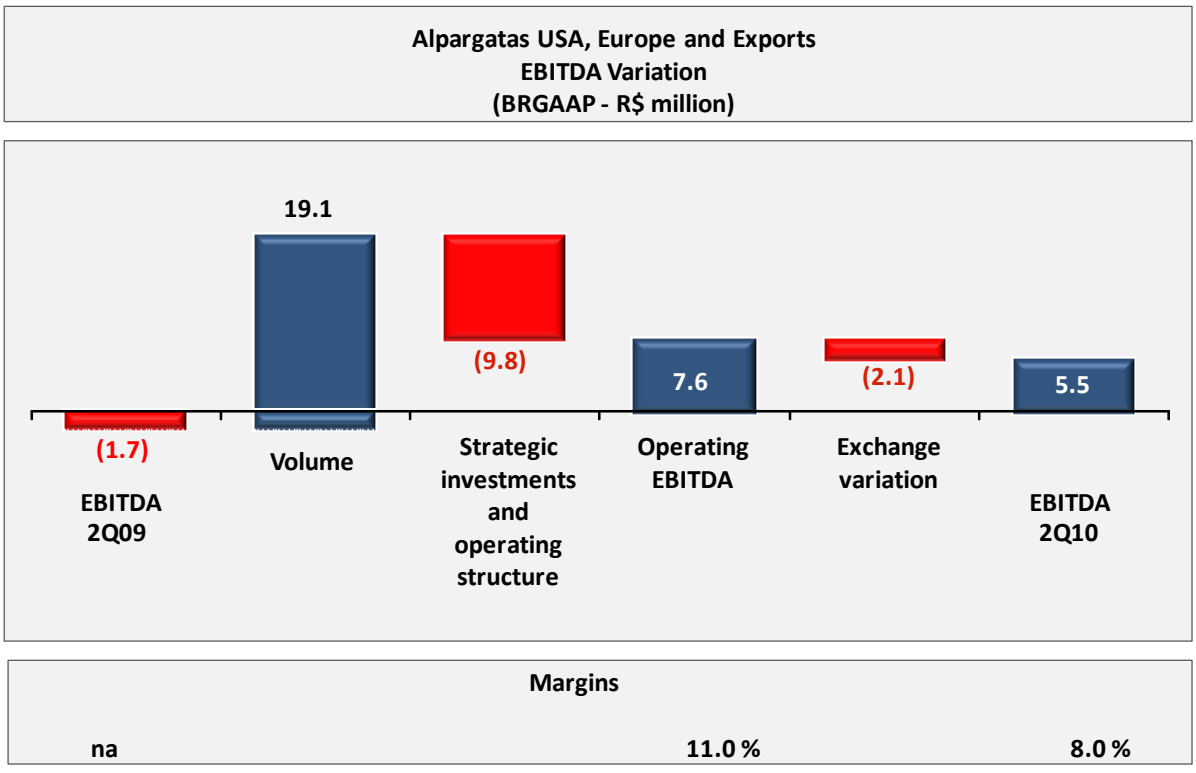
In 1H10, gross profit was R$ 83.9 million, 21.4% up on 1H09. At 64.0%, gross margin was 2.7 p.p. higher than 1H09. This was the result of higher revenues and higher profitability resulting from direct sales to major clients.

3.2.4. EBITDA

Alpargatas USA , Europe and Exports EBITDA and Margin	2Q10	2Q09	▲	1H10	1H09	▲
BRGAAP – million of reais	5.5	- 1.7	-	18.2	11.5	+ 58.3%
Margin	8.0%	-	-	13.9%	10.2%	+ 3.7 p.p

EBITDA for Alpargatas USA, Alpargatas Europe and export operations totaled R$ 5.5 million in 2Q10, against a negative EBITDA of R$ 1.7 million posted in 2Q09. The EBITDA margin was 8.0% in the 2Q10. For the first half of 2010, EBITDA totaled R$ 18.2 million, 58.3% up on 1H09. At 13.9%, the EBITDA margin was 3.7 p.p. higher than the 1H09 figure. Different from exports through distributors, where revenues are recognized when the merchandise is invoiced to the distributor, with the company's own overseas operations there is an average lag of three months in the book entry since revenues are recognized when the sale is invoiced to the local retailer. The most relevant factors explaining the variation in EBITDA for the company's own operations and exports from 2Q09 to 2Q10 in reais are:

- R$ 19.1 million gain from growth in sales volume.
- Strategic investments and expansion of the operating structure in Europe, which occurred in 2H09, consumed R$ 9.8 million more than in 2Q09.
- A loss of R$ 2.1 million due to exchange variation. Discounting the exchange variation effect, 2Q10 EBITDA is R$ 7.6 million and the margin increases to 11.0%.



4. CONSOLIDATED PERFORMANCE

The comments on consolidated financial performance are based on the pro forma results of São Paulo Alpargatas (excluding Locomotiva), Alpargatas Argentina, Alpargatas USA, Alpargatas Europe and Companhia Brasileira de Sandálias.

4.1. Sales Volume

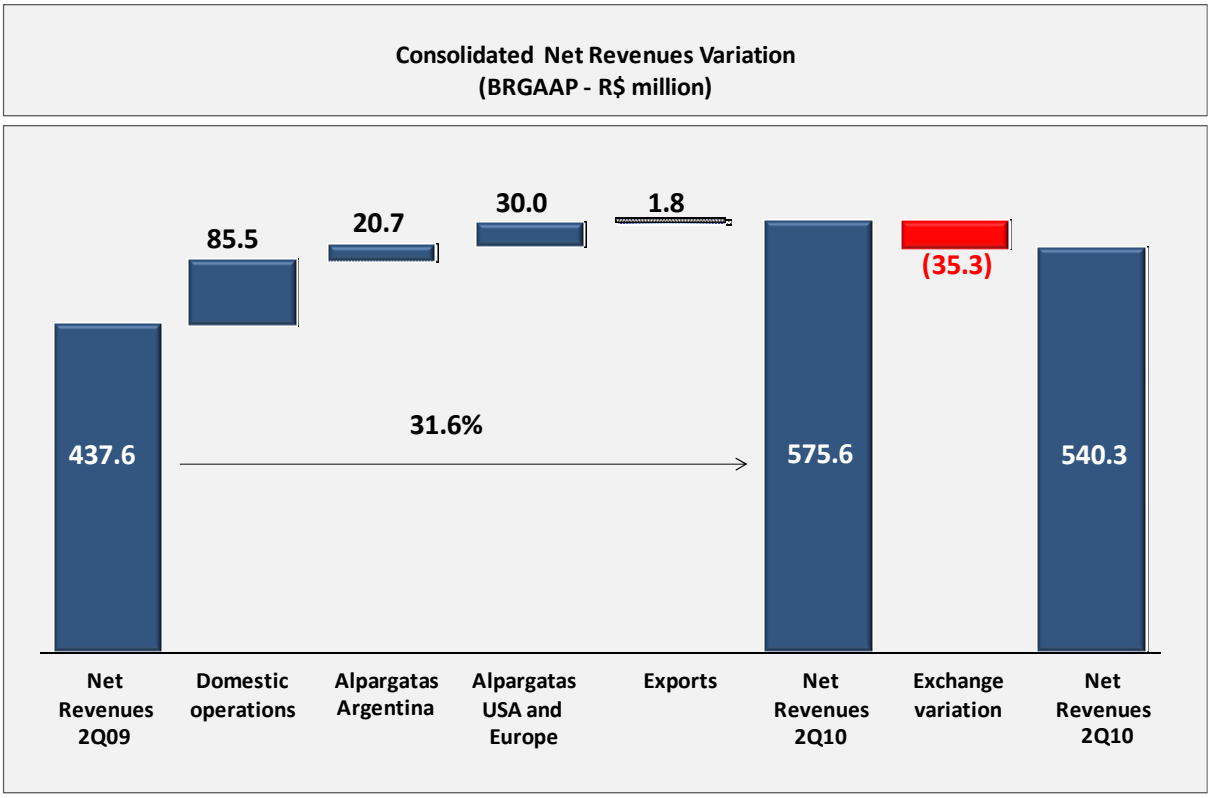
Consolidated Sales Volume (million of pairs/pieces)	2Q10	2Q09	▲	1H10	1H09	▲
Sandals	47.1	35.7	+ 31.9%	99.6	81.0	+ 22.7%
Sporting Goods	7.1	6.9	+ 2.9%	13.0	12.8	+ 1.6%
Total	54.2	42.6	+ 27.2%	112.6	93.8	+ 20.0%

In 2Q10, we commercialized 54.2 million pairs/pieces of sandals and sporting goods, 27.2% more than in 2Q09, worthy of note being the 31.9% increase in the consolidated sandal volume. For the first semester 2010, the total volume was 112.6 million pairs/pieces, a 20% increase compared with 1H09. The performance of the Sandals business was excellent, with a 22.7% volume increase for 1H10. Strong sales performance in the domestic market, resulting from an upturn in consumption, and increased overseas sales were the main drivers of volume growth in 2010.

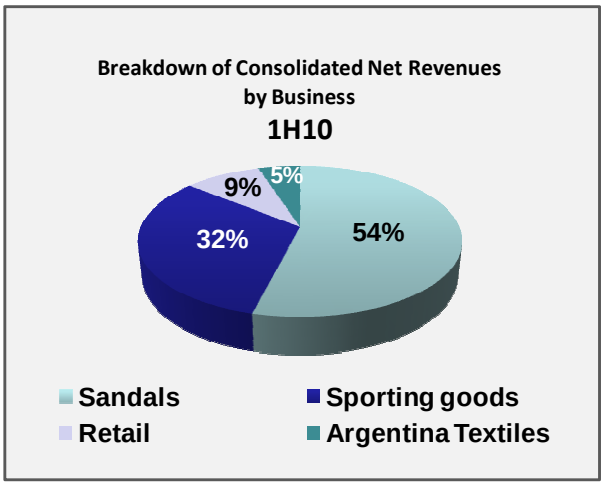
4.2. Net Revenues

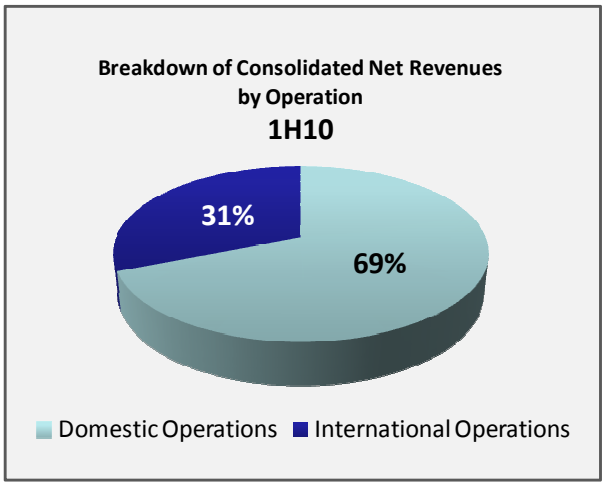
Conosolidated Net Revenues (BRGAAP – R$ million)	2Q10	2Q09	▲	1H10	1H09	▲
Domestic Operations	368.6	282.8	+ 30.4%	720.4	566.8	+ 27.1%
International Operations	171.7	154.8	+ 10.9%	319.5	308.0	+ 3.7%
Total	540.3	437.6	+ 23.5%	1,039.9	874.8	+ 18.9%

Net revenues were R$ 540.3 million in 2Q10, 23.5% up on 2Q09, and R$ 1.0 billion in 1H10, an increase of 18.9% compared with 1H09. Discounting the impact of the exchange variation, consolidated net sales increased 31.6%. Revenues grew because we have market leading brands that leverage our product sales in the domestic and overseas markets. In the following chart, we show the variation in consolidated net revenues from the 2Q09 to 2Q10, and the respective exchange variation impact from the stronger real.



Of the total consolidated net revenues for 1H10, 69% came from the Brazilian market and 31% from overseas. In the breakdown by business, Sandals accounted for 54%; Sporting Goods, 32%; Retail, 9%; and Textiles in Argentina, 5%.

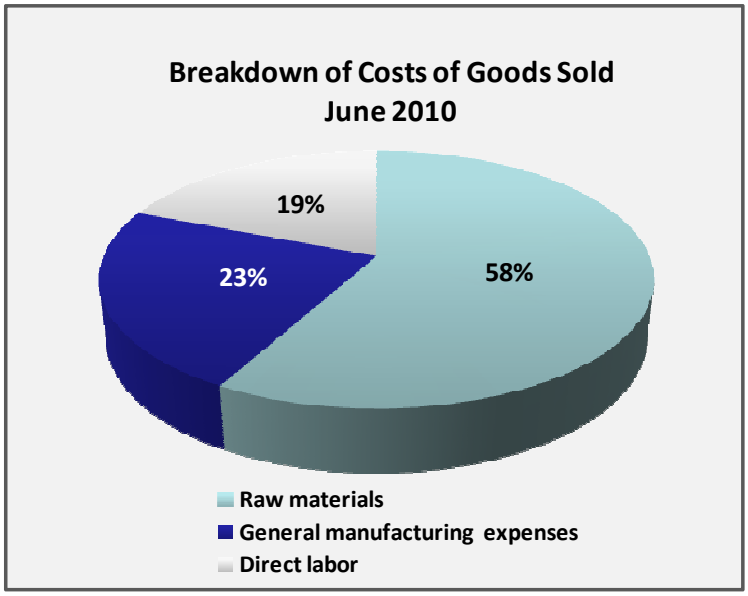




4.3. Gross Profit and Margin

Conoslidated Gross Profit and Margin (BRGAAP – R$ million)	2Q10	2Q09	▲	1H10	1H09	▲
Gross Profit	246.8	168.9	+ 46.1%	489.1	343.3	+ 42.5%
Margin	45.7%	38.6%	+ 7.1 p.p	47.0%	39.2%	+ 7.8 p.p

The increase in consolidated gross profit in 2Q10 and 1H10 was due to the sizeable increase in revenues and gross profit from domestic and international operations. Consolidated gross profit was R$ 246.8 million in 2Q10 and R$ 489.1 million in 1H10, respective increases of 46.1% and 42.5% over the same periods one year ago. Consolidated gross margin grew 7.1 p.p. in 2Q10, compared with 2Q09, reaching 45.7%. In 1H10, it was 47%, or 7.8 p.p. higher than the 1H09 margin. The breakdown of the cost of goods sold in June 2010 is shown in the following chart:



Rubber is a major raw-material in the manufacture of sandals and sports footwear, representing 33% of the cost of goods sold. There was a 21.7% increase in the average price of rubber from 2Q09 to 2Q10.

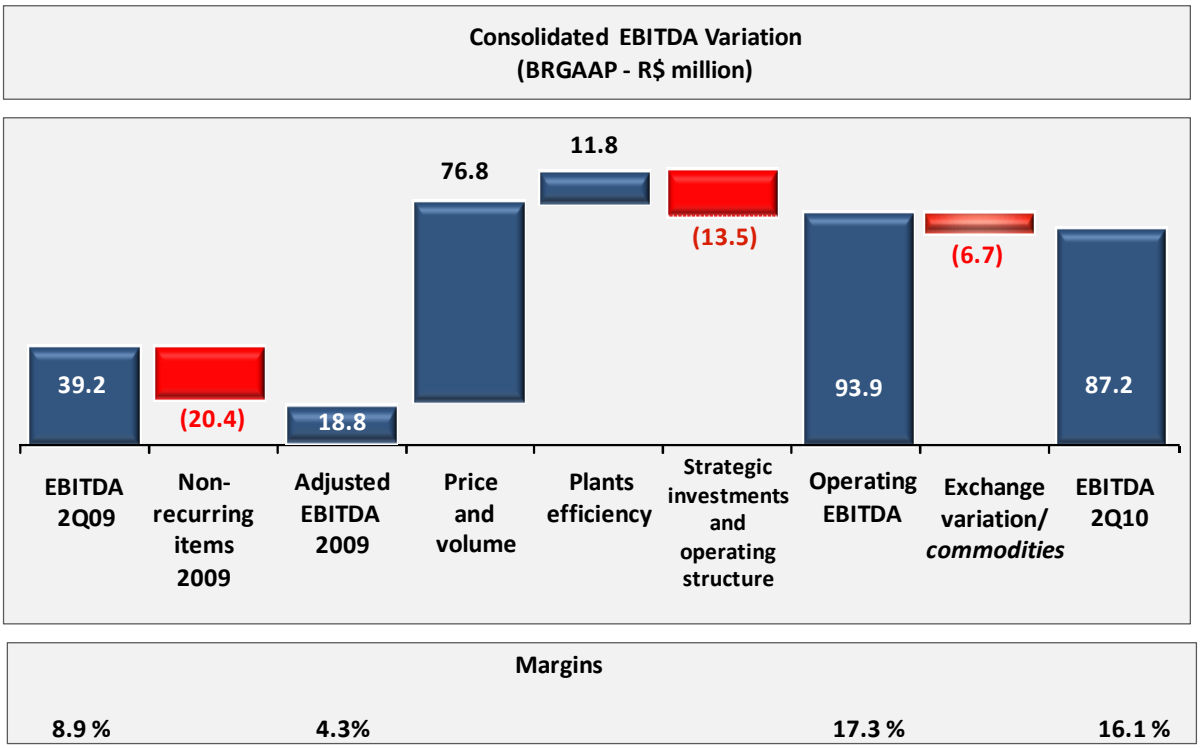
4.4. EBITDA

Calculation of Consolidated EBITDA (BRGAAP – R$ million)	2Q10	2Q09	▲	1H10	1H09	▲
Profit before financial results and equity in subsidiaries	85.2	15.4	+ 453.2%	167.2	49.0	+ 241.2%
(+) Depreciation and amortization	13.6	13.9	- 2.2%	27.6	28.7	- 3.8%
(-) Non-cash items	(11.6)	9.9	-	(5.3)	14.7	-
EBITDA	87.2	39.2	+ 122.4%	189.5	92.4	+ 105.1%
Margin	16.1%	8.9%	+ 7.2 p.p	18.2%	10.6%	+ 7.6 p.p

Consolidated EBITDA reached R$ 87.2 million in 2Q10 and R$ 189.5 million in 1H10, increases of 122.4% and 105.1% respectively over the same periods of the previous year. The consolidated EBITDA margin for 2Q10 grew 7.2 percentage points to 16.1%. compared with the year ago quarter. There was a reduction in EBITDA margin from 1Q10 to 2Q10, explained mainly by the seasonal variation in sales. Sandals, which corresponded to 60% of net revenues in 1Q10, accounted for 49% in the second quarter of the year, while the share of Sporting Goods increased from 26% to 36% in the same period. In 1H10, EBITDA margin reached 18.2%, a significant 7.6 percentage point increase over the 1H09 margin.

The most material factors explaining the variation in consolidated EBITDA from 2Q09 to 2Q10 are:

- Non-recurring items that positively impacted EBITDA in 2009, mainly the recovery of taxes (PIS/Cofins/Cide).
- Gain of R$ 76.8 million from higher prices and sales volume.
- R$ 11.8 million gain in plants efficiency.
- Strategic investments in brand communication and operating structure in Europe, which increased R$ 13.5 million in the period.

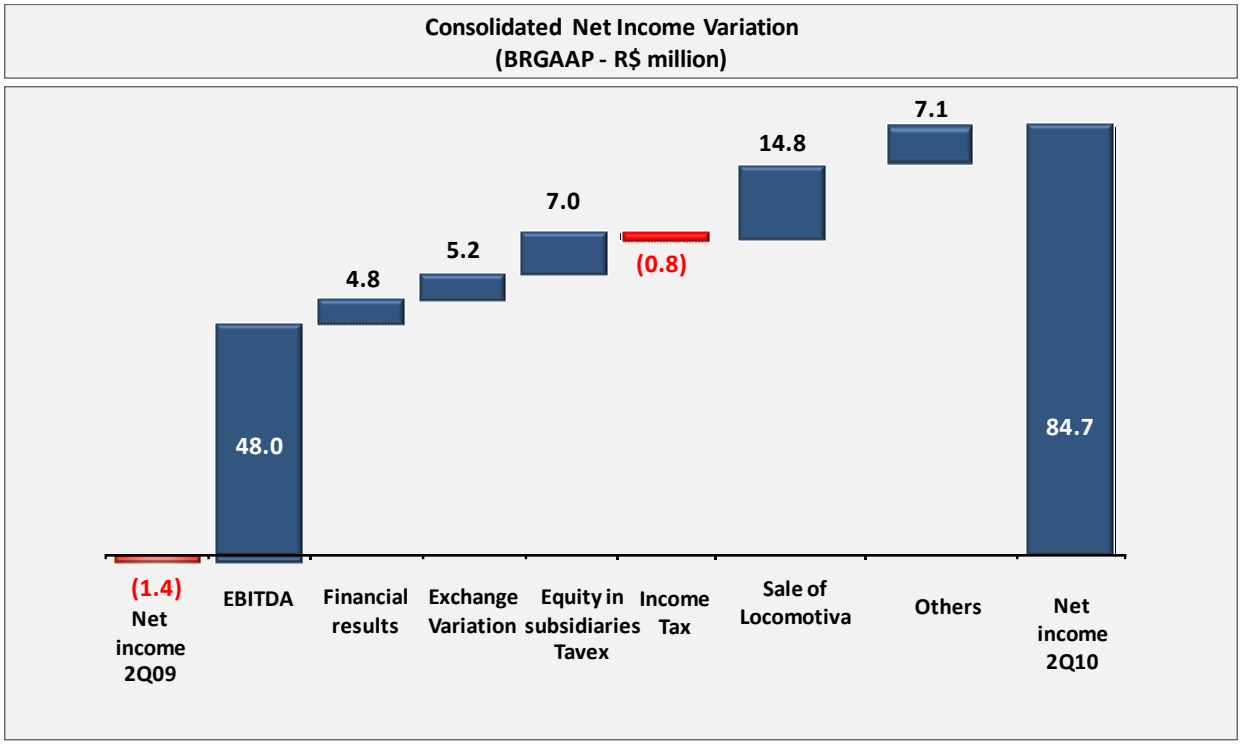


4.5. Net Income

Consolidated Net Income and Margin (BRGAAP – R$ milhões)	2Q10	2Q09	▲	1H10	1H09	▲
Net Income	84.7	(1.4)	-	151.4	17.5	+765.1%
Margin	15.7%	-	-	14.6%	2.0%	+12.6 p.p

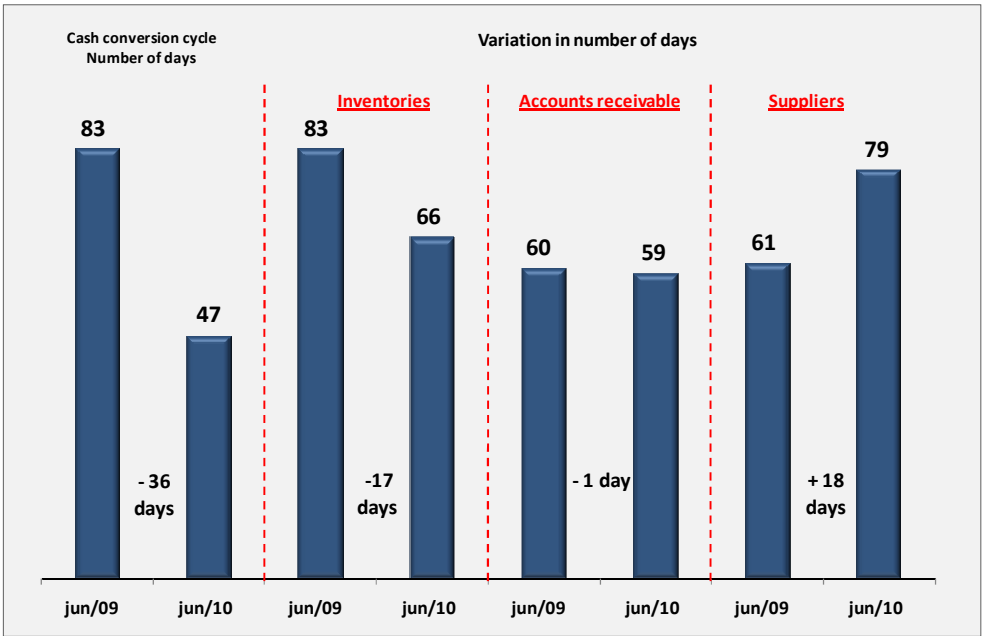
With Alpargatas' strong performance, the consolidated net income for 2Q10 was R$ 84.7 million, with a net margin of 15.7%, against a loss of R$ 1.4 million in 2Q09 (explained by the downturn in sales and extraordinary company restructuring costs). In the first six months of 2010, net income reached R$ 151.4 million, 765.1% up on 1H09, with a net margin of 14.6%, 12.6 percentage points higher than the 1H09 margin. The most relevant factors explaining the variation in consolidated net income from 2Q09 to 2Q10 were:

- A R$ 48.0 million increase in EBITDA.
- A positive financial result of R$ 4.8 million due to higher financial earnings from increased investments.
- A positive variation of R$ 7.0 million from the investment in the Tavex Corporation.
- A gain of R$ 14.8 million from the sale of Locomotiva.
- Other gains of R$ 7.1 million resulting mainly from Alpargatas Argentina tax credits.



4.6. Cash Conversion Cycle - CCC

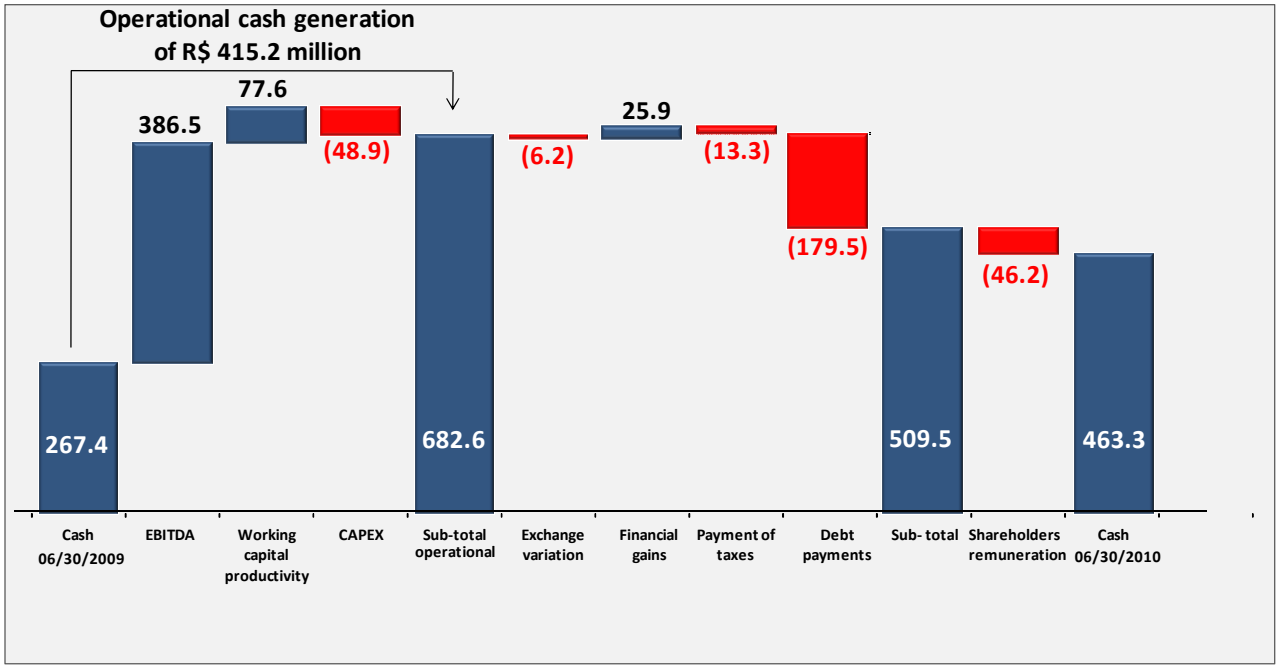
The acceleration of the Cash Conversion Cycle (CCC), resulting from optimized management of current accounts, made a significant contribution to Alpargatas' cash generation. In the period ending on June 30th, 2010, we shortened the CCC by 36 days, with an 18-day increase in average payment terms for suppliers, a one-day reduction in accounts receivable and a 17-day decrease in inventories.



4.7. Cash Flow

On June 30th, 2010, Alpargatas had a cash balance of R$ 463.3 million, a R$ 195.9 million increase compared with the cash balance on June 30th, 2009. Operational generation was much higher, totaling R$ 415.2 million. The biggest cash inflow in the last twelve months was due to EBITDA, which totaled R$ 386.5 million, a result of the company's strong operating performance. Working capital productivity led to a gain of R$ 77.6 million. Investment in permanent assets totaled R$ 48.9 million and was fully financed by working capital productivity. Debt amortization (net of new loans) and shareholder remuneration constituted the main cash disbursements, totaling R$ 225.7 million. Cash generation in 2Q10 was R$ 57.7 million.

Consolidated Cash Flow Variation
(BRGAAP - R$ million)



4.8. Indebtedness

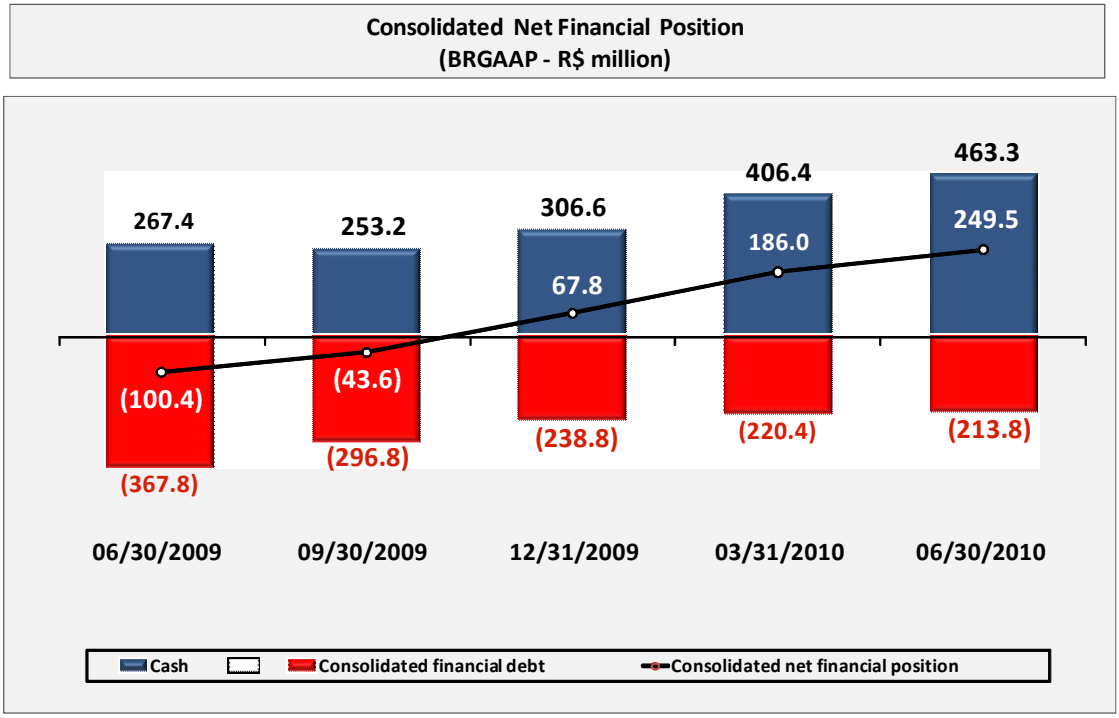
On June 30th, 2010, consolidated financial indebtedness totaled R$ 213.8 million, R$ 166.4 million of which related to São Paulo Alpargatas and its subsidiaries, and R$ 47.4 million to Alpargatas Argentina, presenting the following profile:

- R$ 92.4 million (43% of the total) due in the short term, 79% in foreign currency, with rollover on average every ten months, to finance working capital for the overseas subsidiaries.
- R$ 121.4 million (57% of the total) due in the long term, of which 37% is in foreign currency.

4.9. Net Financial Position

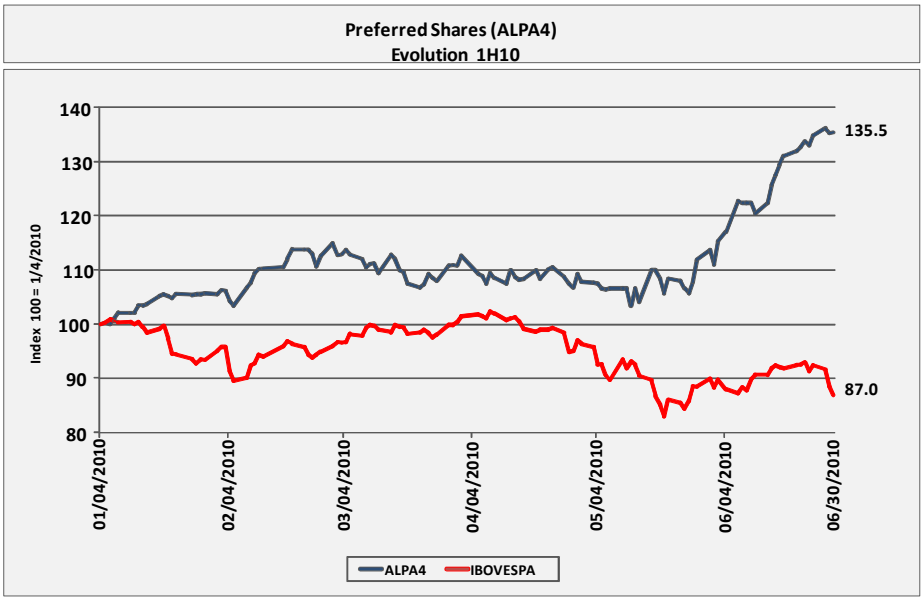
The reduction in indebtedness and the increase in cash generation resulted in a positive net financial position of R$ 249.5 million on June 30th, 2010, reinforcing Alpargatas' financial solidity.

Distribution of cash, consolidated financial indebtedness and net financial position for the last four quarters are shown on the following chart.

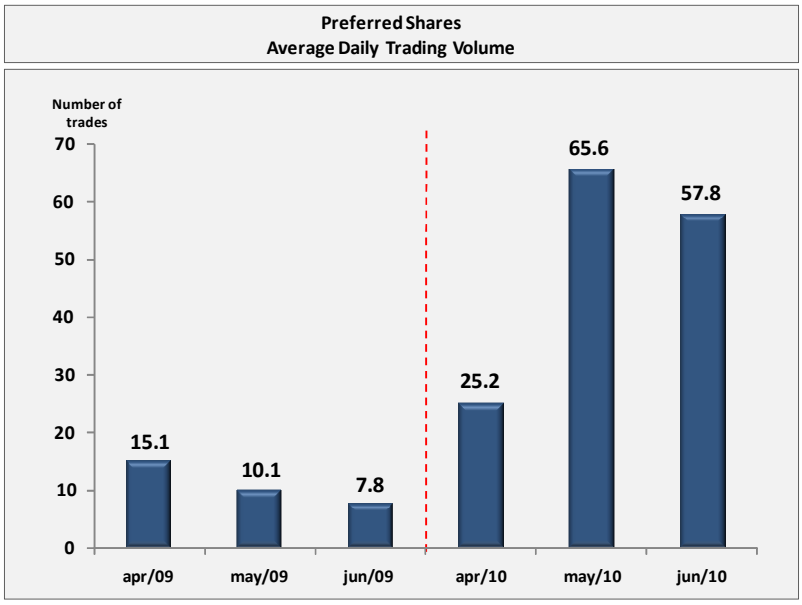


5. CAPITAL MARKET

Alpargatas preferred shares ended the 2Q10 quoted at R$ 7.75, with the voting shares quoted at R$ 7.90. The equity value per share on June 30th, 2010 was R$ 3.36. In 2Q10, preferred shares showed greater liquidity, appreciating 20.3% against a 14.3% devaluation for Ibovespa. In 1H10, preferred shares appreciated 35.5%, while the devaluation of Ibovespa in the period was 13%. At the end of 2Q10, Alpargatas' market value reached R$ 2.7 billion, compared with R$ 1.3 billion in the year ago quarter. Of the total paid-in capital, 42% of the shares were outstanding. In the meeting held on August 13th, 2010, the Board of Directors approved the payment of interest on own capital of R$ 15.0 million on September 30th. With this, the shareholders' total remuneration approved year-to-date is R$ 47.0 million.



In the 2Q10, there was a significant increase in the liquidity of the company's preferred shares (Bovespa Alpa4) compared with 2Q09. We attribute this to the company's strong performance in recent quarters, with solid volume and revenue growth, sustainable profit margins and strong cash generation, in addition to a positive outlook for the business as a whole. In the following chart we show the average daily trading volume in preferred shares for the three months of 2Q10, compared with the same period of 2009.



6. SOCIO-ENVIRONMENTAL RESPONSIBILITY

The Instituto Alpargatas (IA) continues to carry out creative and innovative actions in line with its mission and the priorities set forth in its social responsibility program aimed at helping to improve public education for children, adolescents and young people. The institute continues to use sport and culture as methodological tools to improve school performance and attract and keep students in the classroom. Since it began its activities in 2003, the IA has benefited more than 280 thousand students in ten cities in the Northeast of Brazil. In 2010 alone, 64 thousand students are benefiting from 31 educational projects

in place with 262 partnering institutions. We make a point of caring for human resources, believing that they constitute a differential for Alpargatas'. Our actions in the area of occupational health and safety enabled us to end the semester with 131 days without lost-time accidents at any of our plants in Brazil. We maintained our commitment to environmental responsibility, investing in reducing the impact of our activities on the environment and in producing sustainable products. Our initiatives to reduce natural resource consumption and waste generation helped improve our sustainability indicators. Compared with 1H09, in the first semester of 2010 we reduced energy consumption by 7%, water consumption by 25% and waste generation by 10% per pair produced, even though production increased on average by 9%. These reductions also helped lower production costs with a positive impact on Alpargatas' results.

7. CORPORATE GOVERNANCE

In compliance with CVM Instruction nº 381/03, we hereby declare that the Company and its subsidiaries formally consult the independent auditors – Deloitte Touche Tohmatsu –, with the objective of ensuring that no other services rendered will affect the independence and objectivity required for the execution of the independent audit of the companies' financial statements. During 2Q10, we contracted no other services from Deloitte Touche Tohmatsu other than the audit of financial statements.

8. DECLARATION BY THE BOARD

In compliance with article 25 of the CVM Instruction nº 480/09, the Board declares that it has reviewed, discussed and agrees with São Paulo Alpargatas S.A.'s financial statements for the second quarter of 2010 and with the report prepared by the independent auditors.

9. OUTLOOK

Alpargatas will continue to expand its operations in the domestic and international markets in the second half of this year, increasing revenues and creating further value for its shareholders. In the outside environment, we expect the economic scenario in Brazil to remain strong, with growth in GDP and consumption. GDP in the United States has grown between the 2Q09 and the 2Q10, which should stimulate growth in other key markets. Within the company, we will continue to innovate, launching products that will make our brands more desirable and attractive, driving volume and revenue growth. We will maintain our focus on streamlining administrative and manufacturing processes and controlling costs and spending. We will maintain our outstanding performance in cash generation. We will also begin to execute the strategic actions defined in the planning finalized in June aimed at growing the company. Within a timeframe of five years, we expect Alpargatas to be a much bigger company in Brazil and even more so overseas. Our conviction about this positive outlook for Alpargatas is based on the capacity and talent of our human resources to provide continuity in the consolidation of a company which has shown outstanding performance in the Brazilian footwear market for the last 103 years.

São Paulo, August 13th, 2010
Board of Directors