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

Alpargatas S.A. and Subsidiaries

Financial Statements for the Year Ended December 31, 2011 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying individual and consolidated financial statements of Alpargatas S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as of December 31, 2011, and the statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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Opinion on the individual financial statements

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Alpargatas S.A. as of December 31, 2011, and its operating performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alpargatas S.A. as of December 31, 2011, and its consolidated operating performance and its consolidated cash flows for the year then ended in accordance with IFRSs, issued by the IASB, and accounting practices adopted in Brazil.

Emphasis of matter

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

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added ("DVA"), for the year ended December 31, 2011, prepared under the Company's Management's responsibility, the presentation of which is required by the Brazilian corporate law for publicly-traded companies, and as supplemental information for IFRSs, which does not require the presentation of a DVA. These statements were subjected to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

São Paulo, March 16, 2012

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

André Rafael de Oliveira
Engagement Partner

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

ALPARGATAS S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$)

ASSETS	Note	Parent (BR GAAP) 2011	Parent (BR GAAP) 2010	Consolidated (BR GAAP and IFRS) 2011	Consolidated (BR GAAP and IFRS) 2010
CURRENT ASSETS					
Cash and cash equivalents	8	451,388	494,962	510,467	523,356
Short-term investments	8	160,487	131,309	160,487	131,309
Trade accounts receivable	9	433,456	364,634	505,858	426,573
Inventories	10	198,200	183,878	351,023	295,885
Recoverable taxes	11	15,886	13,451	27,959	24,685
Prepaid expenses		6,293	3,187	11,433	5,783
Other receivables		26,241	25,034	42,312	50,247
Total current assets		1,291,951	1,216,455	1,609,539	1,457,838
NONCURRENT ASSETS					
Recoverable taxes	11	6,490	3,795	25,848	19,028
Judicial deposits	13	13,665	11,698	14,528	12,650
Deferred income tax and social contribution	12.a	46,838	43,005	89,551	88,797
Related parties	21	1,448	-	-	-
Other receivables		21,948	37,434	23,248	37,910
Investments:					
Subsidiaries and associates	14	357,172	324,683	74,267	77,143
Other		195	195	195	195
Property, plant and equipment	15	204,700	171,606	341,980	301,520
Intangible assets	15	96,221	102,974	263,398	262,454
Total noncurrent assets		748,677	695,390	833,015	799,697
TOTAL ASSETS		2,040,628	1,911,845	2,442,554	2,257,535

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent (BR GAAP) 2011	Parent (BR GAAP) 2010	Consolidated (BR GAAP and IFRS) 2011	Consolidated (BR GAAP and IFRS) 2010
CURRENT LIABILITIES					
Trade accounts payable	16	218,573	158,375	297,150	212,777
Loans and financing	17	67,824	150,770	180,077	226,371
Subsidiaries' debt restructurings	18	-	-	14,758	13,367
Payroll and related taxes		64,745	61,854	98,897	88,021
Accrual for tax, civil and labor risks	22	7,183	4,859	11,436	8,847
Interest on capital and dividends	21	843	495	843	495
Taxes payable	19	4,127	7,241	15,515	22,114
Provisions and other liabilities	20	27,107	22,381	47,623	34,829
Total current liabilities		390,402	405,975	666,299	606,821
NONCURRENT LIABILITIES					
Loans and financing	17	53,907	69,031	55,856	69,589
Subsidiaries' debt restructurings	18	-	-	63,537	63,403
Deferred income tax and social contribution	12.a	5,690	3,261	44,307	42,625
Accrual for tax, civil and labor risks	22	18,465	22,193	26,245	30,784
Suspended-payment taxes and other	23	86,654	86,405	86,780	90,620
Taxes paid in installments - Law 11941/09		875	-	875	-
Related parties	21	-	9,475	-	-
Other payables		6,947	5,030	8,796	5,620
Total noncurrent liabilities		172,538	195,395	286,396	302,641
SHAREHOLDERS' EQUITY					
Capital	24.a	518,922	441,171	518,922	441,171
Capital reserves		163,522	170,723	163,522	170,723
Options granted		3,579	3,072	3,579	3,072
Earnings reserves		865,824	733,806	865,824	733,806
Treasury shares		(40,587)	(29,282)	(40,587)	(29,282)
Proposed additional dividends		-	24,150	-	24,150
Other comprehensive income (loss)		(33,572)	(33,165)	(33,572)	(33,165)
Shareholders' equity attributable to controlling shareholders		1,477,688	1,310,475	1,477,688	1,310,475
Noncontrolling interest in subsidiaries' shareholders' equity		-	-	12,171	37,598
Total shareholders' equity		1,477,688	1,310,475	1,489,859	1,348,073
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,040,628	1,911,845	2,442,554	2,257,535

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

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

ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$, except earnings per share)

	Note	Parent (BR GAAP) 2011	Parent (BR GAAP) 2010	Consolidated (BR GAAP and IFRS) 2011	Consolidated (BR GAAP and IFRS) 2010
CONTINUING OPERATIONS					
Net sales	26	1,891,127	1,642,748	2,574,700	2,231,875
Cost of sales	27	(986,637)	(846,210)	(1,420,772)	(1,213,783)
GROSS PROFIT		904,490	796,538	1,153,928	1,018,092
OPERATING INCOME (EXPENSES)					
Selling	27	(492,721)	(400,914)	(663,238)	(539,403)
General and administrative	27	(112,169)	(92,222)	(132,027)	(111,307)
Management fees	21	(10,134)	(8,542)	(12,167)	(9,084)
Equity in subsidiaries	14	11,345	39,342	(5,657)	(9,222)
Other operating expenses, net	32	(22,516)	(37,545)	(29,024)	(24,851)
		(626,195)	(499,881)	(842,113)	(693,867)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		278,295	296,657	311,815	324,225
Financial income	30	77,283	48,411	80,830	49,907
Financial expenses	30	(25,630)	(17,619)	(51,214)	(43,279)
Exchange variation, net	31	(923)	(268)	(567)	2,330
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		329,025	327,181	340,864	333,183
Current income tax and social contribution	12.b	(23,009)	(23,161)	(32,136)	(31,214)
Deferred income tax and social contribution	12.b	1,404	(920)	339	5,242
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		307,420	303,100	309,067	307,211
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	36	-	3,241	-	3,241
NET INCOME		307,420	306,341	309,067	310,452
NET INCOME ATTRIBUTABLE TO THE					
Controlling shareholders		307,420	306,341	307,420	306,341
Noncontrolling shareholders		-	-	1,647	4,111
EARNINGS PER SHARE:					
Basic per share (ON) - R$	37	0.84	0.84	0.84	0.84
Diluted per share (ON) - R$	37	0.84	0.84	0.84	0.84
Basic per share (PN) - R$	37	0.93	0.92	0.93	0.92
Diluted per share (PN) - R$	37	0.87	0.90	0.87	0.90

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

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ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	Parent (BR GAAP) 2011	Parent (BR GAAP) 2010	Consolidated (BR GAAP and IFRS) 2011	Consolidated (BR GAAP and IFRS) 2010
Net income from continuing operations		307,420	303,100	309,067	307,211
Net income from discontinued operations		-	3,241	-	3,241
NET INCOME		307,420	306,341	309,067	310,452
Other comprehensive income (loss)-					
Gains (losses) on translation of financial statements of foreign subsidiaries	14	2,539	(12,361)	974	(15,796)
TOTAL COMPREHENSIVE INCOME		309,959	293,980	310,041	294,656
Total comprehensive income attributable to:					
Controlling shareholders		309,959	293,980	309,959	293,980
Noncontrolling shareholders		-	-	82	676

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

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

ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$, except dividends)

			Capital reserves				Earnings reserves									
	Note	Capital	Goodwill (negative goodwill) on the disposal of treasury shares	Tax incentives - investment grants	Capital reserve	Options granted	Legal	Tax incentives	Investments	Treasury shares	Proposed additional dividends	Other comprehensive income (loss)	Retained earnings	Shareholders' equity attributable to controlling shareholders'	Noncontrolling interest in subsidiaries' shareholders' equity	Total shareholders' equity
BALANCES AS OF DECEMBER 31, 2009		391,804	(5,443)	169,241	8,498	2,165	49,676	201,793	307,501	(28,327)	-	(17,250)	-	1,079,658	50,314	1,129,972
Net income for the year		-	-	-	-	-	-	-	-	-	-	-	306,341	306,341	4,111	310,452
Other comprehensive income (loss)	14	-	-	-	-	-	-	-	-	-	-	(12,361)	-	(12,361)	(3,435)	(15,796)
Total comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	(12,361)	306,341	293,980	676	294,656
Capital increase	24.a	49,367	-	-	-	-	-	-	(49,367)	-	-	-	-	-	-	-
Acquisition of shares to be held in treasury		-	-	-	-	-	-	-	-	(3,465)	-	-	-	(3,465)	-	(3,465)
Disposal of treasury shares due to the exercise of stock options	28	-	(1,573)	-	-	-	-	-	-	2,510	-	-	-	937	-	937
Grant of stock options	28	-	-	-	-	1,085	-	-	-	-	-	-	-	1,085	-	1,085
Exercise of stock options		-	-	-	-	(178)	-	-	-	-	-	-	178		-	-
Acquisition of noncontrolling interest in subsidiary	14	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,392)	(13,392)
Negative goodwill on the acquisition of noncontrolling interest in subsidiary	14	-	-	-	-	-	-	-	1,692	-	-	-	-	1,692	-	1,692
Realization of cost attributable to property, plant and equipment of subsidiary and associate		-	-	-	-	-	-	-	-	-	-	(3,554)	3,554	-	-	-
Allocations of net income for the year:																
Recognition of reserves-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax incentives	7	-	-	-	-	-	-	131,207	-	-	-	-	(131,207)	-	-	-
Investments		-	-	-	-	-	-	-	115,454	-	-	-	(115,454)	-	-	-
Payment of interest on capital - R$0.18 per share	24.c	-	-	-	-	-	-	-	-	-	-	-	(63,412)	(63,412)	-	(63,412)
Dividends declared on March 18, 2011 - R$0.07 per share	24.c	-	-	-	-	-	-	-	(24,150)	-	24,150	-	-	-	-	-
BALANCES AS OF DECEMBER 31, 2010		441,171	(7,016)	169,241	8,498	3,072	49,676	333,000	351,130	(29,282)	24,150	(33,165)	-	1,310,475	37,598	1,348,073
Net income for the year		-	-	-	-	-	-	-	-	-	-	-	307,420	307,420	1,647	309,067
Other comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	2,539	-	2,539	(1,565)	974
Total comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	2,539	307,420	309,959	82	310,041
Capital increase	24.a	77,751	-	-	-	-	-	-	(77,751)	-	-	-	-	-	-	-
Acquisition of shares to be held in treasury		-	-	-	-	-	-	-	-	(24,252)	-	-	-	(24,252)	-	(24,252)
Disposal of treasury shares due to the exercise of stock options	28	-	(7,201)	-	-	-	-	-	-	12,947	-	-	-	5,746	-	5,746
Grant of stock options	28	-	-	-	-	1,551	-	-	-	-	-	-	-	1,551	-	1,551
Exercise of stock options		-	-	-	-	(1,044)	-	-	-	-	-	-	1,044		-	-
Acquisition of noncontrolling interest in subsidiary	14	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,509)	(25,509)
Goodwill on the acquisition of noncontrolling interest in subsidiary	14	-	-	-	-	-	-	-	(23,284)	-	-	-	-	(23,284)	-	(23,284)
Realization of cost attributable to property, plant and equipment of subsidiary and associate		-	-	-	-	-	-	-		-	-	(2,946)	2,946	-	-	-
Unclaimed interest on capital and dividends		-	-	-	-	-	-	-	-	-	-	-	243	243	-	243
Payment of dividends declared on March 18, 2011 - R$0.07 per share	24.c	-	-	-	-	-	-	-	-	-	(24,150)	-	-	(24,150)	-	(24,150)
Allocations of net income for the year-																
Recognition of reserves:		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax incentives	7	-	-	-	-	-	-	146,544	-	-	-	-	(146,544)	-	-	-
Investments		-	-	-	-	-	-	-	86,509	-	-	-	(86,509)	-	-	-
Payment of interest on capital - R$0.22 per share	24.c	-	-	-	-	-	-	-	-	-	-	-	(78,600)	(78,600)	-	(78,600)
BALANCES AS OF DECEMBER 31, 2011		518,922	(14,217)	169,241	8,498	3,579	49,676	479,544	336,604	(40,587)	-	(33,572)	-	1,477,688	12,171	1,489,859

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

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

ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	Parent (BR GAAP) 2011	Parent (BR GAAP) 2010	Consolidated (BR GAAP and IFRS) 2011	Consolidated (BR GAAP and IFRS) 2010
CASH FLOW FROM OPERATING ACTIVITIES					
Net income from continuing operations		307,420	303,100	309,067	307,211
Adjustments to reconcile net income from continuing operations to cash provided by operating activities:					
Net income from discontinued operations	36	-	3,241	-	3,241
Depreciation and amortization	15	39,076	33,900	54,035	50,771
Loss on the sale/write-off of property, plant and equipment items		2,297	6,160	2,707	8,368
Allowance for impairment losses on property, plant and equipment		-	172	-	172
Income from the sale of assets held for sale		-	(2,005)	-	(16,310)
Equity in subsidiaries	14	(11,345)	(39,342)	5,657	9,222
Interest, inflation adjustments and exchange variation		18,587	11,193	32,237	26,934
Accrual for tax, civil and labor risks	22	10,225	15,010	11,073	16,419
Deferred income tax and social contribution	12.b	(1,404)	920	(339)	(5,242)
Grant of options	28	1,551	1,085	1,551	1,085
Reversal of provision for inventory losses	10	(1,305)	(2,250)	(565)	(1,582)
Allowance for doubtful accounts	9.c	3,491	902	6,079	3,472
		368,593	332,086	421,502	403,761
Decrease (increase) in assets:					
Trade accounts receivable		(72,313)	(15,699)	(82,264)	(26,525)
Inventories		(13,017)	(64,789)	(46,630)	(95,312)
Prepaid expenses		(3,106)	(593)	(5,444)	(1,608)
Recoverable taxes		(5,129)	1,418	(8,462)	(4,472)
Other		(3,412)	14,019	(2,005)	878
Increase (decrease) in liabilities:					
Trade accounts payable		60,198	75,391	79,633	101,454
Taxes payable		31,597	31,006	34,803	29,036
Payment of income tax and social contribution		(11,133)	(12,969)	(23,638)	(19,471)
Taxes on installments - Law 11941/09		(28,528)	-	(29,176)	-
Payroll and related taxes		2,892	17,731	9,358	22,047
Payment of interest on loans and financing		(16,331)	(11,947)	(19,580)	(15,292)
Other		(5,909)	1,250	4,629	(26,119)
Net cash provided by operating activities		304,402	366,904	332,726	368,377
CASH FLOW FROM INVESTING ACTIVITIES					
Investments in subsidiary	14	(49,433)	(16,159)	-	-
Acquisition of property, plant and equipment and intangible assets	15	(62,977)	(27,031)	(89,744)	(46,670)
Closing balance of cash and cash equivalents of subsidiary sold		-	(14,256)	-	-
Short-term investments		(27,745)	(128,180)	(27,745)	(128,180)
Receipts on the sale of property, plant and equipment		15,723	15,900	30,096	19,100
Net cash used in investing activities		(124,432)	(169,726)	(87,393)	(155,750)
CASH FLOW FROM FINANCING ACTIVITIES					
Loans and financing		88,346	132,158	259,769	284,815
Repayment of loans and financing - principal		(191,225)	(35,165)	(336,755)	(184,873)
Acquisition of shares to be held in treasury, net of disposals		(18,506)	(2,528)	(18,506)	(2,528)
Purchase of noncontrolling interest	14	-	-	(48,793)	(11,700)
Payment of interest on capital and dividends		(102,159)	(63,836)	(102,159)	(63,836)
Amortization of subsidiaries' debt restructurings		-	-	(12,100)	(14,872)
Net cash provided by (used in) financing activities		(223,544)	30,629	(258,544)	7,006
Effect of exchange rate changes on cash and cash equivalents		-	-	322	(2,867)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(43,574)	227,807	(12,889)	216,766
Cash and cash equivalents at beginning of the year		494,962	267,155	523,356	306,590
Cash and cash equivalents at end of the year		451,388	494,962	510,467	523,356
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(43,574)	227,807	(12,889)	216,766

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

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

ALPARGATAS S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	Parent		Consolidated	
		2011	2010	2011	2010
REVENUES		2,228,454	1,968,334	3,036,484	2,712,552
Sales of goods and products		2,208,381	1,919,892	3,016,367	2,650,560
Allowance for doubtful accounts	9	(3,491)	(902)	(6,079)	(3,121)
Other revenues		23,564	49,344	26,196	65,113
INPUTS PURCHASED FROM THIRD PARTIES		(1,327,279)	(1,158,994)	(1,704,483)	(1,511,301)
Cost of sales		(741,863)	(632,833)	(1,001,378)	(917,204)
Materials, electric power, outside services and other		(571,493)	(523,359)	(688,978)	(588,667)
Losses/recovery of assets		(8,787)	(773)	(8,991)	(847)
Other		(5,136)	(2,029)	(5,136)	(4,583)
		901,175	809,340	1,332,001	1,201,251
RETENTIONS		(39,076)	(33,900)	(54,035)	(50,771)
Depreciation and amortization	15	(39,076)	(33,900)	(54,035)	(50,771)
VALUE ADDED CREATED BY THE COMPANY		862,099	775,440	1,277,966	1,150,480
VALUE ADDED RECEIVED IN TRANSFER		100,525	98,736	86,338	49,598
Equity in subsidiaries	14	11,345	39,342	(5,657)	(9,222)
Income from discontinued operation	36	-	3,241	-	-
Financial income - includes exchange rate changes		88,826	55,059	91,641	57,536
Other		354	1,094	354	1,284
VALUE ADDED FOR DISTRIBUTION		962,624	874,176	1,364,304	1,200,078
VALUE ADDED DISTRIBUTED		(962,624)	(874,176)	(1,364,304)	(1,200,078)
Salaries and related taxes		(312,715)	(292,738)	(517,424)	(451,150)
Taxes, fees and contributions		(261,263)	(216,317)	(423,948)	(351,292)
Financial expenses and rents		(81,226)	(58,780)	(113,865)	(87,184)
Interest on capital	24.c	(78,600)	(63,412)	(78,600)	(63,412)
Retained earnings from continuing operations		(228,820)	(242,929)	(228,820)	(242,929)
Noncontrolling interest in retained earnings		-	-	(1,647)	(4,111)

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

1. GENERAL INFORMATION

1.1. General considerations

Alpargatas S.A. ("Company") is a publicly-traded corporation headquartered in the city of São Paulo, at Rua Funchal, 160, listed in the São Paulo Stock Exchange - BM&FBOVESPA under the ticker symbols "ALPA4" and e "ALPA3".

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

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

The direct and indirect subsidiaries and associates through which the Company conducts activities in Brazil and abroad are described in note 6.

1.2. Increase of interest in subsidiary Alpargatas S.A.I.C. - Argentina

The information on the process to buy shares and increase interest in subsidiary Alpargatas S.A.I.C. - Argentina is disclosed in note 14.

1.3. Discontinued operations - industrial textiles

The Company entered into a Share Purchase and Sale Agreement on December 22, 2009 for the sale of all the shares in direct subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda., a limited-liability company headquartered in Pouso Alegre - MG, and the sale of all the shares in indirect subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., a limited-liability company headquartered in Manaus - AM, both for the total price of R$43,000. This transaction was completed on April 20, 2010. Details are disclosed in note 36.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of compliance

The Company's financial statements comprise:

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

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

The accounting practices adopted in Brazil comprise the practices set out in Brazilian corporate law and the technical standards, instructions and interpretations issued by the Accounting Pronouncements Committee ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM").

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

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

2.2. Basis of preparation

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

3. SIGNIFICANT ACCOUNTING PRACTICES

The significant accounting practices described below were consistently prepared for all reporting years and for the individual (BR GAAP) and consolidated (BR GAAP and IFRS) financial statements:

a) Revenue recognition

Assets, liabilities, income and expenses are stated on the accrual basis. Sales revenue is recognized in the income statement when: (i) the risks and rewards inherent in the products and goods sold are transferred to the buyers; (ii) when it is probable that the economic benefits associated with the transaction will flow to the Company; and (iii) when Management is no longer involved with the products/goods. Sales revenue is stated net of deductions, including taxes on sales.

b) Recognition of tax incentives - investment grants

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

The Paraíba and Pernambuco State VAT (ICMS) investment grant is credited to "Taxes on sales" and the Corporate Income Tax (IRPJ) investment grant is credited to "Income tax and social contribution - current". Subsequently, at yearend, these incentives are allocated to line item "Capital reserves - tax incentives - investment grants" in shareholders' equity.

As described in note 7, the Company and its subsidiary CBS S.A. - Companhia Brasileira de Sandálias monthly recognize the incentives related to the Paraíba and Pernambuco States grants in the computation of State VAT (ICMS) of the operating units located in those States, since there are no conditions or additional commitments for the recognition of the incentive.

c) Cash and cash equivalents and short-term investments

(i) Cash and cash equivalents

Include cash, bank deposits and short-term investments redeemable in up to 90 days from the investment date, highly-liquid or convertible into a known cash amount, and subject to an insignificant risk of change in value, which are recorded at cost plus income earned through the balance sheet dates, which do not exceed their fair or realizable value.

(ii) Short-term investments

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

d) Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded in the balance sheet at their original amounts, less an allowance for doubtful accounts which is recognized based on an individual analysis of receivables, analysis of the economic scenario and history of losses reported in prior years by aging list, in an amount considered sufficient by the Company's and its subsidiaries' Management to cover probable losses on the collection of receivables, as shown in note 9.

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

e) Inventories

Stated at average cost of acquisition or production, adjusted to fair value and probable losses, when applicable. Details are disclosed in note 10.

f) Leases

Are classified as finance leases when lease agreement terms substantially transfer all the risks and rewards incidental to ownership to the Company and its subsidiaries.

Finance leases are classified when contracted. Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight--line basis over the lease term.

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

Each lease payment is apportioned between liabilities and the finance charges so as to permit obtaining a constant effective interest rate on the outstanding balance. The corresponding obligations, less finance charge, are classified in current liabilities and noncurrent liabilities, according to the lease term. Property, plant and equipment items purchased through finance leases are depreciated over their economic useful lives, at the rates described in note 15.

g) Property, plant and equipment

Is stated at acquisition or construction cost, plus interest capitalized during the construction period, in the case of qualifying assets, less accumulated depreciation and allowance for impairment losses on discontinued assets without expectation of reuse or realization. Depreciation is calculated under the straight-line method based on the estimated economic useful lives of the assets, as mentioned in note 15. The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

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

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

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

The Company and its subsidiaries opted not to review the historical costs of property, plant and equipment items or use the deemed cost criterion, in accordance with paragraphs 20 to 29 of technical interpretation ICPC 10 - Interpretation on the First-time Adoption to Property, Plant and Equipment and Investment Properties of Technical Pronouncements CPCs 27, 28, 37 and 43, to account for the opening balance of property, plant and equipment on the first-time adoption of technical pronouncement CPC 27 - Property, Plant and Equipment and technical interpretation ICPC 10. The Company's Management understands that, on the transition date, its property, plant and equipment items were stated at amounts that approximate their fair values, in accordance with substantial investments made in the expansion and renovation of plants over the last five years, including the replacement and acquisition of new industrial equipment. However, this alternative was adopted on the initial recognition of the cost of property, plant and equipment of subsidiary Alpargatas S.A.I.C. - Argentina and associate Group Tavex S.A., which are recognized in the subsidiary's and associate's financial statements, respectively.

The depreciation effects arising from the first periodic review of the remaining economic useful lives of property, plant and equipment items, as prescribed by technical interpretation ICPC 10, were recognized prospectively beginning January 1, 2010.

h) Intangible assets

Separately acquired intangible assets

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

They comprise: (i) trademarks; (ii) assignment of commercial use rights; (iii) software licenses, including implementation costs; (iv) customer bases purchased from third parties; and (v) goodwill on acquisition of subsidiaries (consolidated). Assets with finite useful lives are amortized over the terms described in note 15. Assets without finite useful lives, mainly consisting of goodwill paid on the acquisition of subsidiaries, were amortized through December 31, 2008 over ten years and, beginning January 1, 2009, started to be annually analyzed as regards to their recoverability (impairment) and/or when any impairment loss is present (see details in note 15).

Software (including corresponding implementation expenses) and ERP systems licenses purchased are capitalized and amortized at the rates described in note 15, and expenses on software maintenance are recognized as expenses when incurred.

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

Separately purchased trademarks and patents are stated at their historical cost. Trademarks and patents acquired in a business combination are recognized at fair value on the acquisition date as they have a finite useful life and are stated at cost less accumulated amortization. Amortization is calculated under the straight-line method at the annual rates described in note 15.

Product research and development expenses.

Expenses on the research and development of products are recorded as expenses for the year, when incurred. Details are disclosed in note 15.

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

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

j) Impairment of assets (except goodwill)

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

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

k) Impairment of goodwill

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

l) Accrual for tax, civil and labor risks

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

It 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 Company's and its subsidiaries' legal counsel. The basis and nature of the provision and of the contingencies are described in note 22.

m) Taxation

m.1) Taxes on sales

Revenues from sales in the domestic market are subject to the following taxes and contributions at statutory rates:

- State VAT (ICMS) 7% to 18%. (i).
- Tax on revenue (COFINS) - 7.65% (ii).
- Tax on revenue (PIS) - 1.65% (ii).
- Social security contribution (INSS) - 1.5%.

(i) The Company and its subsidiary CBS S.A. - Companhia Brasileira de Sandálias have ICMS investment grants, as described in note 7.

(ii) Credits arising from the non-cumulativeness of PIS and COFINS are stated as a balancing item to cost of sales in the income statement.

Sales are recorded in the income statement, less the related taxes and contributions (net operating income).

m.2) Taxes on income

Current taxes

The provision for income tax and social contribution is based on taxable income for the year. Taxable income differs from the income shown in the income statement because it excludes taxable or deductible income or expenses for other years, in addition to permanently excluding non-taxable or non-deductible items. The provision for income tax is calculated individually by each Group Company, based on the rates effective at yearend, except for foreign subsidiaries, to which the tax rates effective in each of the countries where they are located are applicable, the income tax and social contribution of the Company and its subsidiaries in Brazil are calculated at the rates of 25% and 9% for income tax and social contribution, respectively. The income tax and social contribution of subsidiaries Alpargatas Imobiliária Ltda. and Fibrasil Agrícola Comercial Ltda. are calculated based on deemed income, taking into consideration the tax rates and legislation prevailing at the balance sheet dates.

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

Deferred taxes

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

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

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

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

Current and deferred income tax

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

Details are disclosed in note 12.

n) Functional and reporting currency

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

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

Foreign currency-denominated transactions and balances

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

Translation

In preparing the consolidated financial statements, the income statement and statement of cash flows and all other changes in assets and liabilities are translated into Brazilian reais at the average exchange rate, based on an amount close to the exchange rate prevailing at the date of the underlying transactions. Balance sheet accounts are translated into Brazilian reais at the exchange rates prevailing at the balance sheet dates.

The effects of changes in foreign exchange rates during the year on shareholders' equity at the beginning of the year are recognized as a change in shareholders' equity, as the difference between retained earnings is recognized at the average foreign exchange rates prevailing at yearend. The cumulative exchange differences is presented as a separate component in shareholders' equity in "Valuation adjustments to equity". In case of total or partial disposal of interest in a Group Company, through sale or as a result of capital payment, the cumulative exchange difference is recognized in the income statement as part of the gain or loss on the disposal of the investment.

o) Financial instruments

Classification

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

Financial assets

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

Refer to held-for-trading financial assets when acquired for such purpose, principally in the short term. Derivatives are also classified in this category. Assets in this category are classified in current assets.

Only derivative instruments are classified in this category, when applicable. 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 "Financial income" or "Financial expenses", respectively. As of December 31, 2011 and 2010, the Company and its subsidiaries did not have financial instruments recorded in their financial statements under this category.

(ii) Held-to-maturity financial assets

Comprise investments in certain financial assets that the Company intends to hold to maturity, which are measured at acquisition cost, plus income earned according to contractual terms and conditions. As of December 31, 2011 and 2010, the Company and its subsidiaries did not have financial instruments recorded in their financial statements under this category.

(iii) Available-for-sale financial assets

When applicable, non-derivative financial assets are included in this category, such as securities and/or shares quoted in active markets, or which are not quoted in an active market but whose fair values can be reasonably estimated. As of December 31, 2011 and 2010, the Company and its subsidiaries did not have financial instruments recorded in their financial statements under this category.

(iv) Loans and receivables

Include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets, where applicable. As of December 31, 2011 and 2010, in the case of the Company and its subsidiaries, comprises cash and cash equivalents, short-term investments (note 8), trade accounts receivable (note 9), and due from related parties (note 21).

Financial liabilities measured at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when they are either held for trading or designated at fair value through profit or loss.

Other financial liabilities

Other financial liabilities are stated at amortized cost using the effective interest method. As of December 31, 2011 and 2010, they are represented by loans and financing (note 17), trade accounts payable (note 16) and due from subsidiary Alpargatas S.A.I.C. - Argentina (note 18) which, except for trade accounts payable, are stated at their original amounts, plus interest, inflation adjustments and exchange rate changes incurred through the balance sheet dates.

Effective interest method

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

Measurement

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

Gains or losses resulting from changes in the fair value of financial assets at fair value through profit or loss are recognized in the income statement in “Financial income” or “Financial expenses”, respectively, when earned or incurred.

Offsetting of financial instruments

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

Derivatives and hedging activities

When applicable, derivative transactions contracted by the Company and its subsidiaries are measured at their fair value, and the related changes are recognized in income or loss for the year, when not designated in a hedge accounting. The nominal amounts of derivative transaction are not recorded in the balance sheet. Unrealized net gains or losses from these transactions, measured at their fair values, are recorded in income or loss on the accrual basis, as a balancing item to current assets and current liabilities.

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

p) Share-based compensation

The fair value of call options granted set on the grant date is recognized on a straight-line basis as expenses in income or loss for the year over the vesting period, based on the Company's estimates on which options granted will become eventually vested, with a corresponding increase in shareholders' equity. At yearend, the Company reviews its estimates on the number of equity instruments to be vested, and the review impact with respect to original estimates, if any, is recognized in income or loss for the year, so that accumulated expenses reflect the estimates reviewed, including the corresponding adjustment to shareholders' equity in line item "Options granted" that recorded the benefit to employees, in conformity with the criteria set forth in technical pronouncement CPC 10/IFRS 02 - Share-based Payment.

q) Profit sharing

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

r) Dividends and interest on capital

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

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

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

The costs related to the contributions made by the Company and its subsidiaries to pension plans are recognized as expenses in income or loss when the services that grant such benefits are provided (accrual basis). Actuarial gains and losses recorded in the employees' healthcare plan are recorded in net income/loss in accordance with technical pronouncement CPC 33/IAS 19 - Employee Benefits, based on the actuarial calculation prepared by an independent actuary, as described in note 29.

t) Earnings per share

Stated as basic and diluted earnings, as described in note 37.

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

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

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

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

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

Gain or loss on discontinued operations is stated as a single amount in the income statement and statement of cash flow, comprising total profit or loss after income tax, less any impairment loss. Net cash flows from operating, investing and financing activities of discontinued operations are described in note 36.

v) Segment reporting

Reporting of operating segments is consistent with the internal report provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources to the operating segments and assessing their performance, is represented by the Company's CEO. Details are disclosed in note 25.

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

Investments in subsidiaries and associates are accounted for under the equity method. Details are disclosed in note 14.

x) Statement of value added ("DVA")

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

Below are the main accounting judgments and estimates:

a) Revenue recognition

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

b) Income tax and social contribution - deferred

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

c) Accrual for tax, civil and labor risks

The Company and its subsidiaries are parties to several lawsuits and administrative proceedings, as described in note 22. Accruals are recognized for all contingent liabilities relating to lawsuits that represent probable losses that can be reliably estimated. The likelihood of loss is assessed based on available evidences, the hierarchy of laws, jurisprudence available, most recent court decisions, and their relevance within the legal system, and the assessment made by our outside legal counsel. Management believes that the accrual for tax, civil, and labor risks is accurately presented in the financial statements.

d) Allowance for doubtful accounts

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

e) Allowance for slow-moving and obsolete inventories

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

f) Pension and healthcare plans

The present value of pension and healthcare plans depends on a series of factors which are determined based on actuarial calculations that update a series of assumptions, such as, for example, discount rate and others, as described in note 29. Changes in any of these assumptions could affect actual results.

g) Impairment of goodwill

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

The carrying amount of goodwill as of December 31, 2011 and 2010 is R$150,130. Information on the assumptions used to calculate the recoverable value are disclosed in note 15.

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

The Company and its subsidiaries review the estimated useful lives of property, plant and equipment items on an annual basis. In 2010, the Company and its subsidiaries performed the first periodical analysis of the remaining useful lives of property, plant and equipment and intangible assets with finite useful lives, as prescribed by technical interpretation ICPC 10, whose effects were recorded beginning January 1, 2010.

5. NEW STANDARDS, AMENDMENTS TO AND INTERPRETATIONS OF STANDARDS

a) Standards, interpretations of and amendments to standards effective beginning December 31, 2011 and which did not have a significant impact on the Company's financial statements.

The standards and amendments to the standards below were issued and effective on December 31, 2011. However, they did not have a significant impact on the Company's and its subsidiaries' financial statements:

Standard	Main requirements	Effective date
Improvements to IFRSs - 2010	Amendments to several accounting standards.	Effective for annual periods beginning on or after January 1, 2011.
Amendments to IFRS 01 - First-time Adoption of IFRSs	Limited Exemption from Comparative IFRS 07 - Disclosures for First-time Adopters.	Effective for annual periods beginning on or after July 1, 2010.
Amendments to IAS 24 - Related Parties	Related-party disclosures.	Effective for annual periods beginning on or after January 1, 2011.
Amendments to IFRIC 14 - The Limit on a Defined Benefit Asset	Prepayments of a minimum funding requirements.	Effective for annual periods beginning on or after January 1, 2011.
Amendments to IAS 32 - Financial Instruments: Disclosure	Classification of issue rights.	Effective for annual periods beginning on or after February 1, 2010.
IFRIC 19 - Extinguishing Financial Liabilities	Extinguishing financial liabilities with equity instruments.	Effective for annual periods beginning on or after July 1, 2010.

b) Standards, interpretations of and amendments to standards not yet effective beginning December 31, 2011 and which were not early adopted by the Company.

The standards and amendments to the standards below were published and are mandatory for annual periods beginning after December 31, 2011. However, the Company and its subsidiaries did not early adopt them:

Standard	Main requirements	Effective date
IFRS 09 (as amended in 2010)	Financial instruments.	Effective for annual periods beginning on or after January 1, 2013.
Amendments to IFRS 01 - First-time Adoption of IFRSs	Elimination of fixed dates for first--time adopters of IFRSs.	Effective for annual periods beginning on or after July 1, 2011.
Amendments to IFRS 07 - Financial Instruments: Disclosure	Disclosures - transfers of financial assets.	Effective for annual periods beginning on or after July 1, 2011.
Amendments to IAS 12 - Income Taxes	Deferred taxes - recovery of the underlying assets when the asset is measured under IAS 40 fair value framework.	Effective for annual periods beginning on or after January 1, 2012.
IAS 28 (revised in 2011) - Investments in Associates and Joint Ventures	Revision of IAS 28 to include the amendments introduced by IFRSs 10, 11 and 12.	Effective for annual periods beginning on or after January 1, 2013.
IAS 27 (revised 2011) - Separate Financial Statements	IAS 27 requirements relating to the consolidated financial statements were superseded by IFRS 10. Requirements relating to separate financial statements are maintained.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 10 - Consolidated Financial Statements	Supersedes IAS 27 in relation to the requirements applicable to the consolidated financial statements and SIC 12. IFRS 10 established a single control-based consolidation model, regardless of the investment nature.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 11 - Joint Arrangements	Eliminated the proportionate consolidation model for jointly--controlled entities and maintained equity method model only. It also eliminated the existing concept of “jointly controlled assets” and classifies joint arrangements as either “joint operations” or “joint ventures”.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 12 - Disclosures of Interest in Other Entities	Enhances the requirements for disclosure of investments in entities where the Company has significant influence.	Effective for annual periods beginning on or after January 1, 2013.

Standard	Main requirements	Effective date
IFRS 13 - Fair Value Measurement	It replaces and consolidates in a single standard all the guidance and requirements in respect of fair value measurement contained in other IFRSs. IFRS 13 defines fair value and provides guidance on how to measure fair value and requirements for disclosure relating to fair value measurement. However, it does not introduce any new requirement or amendment with respect to items to be measured at fair value, which remain as originally issued.	Effective for annual periods beginning on or after January 1, 2013.
Amendments to IAS 19 - Employee Benefits	Eliminate the corridor approach; actuarial gains or losses are recognized as other comprehensive income or loss for pension plans and in income or loss for other long-term benefits, when incurred, among other amendments.	Effective for annual periods beginning on or after January 1, 2013.
Amendments to IAS 01 - Presentation of Financial Statements	Introduces the requirement that items recorded in other comprehensive income should be segregated and recorded among items that are subsequently reclassified to profit and loss or not.	Effective for annual periods beginning on or after January 1, 2013.

The CPC has not yet issued the standards and amendments related to the new and revised IFRSs presented above. Because of the CPC's and the CVM's commitment to keep the set of standards issued updated according to the changes made by the IASB, we expect that such standards and amendments be issued by the CPC and approved by the CVM by the date they become effective.

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

6. CONSOLIDATED FINANCIAL STATEMENTS

Consolidation basis

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

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

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

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

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

Definition of subsidiaries

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

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

	Interest and voting rights - %	
	2011	2010
Direct ownership interest:		
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. (*)	-	-
CBS S.A. - Companhia Brasileira de Sandálias	100.00	100.00
Fibrasil Agrícola e Comercial Ltda.	100.00	100.00
Alpargatas Imobiliária S.A.	100.00	100.00
Alpargatas Chile Ltda. - Chile	100.00	100.00
Alpargatas Internacional APS - Denmark	100.00	100.00
Alpargatas S.A.I.C. - Argentina	91.45	70.69

	Interest and voting rights - %	
	2011	2010
Indirect ownership interest (through Alpargatas Internacional APS):		
Alpargatas Europe S.L.U. - Spain	100.00	100.00
Alpargatas USA Inc. - United States	100.00	100.00
Alpargatas UK Limited - United Kingdom	100.00	100.00
Alpargatas France S.A.R.L. - France	100.00	100.00
Alpargatas Itália S.R.L. - Italy	100.00	100.00
Alpargatas Portugal Limited - Portugal	100.00	100.00
Group Tavex S.A.	18.69	18.69
Indirect ownership interest (through Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.)-		
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda. (*)	-	-

(*) Discontinued activities, as disclosed in notes 1.3. and 36.

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

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

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

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

- Alpargatas Europe S.L.U. - Spain, Alpargatas France S.A.R.L. - France, Alpargatas UK Limited - United Kingdom, Alpargatas Itália S.R.L. - Italy and Alpargatas Portugal Limited - Portugal: organized in July, August and September 2008, respectively, are engaged in the import and sale of footwear in the European market.

- Alpargatas USA Inc. - United States: organized after the merger of Expasa Florida Inc. in December 2006 and engaged in the import and sale of footwear in the U.S. market.

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

Changes in the equity interests in existing subsidiaries

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

When the Company loses the control over a subsidiary, the gain or loss from the disposal of control is calculated based on the difference between: (a) the sum of the fair value of considerations received and the fair value of the residual interest; and (b) the prior-year balance of the subsidiary's assets (including goodwill) and liabilities and noncontrolling interests, if any. When the subsidiary's assets are stated at their fair values and the corresponding accumulated gain or loss was recognized under line item "Other comprehensive income (loss)" and added to the shareholders' equity, the amounts previously recognized in "Other comprehensive income (loss)" and added to shareholders' equity are recorded as if the Company had directly disposed of the corresponding assets (i.e., reclassified to income or loss or transferred directly to line item "Retained earnings", as prescribed by the applicable IFRSs). The fair value of any investment in former subsidiary on the date of disposal of control is considered as the fair value on initial recognition for subsequent accounting, in accordance with technical pronouncement CPC 38/IAS 39 - Financial Instruments: Recognition and Measurement, or, when applicable, at cost on the initial recognition of an investment in an associate or jointly-owned entity.

7. TAX INCENTIVES - INVESTMENT GRANTS

The Company and its subsidiaries have tax incentives granted by the State governments where the main plants are located, which will expire between 2018 and 2020. The Company and its subsidiaries also enjoy Federal government grants through the profit from exploration in the Northeast Region.

Investment grants, including income tax incentives, recorded for the years ended December 31, 2011 and 2010, are as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
ICMS incentive:				
Paraíba (a)	133,971	118,052	133,971	118,052
Pernambuco (b)	-	-	9,009	8,586
IRPJ incentives-				
Northeast Region (c)	12,573	13,155	16,004	17,062
Total	146,544	131,207	158,984	143,700

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

Additionally, in 2011 and 2010, there were no incentive installments to be recorded in the accounting books, resulting from obligations established by incentive plan, to be complied with by the Company. Tax incentive installments are credited to "Taxes on sales" in the income statement for the year.

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

(c) Credited to "Income tax and social contribution - current" in the income statement for the year (see details in note 12.b)).

8. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

a) Cash and cash equivalents

	Parent		Consolidated	
	2011	2010	2011	2010
Cash and banks	458	7,381	14,847	31,552
Interest-bearing bank account (i)	644	-	2,458	-
Short-term investments:				
Bank Certificates of Deposit (CDBs) - fixed and floating	133,208	159,545	136,610	159,545
Repurchase agreements (ii)	306,968	328,036	345,351	328,036
National Treasury Notes - series B (iii)	10,110	-	10,110	-
Other - Alpargatas S.A.I.C. - Argentina (iv)	-	-	809	3,408
Other - Alpargatas Europe S.L.U. - Spain (iv)	-	-	282	815
Total	451,388	494,962	510,467	523,356

The Company has a short-term investment policy that establishes that short-term investment can only be made in financial institutions with a minimum rating of "AA", classified according to rating agencies Fitch and Standard & Poor's, or "Aa", according to Moody's. Any Management proposal to invest in financial institutions with lower rating will depend on the authorization of the Board of Directors.

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

Short-term investments held by the Company and its subsidiaries are as follows:

(i) As of December 31, 2011, the Company and its subsidiaries held a balance in a bank account bearing interest of 20% of the Interbank Deposit Certificate (CDI) rate fluctuation.

(ii) As of December 31, 2010, CDB investments are distributed across several financial institutions at an average yield of 103.66% of the CDI (102.68% as of December 31, 2010) and repurchase commitments are distributed across several financial certificates with an average yield of 103.32% of the CDI rate (101.67% as of December 31, 2010). As of December 31, 2011, the redemption terms of CDBs and securities relating to repurchase commitments range between January 2012 and November 2016; however, they are classified as "Cash and cash equivalents" since they have a redemption term of no more than 90 days or are considered as immediately redeemable financial assets, subject to an insignificant risk of change in value.

(iii) The Company acquired National Treasury Notes - series B (NTN-B) indexed to the Extended Consumer Price Index (IPCA) fluctuation plus interest of 6% per year, maturing in August 2020. Since these notes are highly liquid, the Company adjust them to their fair values and classifies as "Cash and cash equivalents".

(iv) Short-term investments held by subsidiaries Alpargatas S.A.I.C. - Argentina and Alpargatas Europe S.L.U. - Spain as of December 31, 2011 are represented by fixed--income securities, yielding annual average interest of 3.38% and 1.6%, respectively (9.38% and 1.59%, respectively, as of December 31, 2010).

b) Short-term investments

As of December 31, 2011 and 2010, refer to CDBs and repurchase transactions yielding average interest of 103.61% of the CDI (109.16% as of December 31, 2010). They are broken down as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
Fixed and floating CDBs	10,737	51,883	10,737	51,883
Repurchase agreements	149,750	79,426	149,750	79,426
Total	160,487	131,309	160,487	131,309

Classified in current assets as they can be redeemed up to 360 days after the investment date and are stated separately from line item "Cash and cash equivalents" because they have a grace period of 90 days and due to significant risk of change in value in case of early redemption.

9. TRADE ACCOUNTS RECEIVABLE

a) Composed of:

	Parent		Consolidated	
	2011	2010	2011	2010
Domestic market	413,346	346,974	436,915	366,532
Foreign market	17,309	16,760	93,393	78,412
Due from related parties (note 21.b))	19,377	13,986	-	-
Allowance for doubtful accounts	(16,576)	(13,086)	(24,450)	(18,371)
Total	433,456	364,634	505,858	426,573

Trade accounts receivable are classified as loans and receivables stated at amortized cost. Their carrying amounts approximate fair values, as described in note 3.d). Foreign trade accounts receivable is substantially denominated in U.S. dollar, euro and Argentinean peso.

b) Aging list of trade accounts receivable

	Parent		Consolidated	
	2011	2010	2011	2010
Current	396,982	333,939	452,512	385,176
Past-due:				
Up to 30 days	20,627	15,980	30,114	22,426
31 to 90 days	4,994	5,603	10,954	8,770
Over 91 days	27,429	22,198	36,728	28,572
Total	450,032	377,720	530,308	444,944

c) Allowance for doubtful accounts

Changes in the allowance for doubtful accounts are as follows:

	Parent	Consolidated
Balance as of December 31, 2010	(13,086)	(18,371)
Additions	(5,255)	(8,106)
Reversals and write-offs	1,765	2,027
Balance as of December 31, 2011	(16,576)	(24,450)

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

	2011	2010
Up to 30 days	(298)	(74)
31 to 90 days	(983)	(320)
Over 91 days	(23,169)	(17,977)
Total	(24,450)	(18,371)

The expense on the recognition of the allowance for doubtful accounts was recorded in "Selling expenses" in the income statement.

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

10. INVENTORIES

	Parent		Consolidated	
	2011	2010	2011	2010
Finished products	114,366	96,359	218,866	164,429
Work in process	11,560	12,546	29,707	26,517
Raw materials	38,858	41,617	69,149	70,599
Imports in transit	12,777	14,957	13,552	14,957
Others	24,959	24,024	28,993	29,192
Allowance for inventory losses	(4,320)	(5,625)	(9,244)	(9,809)
Total	198,200	183,878	351,023	295,885

Changes in the allowance for inventory losses are as follows:

	Parent	Consolidated
Balance as of December 31, 2010	(5,625)	(9,809)
Additions	(3,298)	(4,981)
Reversals and write-offs	4,603	5,546
Balance as of December 31, 2011	(4,320)	(9,244)

11. RECOVERABLE TAXES

	Parent		Consolidated	
	2011	2010	2011	2010
Prepayments of income tax and social contribution	10,270	7,384	12,250	9,656
Withholding income tax (IRRF)	4,013	1,297	4,013	1,297
State VAT (ICMS)	2,687	3,241	2,874	3,389
Federal VAT (IPI)	108	87	108	87
Taxes on revenue (PIS and COFINS) to offset	4,785	1,086	5,275	1,418
Value-Added Tax (VAT) - Alpargatas Europe	-	-	2,046	1,503
Value-Added Tax (VAT) - Alpargatas Chile	-	-	-	555
Prepayments of income tax - Alpargatas S.A.I.C. - Argentina	-	-	15,880	14,143
Value-Added Tax (VAT) - Argentina	-	-	8,326	6,553
Others	513	4,151	3,035	5,112
Total	22,376	17,246	53,807	43,713

	Parent		Consolidated	
	2011	2010	2011	2010
Current portion	15,886	13,451	27,959	24,685
Noncurrent portion	6,490	3,795	25,848	19,028

12. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

	Parent and consolidated	
	2011	2010
Noncurrent assets:		
Parent:		
Allowance for doubtful accounts	5,636	4,449
Allowance for inventory losses	1,469	1,913
Accrual for tax, civil and labor risks	8,050	6,963
Accrual for suspended-payment taxes	20,853	15,844
Write-off of deferred charges	601	1,328
Adjustment of sales revenue recognized	3,721	5,477
Other temporary differences	6,508	3,824
Tax losses carryforwards	-	3,207
Total - Parent	46,838	43,005
Subsidiaries:		
Alpargatas S.A.I.C. - Argentina:		
Accrual for trust	7,259	13,516
Accrual for tax, civil and labor risks	12,149	7,829
Other temporary differences	7,328	5,988
	26,736	27,333
Alpargatas Europe S.L.U. - Spain-		
Tax losses carryforwards (i)	9,750	8,567
Alpargatas Chile Ltda. - Chile	-	2,046
CBS S.A. - Companhia Brasileira de Sandálias:		
Temporary differences	1,816	1,970
Tax losses carryforwards (i)	3,376	7,157
	5,192	9,127
Unrealized profits on inventories	1,035	765
(-) Provision for realization risk - Alpargatas Chile Ltda. - Chile	-	(2,046)
Total - Consolidated	89,551	88,797

	Parent and consolidated	
	2011	2010
Noncurrent liabilities:		
Parent-		
Goodwill on acquisition of subsidiaries amortized in tax books (ii)	5,690	3,261
Total - Parent	5,690	3,261
Subsidiaries-		
Alpargatas S.A.I.C. - Argentina-		
Adjustment to present value on renegotiated liabilities and tax difference on the appreciation of property, plant and equipment items	38,617	39,364
Total - Consolidated	44,307	42,625

(i) Recognition of tax credit from subsidiaries

Alpargatas Europe S.L.U. - Spain

Based on a technical feasibility study, approved by the Board of Directors, Management decided to recognize a deferred income tax credit on tax losses carryforwards taken by subsidiary Alpargatas Europe S.L.U. - Spain to close the financial statements for the year ended December 31, 2009. Based on the subsidiary's projected future taxable income beginning 2011, Management, in compliance with technical pronouncement CPC 32/IAS 12 - Income Taxes, decided to recognize the deferred tax credit, which is expected to be realized through 2015. As prescribed by Spanish tax laws, tax losses expire within 18 years after incurred.

CBS S.A. - Companhia Brasileira de Sandálias

In June 2010, CBS S.A. - Companhia Brasileira de Sandálias recognized a tax credit on tax losses carryforwards, based on the expected future generation of taxable income, as prescribed in CPC 32/IAS 12. Recognized credit began to be offset and is expected to be realized through 2012.

(ii) Goodwill on acquisition of subsidiaries amortized in tax books

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

Deferred tax credits, in the consolidated, are realized as follows:

	2011	2010
2012	4,478	19,235
2013	4,758	20,573
2014	4,758	20,573
2015 and thereafter	75,557	28,416
Total - Consolidated	89,551	88,797

As of December 31, 2011, the Company also had unrecognized tax credits on tax losses carryforwards and temporary differences in the consolidated financial statements, resulting from its foreign subsidiaries, due to the lack of projected future taxable income over the next years.

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

	R$
Total temporary differences	1,113
Tax losses:	
Alpargatas USA Inc. - United States	38,528
Alpargatas France S.A.R.L. - France	247
Alpargatas Itália S.R.L. - Italy	5
Total	39,893

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

The changes in deferred income tax and social contribution assets and liabilities for the years ended December 31, 2011 and 2010 are as follows:

	2010	(Charged against) credited in the income statement	Exchange rate change, charges and other changes	2011
Noncurrent assets:				
Parent:				
Allowance for doubtful accounts	4,449	1,187	-	5,636
Allowance for inventory losses	1,913	(444)	-	1,469
Accrual for tax, civil and labor risks	6,963	1,087	-	8,050
Accrual for suspended-payment taxes	15,844	5,009	-	20,853
Write-off of deferred charges	1,328	(727)	-	601
Adjustment of sales revenue recognized	5,477	(1,756)	-	3,721
Other temporary differences	3,824	2,684	-	6,508
Tax losses carryforwards	3,207	(3,207)	-	-
Total - Parent	43,005	3,833	-	46,838
Subsidiaries:				
Alpargatas S.A.I.C. - Argentina:				
Accrual for trust	13,516	(6,321)	64	7,259
Accrual for tax, civil and labor risks	7,829	3,716	604	12,149
Other temporary differences	5,988	1,049	291	7,328
	27,333	(1,556)	959	26,736

	2010	(Charged against) credited in the income statement	Exchange rate change, charges and other changes	2011
Alpargatas Europe S.L.U. - Spain	8,567	657	526	9,750
Alpargatas Chile Ltda. - Chile	2,046	-	(2,046)	-
CBS S.A. - Companhia Brasileira de Sandálias:				
Temporary differences	1,970	(154)	-	1,816
Tax losses carryforwards	7,157	(2,392)	(1,389)	3,376
	9,127	(2,546)	(1,389)	5,192
Unrealized profits on inventories	765	270	-	1,035
(-) Provision for realization risk - Alpargatas Chile Ltda. - Chile	(2,046)	-	2,046	-
Total - Consolidated	88,797	658	96	89,551
Noncurrent liabilities:				
Parent-				
Goodwill on acquisition of subsidiaries amortized in tax books	3,261	2,429	-	5,690
Total - Parent	3,261	2,429	-	5,690
Subsidiaries-				
Alpargatas S.A.I.C. - Argentina-				
Adjustment to present value on renegotiated liabilities and tax difference on the appreciation of property, plant and equipment items	39,364	(2,110)	1,356	38,617
Total - Consolidated	42,625	319	1,356	44,307
Total, net - Parent		1,404		
Total, net - Consolidated		339		

	2009	(Charged against) credited in the income statement	Exchange rate change, charges and other changes	2010
Noncurrent assets:				
Parent:				
Allowance for doubtful accounts	4,143	306	-	4,449
Allowance for inventory losses	2,678	(765)	-	1,913
Accrual for tax, civil and labor risks	7,013	(50)	-	6,963
Accrual for suspended-payment taxes	11,296	4,548	-	15,844
Write-off of deferred charges	2,139	(811)	-	1,328
Adjustment of sales revenue recognized	6,754	(1,277)	-	5,477
Other temporary differences	5,065	(1,241)	-	3,824
Tax losses carryforwards	3,207	-	-	3,207
Total - Parent	42,295	710	-	43,005
Subsidiaries:				
Alpargatas S.A.I.C. - Argentina:				
Accrual for trust	19,948	(2,339)	(4,093)	13,516
Accrual for tax, civil and labor risks	7,512	1,378	(1,541)	7,349
Other temporary differences	8,597	(365)	(1,764)	6,468
	36,057	(1,326)	(7,398)	27,333
Alpargatas Europe S.L.U. - Spain	9,404	-	(837)	8,567
Alpargatas Chile Ltda. - Chile	1,213	-	833	2,046

	2009	(Charged against) credited in the income statement	Exchange rate change, charges and other changes	2010
CBS S.A. - Companhia Brasileira de Sandálias:				
Temporary differences	-	1,970	-	1,970
Tax losses carryforwards	-	5,397	1,760	7,157
	-	7,367	1,760	9,127
Unrealized profits on inventories	1,322	(557)	-	765
(-) Provision for realization risk - Alpargatas Chile Ltda. - Chile	-	-	(2,046)	(2,046)
Total - Consolidated	90,291	6,194	(7,688)	88,797
Noncurrent liabilities:				
Parent-				
Goodwill on acquisition of subsidiaries amortized in tax books	1,631	1,630	-	3,261
Total - Parent	1,631	1,630	-	3,261
Subsidiaries-				
Alpargatas S.A.I.C. - Argentina-				
Adjustment to present value on renegotiated liabilities and tax difference on the appreciation of property, plant and equipment items	49,608	(678)	(9,264)	39,364
Total - Consolidated	51,239	952	(9,264)	42,625
Total, net - Parent		(920)		
Total, net - Consolidated		5,242		

b) Current

Reconciliation of income tax and social contribution on net income

	Parent		Consolidated	
	2011	2010	2011	2010
Income before income tax and social contribution	329,025	327,181	340,864	333,183
Combined income tax and social contribution tax rate	34%	34%	34%	34%
Expected income tax and social contribution expenses at statutory rate	(111,870)	(111,242)	(115,894)	(113,282)
Equity in subsidiaries	3,857	13,376	(1,923)	(3,135)
Interest on capital benefit	26,724	21,560	26,724	21,560
Tax effects from adopting the RTT:				
Investment grant - ICMS	45,550	40,138	48,613	43,057
Stock option plan expenses	(431)	(369)	(431)	(369)
Federal government grant - IRPJ (note 7)	12,573	13,155	16,004	17,062
Effect of taxation of subsidiary based on deemed income	-	-	-	4,377
Benefits of “Lei do Bem” - Law 11196/05	1,558	1,253	1,558	1,253
Unrecognized tax credit on tax loss and temporary differences of foreign subsidiaries	-	-	(5,879)	(4,828)
Use of Parent’s unrecognized tax credit in prior years	-	-	-	8,524
Other permanent (additions) deductions, net	434	(1,952)	(569)	(191)
Income tax and social contribution expenses	(21,605)	(24,081)	(31,797)	(25,972)
Current	(23,009)	(23,161)	(32,136)	(31,214)
Deferred	1,404	(920)	339	5,242

13. JUDICIAL DEPOSITS

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

As of December 31, 2011 and 2010, balances are represented basically by judicial deposits related to labor and tax lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with lawsuits. Based on Management's and its legal counsel's opinion, the likelihood of loss is not considered as probable and, therefore, no accrual for tax, civil and labor risks was recognized.

Judicial deposits are as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
Tax lawsuits	6,571	5,827	6,680	5,827
Labor claims	7,094	5,871	7,848	6,823
Total	13,665	11,698	14,528	12,650

14. INVESTMENTS

Investments are as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
Investments	207,042	174,553	74,267	77,143
Goodwill	150,130	150,130	-	-
Total	357,172	324,683	74,267	77,143

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Information as of December 31, 2011	Fibrasil Agrícola e Comercial Ltda.	Alpargatas Internacional APS - Denmark	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Alpargatas Chile Ltda. - Chile	Total
Number of shares held	1,157,111	30,393,854	5,585,855	750,645	64,126,833	-	
Capital	1,157	74,464	8,766	20,848	30,573	9,180	
Shareholders' equity (deficit)	2,222	4,161	17,834	54,755	142,356	(106)	
Unrealized profits on inventories	-	(1,986)	-	-	(24)	-	
		2,175			142,332		
Net income (loss)	118	(23,847)	1,356	27,448	8,763	(310)	
Ownership interest - %	100.00	100.00	100.00	100.00	91.45	100.00	
Carrying amount of investments:							
Balance as of December 31, 2010	2,104	30,939	22,979	28,353	90,325	(147)	174,553
Capital increase	-	306	-	-	25,509	334	26,149
Dividends paid	-	-	(6,501)	(1,046)	-	-	(7,547)
Equity in subsidiaries	118	(24,367)	1,356	27,448	7,082	(292)	11,345
Exchange rate changes on investments	-	(4,703)	-	-	7,246	(1)	2,542
Balance as of December 31, 2011	2,222	2,175	17,834	54,755	130,162	(106)	207,042

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Information as of December 31, 2010	Fibrasil Agrícola e Comercial Ltda.	Alpargatas Internacional APS - Denmark	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Alpargatas Chile Ltda. - Chile	Total
Number of shares held	1,157,111	30,004,124	5,585,855	750,645	49,569,771	-	
Capital	1,157	67,864	8,766	20,848	29,409	8,700	
Shareholders' equity (deficit)	2,104	32,404	22,979	28,353	127,922	(126)	
Unrealized profits on inventories	-	(1,465)	-	-	-	(21)	
		30,939				(147)	
Net income (loss)	-	(23,661)	14,298	39,966	13,946	(2,573)	
Ownership interest - %	100.00	100.00	100.00	100.00	70.69	100.00	
Carrying amount of investments:							
Balance as of December 31, 2009	2,104	56,738	7,563	(11,613)	75,021	(1,211)	128,602
Capital increase	-	601	-	-	13,393	3,857	17,851
Capital increase (assignment of assets)	-	-	1,118	-	-	-	1,118
Equity in subsidiaries	-	(22,353)	14,298	39,966	9,778	(2,347)	39,342
Exchange rate changes on investments	-	(4,047)	-	-	(7,867)	(446)	(12,360)
Balance as of December 31, 2010	2,104	30,939	22,979	28,353	90,325	(147)	174,553

As of December 31, 2011 and 2010, goodwill on subsidiaries is as follows:

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

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Indirect investments through the holding company Alpargatas Internacional APS - Denmark

Information as of December 31, 2011	Alpargatas Europe S.L.U. - Spain	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited - United Kingdom	Alpargatas Itália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas USA Inc. - United States	Group Tavex S.A.	Total
Number of shares held	100,000	5,000	100	1	2	10	106,733,526	
Shareholders' equity (deficit)	(22,472)	(726)	125	(15)	152	(79,087)	397,427	
Net income (loss)	(1,025)	(89)	112	(65)	134	(15,958)	(30,270)	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	18.687	
Carrying amount of investments:								
Balance as of December 31, 2010	(19,973)	(579)	51	48	11	(54,445)	77,143	2,256
Equity in subsidiaries	(1,025)	(89)	112	(65)	134	(15,958)	(5,657)	(22,548)
Exchange rate changes on investments	(1,474)	(58)	(38)	2	7	(8,684)	2,781	(7,465)
Balance as of December 31, 2011	(22,472)	(726)	125	(15)	152	(79,087)	74,267	(27,757)

Information at December 31, 2010	Alpargatas Europe S.L.U. - Spain	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited - United Kingdom	Alpargatas Itália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas USA Inc. - United States	Group Tavex S.A.	Total
Number of shares held	3,600	5,000	100	1	1	10	21,683,180	
Shareholders' equity (deficit)	(19,973)	(579)	51	48	11	(54,445)	412,817	
Net income (loss)	1,263	140	123	23	-	(14,108)	(45,962)	
Indirect interest - %	100	100	100	100	100	100	18,687	
Carrying amount of investments:								
Balance as of December 31, 2009	(23,252)	(802)	(54)	29	-	(43,008)	91,328	24,241
Capital increase	-	-	-	-	11	-	-	11
Equity in subsidiaries	1,263	140	123	23	-	(14,108)	(9,222)	(21,781)
Exchange rate changes on investments	2,016	83	(18)	(4)	-	2,671	(4,963)	(215)
Balance as of December 31, 2010	(19,973)	(579)	51	48	11	(54,445)	77,143	2,256

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Additional information on acquisitions of subsidiaries

Alpargatas S.A.I.C. - Argentina

On October 30, 2008, the Company became the holder of 42,047,157 registered common shares, with one voting right, representing 59.96% of Alpargatas S.A.I.C. - Argentina's capital, therefore exercising the control of its operations, after the completion of the acquisition process that started on October 10, 2007 by means of a request for the registration of a tender offer (OPA), representing up to 25.5% of the subsidiary's shares.

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

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

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

The total amount of both acquisitions in 2010 totaled R$13,392 for noncontrolling interests and R$1,692 for negative goodwill.

In April 2011, continuing with the process to acquire noncontrolling interests, the Company acquired 11,483,857 shares at the price of AR$8.71 each. These shares, together with the 49,569,771 shares already held, grant the Company a total of 61,053,628 shares, representing 87.067% of the total capital of Alpargatas S.A.I.C. - Argentina. The investment and goodwill paid in this acquisition were broken down into R$20,242 and R$18,999, respectively.

Also, in July 2011, the Company acquired additional 3,073,205 shares at US$1.98 each. These shares, together with the 61,053,628 shares already held, grant the Company a total of 64,126,833 shares, representing 91.4502% of the total capital of Alpargatas S.A.I.C. - Argentina. The investment and goodwill paid in this acquisition were broken down into R$5,267 and R$4,285, respectively.

The total amount of both acquisitions in 2011 totaled R$25,509 for noncontrolling interests and R$23,284 for goodwill.

Additionally, on October 11, 2011, as part of the process to buy all the outstanding book-entry common shares and preferred shares of Alpargatas S.A.I.C. - Argentina, at the price of AR$8.14 per share, the Company filed with "Comisión Nacional de Valores - CNV", of Argentina, a request for the registration of a share takeover bid ("OPA"). However, on the date of disclosure of these annual financial statements, such request was yet to be authorized by the capital market regulatory authority in Argentina.

CBS S.A. - Companhia Brasileira de Sandálias

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

In November 2007, the Company acquired for R$49,500, 100% of the shares of CBS S.A. - Companhia Brasileira de Sandálias, 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 S.A. - Companhia Brasileira de Sandálias.

Group Tavex S.A.

The Extraordinary Shareholders' Meeting of Group Tavex S.A. (current corporate name of former Tavex Algodonera S.A.), held on May 8, 2008, approved the capital increase in Tavex through a capital contribution of €$5,166 thousand. As a result, the Company, through its subsidiary Alpargatas Internacional APS - Denmark, has its interest in Group Tavex S.A. diluted from 20.504% to 18.687%.

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

On February 13, 2012, the controlling shareholder, Camargo Corrêa S.A., published a significant event notice informing that it had received a non-binding offer from a Private Equity fund in connection with the sale of the lot of shares of Group Tavex S.A., including the interest of 18.687% held by the Company, at a price of €0.41 per share. The aforementioned transaction was not consummated.

Since this investment is not classified as available for sale, the Company's Management, as prescribed by IAS 28, tested the investment for impairment as of December 31, 2011, based on the discounted cash flow from the associate's future transactions, which takes into consideration the plans approved by the investee's Board of Directors for the next five years.

The net cash flows obtained based on projections were adjusted to present value and subject to a sensitivity analysis using discount rates between 11% and 15%, and no allowance for impairment was recognized considering its value in use.

15. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

a) Property, plant and equipment

	Parent						
	Annual weighted average depreciation rate (%)	2011			2010		
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	-	9,650	-	9,650	8,803	-	8,803
Buildings and constructions	4	117,913	(57,684)	60,229	117,526	(54,520)	63,006
Machinery and equipment	8	198,976	(125,657)	73,319	190,288	(121,553)	68,735
Furniture and fixtures	10	21,879	(10,674)	11,205	19,895	(9,342)	10,553
Vehicles	15	2,829	(1,878)	951	3,071	(2,052)	1,019
Leasehold improvements	20	14,177	(8,766)	5,411	14,805	(7,290)	7,515
Projects in progress	-	44,686	-	44,686	11,879	-	11,879
Other	-	545	-	545	545	-	545
Allowance for impairment	-	(449)	-	(449)	(449)	-	(449)
Portion of government grant to allocate to land	-	(847)	-	(847)	-	-	-
Total		409,359	(204,659)	204,700	366,363	(194,757)	171,606

	Consolidated						
	Annual weighted average depreciation rate (%)	2011			2010		
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	-	15,373	-	15,373	14,338	-	14,338
Buildings and constructions	4	283,519	(152,588)	130,931	269,756	(145,602)	124,154
Machinery and equipment	8	520,881	(397,389)	123,492	511,902	(386,951)	124,951
Furniture and fixtures	10	80,165	(61,920)	18,245	73,452	(58,546)	14,906
Vehicles	15	5,287	(3,946)	1,341	5,329	(4,029)	1,300
Leasehold improvements	20	20,016	(12,586)	7,430	18,472	(10,013)	8,459
Projects in progress	-	56,034	-	56,034	21,034	-	21,034
Other	-	5,016	-	5,016	6,860	-	6,860
Allowance for losses	-	(585)	-	(585)	(583)	-	(583)
Portion of government grant to allocate to land	-	(847)	-	(847)	-	-	-
Allowance for impairment	-	(14,450)	-	(14,450)	(13,899)	-	(13,899)
Total		970,409	(628,429)	341,980	906,661	(605,141)	301,520

Additional information on property, plant and equipment

(i) Review of the useful life of property, plant and equipment

In 2010, the Company and its subsidiaries carried out the first periodic analysis on the remaining economic useful lives of property, plant and equipment, as required by technical interpretation ICPC 10, whose effects were recorded beginning January 1, 2010. For 2011, due to the lack of significant changes in usage conditions of property, plant and equipment, the Company's and its subsidiaries' Management did not change the remaining useful lives of property, plant and equipment items.

(ii) Assets pledged as collateral

As of December 30, 2011, the Company and its subsidiaries have property, plant and equipment items pledged as collateral in bank loan and financing transactions, as well as items listed in the defense of lawsuits, as shown below:

	R$
Buildings and constructions	6,588
Machinery and equipment	7,263
Other	179
Total	14,030

(iii) Impairment test

The Company and its subsidiaries initially tested property, plant and equipment for impairment at the end of 2008 based on the discounted cash flow model for their CGUs. The tests conducted at the end of 2009, as detailed below, and for the following years, including 2011, were based on the analysis of internal factors and factors external to Group Companies that would indicate that assets might be impaired; however, no allowance for impairment as recognized in light of the absence of such indicators.

For 2009, subsidiary Alpargatas S.A.I.C. - Argentina recorded an allowance for impairment losses on the assets of its textile division in the amount of R$14,450, as adjusted to December 31, 2011.

b) Intangible assets

		Parent					
	Annual amortization rate (%)	2011			2010		
		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 (iv)	10	120,756	(45,696)	75,060	97,090	(32,395)	64,695
Customer portfolio (i)	20	27,311	(15,088)	12,223	27,311	(9,446)	17,865
Projects in progress	-	4,678	-	4,678	16,114	-	16,114
With indefinite useful lives-							
Assignment of trade rights (iii)	-	4,297	(234)	4,063	4,297	(194)	4,103
Total		174,891	(78,670)	96,221	162,661	(59,687)	102,974

	Consolidated						
	Annual amortization rate (%)	2011			2010		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	26,650	(17,652)	8,998	31,077	(21,530)	9,547
ERP systems (iv)	10	124,689	(47,941)	76,748	97,090	(32,395)	64,695
Customer portfolio (i)	20	32,326	(15,088)	17,238	27,311	(9,446)	17,865
Projects in progress	-	4,678	-	4,678	16,114	-	16,114
With indefinite useful lives:							
Goodwill on subsidiaries (ii)	-	150,130	-	150,130	150,130	-	150,130
Assignment of trade rights (iii)	-	5,840	(234)	5,606	4,297	(194)	4,103
Total		344,313	(80,915)	263,398	326,019	(63,565)	262,454

(i) 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 where the Company started to operate through its indirect subsidiaries. Costs are being amortized under the straight-line method over the five-year term of future cash flows expected by the Company's Management. As of December 31, 2011, in view of indications that the Company will obtain the expected future benefits, based on the Company's Management economic projections, no allowance for impairment was recognized on these balances.

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

(iii) Refers basically to the amounts paid on the acquisition of rights of use of sales points where certain "Timberland" and "Concept Havaianas" stores are located. Since these are sellable intangible assets, they are not amortized and are annually tested for impairment. As of December 31, 2011, no allowance has been recognized regarding the amounts of these rights since there are no indications of impairment loss.

(iv) Refers to costs incurred on the acquisition, development and implementation of ERP systems currently being used by the Company and its subsidiaries. They are basically represented by the systems SAP/R3, WMS and LINX and the costs incurred on the value chain management project. These costs are being amortized on a straight-line basis over the future benefit period estimated by the Company's Management, which is ten years for SAP/R3 and five years for the other systems. As of December 31, 2011, in view of indications that the Company will obtain the expected future benefits from these systems and projects, no allowance for impairment was recognized on these balances.

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

2012	20,184
2013	19,781
2014	19,232
2015 and thereafter	43,787
Total	102,984

Additional information on intangible assets

(i) Product research and development expenses

	Consolidated	
	2011	2010
Research and development expenses of products recorded in income or loss	14,408	9,651

(ii) Goodwill impairment test

As of December 31, 2011, the Company tested goodwill for impairment based on the value in use, using the discounted cash flow model for the CGUs. The value in use is estimated based on assumptions, judgments and estimates on future cash flows and represents the Company's best estimates approved by the Board of Directors. The Company's asset impairment test did not indicate the need to recognize impairment losses.

The recoverable amount of the CGUs of was calculated based on their value in use, using the cash flows based on the financial projections approved by Management for the five-year period, at an after-tax discount rate of 12.41% per year. The cash flows after the five-year period were extrapolated using a fixed annual growth rate of 4%, which does not exceed the expected gross domestic product (GDP) and/or market growth. Management believes that possible changes in the main assumptions on which the recoverable amounts were based would not cause their carrying amounts to exceed their recoverable amounts. The key assumptions used to calculate the value-in-use of the CGUs were as follows: (1) net revenue growth focused on geographical expansion; (2) operating expansion; and (3) launching higher-value added products. The geographical expansion is in the domestic and global markets, with growth potential not yet fully tapped. The projected gross margin reflects sales growth, expansion of the brand extension line, franchises, higher value-added products and operating efficiency improvements.

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

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

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

The main assumptions used to calculate the value in use as of December 31, 2011 of the CGUs are as follows:

CGU - Brazil

Operating income or loss (million) (1)	684.1
Perpetuity (2)	4.0%
WACC discount rate (3)	12.4%

CGU - Argentina

Operating income or loss (million) (1)	113.9
Perpetuity (2)	7.3%
WACC discount rate (3)	20.6%

1. Average operating income or loss for a five-year period.

2. Growth rate of cash flow in perpetuity.

3. Discount rate calculated before taxes.

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

c) Changes

	Parent					
Property, plant and equipment	2010	Additions (iii)	Transfers (i)	Depreciation	Write-offs	2011
Land	8,803	-	847	-	-	9,650
Buildings and constructions	63,006	-	1,438	(3,306)	(909)	60,229
Machinery and equipment	68,735	-	18,876	(13,444)	(848)	73,319
Furniture and fixtures	10,553	-	2,524	(1,752)	(120)	11,205
Vehicles	1,019	-	126	(137)	(57)	951
Leasehold improvements	7,515	-	-	(1,826)	(278)	5,411
Projects in progress	11,879	55,115	(22,308)	-	-	44,686
Other	545	-	-	-	-	545
Allowance for impairment	(449)	-	-	-	-	(449)
Portion of government grant to allocate to land	-	-	(847)	-	-	(847)
Total	171,606	55,115	656	(20,465)	(2,212)	204,700

	Parent					
Intangible assets	2010	Additions	Transfers (i)	Amortization	Write-offs	2011
With finite useful lives:						
Trademarks, rights and patents	197	-	-	-	-	197
ERP systems	64,695	-	23,368	(12,970)	(33)	75,060
Customer portfolio	17,865	-	1	(5,641)	-	12,223
Projects in progress	16,114	12,599	(24,035)	-	-	4,678
With indefinite useful lives-						
Assignment of trade rights	4,103	-	10	-	(52)	4,063
Total	102,974	12,599	(656)	(18,611)	(85)	96,221
Total	274,580	67,714	-	(39,076)	(2,297)	300,921

	Consolidated						
Property, plant and equipment	2010	Additions (iii)	Transfers (i)	Depreciation	Write-offs	Exchange differences (ii)	2011
Land	14,338	-	847	-	-	188	15,373
Buildings and constructions	124,154	2,974	9,068	(7,128)	(912)	2,775	130,931
Machinery and equipment	124,951	4,872	13,505	(19,778)	(987)	929	123,492
Furniture and fixtures	14,906	4,628	2,550	(3,794)	(158)	113	18,245
Vehicles	1,300	189	124	(228)	(57)	13	1,341
Leasehold improvements	8,459	2,439	208	(2,923)	(337)	(416)	7,430
Projects in progress	21,034	59,406	(24,739)	-	-	333	56,034
Other	6,860	-	(1,563)	-	-	(281)	5,016
Allowance for impairment	(14,482)	-	(2)	-	-	(551)	(15,035)
Portion of government grant to allocate to land	-	-	(847)	-	-	-	(847)
Total	301,520	74,508	(849)	(33,851)	(2,451)	3,103	341,980

	Consolidated						
Intangible assets	2010	Additions	Transfers (i)	Amortization	Write-offs	Exchange differences (ii)	2011
With finite useful lives:							
Trademarks, rights and patents	9,547	-	-	-	-	(549)	8,998
ERP systems	64,695	2,360	23,330	(14,543)	(205)	1,111	76,748
Customer portfolio	17,865	5,014	-	(5,641)	-	-	17,238
Projects in progress	16,114	12,599	(24,035)	-	-	-	4,678
With indefinite useful lives:							
Goodwill on acquisition of subsidiaries	150,130	-	-	-	-	-	150,130
Assignment of trade rights	4,103	-	1,554	-	(51)	-	5,606
Total	262,454	19,973	849	(20,184)	(256)	562	263,398
Total	563,974	94,481	-	(54,035)	(2,707)	3,665	605,378

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

(ii) Exchange differences arising on the translation of the financial statements of foreign subsidiaries.

(iii) The additions recognized in “Projects in progress” refer basically to the projects: (1) construction of a new sandals plant in the city Montes Claros - MG, with an investment of R$13,400; (2) improvements in the Company’s new head office building in São Paulo - SP, with an investment of approximately R$2,400; and (3) several improvements in and expansion of manufacturing, with investments of approximately R$14,200.

16. TRADE ACCOUNTS PAYABLE

	Parent		Consolidated	
	2011	2010	2011	2010
Domestic	177,612	132,858	194,580	144,331
Foreign	40,961	25,517	102,570	68,446
Total	218,573	158,375	297,150	212,777

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

17. LOANS AND FINANCING

	Currency	Index and average annual interest rate	Parent		Consolidated	
			2011	2010	2011	2010
Denominated in Brazilian reais:						
FNE (BNB) (a)		8.42%	57,424	71,487	57,424	71,487
Finame		6.53%	8,321	3,972	8,321	3,972
Finem (BNDES) (b)		Currency basket and TJLP + 8.52%	8,245	12,609	8,245	12,609
Exim (BNDES) (c)		7%	-	110,870	-	110,870
Assignment of receivables (d)		11.95%	42,947	20,863	42,947	20,863
Automatic Finem (BNDES) - CBS S.A. - Companhia Brasileira de Sandálias		TJLP + 2.8% and currency basket + 2.3%	-	-	369	951
Total in Brazilian reais			116,937	219,801	117,306	220,752
Denominated in foreign currency:						
Finimp - Import Financing (e)	US$	2.77%	4,794	-	4,794	-
Working capital - Alpargatas USA Inc. - United States (f)	US$	1.85%	-	-	82,616	56,964
Working capital - Alpargatas Internacional APS - Denmark (f)	€	3.69%	-	-	17,131	15,643
Working capital - Alpargatas Chile Ltda. - Chile (f)	CLP	6.2%	-	-	-	971
Finance leases - Alpargatas S.A.I.C. - Argentina (g)	AR$	22.69%	-	-	194	486
Working capital - Alpargatas S.A.I.C. - Argentina (f)	AR$	16.91%	-	-	13,850	1,142
Advances on Exchange Contracts (ACC)/prepayment - CBS S.A. - Companhia Brasileira de Sandálias	US$	-	-	-	42	2
Total in foreign currency			4,794	-	118,627	75,208
Grand total			121,731	219,801	235,933	295,960
Current liabilities			67,824	150,770	180,077	226,371
Noncurrent liabilities			53,907	69,031	55,856	69,589

(a) On February 23, 2006, the Company signed with Banco do Nordeste do Brasil (BNB) a financing agreement, limited to R$112,000, to fund investment programs in the Northeast Region. The financing is amortized monthly, since 2008, and will be repaid in ten years. The release of funds is linked to the investment disbursement schedule. The guarantee is backed by a bank 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) In August 2008, the Company received R$79,800 related to the financing of the credit line of BNDES-Exim Pré-Embarque signed with Bradesco and Unibanco banks, repayable into five installments, falling due between September 2009 and January 2010. In October 2010, the Company received an additional R$110,500 related to agreements entered into with Alfa and Bradesco banks, repaid in one single installment, in December 2011.

(d) In October 2010, the Company entered into a receivable assignment agreement with Santander bank. The average term of the transactions is 90 days. The assignments are repaid to Santander bank as trade accounts receivable are collected.

(e) In September 2011, the Company entered into import financing agreements under the Finimp scheme, with Itaú BBA bank. These transactions have a maturity of 180 days and are guaranteed by a promissory note issued by the Company.

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

The other loans are guaranteed by promissory notes and liens on the Company's and its subsidiaries' financed assets.

(g) As of December 31, 2011, outstanding future lease installments totaled R$263, and the difference between the present value recorded in the consolidated at the base date corresponds to the financial charges, which will be recorded on an accrual basis in the income statement according to the residual term of the outstanding agreements. See details below:

	2011	2010
Gross finance lease obligations - minimum lease payments:		
Less than a year	215	405
More than a year and less than five years	48	172
	263	577
Future financing charges on finance leases	(38)	(91)
Financial lease obligations - accounting balance	225	486

Maturities of noncurrent liabilities are as follows:

	Parent		Consolidated	
Year	2011	2010	2011	2010
2012	-	19,302	-	19,841
2013	19,326	18,494	21,266	18,513
2014	15,323	14,534	15,332	14,534
2015	15,324	14,534	15,324	14,534
2016	2,454	1,664	2,454	1,664
2017	1,187	445	1,187	445
2018	264	29	264	29
2019	29	29	29	29
Total	53,907	69,031	55,856	69,589

Covenants

As of December 31, 2011 and 2010, loan and financing agreements entered into by the Company and its subsidiaries do not contain restrictive covenants establishing obligations as to the maintenance of financial ratios by the Company and its subsidiaries.

18. SUBSIDIARIES' DEBT RESTRUCTURINGS

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

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

The amounts are reported in the consolidated financial statements under "Subsidiaries' debt restructurings", in current and noncurrent liabilities, at the amounts of R$14,758 and R$63,537 as of December 31, 2011 (R$13,367 and R$63,403 as of December 31, 2010), net of the adjustments to present value, in the amounts of R$53,630 and R$55,926, respectively, as of December 31, 2011 and 2010.

The adjustment to present value is calculated based on the difference between the Argentinean basic interest rate and the fixed inflation adjustment rate of liabilities, as established in the debt restructuring agreements. As of December 31, 2011, the average discount rate adopted for the adjustment to present value was 15% per year.

The effects of the reversal of the adjustment to present value are recorded in "Financial expenses", in the consolidated, and totaled R$4,185 in income or loss for the year ended December 31, 2011 (R$2,483 for the year ended December 31, 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 December 31, 2011, reversals expected for the next fiscal years, related to the discount to present value are as follows:

	R$
2012	4,497
2013	4,415
2014	4,315
2015 and thereafter	40,403
Total	53,630

The maturities of the portion recorded in noncurrent liabilities are as follows:

	R$
2013	4,415
2014	4,315
2015 and thereafter	54,807
Total	63,537

19. TAXES PAYABLE

	Parent		Consolidated	
	2011	2010	2011	2010
State VAT (ICMS) payable	1,383	3,555	1,595	3,555
Taxes on revenue (PIS and COFINS) payable	1,145	2,409	1,554	5,060
Federal VAT (IPI) payable	212	523	212	752
Income tax and social contribution payable	-	-	4,192	5,494
Alpargatas S.A.I.C. - Argentina:				
Income tax	-	-	2,553	2,687
Value-Added Tax (VAT)	-	-	2,193	1,363
Other taxes	-	-	1,266	1,123
Alpargatas Europe S.L.U. - Spain - Value-Added Tax (VAT)	-	-	306	262
Alpargatas USA Inc. - United States - Value-Added Tax (VAT)	-	-	14	10
Withholding and other taxes	1,387	754	1,630	1,808
Total	4,127	7,241	15,515	22,114

20. PROVISIONS AND OTHER PAYABLES

	Parent		Consolidated	
	2011	2010	2011	2010
Royalties payable	13,448	5,945	13,448	5,945
Provision for freight payable	8,467	12,078	9,138	12,805
Commitments from terminated business agreements	-	-	7,676	-
Other payables (commissions, outside services, utilities and others)	5,192	4,358	17,361	16,079
Total	27,107	22,381	47,623	34,829

21. RELATED PARTIES

a) Related-party balances

	Parent	
Noncurrent assets (liabilities)	2011	2010
CBS S.A. - Companhia Brasileira de Sandálias	1,445	(525)
Alpargatas Internacional APS - Denmark	(18)	(14)
Alpargatas Imobiliária S.A.	19	(6,832)
Fibrasil Agrícola e Comercial Ltda.	2	(2,104)
Total	1,448	(9,475)

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

b) Balances receivable and payable from related-party transactions

	Parent		Parent and consolidated	
	Receivables		Payables	
	2011	2010	2011	2010
Alpargatas USA Inc. - United States (ii)	8,808	4,007	-	-
Alpargatas Europe S.L.U. - Spain (ii)	8,814	9,979	-	-
Alpargatas S.A.I.C. - Argentina	1,755	-	-	-
Camargo Corrêa Group (iii)	-	-	794	318
Total	19,377	13,986	794	318

c) Dividends and interest on capital payable

	Parent and consolidated	
	2011	2010
	843	495

d) Related-party transactions

Related-party transactions are as follows:

	Sale of products/services		Purchase of products/services	
	2011	2010	2011	2010
Alpargatas S.A. (i)	39,458	35,827	13,968	21,034
Alpargatas USA Inc. - United States	-	-	10,091	9,278
Alpargatas Europe S.L.U. - Spain	-	-	27,751	26,550
Alpargatas S.A.I.C. - Argentina	-	-	1,616	-
CBS S.A. - Companhia Brasileira de Sandálias	2,806	1,098	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	1,070	-	-
Camargo Corrêa Group:				
Rentals and common area management fees	1,522	2,276	-	-
Shared services (CSC) (iv)	8,721	12,471	-	-
Corporate projects	849	3,909	-	-
Other	70	211	-	-
Total	53,426	56,862	53,426	56,862

(i) It basically consists of sales of “Havaianas” sandals to subsidiaries in the United States and Europe, due to the operating model and the distribution channel format adopted for the Company’s international operations, where products are manufactured in Brazil and subsequently sold to foreign subsidiaries for resale.

For the years ended December 31, 2011 and 2010, the Company did not record any write-off or allowance for doubtful accounts on balances receivable from its foreign subsidiaries.

(ii) Accounts receivable for sales of the products described in item (i), which will be received between January and June 2012.

(iii) Accounts payable for the provision of the services described in item (iv).

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

As of December 31, 2011, except for the guarantees provide to support loans and financing, as described in note 17, the Company and its subsidiaries have not provided any other guarantees to related parties.

e) Compensation of key management personnel

Key management personnel includes the members of the Board of Directors, the Supervisory Board, the CEO, and the statutory officers.

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

	2011				
	Compensation			Stock option grant	
	Fixed	Variable (i)	Total	Option balance (number) (ii)	Average exercise price - R$ (iii)
Board of Directors and Supervisory Board	2,731	-	2,731	-	-
Statutory officers	4,206	5,230	9,436	5,093,220	5.75
Total	6,937	5,230	12,167	5,093,220	

	2010				
	Compensation			Stock option grant	
	Fixed	Variable (i)	Total	Option balance (number) (ii)	Average exercise price - R$ (iii)
Board of Directors and Supervisory Board	1,915	-	1,915	-	-
Statutory officers	3,269	3,900	7,169	5,252,900	3.84
Total	5,184	3,900	9,084	5,252,900	

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

(ii) Refers to vested and non-vested options not exercised on the balance sheet date.

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

As detailed in note 28, for the year ended December 31, 2011, the Company recognized expenses related to the stock option plans of R$1,551 and 1,908,060 exercised options at an average price of R$2.90 (R$1,085 and 230,340 exercised options at an average price of R$3.34 for the year ended December 31, 2010).

During the year ended December 31, 2011, in addition to Management's compensation, the Company made contributions to the private pension plan in the amount of R$305 (R$259 during the year ended December 31, 2010) on behalf of the statutory officers.

The overall annual compensation for 2011 set at the Annual Shareholders' Meeting held on April 26, 2011 was R$14,124.

22. ACCRUAL FOR TAX, CIVIL AND LABOR RISKS

As of December 31, 2011 and 2010, the Company and its subsidiaries are parties to tax, civil and labor claims arising from assessments by tax authorities and from claims filed by third parties and former employees or from legal proceedings and challenges. Accruals for risks were recognized when, in the opinion of Management and its legal counsel, the risk of loss was considered probable. These provisions are as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
Labor claims (a)	17,663	15,339	24,449	23,818
Tax lawsuits (b)	9,056	13,438	13,255	16,983
Judicial deposits	(4,179)	(3,880)	(4,179)	(3,880)
Civil lawsuits	3,108	2,155	4,156	2,710
Total	25,648	27,052	37,681	39,631
Current portion	7,183	4,859	11,436	8,847
Noncurrent portion	18,465	22,193	26,245	30,784

(a) Refer to lawsuits filed against the Company and its subsidiaries by former and current employees, whose claims basically refer to severance pay, salary premiums, overtime and amounts considered due for joint liability. The accrued amounts refer to the best estimates for each claim considered as loss.

(b) Consist basically of: (i) COFINS assessment notices for the period July and September to December 1992 issued against by the Company and that discuss untaxed differences in the adjusted amount of R$3,844 as of December 31, 2011; and (ii) discussion involving the collection of the Accident Prevention Factor (FAP) and the Occupational Accident Insurance (SAT) difference, totaling R$5,106, in which the Company challenges the levy of maximum tax rate for the industry. The lawsuit awaits the appellate court decision.

Changes

	Parent				
	Labor	Tax	Civil	Judicial deposits	Total
Balance as of December 31, 2010	15,339	13,438	2,155	(3,880)	27,052
Additions (reversals)	9,690	(418)	953	(299)	9,926
Transfers to taxes in installments - Law 11941/09	-	(1,671)	-	-	(1,671)
Payments	(7,366)	(2,293)	-	-	(9,659)
Balance as of December 31, 2011	17,663	9,056	3,108	(4,179)	25,648

	Consolidated				
	Labor	Tax	Civil	Judicial deposits	Total
Balance as of December 31, 2010	23,818	16,983	2,710	(3,880)	39,631
Additions (reversals)	9,882	23	1,169	(299)	10,775
Transfers to taxes in installments - Law 11941/09	-	(1,671)	-	-	(1,671)
Payments/Exchange differences	(9,251)	(2,081)	278	-	(11,054)
Balance as of December 31, 2011	24,449	13,254	4,157	(4,179)	37,681

Possible losses

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

	Parent and consolidated	
	2011	2010
Tax:		
Tax deficiency notice - IRRF (a)	8,439	8,050
IRPJ and CSLL	3,781	3,581
IPI (b)	91,668	3,762
Other	783	419
Total	104,671	15,812
Civil (compensation actions)	5,655	6,321

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

(b) Assessment notices related to the non-recognition of the offset IPI credits claimed on the purchase of tax-exempt inputs by former subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., for the period July 2004-June 2008. The proceeding filed against these assessment notices is at administrative defense stage and the Company's legal counsel classified the risk of an unfavorable outcome as possible.

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

Tax installments program introduced by Law 11941/09

On May 28, 2009, Federal government published Law 11941/09, as a result of the conversion of Provisional Act 449/08, which, among other changes to tax law, established the possibility of a new installment payment of tax debts managed by the Federal Revenue Service of Brazil and the National Institute of Social Security (INSS), and of debts with the National Treasury Attorney General (PGFN), including the remaining balance of consolidated debts in the Tax Debt Refinancing Program (REFIS) (Law 9964/00), in the Special Installment Plan (PAES) (Law 10684/03) and the Tax Debt Refinancing Program (PAEX) (Provisional Act 303/06), in addition to the regular payment in installments provided for in article 38 of Law 8212/91 and article 10 of Law 10522/02.

The entities that elected paying or paying in installments the debts under this Law are allowed to settle, 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 losses carryforwards, and will benefit from reduced fines, interest and legal charges in percentages that depend on the installment plan chosen.

In joining the installment payment program introduced by Law 11941/09, the Company recorded, on November 30, 2009, tax debits with the INSS in the adjusted amount of R$1,671 as of June 30, 2011.

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 tax debt consolidation process was completed on June 30, 2011 by the Federal Revenue Service and the PGFN and, on this date, the Company started 40 monthly installments due, which total R$1,671.

On September 30, 2011, the Company elected to prepay some installments of the plan totaling R$1,486. Under the current installment plan rules, no more prepayments are allowed. The Company waits for the Federal Revenue Service and the PGFN to make available the necessary mechanisms to allow the settlement of said installment plan. Until then, the Company will continue to pay the minimum monthly installment of R$100.00.

Contingent assets

The Company also has the following material contingent assets:

- IPI premium credit - the Company is claiming in courts IPI premium credits, a tax incentive to exports created under Decree Law 491/69, granted to manufacturers and exporters of manufactures in 1979-1990. The claim is divided into three stages: stage I (December 7, 1979-March 31, 1981), stage II (April 1, 1981-April 30, 1985) and stage III (May 1, 1985-October 5, 1990). In light of the favorable final and unappealable decision on the lawsuit discussing stage II amounts, the Company recorded an asset of R$14,519 as adjusted to December 31, 2001, recognized in line item “Other receivables”, in current assets. The Company is currently determining the amounts involving in the stages I and II.

- PIS and COFINS taxation in the Manaus Free Trade Zone - the Company is challenging in courts the levy of PIS and COFINS on sales to the Manaus Free Trade Zone in 1998-2004. In July 2003 the Company was granted an injunction and suspended the payment of the amounts challenged through July 2004 and recognized taxes with suspended payment liability that, as of December 31, 2011, totals R$3,028 (note 23).

- Occupational Accident Insurance (SAT) - the Company is challenging in courts the levy of different SAT tax rates to different units, based on the level of risk posed. In December 2002-May 2011, the Company deposited the challenged amounts in escrow. The recorded judicial deposits totaled R$3,905 as of December 31, 2011.

Even though a favorable outcome is considered probable by the Company's legal counsel, these contingent assets have not been recognized in the financial statements since there are no final and unappealable decisions favorable to the Company, as required by prevailing accounting policies.

23. TAXES WITH SUSPENDED PAYMENT

		Parent and consolidated	
		2011	2010
PIS/COFINS - Law 9718/98		30,008	28,429
Judicial deposits		(30,008)	(28,429)
Total	(a)	-	-
COFINS - deduction of ICMS from tax base		83,484	56,972
Judicial deposits		(10,106)	(9,101)
Total	(b)	73,378	47,871
IRPJ and CSLL - tax losses carryforwards		-	34,849
Judicial deposits		-	(6,277)
Total	(c)	-	28,572
IRPJ - CSLL deduction from IRPJ tax base	(d)	6,906	3,830
Provision for IRPJ (other contingencies)		2,803	2,803
PIS and COFINS - Manaus Free Trade Zone and other		3,567	3,329
Total - Parent		86,654	86,405
Taxes in installments - PIS and COFINS (CBS S.A. - Companhia Brasileira de Sandálias)	(e)	-	1,699
Alpargatas S.A.I.C. - Argentina		126	2,516
Total - consolidated		86,780	90,620

(a) COFINS - Law 9718/98

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

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

In March 2006, after an unfavorable decision rendered by the Federal Supreme Court (STF) on the extraordinary appeal related to the 1% increase in COFINS rate, the Company decided to pay the amount calculated for the periods from: (i) March 1999 to August 2002; and (ii) February 2004 to March 2006, totaling R$43,041. This decision did not impact the continuity of the litigation related to the period from September 2002 to January 2004, and the Company started to make the payments of the monthly calculations in April 2006, the adjusted amount of which was recorded as taxes with suspended payment and judicial deposit, totaling R$28,804.

Law 11941/09 revokes article 3, paragraph 1, of Law 9718/98, which addressed the broadening of the PIS and COFINS tax base, which strengthened the grounds challenged by the Company. With this change, considering the decision issued by the STF, the Brazilian Institute of Independent Auditors (IBRACON) issued the Technical Bulletin (CT) 05/09 allowing part of PIS and COFINS related to the broadening of the tax base to be reversed by the companies. On June 30, 2009, the Company reversed the portion corresponding to this liability with suspended payment, totaling R$12,401.

Therefore, the amounts recorded as of December 31, 2011 and 2010 refer solely to the portion related to the 1% increase in COFINS rate, on which the STF issued an unfavorable decision to the Company in August 2009. As of December 31, 2011, the Company's lawsuit still awaits judgment; however, based on the judgment of the grounds, it will have an unfavorable outcome, and the judicial deposits will be transferred to the Federal government.

As of December 31, 2011 and 2010, the accrued amounts, as well as judicial deposits, are adjusted for inflation based on the SELIC rate.

(b) COFINS - deduction of ICMS from tax base

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

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

As of December 31, 2011, the lawsuit awaits the STF judgment and, therefore, the Company recognized these liabilities and the judicial deposits, adjusted for inflation based on the SELIC rate, as of this date and December 31, 2010.

(c) IRPJ and CSLL - tax losses carryforwards

The Company claims the right to offset tax credits arising on tax losses carryforwards against total income tax and social contribution payable each year without considering the legal 30% ceiling. Consequently, the Company separately stated in noncurrent liabilities the portion in excess of the legal limit of 30% of tax payable that it was offset, plus financial charges, based on the SELIC rate.

In view of this challenge, a deferred tax asset was recognized on tax losses carryforwards, as if the legal 30% ceiling for offset had been considered.

Tax installment programs introduced by Law 11941/09

Because of the Company's joining the Federal installment program introduced by Law 11941/09, on November 30, 2009, the Company formally dropped the lawsuit filed to challenge these amounts, and increased the tax liability by R$14,264, including lawsuits previously classified by the legal counsel as remote likelihood of an unfavorable outcome.

The Company concurrently recognized at the end of 2009 R$11,234 related to deferred income tax and social contribution assets on these tax losses carryforwards, which were realized in 2009.

The tax debt consolidation process was completed on June 30, 2011 by the Federal Revenue Service and the PGFN and, on this date, the Company started to pay, on a monthly basis, the installments due under said installment plan. The total amount of R$29,478 was reclassified to line item "Taxes in installments - Law 11941/09", of which R$8,581 in current liabilities and R$20,897 in noncurrent liabilities.

On September 30, 2011, the Company elected to prepay some installments of the plan totaling R$25,508. On this date, the remaining balance R$7,151, which, net of the related judicial deposit, totaled R$875, was recorded in line item "Taxes in installments - Law 11941/09".

Under the current installment plan rules, no more prepayments are allowed. The Company waits for the Federal Revenue Service and the PGFN to make available the necessary mechanisms to allow the settlement of said installment plan. Until then, the Company will continue to pay the minimum monthly installment of R$100.00.

(d) IRPJ - CSLL deduction from IRPJ tax base

The Company filed a lawsuit claiming the deduction of social contribution (CSLL) from the income tax (IRPJ) base as it understands that CSLL is not an income tax taxable event. In July 2009, a court issued a decision favorable to the Company, in the form of an injunction, and the Company started to deduct social contribution from income tax base, and record these amounts as taxes with suspended payment.

On December 31, 2011, the lawsuit awaits the STF judgment and, therefore, the Company recognized these liabilities, adjusted for inflation based on the SELIC rate, as of this date and December 31, 2010.

(e) Taxes in installments - COFINS and PIS

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

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

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

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

On September 30, 2011, the Company elected to settle the outstanding balance of the installment plan, totaling R$648 on this date.

Changes in taxes with suspended payment - Parent

	2010	Adjustments	Increases	Reclassifications	2011
PIS/COFINS	28,429	1,579	-	-	30,008
Judicial deposits	(28,429)	(1,579)	-	-	(30,008)
Total	-	-	-	-	-
COFINS - ICMS	56,972	6,732	19,780	-	83,484
Judicial deposits	(9,101)	(1,005)	-	-	(10,106)
Total	47,871	5,727	19,780	-	73,378
IRPJ and CSLL - tax losses carryforwards	34,849	1,622	-	(36,471)	-
Judicial deposits	(6,277)	-	-	6,277	-
Total	28,572	1,622	-	(30,194)	-
IRPJ - CSLL deduction from IRPJ tax base	3,830	396	2,680	-	6,906
Accrual for IRPJ (other contingencies)	2,803	-	-	-	2,803
Other	3,329	201	37	-	3,567
Total	86,405	7,946	22,497	(30,194)	86,654

24. SHAREHOLDERS' EQUITY

a) Capital

As of December 31, 2011, paid-in capital is R$518,922 (R$441,171 as of December 31, 2010), after an increase through the capitalization of the earnings reserve in the amount of R$77,751, on April 26, 2011.

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

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

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

Subscribed and paid-in capital is held as follows:

As of December 31, 2011:

	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
Board of Directors	35,963,700	19.81	7,199,980	4.19	43,163,680	12.21
Supervisory Board	22,000	0.01	202,000	0.12	224,000	0.06
Other shareholders	23,940,800	13.19	130,172,880	75.71	154,113,680	43.61
Total	181,524,080	100.00	171,931,800	100.00	353,455,880	100.00

As of December 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
Board of Directors	35,951,900	19.81	7,329,980	4.26	43,281,880	12.25
Supervisory Board	22,000	0.01	182,000	0.11	204,000	0.06
Other shareholders	23,952,600	13.19	130,062,880	75.65	154,015,480	43.57
Total	181,524,080	100.00	171,931,800	100.00	353,455,880	100.00

b) Share buyback plan

The Board of Directors' meeting, held on December 9, 2011, approved the plan to buyback up to 8,664,266 preferred shares and up to 5,992,650 common shares. The authorization is effective for no more than 361 days and will end on December 12, 2012. The Company did not purchase any own preferred shares or common shares under the program authorized on December 11, 2009, which covered the period December 15, 2009 to December 10, 2010.

The plan was approved to support the exercise of Company stock options, as detailed in note 28.

Changes in "Treasury shares" for the years ended December 31, 2011 and 2010 were as follows:

	Number of shares	Average price per share - R$
As of December 31, 2009	254,661	111.23
(+) Effect of the stock split on February 24, 2010	4,838,559	
Balance after the stock split	5,093,220	5.59
Sold (*)	(548,500)	2.25
Purchases (*)	548,500	8.20
As of December 31, 2010	5,093,220	5.75
Sold (*)	1,908,060	4.84
Purchases (*)	(1,908,060)	11.57
As of December 31, 2011	5,093,220	7.88

(*) Sales and purchases under the stock option plans.

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 year ended December 31, 2011, Management declared interest on capital in the gross amount of R$78,600 (R$70,080, net of IRRF), as shown below:

	R$
1st quarter	19,500
2nd quarter	20,000
3rd quarter	20,600
4th quarter	18,500
Total	78,600

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

	Per share - R$ (gross)			
	2011		2010	
	Preferred	Common	Preferred	Common
Interest on capital	0.2368	0.2153	0.1911	0.1737
Dividends	-	-	0.0727	0.0661

On April 26, 2011, the Annual Shareholders' Meeting approved the proposal for payment of dividends, amounting to R$24,150, related to earnings retention reserves recognized in 2005. These dividends were paid on May 2, 2011.

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

Refers to the goodwill (negative goodwill) arising on the sale of treasury shares, primarily as a result of the exercise of granted stock options, described in note 28.

e) Tax incentive reserves

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

25. SEGMENT INFORMATION REPORTING

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

Although the Company has a matrix management structure where sales revenues are analyzed by the chief decision-maker at various levels because products manufactured and sold by the Company and its subsidiaries are divided among various brands of shoes, sports items, sandals and clothing, operations are managed according to the geographic areas divided as follows: (i) domestic operations: Company's and its subsidiaries' performance in Brazil; and (ii) foreign operations: subsidiaries' performance in Argentina and subsidiaries' consolidated performance in the United States and Europe, as well as direct exports and Tavex Corporation S.A.'s exports, in which the Company holds an interest of 18.687%.

Net revenue by segment is represented as follows for the year ended December 31, 2011:

- Domestic operations:
  - Brazil: 72.1%.

- Foreign operations:
  - Argentina: 18.5%.
  - Europe, United States and exports: 9.4%.

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

The information is in the tables below:

	2011					
Income and loss accounts	Net operating revenue	Net income (loss)	Depreciation and amortization	Financial income (expenses)	Exchange variation, net	Income tax and social contribution
Domestic operations-						
Brazil	1,858,837	289,787	(41,087)	54,906	(4,414)	(26,319)
Foreign operations:						
Argentina	477,502	7,106	(9,245)	(23,832)	1,000	(5,922)
Europe, United States and exports	238,361	16,184	(3,703)	(1,458)	2,847	444
Group Tavex S.A.	-	(5,657)	-	-	-	-
Noncontrolling interests	-	1,647	-	-	-	-
Consolidated	2,574,700	309,067	(54,035)	29,616	(567)	(31,797)

	2010					
Income and loss accounts	Net operating revenue	Net income (loss)	Depreciation and amortization	Financial income (expenses)	Exchange variation , net	Income tax and social contribution
Domestic operations-						
Brazil	1,614,548	282,134	(36,769)	31,166	1,186	(18,094)
Foreign operations:						
Argentina	411,163	13,946	(11,120)	(22,414)	619	(8,682)
Europe, United States and exports	206,164	19,483	(2,882)	(2,124)	525	804
Group Tavex S.A.	-	(9,222)	-	-	-	-
Noncontrolling interests	-	4,111	-	-	-	-
Consolidated	2,231,875	310,452	(50,771)	6,628	2,330	(25,972)

The table below shows the balance sheet balances as of December 31, 2011 and 2010:

Balance sheet accounts	2011 Total assets	2011 Current and noncurrent liabilities	2011 Addition to property, plant and equipment and intangible assets	2010 Total assets	2010 Current and noncurrent liabilities	2010 Addition to property, plant and equipment and intangible assets
Domestic operations-						
Brazil	1,871,511	565,591	71,214	1,777,867	665,840	31,475
Foreign operations:						
Brazil - exports	43,055	5,631	-	44,594	1,466	-
Argentina	384,469	242,114	13,930	306,188	205,151	15,014
Europe and United States	69,252	139,359	9,337	51,743	96,482	2,588
Group Tavex S.A.	74,267	-	-	77,143	-	-
Consolidated	2,442,554	952,695	94,481	2,257,535	968,939	49,077

The Company has a diluted customer portfolio and no individual customer accounts for more than 6% of sales revenues.

The consolidated net revenues per segment for the year ended December 31, 2011 is broken down as follows: sandals: R$1,405,895, sporting goods: R$843,667, retail: R$262,249 and other: R$62,889 (R$1,204,818, R$723,455, R$205,196 and R$98,406, respectively, for the year ended December 31, 2010).

26. NET OPERATING REVENUE

	Parent		Consolidated	
	2011	2010	2011	2010
Gross operating revenue:				
Domestic market	2,113,904	1,791,008	2,249,812	1,949,048
Foreign market	144,371	128,884	848,225	719,322
	2,258,275	1,919,892	3,098,037	2,668,370
Returns and cancellations	(49,893)	(32,139)	(81,671)	(52,721)
Taxes on sales	(317,255)	(245,005)	(441,666)	(383,774)
Total	1,891,127	1,642,748	2,574,700	2,231,875

27. EXPENSES BY NATURE

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

	Parent		Consolidated	
	2011	2010	2011	2010
Cost of sales:				
Raw materials	614,208	566,221	807,208	716,650
Payroll, related taxes and benefits	213,019	166,266	361,828	289,439
Other costs	159,410	113,723	251,736	207,694
Total	986,637	846,210	1,420,772	1,213,783
Selling expenses:				
Payroll, related taxes and benefits	74,449	65,154	113,715	99,617
Freight	65,868	58,035	84,922	73,743
Advertising and publicity	194,622	169,390	240,146	205,755
Commissions	17,229	15,998	27,972	22,794
Royalties	23,239	14,525	24,525	16,629
Collective packaging	8,806	-	8,806	-
Outside services	25,512	12,679	37,861	21,546
Leases	12,012	11,099	18,677	15,835
Travel expenses	5,166	4,569	8,673	7,683
Storage	3,236	2,681	15,126	11,399
Transportation insurance	4,908	3,642	6,948	5,268
Other	57,674	43,132	75,867	59,134
Total	492,721	400,904	663,238	539,403
General and administrative expenses:				
Payroll, related taxes and benefits	61,159	51,748	73,274	63,761
Outside services	36,193	28,367	41,168	31,656
Other	14,764	12,107	17,585	15,890
Total	112,169	92,222	132,027	111,307

28. STOCK OPTION PLANS

The Company grants preferred stock options to some executives under plans approved at the Extraordinary Shareholders' Meetings held on April 26, 2002, October 26, 2006 and April 29 2011, 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 information on the 2011 plans, which historically would be granted on July 1, 2011, have been recorded in the financial statements for the year ended December 31, 2011 based on estimated information, since the grant still has to be submitted to the approval of the Board of Directors in 2012.

General criteria of the stock option plans

The vesting period of 2002, 2003, 2004 and 2005 plans 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 2006 to 2009 plans is three years, with vesting of 30% in the third year (two-month period exercise period), 30% in the fourth year (two-month period exercise period) and 40% in the fifth year after grant date, and a maximum five-year term to exercise of the options granted. As regards to these plans, the option exercise is contingent to the attainment of performance goals, based on internal performance indicators.

For the 2010 program, the vesting period of the options is the same adopted for the 2006-2009 plans; however, the maximum period for the exercise of the options granted is different for each tranche, corresponding to three years after the maturity date of each vesting period. As regards to this plan, the option exercise is also 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:

a) 2002-2005 plans: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the São Paulo Mercantile and Stock Exchange (BM&FBOVESPA) 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).

b) 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 BM&FBOVESPA in the last 60 trading sessions before May 31 of the grant year. The exercise price is adjusted using the IPCA.

c) 2010 plan: initial exercise price equivalent to the average quotation weighted by the closing trading volume of the Company's preferred shares on the BM&FBOVESPA in the last 60 trading sessions before May 31 of the grant year. This exercise price is not adjusted based on any index.

Changes in the stock options plans between 2010 and 2011

	2011		2010	
	Number of stock options	Weighted average exercise price - R$	Number of stock options	Weighted average exercise price - R$
Outstanding options at beginning of year	5,252,900	3.84	5,366,280	3.22
Stock options granted	566,617	11.13	631,000	6.21
Options exercised	(1,908,060)	2.90	(548,500)	2.25
Options cancelled	(73,000)	0.12	(195,880)	3.58
Outstanding options at end of year	3,838,457	5.55	5,252,900	3.84

Stock options outstanding have the following features:

	Outstanding options			
	Options not exercised at yearend	Remaining contractual life (years)	Exercise price range - R$	Vested options at yearend
December 31, 2011	3,838,457	52	1.60-11.13	1,280,840
December 31, 2010	5,252,900	43	1.05-8.61	2,594,760

Detailed features of the stock options, by plan:

	2011			
Grant date	Options not exercised at yearend	Remaining contractual life (years)	Exercise price - R$	Vested options at yearend
July 1, 2004	71,200	33	1.60	71,200
July 1, 2005	889,240	2	2.27	889,240
July 1, 2007	258,400	8	9.17	200,400
July 1, 2008	435,000	20	6.32	120,000
July 1, 2009	1,060,000	32	4.05	-
July 1, 2010	558,000	78	6.21	-
July 1, 2011	566,617	90	11.13	-
Total	3,838,457	52	1.60-11.13	1,280,840

	2010			
Grant date	Options not exercised at yearend	Remaining contractual life (years)	Exercise price - R$	Vested options at yearend
July 1, 2002	178,000	18	1.05	178,000
July 1, 2003	363,600	30	1.20	363,600
July 1, 2004	808,200	42	1.52	808,200
July 1, 2005	889,240	54	2.16	889,240
July 1, 2006	432,860	8	5.88	244,720
July 1, 2007	280,000	20	8.61	111,000
July 1, 2008	550,000	32	5.93	-
July 1, 2009	1,120,000	44	3.80	-
July 1, 2010	631,000	90	6.21	-
Total	5,252,900	43	1.05-8.61	2,594,760

The accounting expense recorded in income statement relating to stock option plans totaled R$1,551 for the year ended December 31, 2011 (R$1,085 for the year ended December 31, 2010). For calculation of expenses, a probability of attainment of performance conditions of 100% (for 2006-2011 grants) and an expected stock cancellation rate of 0% was adopted.

The performance conditions were not reflected in the fair value since they are based on internal performance indicators. The expected volatility assumption was based on historic volatility in the five-year period prior to the grant date, and the early exercises were reflected using a Hull--White type binomial valuation model, with a voluntary exercise trigger of 150% of the exercise price.

The fair values of the 2011 plan stock options was estimated using a binomial valuation model, based on the following assumptions:

	Stated amounts
Price per share - R$	12.10
Exercise price - R$	11.13
Expected volatility	37.00%
Expected dividends	2.75%
Risk-free rate (nominal rate)	12.50%
Post-vesting rate	10.00%
Fair value - R$	5.40

The table below shows the simulated effects arising from:

a) Scenario I: exercise of the stock options granted up to December 31, 2011.

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

In both scenarios, we assumed that all options were vested on December 31, 2011, based on the Company's shareholders' equity as of this date:

	Scenario I	Scenario II
Weighted average exercise price - R$	5.55	5.55
Number of preferred shares	171,931,800	171,931,800
Number of outstanding preferred shares	166,838,580	166,838,580
Number of shares to be purchased with exercise of options	3,838,457	12,000,000
Book value per outstanding share - R$	4.24	4.24
Book value per share considering the exercise of options - R$	4.15	3.94
Dilution of book value per share - R$	0.09	0.30
Percentage dilution - %	2.17	7.61

29. EMPLOYEE BENEFITS

The Company and its subsidiaries sponsor two pension plans and grant, through their own pension plan, life annuity and health care benefits for a certain group of former employees and their spouses. The actuarial liability of these plans as of December 31, 2011 is R$1,973 (R$2,330 as of December 31, 2010), which is recorded in "Other payables" under noncurrent liabilities. The supplementary pension plans are as follows:

a) Pension plan - SPASAPREV

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

The actuarial amounts are as follows:

	2011
Present value of actuarial obligation	(29,877)
Fair value of plan assets	38,913
Unrecognized actuarial gain	(6,216)
Total net asset (*)	2,820

(*) This asset was not recognized in the Company's financial statements as of December 31, 2011 due to the need to maintain the actuarial surplus to cover future risk fluctuations of the plan.

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for 2011 were as follows:

Financial discount rate	10.4%
Long-term inflation rate	4.6%
General mortality table	AT-2000

b) Pension plan - HSBC

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

The actuarial amounts are as follows:

	2011
Present value of actuarial obligation	(497)
Fair value of plan assets	3,802
Unrecognized actuarial gain	(142)
Total net asset (*)	3,163

(*) This asset was not recognized in the Company's financial statements as of December 31, 2011 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 2011 were as follows:

Financial discount rate	10.4%
Long-term inflation rate	4.6%
General mortality table	AT-2000

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.

The actuarial amounts are as follows:

	2011
Present value of actuarial obligation	(1,312)
Unrecognized actuarial loss	345
Total liability recognized as of December 31, 2011	(967)

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for 2011 were as follows:

Financial discount rate	10.4%
Long-term inflation rate	4.6%
General mortality table	AT-2000

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.

The actuarial amounts are as follows:

	2011
Present value of actuarial obligation	(1,305)
Unrecognized actuarial gain	299
Total liability recognized as of December 31, 2011	(1,006)

The assumptions adopted by the independent actuary in the calculation of the actuarial liability for 2011 were as follows:

Financial discount rate	10.4%
Long-term inflation rate	4.6%
General mortality table	AT-2000

30. FINANCIAL INCOME AND EXPENSES, NET

	Parent		Consolidated	
	2011	2010	2011	2010
Financial income:				
Interest on short-term investments	70,585	42,968	72,868	43,590
Interest receivable	2,495	2,023	2,629	2,439
Other	4,203	3,420	5,333	3,878
Total	77,283	48,411	80,830	49,907
Financial expenses:				
Interest on loans and financing	(13,947)	(9,871)	(16,906)	(12,324)
Interest payable on subsidiary's debt restructuring	-	-	(10,691)	(13,288)
Tax on Financial Transactions (IOF)	(406)	(229)	(406)	(229)
Tax on banking transactions - Alpargatas S.A.I.C. - Argentina	-	-	(6,884)	(5,627)
Inflation adjustment of taxes	(6,350)	(4,522)	(6,351)	(4,546)
Other	(4,927)	(2,997)	(9,976)	(7,265)
Total	(25,630)	(17,619)	(51,214)	(43,279)

31. EXCHANGE VARIATION, NET

	Parent		Consolidated	
	2011	2010	2011	2010
Exchange gains	11,543	6,648	10,811	7,629
Exchange losses	(12,466)	(6,916)	(11,378)	(5,299)
Total	(923)	(268)	(567)	2,330

32. OTHER OPERATING EXPENSES, NET

	Parent		Consolidated	
	2011	2010	2011	2010
Other operating income:				
Gain on sale of subsidiary	-	2,005	-	2,005
Gain on sale of property, plant and equipment	-	1,546	-	14,305
Gain on final and unappealable decisions in lawsuits (a)	-	4,125	-	4,125
Alpargatas S.A.I.C. - Argentina tax credit	-	-	-	4,927
Eletrobrás receivables (b)	19,765	-	19,765	-
CBS S.A. - Companhia Brasileira de Sandálias tax credit confirmed by final and unappealable court decision	-	-	2,158	-
Other	2,474	-	5,784	-
	22,239	7,676	27,707	25,362

	Parent		Consolidated	
	2011	2010	2011	2010
Other operating expenses:				
Amortization of intangible assets	(18,611)	(15,471)	(20,184)	(16,821)
Accrual for tax, civil and labor risks (note 22)	(10,225)	(15,010)	(11,074)	(16,419)
Income (loss) on write-off of property, plant and equipment	-	(2,161)	-	(2,161)
Terminated business agreements	-	-	(7,676)	-
Other	(15,919)	(12,579)	(17,797)	(14,812)
Other operating expenses	(44,755)	(45,221)	(56,731)	(50,213)
Other operating expenses, net	(22,516)	(37,545)	(29,024)	(24,851)

(a) Refers to a favorable court decision in a lawsuit filed against the INSS (social security) for the increase in the tax rate during September 1989, amounting to R$4,403, or R$4,125 net of lawyers' fees of R$276.

(b) Refers to a lawsuit filed by the Company to claim the repayment of the compulsory loans to Eletrobrás plus full inflation adjustment and interest on principal. The Superior Court of Justice (STJ) issued a case law favorable to taxpayers upon the judgment of Special Appeal (RESP) No. 1003955 and RESP No. 1028592, according to article 543-C of the Code of Civil Procedure on similar appeals, which extends the decision to all lawsuits on the same subject. On the other hand, the Federal Supreme Court (STF) decision on Bill of Review No. 735933 filed by Eletrobrás confirms the STJ understanding that the matter does not involve constitutional law. Even though there is no final and unappealable decision on the lawsuit filed by the Company, there is a decision that the STJ's decision be applied to this specific lawsuit.

In December 2011, the Company entered into an agreement for the assignment and acquisition of receivables and other covenants with third parties unrelated to Group Companies, to which it transfers all the risks and rewards incidental to said lawsuit for R$19,765, amount already received in full. The Company, however, has reserved the right to increase the sale price based on information possibly obtained from the electric power concessionaires.

33. PROFIT SHARING

The Company and its subsidiaries offer their employees a profit sharing program linked to the achievement of operating goals and specific objectives annually established and approved for each plant/unit. For the years ended December 31, 2011 and 2010, profit sharing recognized in income statement was as follows:

	Parent		Consolidated	
	2011	2010	2011	2010
Profit sharing plan	27,145	27,910	33,030	36,052

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

34. PLEDGES AND COLLATERALS

As of December 31, 2011 and 2010, in addition to the information disclosed in notes 15 and 17, pledges and collaterals provided by the Company to financial institutions related to vendor financing transactions totaled R$2,007 and R$3,810, respectively.

For the years ended December 31, 2011 and 2010, the Company did not record losses arising from the guarantees pledged.

35. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) General considerations and policies

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

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

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

Short-term investments

The short-term investment policy established by the Company’s and its subsidiaries’ Management elects the financial institutions with which the agreements may be entered into based on the evaluation of the credit rating attributed to the counterparty, maximum exposure percentage by institution based on the rating and bank’s maximum net equity percentage. As of December 31, 2011 and 2010, short-term investments were made according to such limits.

Loans and financing

Loans and financing are recorded based on interest contractually established for each operation, as shown in note 17.

Current accounts with related parties

In Parent, balances with related parties refer to the management of a single cash (cash and cash equivalents) by the Company, and there are no financial charges on these transactions. This type of transactions is conducted only between the Parent and its subsidiaries.

Derivative policy

Due to the financial obligations in foreign currencies assumed by the Company and its subsidiaries, Management, pursuant to guidelines established by the Board of Directors, may contract derivative transactions to minimize foreign exchange risks arising from financial liabilities and accounts payable within the exposure limits linked to these risks.

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

As of December 31, 2011 and 2010, the Company and its subsidiaries did not have any outstanding transaction involving derivatives.

b) Financial risk management

Financial risk factors

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

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

b.1) Market risk

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

(i) Foreign exchange risk

Due to different types of receivables and financial liabilities assumed by the Company in foreign currencies, the exchange rate hedging policy was implemented, establishing exposure limits linked to this risk.

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

(ii) Interest rate risk

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

b.2) Credit risk

Sales are mainly made to retailers and retailers and wholesalers. The credit risk is reduced due to of the higher dispersion of the customer portfolio and credit assessment and granting policies. The result of this management is reflected in "Allowance for doubtful accounts", as explained in note 9.

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

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

b.3) Liquidity risk

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

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

c) Financial liabilities

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

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

	2010						
	Less than a year	Between one and two years	Between three and five years	Over five years	Fair value	Discount effect	Carrying amount
Current:							
Finance lease transactions	405	-	-	-	405	(70)	335
Loans and financing	226,036	-	-	-	226,036	-	226,036
Trade accounts payable	212,777	-	-	-	212,777	-	212,777
Noncurrent:							
Finance lease transactions	-	172	-	-	172	(21)	151
Loans and financing	-	19,690	47,581	2,168	69,438	-	69,438

d) Capital management

The objectives of the Company in managing its capital are to ensure that the Company is continuously capable of offering return to its shareholders and benefits to other related stakeholders, and maintain an ideal capital structure to reduce this cost. The net financial position is equivalent to total cash, cash equivalents and short-term investments, less short- and long-term loans and financing:

	2011	2010
Cash and cash equivalents and short-term investments	670,954	654,665
(-) Loans and financing - current and noncurrent	(235,933)	(295,960)
Net financial position	435,021	358,705
Shareholders' equity	1,489,859	1,348,073

e) Foreign exchange exposure

	Parent		Consolidated	
	2011	2010	2011	2010
Assets-				
Trade accounts receivable (i)	36,686	30,746	93,393	78,412
Total assets	36,686	30,746	93,393	78,412
Liabilities:				
Loans and financing (ii)	4,794	-	118,627	75,208
Trade accounts payable	40,961	25,517	102,570	68,446
Royalties payable	13,448	5,945	13,448	5,945
Total liabilities	59,203	31,462	234,645	149,599
Net exposure	(22,517)	(716)	(141,252)	(71,187)
(-) Foreign subsidiaries	-	-	122,460	72,365
Total exposure for sensitivity analysis purpose	(22,517)	(716)	(18,792)	1,178

(i) Of the consolidated amounts as of December 31, 2011, 77.4% (76.4% as of December 31, 2010) refer to trade accounts receivable of foreign subsidiaries (Alpargatas USA Inc. - United States, Alpargatas Europe S.L.U. - Spain, Alpargatas Chile Ltda. - Chile and Alpargatas S.A.I.C. - Argentina) and 22.6% refer to foreign trade accounts receivable of the Company in Brazil.

(ii) Of the consolidated amounts as of December 31, 2011, 95.9% (100% as of December 31, 2010) refer to local currency-denominated loans of foreign subsidiaries (Alpargatas USA Inc. - United States, Alpargatas Europe S.L.U. - Spain, Alpargatas Chile Ltda. - Chile and Alpargatas S.A.I.C. - Argentina), as shown in note 17.

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

f) Fair values

As of December 31, 2011 and 2010, the fair values of short-term investments approximate their carrying amounts since they are pegged to the interbank deposit rate (CDI) fluctuation. Loans and financing are adjusted for inflation based on interest rates contracted according to the usual market conditions and, therefore, balances payable at the balance sheet dates substantially approximate their fair values, including those classified as noncurrent, considering the type of the related financing.

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

The Company and its subsidiaries use hierarchy rules to measure the fair value of their financial instruments, as set out in CPC 40/IFRS 07 - Financial Instruments: Disclosure, for financial instruments measured in the balance sheet, which requires the disclosure of the fair value measurements at the following hierarchy level:

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

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

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

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

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

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

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

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

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

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

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

The Company and its subsidiaries did not have financial instruments stated at fair value for the years ended December 31, 2011 and 2010.

g) Sensitivity analysis of financial instruments

Foreign exchange risk

In the consolidated currency exposure sensitivity analysis as of December 31, 2011, the output of which reflects only the impacts on monetary assets and liabilities, 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, and, for this reason, the Company's Management understands that they are not exposed to currency risks.

Considering the foreign exchange exposures described in item e) above, as of December 31, 2011, the sensitivity analysis of outstanding positions is as follows:

	Loss	
Company risk	Possible scenario	Remote scenario
U.S. dollar appreciation	4,698	9,396

The possible scenario considers a 25% depreciation of the Brazilian real against the U.S. dollar over the exchange rate as of December 31, 2011 of R$1.8758/US$1.00 (R$2.3448/US$1.00), and the remote scenario considers a 50% depreciation (R$2.8137/US$1.00).

In light of the parities considered, results would correspond to a loss of R$696 in the possible scenario and a loss of R$1,392 in the remote scenario.

Management did not consider the sensitivity analysis for the probable scenario because it understands that this scenario reflects the exchange rate fluctuation already recorded in the financial statements for the year ended December 31, 2011.

Interest rate risk

The sensitivity analysis was determined based on the exposure to interest rates of non--derivative financial instruments at the balance sheet dates. For financial assets indexed to the CDI rate and liabilities indexed to the floating TJLP (long-term interest rate), the analysis is prepared assuming that the net amount between the asset and liability outstanding at the balance sheet dates remained outstanding throughout the year. A three percentage point increase or decrease is used to internally present the interest rate risks to Management's key personnel and corresponds to Management's assessment of the possible changes in interest rates.

Had interest rates been three percentage points higher or lower and all other variables remained stable, net income for the year ended December 31, 2011 would have increased or decreased by approximately R$19,488. This is mainly due to the Company's net exposure to the CDI rate on short-term investments, considering that the financial liabilities are mainly stated at fixed rates, as shown in note 17.

36. DISCONTINUED OPERATIONS

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

The disposal of this CGU, denominated industrial textiles segment, is part of the effort to concentrate the Company's activities in the footwear, sporting goods and retail segments to maximize its performance in these segments. This transaction was completed on April 20, 2010.

This operation generated a capital gain in the amount of R$2,005, of which R$505 was recorded due to the disposal of investment and R$1,500 was recorded in September 2010 due to the price adjustment in accordance with contractual clause.

The CGU was classified as a discontinued operation and a group of assets held for sale. The income or loss and the cash flows from the discontinued operation, for the year ended December 31, 2010, are as follows:

a) Income (loss) from discontinued operation

	R$
Net revenue from sales	27,859
Cost of sales	(19,531)
Gross profit	8,328
Operating expenses	(4,380)
Financial income (expenses), net	48
Operating income	3,996
(-) Income tax and social contribution	(755)
Net income from discontinued operations	3,241

b) Cash flows from discontinued operations

Net cash generated by operating activities	664
Net cash used in investing activities	(70)
Net cash generated by discontinued operation	594

37. EARNINGS PER SHARE

	2011		
	Common shares (ON)	Preferred shares (PN) (a)	Total
Denominator:			
Weighted average number of shares	181,524,080	171,931,800	353,455,880
Weighted number of treasury shares	-	(5,080,868)	(5,080,868)
Weighted average number of outstanding shares	181,524,080	166,850,932	348,375,012
% of shares	52.11%	47.89%	100.00%
Numerator - basic:			
Net income for the year attributable to each class of shares	152,822	154,598	307,420
Basic earnings per share - R$	0.8419	0.9266	0.8824
Numerator - diluted:			
Weighted average number of outstanding shares	181,524,080	166,850,932	348,375,012
Weighted number of shares in stock option plans	-	3,789,581	3,789,581
Weighted average number of outstanding shares	181,524,080	170,640,513	352,164,593
Diluted earnings per share - R$	0.8419	0.9060	0.8729

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

38. COMMITMENTS ASSUMED

38.1. Operating leases

Stores leased

As of December 31, 2011, the Company had lease agreements with third parties for its stores. Management reviewed these agreements and concluded that they qualify as operating leases.

The lease amount of properties is the greater of: (i) the equivalent to the average rate between 3% and 4% of the store's monthly gross sales; or (ii) the minimum monthly amount annually adjusted using various inflation indexes. The average monthly lease expenses paid totaled R$830 (R$650 as of December 31, 2010). Such lease agreements mature between 5 and 15 years, subject to renewal.

For the year ended December 31, 2011, rental expenses, net of recoverable taxes, totaled R$9,959 (R$7,801 for the year ended December 31, 2010) in consolidated.

Other leases

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

In August 2011, the Company entered into a lease agreement for its future administrative head office, starting April 2012. This agreement is effective for ten years, beginning September 2011 and with a grace period of 90 days. The monthly rental expense is R$893 and the agreement will be adjusted on an annual basis based on the positive IGP-M fluctuation.

For the year ended December 31, 2011, rental expenses, net of recoverable taxes, totaled R$21,241 (R$17,687 for the year ended December 31, 2010) in consolidated.

Future commitments

Total future commitments arising from operating lease agreements totaled a minimum fixed amount of R$99,056, as of December 31, 2011, distributed as follows:

Year	R$
2012	19,995
2013	19,579
2014	19,816
2015 to 2016	39,666
Total	99,056

Such transactions are subject to usual restrictive clauses, such as guarantees for early termination of agreement, among others, which clauses, as of December 31, 2011, were complied with by the Company and, therefore, no effective lease agreement on such date was characterized as onerous agreement by the Company's Management. In addition, no contingent payment was made by the Company during the year ended December 31, 2011.

38.2. Inputs supply contracts

The Company has commitments deriving from an agreement for the supply of electric power effective through 2010, providing for the purchase of a minimum monthly volume of 25,883 kW, equivalent to R$611, which can be amended within no less than six months. As of December 31, 2011, the Company was compliant to this agreement's commitments.

38.3. Construction service agreement of and equipment supply for the new plant in Montes Claros - MG

The Company assumed commitments arising from engineering services and equipment supply agreement related to the construction of a new plant in Montes Claros - MG. As of December 31, 2011, the total amount of these commitments was R$37,533, corresponding to construction works in progress, and R$19,600, corresponding to industrial equipment to be acquired from different suppliers.

39. INSURANCE COVERAGE

The Company and its subsidiaries have an insurance policy that considers principally risk concentration and materiality, providing it with a level of insurance coverage considered sufficient by Management according to the type of its activities and advice of the insurance brokers. As of December 31, 2011, insurance coverage is as follows.

- Operational risks:
  - Material damage - R$650,533.
  - Loss of profits - R$963,784.
  - Combined indemnity ceiling by unit - R$566,000.
- General civil liability - R$10,000.
- Optional civil liability - R$1,000.

40. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

	Parent		Consolidated	
	2011	2010	2011	2010
Receipt of dividends with settlement of subsidiary's current account	7,545	-	-	-
Purchase of fixed assets not affecting cash	4,737	2,407	4,737	2,407
Unused limits of overdraft accounts	-	-	36,933	27,453

41. RECLASSIFICATIONS

41.1. Statements of cash flows

Certain originally disclosed transactions of the statements of cash flows for the year ended December 31, 2010 have been reclassified for purposes of better comparability with the classification adopted for 2011. Accordingly, the Company is restating this statement, as follows:

	Parent		Consolidated	
	Restated	Original	Restated	Original
Cash flow from operating activities	366,904	364,617	368,377	366,090
Cash flow from investing activities	(169,726)	(210,714)	(155,750)	(208,438)
Cash flow from financing activities	30,629	33,036	7,006	21,113

41.2. Taxes with suspended payment and deferred income tax and social contribution assets and liabilities

In order to better state the balance of deferred income tax and social contribution assets and liabilities of its subsidiary Alpargatas S.A.I.C. - Argentina and show the income taxes with suspended payment, the Company made the following reclassification in noncurrent assets and liabilities as of December 31, 2010:

	Parent			
	Noncurrent assets		Noncurrent liabilities	
	Restated	Original	Restated	Original
Deferred income tax liabilities	-	-	3,261	38,466
Taxes with suspended payment and other	-	-	86,405	51,200

	Consolidated			
	Noncurrent assets		Noncurrent liabilities	
	Restated	Original	Restated	Original
Deferred income tax assets	88,797	61,912	-	-
Deferred income tax liabilities	-	-	42,625	50,945
Taxes with suspended payment and other	-	-	90,620	55,415

41.3. Sales revenue recognition cut-off adjustment

In order to better state the impact of the product sales revenue recognition cut-off adjustment, the Company reclassified the balances as of December 31, 2010 of trade accounts receivable, inventories and taxes payable, and net sales revenue and cost of sales for the year then ended since by the end of 2010 this accounting policy was adopted considering the net effect of the adjustment determined by the Company. There was no change in net income nor in shareholders' equity, only a reclassification between line items.

The reclassified effects as of December 31, 2010 were as follows:

	Parent		Consolidated	
	Restated	Original	Restated	Original
Trade accounts receivable	364,634	403,494	426,573	465,433
Inventories	183,878	160,971	295,885	272,978
Taxes payable	7,241	13,756	22,114	28,629
Provisions and other payables	22,381	31,817	34,829	44,267
Net operating revenue	1,642,748	1,650,029	2,231,875	2,239,156
Cost of goods sold	846,210	850,178	1,213,783	1,217,751
Selling expenses	400,914	407,983	539,403	546,472
Other operating expenses	37,545	18,318	24,851	4,274

42. APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUANCE

These financial statements were approved for issuance by the Board of Directors at the meeting held on March 16, 2012.