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

São Paulo Alpargatas S.A. and Subsidiaries

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

Deloitte Touche Tohmatsu Auditores Independentes

(Tentative and preliminary. Only for discussion.)

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

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

	Company		Consolidated	
ASSETS	09/30/10	06/30/10	09/30/10	06/30/10
CURRENT ASSETS				
Cash and cash equivalents	424,949	381,429	452,200	428,234
Short-term investments	39,805	35,051	39,805	35,051
Trade accounts receivable	354,631	303,510	427,469	380,865
Inventories	167,225	149,156	263,722	240,299
Recoverable taxes	10,892	5,836	24,458	18,385
Deferred income tax and social contribution	15,890	16,747	19,131	20,351
Prepaid expenses	7,589	10,321	9,500	12,819
Receivable from the sale of subsidiary	14,555	14,555	14,555	22,300
Other receivables	7,774	10,359	27,409	22,590
Total current assets	1,043,310	926,964	1,278,249	1,180,894
NONCURRENT ASSETS				
Long-term assets:				
Assets held for sale	612	612	3,770	3,781
Recoverable taxes	2,682	2,904	18,869	19,761
Judicial deposits	11,634	12,167	12,540	12,860
Deferred income tax and social contribution	25,983	24,576	42,830	40,871
Related parties	1,456	6,982	-	-
Receivable from the sale of subsidiary	14,936	14,300	19,784	19,355
Other receivables	21,507	22,374	22,031	22,526
Investments:				
Subsidiaries and associates	143,680	149,105	68,147	70,560
Other	195	195	195	585
Property, plant and equipment	169,847	171,434	260,280	266,590
Intangible assets	252,913	253,668	264,854	265,197
Deferred charges	4,526	5,234	4,768	5,404
Total noncurrent assets	649,971	663,551	718,068	727,490
TOTAL ASSETS	1,693,281	1,590,515	1,996,317	1,908,384

	Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	09/30/10	06/30/10	09/30/10	06/30/10
CURRENT LIABILITIES				
Trade accounts payable	161,673	148,350	94,440	194,458
Loans and financing	18,977	19,008	202,389	92,409
Payroll and related taxes	63,318	48,292	90,087	72,685
Accrual for contingencies	2,360	2,330	5,694	5,736
Interest on capital and dividends payable	1,085	920	1,085	920
Taxes payable	5,774	1,872	21,979	14,366
Debt restructuring agreements	-	-	13,143	13,184
Provisions and other payables	25,904	23,854	44,283	50,575
Total current liabilities	279,091	244,626	473,100	444,333
NONCURRENT LIABILITIES				
Loans and financing	71,010	75,763	113,648	121,403
Deferred income tax and social contribution	34,184	33,516	34,184	33,516
Accrual for contingencies	21,562	20,999	30,516	30,081
Taxes with suspended payment and other	45,118	39,531	50,306	45,992
Debt restructuring agreements	-	-	22,948	26,448
Other payables	5,931	5,380	6,637	6,301
Total noncurrent liabilities	177,805	175,189	258,239	263,741
NONCONTROLLING INTERESTS	-	-	29,807	30,723
SHAREHOLDERS' EQUITY				
Capital	441,171	441,171	441,171	441,171
Capital reserves	172,087	172,223	172,087	172,223
Earnings reserves	701,151	634,588	699,937	633,475
Valuation adjustments to equity	(49,011)	(48,817)	(49,011)	(48,817)
Treasury shares	(29,013)	(28,465)	(29,013)	(28,465)
Total shareholders' equity	1,236,385	1,170,700	1,235,171	1,169,587
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,693,281	1,590,515	1,996,317	1,908,384
Book value per share - R$	3.55	3.36		

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

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

	Company			
	07/01/09 to 09/30/09	01/01/09 to 09/30/09	04/01/09 to 06/30/09	01/01/09 to 06/30/09
GROSS REVENUE FROM SALES				
Sales of products	458,348	1,204,248	359,357	745,900
Taxes on sales	(64,863)	(173,913)	(51,993)	(109,050)
NET SALES REVENUE	393,485	1,030,335	307,364	636,850
Cost of sales	(192,042)	(556,305)	(179,404)	(364,263)
GROSS PROFIT	201,443	474,030	127,960	272,587
OPERATING INCOME (EXPENSES)				
Selling	(84,744)	(258,869)	(94,172)	(174,125)
General and administrative	(21,593)	(63,351)	(17,591)	(41,758)
Equity in subsidiaries and associates	(16,998)	(51,537)	(21,364)	(34,539)
Amortization of intangible assets	(6,214)	(11,420)	(2,981)	(5,206)
Amortization of deferred charges	1,065	(1,497)	(1,399)	(2,562)
Other operating income (expenses), net	(4,802)	7,370	8,557	12,172
	(133,286)	(379,304)	(128,950)	(246,018)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)	68,157	94,726	(990)	26,569
Financial income	6,228	18,864	6,226	12,636
Financial expenses	(5,885)	(18,526)	(6,320)	(12,641)
Exchange rate change, net	(1,142)	(7,902)	(6,505)	(6,760)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	67,358	87,162	(7,589)	19,804
Income tax and social contribution - current	(13,088)	(13,088)	1,925	-
Income tax and social contribution - deferred	(1,729)	(2,277)	1,482	(548)
Noncontrolling interests	-	-	-	-
NET INCOME FOR THE PERIOD	52,541	71,797	(4,182)	19,256
EARNINGS PER SHARE - R$	3.01648	4.12200	(0.24010)	1.10552

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

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

	Consolidated			
	07/01/10 to 09/30/10	01/01/10 to 09/30/10	07/01/09 to 09/30/09	01/01/09 to 09/30/09
GROSS REVENUE FROM SALES				
Sales of products	686,062	1,928,747	623,035	1,698,310
Taxes on sales	(105,428)	(281,222)	(94,427)	(259,560)
NET SALES REVENUE	580,634	1,647,525	528,608	1,438,750
Cost of sales	(320,060)	(889,506)	(287,210)	(844,874)
GROSS PROFIT	260,574	758,019	241,398	593,876
OPERATING INCOME (EXPENSES)				
Selling	(130,724)	(391,735)	(122,677)	(371,457)
General and administrative	(29,677)	(89,802)	(27,125)	(80,173)
Equity in subsidiaries and associates	(2,884)	(7,403)	(2,406)	(15,270)
Amortization of intangible assets	(4,287)	(13,168)	(5,035)	(11,379)
Amortization of deferred charges	(578)	(1,650)	(640)	(3,231)
Other operating income (expenses), net	(1,353)	3,405	(5,769)	3,579
	(169,503)	(500,353)	(163,652)	(477,931)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)	91,071	257,666	77,746	115,945
Financial income	13,368	31,476	8,029	23,783
Financial expenses	(10,534)	(31,055)	(12,501)	(42,081)
Exchange rate change, net	1,155	1,731	(637)	(5,620)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	95,060	259,818	72,637	92,027
Income tax and social contribution - current	(11,057)	(27,304)	(16,347)	(17,039)
Income tax and social contribution - deferred	(1,518)	6,744	(1,664)	(326)
Noncontrolling interests	(1,023)	(3,178)	(1,131)	(1,926)
NET INCOME FOR THE PERIOD	81,462	236,080	53,495	72,736
EARNINGS PER SHARE - R$	0.23384	0.67768	3.07125	4.17591

SÃO PAULO ALPARGATAS S.A.

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

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF DECEMBER 31, 2009	391,804	174,461	532,628	-	(42,318)	1,056,575
Net income for the nine-month period	-	-	-	234,727	-	234,727
Allocations:						
Interest on capital	-	-	-	(47,012)	-	(47,012)
Other	-	-	187,715	(187,715)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:						
Accumulated translation adjustment	-	-	-	-	(6,693)	(6,693)
Stock options grants	-	749	-	-	-	749
Treasury shares	-	(3,123)	1,162	-	-	(1,961)
BALANCES AS OF SEPTEMBER 30, 2010	441,171	172,087	672,138	-	(49,011)	1,236,385

SÃO PAULO ALPARGATAS S.A.

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

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF JUNE 30, 2010	441,171	172,223	484,971	153,164	(48,817)	1,202,712
Net income for the quarter	-	-	-	81,563	-	81,563
Allocations:						
Interest on capital	-	-	-	(15,000)	-	(15,000)
Other	-	-	66,563	(66,563)	-	-
Capital increase						-
Valuation adjustment to equity:	-	-	-	-	-	-
Accumulated translation adjustment	-	-	-	-	(194)	(194)
Stock options grants	-	282	-	-	-	282
Treasury shares	-	(418)	(548)	-	-	(966)
BALANCES AS OF SEPTEMBER 30, 2010	441,171	172,087	550,986	153,164	(49,011)	1,268,397

SÃO PAULO ALPARGATAS S.A.

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

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF DECEMBER 31, 2009	391,804	174,461	530,062	-	(42,318)	1,054,009
Net income for the nine-month period	-	-	-	236,080	-	236,080
Allocations:						-
Interest on capital	-	-	-	(47,012)	-	(47,012)
Other	-	-	189,068	(189,068)	-	-
Capital increase	49,367	-	(49,367)	-	-	-
Valuation adjustment to equity:						-
Accumulated translation adjustment	-	-	-	-	(6,693)	(6,693)
Stock options grants	-	749	-	-	-	749
Treasury shares	-	(3,123)	1,161	-	-	(1,962)
BALANCES AS OF SEPTEMBER 30, 2010	441,171	172,087	670,924	-	(49,011)	1,235,171

SÃO PAULO ALPARGATAS S.A.

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

	Capital	Capital reserves	Earnings reserves	Accumulated earnings	Valuation adjustments to equity	Total
BALANCES AS OF JUNE 30, 2010	441,171	172,223	605,010	-	(48,817)	1,169,587
Net income for the quarter	-	-	-	81,462	-	81,462
Allocations:						
Interest on capital	-	-	-	(15,000)	-	(15,000)
Other	-	-	66,462	(66,462)	-	-
Capital increase	-	-	-	-	-	-
Valuation adjustment to equity:						
Accumulated translation adjustment	-	-	-	-	(194)	(194)
Stock options grants	-	282	-	-	-	282
Treasury shares	-	(418)	(548)	-	-	(966)
BALANCES AS OF SEPTEMBER 30, 2010	441,171	172,087	670,924	-	(49,011)	1,235,171

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

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

	Company			
	07/01/09 to 09/30/09	01/01/09 to 09/30/09	04/01/09 to 06/30/09	01/01/09 to 06/30/09
CASH FLOW FROM OPERATING ACTIVITIES				
Net income for the period	52,541	71,797	(4,182)	19,256
Adjustments to reconcile net income for the period to net cash provided by operating activities:				
Depreciation and amortization	11,708	31,481	10,382	19,651
Gain on sale of property, plant and equipment	-	-	-	-
Equity in subsidiaries and associates	16,998	51,537	21,364	34,539
Interest, inflation adjustment and exchange rate changes	4,853	15,609	5,045	10,756
Accrual for contingencies	1,918	4,112	80	(287)
Loss from property, plant and equipment sold	-	-		
Gain in the sale of subsidiary	-	-	-	-
Deferred income tax and social contribution	1,729	2,277	(1,482)	548
Exchange rate on investments	-	-	-	-
Allowance for doubtful accounts	673	(3,625)	(2,718)	(4,298)
	90,420	173,188	28,489	80,165
Decrease (increase) in assets:				
Trade accounts receivable	(76,796)	44,681	64,931	121,477
Inventories	(5,540)	(22,065)	9,002	(16,525)
Prepaid expenses	4,535	(2,612)	3,000	(7,147)
Recoverable taxes	4,732	235	3,784	(4,497)
Increase (decrease) in liabilities:				
Trade accounts payable	11,702	13,522	29,238	1,820
Taxes payable	7,403	555	(11,315)	(6,848)
Payroll and related taxes	10,911	2,943	(13,674)	(7,968)
Income tax and social contribution payable	5,371	8,147	3,540	2,776
Due to related parties	2,662	(771)	(447)	(3,433)
Other	1,263	(2,092)	3,245	(223)
OTHER CASH FLOW FROM OPERATING ACTIVITIES				
Income tax and social contribution paid	-	(3,570)	(3,570)	(3,570)
Interest paid on loans and financings	(4,454)	(12,294)	(3,863)	(7,840)
Net cash provided by operating activities	52,209	199,867	112,360	148,187
CASH FLOW FROM INVESTING ACTIVITIES				
Noncontrolling interests	-	-	(8,746)	(8,746)
Purchase of investments	(27,919)	(36,664)		
Purchase of property, plant and equipment, intangible assets and deferred charges	(9,183)	(31,771)	(6,578)	(23,117)
Closing balance of cash in subsidiary sold	-	-	-	-
Proceeds from sale of property, plant and equipment	220	770	330	550
Short-term investments	-	-	-	-
Goodwill transfer	-	-	-	-
Noncontrolling interests	-	-	-	-
Net cash used in investing activities	(36,882)	(67,665)	(14,994)	(31,313)
CASH FLOW FROM FINANCING ACTIVITIES				
Funds raised through loans and financing	11,433	13,774	1,471	2,341
Amortization of loans and financing - principal	(32,704)	(45,349)	(7,375)	(12,645)
Share buyback into treasury, net of disposals	(267)	(267)	-	-
Dividends and interest on capital paid	(4,975)	(20,287)	(13,287)	(15,312)
Stock option grants	283	652	369	369
Restructuring of subsidiary's debt	-	-	-	-
Net cash used in financing activities	(26,230)	(51,477)	(18,822)	(25,247)
Exchange rate changes on cash and cash equivalents	-	-	-	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,903)	80,725	78,544	91,627
Opening balance of cash and cash equivalents	234,134	142,506	155,589	142,506
Closing balance of cash and cash equivalents	223,231	223,231	234,133	234,133
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,903)	80,725	78,544	91,627

SÃO PAULO ALPARGATAS S.A. AND SUBSIDIARIES

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

	Consolidated			
	07/01/10 to 09/30/10	01/01/10 to 09/30/10	07/01/09 to 09/30/09	01/01/09 to 09/30/09
CASH FLOW FROM OPERATING ACTIVITIES				
Net income for the period	81,462	236,079	53,495	72,736
Adjustments to reconcile net income for the period to net cash provided by operating activities:				
Depreciation and amortization	12,693	40,559	16,317	46,800
Gain on sale of property, plant and equipment	14,338	2,153	-	-
Equity in subsidiaries and associates	2,884	7,403	2,406	15,270
Interest, inflation adjustment and exchange rate changes	6,793	21,842	4,956	27,036
Accrual for contingencies	4,238	11,750	2,012	4,332
Loss from property, plant and equipment sold	(14,305)	(14,305)	-	-
Gain in the sale of subsidiary	(1,500)	(2,005)	-	-
Deferred income tax and social contribution	1,518	(6,744)	1,664	326
Exchange rate on investments	-	-	4,102	-
Allowance for doubtful accounts	(1,456)	1,780	460	3,266
	106,665	298,512	85,412	169,766
Decrease (increase) in assets:				
Trade accounts receivable	(45,885)	(25,435)	(75,548)	9,520
Inventories	(29,249)	(64,033)	4,536	(4,987)
Prepaid expenses	3,251	(5,340)	4,867	(3,560)
Recoverable taxes	(6,370)	(3,246)	3,700	(7,181)
Increase (decrease) in liabilities:				
Trade accounts payable	8,917	92,903	18,597	12,299
Taxes payable	7,677	6,660	8,413	4,072
Payroll and related taxes	18,799	25,099	14,004	4,805
Income tax and social contribution payable	12,146	18,608	10,735	14,530
Due to related parties	-	-	-	-
Other	(6,832)	(23,451)	(318)	7,327
OTHER CASH FLOW FROM OPERATING ACTIVITIES				
Income tax and social contribution paid	(7,994)	(15,710)	(2,737)	(7,501)
Interest paid on loans and financings	(3,772)	(10,985)	(7,851)	(19,169)
Net cash provided by operating activities	57,353	293,582	63,810	179,921
CASH FLOW FROM INVESTING ACTIVITIES				
Noncontrolling interests	-	-	-	-
Purchase of investments	-	-	-	-
Purchase of property, plant and equipment, intangible assets and deferred charges	(11,626)	(31,591)	(12,855)	(39,577)
Closing balance of cash in subsidiary sold	-	(14,280)	-	-
Proceeds from sale of property, plant and equipment	1,500	19,100	220	770
Short-term investments	(4,754)	(39,805)	-	-
Goodwill transfer	-	-	-	-
Noncontrolling interests	1,023	3,178	1,132	1,927
Net cash used in investing activities	(13,857)	(63,398)	(11,503)	(36,880)
CASH FLOW FROM FINANCING ACTIVITIES				
Funds raised through loans and financing	32,586	101,319	14,356	75,672
Amortization of loans and financing - principal	(33,264)	(128,090)	(72,210)	(106,416)
Share buyback into treasury, net of disposals	(967)	(1,961)	(267)	(267)
Dividends and interest on capital paid	(14,834)	(46,846)	(4,975)	(20,287)
Stock option grants	282	749	283	652
Restructuring of subsidiary's debt	(2,552)	(7,748)	230	(5,014)
Net cash used in financing activities	(18,749)	(82,577)	(62,583)	(55,660)
Exchange rate changes on cash and cash equivalents	(781)	(2,021)	(4,219)	(11,212)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,966	145,586	(14,495)	76,169
Opening balance of cash and cash equivalents	428,234	306,614	267,709	177,045
Closing balance of cash and cash equivalents	452,200	452,200	253,214	253,214
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,966	145,586	(14,495)	76,169

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

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

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

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

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

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

São Paulo, November 12, 2010

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Reynaldo Awad Saad
Engagement Partner

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(Tentative and preliminary. Only for discussion.)

1. OPERATIONS

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

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

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

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

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

Significant accounting practices adopted are as follows:

a) Functional and reporting currency

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

b) Foreign currency transactions and balances

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

c) Cash and cash equivalents and short-term investments

(i) Cash and cash equivalents

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

(ii) Short-term investments

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

d) Financial instruments

(i) Classification

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

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

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

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

(2) Held-to-maturity financial assets

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

(3) Loans and receivables

Include nonderivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current assets and/or liabilities, except, when applicable, for maturities greater than 12 months after the balance sheet dates, which are classified as noncurrent. As of September 30 and June 30, 2010, for the Company and its subsidiaries, comprise cash and cash equivalents (note 6), loans and financing (note 13), trade accounts receivable (note 7) and related parties (note 16).

(ii) Measurement

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

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

(iii) Derivative financial instruments and hedging activities

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

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

(iv) Offsetting of financial instruments

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

e) Allowance for doubtful accounts

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

f) Inventories

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

g) Assets held for sale

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

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

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

h) Investments

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

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

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

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

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

i) Property, plant and equipment

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

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

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

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

j) Intangible assets

Comprise: (i) industrial trademarks and patents; (ii) software licenses, including implementation costs; (iii) customer portfolios purchased from third parties; and (iv) goodwill on acquisition of subsidiaries. Stated at historical cost and, in cases of assets with finite useful lives, amortized over the periods described in note 12. Assets without finite useful lives, mainly consisting of goodwill paid on the acquisition of subsidiaries, were amortized on a straight-line basis up to December 31, 2008 over a ten-year period and, beginning December 31, 2009, started to be annually analyzed as regards to their recoverability (impairment) and/or when any impairment loss is present, as prescribed by Pronouncement CPC 01 - Impairment of Assets.

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

k) Deferred charges

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

l) Impairment assessment

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

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

m) Research and product development expenses

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

n) Leases

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

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

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

o) Loans and financing

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

p) Other current and noncurrent liabilities

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

q) Income tax and social contribution

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

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

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

r) Provisions

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

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

s) Interest on capital

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

t) Results of operations and recognition of sales revenues

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

u) Actuarial assets and liabilities - pension plans

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

v) Stock option plan

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

w) Recognition of tax incentives - investment grants

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

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

x) Net income per share

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

y) Reclassifications

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

3. CHANGES IN BRAZILIAN ACCOUNTING PRACTICES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These Pronouncements and Interpretations are applicable in the preparation of the financial statements for the year ending December 31, 2010, the 2009 financial statements and the opening balance sheet as of January 1, 2009 to be disclosed together with the 2010 financial statements for comparative purposes.

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

Management expects a greater impact in terms of disclosure of financial information in the notes, such as those required by CPC 22 - Segment Reporting, CPC 27 - Plant, Property and Equipment, CPC 39 - Financial Instruments: Presentation and CPC 40 - Financial Instruments: Disclosures and the requirements of presentation of the financial information of discontinued operations in note 11, as prescribed by CPC 31- Noncurrent Assets Held for Sale and Discontinued Operations.

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

4. TAX INCENTIVES - INVESTMENT GRANTS

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

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

		Company		Consolidated	
		09/30/10	09/30/09	09/30/10	09/30/09
ICMS investment grant in:					
State of Paraíba	(a)	84,559	68,613	84,559	68,613
State of Pernambuco	(b)	-	-	6,121	907
Business income tax incentives in:					
North Region	(c)	-	-	569	977
Northeast Region	(c)	9,971	1,591	12,238	1,591
Total		94,530	70,204	103,487	72,088

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

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

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

(c) Credited to the caption "Income tax and social contribution - current" in the statement of income for the year (see details in note 19). The additional incentive is due to the beginning of the manufacturing process and sale of Havaianas sandals in the Carpina unit (State of Pernambuco) through subsidiary CBS - Companhia Brasileira de Sandálias.

5. CONSOLIDATION CRITERIA OF THE FINANCIAL STATEMENTS

a) Definition of subsidiaries for consolidation purposes

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

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

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

	Ownership interest - %		
	09/2010	06/2010	09/2009
Direct subsidiaries:			
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.	-	-	100.00
CBS S.A. - Companhia Brasileira de Sandálias	100.00	100.00	100.00
Fibrasil Agrícola e Comercial Ltda.	100.00	100.00	100.00
Alpargatas Imobiliária S.A.	100.00	100.00	100.00
Alpargatas Chile Ltda. - Chile	100.00	100.00	100.00
Alpargatas Internacional APS - Denmark	100.00	100.00	100.00
Alpargatas S.A.I.C. - Argentina	70.69	70.69	59.96
Indirect subsidiaries (through Alpargatas Internacional - APS):			
Alpargatas Europe S.L.U. - Spain	100.00	100.00	100.00
Alpargatas USA Inc. - United States	100.00	100.00	100.00
Alpargatas UK Limited - United Kingdom	100.00	100.00	100.00
Alpargatas France S.A.R.L. - France	100.00	100.00	100.00
Alpargatas Itália S.R.L. - Italy	100.00	100.00	100.00
Indirect subsidiary (through Locomotiva Indústria e Comércio de Têxteis Industriais Ltda.)-			
Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda.	-	-	100.00

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

Translation of the financial statements of foreign subsidiaries

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

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

Elimination of unrealized profits

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

	Net income		Shareholders' equity	
	09/30/10	09/30/09	09/30/10	06/30/10
Company	234,727	71,797	1,236,385	1,170,700
Unrealized profit	1,352	939	(1,214)	(1,113)
Consolidated	236,079	72,736	1,235,171	1,169,587

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

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

a) Cash and cash equivalents

	Company		Consolidated	
	09/30/10	06/30/10	09/30/10	06/30/10
Cash and banks	2,208	1,618	28,199	37,777
Short-term investments:				
Bank certificates of deposit - floating rate CDBs	138,947	120,908	138,947	120,908
Repurchase agreements	283,794	258,903	283,794	258,903
Alpargatas Argentina	-	-	129	9,963
Alpargatas Europe	-	-	1,131	683
Total	424,949	381,429	452,200	428,234

As of September 30, 2010, CDB investments are made in several financial institutions and yield an average rate equivalent to 101.93% of the interbank deposit certificate (CDI) rate (101.43% as of June 30, 2010), and repurchase agreements refer to several financial certificates with average yield equivalent to 101.87% of the CDI rate (101.86% as of June 30, 2010).

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

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

The Company'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 Company's and its subsidiaries' Management is described in note 2.c).

b) Short-term investments

As of September 30, 2010, short-term investments, Company and consolidated, refer to CDBs and repurchase agreements with average yield of 104.20% of CDI (104.20% as of June 30, 2010), broken down as follows:

	09/30/10	06/30/10
Bank certificates of deposit - floating CDBs	24,999	24,336
Repurchase agreements	14,806	10,715
Total	39,805	35,051

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

7. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	09/30/10	06/30/10	09/30/10	06/30/10
Domestic market	337,905	281,219	356,675	296,364
Foreign market	21,641	16,107	87,993	103,156
Related parties (note 16)	8,439	21,307	-	-
Allowance for doubtful accounts	(13,354)	(15,123)	(17,199)	(18,655)
Total	354,631	303,510	427,469	380,865

8. INVENTORIES

	Company		Consolidated	
	09/30/10	06/30/10	09/30/10	06/30/10
Finished goods	108,737	96,377	166,328	146,967
Work in process	15,507	13,856	27,393	26,322
Raw materials	38,821	28,587	64,487	54,679
Imports in transit	11,789	15,381	11,789	15,381
Other	2,077	2,570	6,450	7,718
Allowance for losses on realization	(9,706)	(7,615)	(12,725)	(10,768)
Total	167,225	149,156	263,722	240,299

9. RECOVERABLE TAXES

		Company		Consolidated	
		09/30/10	06/30/10	09/30/10	06/30/10
Prepayments of income tax and social contribution		3,537	3,912	5,122	4,973
State VAT (ICMS)		4,960	2,904	5,142	3,098
Federal VAT (IPI)		105	20	105	20
PIS and COFINS (taxes on revenue)		-	884	356	1,239
Federal tax credits arising from final and unappealable court decisions:					
Tax on net income (ILL)	(a)	-	491	-	491
Social security contribution (INSS)	(b)	4,403	-	4,403	-
Recoverable taxes - foreign subsidiaries	(c)	-	-	26,694	26,874
Other		569	529	1,505	1,451
Total		13,574	8,740	43,327	38,146
Current portion		10,892	5,836	24,458	18,385
Noncurrent portion		2,682	2,904	18,869	19,761

(a) As of June 30, 2010, refers to Federal tax credits approved by the Brazilian Federal Revenue Service after a final and unappealable decision of the Superior Court of Justice in February 2008 on a lawsuit related to the tax on net income (ILL), in which the Company challenged the constitutionality of the amounts paid from 1989 to 1992. The balance is adjusted by the SELIC rate through the balance sheet dates and was offset against withholding income tax (IRRF) beginning May 2009. The residual balance was fully offset throughout 2010.

(b) Refers to a favorable and unappealable decision of the Regional Federal Court (TRF) of the 1st Region, in the case records of the Civil Action filed against the INSS, which acknowledges the unconstitutionality of the increase in the social security contribution rate from 10% to 20%, relating to the accrual of September 1989. The amount overpaid by the Company in such period, adjusted based on the indices set forth in the unappealable decision, was R$4,403.

(c) Refer to recoverable taxes of the subsidiaries Alpargatas S.A.I.C. - Argentina, totaling R$24,723 (R$25,166 as of June 30, 2010), and Alpargatas Chile, totaling R$531(R$449 as of June 30, 2010), and R$1,440 (R$1,259 as of June 30, 2010) related to indirect subsidiaries located in Europe, whose investments are maintained through the holding company Alpargatas Internacional APS. Consist mainly of prepaid income tax and value added tax (VAT), which will be offset against taxes generated by these subsidiaries' future operations.

10. JUDICIAL DEPOSITS

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

11. INVESTMENTS

Information as of September 30, 2010	Locomotiva Ind. e Com. Têxteis Industriais Ltda.	Fibrasil Agrícola e Comercial Ltda.	Alpargatas Internacional APS	Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Alpargatas Chile Ltda.	Total
Number of shares held	-	1,157,111	30,004,124	5,585,855	750,645	49,569,771	-	-
Capital	-	1,157	69,776	8,766	20,848	30,012	4,713	-
Shareholders' equity	-	2,104	33,071	22,679	17,936	101,149	(3,613)	-
Net income (loss) for the quarter	-	-	(10,570)	13,998	29,549	10,905	(2,278)	-
Ownership interest (%)	-	100	100	100	100	71	100	-
Book value of investments:								
Balances as of December 31, 2009	39,360	2,104	45,068	7,563	(11,613)	58,259	(965)	139,776
Capital increase	-	-	-	-	-	10,129	-	10,129
Capital increase (assignment of assets)	-	-	-	1,118	-	-	-	1,118
Partial spin-off of assets	(1,118)	-	-	-	-	-	-	(1,118)
Equity in subsidiaries	2,881	-	3,837	(12)	8,304	1,353	(1,444)	14,919
Exchange rate change on investments	-	-	(753)	-	-	429	24	(300)
Balances as of March 31, 2010	41,123	2,104	48,152	8,669	(3,309)	70,170	(2,385)	164,524
Capital increase	-	-	-	-	-	385	-	385
Sale of investments	(41,483)	-	-	-	-	-	-	(41,483)
Equity in subsidiaries	360	-	(440)	13,905	14,008	3,787	258	31,878
Exchange rate change on investments	-	-	(5,324)	-	-	(678)	(197)	(6,199)
Balances as of June 30, 2010	-	2,104	42,388	22,574	10,699	73,664	(2,324)	149,105
Equity in subsidiaries	-	-	(13,968)	105	7,237	2,487	(1,092)	(5,231)
Exchange rate change on investments	-	-	4,651	-	-	(4,648)	(197)	(194)
Balances as of September 30, 2010	-	2,104	33,071	22,679	17,936	71,503	(3,613)	143,680

Goodwill on subsidiaries (note 12)

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

Indirect investments through the holding company Alpargatas Internacional APS

	Subsidiaries					Associate	
Information as of September 30, 2010	Alpargatas Europe S.L.U.	Alpargatas France S.A.R.L.	Alpargatas UK Limited	Alpargatas Itália S.R.L.	Alpargatas USA Inc.	Tavex Algodonera S.A.	Total
Number of shares held	3,600	5,000	100	1	10	21,683,180	-
Shareholders' equity (deficit)	(10,904)	(1,453)	(630)	(580)	(53,001)	364,671	-
Net income (loss)	11,092	(725)	(572)	(616)	(11,749)	(33,815)	-
Company's indirect interest (%)	100	100	100	100	100	19	-
Book value of investments:							
Balances as of December 31, 2009	(23,252)	(802)	(54)	29	(43,008)	77,336	10,249
Equity in subsidiaries	8,467	(740)	(543)	(844)	886	(3,161)	4,065
Exchange rate change on foreign investments	815	58	21	29	(988)	690	625
Balances as of March 31, 2010	(13,970)	(1,484)	(576)	(786)	(43,110)	74,865	14,939
Equity in subsidiaries	8,228	(387)	(170)	187	(6,816)	(1,358)	(316)
Exchange rate change on foreign investments	719	125	40	18	(475)	(2,947)	(2,520)
Balances as of June 30, 2010	(5,023)	(1,746)	(706)	(581)	(50,401)	70,560	12,103
Equity in subsidiaries	(5,603)	402	141	41	(5,819)	(2,884)	(13,721)
Exchange rate change on foreign investments	(278)	(109)	(65)	(40)	3,219	471	3,197
Balances as of September 30, 2010	(10,904)	(1,453)	(630)	(580)	(53,001)	68,147	1,579

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

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

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

Additional information on subsidiaries

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

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

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

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

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

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

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

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

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

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

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

CBS S.A. - Companhia Brasileira de Sandálias

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

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

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

Tavex Algodonera S.A.

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

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

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

Alpargatas Chile Ltda.

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

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

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

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

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

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

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

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

Sale of subsidiary

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

These disposals are part of the effort to concentrate Alpargatas' activities in the footwear, sports goods and retail segments to maximize the Company's performance in these segments. This transaction was closed on April 20, 2010. Said transaction generated a capital gain of R$2,005, of which R$505 is related to the disposal of shares and R$1,500 was recorded in September 2010 due to the adjustment in the price as set forth in the agreement.

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

	09/30/10 (b)	09/30/09 (c)
Net sales revenue (a)	27,859	55,984
Cost of sales (a)	(19,531)	(41,153)
GROSS PROFIT	8,328	14,831
Operating expenses	(4,380)	(11,172)
Financial result, net	48	234
INCOME FROM OPERATIONS	3,996	3,893
(-) Income tax and social contribution	(755)	(842)
NET INCOME	3,241	3,051

(a) Amounts already eliminated from the net sales revenue to the Company, in the amount of R$8,375.

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

(c) From January 1 to September 30, 2009.

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

CONTINUING OPERATIONS	09/30/10	09/30/09
Net revenue from sales	1,619,666	1,382,766
Cost of sales	(869,975)	(803,721)
GROSS PROFIT	749,691	579,045
Operating expenses, net	(495,974)	(466,757)
Financial expenses, net	2,104	(24,152)
INCOME FROM OPERATIONS	255,821	88,136
Income tax and social contribution	(19,805)	(16,523)
Noncontrolling interests	(3,178)	(1,928)
NET INCOME FROM CONTINUING OPERATIONS	232,838	69,685
Discontinued operation	3,241	3,051
TOTAL CONSOLIDATED NET INCOME	236,079	72,736

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

a) Property, plant and equipment

Company	Annual average depreciation rate (%)	09/30/10 Cost	09/30/10 Accumulated depreciation	09/30/10 Net	06/30/10 Cost	06/30/10 Accumulated depreciation	06/30/10 Net
Land	-	8,803	-	8,803	8,803	-	8,803
Buildings and construction	5	117,331	(54,786)	62,545	114,345	(53,639)	60,706
Machinery and equipment	10	187,682	(124,706)	62,976	187,582	(123,757)	63,825
Furniture and fixtures	10	19,947	(9,127)	10,820	19,869	(8,711)	11,158
Vehicles	14	3,034	(2,136)	898	3,105	(2,161)	944
Leasehold improvements	20	14,764	(7,534)	7,230	14,769	(6,832)	7,937
Projects in progress	-	17,024	-	17,024	18,510	-	18,510
Allowance for losses	-	(449)	-	(449)	(449)	-	(449)
Total		368,136	(198,289)	169,847	366,534	(195,100)	171,434

Consolidated	Annual average depreciation rate (%)	09/30/10 Cost	09/30/10 Accumulated depreciation	09/30/10 Net	06/30/10 Cost	06/30/10 Accumulated depreciation	06/30/10 Net
Land	-	11,817	-	11,817	11,955	-	11,955
Buildings and construction	5	192,304	(98,404)	93,900	194,831	(100,151)	94,680
Machinery and equipment	10	356,066	(254,527)	101,539	365,121	(259,703)	105,418
Furniture and fixtures	10	47,120	(33,646)	13,474	48,021	(34,006)	14,015
Vehicles	14	4,383	(3,304)	1,079	4,327	(3,199)	1,128
Leasehold improvements	20	18,405	(9,919)	8,486	17,610	(8,251)	9,359
Projects in progress	-	29,313	-	29,313	29,182	-	29,182
Other property, plant and equipment	-	571	-	571	627	-	627
Finance lease (*)	30	1,085	(535)	550	1,162	(487)	675
Provision for losses	-	(449)	-	(449)	(449)	-	(449)
Total		660,615	(400,335)	260,280	672,387	(405,797)	266,590

(*) Consisting mainly by machinery, furniture and IT equipment, recorded in the subsidiary Alpargatas S.A.I.C. - Argentina.

Additional information on property, plant and equipment

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

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

In the nine-month periods ended September 30, 2010 and 2009, expenses incurred on operating lease transactions, on a consolidated basis, totaled R$14,587 and R$12,128, respectively.

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

2010 (three months)	4,472
2011	18,759
2012	19,293
2013	19,783
2014 through 2015	40,986

The Company and its subsidiaries have performed the first periodical analysis of the remaining useful lives of property, plant and equipment and intangible assets regulated by Pronouncement ICPC 10 - Clarifications on CPC Technical Pronouncements 27 - Property, Plant and Equipment and 28 - Investment Property, whose effects were recorded beginning January 1, 2010. As a result of the review of this accounting estimate, which was intended to adjust the remaining useful lives of assets, and, consequently, the depreciation over the remaining useful lives of the assets, a positive impact of R$5,126 as compared to the prior quarter was recorded in depreciation for the nine-month period ended September 30, 2010.

b) Intangible assets

	Annual average amortization rate (%)	Company					
		09/30/10			06/30/10		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	17,849	(17,652)	197	17,849	(17,652)	197
ERP Systems	10	95,952	(30,078)	65,874	94,177	(27,458)	66,719
Customer portfolio (a)	20	27,311	(8,130)	19,181	27,311	(6,741)	20,570
Projects in progress	-	12,184	-	12,184	10,705	-	10,705
With indefinite useful lives:							
Goodwill on subsidiaries (b)	-	161,066	(9,750)	151,316	161,066	(9,750)	151,316
Assignment of trade rights (c)	-	4,161	-	4,161	4,161	-	4,161
Total		318,523	(65,610)	252,913	315,269	(61,601)	253,668

	Annual average amortization rate (%)	Consolidated					
		09/30/10			06/30/10		
		Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With finite useful lives:							
Trademarks, rights and patents	10	34,693	(24,507)	10,186	34,695	(24,630)	10,065
ERP Systems	10	99,740	(31,914)	67,826	97,614	(29,234)	68,380
Customer portfolio (a)	20	27,311	(8,130)	19,181	27,311	(6,741)	20,570
Projects in progress	-	12,184	-	12,184	10,705	-	10,705
With indefinite useful lives:							
Goodwill on subsidiaries (b)	-	161,066	(9,750)	151,316	161,066	(9,750)	151,316
Assignment of trade rights (c)	-	4,161	-	4,161	4,161	-	4,161
Total		339,155	(74,301)	264,854	335,552	(70,355)	265,197

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

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

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

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

Additional information on intangible assets

	Consolidated	
	09/30/10	09/30/09
Research and development expenses of products recorded in income	6,775	8,166

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

2010 (three months)	4,609
2011	18,571
2012	18,524
2013	18,436
2014 and thereafter	49,237
Total	109,377

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

Goodwill impairment test

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

Change

	Company					
Property, plant and equipment	Balance on 06/30/10	Additions	Transfers (*)	Depreciation	Write--offs	Balance on 09/30/10
Land	8,803	-	-	-	-	8,803
Buildings and construction	60,706	-	2,987	(1,148)	-	62,545
Machinery and equipment	63,825	-	1,870	(2,691)	(28)	62,976
Furniture and fixtures	11,158	-	81	(419)	-	10,820
Vehicles	944	-	-	(46)	-	898
Leasehold improvements	7,937	-	-	(702)	(5)	7,230
Projects in progress	18,510	3,613	(5,099)	-	-	17,024
Allowance for losses	(449)	-	-	-	-	(449)
Total	171,434	3,613	(161)	(5,006)	(33)	169,847

	Company					
Intangible assets	Balance on 06/30/10	Additions	Transfers (*)	Amortization	Write--offs	Balance on 09/30/10
With finite useful lives:						
Trademarks, rights and patents	197	-	-	-	-	197
ERP System	66,719	-	1,727	(2,572)	-	65,874
Customer portfolio	20,570	-	-	(1,389)	-	19,181
Projects in progress	10,705	2,914	(1,435)	-	-	12,184
With indefinite useful lives:						
Goodwill on subsidiaries	151,316	-	-	-	-	151,316
Assignment of trade rights	4,161	-	-	-	-	4,161
Total	253,668	2,914	292	(3,961)	-	252,913
Deferred charges-						
Preoperating expenses	5,234	-	(131)	(577)	-	4,526
Total	5,234	-	(131)	(577)	-	4,526

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

	Consolidated						
Property, plant and equipment	Balance on 06/30/10	Additions	Transfers (*)	Depreciation	Write--offs	Exchange rate	Balance on 09/30/10
Land	11,955	27	-	-	-	(165)	11,817
Buildings and construction	94,680	29	2,681	(1,728)	-	(1,762)	93,900
Machinery and equipment	105,418	589	2,077	(4,292)	(28)	(2,225)	101,539
Furniture and fixtures	14,015	226	249	(846)	-	(170)	13,474
Vehicles	1,128	41	-	(65)	-	(25)	1,079
Leasehold improvements	9,359	-	305	(811)	(5)	(362)	8,486
Projects in progress	29,182	7,573	(5,558)	-	-	(1,884)	29,313
Other property, plant and equipment	627	-	-	-	-	(56)	571
Finance leases	675	-	-	(86)	-	(39)	550
Allowance for losses	(449)	-	-	-	-	-	(449)
Total	266,590	8,485	(246)	(7,828)	(33)	(6,688)	260,280

	Consolidated						
Intangible assets	Balance on 06/30/10	Additions	Transfers (*)	Amortization	Write--offs	Exchange rate	Balance on 09/30/10
With finite useful lives:							
Trademarks, rights and patents	10,065	-	-	(313)	-	434	10,186
ERP System	68,380	227	1,812	(2,585)	-	(8)	67,826
Customer portfolio	20,570	-	-	(1,389)	-	-	19,181
Projects in progress	10,705	2,914	(1,435)	-	-	-	12,184
With indefinite useful lives:							
Goodwill on subsidiaries	151,316	-	-	-	-	-	151,316
Assignment of trade rights	4,161	-	-	-	-	-	4,161
Total	265,197	3,141	377	(4,287)	-	426	264,854
Deferred charges-							
Preoperating expenses	5,404	-	(131)	(578)	-	73	4,768
Total	5,404	-	(131)	(578)	-	73	4,768

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

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

13. LOANS AND FINANCING

Denominated in reais		Currency	Index and average annual interest rate	Company 09/30/10	Company 06/30/10	Consolidated 09/30/10	Consolidated 06/30/10
FNE (BNB)	(a)		Interest of 8.42%	74,986	78,501	74,987	78,501
FINAME			Interest of 6.59%	1,257	1,340	1,257	1,340
FINEM - BNDES	(b)		Currency basket + TJLP 8.99%	13,744	14,930	13,744	14,930
BNDES Automático - CBS			TJLP + 2.8% and US$ exchange + 2.3% interest	-	-	1,086	1,229
Total in reais				89,987	94,771	91,074	96,000
Denominated in foreign currency							
Working capital - USA	(c)	US$	Interest of 1.88%	-	-	52,097	50,040
Working capital - Europe	(c)	€	Interest of 3.2%	-	-	16,220	15,612
Working capital - Chile		CLP	Interest of 6.16%	-	-	4,246	4,714
Debt restructuring agreements - Alpargatas S.A.I.C. - Argentina	(d)	AR$	Interest of 7.1%	-	-	43,817	46,655
Finance leases - Alpargatas S.A.I.C. - Argentina	(e)	AR$	Interest of 27.91%	-	-	617	787
Working capital - Alpargatas S.A.I.C. - Argentina		AR$	Interest of 20.0%	-	-	15	2
ACC/prepayment - CBS		US$	Libor + 1.25% interest	-	-	2	2
Total in foreign currency				-	-	117,014	117,812
Grand total				89,987	94,771	208,088	213,812
Current liabilities				18,977	19,008	94,440	92,409
Noncurrent liabilities				71,010	75,763	113,648	121,403

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

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

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

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

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

The amounts were estimated based on the subsidiary's best judgment and are subject to revision. These balances are stated net of discount to present value and total R$50,728 and R$55,035 as of September 30 and June 30, 2010, respectively.

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

The effects of reversal of the adjustment to present value are recorded under the caption "Financial expenses", on a consolidated basis, and total R$2,135 for the nine-month period ended September 30, 2010.

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

2010 (three months)	641
2011	2,703
2012	2,907
2013	3,015
2014 and thereafter	41,462
Total	50,728

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

(e) As of September 30, 2010, outstanding future lease installments total R$716 and the difference to the financial present value recorded as of this date corresponds to the financial charges, which will be recorded on the accrual basis in the statement of income according to the residual term of the outstanding agreements.

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

	Company		Consolidated	
Year	09/30/10	06/30/10	09/30/10	06/30/10
2011	4,706	9,420	5,011	10,674
2012	18,845	18,867	22,184	22,341
2013	18,036	18,053	20,632	20,767
2014	14,069	14,069	17,062	17,224
2015	14,069	14,069	18,111	18,372
2016	1,199	1,199	5,079	5,334
2017	29	29	5,325	5,628
2018	29	29	4,988	5,279
2019	28	28	4,613	4,893
2020	-	-	10,643	10,891
Total	71,010	75,763	113,648	121,403

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

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

14. PROVISIONS AND OTHER PAYABLES

	Company		Consolidated	
	09/30/10	06/30/10	09/30/10	06/30/10
Royalties payable	4,341	2,270	4,341	2,270
Accrual for freight payable	11,799	8,233	12,437	8,650
Other payables (commissions, outside services, utilities and other)	9,764	13,351	27,505	39,655
Total	25,904	23,854	44,283	50,575

15. DEBT RESTRUCTURING AGREEMENTS

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

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

The amounts are disclosed in the consolidated financial statements in line item "Debt restructuring agreements", in current and noncurrent liabilities, and total R$13,143 and R$22,948, respectively (R$13,184 and R$26,448 as of June 30, 2010, respectively). These balances are stated net of adjustments to present value and total R$7,390 and R$8,389 as of September 30 and June 30, 2010, respectively.

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

The effects of reversal of the adjustment to present value are recorded in the caption "Financial expenses", on a consolidated basis, and total R$1,494 for the nine-month period ended September 30, 2010.

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

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

2010	264
2011	1,668
2012	1,512
2013	1,330
2014 and thereafter	2,616
Total	7,390

16. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related-party balances

	Company	
Noncurrent assets	09/30/10	06/30/10
CBS S.A. - Companhia Brasileira de Sandálias	10,319	16,245
Alpargatas Internacional APS	40	40
Alpargatas Imobiliária S.A.	(6,799)	(7,199)
Fibrasil Agrícola e Comercial Ltda.	(2,104)	(2,104)
Total	1,456	6,982

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

Balances receivable and payable from related-party transactions - Company

		Receivables		Payables	
		09/30/10	06/30/10	09/30/10	06/30/10
Alpargatas USA Inc. - United States	(b)	3,556	6,148	-	-
Alpargatas Europe S.L.U. - Spain	(b)	4,538	14,792	-	-
Alpargatas Chile Ltda. - Chile		345	367	-	-
Camargo Corrêa Group	(c)	-	-	247	245
Total		8,439	21,307	247	245

Related-party transactions

Related-party transactions are as follows:

		Sales of products and services		Purchase of products and services	
		09/30/10	09/30/09	09/30/10	09/30/09
São Paulo Alpargatas S.A.	(a)	26,423	18,534	13,191	15,171
Alpargatas USA Inc. - United States		-	-	6,777	12,454
Alpargatas Europe S.L.U. - Spain		-	-	19,646	5,749
Alpargatas Chile Ltda. - Chile		-	-	-	331
CBS S.A. - Companhia Brasileira de Sandálias - Brazil		461	-	-	-
Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. - Brasil	(d)	1,070	2,789	-	-
Camargo Corrêa Group:					
Rentals and common area management fees		1,772	1,512	-	-
Shared services - CSC	(e)	9,415	9,142	-	-
Corporate projects		449	1,714	-	-
Other		24	14	-	-
Total		39,614	33,705	39,614	33,705

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

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

(b) Accounts receivable for sales of the products described in item (a), which will be received between October 2010 and March 2011.

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

(d) Accounts payable recorded for the purchase of production inputs, mainly canvas for the manufacturing of footwear, from subsidiary Locomotiva Indústria e Comércio de Têxteis Industriais Ltda. through the transaction date, in April 2010.

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

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

17. ACCRUAL FOR CONTINGENCIES

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

		Company		Consolidated	
		09/30/10	06/30/10	09/30/10	06/30/10
Labor lawsuits	(a)	12,840	12,810	21,103	21,124
Tax lawsuits	(b)	12,490	11,793	15,981	15,396
Judicial deposits		2,294	2,297	2,828	2,868
Civil lawsuits		(3,702)	(3,571)	(3,702)	(3,571)
Total		23,922	23,329	36,210	35,817
Current liabilities		2,360	2,330	5,694	5,736
Noncurrent liabilities		21,562	20,999	30,516	30,081

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

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

Change

	Company				
	Labor	Tax	Civil	Judicial deposits	Total
Balances as of December 31, 2009	15,385	10,770	2,307	(3,300)	25,162
Increases	3,829	468	-	(138)	4,159
Payments/reversals	(2,999)	-	-	-	(2,999)
Balances as of March 31, 2010	16,215	11,238	2,307	(3,438)	26,322
Increases	1,605	607	11	(133)	2,090
Payments/reversals	(5,010)	(52)	(21)	-	(5,083)
Balances as of June 30, 2010	12,810	11,793	2,297	(3,571)	23,329
Increases	3,259	697	3	(131)	3,822
Payments/reversals	(3,229)	-	(6)	-	(3,229)
Balances as of September 30, 2010	12,840	12,490	2,294	(3,702)	23,922

	Consolidated				
	Labor	Tax	Civil	Judicial deposits	Total
Balances as of December 31, 2009	23,632	14,104	2,911	(3,300)	37,347
Increases	4,088	603	-	(138)	4,553
Payments/reversals	(3,362)	11	3	-	(3,348)
Balances as of March 31, 2010	24,358	14,718	2,914	(3,438)	38,552
Increases	1,999	867	(45)	(133)	2,688
Payments/reversals	(5,233)	(189)	(1)	-	(5,423)
Balances as of June 30, 2010	21,124	15,396	2,868	(3,571)	35,817
Increases	3,541	688	9	(131)	4,107
Payments/reversals	(3,562)	(103)	(49)	-	(3,714)
Balances as of September 30, 2010	21,103	15,981	2,828	(3,702)	36,210

Possible losses

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

	Company and consolidated	
	09/30/10	06/30/10
Tax:		
Tax deficiency notice - IRRF (*)	7,932	7,848
Income taxes (IRPL and CSLL)	3,520	3,477
Other	4,146	4,121
	15,598	15,446
Civil (compensation actions)	6,432	6,640

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

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

Taxes in installments program introduced by Law 11941/09

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

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

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

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

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

18. TAXES WITH SUSPENDED PAYMENT AND OTHER

		Company and consolidated	
		09/30/10	06/30/10
Taxes on revenue (PIS/COFINS) - Law 9718/98		28,076	27,713
Judicial deposits		(28,076)	(27,713)
	(a)	-	-
COFINS - deduction of ICMS from tax base		50,710	44,892
Judicial deposits		(8,875)	(8,650)
	(b)	41,835	36,242
Other		3,283	3,289
Total - Company		45,118	39,531
Taxes in installments - PIS and COFINS (CBS S.A. - Companhia Brasileira de Sandálias)	(c)	1,919	2,290
Alpargatas S.A.I.C. - Argentina		3,269	4,171
Total - consolidated		50,306	45,992

(a) COFINS - Law 9718/98

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

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

In March 2006, after an unfavorable decision rendered by the Federal Supreme Court (STF) on the extraordinary appeal related to the 1% increase in the COFINS rate, the Company decided to pay the amount calculated for the periods from: (i) March 1999 to August 2002; and (ii) February 2004 to March 2006, totaling R$43,041. This decision did not impact the continuity of the litigation related to the period from September 2002 to January 2004, and the Company started to make the payments of the monthly calculations from April 2006, the amount of which was recorded as tax with suspended payment and judicial deposit, totaling R$28,076, adjusted for inflation.

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

Therefore, the amounts recorded as of September 30, 2010 refer solely to the portion related to the 1% increase in the COFINS rate, on which STF issued an unfavorable decision to the Company in August 2009. The Company's lawsuit has not been judged yet; however, based on the judgment of the grounds, it will have an unfavorable outcome, and the judicial deposits will be transferred to the Federal Government.

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

(b) COFINS - deduction of ICMS from tax base

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

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

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

(c) Taxes in installments - COFINS and PIS

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

Adoption of the installment program created under Law 11941/09 and Provisional Act 470/09

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

	PAEX	PAES	Total	Current liabilities	Noncurrent liabilities
Balances as of December 31, 2008	4,595	4,948	9,543	1,710	7,833
Payments	(1,763)	(859)	(2,622)		
Inflation adjustment	460	113	573		
Reversals	(3,292)	(1,274)	(4,566)		
Balances as of December 31, 2009	-	2,928	2,928	734	2,194
Payments	-	(183)	(183)		
Inflation adjustment	-	56	56		
Balances as of March 31, 2010	-	2,801	2,801	563	2,238
Payments	-	(183)	(183)		
Inflation adjustment	-	62	62		
Balances as of June 30, 2010	-	2,680	2,680	390	2,290
Payments	-	(183)	(183)		
Inflation adjustment	-	38	38		
Balances as of September 30, 2010	-	2,535	2,535	616	1,919

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

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

Changes in taxes with suspended payment - Company

	06/30/10	Adjustments	Additions (reversals)	09/30/10
PIS/COFINS	27,713	363	-	28,076
Judicial deposits	(27,713)	(363)	-	(28,076)
	-	-	-	-
COFINS - ICMS	44,892	1,113	4,705	50,710
Judicial deposits	(8,650)	(225)	-	(8,875)
	36,242	888	4,705	41,835
Other	3,289	47	(53)	3,283
Total	39,531	935	4,652	45,118

19. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred income tax and social contribution

		Company and consolidated	
		09/30/10	06/30/10
Current assets - temporary differences:			
Allowance for doubtful accounts		4,540	5,142
Allowance for inventory losses		3,292	2,581
Accrual for contingencies		802	1,273
Other temporary differences		7,256	7,751
Total - Company		15,890	16,747
Subsidiaries:			
Alpargatas Chile		741	515
CBS S.A. - Companhia Brasileira de Sandálias	(d)	1,875	2,516
Deferred taxes on unrealized profits		625	573
Total - consolidated		19,131	20,351
Noncurrent assets:			
Tax loss carryforwards		3,207	3,207
Temporary differences:			
Taxes with suspended payment		14,528	13,321
Accrual for contingencies		5,359	5,359
Other temporary differences		2,889	2,689
		22,776	21,369
Total - Company		25,983	24,576
Subsidiaries:			
Alpargatas Europe S.L.U. - Spain	(d)	8,665	8,267
Alpargatas S.A.I.C. - Argentina		1,104	1,154
Alpargatas Chile		969	865
CBS S.A. - Companhia Brasileira de Sandálias	(d)	6,109	6,009
Total - consolidated		42,830	40,871
Noncurrent liabilities:			
Provision for income tax and social contribution (tax loss carryforwards)	(a)	34,523	34,188
Judicial deposits		(6,277)	(6,277)
Provision for deferred income tax and social contribution on amortized goodwill on acquisition of subsidiaries	(b)	2,854	2,446
Provision for income tax - CSLL deduction from tax base	(c)	1,549	1,513
Provision for income tax - other contingencies		1,535	1,646
Total		34,184	33,516

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

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

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

Tax installment programs created by Law 11941/09

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

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

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

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

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

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

(d) Subsidiaries' tax credits

Alpargatas Europe S.L.U. - Spain

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

CBS S.A. - Companhia Brasileira de Sandálias

As of June 30, 2010, this subsidiary recognized tax credits on tax loss carryforwards based on the estimated generation of future taxable income. Recognized credit began to be offset and is expected to be realized through 2012.

Alpargatas USA Inc.

As of September 30, 2010, there are tax credits on tax loss carryforwards generated by this company amounting to R$29,919 not recognized due to the lack of expected taxable income in the next periods.

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

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

Company	09/30/10	06/30/10
2012	5,196	4,915
2013	7,795	7,373
2014 and thereafter	12,992	12,288
Total - Company	25,983	24,576
Subsidiaries (2012 and thereafter)	16,847	16,295
Total - consolidated	42,830	40,871

b) Current income tax and social contribution

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

	Company		Consolidated	
	09/30/10	09/30/09	09/30/10	09/30/09
Income before income tax and social contribution	253,723	87,162	259,817	92,029
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution expenses at statutory rate	(86,266)	(29,635)	(88,338)	(31,290)
Equity in subsidiaries and associates	14,132	(17,523)	(2,517)	(5,192)
Interest on capital benefit	15,984	8,307	15,984	8,307
Tax effects of the adoption of RTT (Laws 11638/07 and 11491/09 adoption):				
Investment grant - ICMS	28,750	23,329	30,831	23,637
Federal tax incentive benefit - income tax	9,971	1,591	12,807	2,568
Stock option plan expenses	(255)	(130)	(255)	(130)
Effect of taxation of subsidiary based on deemed income	-	-	4,377	-
Recognized tax credit on tax loss of foreign subsidiaries	-	-	8,524	-
Unrecognized tax credit on tax loss of subsidiaries	-	-	(1,336)	(13,482)
Other permanent deductions, net	(1,312)	(1,304)	(637)	(1,783)
Income tax and social contribution expenses	(18,996)	(15,365)	(20,560)	(17,365)
Current	(19,980)	(13,088)	(27,304)	(17,039)
Deferred	984	(2,277)	6,744	(326)

20. SHAREHOLDERS' EQUITY

a) Capital

As of September 30 and June 30, 2010, paid-in capital total R$441,171.

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

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

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

Subscribed and paid-in capital is held as follows:

On September 30, 2010:

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

On June 30, 2010:

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

b) Share buyback plan

The Board of Directors' meeting held on March 12, 2010 approved the cancellation of the Company's buyback plan approved on December 11, 2009, in view of the share split of February 24, 2010. Accordingly, a new share buyback plan was approved establishing the acquisition of up to 8,664,266 preferred shares and 5,992,650 common shares. From March 15, 2010, date on which the new plan is effective, to September 30, 2010, no share was acquired in the stock market.

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

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

c) Dividends and interest on capital

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

In the nine-month period ended September 30, 2010, interest on capital was declared by Management in the total gross amount of R$47,012 (R$41,137, net of IRRF), as follows:

	R$
Quarter ended at March 31, 2010	12,012
Quarter ended at June 30, 2010	20,000
Quarter ended at September 30, 2010	15,000
Total	47,012

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

	Per share - R$ (gross)			
	09/30/10		06/30/10	
	Common	Common	Common	Common
Interest on capital	0.0411	0.0452	0.0548	0.0603

d) Tax incentive reserves

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

21. OTHER OPERATING INCOME (EXPENSES), NET

	Company		Consolidated	
	09/30/10	09/30/09	09/30/10	09/30/09
Other operating income:				
Gain on sale of subsidiary (note 11)	2,005	-	2,005	-
Gain on sale of properties	-	-	14,305	-
Gains on favorable final and unappealable court decisions	(a) 4.127	(b) 11.805	4,127	11,805
Alpargatas S.A.I.C. tax credit	-	-	4,927	-
Other	-	2,561	-	2,561
	6,132	14,366	25,364	14,366
Other operating expenses:				
Amortization of intangible assets/deferred charges	(13,611)	(12,917)	(14,818)	(14,610)
Accrual for contingencies	(8,741)	(4,112)	(10,046)	(4,332)
Labor indemnities	(3,941)	-	(3,941)	-
Other	(6,009)	(2,884)	(7,973)	(6,453)
	(32,302)	(19,913)	(36,778)	(25,395)
Other operating income (expenses), net	(26,170)	(5,547)	(11,414)	(11,029)

(a) As stated in note 9.(b), refers to a favorable decision relating to the lawsuit filed against the INSS due to the increase in the rate for the base period September 1989 in the amount of R$4,403, of which R$4,127 is net of attorneys' fees of R$276.

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

22. RISKS AND DERIVATIVES

a) General considerations

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

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

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

Short-term investments

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

Loans and financing

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

Derivative policies

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

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

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

b) Foreign exchange exposure

		Company		Consolidated	
		09/30/10	06/30/10	09/30/10	06/30/10
Assets-					
Trade accounts receivable	(i)	30,080	37,414	87,993	103,156
Total assets		30,080	37,414	87,993	103,156
Liabilities:					
Loans and financing		-	-	117,014	117,812
Trade accounts payable	(ii)	30,261	34,829	63,202	73,726
Royalties payable		4,341	2,270	4,341	2,270
Total liabilities		34,602	37,099	184,557	193,808
Net exposure		(4,522)	315	(96,564)	(90,652)
(-) Foreign subsidiaries		-	-	96,914	95,433
Total exposure for sensitivity analysis purpose		(4,522)	315	350	4,781

(i) Of the consolidated amounts as of September 30, 2010, 69.9% (80.1% as of June 30, 2010) refers to trade accounts receivable of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina) and 30.1% (19.9% as of June 30, 2010) refers to foreign trade accounts receivable of the Company in Brazil.

(ii) Of the consolidated amounts as of September 30, 2010, 100% (100% as of June 30, 2010) refers to local currency-denominated borrowings of foreign subsidiaries (Alpargatas USA Inc., Alpargatas Europe S.L.U., Alpargatas Chile Ltda. and Alpargatas S.A.I.C. - Argentina), as show in note 13.

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

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

c) Fair values

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

d) Credit risk

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

e) Sensitivity analysis of financial instruments

Foreign exchange exposure (consolidated)

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

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

	Loss	
Company risk	Possible scenario	Remote scenario
U.S. dollar depreciation	88	175

The possible scenario considers a 25% appreciation of the Brazilian real against the U.S. dollar over the exchange rate as of September 30, 2010 of R$1.6942/US$1.00 (R$1.2706/US$1.00), and the remote scenario considers a 50% appreciation (R$0.8471/US$1.00).

Based on the parities above, the result would be a loss of R$88 in the possible scenario and a loss of R$175 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 nine-month period ended September 30, 2010.

23. STOCK OPTION PLAN

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

General criteria of the stock option plans

Plans created from 2002 to 2009

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

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

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

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

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

Changes in the stock options plans in the period

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

	Number of options	Weighted average exercise price - R$
Outstanding options at end of June 30, 2010	5,148,120	
Options granted	-	3.42
Options exercised	(230,340)	-
Outstanding options at end of September 30, 2010	4,917,780	3.34

Outstanding options at the period end

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

	Outstanding options			
	Options not exercised at quarter-end	Remaining contractual life (months)	Exercise price range (R$)	Vested options at quarter-end
September 30, 2010	4,917,780	39	1,02 - 8,43	2,780,820

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

	09/30/10			
Grant date	Options not exercised at quarter-end (*)	Remaining contractual life (months)	Exercise price (R$) (*)	Vested options at quarter-end
July 1, 2002	178,000	21	1.02	178,000
July 1, 2003	363,600	33	1.16	363,600
July 1, 2004	808,200	45	1.48	808,200
July 1, 2005	1,060,440	57	2.09	1,060,440
July 1, 2006	467,540	9	5.75	259,580
July 1, 2007	370,000	21	8.43	111,000
July 1, 2008	550,000	33	5.80	-
July 1, 2009	1,120,000	45	3.72	-
Total	4,917,780	39	1,02 - 8,43	2,780,820

(*) Amounts after share split.

	06/30/10			
Grant date	Options not exercised at quarter-end (*)	Remaining contractual life (months)	Exercise price (R$) (*)	Vested options at quarter-end
July 1, 2002	178,000	24	0.99	178,000
July 1, 2003	363,600	36	1.14	363,600
July 1, 2004	950,600	48	1.45	950,600
July 1, 2005	1,096,040	60	2.50	513,400
July 1, 2006	519,880	12	5.72	155,920
July 1, 2007	370,000	24	8.38	-
July 1, 2008	550,000	36	5.77	-
July 1, 2009	1,120,000	48	3.70	-
Total	5,148,120	42	0,99 - 8,38	2,161,520

(*) Amounts after share split.

The fair value on grant date of the stock options granted on July 1, 2009 was estimated at R$1.38. The performance conditions were not reflected in the fair values as they are based on internal performance indicators. The expected volatility assumption was based on historic volatility in the three-year period prior to the grant date, and the early exercises were reflected using a Hull-White type binomial valuation model, with a voluntary exercise trigger of 110% of the exercise price.

The main assumptions used in the calculation are as follows:

	Amounts in R$
Share price	3.95
Exercise price	3.53
Expected volatility	39.00%
Expected dividends	3.50%
Risk-free rate (real)	3.50%
Post-vesting rate	10.00%
Fair value	1.38

The table below shows the simulated effects arising from:

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

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

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

Amounts in Brazilian reais - R$

	Scenario I	Scenario II
Weighted average exercise price	3.34	3.34
Number of preferred shares	171,931,800	171,931,800
Number of outstanding preferred shares	166,787,580	166,838,580
Number of shares to be purchased with exercise of options	4,917,780	11,993,200
Book value per outstanding share	3.55	3.55
Book value per share considering exercise of options	3.45	3.31
Dilution of book value per share	0.10	0.24
Percentage dilutive effect	2.86%	6.84%

24. MANAGEMENT COMPENSATION

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

			Stock option grant	
	Compensation	Pension plans (c)	Balance of options (number) (a)	Average exercise price - R$ (b)
September 30, 2010	3,417	193	4.917.780 (d)	3.34 (d)
September 30, 2009	3,311	188	268,314	69.92

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

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

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

(d) Number and price after stock split.

25. EMPLOYEE BENEFITS

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

a) Pension plan - SPASAPREV

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

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

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

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

Financial discount rate	12
Long-term inflation rate	5
General mortality table	AT 83

b) Pension plan - HSBC

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

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

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

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

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

Financial discount rate	12
Long-term inflation rate	5
General mortality table	AT83

c) Pension plan for former employees

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

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

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

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

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

Financial discount rate	12
Long-term inflation rate	5
General mortality table	AT83

d) Health care plan for retirees

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

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

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

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

Financial discount rate	11
Increase in medical expenses (reduced by 0.5% per year)	3.0 a 4.5
Long-term inflation rate	5
General mortality table	AT83

26. PROFIT SHARING

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

	Company		Consolidated	
	09/30/10	09/30/09	09/30/10	09/30/09
Profit sharing program	24,319	14,192	30,326	17,063

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

27. PLEDGES AND COLLATERALS

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

	Company		Consolidated	
	09/30/10	06/30/10	09/30/10	06/30/10
Vendor financing	3,111	3,838	3,111	3,838

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

28. COMMITMENTS ASSUMED

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

29. INSURANCE (unreviewed information by the independent auditors)

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

30. APPROVAL FOR ISSUANCE OF THE FINANCIAL STATEMENTS

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

1. SUMMARY

Alpargatas' third quarter (3Q10) and year-to-date (9M10) performance reinforces the virtuous cycle of growth in sales, revenues and profitability the Company has maintained since the same periods of last year. We are convinced that the efficient management of the Havaianas, Dupé, Topper, Rainha, Mizuno, Timberland and Sete Léguas brands in Brazil and overseas, as well as the commitment of our 17 thousand employees to pushing Alpargatas to ever higher levels of world class business excellence, explains the strong results we are delivering to our shareholders.

The third quarter of 2009 (3Q09) saw the resumption of consumer spending in Brazil. With highly desired products and brands we captured this demand, translating it into high sales growth and profitability. Our challenge in 2010 has been to maintain this pace. Our performance in the 3Q10 and year to date shows we have been successful. We grew total sandal and sporting goods sales volumes by 7.5%, with a 14.3% increase in consolidated net revenues compared with 3Q09. Discounting the exchange rate variation, the increase in revenues in 3Q10 was even higher: 17.1%. Sales volume and consolidated net revenues for the first 9M10 reached 177.5 million pairs/pieces of footwear/sporting goods, and R$ 1.6 billion respectively, up 14.9% and 17.2% on 9M09.

With the finalization of the sale of the Locomotiva business in April of this year, we excluded its numbers from São Paulo Alpargatas' consolidated revenues, costs, expenditures and net results for 2010 and 2009 (to enable comparability), maintaining the proceeds of the sale in the accumulated net income for 9M10. Therefore the numbers presented in the following charts are ***pro forma.*** As with volume and net revenues, Alpargatas' main performance indicators grew in the 3Q10 and 9M10.

Consolidated Results *pro forma* (R$ million, except margins)	3Q10	3Q09	Variation	9M10	9M09	Variation
Net revenues	580.6	508.0	+ 14.3%	1,620.5	1,382.7	+ 17.2%
Gross profit	260.6	235.8	+ 10.5%	749.7	579.0	+ 29.5%
EBITDA	114.9	99.2	+ 15.8%	304.4	191.6	+ 58.9%
Net income	81.4	52.2	+ 55.9%	232.8	69.7	+ 234.0%
Gross margin	44.9%	46.4%	- 1.5 pp	46.3%	41.9%	+ 4.4 pp
EBITDA margin	19.8%	19.5%	+ 0.3 pp	18.8%	13.9%	+ 4.9 pp
Net margin	14.0%	10.3%	+ 3.7 pp	14.4%	5.0%	+ 9.4 pp

Consolidated Balance Sheet *pro forma* (R$ million)	9M10	9M09	Variation
Cash	492.0	252.2	+ 95.1%
Financial Indebtedness	208.1	296.8	- 29.9%
Net financial position	283.9	(44.6)	-

1.1.Domestic Operations

Representing 71% of consolidated net revenues year-to-date, the Company's performance in Brazil is driven by consumer preference for our brands, which innovate with each collection. Footwear consumption remained strong in the quarter, helping drive Brazilian sales. In the 3Q10, net revenues from domestic operations were 15.3% up on 3Q09. For 9M10, the increase was 22.4% over the same period last year.

1.2. International Operations

Accounting for 29% of consolidated net revenues in 9M10, our international business maintained its growth. In 3Q10, consolidated net revenues in Brazilian real from international operations grew 11.4% compared with 3Q09. In 9M10, the increase was 6% over 9M09. In 3Q10, the appreciation of the real impacted the conversion of revenues from original currencies, which showed the following increases compared with 3Q09:

Alpargatas Argentina (peso): + 22.8%
Alpargatas Europe (euro): + 211.4%
Alpargatas USA (dollar): + 11.7
Exports (dollar): + 9.6%

An important component of our internationalization strategy, Alpargatas Argentina's performance has been stronger than projected when it was acquired in October 2007, due to the successful integration of the management teams, particularly with Topper. We continue to invest in Havaianas and Dupé in the overseas market, particularly in communication, in expanding the number of points-of-sales, and in consumer behavior studies. In the United States, we conducted a Brand Tracking survey on the Havaianas brand. Compared with 2009, the results of this survey were surprising and underscore that one of the growth drivers of the sandals business is international expansion.

1.3. Cash Generation

One of the strengths of the Alpargatas business model is its cash generation capacity, which remained outstanding in the quarter. In the 12 months ending on September 30th, 2010, operational cash generation totaled R$ 403.2 million. The acceleration of the Cash Conversion Cycle (CCC) by 27 days, from September 2009 to September 2010, strengthened working capital productivity and increased cash by R$ 49.7 million.

1.4. Sustainability

We grew the Company without neglecting socio-environmental responsibility. The Instituto Alpargatas maintained its strong performance and its position as one of the main social organizations in the states in which Alpargatas has operations. We work with the conviction that we are contributing to improving the education of the young people who will be responsible for building Brazil's future. We increased production volumes at our plants whilst preserving natural resources. In comparison with 2009, we reduced the energy and water consumed and the waste generated per pair manufactured. These reductions also helped lower production costs and improve Alpargatas' earnings.

1.5. Strategic Plan

In 3Q10, we approved our long-term strategic plan which will ensure execution of Alpargatas' Vision of being a global company with ever more powerful brand management capabilities.

2. PERFOMANCE OF DOMESTIC OPERATIONS

2.1. Sales Volume

Domestic Operations Sales Volume (million of pairs/pieces)	3Q10	3Q09	Variation	9M10	9M09	Variation
Sandals	51.5	46.5	+ 10.8%	137.2	116.2	+ 18.1%
Sporting Goods	4.4	4.1	+ 7.3%	12.4	11.7	+ 6.0%
Total	55.9	50.6	+ 10.5%	149.6	127.9	+ 17.0%

We commercialized 55.9 million pairs of sandals, sports footwear and units of apparel and accessories in 3Q10, a 10.5% increase over 3Q09. Year-to-date, the volume increase over the same period of 2009 was 17%, reaching 149.6 million.

2.1.1. Sandals

In 3Q10, sales volumes of Havaianas sandals and the brand's other products, as well as Dupé sandals, grew 10.8%, reaching 51.5 million pairs/pieces. The growth in 9M10 was 18.1%, with a total of 137.2 million pairs/pieces sold. Volume growth, together with higher prices and a richer mix, resulted in a 13.4% increase in business revenues in 3Q10. In the quarter, the higher added value Havaianas lines accounted for 35% of sales, compared with 33% in 3Q09. The main Sandals business highlights in the quarter were:

- Start up of sales of the new Havaianas and Dupé collections presented to customers in June.
- Broadcasting of two new Havaianas films; one with the actress Daniele Suzuki and the other with the actor Mateus Solano.
- Participation in the Francal footwear fair in Franca (SP).
- Partnership with Mini Cooper. The roofs of the cars participating in the Mini Cooper races in Salvador and São Paulo displayed the Havaianas logo.
- Cine Havaianas, set up for the Ilhabela Yachting Week in São Paulo, was attended by 110 thousand people.
- Havaianas participation in Fashion Week Kids in São Paulo and Rio de Janeiro.

2.1.2. Sporting Goods

The Sporting Goods business has been showing strong growth in volume, revenues and profitability. The volume of footwear, apparel and accessories commercialized grew 7.3% in the 3Q10 and 6% year-to-date. In these periods, we sold 4.4 million and 12.4 million pairs/pieces respectively. Revenues from the sporting brands increased 21.9% in the 3Q10 and 21.7% year-to-date. Gross margin grew by 4.4 percentage points from 3Q09 to 3Q10. This performance can be attributed to our successful strategy of maintaining three brands in the sporting goods market: Topper, Rainha and Mizuno. With this segmentation, each brand stands out in its focus market, with products that meet consumer needs in diverse sports, as well as leisure occasions. Topper advanced in its strategy of becoming a major multi-sport brand in the Latin American market. Rainha augmented its presence in the casual and fashion footwear market, while Mizuno maintained its leadership of the running performance segment. The main highlights in Sporting Goods business in the quarter were:

- Success of Mizuno “Creation 11”, with 37% volume growth compared with “Creation 10”, launched last year.
- Organization of the Circuito Mizuno 10 mile race in São Paulo and Belo Horizonte, with ten thousand participants.
- Strong Topper ball and apparel sales.
- New Topper footwear campaigns for indoor football and rugby, with films for electronic media.
- Launch of the new Topper soccer boot “The One Professional” with exclusive point-of-sale advertising materials.
- Sales success of the Rainha “VL 2500” footwear.

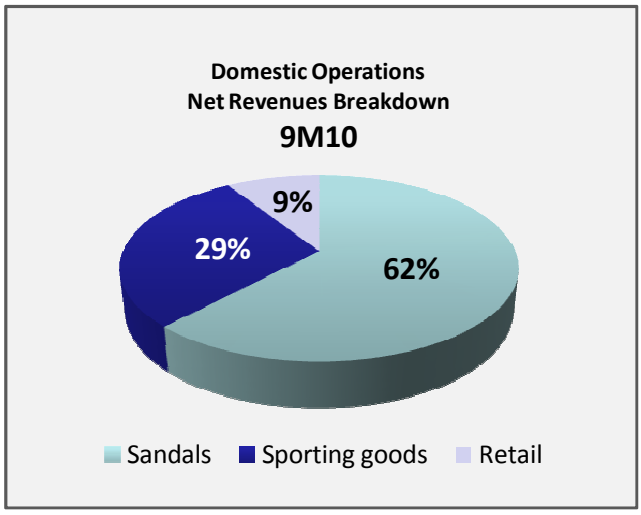
2.1.3. Retail

The Retail business manages the Havaianas, Mizuno, Topper and Meggashop store chains and the Timberland brand in the Brazilian market, as well as the Company’s e-commerce operations. Growth in footwear, apparel and accessory volumes for the 3Q10 and 9M10 was 39% and 40.5% respectively, compared with the same periods of last year. Net revenues grew 17.5% in 3Q10 and 19% in 9M10. This performance was driven by higher consumer spending and an increase in the number of points-of-sales. After only two years in the market, the Havaianas franchise project achieved distinction in the 2010 Abrasce Award for its concept and positioning in the domestic market. The chain was recognized for its innovation, store decoration, employee motivation and administrative efficiency. The number of Havaianas franchises increased from 57, in September 2009, to 106 in September 2010. The Espaço Havaianas, the brand’s concept store in São Paulo, continues to attract growing numbers of consumers. In 3Q10, the volume of pairs/pieces sold in the Havaianas concept store grew 41% compared with the same period last year. Timberland revenues in the multibrand channel grew 24% in 3Q10 and 28% year-to-date, due to increased demand and differentiated products such as Canyon and Trekker boots and the Jardins line of casual footwear. We ended 9M10 with 154 Alpargatas brand stores, compared with 109 in September of 2009.

2.2. Net Revenues

Domestic Operations	3Q10	3Q09	Variation	9M10	9M09	Variation
Net Revenues – R$ million	432.9	375.4	+ 15.3%	1,153.3	942.1	+ 22.4%

The 10.5% growth in sandal and sporting goods sales volume in 3Q10, combined with a 4.8% increase in average footwear prices in the same period, drove increases in domestic net revenues of 15.3% in 3Q10 and 22.4% in 9M10, compared with the same year ago periods. Revenues totaled R$ 432.9 million in 3Q10, and R$ 1.1 billion in the 9M10. Considering that consumer demand bounced back in 3Q09 and our sales performance was already strong at this time, our revenue growth up to 3Q10 underscores the virtuous circle of business growth Alpargatas is experiencing in Brazil. Up to September, the breakdown in net revenues for domestic operations was: 62% generated by the Sandals business; 29% by Sporting Goods; and 9% by the Retail business.



2.3. Gross Profit and Margin

Domestic Operations	3Q10	3Q09	Variation	9M10	9M09	Variation
Gross Profit – R$ million	209.6	189.0	+ 10.9%	542.7	403.0	+ 34.7%
Margin	48.4%	50.3%	- 1.9 pp	47.1%	42.8%	+ 4.3 pp

Gross profit from domestic operations totaled R$ 209.6 million in 3Q10 and R$ 542.7 million year- to-date, respective increases of 10.9% and 34.7% compared with the same year ago periods. Gross margin in 3Q10 decreased 1.9 percentage point compared with 3Q09, reaching 48.4%, due to the 36% increase in the average prices of the main raw materials used to manufacture our footwear. As an example, in 3Q09, rubber was 39% cheaper than in 3Q10 because of:

- Lower petroleum and butadiene prices, important cost drivers for this raw material; and
- Decreased demand for rubber from the global automobile industry.

It should be noted that in 4Q10 we have already acquired rubber at lower prices than in 3Q10, indicating a downward price trend. In 9M10, gross margin was 47.1%, or 4.3 percentage points above the 9M09 margin. The reasons for the growth in year-to-date accumulated gross profitability in Alpargatas' domestic operations are:

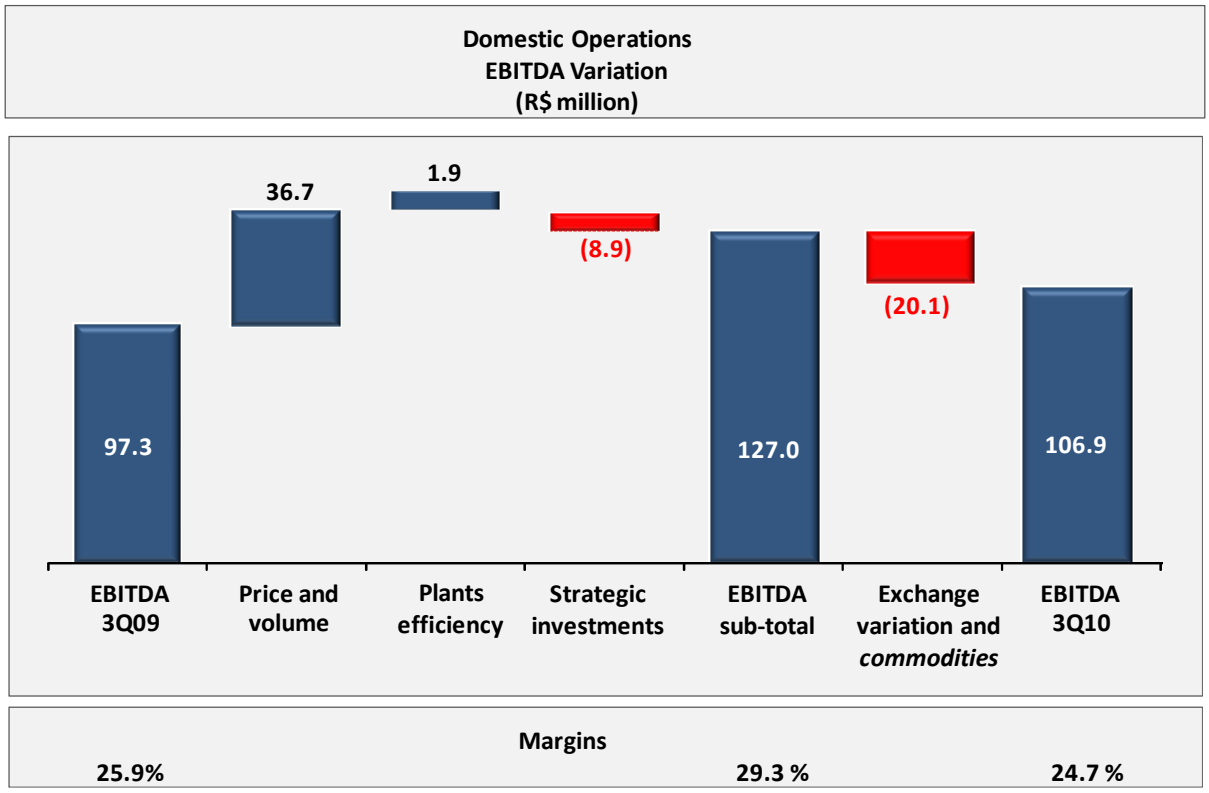
- Revenue growth caused by volume increases and higher average prices.
- Reduction in cost per pair manufactured due to the dilution of fixed production costs, increased manufacturing efficiency and lower costs of imported finished footwear.

2.4. EBITDA

Domestic Operations	3Q10	3Q09	Variation	9M10	9M09	Variation
EBITDA – R$ million	106.9	97.3	+ 9.9%	256.8	157.6	+ 62.9%
Margin	24.7%	25.9%	- 1.2 pp	22.3%	16.7%	+ 5.6 pp

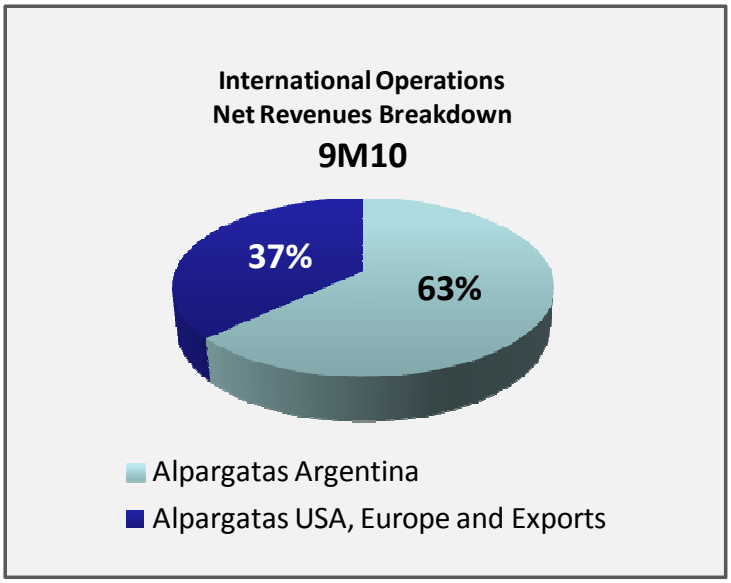
EBITDA for domestic operations was R$ 106.9 million in 3Q10 and R$ 256.8 million year-to-date 9M10, respective increases of 9.9% and 62.9% over the same periods of the previous year. EBITDA margin for 3Q10 was 1.2 percentage point lower than in 3Q09, at 24.7%, due to the rise in raw material prices. The year-to-date figure for 2010 was 22.3%, or 5.6 percentage points up on the 9M09 margin. The most material factors explaining the variation in domestic operation EBITDA from 3Q09 to 3Q10 are:

- R$ 36.7 million gain from price increases and sales volume.
- R$ 1.9 million gain from plants efficiency.
- Higher spending with brand communication and raw material purchases, respectively R$ 8.9 million and R$ 20.1 million.



3. PERFORMANCE OF INTERNATIONAL OPERATIONS

For the 3Q10, the 9M10 and the corresponding periods of 2009 we included the results of exports in international operations. Thus, the consolidated numbers for international operations include Alpargatas Argentina, Alpargatas USA, Alpargatas Europe and exports from Brazil. In 9M10, Alpargatas Argentina corresponded to 63% of international operations net revenues in reais whilst revenues from Alpargatas USA and Alpargatas Europe, together with exports, accounted for 37%.



In 2010, revenues in foreign currencies presented strong growth, due to higher average prices and increased sales volumes. However, when converted into Brazilian real, and by BRGAAP, these revenues are impacted by the appreciation of the real. In 3Q10 alone, the real appreciated 8.9% against the Argentine peso, 6.2% against the dollar, and 15.2% against the euro, compared with 3Q09. The growth in revenues from international operations in the respective currencies is presented in the following chart. These provided an important contribution to Alpargatas' consolidated performance.

International Operations Net Revenue Growth in Foreign Currencies	3Q10 X 3Q09	9M10 X 9M09
Alpargatas Argentina (Argentine peso)	+ 22.8%	+ 23.1%
Alpargatas USA (US dollar)	+ 11.7%	+ 5.3%
Alpargatas Europe (Euro)	+ 211.4%	+ 147.7%
Exports (Dollar)	+ 9.6%	+ 6.1%

3.1. ALPARGATAS ARGENTINA

An important component of our internationalization strategy, Alpargatas Argentina has been presenting stronger performance than was projected upon its acquisition in October 2007. Since the beginning of joint management with Brazil in 2009 a series of important projects have been implemented, driving significant increases in the Company's profitability and cash generation. The main achievements from the integration have been:

- Unification of the Topper brand in the two countries.
- Procurement synergies, with gains of around US$ 3 million/year.
- Implementation of the performance management process (SIGA).
- Transfer of industrial best practices.
- Lines of credit from first-rate banks and improved internal controls.

3.1.1. Sales Volume

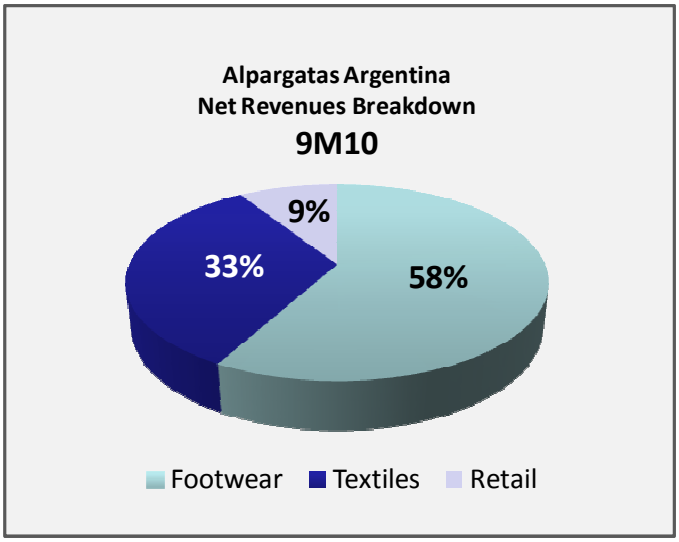
Alpargatas Argentina Sales Volume (million of pairs/pieces)	3Q10	3Q09	Variation	9M10	9M09	Variation
Sporting Goods	2.6	2.8	- 7.1%	7.6	8.0	- 5.0%

Volume of 2.6 million pairs/pieces of sporting goods in 3Q10, a reduction of 200 thousand units compared with 3Q09, and 7.6 million in 9M10, a reduction of 400 thousand pairs/pieces against 9M09. In spite of strong demand, sales were reduced because of product shortages, essentially imported products that suffered from the antidumping measures adopted in Argentina.

3.1.2. Net revenues

Alpargatas Argentina Net Revenues	3Q10	3Q09	Variation	9M10	9M09	Variation
ARGAAP – million of pesos	245.8	200.2	+ 22.8%	653.4	531.0	+ 23.1%
BRGAAP – million of reais	107.7	96.0	+ 12.2%	296.1	291.1	+ 1.7%

Net revenues were AR$ 245.8 million in 3Q10, 22.8% up on 3Q09. For 9M10, net revenues were AR$ 653.4 million, an increase of 23.1% over the corresponding figure for 9M09. This strong year-to-date revenue performance in pesos was due to a 15.7% increase in the sales of the Footwear business, a 48.6% increase in Textiles and a 5.3% increase in Retail compared with 9M09. Calculated using BRGAAP, revenues for Alpargatas Argentina were R$ 107.7 million in 3Q10, 12.2% up on 3Q09, and R$ 296.1 million in 9M10, 1.7% up on 9M09. The breakdown of Alpargatas Argentina's net revenues for 9M10 is as follows: 58% from the Footwear business, 33% from Textiles and 9% from Retail.



3.1.3. Gross Profit and Margin

Alpargatas Argentina Gross Profit and margin	3Q10	3Q09	Variation	9M10	9M09	Variation
ARGAAP – million of pesos	69.6	58.8	+ 18.4%	189.9	149.2	+ 27.3%
BRGAAP – million of reais	29.6	28.9	+ 2.4%	83.6	79.8	+ 4.8%
Margin in Pesos	28.3%	29.4%	-1.1 pp	29.1%	28.1%	+ 1.0 pp
Margin in Reais	27.5%	30.2%	- 2.7 pp	28.2%	27.4%	+ 0.8 pp

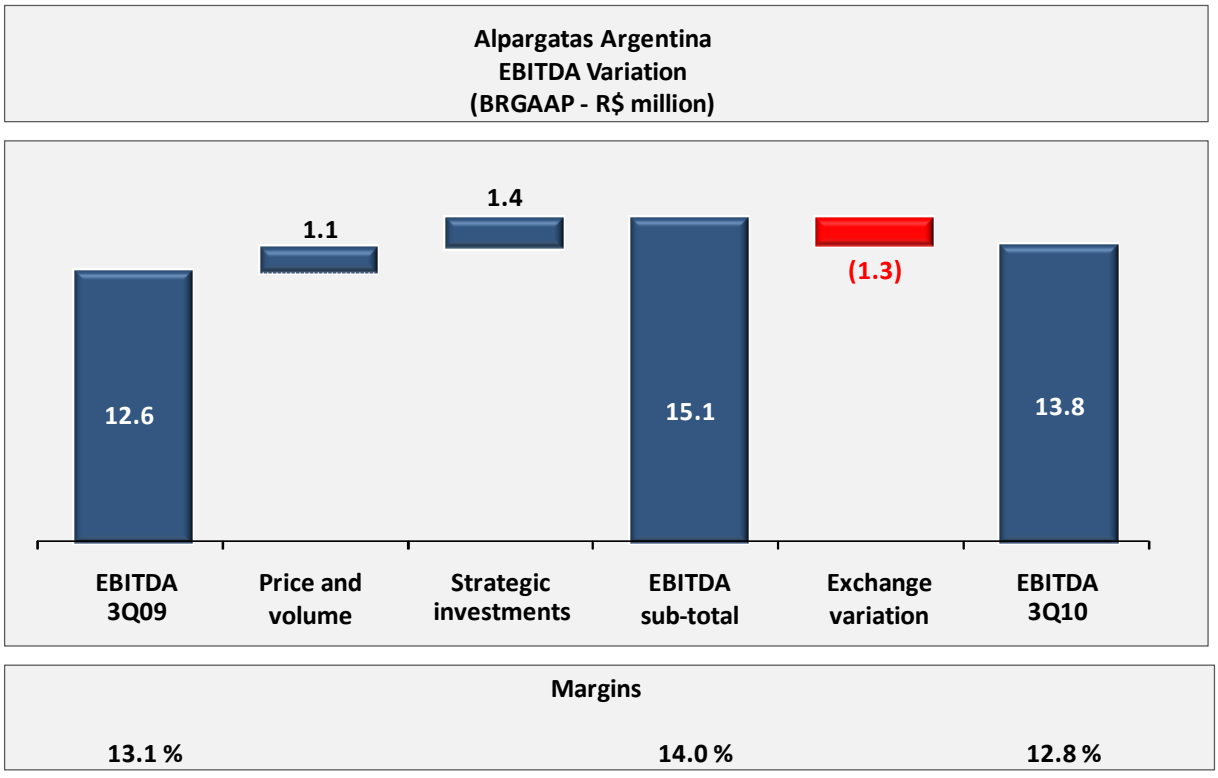
Alpargatas Argentina's gross profit for 3Q10 was AR$ 69.6 million, an 18.4% increase over 3Q09. The gross margin of 28.3% was 1.1 of a percentage point lower than 3Q09 due mainly to increased labor costs. For 9M10, gross profit was AR$ 189.9 million, 27.3% up on 9M09. At 29.1%, gross margin grew one percentage point compared with 9M09, as a result of increases in the gross margins of the company's three businesses. By BRGAAP, gross profit for 3Q10 increased 2.4%, totaling R$ 29.6 million, with a gross margin of 27.5%, or 2.7 percentage points lower than 3Q09. Gross profit for 9M10 was R$ 83.6 million, 4.8% up on 9M09. The gross margin advanced 0.8 of a percentage point, from 27.4% in 9M09 to 28.2% in 9M10.

3.1.4. EBITDA

Alpargatas Argentina EBITDA and margin	3Q10	3Q09	Variation	9M10	9M09	Variation
ARGAAP – million of pesos	30.2	24.7	+ 22.3%	75.7	57.5	+ 31.7%
BRGAAP – million of reais	13.8	12.6	+ 9.5%	35.2	33.2	+ 6.0%
Margin in Pesos	12.3%	12.3%	-	11.6%	10.8%	+ 0.8 pp
Margin in Reais	12.8%	13.1%	-0.3 pp	11.9%	11.4%	+ 0.5 pp

EBITDA for Alpargatas Argentina was AR$ 30.2 million in 3Q10, 22.3% up on 3Q09, due to growth in revenues and gross profit. EBITDA margin was 12.3%, the same as 3Q09. In the 9M10, EBITDA totaled AR$ 75.7 million, 31.7% higher than in the same period last year. At 11.6%, the EBITDA margin increased 0.8 of a percentage point compared with 9M09. By BRGAAP, EBITDA for the 3Q10 was R$ 13.8 million, 9.5% up on 3Q09, with an EBITDA margin of 12.8%. Accumulated EBITDA to September remains strong. In 9M10, it totaled R$ 35.2 million, 6% higher than the corresponding period of last year. The EBITDA margin increased by 0.5 of a percentage point, from 11.4%, in 9M09, to 11.9% in 9M10. The most relevant factors driving the variation in EBITDA in reais for Alpargatas Argentina, from the 3Q09 to 3Q10, are:

- A R$ 1.1 million gain from price adjustments.
- Strategic investments in brand communication were down R$ 1.4 million compared with 3Q09. The new Topper brand was launched in 2009, explaining the higher investments in communication last year.
- A R$ 1.3 million exchange variation loss. Discounting the exchange effect, Alpargatas Argentina's EBITDA is R$ 15.1 million in 3Q10, 19.8% higher than 3Q09, and the margin increases to 14%.



3.2. ALPARGATAS USA, EUROPE AND EXPORTS

The internationalization of the Havaianas brand, initiated with exports through distributors at the end of the 1990's, was complemented strategically by the Alpargatas USA and Alpargatas Europe operations. We are meeting the challenges of globalizing Havaianas by:

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

In the United States, we conducted a Brand Tracking survey on the Havaianas brand. Compared with 2009, the results of this survey were surprising and underscore the fact that one of the growth drivers of the Sandals business is international expansion. Brand awareness increased from 22% to 27% and purchase from 7% to 11% in the last year. From the universe surveyed, 59% are satisfied with the brand, compared with 45% in 2009. Other major highlights for the US operation were the inauguration of the first Havaianas store in Huntington Beach, California, and the launch of the partnership with fashion designer Michael Bastian at the New York Fashion Week. Sales growth in Europe was strong. Volumes increased by 115% and 261% respectively in comparison with 3Q09 and 9M09.

The main drivers of this performance in Europe are the migration of some export markets to the subsidiary and increased brand awareness strengthened by advertising campaigns and points-of-sales actions with our leading customers in Europe.

3.2.1. Sales Volume

Alpargatas USA, Europe and Exports Sales Volume (million of pairs/pieces)	3Q10	3Q09	Variation	9M10	9M09	Variation
Sandals and Sporting Goods	6.1	6.7	- 9.0%	20.3	18.6	+ 9.1%

In 3Q10, the volume of Havaianas and Dupé sandals commercialized by Alpargatas USA and Alpargatas Europe, together with the volume of sandals and sporting goods exported directly from Brazil to markets not served by our own operations, reached 6.1 million pairs/pieces, 9% down on 3Q09. This was due mainly to the 11.7% reduction in export volume to Venezuela and Argentina. It should be noted that third quarter sales in the northern hemisphere are lower than in the second quarter due to seasonal factors. In the 9M10, the volume was 20.3 million pairs/pieces, an increase of 9.1% over 9M09.

3.2.2. Net Revenues

Alpargatas USA, Europe and Exports Net Revenues	3Q10	3Q09	Variation	9M10	9M09	Variation
BRGAAP – million of reais	40.0	36.6	+ 9.3%	171.1	149.5	+ 14.4%

Net revenues for Alpargatas USA, Alpargatas Europe and exports totaled R$ 40.0 million in the 3Q10, a 9.3% increase over 3Q09, explained by the higher foreign currency revenues. Year-to-date 2010 revenues were R$ 171.1 million, 14.4% up on the year ago figure.

3.2.3. Gross Profit and Margin

Alpargatas USA , Europe and Exports Gross Profit and margin	3Q10	3Q09	Variation	9M10	9M09	Variation
BRGAAP – million of reais	21.4	17.9	+ 19.6%	123.4	96.2	+ 28.3%
Margin	53.4%	48.9%	+ 4.5 pp	72.1%	64.3%	+ 7.8 pp

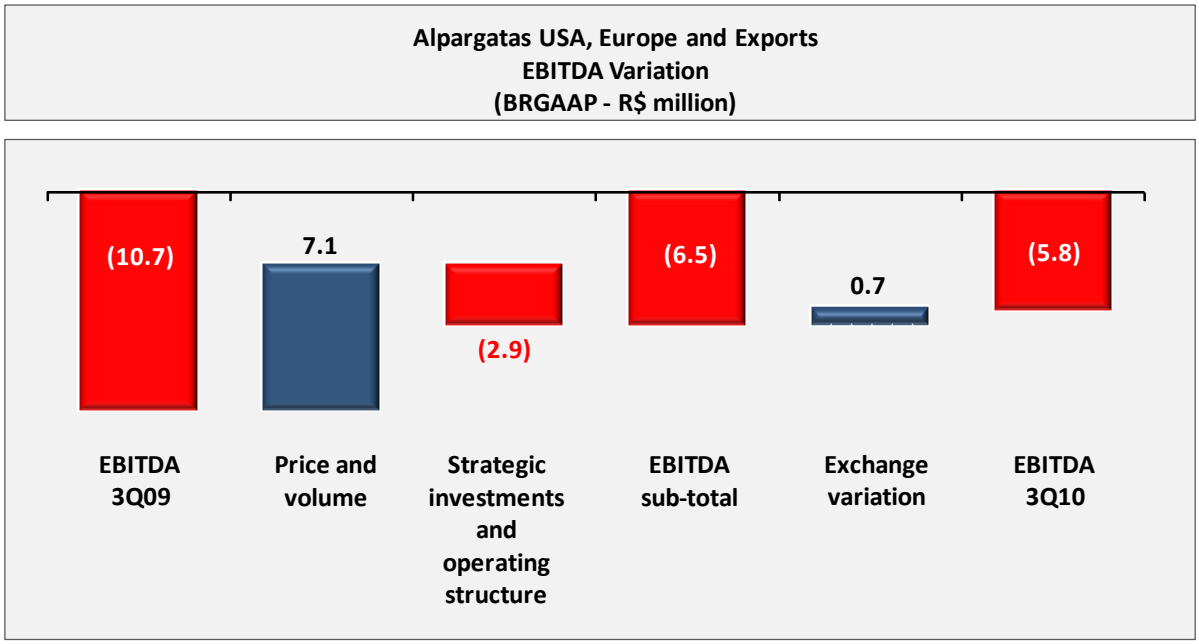
Gross profit for Alpargatas USA, Alpargatas Europe and exports totaled R$ 21.4 million in 3Q10, an increase of 19.6% compared with 3Q09. Gross margin increased 4.5 percentage points to 53.4% compared with 3Q09. In 9M10, gross profit was R$ 123.4 million, 28.3% up on 9M09. The gross margin of 72.1% was 7.8 percentage points higher than the 9M09 figure. This was the result of increased revenues and higher profitability from direct sales to our main customers.

3.2.4. EBITDA

Alpargatas USA , Europe and Exports EBITDA and margin	3Q10	3Q09	Variation	9M10	9M09	Variation
BRGAAP – million of reais	(5.8)	(10.7)	-	12.4	0.8	-
Margin	-	-	-	7.2%	0.6%	+ 6.6 pp

EBITDA for Alpargatas USA, Alpargatas Europe and exports was minus R$ 5.8 million in 3Q10, explained by seasonal factors. This represented an improvement of R$ 4.9 million compared with 3Q09. The Havaianas brand extension to closed footwear with the “Soul Collection” product line is aimed at offsetting the drop in sandal sales in the fall/winter seasons in the northern hemisphere. In 9M10, EBITDA totaled R$ 12.4 million, a significant increase over 9M09. The EBITDA margin of 7.2% was 6.6 percentage points up on 9M09. The most relevant factors explaining this EBITDA variation in the Company’s own operations and exports, from 3Q09 to 3Q10, are:

- A R$ 7.1 million gain from higher volumes and prices, mainly in exports.
- Strategic investments and expansion of the operating structure in Europe, with spending increasing R$ 2.9 million compared with 3Q09.



4. CONSOLIDATED PERFORMANCE

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

4.1. Sales Volume

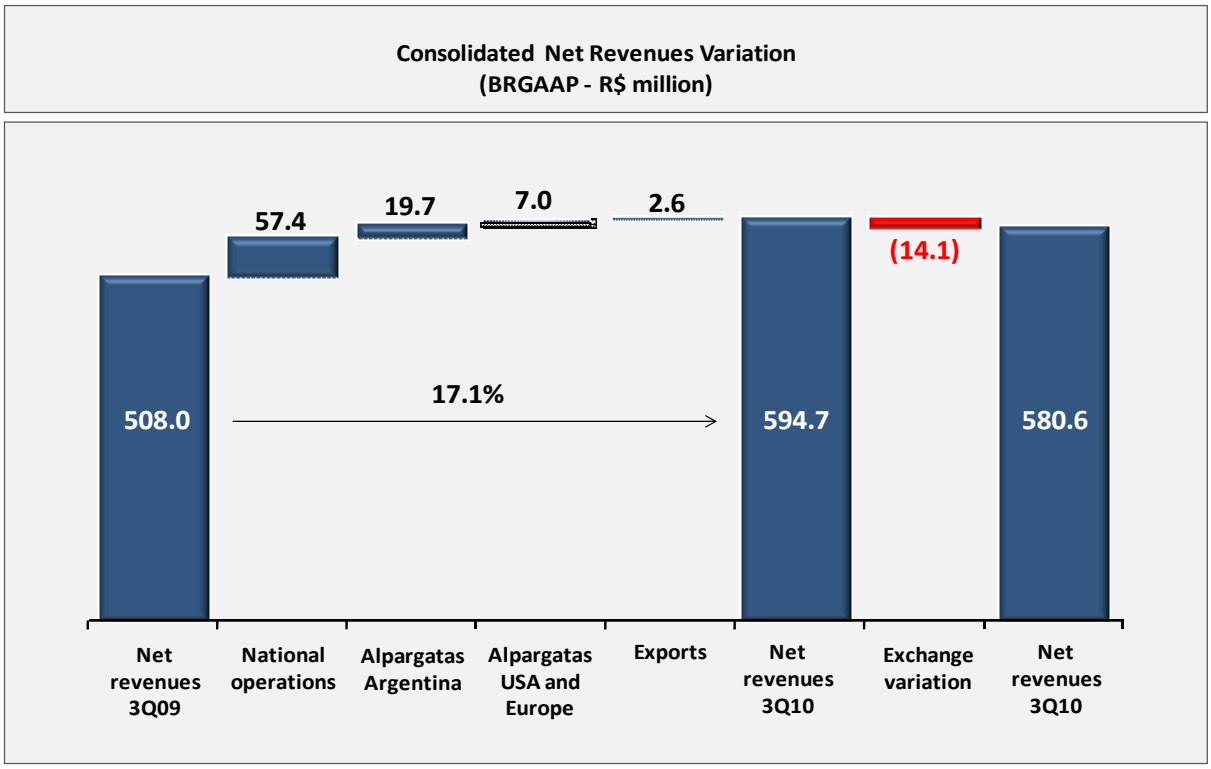
Consolidated Sales Volume (million of pairs/pieces)	3Q10	3Q09	Variation	9M10	9M09	Variation
Sandals	57.6	53.2	+ 8.3%	157.5	134.8	+ 16.8%
Sporting Goods	7.0	6.9	+ 1.4%	20.0	19.7	+ 1.5%
Total	64.6	60.1	+ 7.5%	177.5	154.5	+ 14.9%

In 3Q10, we commercialized 64.6 million pairs/pieces of sandals and sporting goods, a 7.5% volume increase over 3Q09, with an 8.3% increase in consolidated sandal volume. Year-to-date volume was 177.5 million pairs/pieces commercialized, 14.9% up on 9M09. The Sandals business showed very strong performance, with a 16.8% increase in volume in 9M10. Strong domestic sales performance due to buoyant consumer spending has been the main volume growth driver in 2010.

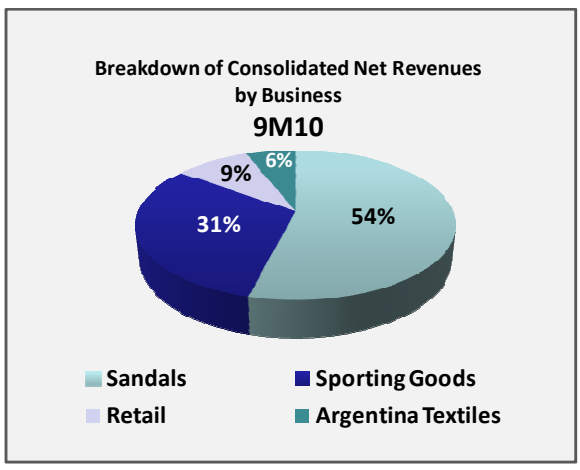
4.2. Net Revenues

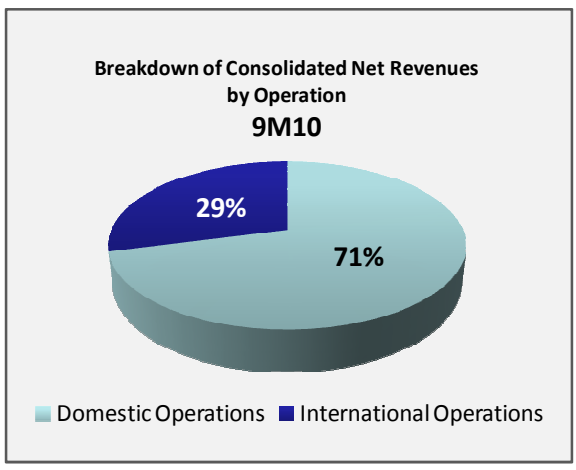
Consolidated Net Revenues (BRGAAP – R$ million)	3Q10	3Q09	Variation	9M10	9M09	Variation
Domestic Operations	432.9	375.4	+15.3%	1,153.3	942.1	+22.4%
International Operations	147.7	132.6	+11.4%	467.2	440.6	+6.0%
Total	580.6	508.0	+14.3%	1,620.5	1,382.7	+17.2%

Net revenues totaled R$ 580.6 million in 3Q10, 14.3% up on 3Q09. Discounting the exchange rate variation, consolidated net sales revenues increased 17.1%, as shown in the following chart:



In 9M10, consolidated net revenues were R$ 1.6 billion, 17.2% up on the 9M09 figure. We grew our revenues because we have market leading brands driving product sales. Consolidated net revenues for 9M10 break down as follows: 71% from Brazil and 29% from overseas. The breakdown by business is: Sandals, 54%; Sporting Goods, 31%; Retail, 9%; and Textiles Argentina, 6%.





4.3. Gross Profit and Margin

Consolidated Gross Profit and margin (BRGAAP – R$ million)	3Q10	3Q09	Variation	9M10	9M09	Variation
Gross Profit	260.6	235.8	+ 10.5%	749.7	579.0	+ 29.5%
Margin	44.9%	46.4%	- 1.5 pp	46.3%	41.9%	+ 4.4 pp

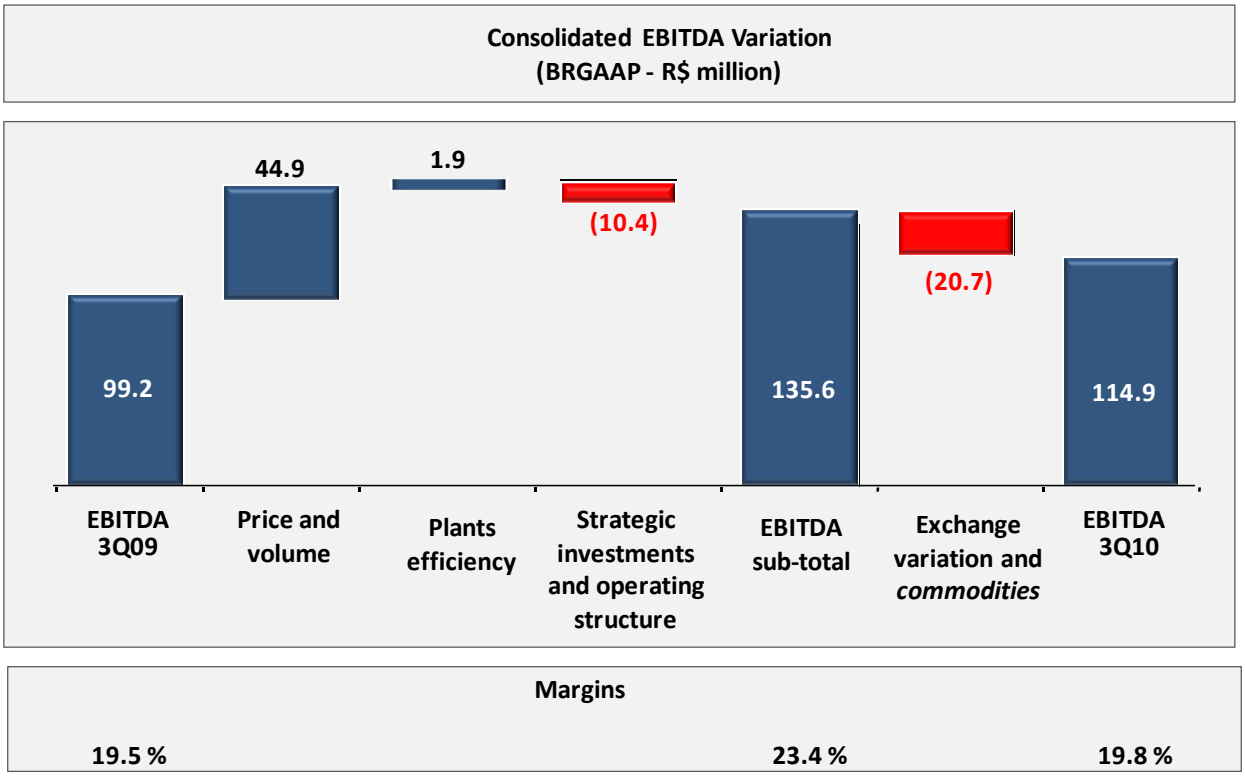
The increase in consolidated gross profit in 3Q10 and in 9M10 is the result of higher revenues and gross profitability in the domestic and international operations. Consolidated gross profit was R$ 260.6 million in 3Q10 and R$ 749.7 million year-to-date 2010, respective increases of 10.5% and 29.5% compared with the same periods in 2009. The consolidated gross margin in 3Q10 dropped 1.5 percentage points compared with 3Q09, to 44.9%, due to higher raw material prices, as explained in item 2.3. In 9M10, consolidated gross margin was 46.3%, a 4.4 percentage point increase over 9M09.

4.4. EBITDA

Calculation of Consolidated EBITDA (BRGAAP – R$ million)	3Q10	3Q09	Variation	9M10	9M09	Variation
Profit before financial results and equity in subsidiaries	94.0	78.6	+ 19.6%	261.1	127.6	+ 104.6%
(+) Depreciation and amortization	12.9	15.4	- 16.2%	40.4	44.1	- 8.4%
(+/-) Non-cash items	8.0	5.2	+ 53.8%	2.9	19.9	- 85.4%
EBITDA	114.9	99.2	+ 15.8%	304.4	191.6	+ 58.9%
Margin	19.8%	19.5%	+ 0.3 pp	18.8%	13.9%	+ 4.9 pp

Consolidated EBITDA was R$ 114.9 million in 3Q10 and R$ 304.4 year-to-date, increases of 15.8% and 58.9% respectively compared with the same periods of 2009. Consolidated EBITDA margin in 3Q10 increased 0.3 of a percentage point compared with 3Q09, reaching 19.8%. In 9M10, EBITDA margin reached 18.8%, an impressive 4.9 percentage point rise compared with 9M09. The most relevant factors explaining the variation in consolidated EBITDA, between 3Q09 and 3Q10, are:

- Gain of R$ 44.9 million from pricing and volume.
- Gain of R$ 1.9 million from plants efficiency.
- Strategic investments in brand communication and operating structure in Europe, with an increase of R$ 10.4 million in the period.
- An impact of R$ 20.7 million, mainly from higher commodity prices.

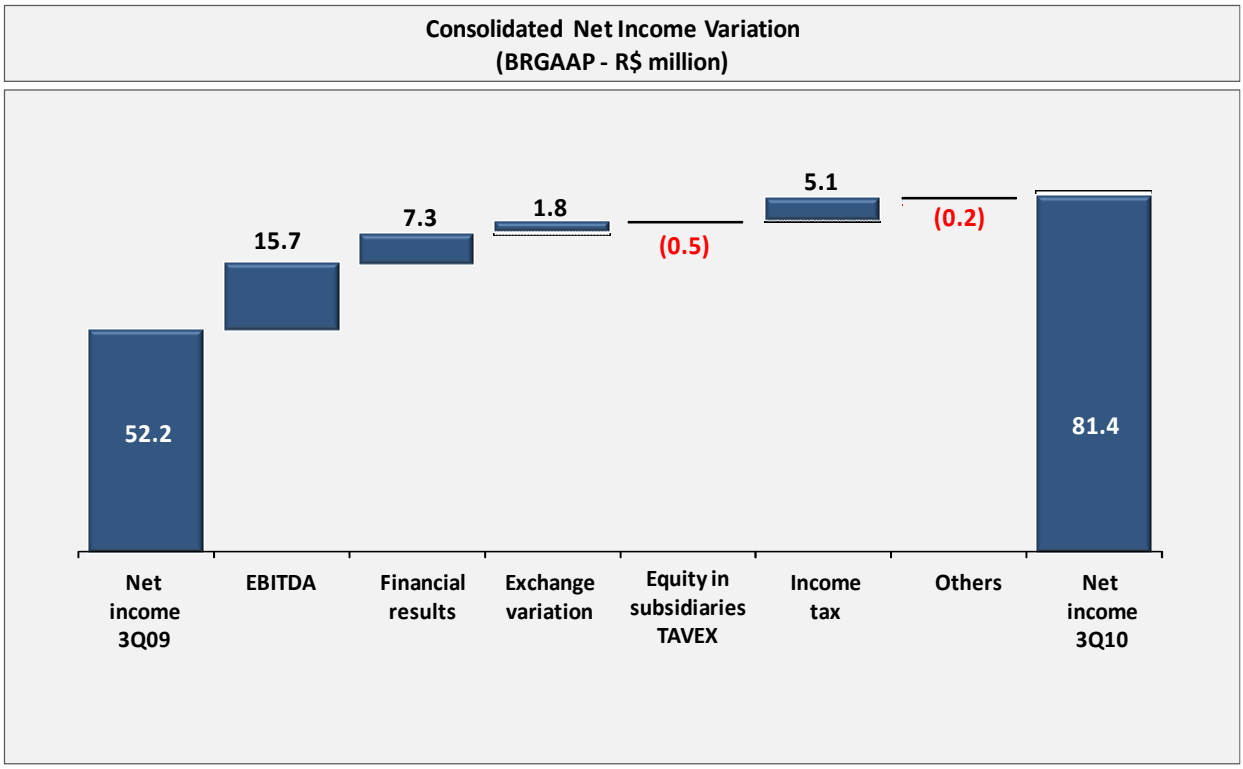


4.5. Net income

Consolidated Net Income and margin (BRGAAP – R$ million)	3Q10	3Q09	Variation	9M10	9M09	Variation
Net Income	81.4	52.2	+ 55.9%	232.8	69.7	+ 234.0%
Margin	14.0%	10.3%	+ 3.7 pp	14.4%	5.0%	+ 9.4 pp

As a result of the Company's strong performance in its domestic and international operations, consolidated net income increased from R$ 52.2 million, in 3Q09, to R$ 81.4 million, in 3Q10, providing a net margin of 14%. In the first nine months of 2010, net income was R$ 232.8 million, 234% up on 9M09, with a net margin of 14.4%, 9.4 percentage points up on the same period last year. The most relevant factors explaining the variation in consolidated net income, between 3Q09 and 3Q10, are:

- A R$ 15.7 million increase in EBITDA.
- A positive financial result of R$ 7.3 million due to higher financial income from the larger volume of cash invested.
- A net saving of R$ 5.1 million from income tax.

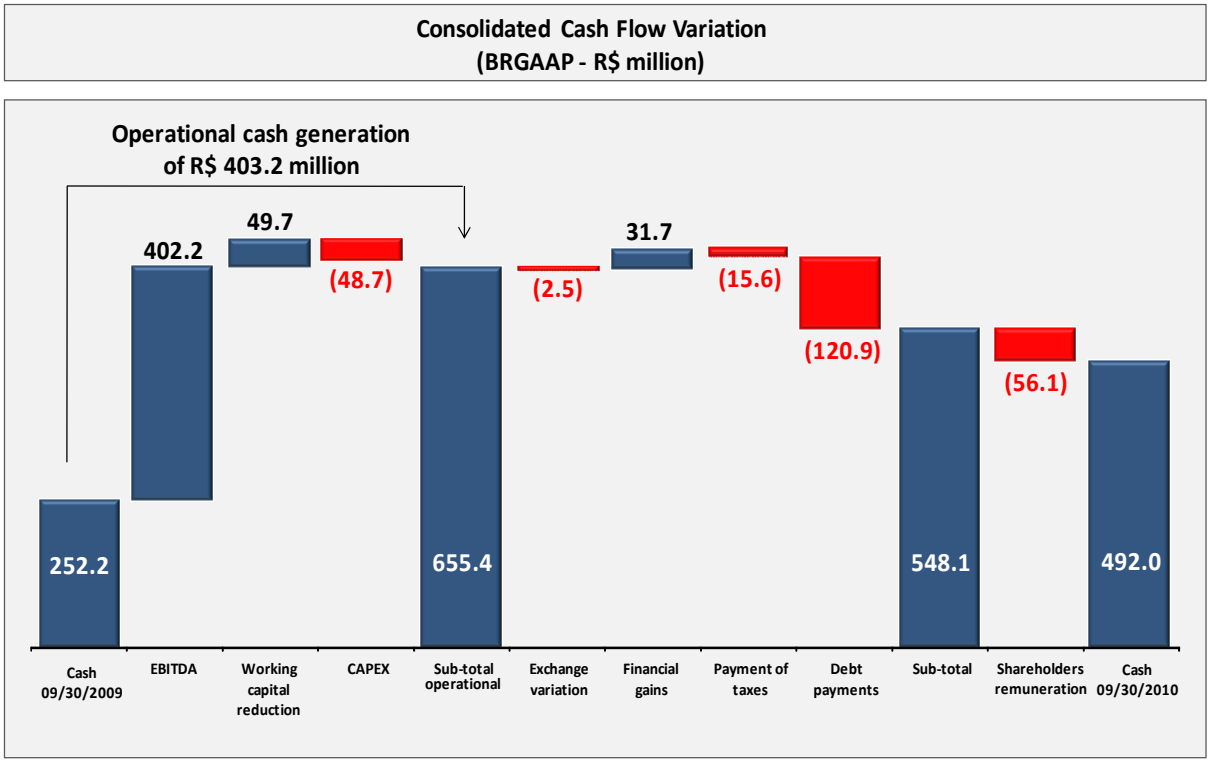


4.6. Cash Conversion Cycle (CCC)

The acceleration of the Cash Conversion Cycle (CCC) resulting from optimized current account management positively impacted Alpargatas' cash generation. In the twelve months ending September 30, 2010, we shortened the CCC by 27 days, with an increase of 20 days in accounts payable, a one-day reduction in accounts receivable and a six-day decrease in inventories.

4.7. Cash Flow

On September 30, 2010, Alpargatas had a cash balance of R$ 492.0 million, R$ 239.8 million higher than on September 30, 2009. Operational generation totaled R$ 403.2 million. The biggest cash inflow in the last 12 months was from EBITDA, which accumulated R$ 402.2 million, the result of the Company's strong operating performance. Working capital productivity provided a gain of R$ 49.7 million. CAPEX totaled R$ 48.7 million and was financed by working capital productivity. Debt amortization (net of new loans) and shareholder remuneration accounted for the main cash disbursements, which totaled R$ 177.0 million.



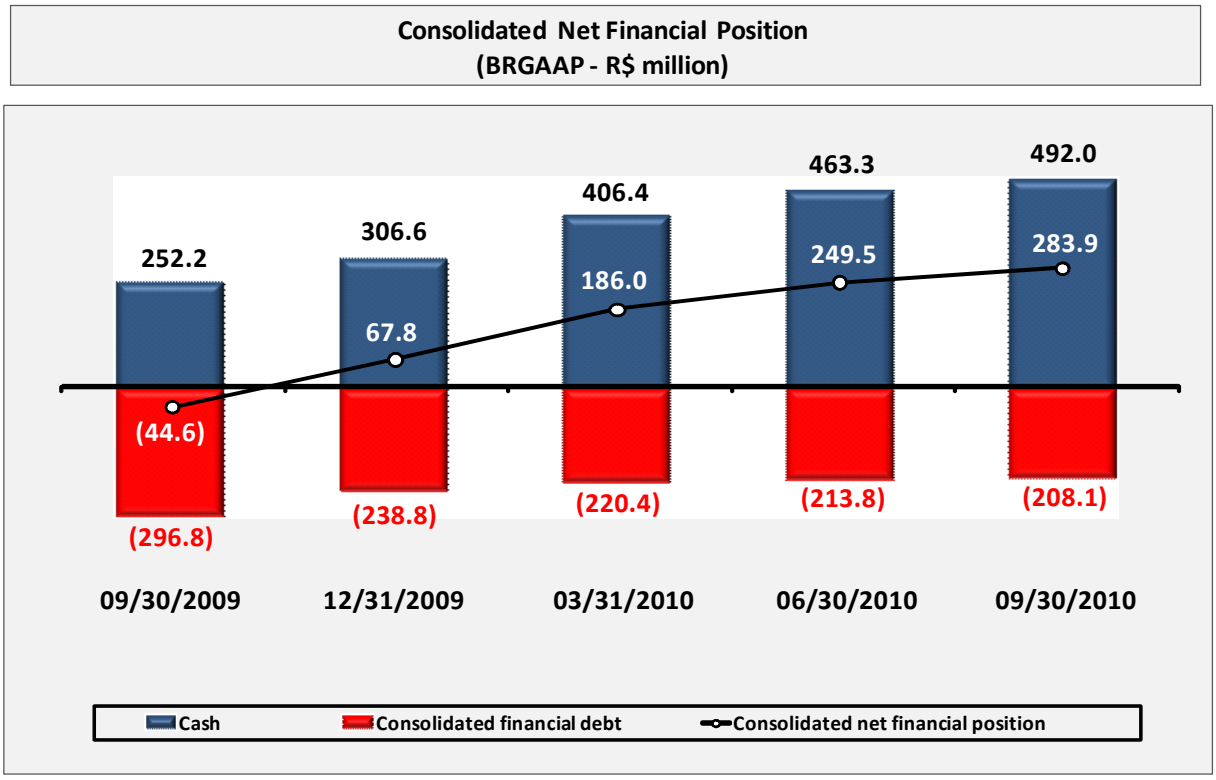
4.8. Indebtedness

On September 30, 2010, consolidated financial indebtedness was R$ 208.1 million, of which R$ 163.7 million corresponded to São Paulo Alpargatas and subsidiaries and R$ 44.4 million to Alpargatas Argentina. The profile was as follows:

- R$ 94.4 million (45% of the total) due in the short term, with 79% in foreign currency, rolled over on average every nine months to finance working capital for the overseas companies.
- R$ 113.7 million (55% of the total) due in the long term, of which 37% in foreign currency.

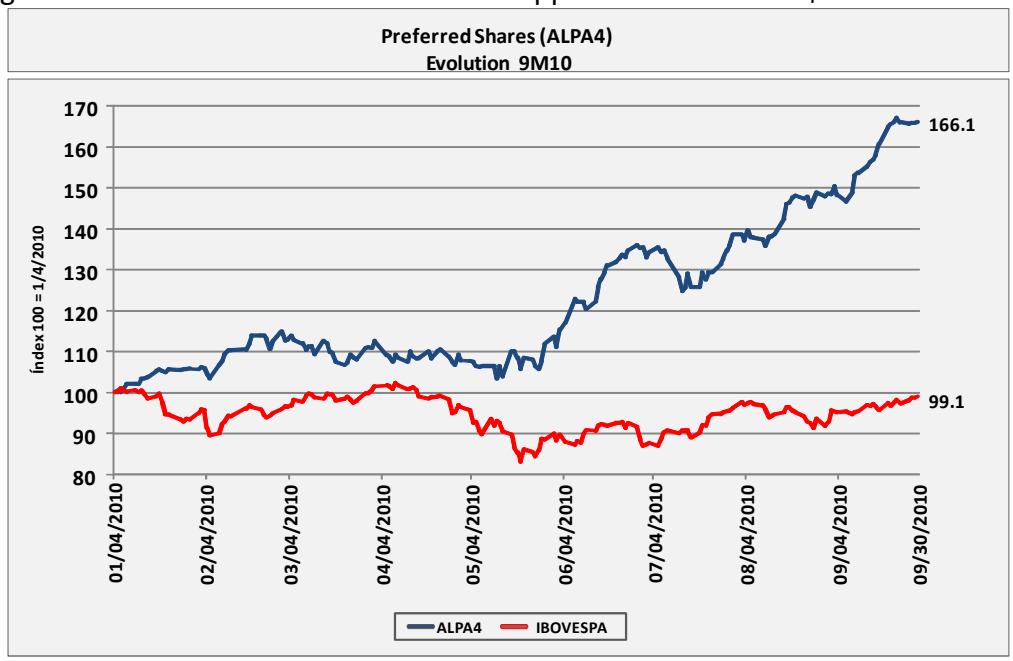
4.9. Net Financial Position

The reduction in indebtedness and the increase in cash generation resulted in a positive net financial position of R$ 283.9 million on September 30, 2010, reinforcing Alpargatas' financial solidity. The distribution of cash, consolidated financial indebtedness and net financial position for the last four quarters are shown in the following chart.

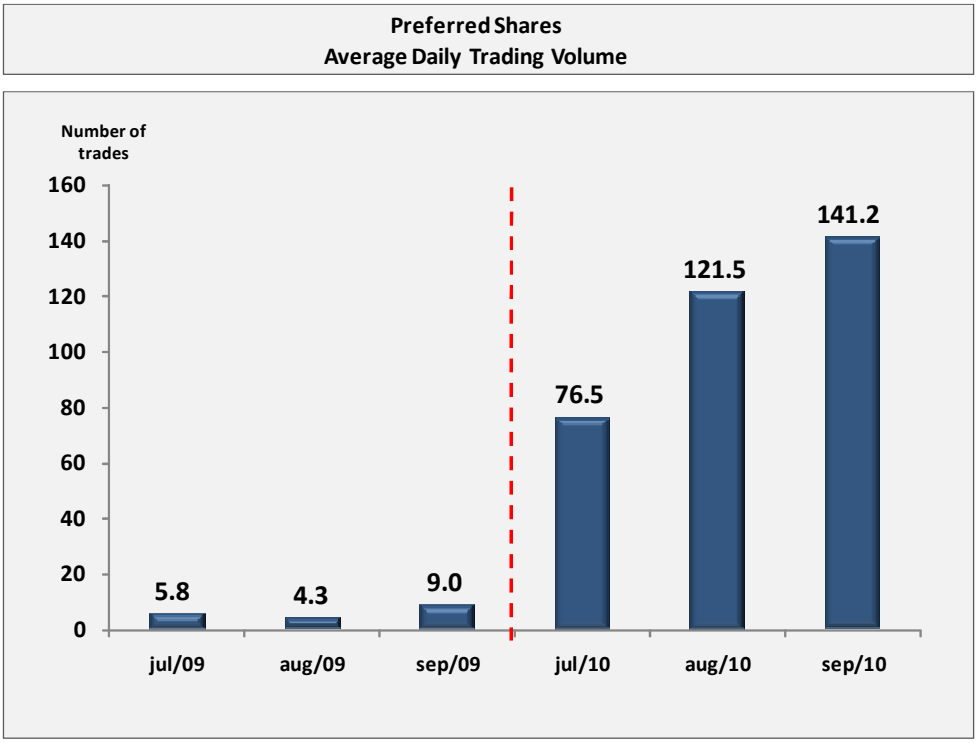


5. CAPITAL MARKETS

Alpargatas preferred shares ended the 3Q10 quoted at R$ 9.50, with voting shares at R$ 10.56. The equity value per share on September 2010 was R$ 3.55, compared with R$ 2.87 on September 30, 2009. In 3Q10, the preferred shares presented greater liquidity, appreciating 25% against an Ibovespa variation of 13.4%. For the year-to-date 2010, the preferred shares appreciated 66.1%, against an almost 1% drop in Ibovespa. At the end of 3Q10, the market value of Alpargatas was R$ 3.5 billion, compared with R$ 1.3 billion in 3Q09. Of the total paid in capital, 42% of the shares were outstanding. At the meeting on November 12, the Board of Directors approved the payment of R$ 16.4 million in interest on own capital for December 21. This brings the total shareholders'remuneration approved in 2010 to R$ 63.4 million.



There has been a significant increase in the liquidity of the preferred shares (Bovespa Alpa4) in 3Q10, compared with 3Q09. We attribute this to the Company's good performance in recent quarters, with robust volume and revenue growth, sustainable profit margins and strong cash generation, in addition to the positive outlook for our business. In the following chart we present the average daily trading in preferred shares in the three months of 3Q10, compared with the corresponding quarter of 2009.



6. SOCIO-ENVIRONMENTAL RESPONSIBILITY

The Instituto Alpargatas (IA) continues to carry out creative and innovative actions in line with its mission and the priorities set forth in its social responsibility program aimed at helping to improve public education for children, adolescents and young people. The institute continues to use sport and culture as methodological tools to improve school performance and attract and keep students in the classroom. Up until September 2010, 64,800 students had benefited from 32 educational projects conducted with 263 partnering institutions, resulting in 19 thousand hours of training. We make a point of caring for human resources, believing that they constitute a differential for Alpargatas. Our actions in the area of health and safety enabled us to end the third quarter with our satellite plants in Mogeiro, Serra Redonda and Ingá, in Paraíba State, presenting respectively periods of 9, 18 and 2 years free of lost-time accidents. We maintained our commitment to environmental responsibility, investing in reducing our environmental footprint and in producing sustainable products:

- Educational campaigns to reduce energy and water consumption.
- Increased use of residues in sole manufacture.
- Reutilization of boiler condensate, reducing electricity and natural gas consumption.
- Installation of solar energy-powered illumination.
- Scheduling production around non-peak times to reduce electricity consumption.

Our efforts to reduce natural resource consumption and waste generation helped drive our sustainability indicators. Compared with 2009, in 9M10 we reduced energy consumption per pair manufactured by 10.3%, water consumption by 26.5% and waste generation by 19.3%, in spite of an average 14% increase in the volume of units produced. These reductions also helped lower production costs, with a positive impact on Alpargatas' results.

7. CORPORATE GOVERNANCE

In compliance with CVM Instruction nº 381/03, we hereby declare that the Company and its subsidiaries formally consult the independent auditors – Deloitte Touche Tohmatsu –, with the objective of ensuring that no other services rendered will affect the independence and objectivity required for the execution of the independent audit of the companies' financial statements. During 3Q10, we contracted no other services from Deloitte Touche Tohmatsu other than the auditing of financial statements

8. DECLARATION BY THE BOARD

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

9. OUTLOOK

We firmly believe in the continued growth of the Brazilian economy, with a positive impact on job generation and income growth. We are increasingly well positioned to capture the strong demand for footwear, apparel and accessories, with brands and products that meet consumer needs. We continue to invest in innovation, communication, manufacturing productivity, retail expansion and the other elements that enhance our competitiveness and ensure our leadership in the footwear sector. In our international operations, even though the economies of the central countries remain relatively flat, we will maintain our internationalization strategy, investing in growing the Havaianas and Topper brands outside Brazil in order to drive Alpargatas' revenues and profitability. We have a clear strategy, disseminated across the organization, which is being put into practice through a series of work fronts. We will continue to build an innovative Company that is admired and respected, that inspires projects which enhance people's quality of life, that cares for the environment and that applies the principles of sustainability to all its activities. All of our achievements in 2010 have been made possible because of our qualities, the incentives provided by our shareholders, the acceptance of our products by consumers, the confidence of our customers and the dedication of our employees, all of whom are working to make Alpargatas a better, more efficient Company and to consolidate its leadership.

São Paulo, November 12, 2010
Board of Directors