

**Grendene®**



(A free translation of the original in Portuguese)

**Grendene**<sup>®</sup>

LISTED COMPANY

CNPJ: 89.850.341/0001-60

NIRE: 23300021118-CE

**MANAGEMENT  
REPORT  
2015**

BOARD OF DIRECTORS

Alexandre Grendene Bartelle  
Chairman of the Board of Directors

Pedro Grendene Bartelle  
Vice-Chairman of the Board of Directors

Members of the Board of Directors

Maílson Ferreira da Nóbrega  
Oswaldo de Assis Filho  
Renato Ochman  
Walter Janssen Neto

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STATUTORY AUDIT BOARD

João Carlos Sfreddo  
Chair of the Audit Board

Members of the Audit Board

Eduardo Cozza Magrisso  
Herculano Aníbal Alves

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EXECUTIVE BOARD

Rudimar Dall' Onder  
Chief Executive Officer

Gelson Luis Rostirolla  
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt  
Chief Finance and Investor Relations Officer

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Luiz Carlos Schneider  
Accountant – CRC/CE – SEC – 70.520/O-5

**MANAGEMENT REPORT – 2015**

Dear Stockholders:

In accordance with the provisions of law and the by-laws, the management of Grendene S.A. presents to you, below, the Management Report and the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also based on accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM). The Company has adopted all the rules, revisions of rules and interpretations issued by IASB which are in effect for financial statements at December 31, 2015.

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## I. Message from Management

Grendene's performance in 2015 was good, and once again strengthened our convictions about our business model. While the results in the furniture sector were below our expectations, our primary business – footwear – provided a good result, resisting the overall deterioration of the Brazilian economy.

At the end of 3Q15 we had reaffirmed that the results of A3NP, Grendene's investment in the furniture sector, were not satisfactory, and that we were discussing plans for that business with its other partners. In that discussion we found that due to the substantial change in the economic scenario since the initial plan in 2012, growth in that business in 2015 was going to be much slower, and that the business would need substantial additional capital to make it viable. As per the original business plan all the partners in A3NP had subscribed their capital in full, and we concluded that to make a new business plan viable with the substantially changed economic scenario, and develop the company to a level of activity compatible with Grendene's interest, would thus call for new injections of capital. However, the partners of A3NP did not reach agreement on capitalization, and Grendene's management decided to invest in the business only the small amount necessary to make a sale of its interest possible, or enable some other means of terminating its activities. Among the factors that had caused a substantial change in the situation, requiring a complete strategic repositioning in the furniture business, were: the very large depreciation of the Brazilian currency, which made production and development of products in Europe to serve the Brazilian market more expensive; the major recession in Brazil, affecting the purchasing power of the middle income groups – the target consumers of the product; and the launch of the brand with the opening of a concept store, in 2015, just at the moment when the situation in the Brazilian market was deteriorating significantly. Without the base of sales in Brazil the company would need a much greater marketing effort in Europe, thus demanding more investments, which would mean the breakeven point would be delayed, and the risk for the investors increased. We also considered relocating the manufacturing operation to Brazil – but this, once again, would have called for new investments, in a context of great uncertainty.

Thus, faced with a decision of increasing investments in a new project, in a new sector (furniture), with consequent increase in risk, management decided not to make further investments, even if this decision led to the loss of the amounts already invested.

Based on the fact that the business has not reached breakeven, and to do so would need new investment, we decided, for conservativeness, for the reasons given above, and also to preserve our commercial reputation, to provision the whole of our investment in that company as a loss – resulting in an accounting effect of R\$ 51.8 million in the 2015 business year – since we cannot guarantee that there will be investors interested in our equity holding in that company. This loss has no effect on cash in the year, nor in the future, and is non-recurring.

We believe that in these circumstances Grendene's results should be analyzed from two points of view:

- (i) the view that takes these effects into account, for an understanding of our past decisions; and
- (ii) the view that excludes these non-recurring effects, to provide a more accurate view of our footwear business – our principal activity – and to infer its future development. This result – i.e. excluding these effects, is what we refer to as the “**Adjusted result**” in this report, and in our analyses:

Account lines	Consolidated result (formal accounting)		Adjustments	Adjusted result	
	2015	% of net revenue		2015	% of net revenue
Gross profit	1,067,883	48.5%	(1,887)	1,065,996	48.4%
Operational expenses	(667,151)	(30.3%)	55,864	(611,287)	(27.8%)
Ebit	400,732	18.2%	53,977	454,709	20.7%
Net profit	551,223	25.0%	51,809	603,032	27.4%
Depreciation and amortization	53,652	2.4%	(1,397)	52,255	2.4%
Ebitda	454,384	20.6%	52,580	506,964	23.0%

The components of the R\$ 51.8 million total negative effect on net profit arising from our decision on our furniture investment are:

- (a) Reported in profit and loss account in *Other operational expenses* – in accordance with standard accounting (see Explanatory Notes 11, sub-clause 'c' and 20, sub-clause 'd' of the financial statements):
  - (i) provisions totaling R\$ 28.0 million, and

- (ii) impairment of the goodwill premium, of R\$ 8.9 million, paid on acquisition of the interest in A3NP;
- (b) the loss of R\$ 8.1 million reported by A3NP in the year, which we also regard as non-recurring; and
- (c) the tax effects in Grendene, of R\$ 6.8 million.

The total impact of R\$ 51.8 million on net profit has no cash effect. Although it reduces Grendene's profit for 2015, it does not significantly alter the return on equity as reported in the formal accounting, which remains above 20%.

Grendene reports **2015 adjusted net profit** of R\$ 603 million, with adjusted net margin of 27.4%. Net profit is 22.1% higher than in 2014; net margin is 5.3 p.p. higher; and the adjusted return on equity is 25%.

In 2015 Grendene generated operational cash flow of R\$ 442.7mn, and we declared R\$ 265.6mn in dividends for the 2015 business year. This comprised: (i) R\$ 165.0mn, distributed in interim dividends during the year; (ii) R\$ 577,400 proposed as additional dividend for the year; and (iii) in the gross amount of R\$ 100.0mn (the net amount being R\$ 85,0 mn) proposed for distribution as Interest on Equity (this is part of the total dividend calculation). The result is a dividend payout of 48.6% (sum of dividends and Interest on Equity, divided by Accounting profit), and a dividend yield of 5.2%. Additionally, we are proposing distribution of R\$ 10.3mn as dividends arising from reversal of existing reserves. The result is a total distribution of R\$ 275.9mn.

We estimate **2015 consumption of footwear** in Brazil was between **8% and 10% lower** year-on-year; our own **total volume of pairs sold** was 12% lower, both in the domestic market and in exports, though for us this was almost fully offset by the increase in unit prices, of 9.9%, which in turn resulted in **net revenue** being **1.4% lower** in 2015 than 2014.

Once again we were faced with a disappointing domestic economic situation, and an aggressive competition scenario. Inflation of two digits, severe depreciation of the Brazilian currency, the loss of the country's investment grade rating, and the political difficulties, are the evidences of this scenario.

In the external market, depreciation of the Brazilian currency made a positive contribution to margins, but the continuation of economic slowdown in traditional markets such as Argentina and Venezuela, and the slow recovery of Europe, inhibited higher growth in exports.

The formal financial statements for 2015 report profit equivalent to R\$ 1.8342 per share. This was 12.3% higher than in 2014, and provided a return on equity of 24.7%.

Over a longer period, the Company's management has generated reasonable value for stockholders, providing a significant return on equity, as shown in this table (all amounts of net profit are from the formal accounting, without any adjustment):

R\$ '000						
Year	Initial Stockholders' Equity <sup>1</sup>	Net profit	Dividends	Reinvestment	Return on equity	Final Stockholders' Equity <sup>1</sup>
2004	692,726	204,865	64,152	140,713	29.6%	733,566
2005	733,566	200,116	81,181	118,935	27.3%	847,373
2006	847,373	257,343	128,261	129,082	30.4%	998,510
2007	998,510	260,508	119,724	140,784	26.1%	1,132,718
2008	1,132,718	239,367	109,000	130,367	21.1%	1,274,080
2009	1,274,080	272,211	110,000	162,211	21.4%	1,430,569
2010	1,430,569	312,399	121,738	190,661	21.8%	1,624,542
2011	1,624,542	305,446	219,526	85,920	18.8%	1,713,743
2012	1,713,743	429,003	293,503	135,500	25.0%	1,848,309
2013	1,848,309	433,540	300,057	133,483	23.5%	1,957,295
2014	1,957,295	490,244	220,814	269,430	25.0%	2,232,649
2015	2,232,649	551,223	275,925	275,298	24.7%	2,520,866
<b>Accumulated</b>		<b>3,956,265</b>	<b>2,043,881</b>	<b>1,912,384</b>	<b>971.5%</b>	

(1) End-of-year stockholders' equity, i.e. excluding dividends, etc. proposed for subsequent year.

From late 2004, when Grendene was listed, to 2015, the Company has generated an accumulated return on equity of 971.5%, equivalent to a compound average rate of 24.1% per year. Of this return, in this period R\$ 2.0 billion was distributed in the form of dividends, corresponding to an average return on equity, in the form of dividends, of 14.2% p.a., that is to say just over half the total average return.

Grendene's share price was R\$ 10.33 at the beginning of the period, and R\$ 16.84 at the end of the period (adjusted for number of shares). With this variation and considering the reinvestment of the dividends in fact paid, our shares (GRND3) presented an average annual total return to stockholders of 10.8% p.a., less than the gain that would precisely reflect the accounting results – but also more than the average total return for the Bovespa index (also based on reinvestment of the dividends), of 4.7% p.a.

Thus, we believe that our stockholders – who at the end of 2004 were owners of a company with net equity of R\$ 733.5mn (the share was listed on October 28, 2004), and at the end of 2015 own a company with net equity of R\$ 2.5 billion (of which 52%, that is to say R\$ 1.3 billion, is currently in cash), having received dividends of R\$ 2.0 billion in the intervening period – have good reason to be satisfied.

**Brand building:** In the year we made significant progress with the *Clube Melissa* project, overcoming initial expectations and closing the year with 208 franchised stores. We introduced a new brand in the feminine segment, **Marsalla**, and we strengthened our traditional brands – **Rider**, **Ipanema**, **Zaxy**, **Grendha** and **Grendene Kids** – with innumerable marketing and communication efforts.

**Design and innovation:** We also made important progress in our strategy of differentiation of products by design and innovation. For the second year running we won the **iF** international design award, for our **Melissa** products and stores. *Galeria Melissa London* received one more art installation: “*The Harmony of Imperfection*” by the Campana Brothers, exhibited jointly with the launch of the *Melissa Barroca* collection. This installation, in the baroque style, has furniture designed by the **Campana Brothers**, and also shows all the Melissa models made in partnership with them since 2004. Additionally, the brand celebrated a decade of *Galeria Melissa SP*, the brand's first concept store. This *Galeria* was designed by **Muti Randolph**, and as well as functioning as a store has also hosted exhibitions by internationally recognized names such as *Zaha Hadid*, *Vivienne Westwood*, *the Campana Brothers*, *Karim Rashid* and *Alexandre Herchcovitch*, all of whom have partner design lines with **Melissa**. These efforts have ensured that the **Melissa** brand grows in its principal markets, and also as a percentage of Grendene's total business.

In 2015, in our portfolio of products, we maintained the volume of launches and innovations. Our portfolio of celebrities includes *Ivete Sangalo*, *Shakira*, *Juliana Paes*, *Guga*, *Flavia Alessandra*, *Guilhermina Guinle* and others. In personality characters, as well as the traditional ones from **Mattel**, **Disney** and **Cartoon Network**, we have strengthened the list with new brands, such as **Frozen**, **Star Wars**, **Avengers**, and **Ever After High** – all of them contributing to construction of our brands.

### Recognition:

Market recognition of our performance once again confirmed our strategy. To give just a few examples:

- in 2015, for the 7<sup>th</sup> year running, *Amanhã* magazine highlighted Grendene as the most innovative company in the sector in the Southern region of Brazil;
- the *Estado de Sao Paulo* newspaper highlighted Grendene as Brazil's best company in the textile sector in its annual publication *Empresas Mais*;
- the accounting and auditing organizations Anefac, Fipecafi, Serasa and Experian awarded Grendene the Transparency Trophy for its publication of financial statements;
- our designers won the *iF* design award for *Melissa One by One*, *Galeria Melissa NY* and *Casa Ipanema*;
- we were highlighted in the *Expression of Ecology* Award certified by the Environment Ministry with the *Gestão das Águas* (Waters Management) project;
- and we were recognized by the *British Embassy* in the *Brazilian-British Center*, for our operations in the United Kingdom.

Once again we have pushed aside the effects of Brazil's economic crisis, achieving results that we believe have been possible only because of the two human factors: the discipline and application of our management team which has, on average, more than 20 years' experience at have and very low turnover at management level, and has provided continuous improvement in our processes; and the great commitment of our 24,000 employees.

In our 45 years of existence we have won a significant leadership in the footwear sector – and we remain confident for the future: confident of our ability to continue strengthening our brands and growing in the domestic and international markets. An indication of this leadership, and the competitive advantages we have built, can be

## Management Report – 2015

seen in our continuous and persistent gains in market share, achieved jointly with a robust return on equity for stockholders.

In the last 11 years, since we listed our shares – i.e. in the period from 2004 to 2015 – in spite of the internal and external crises and the adverse exchange rate, our net revenue has grown at a CAGR of 5.6% p.a., and our net profit has grown at CAGR of 9.4%. In this period we have gained market share (share of total domestic market apparent consumption) – although there have been alternate years of gain and loss. In 2015, we estimate that we had a small loss in our market share by volume in some of our target markets, but in counterpart to this we improved net margin, Ebit margin and gross margin, as we had intended. For the coming years, management aims to maintain the level of margins achieved, consolidating the trend that has been established, and if possible improve it. We base this expectation on the quality of our products, the strength of our brands, the strength of our recognition by retailers and final clients, and our operational efficiency.

We believe that this year we have again successfully strengthened our brands. Our relationship with the retail sector was intensified with the high turnover of our products in stores, although with lower volumes, and we were able to sell, produce and deliver high volumes with efficiency and speed, confirming the correct choices made in our business model. Once again we have shown consistency in results in an adverse economic scenario.

To achieve this regularity of results, we highlight our skill in building strong brands that have a privileged relationship with clients, and developing solid relationships with the distribution channels through a long-term process with cumulative effects. Since our listing in 2014, among many other efforts, we have invested approximately R\$ 1.7 billion in advertising, as a means of consolidating construction of value, and in coming years we will seek this approximation with Grendene's final clients with even greater vigor. We believe that understanding of the client's needs is a fundamental factor for the success of our business model.

All these actions are coherent with our Values, which highlight precisely the aspects for which we have received reiterated public recognition: profit, competitiveness, innovation, agility, and ethics.

Finally, it has to be recognized that in these 45 years we have enjoyed the decisive support and trust of suppliers, clients, partners, stockholders, and – especially – our thousands of employees that are dedicated and committed to our Vision and Values.

We extend our sincere thanks to all of these – they all share our success.

The Management

### II. Main consolidated indicators (IFRS)

R\$ mn	2010	2011	2012	2013	2014 <sup>1</sup>	2015 <sup>1</sup>	Change, 15/14	CAGR <sup>2</sup> 15/10
Gross revenue from sales	1,998.6	1,831.6	2,324.5	2,711.4	2,719.4	2,630.0	(3.3%)	5.6%
Domestic market	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	1,899.2	(8.6%)	3.4%
Exports	394.8	341.7	479.1	564.5	641.7	730.8	13.9%	13.1%
Net revenue	1,604.5	1,481.1	1,882.3	2,187.3	2,232.4	2,201.1	(1.4%)	6.5%
Cost of goods sold	(953.3)	(840.5)	(1,000.2)	(1,193.6)	(1,206.8)	(1,135.1)	(5.9%)	3.6%
Gross profit	651.2	640.6	882.1	993.7	1,025.6	1,066.0	3.9%	10.4%
Operational expenses	(442.8)	(453.3)	(519.3)	(594.5)	(625.7)	(611.3)	(2.3%)	6.7%
Ebit	208.4	187.3	362.8	399.2	399.9	454.7	13.7%	16.9%
Ebitda	236.6	216.2	394.5	435.9	447.3	507.0	13.3%	16.5%
Net financial revenue (exp.)	122.5	153.0	132.5	103.6	135.1	184.3	34.5%	8.3%
Net profit	312.4	305.4	429.0	433.5	493.7	603.0	22.1%	14.1%

R\$	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR <sup>2</sup> 15/10
Average price – footwear	11,79	12,20	12,56	12,54	13,27	14,58	9,9%	4,3%
Domestic market	13,97	13,85	13,21	12,96	13,60	14,12	3,8%	0,2%
Exports	7,23	8,04	10,56	11,17	12,29	15,91	29,5%	17,1%
Exports (US\$)	4,11	4,80	5,40	5,18	5,22	4,78	(8,4%)	3,1%

R\$	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR <sup>2</sup> 15/10
Basic profit per share	1.0388	1.0157	1.4266	1.4421	1.6328	1.8342	12.3%	12.0%
Diluted profit per share	1.0394	1.0123	1.4195	1.4367	1.6293	1.8305	12.3%	12.0%
Dividend per share	0.4048	0.7300	0.9760	0.9985	0.7357	0.9177	24.7%	17.8%

Millions of pairs	2010	2011	2012	2013	2014	2015	Change, 15-14	CAGR <sup>2</sup> 15/10
Volume	169.5	150.1	185.0	216.2	204.9	180.4	(12.0%)	1.3%
Domestic market	114.9	107.6	139.7	165.7	152.7	134.5	(12.0%)	3.2%
Exports	54.6	42.5	45.3	50.5	52.2	45.9	(12.0%)	(3.4%)

Margin, %	2010	2011	2012	2013	2014 <sup>1</sup>	2015 <sup>1</sup>	Change, p.p. <sup>3</sup> 15/14	Change, p.p. <sup>3</sup> 15/10
Gross	40.6%	43.3%	46.9%	45.4%	45.9%	48.4%	2.5 p.p.	7.8 p.p.
Ebit	13.0%	12.6%	19.3%	18.3%	17.9%	20.7%	2.8 p.p.	7.7 p.p.
Ebitda	14.7%	14.6%	21.0%	19.9%	20.0%	23.0%	3.0 p.p.	8.3 p.p.
Net	19.5%	20.6%	22.8%	19.8%	22.1%	27.4%	5.3 p.p.	7.9 p.p.

R\$	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR <sup>2</sup> 15/10
Dollar at end of period	1.6662	1.8758	2.0435	2.3426	2.6562	3.9048	47.0%	18.6%
Average US dollar	1.7601	1.6750	1.9546	2.1576	2.3536	3.3315	41.5%	13.6%

#### Note:

- 1) Adjusted numbers, excluding the non-recurring effect – A3NP.
- 2) CAGR = compound annual growth rate.
- 3) p.p. = percentage points.

### III. Market and macroeconomic conditions

The economic scenario in 2015 developed as we had expected: badly. The economy was slowing down, there was pressure on costs, interest rates were rising, and consumption falling. This is what we expected. Higher interest rates will continue to have a negative effect on consumption in 2016 – though their effect will be most strongly felt on higher-ticket items, which are driven by credit (white line, household appliances, automobiles, etc.), and less on lower-ticket products such as those of Grendene – although, as we saw in 2015, we had our ‘share of suffering’. We expect the Brazilian currency to continue to depreciate against the US dollar. This of course favors our exports: as we have said in the past, depreciation of the Real against the dollar benefits our results, and our results for 2015 once again confirmed this. We expect the impact of unemployment, which affected appetite for consumption in 2015, to get worse, with increasing layoffs of employees all over the country. We are indeed already seeing that the start of 2016 has been worse than the start of 2015 in terms of demand in the market: this confirms our expectation, and underlines our belief that it will be another difficult year. In our assessment, the increase in the minimum wage, rapidly swallowed up by inflation, will not be enough to offset the increase in unemployment, and we believe an improvement in domestic consumption is unlikely.

Unfortunately we have to admit the possibility that the government will continue trying to increase the country’s already high tax burden. In 2015 we saw: the reduction of the *Reintegra* tax benefit – from 3% to 1%, in March, and then again to 0.1%, in December; the introduction of PI/Cofins tax of 4.65% on financial revenues, in June; and the increase in the social contribution on revenue from 1% to 1.5% (the so called re-burdening of payroll), in December. We also saw an increase in ICMS tax in several of Brazil’s states.

For 2016 Congress already has on its agenda various measures to increase taxes, even including, among other proposals, the return of the CPMF tax.

In the international context, we highlight the accentuated fall in the prices of commodities in general, and of oil in particular. It is worth noting, though, that this price has little direct influence on the international price of our principal raw material – PVC resin – which is more influenced by the price of natural gas. Usually the exchange rate tends to have a negative effect on the price of resins when converted to Reais, but simultaneously when the US dollar strengthens, prices of commodities fall, offsetting a good part of the effect.

Summing up, the economic situation is indeed a discouraging one – like few that we have seen in the past; but this will not prevent us from seeking better results. On the contrary, our being aware of the difficulties only stimulates us more to seek to overcome them.

#### Brazilian footwear – production and apparent consumption

Brazil (millions of pairs)	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR 15/10
Production	894	819	864	900	877	810*	(7.6%)	(1.9%)
Imports	29	34	36	39	37	33	(9.6%)	2.6%
Exports	143	113	113	123	130	124	(4.2%)	(2.8%)
Apparent consumption	780	740	787	816	784	719*	(8.3%)	(1.6%)
Consumption per capita (pairs)	4,0	3,8	3,9	4,1	3,9	3,5	(10.3%)	(2.6%)

Sources: IEMI, Secex, Abicalçados.

\* Estimate by Grendene from Monthly Industrial Physical Production Survey of the IBGE (Brazilian Geography and Statistics Institute).

#### Grendene – volume

Millions of pairs	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR 15/10
Volume	169.5	150.1	185.0	216.2	204.9	180.4	(12.0%)	1.3%
Volume share - production	19.0%	18.3%	21.4%	24.0%	23.4%	22.3%	(1.1 p.p.)	3.3 p.p.
Domestic market	114.9	107.6	139.7	165.7	152.7	134.5	(12.0%)	3.2%
Volume share - domestic market	14.7%	14.5%	17.8%	20.3%	19.5%	18.7%	(0.8 p.p.)	4.0 p.p.
Exports	54.6	42.5	45.3	50.5	52.2	45.9	(12.0%)	(3.4%)
Volume share - exports	38.2%	37.6%	40.0%	41.1%	40.3%	37.0%	(3.3 p.p.)	(1.2 p.p.)

Source: Grendene S.A.

## IV. Economic and financial performance

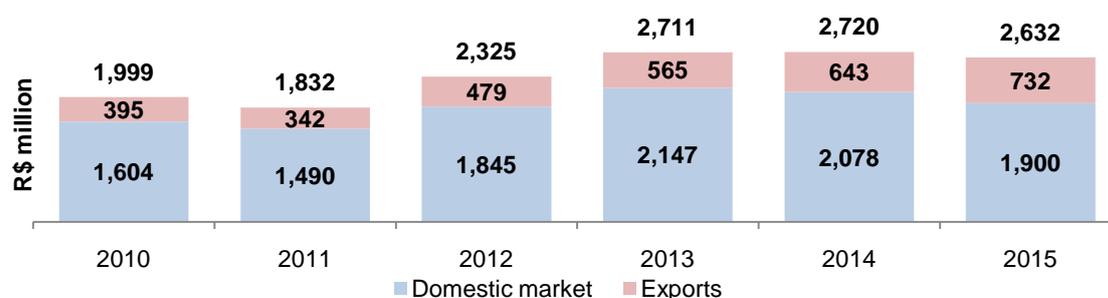
### 1. Gross sales revenue

The fall in gross revenue, of 3.3%, from 2014 to 2015, reduced the CAGR (compound average growth rate) of gross revenue for the years 2008-2015 to 7.6% p.a. – from 9.5% in the period 2008-2014 – which was of course lower than our guidance forecast growth rate of between 8% and 12%.

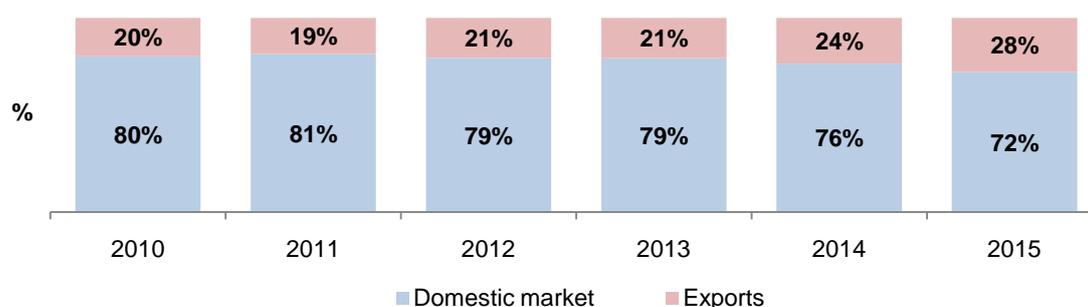
This table illustrates the last five years:

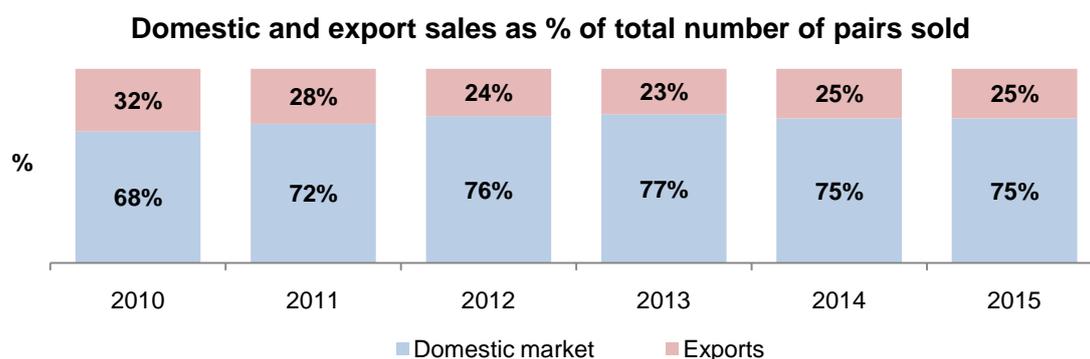
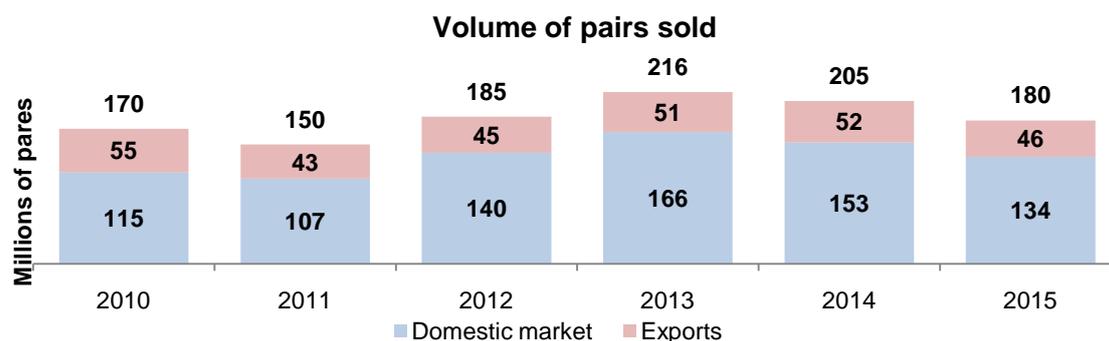
R\$ mn	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR 15/10
<b>Consolidated gross revenue</b>	<b>1,998.6</b>	<b>1,831.6</b>	<b>2,324.5</b>	<b>2,711.4</b>	<b>2,720.3</b>	<b>2,631.8</b>	<b>(3.3%)</b>	<b>5.7%</b>
Domestic market	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	1,899.8	(8.6%)	3.4%
- Footwear	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	1,899.2	(8.6%)	3.4%
- Furniture	-	-	-	-	-	0.6	-	-
Exports	394.8	341.7	479.1	564.5	642.6	732.0	13.9%	13.1%
- Footwear	394.8	341.7	479.1	564.5	641.7	730.8	13.9%	13.1%
Footwear, US\$	224.3	204.0	245.1	261.6	272.6	219.3	(19.5%)	(0.4%)
- Furniture	-	-	-	-	0.9	1.2	46.4%	-
<b>Millions of pairs</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Change, 15/14</b>	<b>CAGR 15/10</b>
<b>Volume</b>	<b>169.5</b>	<b>150.1</b>	<b>185.0</b>	<b>216.2</b>	<b>204.9</b>	<b>180.4</b>	<b>(12.0%)</b>	<b>1.3%</b>
Domestic market	114.9	107.6	139.7	165.7	152.7	134.5	(12.0%)	3.2%
Exports	54.6	42.5	45.3	50.5	52.2	45.9	(12.0%)	(3.4%)
<b>R\$</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Change, 15/14</b>	<b>CAGR 15/10</b>
<b>Average price – footwear</b>	<b>11.79</b>	<b>12.20</b>	<b>12.56</b>	<b>12.54</b>	<b>13.27</b>	<b>14.58</b>	<b>9.9%</b>	<b>4.3%</b>
Domestic market	13.97	13.85	13.21	12.96	13.60	14.12	3.8%	0.2%
Exports	7.23	8.04	10.56	11.17	12.29	15.91	29.5%	17.1%
Exports (US\$)	4.11	4.80	5.40	5.18	5.22	4.78	(8.4%)	3.1%

### Gross sales revenue



### Domestic sales and exports as % of gross sales revenue



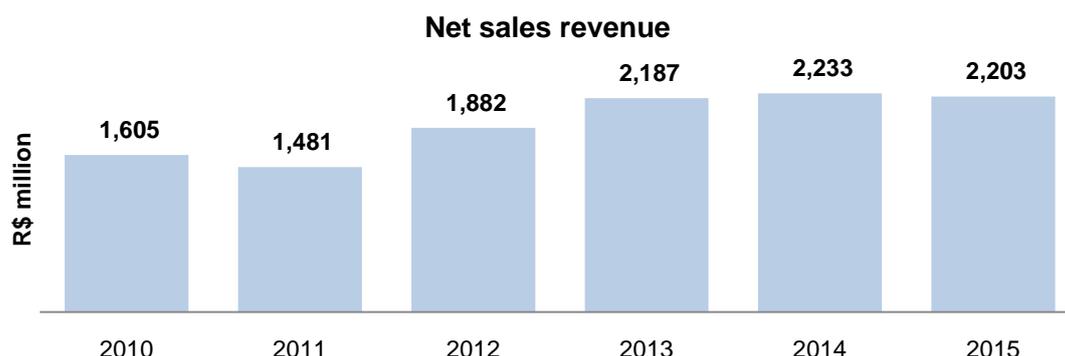


According to figures from the Foreign Trade Ministry, the Brazilian Central Bank Foreign Trade Service (Secex), and the Brazilian Footwear Manufacturers' Association (Abicalçados), Brazilian footwear exports in 2015 were 4.2% lower in number of pairs sold, 10.0% lower in total dollar value, and 6.1% lower in average price in dollars.

Our share in Brazilian footwear exports in 2015 was 37% by volume of pairs sold, and 23% by total export value in dollars, so that we maintained the leadership in Brazilian exports of footwear, for the 13th year running.

## 2. Net sales revenue

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 15/14	CAGR 15/10
Gross revenue from sales	1,998.6	1,831.6	2,324.5	2,711.4	2,720.3	2,631.8	(3.3%)	5.7%
Domestic market	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	1,899.8	(8.6%)	3.4%
Exports	394.8	341.7	479.1	564.5	642.6	732.0	13.9%	13.1%
<b>Deductions from sales</b>	<b>(394.1)</b>	<b>(350.6)</b>	<b>(442.2)</b>	<b>(524.1)</b>	<b>(487.0)</b>	<b>(429.1)</b>	<b>(11.9%)</b>	<b>1.7%</b>
Returns and taxes on sales	(283.6)	(255.3)	(328.6)	(393.3)	(383.0)	(336.4)	(12.2%)	3.5%
Discounts given to clients	(110.5)	(95.3)	(113.6)	(130.8)	(104.0)	(92.7)	(10.9%)	(3.5%)
<b>Net sales revenue</b>	<b>1,604.5</b>	<b>1,481.1</b>	<b>1,882.3</b>	<b>2,187.3</b>	<b>2,233.3</b>	<b>2,202.8</b>	<b>(1.4%)</b>	<b>6.5%</b>

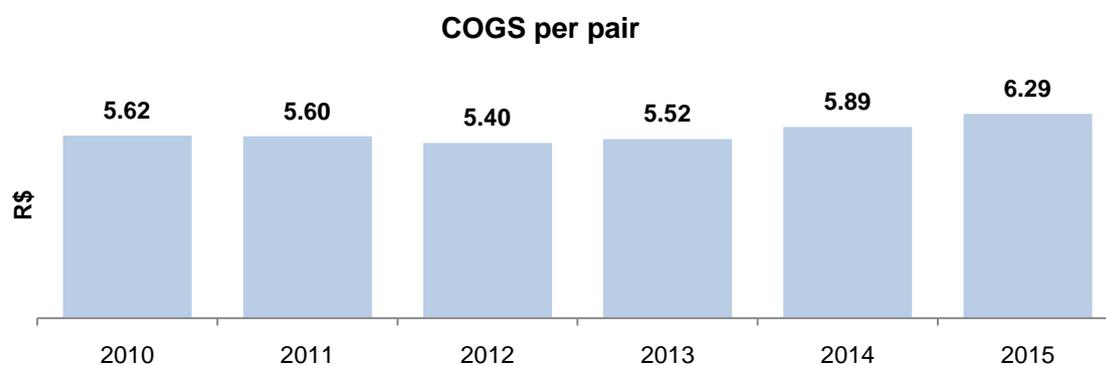
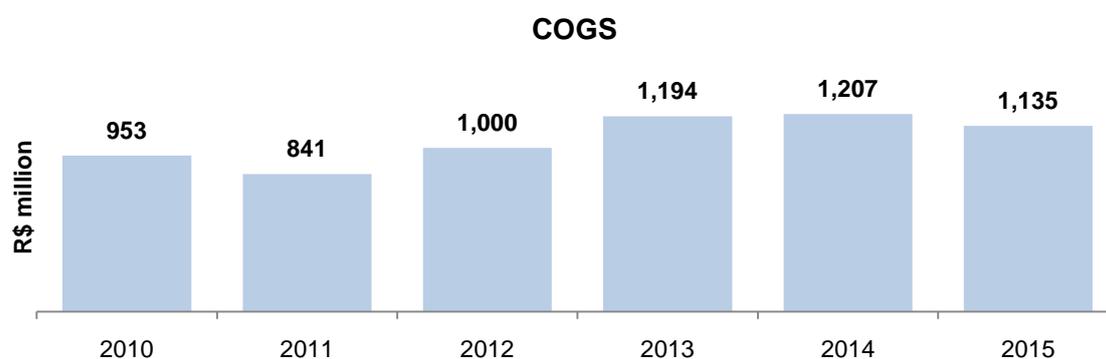


### 3. Cost of goods sold

In the last five years, with FX volatility, the increase in the minimum wage and inflationary pressures in Brazil, our unit cost grew at the rate of 2.3% p.a., much lower than inflation rates in the period. It is true that we had the benefit of the 'de-burdening of payroll' enacted by the federal government from 2011 (partially reversed in 2015). Over this period as a whole, total COGS grew by less than the growth in net revenue (which was 6.5% p.a.)

Cost discipline has played a fundamental role in our results:

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR, 2015-10
Cost of goods sold	953.3	840.5	1,000.2	1,193.6	1,207.4	1,134.9	(6.0%)	3.6%
R\$ per pair	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR, 2015-14
Cost of goods sold/pair	5.62	5.60	5.40	5.52	5.89	6.29	6.8%	2.3%



## Management Report – 2015

### 4. Gross profit

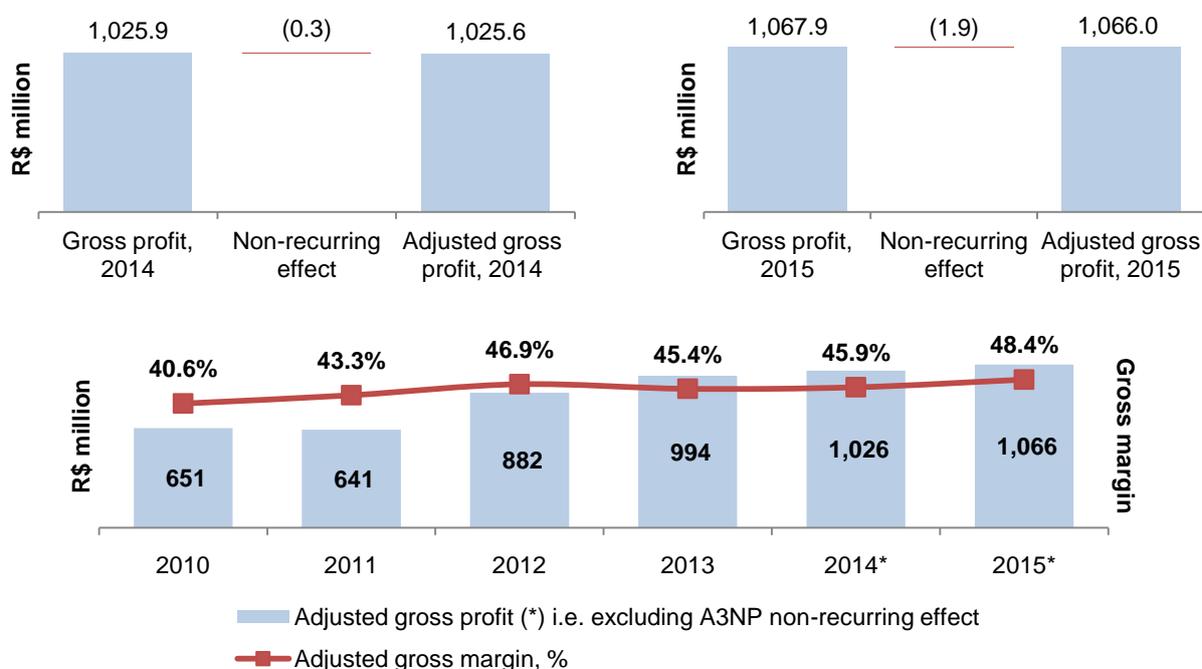
COGS was down 6.0% in absolute terms from 2014 to 2015, a reduction that was 4.6 percentage points greater than the fall in net revenue (1.4%) - this was a result of the alterations in the mix, the adjustments made to the portfolio of products, and/or increase in prices, which resulted in an increase of 4.1% in Gross Profit and 2.6 percentage points in gross margin.

Our gross profit has expanded at the rate of 10.4% p.a. over the last five years.

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Gross profit (formal accounting)	651.2	640.6	882.1	993.7	1,025.9	1,067.9	4.1%	10.4%
Gross margin, %	40.6%	43.3%	46.9%	45.4%	45.9%	48.5%	2.6 p.p.	7.9 p.p.

The non-recurring effects due to the subsidiary A3NP were small in gross profit.

R\$ mn	2014	2015	Change, 2015-14	CAGR 2015-10
Adjusted gross profit	1,025.6	1,066.0	3.9%	10.4%
Adjusted gross margin	45.9%	48.4%	2.5 p.p.	7.8 p.p.



### 5. Operational expenses (SG&A)

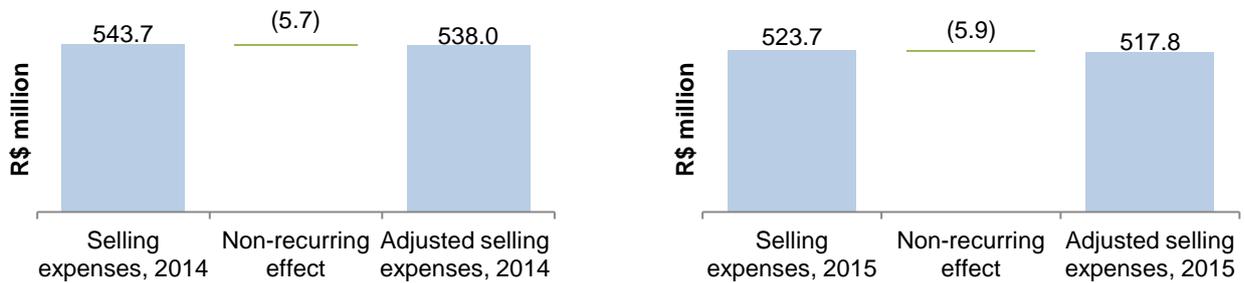
#### 5.1. Selling expenses

Grendene's selling expenses are predominantly variable: freight, licensings, commissions, advertising and marketing, and over the period remained at approximately 24% of net revenue.

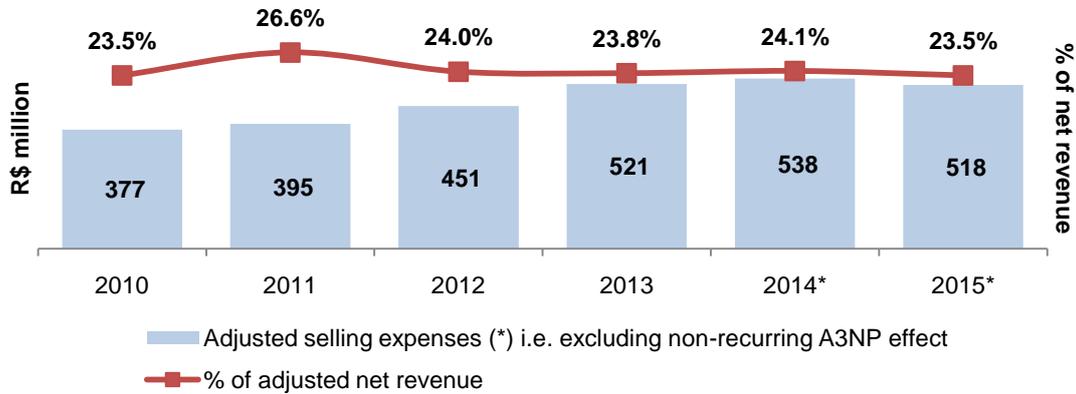
R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Selling expenses	377.0	394.5	451.0	521.2	543.7	523.7	(3.7%)	6.8%
% of net sales revenue	23.5%	26.6%	24.0%	23.8%	24.3%	23.8%	(0.5 p.p.)	0.3 p.p.

R\$ mn	2014	2015	Change, 2015-14	CAGR 2015-10
Adjusted selling expenses	538.0	517.8	(3.8%)	6.6%
% of adjusted net operational revenue	24.1%	23.5%	(0.6 p.p.)	-

In selling expenses, the non-recurring effect of A3NP is a little higher:



Excluding these non-recurring effects, selling expenses as a % of net revenue fell from 24.1% to 23.5%:

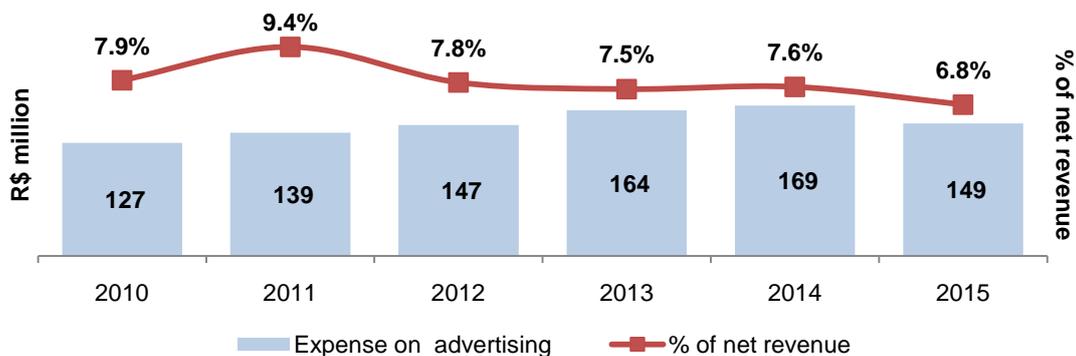


### 5.1.1 Advertising expenses

The expense on advertising in 2015 was 6.8% of net revenue – a lower percentage than in 2014 and lower than our customary level. On the other hand, we carried out other strategic brand positioning activities and projects which, although they are not classified in the accounting as advertising expenses, are considered in our internal analysis to be marketing efforts. These activities are, principally, events held in the *Melissa Galerias* in São Paulo, New York and London, and regional events. In 2015 these accounted for total expenditure of R\$ 6.7mn. This type of expenditure was made in previous years, but not in significant amounts.

If we add these expenses (all of them are classified and recognized as selling expenses in the year 2015) to the advertising expenses, the percentage of net revenue increases to 7.1%, which in our opinion better represents the Company's brand building efforts in the year.

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Advertising expenses	127.1	138.7	147.0	163.7	169.2	148.9	(12.0%)	3.2%
% of net sales revenue	7.9%	9.4%	7.8%	7.5%	7.6%	6.8%	(0.8 p.p.)	(1.1 p.p.)

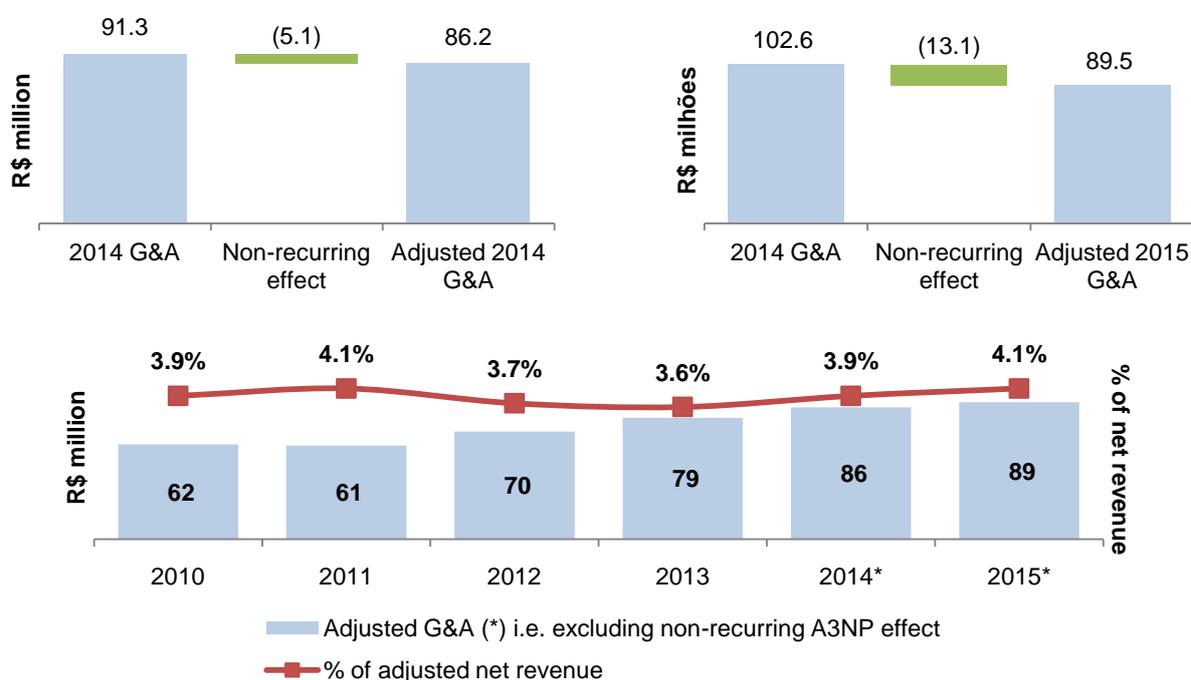


### 5.2. General and administrative expenses (G&A)

The total of general and administrative expenses was up 12.4%, and was 4.7% of net revenue, higher than the indicator we aimed for. However, exclusion of the effects of A3NP, which total R\$ 13.1mn in 2015, gives adjusted 2015 G&A of R\$ 89.5mn, or 4.1% of 2015 net revenue (the similarly adjusted figure for 2014 is 3.9%). Even so, this is a growth that we will be paying careful attention to in 2016.

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
G&A	61.9	61.2	70.4	79.0	91.3	102.6	12.4%	10.6%
% of net sales revenue	3.9%	4.1%	3.7%	3.6%	4.1%	4.7%	0.6 p.p.	0.8 p.p.

R\$ mn	2014	2015	Change, 2015-14	CAGR 2015-10
Adjusted G&A	86.2	89.5	3.8%	7.6%
% of adjusted net operational revenue	3.9%	4.1%	0.2 p.p.	0.2 p.p.



### 6. Ebit and Ebitda

#### 6.1. Ebit (earnings before interest and taxes)

We have a high cash position which generates significant financial revenues, and for this reason we believe the operational profit of our activity is best characterized by Ebit.

Reconciliation: Accounting Ebit and Ebitda * R\$ '000	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Net profit for the year	312,399	305,446	429,003	433,540	490,244	551,223	12.4%	10.6%
Non-controlling stockholders	68	5	888	465	(4,985)	(11,912)	139.0%	(381.0%)
Taxes on profit	18,415	34,845	65,399	68,805	39,678	43,768	10.3%	33.4%
Net financial revenue (expenses)	(122,469)	(153,003)	(132,477)	(103,577)	(135,524)	(182,347)	34.5%	8.3%
<b>Ebit</b>	<b>208,413</b>	<b>187,293</b>	<b>362,813</b>	<b>399,233</b>	<b>389,413</b>	<b>400,732</b>	<b>2.9%</b>	<b>14.0%</b>
Depreciation and amortization	28,173	28,917	31,725	36,648	47,461	53,652	13.0%	13.7%
<b>Ebitda</b>	<b>236,586</b>	<b>216,210</b>	<b>394,538</b>	<b>435,881</b>	<b>436,874</b>	<b>454,384</b>	<b>4.0%</b>	<b>13.9%</b>

Reconciliation: Accounting Ebit and Ebitda * R\$ '000	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Ebit margin	13.0%	12.6%	19.3%	18.3%	17.4%	18.2%	0.8 p.p.	5.2 p.p.
Ebitda margin	14.7%	14.6%	21.0%	19.9%	19.6%	20.6%	1.0 p.p.	5.9 p.p.

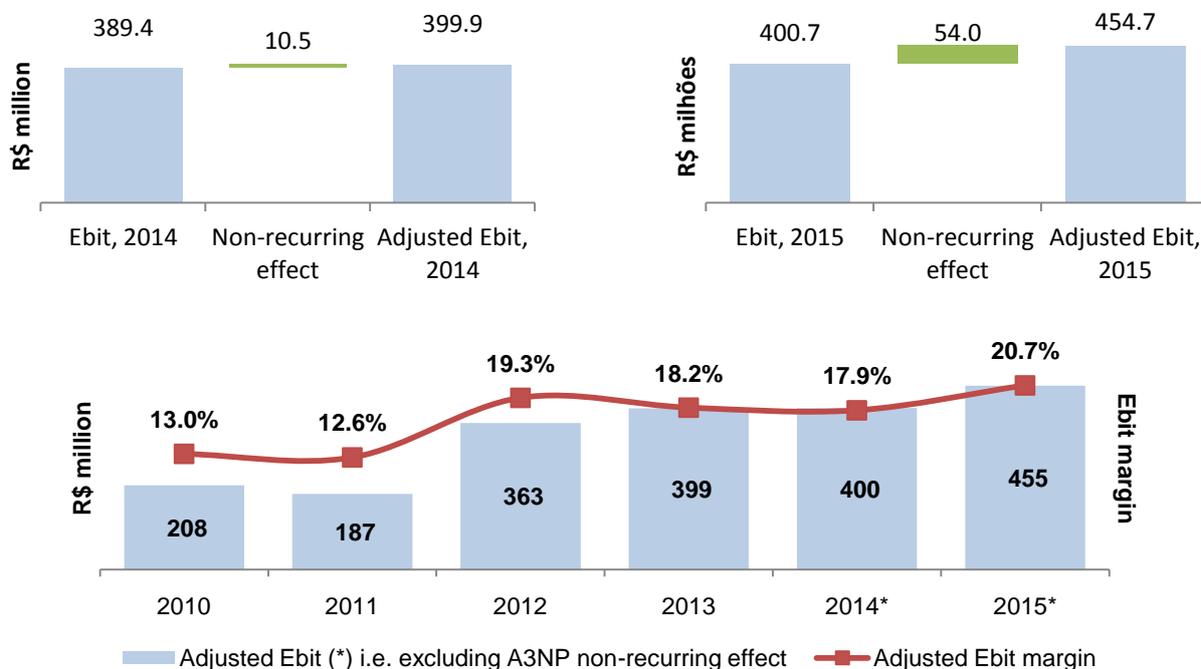
\* Figures for accounting Ebit and Ebitda are stated as per CVM Instruction 527 of October 4, 2012.

However, exclusion the non-recurring effects shows 2015 Ebit up 13,7% from 2014 (also adjusted to 2015), and adjusted Ebit margin of 20.7% in 2015, a record in the Company's performance.

As we said above, analysis of the adjusted figures gives a better representation of Grendene's performance in the footwear sector, which is its principal sector.

Reconciliation: Accounting Ebit and Ebitda * R\$ '000	Formal accounting 2014	Non- recurring effect	Adjusted result 2014	Formal accounting 2015	Non- recurring effect	Adjusted result 2015	Change 2015-14 ajusted	CAGR 2015-10
Net profit for the year	490,244	3,463	<b>493,707</b>	551,223	51,809	<b>603,032</b>	22.1%	14.1%
Non-controlling stockholders	(4,985)	5,039	<b>54</b>	(11,912)	11,001	<b>(911)</b>	(1.787.0%)	(268.0%)
Taxes on profit	39,678	1,513	<b>41,191</b>	43,768	(6,870)	<b>36,898</b>	(10.4%)	14.9%
Net financial revenue (expenses)	(135,524)	439	<b>(135,085)</b>	(182,347)	(1,963)	<b>(184,310)</b>	36.4%	8.5%
<b>Ebit</b>	<b>389,413</b>	<b>10,454</b>	<b>399,867</b>	<b>400,732</b>	<b>53,977</b>	<b>454,709</b>	<b>13.7%</b>	<b>16.9%</b>
Depreciation and amortization	47,461	(36)	<b>47,425</b>	53,652	(1,397)	<b>52,255</b>	10.2%	13.2%
<b>EBITDA</b>	<b>436,874</b>	<b>10,418</b>	<b>447,292</b>	<b>454,384</b>	<b>52,580</b>	<b>506,964</b>	<b>13.3%</b>	<b>16.5%</b>
Ebit margin	17.4%		17.9%	18.2%		20.7%	2.8 p.p.	7.7 p.p.
Ebitda margin	19.6%		20.0%	20.6%		23.0%	3.0 p.p.	8.3 p.p.

(\*) I.e. excluding the non-recurring effect of A3NP

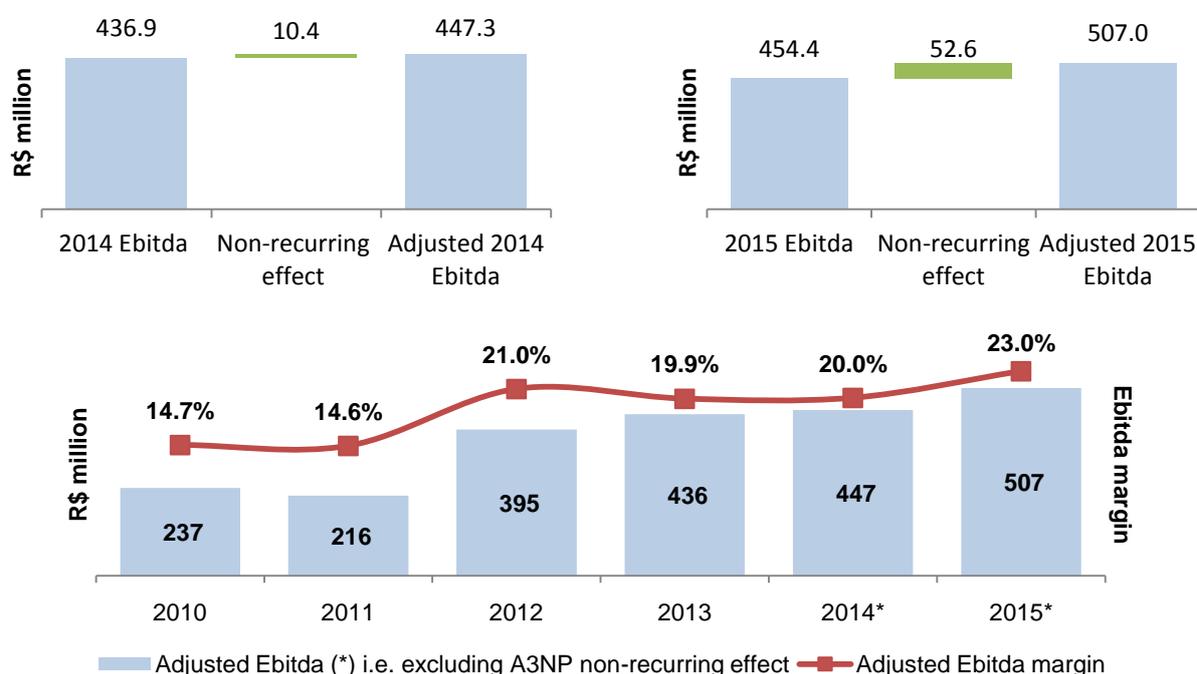


## 6.2. Ebitda

Our business is low capital-intensive: depreciation is approximately 2% of net revenue (1.7% in 2012 and 2013, 2.1% in 2014, and 2.4% in 2015), and we regularly invest an amount similar to the amount of depreciation, to keep the production capacity updated. Also, we maintain positive net cash, and we do not have financial costs

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that need to be paid from funds arising from the operation. Because of these factors, we believe that analysis of Ebit makes more sense in conducting operational management of the Company.



## 7. Net financial revenue (expenses)

The Company has a solid cash position, and financial revenues are an important part of its net profit. Foreign exchange transactions are undertaken for hedging, mainly of receivables from exports. In these transactions Grendene is vendor of dollars, and their long-term objective is a net result very close to zero. Thus the result of Financial revenue (expenses) is basically influenced by the interest rate (Selic), and the average level of cash held by the Company.

In 2015 Grendene reports Net financial revenues, of R\$ 182.3mn. This is 34.5% more than in 2014:

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
<b>Financial revenues</b>	<b>178.4</b>	<b>215.8</b>	<b>204.9</b>	<b>183.1</b>	<b>220.4</b>	<b>421.3</b>	<b>91.2%</b>	<b>18.8%</b>
Interest received from clients	2.0	2.9	1.9	1.9	1.9	2.9	53.3%	7.0%
Revenue from FX derivatives – BM&FBovespa	24.8	3.9	14.8	18.2	16.6	66.3	298.9%	21.8%
Revenue from cash investments:	92.7	128.8	93.7	81.9	100.1	168.2	68.1%	12.7%
Gains on FX variations	20.1	35.5	49.7	40.2	41.9	118.8	183.5%	42.7%
Adjustments to present value (APV)	35.6	42.1	41.3	38.7	54.7	61.0	11.5%	11.4%
Other financial revenues	3.2	2.6	3.5	2.2	5.3	4.1	(21.3%)	5.4%
<b>Financial expenses</b>	<b>(55.9)</b>	<b>(62.8)</b>	<b>(72.5)</b>	<b>(79.5)</b>	<b>(84.9)</b>	<b>(239.0)</b>	<b>181.5%</b>	<b>33.7%</b>
Operational expenses on FX derivatives – BM&FBovespa	(17.1)	(5.3)	(11.3)	(26.2)	(24.0)	(123.6)	414.1%	48.5%
Costs of financings	(10.4)	(15.0)	(9.2)	(19.6)	(21.8)	(20.5)	(6.1%)	14.5%
Expenses of FX variation	(24.3)	(38.2)	(47.8)	(28.5)	(33.5)	(80.3)	140.2%	27.0%
Provisions/reversal for cash investments outside Brazil	5.2	-	-	-	-	-	-	-
Cofins and PIS taxes on Financial revenues	-	-	-	-	-	(5.0)	-	-
Other financial expenses	(9.3)	(4.3)	(4.2)	(5.1)	(5.6)	(9.6)	70.8%	0.6%
<b>Net financial revenue (expenses)</b>	<b>122.5</b>	<b>153.0</b>	<b>132.5</b>	<b>103.6</b>	<b>135.5</b>	<b>182.3</b>	<b>34.5%</b>	<b>8.3%</b>

( In the consolidated financial statements discounts given to clients are classified as deductions from sales. )

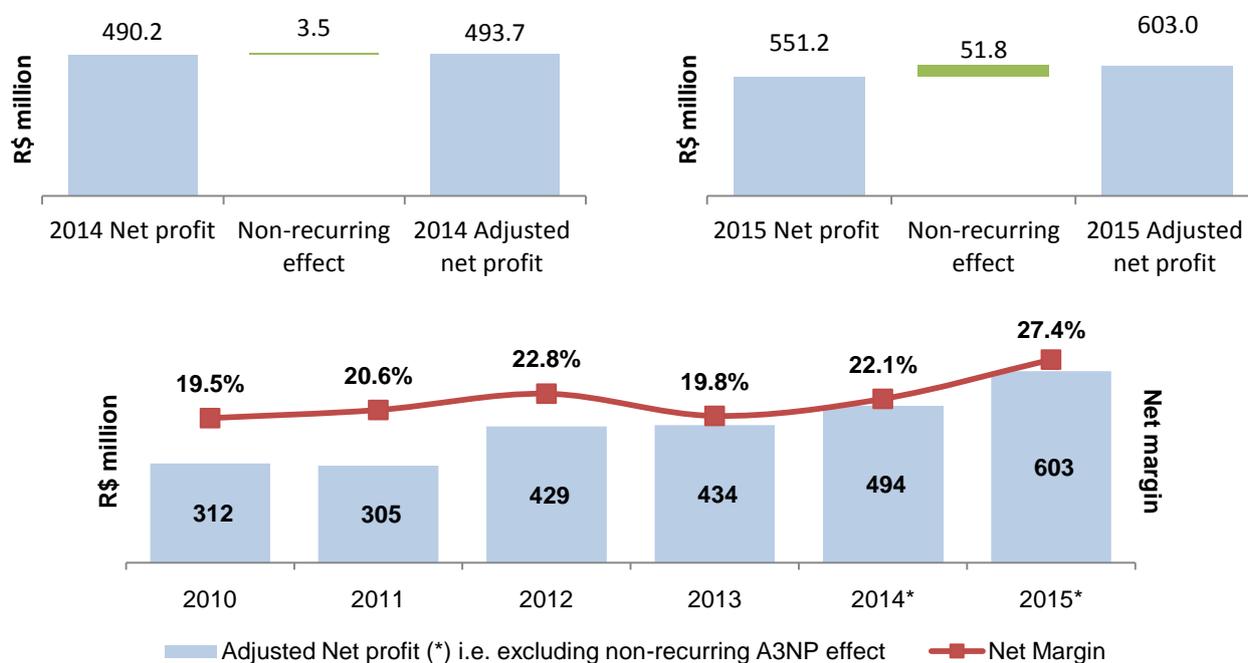
### 8. Net profit for the period and adjusted net profit

In the last five years adjusted net profit (adjusted only in 2014 and 2015 – since there was no adjustment in the other years) grew by 14.1% p.a. (CAGR) with increases in all the Company's margins: gross margin, operational margin, and net margin.

In 2015, adjusted net margin was 5.3 p.p. higher than in 2014:

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2015-14	CAGR 2015-10
Net profit for the year, formal accounting	312.4	305.4	429.0	433.5	490.2	551.2	12.4%	12.0%
Net margin, %	19.5%	20.6%	22.8%	19.8%	22.0%	25.0%	3.0 p.p.	5.5 p.p.

R\$ mn	2014	2015	Change, 2015-10	CAGR 2015-10
Adjusted net profit	493.7	603.0	22.1%	14.1%
Adjusted net margin	22.1%	27.4%	5.3 p.p.	7.9 p.p.



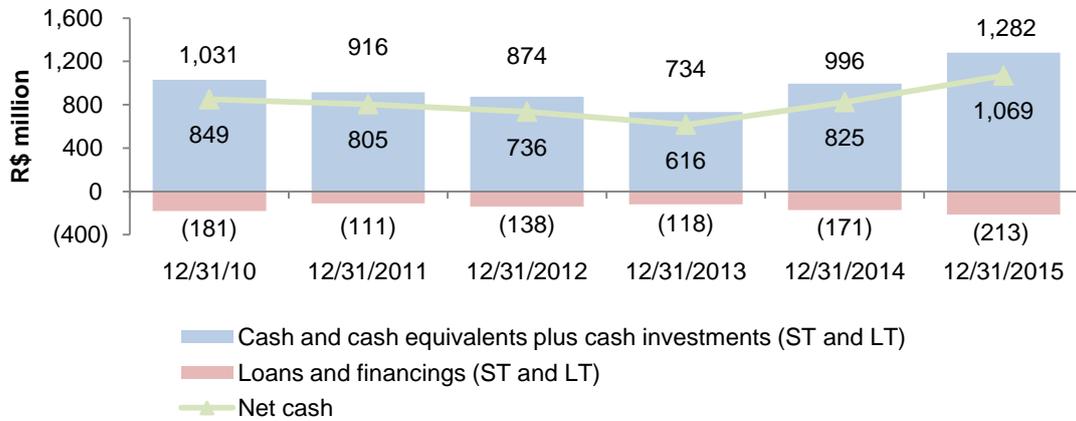
### 9. Cash generation and net cash

Net cash generated by operational activities, of R\$ 442.7mn, was used for: payment of investments in fixed and intangible assets, totaling R\$ 73.2mn; financial investments totaling R\$ 125.3mn; and payment of dividends totaling R\$ 260.5mn. In the year the Company raised loans with total net value of R\$ 6.3mn; and had a net gain of R\$ 5.0mn on the sale of treasury shares from exercise of purchase options. The result was reduction of R\$ 5.0mn in the amount held in current account and very short-term financial investments. The complete cash flow can be seen in the financial statements.

In the last seven years we have generated R\$ 1.7 billion, in total, from operations – an indication of our excellent operational performance.

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The chart below shows the cash position (cash, cash equivalents and short and long-term financial investments), loans and financings (short-term and long-term) and net cash:

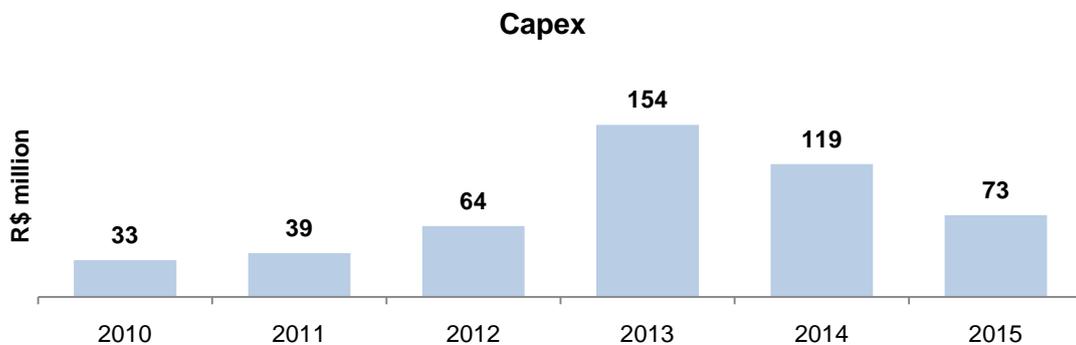


**10. Capex (in fixed and intangible assets)**

In 2015, our principal investments were in: maintenance of industrial buildings and facilities; replacement of fixed assets; and acquisition of new equipment for modernization of the manufacturing plant and greater efficiency of production.

We are estimating that we will invest between R\$ 80mn and R\$ 90mn in 2016.

R\$ mn	2010	2011	2012	2013	2014	2015	Change, 2014-15	CAGR 2010-15
Capital expenditure	33.0	39.4	63.6	154.0	119.1	73.2	(38.5%)	17.3%



**11. Independent auditors – CVM Instruction 381/03**

To company with CVM Instruction 381/2003, Grendene S.A. states that it used the external auditing services of PricewaterhouseCoopers – Auditores Independentes (PWC), for review of its quarterly information, and auditing of its financial statements, for the business year ended December 31, 2015, the fees for which totaled R\$ 439,800. During this business year PricewaterhouseCoopers Contadores Públicos Ltda was also contracted, to carry out other services relating to Bloco K, e-Social and Sped, for a total amount of R\$ 141,200, which is equal to 32.1% of the total amount paid for the external auditing services.

The Company's policy in contracting any services not related to external auditing with the independent auditor is based on the principles that preserve the auditor's independence, namely: (a) the auditor must not audit its own work; (b) the auditor must not exercise management functions in its client; and (c) the auditor must not promote the interests of its client.

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The services provided by PwC related to the work of Assurance were executed in obedience to Brazilian Accounting Rules (NBC) PA 291 (R1) – *Independence - Other Assurance Engagements*, approved by Federal Accounting Council Resolution 1311/10 of December 9, 2010, and do not include any services that could compromise independence, as described in those rules.

**11.1. Statement of justification in relation to independent auditors – PWC**

The provision of other professional services not related to external auditing, described above, does not affect the independence nor the objectivity in conduct of the external audit examinations carried out on Grendene S.A. and its subsidiaries. The policy for operation with Grendene in the provision of services not related to external auditing is based on the principles that preserve the independence of the External Auditor, and all these were obeyed in the provision of the said services.

## V. Capital markets and corporate governance

### 1. Capital markets

**Trading volume:** A total of 78.7 million Grendene shares was traded in 2015 (equal to 0.95 times the total number of shares in the free float), in 331,500 trades, with total financial volume of R\$ 1.3 billion. Daily averages were: 320,000 common shares (0.39% of the free float); total volume R\$ 5.3mn; in 1,347 trades.

**Value:** Over the full year of 2015 Grendene's shares (GRND3) increased in market value by 15.6%, when reinvestment of the dividends is included. The Bovespa index declined 13.3% in the period. Dividend yield, calculated on the basis of the weighted average price of the share in 2015, was 5.2% p.a. (4.8% p.a. in 2014).

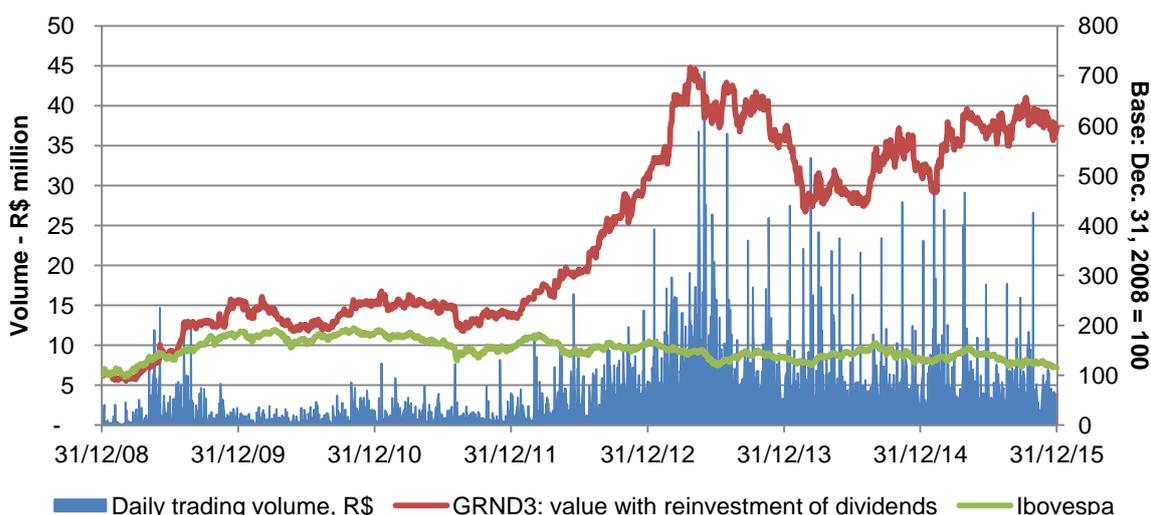
**Volume and price:** Number of trades, number of shares traded, financial volume, and daily average trading:

Year	No. of trading sessions	No. of trades	Number of shares	Volume R\$	Price R\$		Average no. of shares		Average financial volume R\$	
					Weighted average	Close	Per trade	Per day	Per trade	Per day
2010	247	24,288	26,451,700	228,545,855	8.64	9.32	1,089	107,092	9,410	925,287
2011	249	60,621	34,540,900	296,444,307	8.58	7.69	570	138,718	4,890	1,190,539
2012	246	134,570	66,297,600	772,896,090	11.66	16.49	493	269,502	5,743	3,141,854
2013	248	395,765	106,569,600	2,146,610,763	20.14	18.09	269	429,716	5,424	8,655,689
2014	248	352,905	93,691,900	1,422,422,174	15.18	15.30	265	377,790	4,031	5,735,573
2015	246	331,468	78,686,700	1,317,558,400	16.74	16.84	237	319,865	3,975	5,355,928

For the period January through April 2016 Grendene will be a component of the following BM&FBovespa indices: IBRA, IBRX, ICON, IDIV, IGCT, IGCX, IGMN, INDX, ITAG and SMLL.

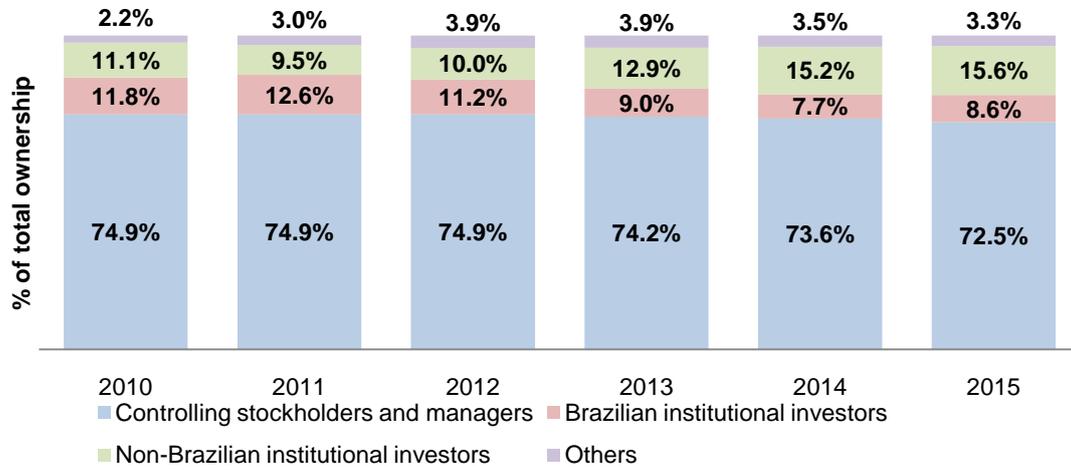
This chart shows performance of Grendene ON shares compared to the Bovespa index (Base: Dec. 31, 2008 = 100), and daily trading volume.

**GRND3: Comparison with Ibovespa; daily trading volume**



**Ownership:** On December 31, 2015 Brazilian institutional investors held 8.6% of the share capital of Grendene S.A (31.2% of the free float); foreign investors held 15.6% (56.8% of the free float); small investors including individuals held 3.3% (12% of the free float); and the other 72.5% of the share capital was held by the controlling stockholders and managers.

## Profile of stockholders



## 2. Dividends

### 2.1 Dividend policy

For 2016, we will maintain our policy of distributing, as dividends, after the constitution of the Legal reserve and the Reserve under the by-laws, the totality of all Profits not originating from tax incentive arrangements with Brazilian states. These dividends may be paid in the form of Interest on Equity, as allowed by the legislation.

Additionally, we will maintain our policy of quarterly distribution of dividends.

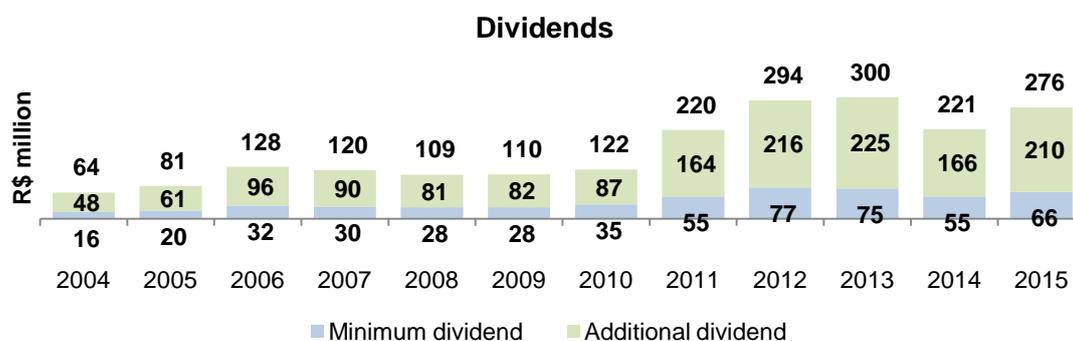
### 2.2 Dividends and Interest on Equity declared

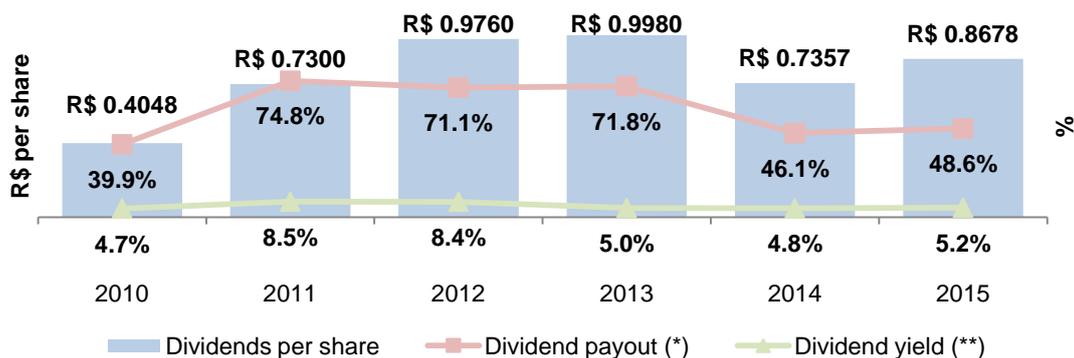
In accordance with the Company's bylaws, the minimum mandatory dividend is calculated as 25% of the net profit remaining for the year after payments to reserves specified by law. From 2004 to 2015, this minimum amount under the by-laws was R\$ 518 million; but management proposed and the Company distributed an additional amount of R\$ 1.5 billion, totaling R\$ 2.0 billion, on average 61% of the net profit after the legal reserve. This cumulatively represents R\$ 6.80 per share (on the basis of 300,720,000 common shares).

We note that up to 2007 the amounts of the tax benefits under arrangements offered by individual Brazilian states were not included in the profit and loss account, and were thus not recorded as profits, but as increases in Stockholders' equity. This difference results in the payout being calculated as a larger figure in years prior to 2007.

In the table below we consider the payment of Interest on Equity, which occurs for the first time in 2015, in the amount of R\$ 100mn, as dividends:

Years	R\$ mn		
	Minimum dividend: 25%	Additional dividend	Total dividend
2004	16	48	64
2005	20	61	81
2006	32	96	128
2007	30	90	120
2008	28	81	109
2009	28	82	110
2010	35	87	122
2011	55	165	220
2012	77	217	294
2013	75	225	300
2014	55	166	221
2015	66	210	276
<b>Whole year (R\$ mn)</b>	<b>518</b>	<b>1,526</b>	<b>2,044</b>





(\*) Payout: Dividend plus net Interest on Equity, divided by net profit after constitution of legal reserves.

(\*\*) Dividend yield: Dividend per share + net Interest on Equity per share in the business year divided by weighted average price of the share in the annualized period.

In accordance with the by-laws and the present dividend policy (established February 13, 2014, and published in a Material Announcement of that date), and based on the amount demonstrated below, management proposes allocation of the net profit for the 2015 business year as follows:

- R\$ 66,402,230.62** as mandatory minimum dividend, corresponding to 25% of the dividend basis shown below;
- R\$ 99,206,691.87** of dividends additional to the minimum mandatory dividend, and
- Interest on Equity in the gross amount of R\$ 100,000,000.00** (the net amount being R\$ 85,000,000.00), imputed as part of total dividends, in addition to the minimum mandatory dividend.

As a result the total distribution of corporate action payment (**gross Interest on Equity, plus dividends**) relating to the 2015 business year is **R\$ 265,608,922.49**.

The sum of net Interest on Equity plus dividends is thus R\$ 250,608,922.49.

Additionally, we propose:

- a dividend of **R\$ 10,316,725.47** originating from reversal of reserves.

The sum of these amounts results in a gross total of **R\$ 275,925,647.96**, and a net total of R\$ 260,925,647.96. Deduction of the R\$ 165,031,505.86 already paid in quarterly interim dividend payments results in a balance of **R\$ 95,894,142.10** – which the Company will pay, *ad referendum* the Annual General Meeting of Stockholders that approves the accounts for the 2015 business year, starting on April 27, 2016, as follows:

- R\$ 85,000,000.00** as Interest on Equity (net);
- R\$ 10,894,142.10** as dividends – comprising: R\$ 577,416.63 as a balance of dividends for the 2015 business year; and R\$ 10,316,725.47 as a dividend originating from reversal of reserves.

**The Interest on Equity and complementary dividends will be payable to holders of GRND3 registered in the Company's records on April 14, 2016 (the cut-off date).** As from that date amounts of Interest on Equity will be credited individually to stockholders, after deduction of income tax withheld at source, according to the legislation.

The share GRND3 will trade **ex-dividends and ex-interest on Equity on April 15, 2016**, on the BM&FBovespa.

**Basis for the distribution of dividends in 2015**

<b>Grendene S.A. (holding company)</b>	<b>R\$</b>
Net profit for the year (2015)	<b>551,223,335.75</b>
( - ) Tax incentives reserve	(271,634,996.27)
<b>Basis for calculation of the Legal reserve</b>	<b>279,588,339.48</b>
( - ) Constitution of Legal reserve	(13,979,416.99)
<b>Basis of calculation of the minimum mandatory dividends relating to the result of the business year</b>	<b>265,608,922.49</b>
(+) Reversal of reserve (reflecting an equal reserve made in subsidiary)	10,316,725.47
<b>Total of dividends proposed by management</b>	<b>275,925,647.96</b>
<i>Minimum mandatory dividend – 25%</i>	66,402,230.62
<i>Dividend proposed in excess of the mandatory minimum dividend</i>	209,523,417.34

<b>Allocation of the proposed corporate action payments (Interest on Equity and Dividends)</b>	<b>R\$</b>
( + ) Dividends paid in advance (see table below)	165,031,505.86
( + ) Gross Interest on Equity	100,000,000.00
( - ) Income Tax Withheld at Source (15%)	(15,000,000.00)
( = ) Net Interest on Equity, imputed as dividends	85,000,000.00
( + ) Balance of dividends for the 2015 business year	577,416.63
( + ) Dividend originating from reversal of a reserve	10,316,725.47
<b>Total of dividends and gross Interest on Equity proposed by management</b>	<b>275,925,647.96</b>
<b>Total of dividends and net Interest on Equity proposed by management</b>	<b>260,925,647.96</b>
( - ) Dividends paid previously (see table below)	(165,031,505.86)
<b>( = ) Net balance to be distributed</b>	<b>95,894,142.10</b>
Balance of the basis of dividends for the 2015 business year	577,416.63
Relating to reversal of reserves	10,316,725.47
Interest on Equity, net of tax	85,000,000.00

<b>Corporate action payments distributed / proposed</b>				
<b>Date approved</b>	<b>Ex-date</b>	<b>Date of start of payment</b>	<b>Amount R\$</b>	<b>Amount per share (R\$)</b>
Board Meeting of April 23, 2015 - 1st interim dividend <sup>1</sup>	28/04/2015	May 13, 2015	67,384,476.90	0.2241
Board Meeting of July 23, 2015 - 2nd interim dividend <sup>1</sup>	30/07/2015	Aug. 12, 2015	43,889,275.91	0.1460
Board Meeting of Oct. 22, 2015 - 3rd interim dividend <sup>1</sup>	29/10/2015	Nov. 11, 2015	53,757,753.05	0.1788
Board Meeting of Feb. 25, 2016 - balance <sup>1</sup>	15/04/2016	April 27, 2016	10,894,142.10	0.0362 <sup>2</sup>
Board Meeting of Feb. 25, 2016 - Interest on Equity <sup>1</sup>	15/04/2016	April 27, 2016	85,000,000.00 <sup>3</sup>	0.2827 <sup>2</sup>
<b>Total</b>			<b>260.925.647.96</b>	<b>0.8678<sup>2</sup></b>

<sup>1</sup> Corporate action payments will be approved "ad referendum" the Annual General Meeting of Stockholders that considers the financial statements for the 2015 business year.

<sup>2</sup> Value of the corporate action payments per share is subject to alteration depending on the balance of shares in treasury on the cutoff date (April 14, 2016).

### 3. Corporate governance best practices

**Stockholder communication:** To keep analysts and investors informed on our performance, we have permanent channels of communication, and carry out visits, take part in conferences and make presentations at events at various locations around the world. We also maintain a specific site for investor relations in English and Portuguese.

Since 2008 we have ceased to prepare an Annual Report, providing all the information on our performance in the **Management Report** and **Reference Form**, both being translated and posted on our site.

We carry out quarterly conference calls presenting our results in Portuguese with simultaneous translation in English, and we publish a press release with analysis of these results.

We also present a non-deal roadshow, quarterly in Brazil and six-monthly outside Brazil, and at least two meetings with Apimec (Sao Paulo, and Rio Grande do Sul) per year.

**Results in IFRS:** To facilitate analysis of our figures we have reconstituted our database in accordance with IFRS and Brazilian Accounting Pronouncements (CPCs), to allow comparability, for recent years. We have the period of 2008-15 available to investors in accordance with IFRS.

**Stock options plan:** Since April 14, 2008, as a means of aligning the interests of management with those of stockholders, we have introduced a Stock Options Plan applying to members of the Executive Board and our principal executives.

Since the start of the Plan we have granted 7.5 million call options (the figure is adjusted for the stock split of September 23, 2009), equivalent to 2.5% of the Company's total shares. Of these, 15.6% remains unexercised (1.1 million shares), equivalent to 0.4% of the total shares (base date: December 31, 2015).

**Listing:** Our shares have been listed on the *Novo Mercado* of BM&FBovespa, since October 29, 2004. In November 2007 we adjusted our free float to 25%, in accordance with the rules of the *Novo Mercado* listing regulations.

**Market-maker:** As a way of improving liquidity, we have a contracted market-maker for our shares (GRND3) since September 2005.

**Split:** In September 2009 we made a stock split in the number of shares from 100,000,000 to 300,000,000, aiming for better liquidity and to facilitate purchase by small investors and consequently expand our base of stockholders.

**Capital increase:** On March 22, 2010 we approved an increase in share capital through issuance of 720,000 new common shares without par value, to comply with the stock options plan, increasing the share capital to 300,720,000 common shares. For compliance purposes, except for this year, the Company acquired shares in the market in all other years, and thus stockholders were not diluted.

**Free float:** On December 31, 2015 the shares in circulation were 27.5% of the total shares issued.

#### 3.1 Commitment clause

The Company, its stockholders, its managers and the members of its Audit Board undertake to resolve by means of arbitration, in the Market Arbitration Chamber, all and any disputes that may arise between them, relating to our arising from, in particular, the application, validity, efficacy, interpretation, violation, or their effects, of the provisions contained in the Corporate Law, the Company's by-laws, the rules issued by the National Monetary Council, by the Brazilian Central Bank or by the Brazilian Securities Commission, or in the other rules applicable to the functioning of the capital market in general, as well as those contained in the Listing Regulations of the *Novo Mercado*, the Arbitration Regulations, the Sanctions Regulations and the *Novo Mercado* participation agreement.

#### 3.2 Statement by the Executive Board

In compliance with CVM Instruction 480/09 the members of the Executive Board declare that they have discussed, reviewed and agree with the opinions expressed in the opinion of the external auditors and with the financial statements for the business year ended December 31, 2015.

### 3.3 Awards and recognition

In 2015 Grendene was recognized and praised by various institutions for its performance in various areas:

Grendene took part in the official ceremony of awards for the 2015 edition of the **iF Design Award 2015** on February 27, in Munich, Germany, to receive awards for four projects: **Melissa One by One**, in the *Product* category; and **Galeria Melissa New York**, **Casa Ipanema** and **The Eat My Melissa Convention** in the *architecture and interiors* category. The iF Design Award is considered to be the greatest award in the design sector, and in 2015 Brazil won 43 awards, a historic record. In general, Brazil is among eight countries receiving the most awards, alongside Germany, China, South Korea, Taiwan, Japan, United States and Holland.



Melissa One by One



Casa Ipanema  
- Rio



Galeria Melissa  
New York



Eat My Melissa Convention



The **Champions of Innovation 2014** – Award, by *Amanhã* Magazine (Jan-Feb. 2015 Edition). Grendene won first place in the *Leather and Footwear* segment and 4<sup>th</sup> place in the general classification. The survey identifies the 50 most innovative companies in the Southern Region of Brazil (Paraná, Santa Catarina and Rio Grande do Sul). The event is held by the *Amanhã* group in partnership with the specialized consultancy Edusys, with technical support from the Dom Cabral Foundation Innovation Center.

In April of this year **eOne Entertainment** and **Exim Licensing** held the **Peppa Pig Summit** in São Paulo to present the latest products from the brand and give award to outstanding licensees: Grendene received the award “**Licensee of the Year, 2015**”.



At the **Sanrio Summit 2015**, awards were given for the most outstanding licensees in 2014.

Grendene received the “**Best Performance in Softline Licensing**” award from the **Hello Kitty** brand.

In May 2015 **Clube Melissa** was placed in the top 10 in *Franchisee Satisfaction* and *Store Chain Quality* in the survey by **Pequenas Empresas Grandes Negócios** magazine.



August 11, 2015 – the *British-Brazilian Center* in São Paulo paid tribute to Grendene as a ‘Brazilian Global Company’ in official recognition of its operations and investments in the United Kingdom.

August 14, 2015 – Grendene was awarded the 22nd **Expression of Ecology** Prize, in the Environmental Management Category – the *Green Wave Trophy*, for its Project *Water Management – treatment and re-use in operations*. This award, given by **Editora Expressão**, is certified by the **Brazilian Environment Ministry** as the leading environmental award of the South of Brazil. It recognizes and publicizes actions by companies and institutions to reduce the effects of pollution on the environment, helping to conserve natural resources and develop awareness of sustainable development.



September 24, 2015: **Grendene** was one of the winners of the 19th Anefac-Fipecafi-Serasa-Experian **Transparency Trophy** for 2015, in recognition of the quality of publication of its financial statements.

September 29, 2015: **Grendene** received the trophy for **Best Brazilian Textile Company** in the first edition of the **Empresas Mais** annual publication of the **Estadão** newspaper. This ranking uses an exclusive method developed in partnership with the FIA (Management Institute Foundation), which evaluated economic performance and best management practices of companies operating in Brazil.



In October 2015 two of our programs – **Estagiary** and **Faça parte Grendene** – were recognized as highlight actions in Human Resources: the Brazilian Human Resources Association of Rio Grande do Sul (ABRH-RS) recognized the *Estagiary* program with its **Top Ser Humano** award; and the *Faça parte Grendene* program was recognized by the Serrana Human Resources Association (ARH Serrana) with the **'Highlights of the year in HR – 2015'** award in the **Projects** category.

November 5, 2015: Grendene was in the ranking of the **500 Maiores do Sul**, an initiative of the **Amanhã** Group in partnership with PwC (PricewaterhouseCoopers).

Classification: 9th in Rio Grande do Sul, and 28th in the Southern Region; also as Highlight Company in the **Leather and Footwear** sector in 2014.



November 25, 2015: Grendene has maintained its position as **Outstanding Company** in the 15 editions of the **Delmiro Gouveia Award** held to date. This year it received recognition in three categories: **Best companies in economic-financial performance**; **Largest companies**; and **Accountants**.

This is a certificate in quality of management in the regional and Brazilian national market.

December 15, 2015: Grendene was recognized by **Consumidor Moderno** Magazine as the company that most respects the consumer in Brazil in 2015 in the Footwear Sector, as assessed by its consumers. The survey was carried out by **Shopper Experience**, a company of the HSR Group.



## VI. Social and environmental responsibility

We believe that the principal indicator of sustainability of a company is its generation of profit and financial solidity. This factor means that consumers pay, for the company's products, more than the cost of extracting the inputs from nature and their manufacture and distribution. Further, it ensures continuity of the company and generation of employment, and also satisfaction of the needs of millions of clients that buy and use its products.

However, we recognize that the financial statements do not always portray all the interfaces of a company with its social and environmental surroundings, and that the financial indicators can react slowly to problems of relationship with society or the environment. Being aware of our responsibility as a leading, benchmark Company in our segment and employer of more than 24,000 employees, we have continued to improve our processes with numerous actions over the years to reduce consumption of inputs and raw materials, including water and all the forms of energy, and generation of all types of waste and loss of resources – which not only represent costs for the company but also exhaust the environment when consumed beyond the necessary level.

Grendene's focus in relation to sustainable development is on a three-part approach: *reduce, reuse, recycle*. The following are outstanding actions with this focus in 2015:

Reduction of consumption of potable water, in which investments were made in replacement of taps, toilet flush systems, changes in the irrigation system and implementation of reuse of effluents in all units. We reuse 40% of our treated effluents in toilet bowls, urinals and irrigation. By the end of 2016 we aim to have reached 60% reuse of the effluent generated. For reuse of effluent we use ultrafiltration. At Grendene, only some 20% of the consumption of water is used in industrial processes: 80% is used by its personnel.

We continue to direct special attention to consumption of water, consumption of energy, and generation of all types of waste. The actions that we take have generated not only reduction in costs and operational risks but also a lower environmental impact.

With highlight the following reductions from 2014 to 2015:

- 1) 20%, in water consumed per pair produced;
- 1) 3%, in consumption of electricity per pair produced;
- 3) 9% in generation of wastes per pair produced;

As a result of these projects and the care that the Company takes for the environment, Grendene obtained the Suppliers' Certificate from ABVTEX, the Brazilian Textile Retailing Association, becoming the first footwear company to receive this certificate. The purpose of the certificate is to enable the retail sector to certify and monitor its suppliers in relation to practices of Environmental, Social and Employment Relations responsibility.



Grendene was also awarded the 22nd **Expression of Ecology** Prize, in the *Environmental Management* Category – the *Green Wave Trophy*, for its Project *Water Management – treatment and re-use in operations*. This award, given by Editora Expressão, is certified by the Brazilian Environment Ministry as the leading environmental award of the South of Brazil. It publicizes the actions of companies and institutions to reduce the effects of pollution on the environment, which help to conserve natural resources and develop awareness of sustainable development.

**VII. Human resources**

Our engine is our people. The more they are aligned with our Values, the more then will help in achieving the targets. Our Human Resources area operates on the basis of this conviction.

With the mission of **producing results that sustain the business strategy, through integrated and competitive action in management of people, in an environment that respects our Values**, the Company's HR is structured in sub-systems, each carrying out aligned strategic actions to form, develop and engage the Company's teams. These are: Attraction and Retention, Remuneration, Performance and Benefits, Corporate Education, Safety of Information, Internal Communication, Employment Relations and Workplace Health and Safety.

In this challenge, the Company's leaders are our principal partners. Since 2005, we have had the Leaders' Academy – a program that develops leaders aligned with the business and the market, committed to distinctive results and highly motivated teams.

Actions for which leaders are prepared include: formal team performance evaluation; provision of constant feedback; contribution to full growth of the individual through development plans; identification and selection of the right people for the right places; and promotion of communication at all the levels of the organization.

We also highlight the care that we take in health and safety through constant investment in safety of machines and in the *Ergonomia* program.

The return on the investment in our people is reflected in the Company's low turnover, and in the maintenance of its track record of good results.

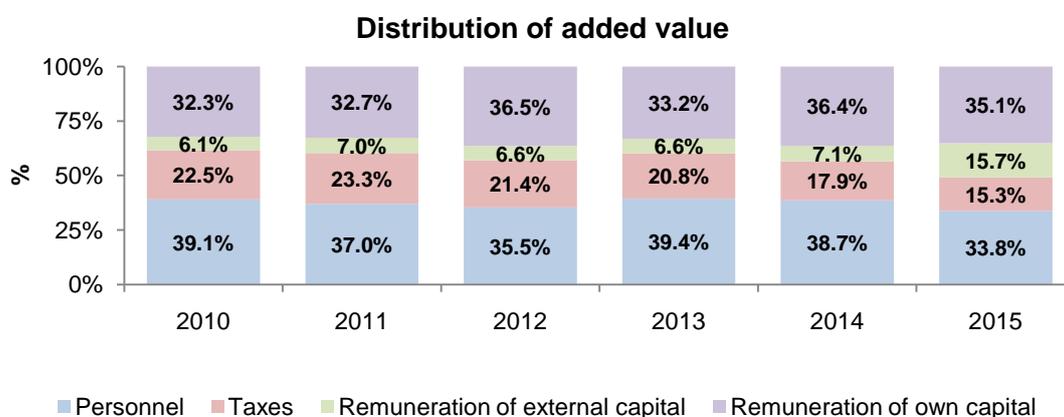
Social and corporate data	2010	2011	2012	2013	2014	2015
Employees (average/year)	28,586	24,396	24,084	28,085	26,543	24,176
Hours of training (per employee)	18	15	20	30	33	43
Meals (year)	7,025,840	5,494,812	5,955,479	6,106,783	5,176,827	5,332,129
Absenteeism	2.69%	1.81%	1.73%	2.08%	2.47%	2.17%
Turnover (month)	1.53%	1.22%	2.12%	2.00%	1.66%	1.58%
'Basic food baskets' distributed (units/year)*	293,873	346,858	292,398	330,814	333,732	287,166

(\*) Grendene's policy of distribution of 'basic food baskets' aims to reinforce the employee's food security. It has been in place since 1990. Over time, the effort is to maintain the basket's nutritional value offering various options of items. All the employees and interns of Grendene, without distinction, receive it after the first month of work, until they leave the Company.

## VIII. Statement of value added

Added value, which is an indication of the wealth added to society by the Company in its economic activity, totaled R\$ 1,569 billion in 2015 (R\$ 1.348 billion in 2014). The complete statement is a part of the financial statements.

Added value statement R\$ '000	2010	2011	2012	2013	2014	2015
Personnel	378,523	346,200	416,699	515,243	521,449	531,099
Taxes	217,751	218,478	250,761	271,920	240,918	240,350
Remuneration of external capital	58,660	65,787	77,518	86,700	95,615	246,601
Remuneration of own capital	312,399	305,446	429,003	433,540	490,244	551,223
<b>Total</b>	<b>967,333</b>	<b>935,911</b>	<b>1,173,981</b>	<b>1,307,403</b>	<b>1,348,226</b>	<b>1,569,273</b>



## IX. Final considerations and outlook

**Macro:** As we say above, we expect 2016 to be a difficult year, with many uncertainties in the political area, adjustments in the domestic economy, turbulence and volatility in the international markets, and a continuing context of crisis in the traditional export markets.

Although Brazil's economic outlook is not the best it could be, the fact that we are in a solid position, and when the crisis is over we will be ready to return to growth, encourages us. Crises tend to eliminate the less efficient, and strengthen those that are more able, and we have no doubt which group we are in.

**Quality design at acceptable cost:** For a long time we have perceived that this is a much-desired consumption aim of the Brazilian middle income group.

Our brands and products have been outstanding in these aspects, and provided us with very good results. Delivering value to the client with low cost, making famous designers accessible to all income groups – '*Affordable Luxury*' defines the value proposal that Grendene has been delivering to consumers all over the world.

**Capex:** In 2016 we expect to invest, in maintenance of our production capacity, an amount equivalent to annual depreciation: between R\$ 80 and R\$ 90mn. Clearly this figure is only a reference, and we will not hesitate to invest in any good opportunities if they appear. At the moment we have none in view.

**Macro uncertainty:** We regret to say that in our opinion Brazil's footwear sector will continue to suffer from the country's economic uncertainties. In 2016 we expect consumption in Brazil to decline, in number of pairs, and we expect to have difficulty in exceeding or even equaling the number of pairs delivered last year. Whatever the market situation is, we will seek to obtain better results than those of last year – something which we have repeatedly achieved.

**Margins and market share:** Since we see increase in volumes as unlikely, an increase in margins will have to come from increase in productivity, and rationalization of costs. In the last six years apparent consumption of footwear in Brazil has fallen at the rate of 1.6% p.a. (CAGR), while the number of pairs sold by Grendene has increased at 3.2% p.a. (CAGR) – indicating significant gains in market share, in fact in all the lines in which we operate.

**Exports – strategy to uphold margins:** In exports our strategy of fleeing from the concept of exporting 'commodities' has been successful. We are growing, with good margins, and we expect to continue to grow in 2016. With the depreciation of the Brazilian currency, exports have contributed to profit with better margins, and we expect this to continue.

**Domestic market – adapting to purchasing power:** In the domestic market, consumers' desire for our products has not diminished, but their purchasing power has. Hence our challenge will be to continue to meet the expectations of our consumers with products that fit their budget. We are confident that we will not disappoint them.

We will face the scenario that presents itself in the same way as always done – with determination, courage and clarity – and we expect to obtain strong results, as we have to date. We re-emphasize intended aspects of execution of our strategy in 2016: special attention to growth of market share and maintenance of margins; improving our communication with the market; understanding the needs of the distribution channels; innovating in products; strengthening our brands with aggressive marketing through multiple media; and seeking excellence in the operation through continuous improvements.

The objective is to continually strengthen our relationship with our clients, and serve them in a way that is increasingly focused on their needs. We understand that the remuneration of stockholders depends on this.

# Appendix I

## OPINION OF THE AUDIT BOARD

The Audit Board of Grendene S.A., in compliance with the provisions of law and the by-laws, has examined the Report of Management and the Individual financial statements of the Company (holding company), prepared in accordance with accounting practices adopted in Brazil, and the Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for the business year ended December 31, 2015, which were approved by the Company's Board of Directors on February 25, 2016. Based on our reviews, and further considering the report of PricewaterhouseCoopers Auditores Independentes, without qualification, dated February 25, 2016, and the information and explanations received during the business year, it is the opinion of this Audit Board that the said documents are in the proper condition to be considered by the Annual General Meeting of Stockholders.

Farroupilha, February, 25, 2016.

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João Carlos Sfreddo

Member of the Audit Board

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Eduardo Cozza Magrisso

Member of the Audit Board

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Herculano Aníbal Alves

Member of the Audit Board

# Appendix II

## **Grendene S.A.**

Parent company and consolidated financial statements for  
the years ended December 31, 2015 and 2014

# GRENDENE S.A.

## Financial statements

December 31, 2015 and 2014

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## **INDEPENDENT AUDITOR'S REPORT**

### **Independent auditor's report**

To the Board of Directors and Shareholders  
Grendene S.A.

We have audited the accompanying financial statements of Grendene S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Grendene S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grendene S.A. and of Grendene S.A. and its subsidiaries as at December 31, 2015, and the parent company and consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## **Other matters**

### **Supplementary information - statements of value added**

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2015, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Porto Alegre, February 25, 2016.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "S" CE

Fábio Abreu de Paula  
Contador CRC 1MGO75204/O-o "S" CE

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Balance sheet

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2015	2014	2015	2014
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	6	<b>6,113</b>	8,525	<b>21,285</b>	26,324
Financial investments					
Securities at fair value through profit or loss	7	<b>390,004</b>	379,572	<b>390,004</b>	379,572
Held-to-maturity investments	7	<b>206,868</b>	254,900	<b>206,868</b>	254,900
Trade receivables	8	<b>832,140</b>	849,528	<b>854,991</b>	907,344
Inventories	9	<b>227,459</b>	193,083	<b>261,462</b>	214,019
Tax credits	10	<b>2,816</b>	5,589	<b>10,990</b>	11,705
Income tax and social contribution recoverable		-	1,303	<b>1,795</b>	3,839
Securities receivable		<b>92,332</b>	37,252	<b>92,449</b>	37,423
Costs and prepaid expenses		<b>1,687</b>	1,617	<b>4,695</b>	2,768
Other receivables		<b>62,795</b>	67,618	<b>64,122</b>	68,633
Total current assets		<b>1,822,214</b>	1,798,987	<b>1,908,661</b>	1,906,527
<b>Non-current assets</b>					
<b>Long-term receivables:</b>					
<b>Financial investments</b>					
Held-to-maturity investments	7	<b>663,723</b>	335,182	<b>663,723</b>	335,182
Judicial deposits		<b>963</b>	2,002	<b>994</b>	2,022
Tax credits	10	<b>540</b>	646	<b>540</b>	646
Receivables from subsidiaries		-	13	-	-
Securities receivable		<b>70</b>	70	<b>70</b>	70
Deferred income tax and social contribution	18	<b>43,505</b>	7,852	<b>43,554</b>	13,530
Prepaid expenses		-	-	<b>11,098</b>	3,818
		<b>708,801</b>	345,765	<b>719,979</b>	355,268
<b>Investments</b>					
Property, plant and equipment	12	<b>367,367</b>	345,911	<b>384,338</b>	368,179
Intangible assets	13	<b>30,238</b>	31,790	<b>32,252</b>	51,627
Total non-current assets		<b>1,173,262</b>	809,570	<b>1,136,981</b>	775,486
Total assets		<b>2,995,476</b>	2,608,557	<b>3,045,642</b>	2,682,013

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

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Balance sheet

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2015	2014	2015	2014
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	14	<b>106,238</b>	50,893	<b>141,652</b>	99,567
Trade payables		<b>38,225</b>	31,120	<b>44,903</b>	36,287
Contractual obligations - Licensing		<b>16,971</b>	16,083	<b>18,337</b>	16,288
Commissions payable		<b>37,470</b>	40,699	<b>37,616</b>	40,950
Taxes and contributions		<b>29,528</b>	14,568	<b>31,251</b>	14,980
Income tax and social contribution payable		<b>13,708</b>	4,136	<b>13,708</b>	4,434
Salaries and social security charges payable		<b>50,483</b>	56,479	<b>52,720</b>	57,974
Provision for labor risks	15	<b>1,769</b>	1,844	<b>2,575</b>	1,873
Provision for losses in subsidiary	20.d	<b>5,449</b>	-	<b>-</b>	-
Other payables		<b>7,845</b>	5,465	<b>11,738</b>	9,650
Total current liabilities		<b>307,686</b>	221,287	<b>354,500</b>	282,003
<b>Non-current liabilities</b>					
Borrowings	14	<b>71,173</b>	71,790	<b>71,173</b>	71,790
Provision for labor risks	15	<b>128</b>	106	<b>308</b>	286
Other debits		<b>-</b>	-	<b>2,901</b>	-
Total non-current liabilities		<b>71,301</b>	71,896	<b>74,382</b>	72,076
<b>Equity</b>					
Share capital	16	<b>1,231,302</b>	1,231,302	<b>1,231,302</b>	1,231,302
Carrying value adjustments		<b>14,510</b>	(2,346)	<b>14,510</b>	(2,346)
Capital reserves		<b>5,261</b>	5,643	<b>5,261</b>	5,643
Revenue reserves		<b>1,366,468</b>	1,091,616	<b>1,366,468</b>	1,091,616
Treasury shares		<b>(1,052)</b>	(10,841)	<b>(1,052)</b>	(10,841)
Total equity		<b>2,616,489</b>	2,315,374	<b>2,616,489</b>	2,315,374
Non-controlling interests		<b>-</b>	-	<b>271</b>	12,560
Total equity		<b>2,616,489</b>	2,315,374	<b>2,616,760</b>	2,327,934
Total liabilities and equity		<b>2,995,476</b>	2,608,557	<b>3,045,642</b>	2,682,013

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

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Statement of income

December 31, 2015 and 2014

(All amounts in thousands of reais, except earnings per share)

	Note	Parent company		Consolidated	
		2015	2014	2015	2014
Net sales revenue	22	<b>2,165,218</b>	2,162,959	<b>2,202,796</b>	2,233,298
Cost of goods sold	24	<b>(1,129,952)</b>	(1,191,772)	<b>(1,134,913)</b>	(1,207,379)
Gross profit		<b>1,035,266</b>	971,187	<b>1,067,883</b>	1,025,919
Selling expenses	24	<b>(471,336)</b>	(494,345)	<b>(523,709)</b>	(543,744)
General and administrative expenses	24	<b>(80,786)</b>	(78,963)	<b>(102,570)</b>	(91,263)
Other operating income		<b>6,330</b>	8,128	<b>6,674</b>	7,974
Other operating expenses		<b>(15,506)</b>	(9,216)	<b>(19,546)</b>	(9,473)
Provision for losses in subsidiary	20.d	<b>(28,000)</b>	-	<b>(28,000)</b>	-
Equity in the results of investees	11	<b>(53,817)</b>	(10,393)	-	-
Operating profit before finance result and taxes		<b>392,151</b>	386,398	<b>400,732</b>	389,413
Finance result	25				
Finance income		<b>412,000</b>	212,070	<b>421,339</b>	220,419
Finance costs		<b>(213,873)</b>	(67,315)	<b>(238,992)</b>	(84,895)
Profit before taxation		<b>198,127</b>	144,755	<b>182,347</b>	135,524
Income tax and social contribution	18				
Current		<b>(74,708)</b>	(39,701)	<b>(74,655)</b>	(40,874)
Deferred		<b>35,653</b>	(1,208)	<b>30,887</b>	1,196
		<b>(39,055)</b>	(40,909)	<b>(43,768)</b>	(39,678)
Profit for the year before non-controlling interest		<b>551,223</b>	490,244	<b>539,311</b>	485,259
Non-controlling interests		-	-	<b>11,912</b>	4,985
Profit for the year		<b>551,223</b>	490,244	<b>551,223</b>	490,244
Total comprehensive income attributed to:					
Controlling interests		<b>551,223</b>	490,244	<b>551,223</b>	490,244
Non-controlling interests		-	-	<b>(11,912)</b>	(4,985)
				<b>539,311</b>	485,259
Basic earnings per share	16.g	<b>1.8342</b>	1.6328	-	-
Diluted earnings per share	16.g	<b>1.8305</b>	1.6293	-	-

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

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Statements of comprehensive income

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Parent company		Consolidated	
	2015	2014	2015	2014
Profit for the year	<b>551,223</b>	490,244	<b>539,311</b>	485,259
Other comprehensive income:				
Items potentially reclassifiable to the Statement of income:				
Exchange differences on subsidiaries abroad	<b>16,856</b>	2,124	<b>16,479</b>	1,974
Comprehensive income for the year, net of taxes	<b>568,079</b>	492,368	<b>555,790</b>	487,233
Total comprehensive income attributed to:				
Controlling interests	<b>568,079</b>	492,368	<b>568,079</b>	492,368
Non-controlling interests	-	-	<b>(12,289)</b>	(5,135)
	<b>568,079</b>	492,368	<b>555,790</b>	487,233

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

(A free translation of the original in Portuguese)

**GRENDENE S.A.**

**Statements of changes in equity**

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Note	Capital reserves			Revenue reserves					Treasury shares	Retained earnings	Controlling interests	Non-controlling interests	Total	
		Share capital	Carrying value adjustments	Options granted	Gains from sale of treasury shares	Legal reserve	Profit retention reserve	Reserve for the acquisition of shares	Tax incentives						Additional proposed dividends
At December 31, 2013		1,231,302	(4,470)	5,078	-	83,486	19,073	-	626,070	110,665	(10,470)	-	2,060,734	7,226	2,067,960
<i>Total comprehensive income</i>		-	2,124	-	-	-	-	-	-	-	-	490,244	492,368	(5,135)	487,233
Profit for the year		-	-	-	-	-	-	-	-	-	-	490,244	490,244	(4,985)	485,259
Exchange differences on subsidiaries abroad	11	-	2,124	-	-	-	-	-	-	-	-	-	2,124	(150)	1,974
Increase in the non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	10,469	10,469
Purchase of treasury shares		-	-	-	-	-	-	-	-	(9,471)	-	(9,471)	-	-	(9,471)
Gains from sale of treasury shares		-	-	-	-	-	(142)	-	-	526	-	384	-	-	384
Change of the stock option or purchase subscription plan:															
Stock options exercised in the exercise		-	-	-	(8,574)	-	-	-	-	8,574	-	-	-	-	-
Sale of treasury shares through exercise of purchase options		-	-	-	4,115	-	-	-	-	-	-	4,115	-	-	4,115
Result on sale of shares related to the stock option or subscription plan	21.b	-	-	(2,701)	4,459	-	(1,758)	-	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	21	-	-	3,266	-	-	-	-	-	-	-	3,266	-	-	3,266
Proposed appropriations:															
Tax incentives reserve		-	-	-	-	-	-	-	194,711	-	-	(194,711)	-	-	-
Borrowings - Provin and Proapi	17.a	-	-	-	-	-	-	-	63,278	-	-	(63,278)	-	-	-
Income tax	17.c	-	-	-	-	-	-	-	-	-	-	(11,613)	-	-	-
Legal reserve		-	-	-	-	11,613	-	-	-	-	-	(17,000)	-	-	-
Reserve for the acquisition of shares		-	-	-	-	-	-	17,000	-	-	-	-	-	-	-
Dividends distributed	16.f	-	-	-	-	-	-	-	-	(110,665)	-	(125,357)	(236,022)	-	(236,022)
Additional proposed dividends	16.f	-	-	-	-	-	(17,173)	-	-	95,458	-	(78,285)	-	-	-
At December 31, 2014		1,231,302	(2,346)	5,643	-	95,099	-	17,000	884,059	95,458	(10,841)	-	2,315,374	12,560	2,327,934
<i>Total comprehensive income</i>		-	16,856	-	-	-	-	-	-	-	-	551,223	568,079	(12,289)	555,790
Profit for the year		-	-	-	-	-	-	-	-	-	-	551,223	551,223	(11,912)	539,311
Exchange differences on subsidiaries abroad	11	-	16,856	-	-	-	-	-	-	-	-	-	16,856	(377)	16,479
Purchase of treasury shares		-	-	-	-	-	-	-	-	(3,034)	-	(3,034)	-	-	(3,034)
Change of the stock option or purchase subscription plan:															
Stock options exercised in the exercise		-	-	-	(12,823)	-	-	-	-	12,823	-	-	-	-	-
Sale of treasury shares through exercise of purchase options		-	-	-	8,016	-	-	-	-	-	-	8,016	-	-	8,016
Result on sale of shares related to the stock option or subscription plan	21.b	-	-	(3,925)	4,807	-	(882)	-	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	21	-	-	3,543	-	-	-	-	-	-	-	3,543	-	-	3,543
Proposed appropriations:															
Tax incentives reserve		-	-	-	-	-	-	-	195,589	-	-	(195,589)	-	-	-
Borrowings - Provin and Proapi	17.a	-	-	-	-	-	-	-	76,046	-	-	(76,046)	-	-	-
Income tax	17.c	-	-	-	-	-	-	-	(10,316)	10,316	-	-	-	-	-
Reserve reflecting reserve in subsidiary		-	-	-	-	-	-	-	-	-	-	(13,979)	-	-	-
Legal reserve		-	-	-	-	13,979	-	-	-	-	-	(13,979)	-	-	-
Dividends distributed	16.f	-	-	-	-	-	-	-	-	(95,458)	-	(165,031)	(260,489)	-	(260,489)
Additional proposed dividends	16.f	-	-	-	-	-	-	-	-	578	-	(578)	-	-	-
Interest on Equity (counted as part of total dividends)	16.f	-	-	-	-	-	-	-	-	85,000	-	(100,000)	(15,000)	-	(15,000)
At December 31, 2015		1,231,302	14,510	5,261	-	109,078	-	16,118	1,145,378	95,894	(1,052)	-	2,616,489	271	2,616,760

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

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Statement of cash flows

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Parent company		Consolidated	
	2015	2014	2015	2014
Cash flows from operating activities				
Profit for the year	551,223	490,244	551,223	490,244
Non-controlling interests	-	-	(12,289)	5,334
Adjustments to reconcile results to cash and cash equivalents generated by operating activities:				
Equity in the results of investees	53,817	10,393	-	-
Depreciation and amortization	50,834	45,729	53,652	47,461
Deferred income tax and social contribution	(35,653)	1,208	(30,024)	2,126
Gain on sale and write-off of investment	-	465	-	465
Gain on sale and write-off of property, plant and equipment	1,759	2,753	10,314	2,916
Gain on sale and write-off of intangible assets	9	12	9,609	373
Impairment loss – Goodwill	8,862	-	8,862	-
Stock option or subscription plan	3,543	3,266	3,543	3,266
Provision for impairment of trade receivables	55	1,699	679	2,276
Provision for discount on prompt payments	(2,603)	(11,593)	(2,681)	(11,959)
Provision for obsolete inventories	1,653	2,673	1,678	2,003
Provision for labor risks	(53)	(374)	724	(168)
Provision for losses in subsidiary	5,449	-	-	-
Interest expenses on borrowings	3,940	2,307	14,958	13,324
Interest income on financial investments	(165,581)	(96,585)	(165,581)	(96,585)
Foreign exchange variations, net	18,248	(330)	14,179	(1,788)
	<b>495,502</b>	<b>451,867</b>	<b>458,846</b>	<b>459,288</b>
Changes in assets and liabilities:				
Trade receivables	19,936	(14,418)	54,355	2,387
Inventories	(36,029)	(14,047)	(49,121)	(10,298)
Other receivables	(45,093)	35,754	(55,829)	32,214
Trade payables	7,105	(4,468)	8,616	(3,505)
Salaries and social security charges payable	(5,996)	(6,113)	(5,254)	(5,782)
Taxes and contributions	(40)	2,334	1,271	2,297
Income tax and social contribution payable	9,572	(136)	9,274	162
Other payables	39	2,625	20,560	8,196
Net cash provided by operating activities	<b>444,996</b>	<b>453,398</b>	<b>442,718</b>	<b>484,959</b>
Cash flows from investing activities:				
In investments	(26,575)	(31,465)	-	-
In property, plant and equipment	(65,374)	(80,408)	(66,072)	(94,304)
In intangible assets	(7,132)	(11,143)	(7,153)	(24,786)
Financial investments	(3,053,847)	(2,091,550)	(3,053,847)	(2,091,550)
Redemption of financial investments	2,812,321	1,848,783	2,812,321	1,848,783
Interest received	116,166	64,303	116,166	64,303
Net cash provided by (used in) investing activities	<b>(224,441)</b>	<b>(301,480)</b>	<b>(198,585)</b>	<b>(297,554)</b>
Cash flows from financing activities:				
New borrowings	412,825	271,265	757,138	471,461
Repayments of borrowings	(377,146)	(196,209)	(737,197)	(413,897)
Interest paid	(3,139)	(2,195)	(13,606)	(17,011)
Dividends paid	(260,489)	(236,022)	(260,489)	(236,022)
Purchase of treasury shares	(3,034)	(9,471)	(3,034)	(9,471)
Sale of treasury shares through exercise of purchase options	8,016	4,115	8,016	4,115
Gains from sale of treasury shares	-	384	-	384
Net cash used in financing activities	<b>(222,967)</b>	<b>(168,133)</b>	<b>(249,172)</b>	<b>(200,441)</b>
Increase (decrease) in cash and cash equivalents	<b>(2,412)</b>	<b>(16,215)</b>	<b>(5,039)</b>	<b>(13,036)</b>
Changes in cash and cash equivalents				
At the beginning of the year	8,525	24,740	26,324	39,360
At the end of the year	6,113	8,525	21,285	26,324
Increase (decrease) in cash and cash equivalents	<b>(2,412)</b>	<b>(16,215)</b>	<b>(5,039)</b>	<b>(13,036)</b>
Item not affecting cash flow:				
Foreign exchange variations on investments	(16,856)	(2,124)	-	-

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

(A free translation of the original in Portuguese)

## GRENDENE S.A.

### Statement of value added

December 31, 2015 and 2014

(All amounts in thousands of reais)

	Parent company		Consolidated	
	2015	2014	2015	2014
Revenue				
Sales of goods	2,457,693	2,480,483	2,492,451	2,551,771
Other income /expenses	(568)	(987)	(563)	(1,011)
Provision for impairment of trade receivables	(55)	(1,699)	(824)	(2,270)
Provision for losses in subsidiary	(28,000)	-	(28,000)	-
Impairment loss – Goodwill	(8,862)	-	(8,862)	-
	<u>2,420,208</u>	<u>2,477,797</u>	<u>2,454,202</u>	<u>2,548,490</u>
Inputs acquired from third parties				
Raw materials used	(667,873)	(726,000)	(608,234)	(677,963)
Other production costs	(3,195)	(2,991)	(54,398)	(60,092)
Materials, electricity, outsourced services and other	(550,285)	(591,334)	(588,597)	(634,584)
Impairment/recovery of assets	(1,653)	(2,673)	(1,665)	(2,020)
	<u>(1,223,006)</u>	<u>(1,322,998)</u>	<u>(1,252,894)</u>	<u>(1,374,659)</u>
Gross value added	1,197,202	1,154,799	1,201,308	1,173,831
Retentions				
Depreciation and amortization	(49,484)	(44,539)	(53,480)	(46,125)
	<u>(49,484)</u>	<u>(44,539)</u>	<u>(53,480)</u>	<u>(46,125)</u>
Net value added	<u>1,147,718</u>	<u>1,110,260</u>	<u>1,147,828</u>	<u>1,127,706</u>
Value added received through transfer				
Equity in the results of investees	(53,817)	(10,393)	-	-
Finance income	412,000	212,070	421,339	220,419
Rentals	106	101	106	101
	<u>358,289</u>	<u>201,778</u>	<u>421,445</u>	<u>220,520</u>
Value added to distribute	<u>1,506,007</u>	<u>1,312,038</u>	<u>1,569,273</u>	<u>1,348,226</u>
Distribution of value added				
Personnel				
Direct compensation	420,908	418,011	438,422	428,328
Benefits	48,799	50,001	49,130	50,411
Government Severance Indemnity Fund for Employees (FGTS)	43,038	42,298	43,547	42,710
	<u>512,745</u>	<u>510,310</u>	<u>531,099</u>	<u>521,449</u>
	34.05%	38.89%	33.84%	38.68%
Taxes and contributions				
Federal	193,340	199,532	201,916	199,106
State	36,348	41,082	36,582	41,304
Municipal	572	506	1,852	508
	<u>230,260</u>	<u>241,120</u>	<u>240,350</u>	<u>240,918</u>
	15.29%	18.38%	15.32%	17.87%
Third-party capital remuneration				
Interest, discounts and financial charges	208,908	67,315	233,999	84,895
Rentals	2,871	3,049	12,602	10,720
	<u>211,779</u>	<u>70,364</u>	<u>246,601</u>	<u>95,615</u>
	14.06%	5.36%	15.71%	7.09%
Remuneration of own capital				
Dividends	165,609	203,642	165,609	203,642
Interest on Equity (counted as part of total dividends)	100,000	-	100,000	-
Profits reinvested for the year	285,614	286,602	273,702	281,617
Non-controlling interests in profits reinvested	-	-	11,912	4,985
	<u>551,223</u>	<u>490,244</u>	<u>551,223</u>	<u>490,244</u>
	36.60%	37.37%	35.13%	36.36%
	<u>1,506,007</u>	<u>1,312,038</u>	<u>1,569,273</u>	<u>1,348,226</u>
	100%	100%	100%	100%

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

## **GRENDENE S.A.**

Notes to the financial statements

December 31, 2015 and 2014

(All amounts in thousands of reais)

### **1. General information**

Grendene S.A. (the "Company") is a publicly-held corporation headquartered in Sobral, State of Ceará, Brazil. The manufacturing operations are concentrated mainly in its headquarters located in the municipality of Sobral, State of Ceará. It also has industrial plants in the cities of Fortaleza and Crato in the State of Ceará, Teixeira de Freitas in the State of Bahia and in Farroupilha in the State of Rio Grande do Sul.

Grendene develops, manufactures, distributes and sells footwear for various uses and for all social classes, in the male, female, child and mass market segments.

Due to the characteristics of the footwear sector, the sales volume can fluctuate during the year and a higher sales volume is expected in the second half of the year. In management's opinion, the Company's operations are not impacted by these effects to the extent that would require additional disclosures or information in the notes to the financial statements.

### **2. Basis of preparation and presentation of the financial statements**

Accounting policies and measurement methods adopted in the preparation of the parent company and consolidated financial statements have not changed in relation to the financial statements at December 31, 2014.

#### **a) Parent company and consolidated financial statements**

At the meeting of the executive board held on February 24, 2016, the financial statements of Grendene S.A. were reviewed and revised, and their issuance was authorized.

The parent company financial statements of the Company has been prepared in accordance with accounting policies adopted in Brazil and rules of the Brazilian Securities Commission (*Comissão de Valores Mobiliários – CVM*), obeying the accounting rules stated in the Brazilian Corporate Law legislation (Law 6406 of 1976) and also International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and reflect all the material information contained in the financial statements, and only that information, which is consistent with the information used by management in its conduct of the business .

The Company has adopted all standards, revisions of standards and interpretations issued by IASB and that are effective for the financial statements at December 31, 2015.

There are no non-current assets held for sale or discontinued operations at December 31, 2015 and 2014.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 2. Basis of preparation and presentation of the financial statements-- Continued

#### b) Standards and interpretations of standards not yet in effect

The standards that will be in effect for the year beginning January 1, 2016 are the following:

- **IFRS 11 – Joint Arrangements** – Guidelines concerning the criteria related to the accounting treatment for the acquisition of interest in joint arrangements in accordance with the concepts comprised in IFRS 3 (Business Combinations). The Company will evaluate this new rule, but it does not expect any impact from this rule on its financial statements.
- **IAS 16 and IAS 38 – Clarification of depreciation and amortization methods** – The amendments provide additional guidelines on how depreciation or amortization of property, plant and equipment and intangible assets must be recorded. The amendments also clarify that the use of methods based on formulas to calculate depreciation of assets is not appropriate and limits their utilization to the amortization calculation. The Company will evaluate this new rule, but it does not expect any impact from this rule on its financial statements.

The standard that will be in effect for the year beginning January 1, 2018 is the following:

- **IFRS 9 – Financial Instruments** – IFRS 9 Financial Instruments completes the project to replace "IAS 39 Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new approach is based on the manner in which an entity manages its financial instruments (its business model) and the contractual cash flow characteristic of financial assets. The standard also requires the adoption of only one method for determining losses on impairment of assets. The Company is evaluating this new rule, but it does not expect any impact from this rule on its financial statements.
- **IFRS 15 - Revenues under contracts with clients** – IFRS 15 will replace practically all the rules for recognition of revenues. This single model aims to achieve greater consistency and comparability of practices for recognition of revenues between sectors; it introduces new estimates and judgements, and new requirements for disclosure. The Company is assessing the effects of adoption of this rule in its financial statements.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 2. Basis of preparation and presentation of the financial statements--Continued

#### b) Standards and interpretations of standards not yet in effect--Continued

There are no other standards and interpretations issued but not yet adopted that may, in the opinion of management, have a significant impact on the Company's disclosed net income or equity.

### 3. Consolidated financial statements

The consolidated financial statements include the operations of the Company and its subsidiaries, as follows:

Corporate name	Country	Percentage of interest		
		2015	2014	
<b>Direct investment</b>				
Grendene Argentina S.A.	Argentina	95.00%	95.00%	
MHL Calçados Ltda.	Brazil	99.998%	99.998%	
Grendene USA, Inc.	USA	100.00%	100.00%	
Grendene UK Limited	United Kingdom	100.00%	100.00%	
A3NP Indústria e Comércio de Móveis S.A.	Brazil	42.50%	42.50%	
<b>Indirect investment</b>				
Grendene New York, L.L.C. (through Grendene USA, Inc.)	USA	100.00%	100.00%	
Grendene Italy, S.R.L. (through Grendene UK Limited)	Italy	100.00%	100.00%	
Z Plus EUR Company S.R.L. (through A3NP Indústria e Comércio de Móveis S.A.)	Italy	42.50%	42.50%	

The main characteristics of the subsidiaries included in the consolidation are as follows:

- **Grendene Argentina S.A.:** this company is headquartered in Argentina, and its main objectives are trading in and supplying the local market.
- **MHL Calçados Ltda.:** this company is headquartered in the State of Bahia, Brazil, and its main objectives are the manufacture and trading of footwear.
- **Grendene USA, Inc.:** this company is headquartered in the United States of America, and its main objective is to act as a sales representative by trading and distributing the Company's products in the American market. It is the parent company of Grendene New York, L.L.C., a company headquartered in the USA, which operates in the same segment.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 3. Consolidated financial statements--Continued

- **Grendene UK Limited:** this company is headquartered in the United Kingdom, and its main objective is to act as a sales representative by trading and distributing the Company's products. It is the parent company of Grendene Italy S.R.L., a company headquartered in Italy, which operates in the same segment.
- **A3NP Indústria e Comércio de Móveis S.A.:** this company is headquartered in Brazil, and its purposes are to manufacture, sell, import and export furniture and supplements made from plastic. It is the parent company of Z Plus EUR Company S.R.L., a company headquartered in Italy, which operates in the same segment.

There were no investments in associates or joint ventures at December 31, 2015 and 2014.

The financial years of the subsidiaries included in the consolidation coincide with those of the parent company and the accounting policies were uniformly applied in the subsidiaries and were consistent with the international financial reporting standards.

The main consolidation procedures are:

- Elimination of intercompany asset and liability accounts;
- Elimination of the equity interests, reserves and retained earnings of consolidated companies; and
- Elimination of intercompany revenues and expenses, as well as of unrealized profits from intercompany transactions.

### 4. Accounting policies

#### a) Revenue recognition

Revenue is recognized when the amount can be reliably measured and it is probable that future economic benefits will flow to the Company and its subsidiaries. Revenue is measured based on the fair value of the consideration received, net of discounts, rebates and taxes or charges on sales. The Company evaluates revenue transactions in accordance with specific criteria in order to determine if it is acting as agent or principal and ultimately concluded that it has been acting as principal in all its revenue contracts. Revenue is not recognized when there is significant uncertainty about its realization. Revenues and expenses are recognized on the accrual basis.

## **GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### **4. Accounting policies--Continued**

a) Revenue recognition--Continued

a.1) *Sales revenue*

The revenue from the sale of products is recognized when all the risks and rewards inherent to the product have been transferred to the buyer and the Company and its subsidiaries no longer have control over, or responsibility for, the product sold.

a.2) *Finance income*

Interest income is recognized as finance income utilizing the effective interest rate method.

b) Translation of balances denominated in foreign currency

b.1) *Functional and presentation currency of the financial statements*

The Company's functional currency is the Brazilian Real, which is the currency also utilized for the preparation and presentation of the parent company and consolidated financial statements. The financial statements of each subsidiary included in the consolidation, as well as those utilized as a basis to account for investments under the equity method, are prepared based on the functional currency of each entity. For subsidiaries located abroad which management has concluded have administrative, financial and operational independence, assets and liabilities are translated into Reais at the period-end exchange rate and the results are calculated at the average monthly exchange rates for the year.

b.2) *Transactions denominated in foreign currency*

In the parent company financial statements, subsidiaries are accounted for using the equity method, and their results are recognized in proportion to the Company's investment, as "equity in the results of investees". Adjustments to the investment account arising from foreign exchange variation are recognized in the Company's equity, as carrying value adjustments. For consolidation purposes, the financial statements of these subsidiaries are included in the consolidated financial statements and adjustments arising from foreign exchange variation on assets and liabilities denominated in U.S. dollars, Argentinean Pesos, Pound Sterling and Euro are recognized in consolidated equity, as carrying value adjustments.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### b) Translation of balances denominated in foreign currency--Continued

##### b.2) *Transactions denominated in foreign currency*--Continued

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency (Real) at the exchange rate in effect at the end of the reporting period. Gains and losses resulting from the remeasurement of these assets and liabilities, at the exchange rate in effect at the transaction date and at the end of the years, are recognized as finance income or costs in the profit and loss account.

#### c) Financial instruments

Financial instruments are only recognized when the Company or its subsidiaries become parties to the contractual provisions of the instruments. Financial instruments are initially recognized at fair value, plus transaction costs directly attributable to their acquisition or issue, except for financial assets and liabilities classified as "at fair value through profit or loss", when these costs are recognized directly in the results.

##### *Subsequent measurement*

Financial instruments are subsequently measured, at each reporting date, in accordance with the rules established for each category of financial assets and liabilities.

##### c.1) *Financial assets*

Financial assets are classified in the categories below in accordance with the purpose for which they are acquired or issued:

- a) Financial assets at fair value through profit or loss: an instrument is classified as at fair value through profit or loss when it is held for trading, that is, designated as such an initial recognition. Financial assets are classified as held for trading if acquired for sale or repurchase in the short-term. Derivatives are also categorized as held for trading. At the end of each reporting period, the assets are measured at fair value. Interest, monetary restatements, foreign exchange variations and variations arising from fair value measurements are recognized in the results when incurred.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### c) Financial instruments--Continued

##### c.1) *Financial assets*--Continued

- b) Investments held-to-maturity: non-derivative financial assets with fixed or determinable payments and defined maturities for which the Company has the positive intent and ability to hold to maturity. After initial recognition they are measured at amortized cost using the effective interest rate method, less any impairment. Interest, monetary restatement and foreign exchange variation are recognized in profit or loss when incurred.
- c) Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interests, monetary restatement, foreign exchange variation, less impairment, where applicable, are recognized immediately in profit or loss, as finance income or costs.
- d) Available-for-sale financial assets: where applicable, are included in this classification the financial assets that do not qualify for categories c.1a, c.1b. and c.1c above. Subsequent to initial recognition, they are measured at fair value and their fluctuations, except any impairment, as well as foreign currency differences of these instruments are recognized directly in equity, net of tax effects. These tax effects are recognized against a deferred income tax and social contribution asset/liability. When an investment is derecognized, the gain or loss accumulated in equity is transferred to the results.

The main financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents, financial investments, trade receivables and derivatives.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### c) Financial instruments-Continued

##### c.2) *Financial liabilities*

Financial liabilities are classified in the categories below in accordance with the purpose for which they are contracted or issued:

- a) Financial liabilities at fair value through profit or loss: these include financial liabilities usually traded before maturity, liabilities designated at initial recognition at fair value through profit or loss and derivatives. At the end of each reporting period, they are measured at fair value. Interest, monetary restatement, foreign exchange variation and variations arising from fair value measurement, when applicable, are recognized immediately in profit or loss.
- b) Financial liabilities measured at amortized cost: non-derivative financial liabilities that are not usually traded before maturity. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interest, monetary restatement and foreign exchange variation, when applicable, are recognized immediately in profit or loss.

The main financial liabilities recognized by the Company and its subsidiaries are: borrowings, trade payables, commissions payable and derivatives.

##### c.3) *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

##### c.4) *Market value*

The fair values of financial instruments actively traded in organized markets are determined based on quoted market prices at the end of the reporting period. In the absence of an active market, the fair value is determined by using valuation techniques. These techniques include the use of recent market transactions between independent parties, discounted cash flow analysis or other valuation methods. The financial instruments and their respective fair values are disclosed in Note 19.a.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### c) Financial instruments-Continued

##### c.5) *Impairment of financial instruments*

Financial assets that are not classified at fair value through profit or loss are tested annually for impairment. Financial assets are considered impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset.

##### c.6) *Derivative financial instruments and hedging activities*

The Company operates with derivative financial instruments, mainly hedging transactions. Derivative instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Although the Company uses derivatives for hedging purposes protection, it does not adopt the hedge accounting practice.

The fair values of derivative instruments used for hedging purposes are disclosed in Note 19.b. The Company does not have speculative derivatives.

#### d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and financial investments redeemable within 90 days from the investment date, and with immaterial risk of change in value. Financial investments included in cash equivalents are mostly classified as "financial assets at fair value through profit or loss" (Note 6).

#### e) Financial investments

The classification of financial investments depends on the purpose for which the investment was acquired and it is measured, according to the category, as described in Note 4.c.1. Where applicable, costs directly attributable to the acquisition of a financial asset are added to the amount originally recognized.

## **GRENDENE S.A.**

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### **4. Accounting policies--Continued**

#### f) Trade receivables

Trade receivables are stated at realizable values, and trade receivables in the foreign market are remeasured at the exchange rates in effect at the reporting date.

Provisions have been made, in amounts considered sufficient by management, for estimated losses due to impairment of trade receivables and for the estimated total of prompt payment discounts. The criterion for constitution of the provision for impairment of trade receivables takes into consideration the analysis of credit risks of the customers who have receivables overdue for more than 180 days, not considering those that have court or out-of-court settlements or guarantees.

The provision made for the prompt payment discount is the estimated amount of discounts to be granted on trade receivables for payment of trade notes on due dates, and is recorded in Sales deductions.

Information related to the breakdown of trade receivables into amounts not yet due and past due is included in Note 8.

#### g) Inventories

Inventories are stated at average acquisition or production cost, which does not exceed their net realizable values. Net realizable value is calculated as the sales price in the normal course of business, less costs to be incurred to realize the sale.

Provisions for slow-moving or obsolete inventories (in good condition, but no longer of use for the Company's business) are recorded taking into consideration the history of resale of these inventories, in which the Company recovers part of the cost, resulting in an average percentage of non-recovery which is applied to the balance of inventories classified as slow-moving or obsolete. The Company's management considers that the provision recorded is sufficient to cover losses arising from slow-moving or obsolete inventories.

#### h) Investments

In the parent company financial statements, investments in subsidiaries are accounted for using the equity method. Other investments are stated at cost and adjusted to market value, where applicable.

## **GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### **4. Accounting policies--Continued**

#### h) Investments--Continued

Upon the acquisition of the investment, any differences between the investment cost and the portion of the investor in the net fair value of the identifiable assets and liabilities of the investee must be recorded as goodwill.

#### i) Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction. Cost includes expenditure that is directly attributable to the acquisition of the items. The depreciation of assets is calculated using the straight-line method at the rates mentioned in Note 12 and takes into consideration the estimated useful lives of assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are recognized net of the Social Integration Program (PIS), Social Contribution on Revenues (COFINS) and Value-added Tax on Sales and Services (ICMS) credits, which are recorded in taxes recoverable.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

The carrying amount of property, plant and equipment items is reviewed whenever events or changes in circumstances indicate that the amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped in CGUs.

The Company did not identify indications of impairment of its property, plant and equipment items at December 31, 2015 and 2014, in accordance with technical pronouncement CPC 01 – R1 (IAS 36) – Impairment of Assets.

#### j) Intangible assets

Intangible assets refer to separately acquired intangible assets, which are initially recognized at acquisition cost and, subsequently, less accumulated amortization. The Company's intangible assets have finite useful lives. Amortization is calculated using the straight-line method at the rates mentioned in Note 13.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### j) Intangible assets--Continued

Goodwill represents the excess of the cost of an acquisition over the net fair value of assets and liabilities of the acquired entity. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets" in the consolidated financial statements.

The carrying amount of an intangible asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped in CGUs.

On December 31, 2015 the Company recognized, as a loss due to impairment, in other operating expenses, the full value of the goodwill on the subsidiary A3NP Indústria e Comércio de Móveis S.A.

#### k) Other assets and liabilities

Assets and liabilities are classified as current when it is probable that their realization or settlement will occur within the next twelve months. Otherwise, they are presented as non-current.

#### l) Taxation

##### l.1) *Current income tax and social contribution tax*

Current tax assets and liabilities for the year and prior years are measured at the expected amount recoverable from or payable to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income.

##### l.2) *Deferred income tax and social contribution tax*

The book profit is adjusted for temporarily non-deductible expenses or temporarily non-taxable income in order to calculate current taxable income, thereby generating deferred tax assets or liabilities. Amounts relating to the impacts of deferred tax assets and liabilities are recognized and classified in non-current assets and/or liabilities.

Deferred tax assets relating to temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### l) Taxation--Continued

##### l.2) *Deferred income tax and social contribution tax*--Continued

Deferred taxes are reviewed at the end of each reporting period and, if necessary, a provision for loss is recognized when it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset the current tax asset against the current tax liability, and if they are related to taxes administered by the same tax authority with respect to the same taxable entity.

#### m) Government grants for investments

Tax incentives correspond to: (i) reduction of 75% in income tax levied on profits of the business in the states of Ceará and Bahia, calculated based on operating profit; and (ii) ICMS tax incentives related to operating activities located in such states (Note 17).

Government grants are recognized when there is reasonable assurance that the conditions established in the agreements were fulfilled. They are recognized as revenue in the profit and loss account over the year necessary to match the expense that the government grant intends to compensate and, subsequently, they are transferred to the revenue reserve, within "Tax incentives" in equity. The amounts from state incentives may have different applications, as provided for by Law 11,941 of May 27, 2009.

#### n) Share-based payments

The Company's directors and managers receive compensation in the form of a share-based payment (grant of share purchase options), in which employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees, and of options granted, is measured based on the fair value at the grant date. The Company uses pricing and valuation techniques to determine fair value.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 4. Accounting policies--Continued

#### n) Share-based payments--Continued

The cost of equity-settled transactions is recognized, together with a corresponding credit in equity, over the year in which the performance and/or service condition are fulfilled, ending on the date in which the employee is fully entitled to exercise the option (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity securities to be acquired. The expense in the profit and loss account for the year is recognized in "personnel expenses" and represents the change in the cumulative expenses recognized at the beginning and end of that year, as presented in Note 21.

The effect of outstanding options on diluted earnings per share is disclosed in Note 16.g.

#### o) Segment information

The segments of the Company and its subsidiaries are as follows: (i) production and sale of synthetic footwear for domestic and foreign markets and (ii) sale, import and export of furniture and supplements made from plastic. Segment information is presented in Note 23.

#### p) Adjustment of assets and liabilities to present value

Current monetary assets and liabilities are adjusted to present value when the effect is considered material in relation to the financial statements taken as a whole. At December 31, 2015 and 2014, only trade receivables transactions were considered material and adjusted to their present values. There were no other current or non-current components that required adjustment to present value. The adjustment to present value is calculated considering the cash flows of the transactions and the implicit interest rates of the related assets. Therefore, interest embedded in revenues is discounted in order to recognize it in conformity with the accrual basis of accounting. This interest is subsequently reallocated to finance income, in the profit and loss account, using the effective interest rate method in relation to the contractual cash flows. The implicit interest rates applied were determined based on assumptions and are considered as accounting estimates.

## **GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### **4. Accounting policies--Continued**

q) Accounting judgments, estimates and assumptions

The preparation of the financial statements of the Company and its subsidiaries requires management to make judgments and estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the reporting date. However, the uncertainty related to these assumptions and estimates could lead to results that would require a significant adjustment to the carrying amount of the respective asset or liability in future years. The areas involving a higher degree of judgment, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

r) Borrowings

Borrowings are stated at contractual amounts, plus agreed-upon charges including interest and monetary restatement or foreign exchange variations. After initial recognition they are measured at amortized cost, using the effective interest rate method.

s) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. When a provision is expected to be fully or partially reimbursed, for example, in connection with an insurance contract, the reimbursement is recognized as a separate asset, but only when the receipt is virtually certain. The expense related to any provision is presented in the profit and loss account, net of any reimbursement.

t) Presentation of the statements of cash flows and value added

The statements of cash flows were prepared in accordance with the indirect method and are presented in accordance with technical pronouncement CPC 03 – R2 (IAS 7) – Statement of Cash Flows. Changes in financial investments are shown in investing activities. The statement of value added was prepared in accordance with technical pronouncement CPC 09 – Statement of Value Added.

## **GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### **4. Accounting policies--Continued**

#### u) Treasury shares

The Company's own equity instruments that are repurchased (treasury shares) are recorded at cost, as a reduction of equity. No gain or loss is recognized in the profit and loss account on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration received on sale is recognized in capital or revenue reserves.

### **5. Accounting estimates and assumptions**

The main assumptions related to sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the end of the reporting period, involving a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year, are presented below.

*Impairment of non-financial assets:* An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available information on sales of similar assets or market prices, reduced of costs incurred to carry out the sale. The value-in-use calculation is based on the discounted cash flow model. Cash flows derive from estimates of results for the following five years and do not include restructuring activities to which the Company is not yet committed or significant future investments that will improve the asset base of the cash generating unit subject to test. The recoverable amount is influenced by the discount rate used under the discounted cash flow method, as well as by the expected future cash receipts and the growth rate used for extrapolation purposes.

*Taxes:* Tax regulations in Brazil are complex, which raises uncertainties as to their interpretation and to the amount and timing of future taxable profits. Accordingly, any differences between actual results and assumptions adopted, or future changes in these assumptions, could require future adjustments to the tax credits and expenses already recognized. The Company did not recognize a provision in this respect based on several factors, such as experience of past tax audits, diverging interpretations of tax regulations, and systematic assessments carried out jointly by the Company's management and its tax advisors.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 5. Accounting estimates and assumptions--Continued

*Fair value of financial instruments:* When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. The data for these methods is based on those practiced in the market, whenever possible. However, when this is not possible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on data utilized, such as liquidity risk, credit risk and volatility. Changes in assumptions concerning these factors could affect the reported fair value of the financial instruments.

*Provisions for labor, tax and civil risks:* The assessment of the likelihood of loss includes the evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their importance in the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits or additional exposures identified based on new issues or court decisions.

Other significant items subject to estimates include: the selection of useful lives of property, plant and equipment and intangible assets; provision for impairment of trade receivables; provision for prompt payment discount; provision for inventory losses; deferred income tax and social contribution tax; rates and periods used to determine the present value adjustment of certain assets and liabilities; fair value of share-based payment; and financial instrument sensitivity analyses.

### 6. Cash and cash equivalents

	Parent company		Consolidated	
	2015	2014	2015	2014
Cash and banks	1,981	4,289	6,777	13,778
Financial investments	4,132	4,236	14,508	12,546
	<u>6,113</u>	<u>8,525</u>	<u>21,285</u>	<u>26,324</u>

Cash and banks are represented by non-interest-bearing bank deposits. Financial investments classified as cash equivalents refer to short-term investments redeemable no later than three months from the acquisition date.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**7. Financial investments**

	Parent company / Consolidated	
	2015	2014
Securities at fair value through profit or loss	<b>390,004</b>	379,572
Held-to-maturity investments	<b>870,591</b>	590,082
	<b>1,260,595</b>	969,654
(-) Total current assets	<b>(596,872)</b>	(634,472)
Total non-current assets	<b>663,723</b>	335,182

The Company's financial investments comprise the following components:

	Index	Return	Parent company / Consolidated	
			2015	2014
Indexed	CDI	105.25% and 103.57%	<b>809,430</b>	650,927
Fixed-rate and indexed	IPCA +	5.65% aa and 5.54% aa	<b>290,320</b>	227,658
Fixed-rate and indexed	IGPM +	6.25% aa	<b>55,030</b>	46,787
Fixed-rate		14.24% aa and 9.67%aa	<b>105,815</b>	44,282
			<b>1,260,595</b>	969,654

Financial investments comprise: Bank Certificates of Deposit (CDBs), Debentures, Real-denominated Bank Debt Notes (LFINs) and Government Debt Securities (NTNs), and are classified as "Securities at fair value through profit or loss", and "Held-to-maturity investments", according to the Company's investment strategy.

**8. Trade receivables**

	Parent company		Consolidated	
	2015	2014	2015	2014
Not yet due	<b>825,713</b>	863,074	<b>853,508</b>	919,348
Overdue for up to 30 days	<b>21,440</b>	13,554	<b>18,963</b>	17,525
Overdue from 31 to 60 days	<b>3,595</b>	2,545	<b>3,475</b>	4,345
Overdue from 61 to 90 days	<b>3,350</b>	3,798	<b>4,085</b>	4,454
Past due for more than 91 days	<b>19,193</b>	9,430	<b>19,848</b>	10,562
	<b>873,291</b>	892,401	<b>899,879</b>	956,234
Provision for doubtful receivables	<b>(4,973)</b>	(4,918)	<b>(6,444)</b>	(5,765)
Provision for punctuality discounts	<b>(24,355)</b>	(26,958)	<b>(24,373)</b>	(27,054)
Adjustment to Present Value (AVP)	<b>(11,823)</b>	(10,997)	<b>(14,071)</b>	(16,071)
	<b>832,140</b>	849,528	<b>854,991</b>	907,344

At December 31, 2015 and 2014, the average collection periods for the domestic market are 96 and 97 days, respectively, and for the foreign market 84 and 85 days, respectively.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**8. Trade receivables--Continued**

There are no liens, pledges and/or restrictions to the trade receivables amounts.

The provisions for past due receivables are as follows:

	Parent company			
	2015		2014	
	Balance	Provision	Balance	Provision
Not yet due	825,713	-	863,074	-
Overdue for up to 30 days	21,440	-	13,554	-
Overdue from 31 to 60 days	3,595	(2)	2,545	-
Overdue from 61 to 90 days	3,350	(1)	3,798	(8)
Past due for more than 91 days	19,193	(4,970)	9,430	(4,910)
	<b>873,291</b>	<b>(4,973)</b>	<b>892,401</b>	<b>(4,918)</b>

	Consolidated			
	2015		2014	
	Balance	Provision	Balance	Provision
Not yet due	853,508	-	919,348	-
Overdue for up to 30 days	18,963	-	17,525	-
Overdue from 31 to 60 days	3,475	(2)	4,345	-
Overdue from 61 to 90 days	4,085	(1)	4,454	(8)
Past due for more than 91 days	19,848	(6,441)	10,562	(5,757)
	<b>899,879</b>	<b>(6,444)</b>	<b>956,234</b>	<b>(5,765)</b>

The changes in the provisions for doubtful receivables were as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>(4,918)</b>	(3,219)	<b>(5,765)</b>	(3,489)
Additions	<b>(7,343)</b>	(6,163)	<b>(10,375)</b>	(7,248)
Realizations	<b>5,218</b>	3,527	<b>5,253</b>	3,592
Reversals	<b>2,070</b>	937	<b>4,313</b>	1,386
Exchange variation	-	-	<b>130</b>	(6)
<b>Balance at the end of the year</b>	<b>(4,973)</b>	(4,918)	<b>(6,444)</b>	(5,765)

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**8. Trade receivables--Continued**

The changes in the provision for prompt payment discount were as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>(26,958)</b>	(38,551)	<b>(27,054)</b>	(39,013)
Additions	<b>(86,706)</b>	(100,155)	<b>(86,868)</b>	(100,510)
Realizations	<b>74,341</b>	96,383	<b>74,529</b>	97,051
Reversals	<b>14,968</b>	15,365	<b>15,020</b>	15,418
<b>Balance at the end of the year</b>	<b>(24,355)</b>	(26,958)	<b>(24,373)</b>	(27,054)

**9. Inventories**

	Parent company		Consolidated	
	2015	2014	2015	2014
Footwear	<b>48,794</b>	33,902	<b>80,591</b>	54,092
Furniture	-	-	<b>1,903</b>	258
Inputs and components	<b>33,748</b>	34,431	<b>33,942</b>	34,700
Raw materials	<b>68,498</b>	58,629	<b>68,577</b>	58,730
Packaging materials	<b>11,184</b>	12,562	<b>11,208</b>	12,613
Intermediate and other materials	<b>31,632</b>	28,183	<b>31,738</b>	28,328
Goods for resale	<b>670</b>	434	<b>670</b>	434
Advances to suppliers	<b>16,358</b>	8,244	<b>16,358</b>	8,244
Imports in transit	<b>10,808</b>	10,678	<b>10,808</b>	10,678
Inventories held by third parties	<b>14,139</b>	12,739	<b>14,142</b>	12,739
Provision for obsolete inventory	<b>(8,372)</b>	(6,719)	<b>(8,475)</b>	(6,797)
	<b>227,459</b>	193,083	<b>261,462</b>	214,019

The changes in the provision for adjustment of obsolete inventories were as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>(6,719)</b>	(4,046)	<b>(6,797)</b>	(4,794)
Additions	<b>(9,138)</b>	(13,080)	<b>(9,782)</b>	(15,521)
Realizations	<b>3,102</b>	3,402	<b>3,102</b>	3,402
Reversals	<b>4,383</b>	7,005	<b>5,015</b>	10,099
Exchange variation	-	-	<b>(13)</b>	17
<b>Balance at the end of the year</b>	<b>(8,372)</b>	(6,719)	<b>(8,475)</b>	(6,797)

There are no liens, pledges and/or restrictions to the full utilization of the inventories.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 10. Tax credits

	Parent company		Consolidated	
	2015	2014	2015	2014
Withholding Income Tax (IRRF)	-	41	240	434
Excise tax (IPI) recoverable	54	42	350	258
Value-added Tax on Sales and Services (ICMS) recoverable	2,972	3,416	5,077	5,561
Social Integration Program (PIS) recoverable	56	55	118	55
Social Contribution on Revenues (COFINS) recoverable	259	252	543	252
INSS recoverable	15	1,908	29	1,922
Other	-	521	-	521
Taxes recoverable – Subsidiaries abroad	-	-	5,173	3,348
	<b>3,356</b>	6,235	<b>11,530</b>	12,351
(-) Total current assets	<b>(2,816)</b>	(5,589)	<b>(10,990)</b>	(11,705)
Total non-current assets	<b>540</b>	646	<b>540</b>	646

a) IRRF

IRRF refers to withholding income tax on the redemption of financial investments. These credits are realizable through the offset against federal taxes and contributions.

b) ICMS and IPI recoverable

The balances were generated from sales transactions and can be offset against taxes of the same nature.

c) PIS and COFINS recoverable

Refer to PIS and COFINS balances to be offset against federal taxes and contributions.

d) National Institute of Social Security (INSS) recoverable

Corresponds to the INSS balance, to be offset with the tax.

**GRENDENE S.A.**

Notes to the financial statements--Continued  
 December 31, 2015 and 2014  
 (All amounts in thousands of reais)

**11. Investments**a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
Subsidiaries	<b>72,348</b>	79,693	-	-
Goodwill of subsidiary	-	8,862	-	-
Unrealized profits in subsidiaries	<b>(5,904)</b>	(2,863)	-	-
Other investments	<b>412</b>	412	<b>412</b>	412
	<b>66,856</b>	86,104	<b>412</b>	412

b) Changes in investments

The changes in investments are as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>86,104</b>	63,373	<b>412</b>	877
Acquisition of subsidiaries	-	7,738	-	-
Goodwill of subsidiary	-	5,721	-	-
Capital increase in subsidiary	<b>26,575</b>	18,006	-	-
Disposals	-	(465)	-	(465)
Impairment loss - Goodwill	<b>(8,862)</b>	-	-	-
Equity in the results of investees	<b>(53,817)</b>	(10,393)	-	-
Exchange differences on subsidiaries abroad	<b>16,856</b>	2,124	-	-
<b>Balance at the end of the year</b>	<b>66,856</b>	86,104	<b>412</b>	412

c) Impairment loss – Goodwill

Due to the results of the subsidiary A3NP Indústria e Comércio de Móveis S.A. not reaching the point of break-even, and due to there being substantial doubt about that company's capacity to generate future economic results able to support maintenance of the goodwill, the Company recognized a loss due to impairment, of R\$8,862, the full value of the goodwill, in other operating expenses, on December 31, 2015.

**GRENDENE S.A.**

## Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**11. Investments--Continued**d) Summarized financial information of direct and indirect subsidiaries (consolidated)

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (*) (**)		A3NP Indústria e Comércio de Móveis S.A. (*) (**)	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Current assets	<b>49,677</b>	91,112	<b>12,889</b>	13,348	<b>42,873</b>	28,070	<b>11,495</b>	5,722	<b>6,075</b>	5,817
Non-current assets	<b>568</b>	2,788	<b>1,078</b>	1,248	<b>14,049</b>	7,385	<b>15,369</b>	11,835	<b>27,889</b>	19,941
Total assets	<b>50,245</b>	93,900	<b>13,967</b>	14,596	<b>56,922</b>	35,455	<b>26,864</b>	17,557	<b>33,964</b>	25,758
Current liabilities	<b>46,170</b>	72,637	<b>418</b>	1,004	<b>20,875</b>	11,591	<b>7,852</b>	3,823	<b>7,081</b>	5,764
Non-current liabilities	-	-	<b>180</b>	194	-	-	-	-	<b>26,767</b>	-
Total liabilities	<b>46,170</b>	72,637	<b>598</b>	1,198	<b>20,875</b>	11,591	<b>7,852</b>	3,823	<b>33,848</b>	5,764
Equity of subsidiaries	<b>4,075</b>	21,263	<b>13,369</b>	13,398	<b>36,047</b>	23,864	<b>19,012</b>	13,734	<b>116</b>	19,994
Percentage of interest	<b>95.00%</b>	95.00%	<b>99.998%</b>	99.998%	<b>100.00%</b>	100.00%	<b>100.00%</b>	100.00%	<b>42.50%</b>	42.50%
Interest in equity (investment)	<b>3,871</b>	20,200	<b>13,369</b>	13,398	<b>36,047</b>	23,864	<b>19,012</b>	13,734	<b>49</b>	8,497

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (*) (**)		A3NP Indústria e Comércio de Móveis S.A. (*) (**)	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue	<b>56,682</b>	98,597	<b>5,461</b>	10,237	<b>34,664</b>	31,954	<b>9,411</b>	6,002	<b>2,277</b>	2,935
Costs and expenses	<b>(74,909)</b>	(97,511)	<b>(5,490)</b>	(10,965)	<b>(47,187)</b>	(34,497)	<b>(22,188)</b>	(11,225)	<b>(21,409)</b>	(11,698)
Profit (loss) of the subsidiaries for the year	<b>(18,227)</b>	1,086	<b>(29)</b>	(728)	<b>(12,523)</b>	(2,543)	<b>(12,777)</b>	(5,223)	<b>(19,132)</b>	(8,763)
Percentage of interest	<b>95.00%</b>	95.00%	<b>99.998%</b>	99.998%	<b>100.00%</b>	100.00%	<b>100.00%</b>	100.00%	<b>42.50%</b>	42.50%
Equity in the results of investees	<b>(17,316)</b>	1,032	<b>(29)</b>	(728)	<b>(12,523)</b>	(2,543)	<b>(12,777)</b>	(5,223)	<b>(8,131)</b>	(3,724)
Unrealized profits	<b>158</b>	284	-	-	<b>(2,855)</b>	765	<b>(344)</b>	(256)	-	-
Total equity in results of subsidiaries	<b>(17,158)</b>	1,316	<b>(29)</b>	(728)	<b>(15,378)</b>	(1,778)	<b>(13,121)</b>	(5,479)	<b>(8,131)</b>	(3,724)
Net cash provided by (used in) operating activities	<b>21,151</b>	34,422	<b>1,559</b>	1,470	<b>(15,314)</b>	(3,012)	<b>(11,964)</b>	(4,980)	<b>(13,763)</b>	(7,141)
Net cash provided by (used in) investing activities	-	-	<b>(33)</b>	(40)	<b>(454)</b>	(183)	<b>(231)</b>	(7,695)	<b>(11,551)</b>	(13,537)
Net cash provided by (used in) financing activities	<b>(21,050)</b>	(35,461)	-	-	<b>14,342</b>	4,624	<b>12,234</b>	13,382	<b>21,612</b>	21,359
Increase (decrease) in cash and cash equivalents	<b>101</b>	(1,039)	<b>1,526</b>	1,430	<b>(1,426)</b>	1,429	<b>39</b>	707	<b>(3,702)</b>	681

(\*) Audited by other independent auditors.

(\*\*) Amount consolidated in the subsidiary Grendene USA Inc. and indirect subsidiary Grendene New York L.L.C.;

Amount consolidated in the subsidiary Grendene UK Limited and indirect subsidiary Grendene Italy, S.R.L.; and

Amount consolidated in the subsidiary A3NP Indústria e Comércio de Móveis S.A. and indirect subsidiary Z Plus EUR Company S.R.L.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**12. Property, plant and equipment**

Parent Company							
2015							
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
<b>Cost of PPE</b>							
At the beginning of the year	302,737	297,542	19,857	25,221	14,418	4,620	664,395
Purchases	950	34,437	1,419	3,295	25,146	127	65,374
Disposals	(32)	(7,766)	(181)	(772)	(832)	(134)	(9,717)
Transfers	19,026	2,065	1,772	139	(23,236)	234	-
At the end of the year	<b>322,681</b>	<b>326,278</b>	<b>22,867</b>	<b>27,883</b>	<b>15,496</b>	<b>4,847</b>	<b>720,052</b>
<b>Accumulated depreciation(*)</b>	4%, 10% e 20%	10% e 20%	10%	20%	-	5% e 10%	-
At the beginning of the year	(137,834)	(154,300)	(9,088)	(15,585)	-	(1,677)	(318,484)
Depreciation	(15,495)	(21,193)	(1,682)	(3,170)	-	(619)	(42,159)
Disposals	4	7,064	139	661	-	90	7,958
Transfers	57	2	(2)	(57)	-	-	-
At the end of the year	<b>(153,268)</b>	<b>(168,427)</b>	<b>(10,633)</b>	<b>(18,151)</b>	<b>-</b>	<b>(2,206)</b>	<b>(352,685)</b>
<b>Net book value</b>							
At 12/31/2014	164,903	143,242	10,769	9,636	14,418	2,943	345,911
At 12/31/2015	<b>169,413</b>	<b>157,851</b>	<b>12,234</b>	<b>9,732</b>	<b>15,496</b>	<b>2,641</b>	<b>367,367</b>

Parent Company							
2014							
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
<b>Cost of PPE</b>							
At the beginning of the year	236,198	270,799	16,848	23,752	43,420	4,060	595,077
Purchases	2,900	30,565	2,123	3,642	40,800	378	80,408
Disposals	(300)	(7,168)	(70)	(2,132)	(1,420)	-	(11,090)
Transfers	63,939	3,346	956	(41)	(68,382)	182	-
At the end of the year	<b>302,737</b>	<b>297,542</b>	<b>19,857</b>	<b>25,221</b>	<b>14,418</b>	<b>4,620</b>	<b>664,395</b>
<b>Accumulated depreciation(*)</b>	4%, 10% e 20%	10% e 20%	10%	20%	-	5% e 10%	-
At the beginning of the year	(124,443)	(141,008)	(7,649)	(14,630)	-	(1,117)	(288,847)
Depreciation	(13,471)	(19,468)	(1,471)	(3,004)	-	(560)	(37,974)
Disposals	83	6,165	50	2,039	-	-	8,337
Transfers	(3)	11	(18)	10	-	-	-
At the end of the year	<b>(137,834)</b>	<b>(154,300)</b>	<b>(9,088)</b>	<b>(15,585)</b>	<b>-</b>	<b>(1,677)</b>	<b>(318,484)</b>
<b>Net book value</b>							
At 12/31/2013	111,755	129,791	9,199	9,122	43,420	2,943	306,230
At 12/31/2014	<b>164,903</b>	<b>143,242</b>	<b>10,769</b>	<b>9,636</b>	<b>14,418</b>	<b>2,943</b>	<b>345,911</b>

**GRENDENE S.A.**

## Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**12. Property, plant and equipment--Continued**

<b>Consolidated</b>							
<b>2015</b>							
	<b>Land, buildings, facilities and leasehold improvements</b>	<b>Machinery, equipment, tools and parts and replacement sets</b>	<b>Furniture and fittings</b>	<b>Data processing equipment</b>	<b>PPE in progress</b>	<b>Other</b>	<b>Total</b>
<b>Cost of PPE</b>							
At the beginning of the year	317,899	299,783	21,568	26,334	14,418	12,604	692,606
Purchases	1,084	34,460	1,866	3,389	25,146	127	66,072
Disposals	(557)	(7,766)	(274)	(825)	(832)	(8,069)	(18,323)
Transfers	19,026	2,065	1,772	139	(23,236)	234	-
Foreign exchange variation	6,300	-	726	394	-	23	7,443
At the end of the year	<b>343,752</b>	<b>328,542</b>	<b>25,658</b>	<b>29,431</b>	<b>15,496</b>	<b>4,919</b>	<b>747,798</b>
<b>Accumulated depreciation(*)</b>							
	4%, 10% e 20%	10% e 20%	10%	20%	-	5% e 10%	-
At the beginning of the year	(140,464)	(155,757)	(10,042)	(16,437)	-	(1,727)	(324,427)
Depreciation	(17,700)	(21,417)	(1,922)	(3,292)	-	(619)	(44,950)
Disposals	19	7,064	156	680	-	90	8,009
Transfers	57	2	(2)	(57)	-	-	-
Foreign exchange variation	(1,328)	-	(437)	(304)	-	(23)	(2,092)
At the end of the year	<b>(159,416)</b>	<b>(170,108)</b>	<b>(12,247)</b>	<b>(19,410)</b>	<b>-</b>	<b>(2,279)</b>	<b>(363,460)</b>
<b>Net book value</b>							
At 12/31/2014	177,435	144,026	11,526	9,897	14,418	10,877	368,179
At 12/31/2015	<b>184,336</b>	<b>158,434</b>	<b>13,411</b>	<b>10,021</b>	<b>15,496</b>	<b>2,640</b>	<b>384,338</b>

<b>Consolidated</b>							
<b>2014</b>							
	<b>Land, buildings, facilities and leasehold improvements</b>	<b>Machinery, equipment, tools and parts and replacement sets</b>	<b>Furniture and fittings</b>	<b>Data processing equipment</b>	<b>PPE in progress</b>	<b>Other</b>	<b>Total</b>
<b>Cost of PPE</b>							
At the beginning of the year	241,940	273,104	18,255	24,639	45,857	4,104	607,899
Purchases	10,638	30,566	2,389	3,802	40,800	6,109	94,304
Disposals	(300)	(7,173)	(192)	(2,208)	(1,425)	-	(11,298)
Transfers	64,179	3,286	946	18	(70,814)	2,385	-
Foreign exchange variation	1,442	-	170	83	-	6	1,701
At the end of the year	<b>317,899</b>	<b>299,783</b>	<b>21,568</b>	<b>26,334</b>	<b>14,418</b>	<b>12,604</b>	<b>692,606</b>
<b>Accumulated depreciation(*)</b>							
	4%, 10% e 20%	10% e 20%	10%	20%	-	5% e 10%	-
At the beginning of the year	(125,678)	(142,248)	(8,366)	(15,359)	-	(1,161)	(292,812)
Depreciation	(14,699)	(19,695)	(1,626)	(3,087)	-	(560)	(39,667)
Disposals	83	6,166	54	2,079	-	-	8,382
Transfers	(5)	20	(11)	(4)	-	-	-
Foreign exchange variation	(165)	-	(93)	(66)	-	(6)	(330)
At the end of the year	<b>(140,464)</b>	<b>(155,757)</b>	<b>(10,042)</b>	<b>(16,437)</b>	<b>-</b>	<b>(1,727)</b>	<b>(324,427)</b>
<b>Net book value</b>							
At 12/31/2013	116,262	130,856	9,889	9,280	45,857	2,943	315,087
At 12/31/2014	<b>177,435</b>	<b>144,026</b>	<b>11,526</b>	<b>9,897</b>	<b>14,418</b>	<b>10,877</b>	<b>368,179</b>

(\*) The Company depreciates property, plant and equipment on the straight-line method, based on the estimated useful lives of the assets.

Depreciation costs and expenses are recorded in the profit and loss account, net of PIS/COFINS credits, as follows:

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## Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**12. Property, plant and equipment--Continued**

	Parent company		Consolidated	
	2015	2014	2015	2014
Cost of goods sold	<b>(36,539)</b>	(32,794)	<b>(36,758)</b>	(33,013)
Selling expenses	<b>(1,522)</b>	(1,377)	<b>(3,815)</b>	(2,618)
General and administrative expenses	<b>(3,042)</b>	(2,897)	<b>(4,212)</b>	(2,984)
	<b>(41,103)</b>	(37,068)	<b>(44,785)</b>	(38,615)

Certain property, plant and equipment items are pledged in guarantee of borrowings, as disclosed in Note 14.c.

**13. Intangible assets**

	Parent company					
	2015					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
<b>Cost of intangible assets</b>						
At the beginning of the year	47,488	15,348	4,374	4,660	462	72,332
Purchases	<b>1,158</b>	<b>2,099</b>	-	<b>1,715</b>	<b>2,160</b>	<b>7,132</b>
Disposals	<b>(14)</b>	<b>(3)</b>	-	-	-	<b>(17)</b>
Transfers	<b>485</b>	-	-	-	<b>(485)</b>	-
At the end of the year	<b>49,117</b>	<b>17,444</b>	<b>4,374</b>	<b>6,375</b>	<b>2,137</b>	<b>79,447</b>
<b>Accumulated amortization (*)</b>	<b>20%</b>	<b>10%</b>	<b>20%</b>	<b>20%</b>	-	-
At the beginning of the year	(25,774)	(9,843)	(3,102)	(1,823)	-	(40,542)
Amortization	<b>(6,191)</b>	<b>(990)</b>	<b>(677)</b>	<b>(817)</b>	-	<b>(8,675)</b>
Disposals	<b>8</b>	-	-	-	-	<b>8</b>
At the end of the year	<b>(31,957)</b>	<b>(10,833)</b>	<b>(3,779)</b>	<b>(2,640)</b>	-	<b>(49,209)</b>
<b>Net book value</b>						
At 12/31/2014	21,714	5,505	1,272	2,837	462	31,790
At 12/31/2015	<b>17,160</b>	<b>6,611</b>	<b>595</b>	<b>3,735</b>	<b>2,137</b>	<b>30,238</b>

	Parent company					
	2014					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
<b>Cost of intangible assets</b>						
At the beginning of the year	33,368	14,286	4,374	3,377	5,796	61,201
Purchases	6,479	1,066	-	1,283	2,315	11,143
Disposals	(8)	(4)	-	-	-	(12)
Transfers	7,649	-	-	-	(7,649)	-
At the end of the year	47,488	15,348	4,374	4,660	462	72,332
<b>Accumulated amortization (*)</b>	<b>20%</b>	<b>10%</b>	<b>20%</b>	<b>20%</b>	-	-
At the beginning of the year	(20,259)	(8,928)	(2,387)	(1,213)	-	(32,787)
Amortization	(5,515)	(915)	(715)	(610)	-	(7,755)
Disposals	-	-	-	-	-	-
At the end of the year	<b>(25,774)</b>	<b>(9,843)</b>	<b>(3,102)</b>	<b>(1,823)</b>	-	<b>(40,542)</b>
<b>Net book value</b>						
At 12/31/2013	13,109	5,358	1,987	2,164	5,796	28,414
At 12/31/2014	21,714	5,505	1,272	2,837	462	31,790

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## Notes to the financial statements--Continued

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(All amounts in thousands of reais)

**13. Intangible assets--Continued**

Consolidated								
2015								
	Trademarks		Development					
	Software	and patents	Goodwill	Technology	of software	Goodwill	Other	Total
<b>Cost of intangible assets</b>								
At the beginning of the year	48,077	18,444	4,374	4,660	462	10,931	5,719	92,667
Purchases	1,179	2,099	-	1,715	2,160	-	-	7,153
Disposals	(84)	(1,753)	-	-	-	(10,931)	(5,719)	(18,487)
Transfers	485	-	-	-	(485)	-	-	-
Foreign exchange variation	246	625	-	-	-	-	-	871
At the end of the year	<b>49,903</b>	<b>19,415</b>	<b>4,374</b>	<b>6,375</b>	<b>2,137</b>	-	-	<b>82,204</b>
<b>Accumulated amortization (*)</b>								
	20%	10%	20%	20%	-	-	-	-
At the beginning of the year	(26,261)	(9,854)	(3,102)	(1,823)	-	-	-	(41,040)
Amortization	(6,216)	(992)	(677)	(817)	-	-	-	(8,702)
Disposals	16	-	-	-	-	-	-	16
Foreign exchange variation	(226)	-	-	-	-	-	-	(226)
At the end of the year	<b>(32,687)</b>	<b>(10,846)</b>	<b>(3,779)</b>	<b>(2,640)</b>	-	-	-	<b>(49,952)</b>
<b>Net book value</b>								
At 12/31/2014	21,816	8,590	1,272	2,837	462	10,931	5,719	51,627
At 12/31/2015	<b>17,216</b>	<b>8,569</b>	<b>595</b>	<b>3,735</b>	<b>2,137</b>	-	-	<b>32,252</b>

Consolidated								
2014								
	Trademarks		Development					
	Software	and patents	Goodwill	Technology	of software	Goodwill	Other	Total
<b>Cost of intangible assets</b>								
At the beginning of the year	33,793	15,491	4,374	3,377	5,796	5,210	-	68,041
Purchases	6,598	2,800	-	1,283	2,315	5,721	6,069	24,786
Disposals	(23)	(4)	-	-	-	-	(350)	(377)
Transfers	7,649	-	-	-	(7,649)	-	-	-
Foreign exchange variation	60	157	-	-	-	-	-	217
At the end of the year	<b>48,077</b>	<b>18,444</b>	<b>4,374</b>	<b>4,660</b>	<b>462</b>	<b>10,931</b>	<b>5,719</b>	<b>92,667</b>
<b>Accumulated amortization (*)</b>								
	20%	10%	20%	20%	-	-	-	-
At the beginning of the year	(20,657)	(8,937)	(2,387)	(1,213)	-	-	-	(33,194)
Amortization	(5,552)	(917)	(715)	(610)	-	-	-	(7,794)
Disposals	4	-	-	-	-	-	-	4
Foreign exchange variation	(56)	-	-	-	-	-	-	(56)
At the end of the year	<b>(26,261)</b>	<b>(9,854)</b>	<b>(3,102)</b>	<b>(1,823)</b>	-	-	-	<b>(41,040)</b>
<b>Net book value</b>								
At 12/31/2013	13,136	6,554	1,987	2,164	5,796	5,210	-	34,847
At 12/31/2014	<b>21,816</b>	<b>8,590</b>	<b>1,272</b>	<b>2,837</b>	<b>462</b>	<b>10,931</b>	<b>5,719</b>	<b>51,627</b>

(\*) The Company amortizes its intangible assets based on the acquisition cost.

Amortization costs and expenses are recorded in the profit and loss account, net of PIS/COFINS credits, as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
Cost of goods sold	<b>(3,120)</b>	(3,013)	<b>(3,122)</b>	(3,015)
Selling expenses	<b>(1,610)</b>	(1,632)	<b>(1,632)</b>	(1,660)
General and administrative expenses	<b>(3,651)</b>	(2,826)	<b>(3,941)</b>	(2,835)
	<b>(8,381)</b>	(7,471)	<b>(8,695)</b>	(7,510)

At December 31, 2015 and 2014, the Company does not have internally generated intangible assets.

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Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**14. Borrowings**

	Index	Interest rate (p.a.)	Parent company		Consolidated	
			2015	2014	2015	2014
<b>In local currency</b>						
Property, plant and equipment	Fixed	4.31%	<b>61,651</b>	50,481	<b>61,651</b>	50,481
Proapi - Provin	Long-term Interest Rate (TJLP)	-	<b>24,594</b>	25,076	<b>24,594</b>	25,076
			<b>86,245</b>	75,557	<b>86,245</b>	75,557
<b>In foreign currency</b>						
Working capital	Argentinean pesos	26.88% e 26.33%	-	-	<b>35,414</b>	45,447
Working capital	Euro +	2.00%	-	-	-	3,227
Working capital – ACE	US Dollar +	2.24% e 0.99%	<b>91,166</b>	47,126	<b>91,166</b>	47,126
			<b>91,166</b>	47,126	<b>126,580</b>	95,800
Total borrowings			<b>177,411</b>	122,683	<b>212,825</b>	171,357
(-) Total current liabilities			<b>(106,238)</b>	(50,893)	<b>(141,652)</b>	(99,567)
Total non-current liabilities			<b>71,173</b>	71,790	<b>71,173</b>	71,790

a) Financing – Proapi and Provin

The Company enjoys tax incentives with respect to its activities in the State of Ceará, by means of financing obtained from the Industrial Development Fund of Ceará (FDI) through the financial agent accredited by the fund. Such financing is based on ICMS due (Provin) and on exported products (Proapi), computed on a monthly basis. The financing is settled within a period ranging from 36 to 60 months after the release of the funds.

Management believes that the benefit of the reduction should be recorded at the time the financing is obtained, so as to reflect the accrual method of accounting more accurately, since the cost of ICMS and exports related to operations entitled to the incentive are recorded concomitantly with the benefits.

At December 31, 2015, portions of this financing that are not subject to tax incentives amounting to R\$4,593 and R\$20,001 (R\$3,267 and R\$21,809 in 2014) are recorded as current and non-current liabilities, respectively.

Under the Proapi Program, the financing is granted based on 11% of the Free on Board (FOB) export value, is payable within 60 months and is subject to the long-term interest rate (TJLP). At maturity, the Company pays 10% of the financing debt balance and the remaining 90% is waived, representing a net incentive of 9.9% of the FOB value.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**14. Borrowings--Continued**b) Payment schedule

The long-term portions of borrowings are due as follows:

Maturity	Long-term portions					Total
	2017	2018	2019	2020	2021	
Bank financing	10,442	10,442	10,341	9,974	9,973	51,172
Proapi	1,139	3,636	9,715	-	-	14,490
Provin	1,681	1,690	1,124	1,016	-	5,511
<b>Total</b>	<b>13,262</b>	<b>15,768</b>	<b>21,180</b>	<b>10,990</b>	<b>9,973</b>	<b>71,173</b>

c) Guarantees

Guarantees for borrowings are as follows: a) statutory lien on financed machinery and equipment; b) land and buildings; and c) personal sureties provided by the Company's stockholders. The existing guarantees are for the financed amounts.

**15. Provisions for labor, tax, civil and environmental risks**a) Probable loss risk – Provided for

The Company is the defendant in certain labor claims. The estimated loss was provisioned based on the opinion of the legal advisors, in an amount considered sufficient to cover probable losses that could arise in the event of unfavorable court decisions.

The changes in the provision for labor risks were as follows:

	Parent Company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>1,950</b>	2,324	<b>2,159</b>	2,327
Additions	<b>1,004</b>	1,077	<b>1,932</b>	1,283
Realizations	<b>(640)</b>	(1,322)	<b>(640)</b>	(1,322)
Reversals	<b>(417)</b>	(129)	<b>(417)</b>	(129)
Exchange variation	-	-	<b>(151)</b>	-
<b>Balance at the end of the year</b>	<b>1,897</b>	1,950	<b>2,883</b>	2,159
(-) Total current liabilities	<b>(1,769)</b>	(1,844)	<b>(2,575)</b>	(1,873)
Total non-current liabilities	<b>128</b>	106	<b>308</b>	286

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 15. Provisions for labor, tax, civil and environmental risks--Continued

b) Possible loss risk – Not provided for

The Company has labor, tax, civil and environmental contingencies involving risks classified by management as possible losses, based on the evaluation of the legal advisors, for which no provision was recognized. The analysis and the estimates are as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
Labor	5,948	3,123	7,057	3,176
Tax				
PIS and COFINS	672	672	672	672
INSS	383	383	383	383
ICMS	-	10,765	-	10,765
Civil	11,362	3,634	11,362	3,634
Environmental	500	-	500	-
	<b>18,865</b>	<b>18,577</b>	<b>19,974</b>	<b>18,630</b>

### 16. Equity

a) Capital

At December 31, 2015 and 2014, fully subscribed and paid-up capital comprises 300,720,000 common shares of R\$4.09 each, which comprise voting shares of a sole class in relation to stockholder rights, observing the applicable legal conditions.

b) Carrying value adjustments

These adjustments refer to the effects of the conversion from the functional currency to the reporting currency of foreign investments accounted for under the equity method.

c) Capital reserves

This refers to the amount of the stock option or share subscription plan granted by the Company to its officers, as described in Note 21.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**16. Equity--Continued**d) Revenue reserves

- *Legal reserve*

This reserve is credited with 5% of the profit for the year, less the amount of tax incentives, and is limited to 20% of the company's share capital. The balance is R\$109,078 at December 31, 2015 (R\$95,099 in 2014).

- *Reserve for acquisition of shares*

The balance of R\$16,118 at December 31, 2015 (R\$17,000 in 2014), refers to the amount retained for redemption, repurchase or acquisition of shares in the company, which may include compliance with its obligations to deliver shares to participants in the company's stock options plan.

The reserve for acquisition of shares may be formed from up to 100% of the profit remaining after the legal and statutory deductions, and is limited to a maximum of 20% of the company's share capital.

- *Tax incentives*

This reserve is constituted for the tax benefits received by the company under governmental subsidies to encourage investment, as shown in Note 17.

	Parent company / Consolidated		
	2015		
	ICMS and Exports	Income tax	Tax incentives
<b>Balance at the beginning of the year</b>	<b>532,537</b>	<b>351,522</b>	<b>884,059</b>
Incentives generated by the operation	195,589	76,046	271,635
(*) Reversal of reserve reflecting subsidiary	(7,901)	(2,415)	(10,316)
<b>Balance at the end of the year</b>	<b>720,225</b>	<b>425,153</b>	<b>1,145,378</b>

	Parent company / Consolidated		
	2014		
	ICMS and Exports	Income tax	Tax incentives
<b>Balance at the beginning of the year</b>	<b>337,826</b>	<b>288,244</b>	<b>626,070</b>
Incentives generated by the operation	194,711	63,278	257,989
<b>Balance at the end of the year</b>	<b>532,537</b>	<b>351,522</b>	<b>884,059</b>

(\*) The reserve reflecting a reserve in a subsidiary is in the group of items relating to tax incentives, but does not originate from tax incentives of the holding company. Constitution of this amount arises by the equity method from the tax incentive items specific to the subsidiary MHL. The tax amounts arising in the subsidiary MHL are reported and held in that company's Stockholders' equity.

## GRENDENE S.A.

Notes to the financial statements--Continued  
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### 16. Equity--Continued

#### e) Treasury shares

In order to comply with the stock option or subscription plan (Note 21), the program for acquisition of 1,500,000 registered common shares was approved at the 59<sup>th</sup> Board of Directors Meeting held on February 12, 2015, without capital reduction. This amount of registered common shares corresponds to 1.91% of the outstanding shares.

Pursuant to CVM Instruction 567/15, the maximum term for the program is less than 18 months after the acquisition date.

The changes in treasury shares were as follows:

	Parent company	
	Common shares	R\$
<b>Balance at the beginning of the year</b>	<b>660,000</b>	<b>10,841</b>
Repurchases	198,096	3,034
Exercise of share purchase options (Note 21)	(793,070)	(12,823)
<b>Balance at the end of the year</b>	<b>65,026</b>	<b>1,052</b>

In the year ended December 31, 2015, the average purchase cost of these shares was R\$15.31 (R\$15.63 in 2014), the lowest cost being R\$14.92 (R\$13.14 in 2014) and the highest cost R\$15.40 (R\$18.00 in 2014).

#### f) Dividends and interest on Equity (counted as part of total dividends)

In accordance with the Company's bylaws, the minimum mandatory dividend is calculated as 25% of the profit for the year, after deduction of the transfers to reserves required by law.

Based on the profits for the years ended December 31, 2015 and 2014 and on the Company's capacity of generating operating cash, management submitted for approval, at the General Meeting of Stockholders, the distribution of dividends above the minimum mandatory, as follows:

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Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**16. Equity--Continued**f) Dividends and interest on Equity (counted as part of total dividends)--Continued

	2015	2014
<b>Profit for the year</b>	<b>551,223</b>	490,244
(-) Legal reserve	<b>(13,979)</b>	(11,613)
(-) Tax incentive reserve	<b>(271,635)</b>	(257,989)
<b>Minimum mandatory dividends calculation basis related to the profit for the year</b>	<b>265,609</b>	220,642
Minimum mandatory dividend – 25%	<b>66,402</b>	55,161
(-) Reserve for the acquisition of shares	-	(17,000)
(+) Reversal of reserve reflecting subsidiary	<b>10,316</b>	-
<b>Dividends calculation basis related to the profit for the year</b>	<b>275,925</b>	203,642
(+) Reversal of the balance of profit retention reserve for proposed additional dividend	-	17,173
<b>Total of dividends proposed by management</b>	<b>275,925</b>	220,815
Minimum mandatory dividend – 25%	<b>66,402</b>	55,161
Dividend proposed in addition to the minimum mandatory amount	<b>209,523</b>	165,654
	<b>275,925</b>	220,815
<b>Allocation of the proposed payments</b>		
Interim dividends paid	<b>165,031</b>	125,357
Reversal of the balance of the Retained earnings reserve to Additional proposed dividend	-	17,173
Interest on Equity (counted as part of total dividends)	<b>100,000</b>	-
Reversal of reserve reflecting subsidiary	<b>10,316</b>	-
Balance of dividends for the period	<b>578</b>	78,285
	<b>275,925</b>	220,815

Of the amount proposed in the year ended December 31, 2014, R\$125,357 was paid during 2014, and the remaining balance of R\$95,458 was settled on April 23, 2015.

In 2015, the Company's Board of Directors approved the payment of interim dividends amounting to R\$165,031, distributed as follows: R\$67,384 (representing R\$0.2241 per share) on May 13, 2015, R\$43,889 (representing R\$0.1460 per share) on August 12, 2015 and R\$53,758 (representing R\$0.1788 per share) on November 11, 2015.

The Company calculated Interest on Equity using the Long-term Interest Rate (TJLP) in effect during the period. Management has proposed the amount of R\$ 100,000 (R\$ 85,000 net of withholding income tax). This is counted as part of the total of dividends. Interest on Equity is reported in Stockholders' equity.

Additionally, on December 31, 2005, management proposed a complementary payment of dividends in the amount of R\$ 10,894 (representing R\$ 0.0362 per share). The result is a total dividend of R\$ 275,925 (R\$ 260,925, net of the income tax withheld at source on Interest on Equity), after the deductions required by law and the by-laws.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**16. Equity--Continued**g) Earnings per share

Reconciliation of net income to the amounts used to calculate basic and diluted earnings per share (all amounts in thousands of reais, except earnings per share), are as follows:

	Parent company	
	2015	2014
<b>Numerator</b>		
Profit for the year	551,223	490,244
<b>Denominator</b>		
Weighted average number of common shares	300,720,000	300,720,000
Weighted average number of common treasury shares	(187,351)	(470,744)
	<u>300,532,649</u>	<u>300,249,256</u>
<b>Basic earnings per common share</b>	<u>1.8342</u>	<u>1.6328</u>
Weighted average number of outstanding common shares	300,532,649	300,249,256
Potential increase in common shares due to the stock option or subscription plan	604,061	642,267
	<u>301,136,710</u>	<u>300,891,523</u>
<b>Diluted earnings per common share</b>	<u>1.8305</u>	<u>1.6293</u>

**17. Government grants for investments**a) Incentives – Provin and Proapi

Provin – Program of Incentive to the Industrial Development Fund of Ceará (FDI), which consists of the deferral equivalent to 81% of the effectively paid ICMS, levied on the Company's production. Of the amount of each portion of the benefit, the equivalent to 1% will be paid at once, on the last day of the maturity month, after 60 months and will be fully restated, from the date of the disbursement up to the maturity date, by applying the Long-Term Interest Rate (TJLP).

Industrial units	Periods of expiration of this benefit					
	Incentive	%	Expiration period	%	Expiration period	
Sobral – CE	PROVIN - ICMS	81%	Up to Feb/2019	75%	Mar/2019 to Apr/2025	
Crato – CE	PROVIN - ICMS	81%	Up to Sep/2022	75%	Oct/2022 to Apr/2025	
Fortaleza – CE	PROVIN - ICMS	81%	Up to Apr/2025			

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 17. Government grants for investments--Continued

#### a) Incentives – Provin and Proapi--Continued

Proapi – Program of Incentives for the Port and Industrial Activities of Ceará, consists of the financing for the manufacturing companies, mainly exporting companies of footwear and artifacts of fur and leather, except for "wet blue", headquartered in the state, through the use of funds arising from the returns from the FDI operations while not credited to the State treasury account (Note 15).

Industrial units	Period of expiration of this benefit	
	Incentive	Expiration period
Sobral – CE	PROAPI - EXPORT	Up to Mar/2017

For the year ended December 31, 2015 the Company recognized R\$195,589 (R\$194,711 in 2014), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 22. These amounts were allocated to the Tax Incentives Reserve account in Profit reserves.

For the year ended December 31, 2015 the Company had amounts securities receivable recognized in Assets, for the Proapi incentives, totaling R\$89,231 (R\$27,346 in 2014).

#### b) Incentives – Procomex and Probahia

Procomex – Program of Incentive of Foreign Trade, with the purpose of stimulating exports of products manufactured in the State of Bahia and the financing of the tax on import of products for sale and manufacture promoted by industrial units headquartered in the state. Subsidiary MHL Calçados Ltda. has ICMS tax credit equivalent to 11% of the FOB value of the transactions of exports of footwear and its components. The incentive is valid up to December 2021.

Probahia – Program for the Development of Bahia, with the purpose of promoting diversification, and stimulating transformation and industrial processes of the state.

Subsidiary MHL Calçados Ltda. has ICMS tax credit of 90% of the incurring tax on transactions of output and footwear and its components and deferral of the ICMS paid in relation to the differential of rate by the acquisition of property, plant and equipment and in the imports and internal operations with inputs, packages and components, for the moment in which the output of their products occurs. The incentive is valid up to November 2021.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**17. Government grants for investments--Continued**b) Incentives – Procomex and Probahia--Continued

For the year ended December 31, 2015 the parent company recognized R\$176 (R\$331 in 2014), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 22. These amounts were allocated to the Tax Incentives Reserve account in Profit reserves.

c) Income tax incentive

The Company and its subsidiary MHL Calçados Ltda. benefit from the incentive of decrease of 75% of the income tax calculated based on the operation profit, in the industrial units headquartered in the operation area of the Superintendence for the Development of the Northeast (SUDENE).

In the year ended December 31, 2015, the company recorded the amount of R\$76,046, in Income tax, in the Profit and loss account (R\$63,278 in 2014) for the amount of this incentive, as shown in Note 18. These amounts were allocated to the Tax Incentives Reserve account in Profit reserves.

Industrial units	Periods of expiration of this benefit	
	% of decrease in tax	Expiration period
Sobral – CE	75%	Up to Dec/2022
	75%	Up to Dec/2023
Fortaleza – CE	75%	Up to Dec/2020
Crato – CE	75%	Up to Dec/2016
Teixeira de Freitas – BA	75%	Up to Dec/2017

**18. Income tax and social contribution tax**a) Current income tax and social contribution tax

Current income tax and social contribution tax amounts recorded in the expense for the year, net of tax incentives, are as follows:

	Parent company					
	2015			2014		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	(108,784)	(41,970)	(150,754)	(74,148)	(28,831)	(102,979)
Tax incentives	76,046	-	76,046	63,278	-	63,278
	<b>(32,738)</b>	<b>(41,970)</b>	<b>(74,708)</b>	<b>(10,870)</b>	<b>(28,831)</b>	<b>(39,701)</b>

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**18. Income tax and social contribution tax--Continued**a) Current income tax and social contribution tax--Continued

	Consolidated					
	2015			2014		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	(108,731)	(41,970)	(150,701)	(75,321)	(28,831)	(104,152)
Tax incentives	76,046	-	76,046	63,278	-	63,278
	<b>(32,685)</b>	<b>(41,970)</b>	<b>(74,655)</b>	<b>(12,043)</b>	<b>(28,831)</b>	<b>(40,874)</b>

b) Deferred income tax and social contribution tax

Deferred income tax and social contribution tax are comprised as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Income tax</b>				
Provision for doubtful receivables	365	361	664	621
Provision for punctuality discounts	1,522	1,685	1,523	1,691
Adjustment to Present Value (AVP)	739	687	791	1,495
Provision for obsolete inventory	523	420	543	484
Provision for labor risks	119	122	185	125
Depreciation	-	(44)	-	(44)
Tax losses in subsidiaries	-	-	140	1,443
Hedging transactions	259	(192)	259	(28)
Provision for bonuses to customers – subsidiary abroad	-	-	-	1,321
Interest on Equity (counted as part of total dividends)	25,000	-	25,000	-
Other	369	179	146	1,364
	<b>28,896</b>	<b>3,218</b>	<b>29,251</b>	<b>8,472</b>
<b>Social contribution tax</b>				
Provision for doubtful receivables	525	520	527	522
Provision for punctuality discounts	2,192	2,426	2,194	2,435
Adjustment to Present Value (AVP)	1,064	990	1,064	990
Provision for obsolete inventory	753	605	753	605
Provision for labor risks	171	175	189	194
Depreciation	-	(64)	-	(64)
Tax losses in subsidiaries	-	-	201	650
Hedging transactions	373	(276)	373	(276)
Interest on Equity (counted as part of total dividends)	9,000	-	9,000	-
Other	531	258	2	2
	<b>14,609</b>	<b>4,634</b>	<b>14,303</b>	<b>5,058</b>
Non-current assets	<b>43,505</b>	<b>7,852</b>	<b>43,554</b>	<b>13,530</b>

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**18. Income tax and social contribution tax--Continued**c) Changes in deferred income tax and social contribution tax

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Balance at the beginning of the year</b>	<b>7,852</b>	9,060	<b>13,530</b>	15,656
Taxes recorded in the result for the year	<b>35,653</b>	(1,208)	<b>30,887</b>	1,196
Taxes recorded in equity	-	-	<b>(863)</b>	(3,322)
<b>Balance at the end of the year</b>	<b>43,505</b>	7,852	<b>43,554</b>	13,530

d) Reconciliation of tax expense to statutory rates

The income tax and social contribution calculated based on statutory rates can be reconciled to the amounts recorded as expenses as follows:

	Party company			
	2015		2014	
	Income tax	Social contribution	Income tax	Social contribution
<b>Pretax profit</b>	<b>590,278</b>	<b>590,278</b>	531,153	531,153
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	<b>(147,570)</b>	<b>(53,125)</b>	(132,788)	(47,804)
<b>Adjustments to show effective rate</b>				
Equity in the results of investees	<b>(8,480)</b>	<b>(3,053)</b>	(2,265)	(815)
Non-deductible costs and expenses	<b>(3,708)</b>	<b>(1,335)</b>	(2,518)	(907)
Adjustments to present value – AVP	<b>(155)</b>	-	(493)	-
Stock options plan	<b>(885)</b>	<b>(319)</b>	(817)	(294)
Depreciation: effect of recalculation	<b>(133)</b>	-	(330)	-
Foreign exchange differences on foreign subsidiaries	<b>(4,214)</b>	<b>(1,517)</b>	(531)	(191)
Hedge transactions	<b>(1,351)</b>	-	736	-
Unrealized profit on inventories	<b>(570)</b>	-	148	-
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	<b>1,669</b>	<b>600</b>	1,370	493
State tax incentives	<b>48,897</b>	<b>17,603</b>	48,678	17,524
Technological innovation incentive	<b>7,419</b>	<b>2,671</b>	6,805	2,450
PAT corporate tax incentive deductions	<b>2,798</b>	-	1,909	-
Corporate tax incentive deductions (Rouanet Law / Child and Adolescent Rights Fund – Funcriança/Audiovisual / Sports/ Fund for the Elderly / National Program to Support Oncology Care – Pronon/ National Program to Support Person with Disabilities– Pronas)	<b>4,975</b>	-	4,005	-
Provision for losses in subsidiary	<b>(7,000)</b>	<b>(2,520)</b>	-	-
Interest on Equity (counted as part of total dividends)	<b>25,000</b>	<b>9,000</b>	-	-
Other	<b>202</b>	-	1,448	-
<b>Amount before deduction of corporate tax incentives</b>	<b>(83,106)</b>	<b>(31,995)</b>	(74,643)	(29,544)
Tax incentive reductions of corporate income tax (calculated on operational profit)	<b>76,046</b>	-	63,278	-
<b>Amount posted in profit and loss account</b>	<b>(7,060)</b>	<b>(31,995)</b>	(11,365)	(29,544)
<b>Total taxes posted in profit and loss account</b>	<b>(39,055)</b>		<b>(40,909)</b>	
Current taxes	<b>(74,708)</b>		(39,701)	
Deferred taxes	<b>35,653</b>		(1,208)	
<b>Effective rate</b>	<b>6.6%</b>		<b>7.7%</b>	

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**18. Income tax and social contribution--Continued**d) Reconciliation of tax expense to statutory rates--Continued

	Consolidated			
	2015		2014	
	Income tax	Social contribution	Income tax	Social contribution
<b>Pretax profit</b>	<b>583,079</b>	<b>583,079</b>	524,937	524,937
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	<b>(145,770)</b>	<b>(52,477)</b>	(131,234)	(47,244)
<b>Adjustments to show effective rate</b>				
Non-deductible costs and expenses	<b>(3,708)</b>	<b>(1,335)</b>	(2,518)	(907)
Adjustments to present value – AVP	<b>(155)</b>	-	(493)	-
Stock options plan	<b>(885)</b>	<b>(319)</b>	(817)	(294)
Depreciation: effect of recalculation	<b>(133)</b>	-	(330)	-
Foreign exchange differences on foreign subsidiaries	<b>(4,214)</b>	<b>(1,517)</b>	(531)	(191)
Hedge transactions	<b>(1,351)</b>	-	736	-
Unrealized profit on inventories	<b>(570)</b>	-	148	-
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	<b>1,669</b>	<b>600</b>	1,370	493
State tax incentives	<b>48,941</b>	<b>17,619</b>	48,761	17,553
Technological innovation incentive	<b>7,419</b>	<b>2,671</b>	6,805	2,450
PAT corporate tax incentive deductions	<b>2,798</b>	-	1,909	-
Corporate tax incentive deductions (Rouanet Law / Child and Adolescent Rights Fund – Funcriança/Audiovisual / Sports/ Fund for the Elderly / National Program to Support Oncology Care – Pronon/ National Program to Support Person with Disabilities– Pronas)	<b>4,975</b>	-	4,005	-
Provision for losses in subsidiary	<b>(7,000)</b>	<b>(2,520)</b>	-	-
Interest on Equity (counted as part of total dividends)	<b>25,000</b>	<b>9,000</b>	-	-
Other	<b>(14,581)</b>	<b>(3,971)</b>	(1,807)	(820)
<b>Amount before deduction of corporate tax incentives</b>	<b>(87,565)</b>	<b>(32,249)</b>	(73,996)	(28,960)
Tax incentive reductions of corporate income tax (calculated on operational profit)	<b>76,046</b>	-	63,278	-
<b>Amount posted in profit and loss account</b>	<b>(11,519)</b>	<b>(32,249)</b>	(10,718)	(28,960)
<b>Total taxes posted in profit and loss account</b>	<b>(43,768)</b>		<b>(39,678)</b>	
Current taxes	<b>(74,655)</b>		(40,874)	
Deferred taxes	<b>30,887</b>		1,196	
<b>Effective rate</b>	<b>7.5%</b>		<b>7.6%</b>	

**19. Financial instruments and risk management**

The Company has transactions with financial instruments, the risks of which are managed through financial position strategies and exposure limit systems. All transactions are fully recognized in the accounting records. The valuation of financial instruments, including derivatives, as well as the risk management, is presented below:

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 19. Financial instruments and risk management--Continued

#### a) Financial instruments

The main financial instruments at December 31, 2015 and 2014 were as follows:

- Cash and cash equivalents – classified as loans and receivables and measured at fair value, which approximates the carrying amount.
- Financial investments – financial investments classified as "held-to-maturity" are measured at amortized cost using the effective interest rate method, and those classified as "financial assets at fair value through profit or loss" are measured at fair value.
- Trade receivables – classified as loans and receivables and arise directly from the Company's sales operations. They are carried at their original amounts, adjusted by foreign exchange and monetary variations, and the estimated losses on impaired receivables, and discounts for prompt payments and the adjustment to present value.
- Trade payables and commissions payable – these are classified as liabilities measured at amortized cost and arise directly from the Company's commercial operations. They are carried at their original amounts, adjusted by foreign exchange and monetary variations, when applicable.
- Borrowings – classified as financial liabilities measured at amortized cost using the effective interest rate method, and are carried at their contractual amounts. The fair values of borrowings approximate their carrying amounts at the balance sheet date.

The main financial instruments of the Company and its subsidiaries at December 31, 2015 and 2014 were as follows:

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 19. Financial instruments and risk management--Continued

#### a) Financial instruments--Continued

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Financial assets</b>				
Cash and cash equivalents	6,113	8,525	21,285	26,324
Financial investments (*)	1,260,595	969,654	1,260,595	969,654
Trade receivables	832,140	849,528	854,991	907,344
Derivatives	-	3,067	-	3,067
<b>Financial liabilities</b>				
Borrowings	177,411	122,683	212,825	171,357
Trade payables	38,225	31,120	44,903	36,287
Commissions payable	37,470	40,699	37,616	40,950
Derivatives	4,142	-	4,142	-

(\*) The Company measures its financial instruments at fair value through profit or loss, as required by technical pronouncement CPC 40 – R1 (IFRS 7), “Financial Instruments: Disclosures”, and in accordance with the level 1 of the hierarchy.

Level 1 – negotiated prices (with no adjustments) in active markets for identical assets or liabilities.

The fair value of financial instruments is calculated as described in Note 4.c.4.

#### b) Derivative financial instruments

The Company and its subsidiaries have transactions involving the following derivative financial instruments:

##### b.1) *Foreign exchange rate hedging transactions*

The strategy when contracting these transactions is to hedge the sales revenue and financial assets of the Company and its subsidiaries that is subject to foreign exchange exposure. These instruments are used for the specific purpose of hedging, and the portfolio includes sale of U.S. dollar futures through financial instruments used for this purpose such as: sales at the São Paulo Futures, Commodities and Securities Exchange – BM&F and advances on future exports (ACE).

In transactions involving BM&F sales, the impact on the cash flow of the Company and its subsidiaries is assessed through the calculation of daily adjustments to the U.S. dollar exchange rate until the settlement of the contracts.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 19. Financial instruments and risk management--Continued

#### b) Derivative financial instruments--Continued

##### b.1) *Foreign exchange rate hedging transactions*--Continued

The maximum limits of net foreign exchange exposure comprise: (i) bank account balances in foreign currency abroad; (ii) financial investments abroad; (iii) balance receivable from foreign exchange contracts to be closed; (iv) projections of exports of up to 90 days, less (i) trade payable balances in foreign currency and (ii) imports in transit. These risks are monitored daily and managed through internal controls, which are designed to monitor the exposure limits and, if necessary, bring them into line with the Company's risk management policy.

Other forms of foreign exchange hedges without the express authorization of the Company's officers are not permitted. Up to date, the Company has not authorized the use of foreign exchange hedges other than those disclosed in the previous paragraph.

Foreign exchange hedging transactions are usually made with the BM&F through specialized brokers, without the need to deposit margin. The guarantee amounted to R\$64,982 at December 31, 2015 (R\$35,010 in 2014) and usually comprises the Company's investments in government securities, considering the limits and exposures to foreign exchange risk, as defined in the policy for management of counterparty risk.

The table below shows the positions at December 31, 2015 and 2014, with the notional and fair values, which was calculated as described in Notes 4.c.1 and 4.c.2.

	Notional value – US\$		Notional value – R\$		Amount receivable (payable)	
	2015	2014	2015	2014	2015	2014
<b>Futures contracts</b>						
Sell commitment	54,000	55,000	216,128	146,739	(4,142)	3,067

It should be noted that these transactions are linked to sales and financial assets in foreign currency, which are also subject to foreign exchange rate changes, offsetting any gains or losses. The balance payable on December 31, 2015, in the amount of R\$4,142, is classified in other payables; the amount receivable in 2014, of R\$3,067, is classified in securities receivable.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 19. Financial instruments and risk management--Continued

#### c) Risk management

##### c.1) *Risk factors that may affect the business of the Company and its subsidiaries*

The Company's main financial liabilities, except derivative financial instruments, comprise borrowings and other payables. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has other credits, accounts receivable, cash and cash equivalents and short-term investments that are obtained directly from its operations.

The Company is exposed to market risk (including interest rate risk, foreign exchange risk and commodity price risk), credit risk and liquidity risk. The financial instruments which involve risks include borrowings, deposits, available-for-sale investments and derivative financial instruments.

The risk management activities follow the Company's risk management policy, which is administered by its officers. The management of these risks is effected based on a control policy, which establishes monitoring techniques, measurement and ongoing accompanying of exposure. The Company does not have transactions with speculative derivative financial instruments or any other type of speculative transactions.

##### a) Credit risk:

The company and its subsidiaries are exposed to credit risk from the possibility of not receiving amounts receivable from clients or credit amounts with financial institutions.

The Company and its subsidiaries adopt the following risk management practices: (i) Analysis of credits granted to clients, and setting of sales limits. No single client represented more than 5% of the total of the Company's accounts receivable on December 31, 2015 and 2014; and (ii) selectiveness in choice of financial institutions that are considered by the market to be first-tier (the country's 10 largest banks by total assets), and diversification of financial instruments in investment of the company's funds. Cash investments are made in a basket of indicators comprising the CDI rate, fixed rates and inflation-indexed investments.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**19. Financial instruments and risk management--Continued**c) Risk management--Continuedc.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continuedb) Liquidity risk:

Liquidity risk represents the potential decrease in funds available for debt service (substantially borrowings). The Company has cash monitoring policies to avoid any mismatch between accounts receivable and payable. In addition, the Company maintains financial investments that are immediately redeemable to cover any mismatch between the maturity date of its contractual obligations and its cash flow management. The table below shows the contractual payments required by the Company's financial liabilities:

	Parent company					
	2015			2014		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	10,479	51,172	61,651	500	49,981	50,481
Working capital and ACE	91,166	-	91,166	47,126	-	47,126
Financing – Proapi and Provin	4,593	20,001	24,594	3,267	21,809	25,076
	<b>106,238</b>	<b>71,173</b>	<b>177,411</b>	<b>50,893</b>	<b>71,790</b>	<b>122,683</b>

	Consolidated					
	2015			2014		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	10,479	51,172	61,651	500	49,981	50,481
Working capital and ACE	126,580	-	126,580	95,800	-	95,800
Financing – Proapi and Provin	4,593	20,001	24,594	3,267	21,809	25,076
	<b>141,652</b>	<b>71,173</b>	<b>212,825</b>	<b>99,567</b>	<b>71,790</b>	<b>171,357</b>

	Parent company					
	2015			2014		
	Projection including future interest			Projection including future interest		
Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total	
PP&E financing	12,822	56,612	69,434	2,547	56,666	59,213
Working capital and ACE	91,999	-	91,999	47,315	-	47,315
Financing – Proapi and Provin	4,824	23,752	28,576	3,414	26,160	29,574
	<b>109,645</b>	<b>80,364</b>	<b>190,009</b>	<b>53,276</b>	<b>82,826</b>	<b>136,102</b>

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**19. Financial instruments and risk management--Continued**c) Risk management--Continuedc.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continuedb) Liquidity risk--Continued

	Parent company					
	2015			2014		
	Projection including future interest			Projection including future interest		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	12,822	56,612	69,434	2,547	56,666	59,213
Working capital and ACE	128,172	-	128,172	96,881	-	96,881
Financing – Proapi and Provin	4,824	23,752	28,576	3,414	26,160	29,574
	<b>145,818</b>	<b>80,364</b>	<b>226,182</b>	102,842	82,826	185,668

c) Market risk:

Interest rate risk: This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates that lead to an increase in its finance costs related to borrowings, or a decrease in its earnings on financial investments. The Company continuously monitors the volatility of market interest rates.

In order to mitigate possible impacts from fluctuations in interest rates the Company and its subsidiaries adopt the policy of maintaining their funds invested in instruments linked to a basket of indicators such as CDI, fixed rates, or adjusted for inflation.

Foreign exchange rate risk: This risk arises from the possibility of fluctuations in foreign exchange rates, which may affect the finance cost (or income) and the liability (or asset) balance of contracts denominated in foreign currency. In addition to trade receivables originating from exports from Brazil, financial investments and foreign investments are utilized as a natural hedge against fluctuations in foreign exchange rates. For the balances of assets and liabilities subject to foreign exchange rate risk, the Company and its subsidiaries assess foreign exchange exposure and contract additional derivative financial instruments as a hedge, if necessary.

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 19. Financial instruments and risk management--Continued

#### c) Risk management--Continued

##### c.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continued

##### c) Market risk--Continued

At December 31, 2015, the Company has advances on export contracts in the amount of US\$23,315 thousand (US\$17,725 thousand in 2014), which is consistent with the sales scheduled for the foreign market up to the maturity of the contracts. There were no other borrowings denominated in, or indexed to, foreign currencies.

Commodity price risk: This risk refers to the possibility of fluctuations in the price of raw materials and other inputs used in the production process. As the Company uses commodities as raw materials, its cost of sales can be affected by fluctuations in the international prices of these materials. In order to minimize this risk, the Company maintains ongoing monitoring of price fluctuations in the domestic and foreign markets and, if necessary, maintains strategic inventories to support its commercial activities.

##### c.2) *Interest rate fluctuation sensitivity analysis*

In order to verify the sensitivity of indices of financial investments and loans to which the Company was exposed at December 31, 2015, three different scenarios were defined and a sensitivity analysis of the fluctuation of the indices of these instruments was prepared. Based on the projection of the index of each contract for 2015 (probable scenario), decreases of 25% and 50% for financial investments and increases of 25% and 50% for loans were calculated. The scenarios do not consider the probable cash flow related to loan repayments and investment redemptions.

Earnings from financial investments as well as finance costs related to the Company's borrowings are affected by fluctuations in interest rates, such as TJLP, Amplified Consumer Price Index (IPCA), IGPM and CDI.

The table below shows the outstanding positions at December 31, 2015, with the notional values and interest of each contracted instrument:

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**19. Financial instruments and risk management--Continued**c) Risk management--Continuedc.2) *Interest rate fluctuation sensitivity analysis*--Continued

	Reduction of finance income		Increase in finance costs		
	Reference for finance income		Interest on cash investments	Reference financial liabilities	Cost of Proapi and Provin financings
	<u>CDI rate</u>	<u>IPCA index</u>		<u>TJLP rate</u>	
Probable scenario – Book value	14.14%	10.48%	150,671	7.00%	1,652
Possible scenario – 25%	10.61%	7.86%	120,013	8.75%	2,065
Remote scenario – 50%	7.07%	5.24%	89,295	10.50%	2,477

c.3) *Sensitivity analysis of contracted derivative financial instruments*c.3.1) Foreign exchange rate hedge

The Company has projected the effect of the transactions designed for Exchange rate protection in three scenarios, considering the transactions would be settled, on the basis of the position becoming due on January 31, 2016, as follows:

	Notional value			
	Short position in US\$	FX rate – R\$	Amount – R\$	Impact – R\$
Probable scenario – Book value	54,000	4.0024	216,128	(4,142)
Possible scenario – 25%	54,000	5.0030	270,162	(54,034)
Remote scenario – 50%	54,000	6.0036	324,194	(108,066)

c.4) *Capital management*

Capital management mainly aims to ensure the Company's ability to continue as a going concern, maintaining a policy of low gearing ratio and thereby hedging its capital against changes in government economic policy, and maximizing stockholder value.

The Company manages the capital structure and adjusts it considering changes in the economic conditions of the country. In order to maintain or adjust the capital structure, the Company can adjust the policy for dividend payments to stockholders.

The Company's dividend policy may include tax incentives related to the Provin and Proapi programs in the dividend calculation basis, provided there is no impact on the Company's capital management objectives, policies or processes adopted. There is no impact during the years ended December 31, 2015 and 2014.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**19. Financial instruments and risk management--Continued**c) Risk management--Continuedc.4) *Capital management*--Continued

	Parent company		Consolidated	
	2015	2014	2015	2014
Current and non-current borrowings	<b>177,411</b>	122,683	<b>212,825</b>	171,357
(-) Cash and cash equivalents	<b>(6,113)</b>	(8,525)	<b>(21,285)</b>	(26,324)
Net debt	<b>171,298</b>	114,158	<b>191,540</b>	145,033
Equity	<b>2,616,489</b>	2,315,374	<b>2,616,760</b>	2,327,934
Gearing ratio	<b>6.5%</b>	4.9%	<b>7.3%</b>	6.2%

**20. Balances and transactions with related parties**

During the years, the Company carried out the following transactions with related parties:

a) Amounts and transactions receivable and payable – Related parties

	Parent company								
	Balances				Transactions				
	Other receivables	Other payables	Accounts receivable from sales	Trade payables	Sales of goods and PPE	Purchases of goods and services	Recovery of expenses	Finance income	Finance costs
<b>Direct subsidiaries</b>									
Grendene Argentina S.A.									
At 12/31/2015	-	-	7,426	-	23,848	-	-	96	1
At 12/31/2014	-	-	21,669	-	26,156	-	-	-	-
MHL Calçados Ltda.									
At 12/31/2015	-	-	16	4	1,675	98	-	-	-
At 12/31/2014	21	14	428	73	3,480	71	-	-	-
Grendene USA, Inc.									
At 12/31/2015	-	-	18,103	573	22,358	1,433	-	5,144	1,732
At 12/31/2014	-	-	10,350	121	14,815	791	-	1,363	1,379
Grendene UK Limited.									
At 12/31/2015	-	-	648	-	625	-	-	2,600	2,623
At 12/31/2014	-	-	-	-	-	-	-	1,556	1,567
A3NP Indústria e Comércio de Móveis S.A.									
At 12/31/2015	-	5,449	6	-	-	-	54	-	238
At 12/31/2014	-	-	-	-	-	-	261	-	-
<b>Indirect subsidiary</b>									
Grendene Italy SRL.									
At 12/31/2015	-	-	4,178	-	3,337	-	-	1,216	416
At 12/31/2014	-	-	2,350	-	2,983	-	-	273	259

**GRENDENE S.A.**

## Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**20. Balances and transactions with related parties--Continued**a) Amounts and transactions receivable and payable – Related parties--Continued

	Parent company/Consolidated								
	Balances				Transactions				
	Other receivables	Other payables	Accounts receivable from sales	Trade payables	Sales of goods and PPE	Purchases of goods and services	Recovery of expenses	Finance income	Finance costs
<b>Companies controlled by stockholders of Grendene S.A.</b>									
Vulcabrásjazeleia – CE, Calçados e Artigos Esportivos S.A.									
At 12/31/2015	-	-	-	46	10	490	-	-	-
At 12/31/2014	-	-	-	709	245	715	-	-	-
Vulcabrásjazeleia – BA, Calçados e Artigos Esportivos S.A.									
At 12/31/2015	-	-	-	-	10	-	-	-	-
At 12/31/2014	-	-	7	-	19	-	-	-	-
Vulcabrásjazeleia – RS, Calçados e Artigos Esportivos S.A.									
At 12/31/2015	-	-	3	-	25	-	-	-	-
At 12/31/2014	-	-	12	-	57	-	-	-	-
Vulcabrásjazeleia Argentina S.A.									
At 12/31/2015	-	-	200	-	306	6,637	-	-	-
At 12/31/2014	-	-	381	-	1,001	8,431	-	-	-
Vulcabrás Distribuidora de Artigos Esportivos Ltda.									
At 12/31/2015	-	-	1	-	1	-	-	-	-
At 12/31/2014	-	-	5	-	10	-	-	-	-
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.									
At 12/31/2015	-	-	-	-	5	-	-	-	-
At 12/31/2014	-	-	12	-	114	-	-	-	-
Calçados Azaleia Colômbia Ltda.									
At 12/31/2015	-	-	-	-	187	-	-	9	12
At 12/31/2014	-	-	457	-	591	-	-	11	2
Calçados Azaleia Peru S.A.									
At 12/31/2015	-	-	-	-	622	-	-	21	16
At 12/31/2014	-	-	430	-	640	-	-	8	3
Lagoa Clara Agrícola S.A.									
At 12/31/2015	-	-	-	-	-	-	294	-	-
At 12/31/2014	-	-	23	-	-	-	271	-	-

b) Nature, terms and conditions of transactions

Related parties	Nature of transactions	Average terms
<b>Direct subsidiaries</b>		
Grendene Argentina S.A.	Sale of shoes	103 days
MHL Calçados Ltda.	Sale of inputs for the production of shoes Purchase of inputs for the production of shoes	36 days 127 days
Grendene USA, Inc.	Sale of shoes Purchases of services and referred to commissions	155 days 12 days
A3NP Indústria e Comércio de Móveis S.A.	Recovered expenses	14 days
<b>Indirect subsidiary</b>		
Grendene Italy S.R.L.	Sale of shoes	138 days
<b>Companies controlled by stockholders of Grendene S.A.</b>		
Vulcabrásjazeleia – CE, Calçados e Artigos Esportivos S.A.	Sale of inputs for the production of shoes Purchase of inputs for the production of shoes Purchases of services and referred to commissions Trademark use license	85 days 31 days 15 days 75 days
Vulcabrásjazeleia – BA, Calçados e Artigos Esportivos S.A.	Sale of inputs for the production of shoes	63 days
Vulcabrásjazeleia – RS, Calçados e Artigos Esportivos S.A.	Sale of inputs for the production of shoes	81 days
Vulcabrás Azaleia Argentina S.A.	Sale of inputs for the production of shoes Purchase of products and services with subsidiary Grendene Argentina	114 days 1 day
Vulcabrás Distribuidora de Artigos Esportivos Ltda.	Sale of shoes	70 days
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.	Sale of shoes	66 days
Calçados Azaleia Colômbia Ltda.	Sale of shoes	19 days
Calçados Azaleia Peru S.A.	Sale of shoes	18 days
Lagoa Clara Agrícola S.A.	Recovered expenses	31 days

## GRENDENE S.A.

Notes to the financial statements--Continued  
December 31, 2015 and 2014  
(All amounts in thousands of reais)

### 20. Balances and transactions with related parties--Continued

#### b) Nature, terms and conditions of transactions--Continued

Alexandre G. Bartelle Participações S.A., Grendene Negócios S.A. and Verona Negócios e Participações S.A. are the controlling stockholders of Grendene S.A. There are no other transactions, except dividends paid, between the Company and its subsidiaries, for the years ended December 31, 2015 and 2014.

#### c) Key management compensation

Salaries and social charges for key management personnel are as follows:

	Parent company	
	2015	2014
Board of Directors	984	912
Statutory Audit Board	356	329
Statutory Directors	3,576	3,296
	<b>4,916</b>	<b>4,537</b>

The Company offers a stock option plan as variable compensation, as described in Note 21, having recognized as an expense the amount corresponding to the option premium at December 31, 2015 of R\$3,543 (R\$3,266 in 2014).

The Company did not pay its key management personnel compensation in the categories of: a) long-term benefits; b) employment contract termination benefits; and c) post-employment benefits.

#### d) Related parties – A3NP Indústria e Comércio de Móveis S.A.

Due to the unsatisfactory results of the subsidiary A3NP Indústria e Comércio de Móveis S.A., its partners discussed plans for that business. In this discussion it was found that, due to the changes in the economic scenario between the initial plan in 2012 and the year of 2015, this business's rate of growth would be much lower, and it would require substantial amounts of additional capital to make it viable. Agreement was not reached between the partners on the necessary capitalization of the company, and Grendene S.A. decided not to make any further investments, even if this decision leads to loss of the amounts already invested.

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 20. Balances and transactions with related parties--Continued

#### d) Related parties – A3NP Indústria e Comércio de Móveis S.A.--Continued

As a result of this, objective evidence is found of impairment of the financial asset of the Company represented by the loan receivable from this subsidiary, in the amount of R\$ 22,551. Consequently, on December 31, 2015 the Company opted to provision the totality of the amount of the credits receivable, and additionally constituted a provision for probable losses in the amount of R\$ 5,449.

	Parent Company
	2015
Receivables from subsidiary – Assets	22,551
Losses on receipt of credits in subsidiary – Assets	(22,551)
Provision for losses in subsidiary – Liabilities	(5,449)
<b>Total of the provision for losses in subsidiary – Profit and loss account</b>	<b>(28,000)</b>

#### e) Other related parties

The Company utilizes air travel advisory and agency services of companies owned by a related party. At December 31, 2015, the expenses incurred in connection with these services totaled R\$436 (R\$607 in 2014), representing approximately 0.02% of the Company's general expenses. There were no outstanding balances at December 31, 2015.

### 21. Stock option or subscription plan

At the Extraordinary General Meeting held on April 14, 2008, the Company's stockholders approved the "Stock Option or Share Subscription Plan", to be effective as from April 14, 2008, for the Company's directors and managers, except for directors nominated by the controlling stockholders. The plan is administered by the Company's Board of Directors, which may delegate this function, within the restrictions established by law to the committee created on February 12, 2015, by the 59<sup>th</sup> meeting of the Board of Directors.

At February 12, 2015 the 59<sup>th</sup> meeting of the Board of Directors approved changes in the Regulations of the Company's stock Options Plan in the following items: (i) 1.1 and 1.3: The party responsible for appointment of employees eligible for the Plan – formerly the Chief Executive Officer – is now the Committee referred to in Item 2.2 of the Regulations; (ii) 4.1 and 4.2: The frequency with which beneficiaries may exercise their options, formerly annually, may, if so decided by the Board of Directors, be quarterly.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**21. Stock option or subscription plan--Continued**

The share purchase options granted under the Stock Option Plan are limited to 5% of the Company's capital. The shares to be delivered as a result from the exercise of options will be issued through a resolution to increase capital, by the Board of Directors, within the Company's authorized capital, or using treasury shares, within legal limits.

The Stock Option or Share Subscription Plan beneficiaries may exercise their options within 6 years from the grant date. The vesting period will be of up to 3 years, with releases of 33% after one year, 66% after two years and 100% after three years.

At December 31, 2015 the company recognized an expense of R\$3,543 (R\$3,266 in 2014) in Personnel expenses, for stock options, based on the fair value of the transactions on the date of their being granted.

a) Summary of grants of share purchase options or subscriptions

The options granted and the related changes were as follows:

2015								
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Closing balance
2/24/2011	10.80	2/24/2012	580,544	5,956	-	-	-	5,956
2/24/2011	10.80	2/24/2013	1,161,088	5,956	-	-	-	5,956
2/24/2011	10.80	2/24/2014	1,741,632	357,020	-	(303,906)	-	53,114
3/01/2012	4.33	3/1/2013	108,949	-	-	-	-	-
3/01/2012	4.33	3/1/2014	217,898	4,654	-	(4,654)	-	-
3/01/2012	4.33	3/1/2015	326,847	96,452	-	(96,452)	-	-
2/28/2013	9.55	2/28/2014	265,183	26,414	-	(26,414)	-	-
2/28/2013	9.55	2/28/2015	530,366	243,074	-	(243,074)	-	-
2/28/2013	9.55	2/28/2016	795,549	243,074	-	-	(2,513)	240,561
2/13/2014	9.84	2/13/2015	123,386	118,570	-	(118,570)	-	-
2/13/2014	9.84	2/13/2016	246,772	118,570	-	-	(1,199)	117,371
2/13/2014	9.84	2/13/2017	370,158	118,570	-	-	(1,199)	117,371
2/12/2015	8.42	2/12/2016	215,518	-	215,518	-	(5,220)	210,298
2/12/2015	8.42	2/12/2017	431,036	-	215,518	-	(5,220)	210,298
2/12/2015	8.42	2/12/2018	646,554	-	215,518	-	(5,220)	210,298
				<b>1,338,310</b>	<b>646,554</b>	<b>(793,070)</b>	<b>(20,571)</b>	<b>1,171,223</b>

2014								
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Closing balance
2/24/2011	10.80	2/24/2012	580,544	5,956	-	-	-	5,956
2/24/2011	10.80	2/24/2013	1,161,088	5,956	-	-	-	5,956
2/24/2011	10.80	2/24/2014	1,741,632	498,983	-	(141,963)	-	357,020
3/01/2012	4.33	3/1/2013	108,949	-	-	-	-	-
3/01/2012	4.33	3/1/2014	217,898	99,620	-	(94,966)	-	4,654
3/01/2012	4.33	3/1/2015	326,847	99,620	-	-	(3,168)	96,452
2/28/2013	9.55	2/28/2014	265,183	253,267	-	(226,853)	-	26,414
2/28/2013	9.55	2/28/2015	530,366	253,267	-	-	(10,193)	243,074
2/28/2013	9.55	2/28/2016	795,549	253,267	-	-	(10,193)	243,074
2/13/2014	9.84	2/13/2015	123,386	-	123,386	-	(4,816)	118,570
2/13/2014	9.84	2/13/2016	246,772	-	123,386	-	(4,816)	118,570
2/13/2014	9.84	2/13/2017	370,158	-	123,386	-	(4,816)	118,570
				<b>1,469,936</b>	<b>370,158</b>	<b>(463,782)</b>	<b>(38,002)</b>	<b>1,338,310</b>

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**21. Stock option or subscription plan--Continued****a) Summary of grants of share purchase options or subscriptions--Continued**

The fair value of options is calculated at the grant date of the plans, and is not subsequently remeasured since the settlement of the plan is made through equity instruments, as described in technical pronouncement CPC10 – R1 (IFRS 2) – Share-based Payment, Therefore, the Company is subject to variation of the share price in the market when the option is exercised by the beneficiaries of the plans,

In 2015, the Company acquired, for the fulfillment of the plans for exercise of options of share purchase, 198,096 shares, at an average cost of R\$15.31, totaling R\$3,034, In the first quarter, 793,070 shares were exercised at an average cost of R\$16.17, totaling R\$12,823.

The Company recognized the difference between the average exercise price of the options and the average cost the shares acquired for the fulfillment of these exercises, in the amount of R\$882, directly in equity, since the settlement of options plans occurs through equity instruments, as described in technical pronouncement CPC 10 – R1 (IFRS 2) – Share-based payment,

**b) Changes of the operations with stock option**

Changes involving issuance, exercise and cancellation of share purchase options in the year were as follows:

Plan	Changes	Grace period – from grant	Number of shares	Movement in shares	Premium	Expense of exercise or cancellation
<b>Fourth</b>	<b>Balance at the beginning of the year</b>	-	368,932	-	-	-
	(-) Exercise of share purchase option	2/24/2014	-	(303,906)	1.74	(529)
	<b>Balance at the end of the year</b>	-	<b>65,026</b>	-	-	-
<b>Fifth</b>	<b>Balance at the beginning of the year</b>	-	101,106	-	-	-
	(-) Exercise of share purchase option	3/1/2014	-	(4,654)	4.21	(19)
	(-) Exercise of share purchase option	3/1/2015	-	(96,452)	4.00	(386)
	<b>Balance at the end of the year</b>	-	-	-	-	-
<b>Sixth</b>	<b>Balance at the beginning of the year</b>	-	512,562	-	-	-
	(-) Exercise of share purchase option	2/28/2014	-	(26,414)	8.57	(226)
	(-) Exercise of share purchase option	2/28/2015	-	(243,074)	8.37	(2,035)
	(-) Canceled	2/28/2016	-	(2,513)	8.19	(15)
	<b>Balance at the end of the year</b>	-	<b>240,561</b>	-	-	-
<b>Seventh</b>	<b>Balance at the beginning of the year</b>	-	355,710	-	-	-
	(-) Exercise of share purchase option	2/13/2015	-	(118,570)	5.83	(691)
	(-) Canceled	2/13/2016	-	(1,199)	5.98	(4)
	(-) Canceled	2/13/2017	-	(1,199)	6.07	(3)
	<b>Balance at the end of the year</b>	-	<b>234,742</b>	-	-	-
<b>Eighth</b>	<b>Balance at the beginning of the year</b>	-	-	-	-	-
	(-) Exercise of share purchase option	-	646,554	-	-	-
	(-) Canceled	2/12/2016	-	(1,996)	5.82	(2)
	(-) Canceled	2/12/2017	-	(1,996)	6.10	(1)
	(-) Canceled	2/12/2018	-	(1,996)	6.29	(1)
	(-) Canceled	2/12/2016	-	(1,788)	5.82	(3)
	(-) Canceled	2/12/2017	-	(1,788)	6.10	(1)
	(-) Canceled	2/12/2018	-	(1,788)	6.29	(1)
	(-) Canceled	2/12/2016	-	(1,436)	5.82	(4)
	(-) Canceled	2/12/2017	-	(1,436)	6.10	(2)
	(-) Canceled	2/12/2018	-	(1,436)	6.29	(2)
	<b>Balance at the end of the year</b>	-	<b>630,894</b>	-	-	-
	<b>Movement in Stockholders' equity</b>					<b>(3,925)</b>

## GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

### 21. Stock option or subscription plan--Continued

c) Economic assumptions adopted for recognition of employee remuneration expenses

The Company recognizes expenses for the variable remuneration of employees based on the fair value of the options granted, which was estimated using the Black-Scholes option pricing model. The Company utilized the following economic assumptions to determine this weighted average fair value:

	4 <sup>th</sup> Plan	5 <sup>th</sup> Plan	6 <sup>th</sup> Plan	7 <sup>th</sup> Plan	8 <sup>th</sup> Plan
Grant date	2/24/2011	3/1/2012	2/28/2013	2/13/2014	2/12/2015
Total purchase options granted	1,741,632	326,847	795,549	370,158	646,554
Exercise price	10.80	4.33	9.55	9.84	8.42
Estimated volatility	27.60%	14.07%	25.51%	26.35%	26.51%
Expected dividends	4%	7%	5%	6%	5%
Weighted average risk-free interest rate	12.50%	9.50%	7.25%	11.25%	12.75%
Maximum maturity	6 years				
Average maturity	2.5 years				
Option premium	1.20	4.21	8.38	5.96	6.07
Fair value at grant date	12.00	8.54	17.93	15.80	14.49

Volatility was determined based on the average historical fluctuation of the share price over the 18 months prior to the grant date.

The expected dividends were based on the average dividend payment per share in relation to the market value of the share over the last 12 months.

The Company utilizes as the risk-free interest rate the average projected Special System for Settlement and Custody (SELIC) rate published by the Central Bank of Brazil (BACEN).

The fair value of options is calculated at the grant date and recorded as an expense, on a straight-line basis, during the vesting period.

The Company is not committed to repurchase shares that were purchased by the beneficiaries.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**22. Net sales and services revenue**

Net sales and services revenue is comprised as follows:

	Parent company		Consolidated	
	2015	2014	2015	2014
Gross sales and services revenue	<b>2,587,097</b>	2,632,778	<b>2,631,850</b>	2,720,300
<i>Domestic market</i>	<b>1,956,127</b>	2,128,162	<b>1,958,911</b>	2,132,385
<i>Adjustment to Present Value (AVP)</i>	<b>(59,077)</b>	(54,648)	<b>(59,077)</b>	(54,648)
<i>Foreign market</i>	<b>622,812</b>	504,679	<b>664,314</b>	590,564
<i>Adjustment to Present Value (AVP)</i>	<b>(1,325)</b>	(686)	<b>(858)</b>	(3,280)
<i>Tax incentives – Proapi/Procomex</i>	<b>61,885</b>	49,789	<b>61,885</b>	49,797
<i>Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)</i>	<b>6,675</b>	5,482	<b>6,675</b>	5,482
Sales returns	<b>(41,998)</b>	(51,986)	<b>(43,722)</b>	(62,574)
Financial discounts	<b>(90,206)</b>	(102,173)	<b>(92,658)</b>	(103,997)
Taxes on sales and services	<b>(403,555)</b>	(439,771)	<b>(406,689)</b>	(444,789)
ICMS tax incentives – Provin/ Development Promotion Program of the State of Bahia (Probahia)	<b>133,704</b>	144,922	<b>133,880</b>	145,245
INSS	<b>(19,824)</b>	(20,811)	<b>(19,865)</b>	(20,887)
	<b>2,165,218</b>	2,162,959	<b>2,202,796</b>	2,233,298

*Taxes on sales*

Sales revenues are subject to certain taxes and contributions, at the following basic rates:

	Rates
Value-added tax on sales and services (ICMS)	7.00% a 19.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
National Institute of Social Security (INSS)	1.50%

**23. Segment reporting**

The Company and its subsidiaries operate in the footwear and furniture segments, as described in Note 4.o. In the footwear segment, although the Company's products are intended for different consumers and social classes, they are not controlled by management as independent segments, and the Company's results are accompanied, monitored and evaluated on an integrated basis.

Sales in the domestic and foreign markets and non-current assets were as follows:

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**23. Segment reporting--Continued**

	Parent company				Consolidated	
	2015		2014		2015	2014
	Gross sales	Non-current assets	Gross sales	Non-current assets	Gross sales	Gross sales
<b>Footwear</b>						
Domestic market	1,897,050	13,369	2,073,514	13,398	1,899,226	2,077,729
Foreign market	690,047	53,026	559,264	54,935	730,761	641,706
<b>Furniture</b>						
Domestic market	-	49	-	17,359	608	8
Foreign market	-	-	-	-	1,255	857
	<b>2,587,097</b>	<b>66,444</b>	<b>2,632,778</b>	<b>85,692</b>	<b>2,631,850</b>	<b>2,720,300</b>

The Company's non-current assets refer to investments in its subsidiaries: MHL Calçados Ltda. (headquartered in Brazil), Grendene Argentina S.A. (headquartered in Argentina), Grendene USA, Inc. (headquartered in the United States), Grendene UK, Limited. (headquartered in the United Kingdom) and A3NP Indústria e Comércio de Móveis S.A. (headquartered in Brazil).

The summary of the financial information of these subsidiaries is disclosed in Note 11.

The information on gross foreign sales revenue by geographic area was prepared considering the country where the revenue originated, that is, on the basis of sales realized by the parent company in Brazil and through direct and indirect subsidiaries abroad (Grendene USA, Inc., Grendene Argentina S.A., Grendene Italy S.R.L., Grendene UK, Limited. and Z Plus EUR Company S.R.L., in the United States, Argentina, United Kingdom and Italy, respectively), as follows:

	Consolidated	
	2015	2014
<b>Gross sales to foreign market from:</b>		
Brazil	638,462	515,213
USA	34,663	31,947
Argentina	48,314	88,553
Italy	8,268	6,486
United Kingdom	2,309	364
	<b>732,016</b>	<b>642,563</b>

No customer individually represented more than 5% of sales in the domestic or foreign market.

Non-current assets abroad represent approximately 5% of the Company's non-current assets.

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**24. Costs and expenses by function and nature**

The Company presents the profit and loss account by function. As required by technical pronouncement CPC 26 – R1 (IAS 1) – Presentation of Financial Statements. The classification by function and the breakdown of operating costs and expenses by nature are as follows:

a) Costs and expenses by function

	Parent company		Consolidated	
	2015	2014	2015	2014
Cost of goods sold	<b>(1,129,952)</b>	(1,191,772)	<b>(1,134,913)</b>	(1,207,379)
Selling expenses	<b>(471,336)</b>	(494,345)	<b>(523,709)</b>	(543,744)
General and administrative expenses	<b>(80,786)</b>	(78,963)	<b>(102,570)</b>	(91,263)
	<b>(1,682,074)</b>	(1,765,080)	<b>(1,761,192)</b>	(1,842,386)

b) Costs and expenses by nature

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Cost of goods sold</b>				
Raw materials	<b>(516,990)</b>	(556,841)	<b>(520,965)</b>	(560,981)
Personnel expenses	<b>(449,596)</b>	(459,013)	<b>(448,752)</b>	(466,524)
Depreciation and amortization	<b>(39,659)</b>	(35,807)	<b>(39,880)</b>	(36,028)
Other costs	<b>(123,707)</b>	(140,111)	<b>(125,316)</b>	(143,846)
	<b>(1,129,952)</b>	(1,191,772)	<b>(1,134,913)</b>	(1,207,379)
<b>Selling expenses</b>				
Commissions	<b>(101,218)</b>	(103,254)	<b>(103,001)</b>	(106,196)
Freight	<b>(95,477)</b>	(109,995)	<b>(97,799)</b>	(113,730)
Copyrights	<b>(52,912)</b>	(51,686)	<b>(52,947)</b>	(51,686)
Management for development of trademarks	<b>(387)</b>	(551)	<b>(387)</b>	(551)
Advertising and publicity	<b>(137,319)</b>	(152,365)	<b>(148,858)</b>	(169,180)
Personnel expenses	<b>(29,749)</b>	(27,770)	<b>(39,322)</b>	(33,640)
Depreciation and amortization	<b>(3,132)</b>	(3,009)	<b>(5,447)</b>	(4,278)
Outsourced services	<b>(10,252)</b>	(8,862)	<b>(20,408)</b>	(16,408)
Travel and accommodation	<b>(4,238)</b>	(3,993)	<b>(4,703)</b>	(4,573)
Other expenses	<b>(36,652)</b>	(32,860)	<b>(50,837)</b>	(43,502)
	<b>(471,336)</b>	(494,345)	<b>(523,709)</b>	(543,744)
<b>General and administrative expenses</b>				
Personnel expenses	<b>(54,701)</b>	(50,077)	<b>(63,071)</b>	(53,832)
Depreciation and amortization	<b>(6,693)</b>	(5,723)	<b>(8,153)</b>	(5,819)
Outsourced services	<b>(11,313)</b>	(12,699)	<b>(16,951)</b>	(19,081)
Travel and accommodation	<b>(1,097)</b>	(1,572)	<b>(1,597)</b>	(1,876)
Other expenses	<b>(6,982)</b>	(8,892)	<b>(12,798)</b>	(10,655)
	<b>(80,786)</b>	(78,963)	<b>(102,570)</b>	(91,263)
	<b>(1,682,074)</b>	(1,765,080)	<b>(1,761,192)</b>	(1,842,386)

**GRENDENE S.A.**

Notes to the financial statements--Continued

December 31, 2015 and 2014

(All amounts in thousands of reais)

**25. Finance result**

	Parent company		Consolidated	
	2015	2014	2015	2014
<b>Finance income</b>				
Interest received from customers	2,842	1,850	2,853	1,861
Gains on foreign exchange hedge – BM&F	66,314	16,623	66,314	16,623
Income from financial investments	167,014	98,644	168,235	100,078
Foreign exchange gains	112,234	37,575	118,822	41,908
Adjustment to Present Value (AVP)	59,576	52,703	60,975	54,690
Other finance income	4,020	4,675	4,140	5,259
	<b>412,000</b>	212,070	<b>421,339</b>	220,419
<b>Finance costs</b>				
Losses on foreign exchange hedge – BM&F	(123,600)	(21,988)	(123,600)	(24,040)
Financing expenses	(9,412)	(10,606)	(20,450)	(21,775)
Foreign exchange losses	(72,169)	(31,566)	(80,346)	(33,456)
Cofins and PIS tax on financial revenues	(4,965)	-	(4,993)	-
Other finance costs	(3,727)	(3,155)	(9,603)	(5,624)
	<b>(213,873)</b>	(67,315)	<b>(238,992)</b>	(84,895)
	<b>198,127</b>	144,755	<b>182,347</b>	135,524

**26. Insurance**

The Company's management, based on the advice of its insurance consultants, contracts insurance policies from the main insurance companies in Brazil in amounts considered sufficient to cover possible losses. Taking into account the nature of the activities and the risks involved in the operations. The main types of insurance are as follows:

Type	Coverage	Coverage amount
Balance sheet	Property, plant and equipment and inventories are insured against fire, windstorm, flood and electrical damages.	R\$542,605
Loss of profits	Profit plus fixed expenses.	R\$56,530
Civil liability	Industrial operations, employer, products and moral damages.	R\$1,990
Aviation	Hull, civil liability.	US\$3,500
Vehicles	Material damages and third-party civil liability (CL).	100% of Fipe valuation plus R\$200 third party property damages and R\$1,000 third party persona linjury
Transportation	Export and import.	US\$2,500 per shipment and/or consolidation