

(A free translation of the original in Portuguese)

Grendene[®]

Listed company

National Corporate Taxpayers' Registry
(CNPJ) 89.850.341/0001-60

Commercial Registry Number
(NIRE): 23300021118-CE

Management Report 2014

BOARD OF DIRECTORS

Alexandre Grendene Bartelle
Chairman of the Board of Directors

Pedro Grendene Bartelle
Vice-chairman of the Board of Directors

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

STATUTORY AUDIT BOARD

João Carlos Sfreddo
President of the Statutory Audit Board

Members of the Statutory Audit Board
Eduardo Cozza Magrisso
Maurício Rocha Alves de Carvalho

EXECUTIVE BOARD

Rudimar Dall'Onder
Chief Executive Officer

Gelson Luis Rostirolla
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt
Chief Financial and
Investor Relations Officer

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

MANAGEMENT REPORT - 2014

To the Stockholders,

In compliance with the legal and statutory provisions, the Management of Grendene S.A. discloses the Management Report and the Consolidated Financial Statements, which were prepared in accordance with the 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 standards, revisions of standards and interpretations issued by IASB and that are effective for the financial statements at December 31, 2014.

The financial statements of Grendene S.A. for the year ended December 31, 2014 have been prepared in accordance with accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM), considering the accounting guidelines contained in Brazilian Corporate Law (Law 6,404/76), which include the provisions introduced, amended and revoked by Law 11,638, of December 28, 2007, Law 11,941, of May 27, 2009, and Law 12,973, of May 15, 2014. These practices differ from IFRS applicable to separate financial statements only with respect to the measurement of investments in subsidiaries based on the equity accounting method, instead of cost or fair value in accordance with IFRS.

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I. Message from management

The year of 2014 deserves celebration for the Company's intense activities, major challenges and important results achieved - all part of the process of building a great company.

We again faced disappointing domestic conditions in the economy as well as an aggressive scenario of competition. Concerning the foreign market, the devaluation of the Brazilian real had positive results, but the economic downturn in traditional markets such as in Argentina and Venezuela, together with the slow recovery in Europe, jeopardized a more expressive growth in exports.

Despite the hardships, Grendene's gains for its stockholders (profit) totaled R\$ 490 million, that is, a growth of 13% when compared to 2013, of which R\$ 203 million were allocated to the payment of dividends, with the remaining amount being reinvested in the Company. The Company increased the dividends for the year by R\$ 17 million from the 2013 profit retention reserve, totaling R\$ 220 million of proposed dividends in 2014.

Within the economic scenario in the domestic market and uncertainties found in the foreign market, especially those concerning foreign exchange rates as well as instable conditions in many export destinations, Grendene has sold 204.9 million footwear pairs, being 152.7 million domestically and 52.2 million for exports.

Profit in 2014, which totaled R\$ 1.6328 per share, increased by 13% when compared to 2013, resulted in a return on equity of 25%, with a robust cash generation from operating activities of R\$ 485.0 million (2013 - R\$ 303.3 million). The dividend distribution represented a dividend yield of 4.8% when considering the weighted average quotation in 2014 as well as a payout of 46.1%.

One of the 2014 highlights was that, on October 28, 2014, Grendene completed ten years as a company listed in the *Novo Mercado* (New Market) of the BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange. This decade of operations has generated value to Grendene's stockholders, providing an expressive return on equity, as show in the table below:

Year (All amounts in thousands of reais)	Opening ¹ equity	Profit	Dividends	Reinvestment	Return on equity	Closing ¹ equity
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
Accumulated		3,200,177	1,703,804	1,496,373	759.3%	

1) Equity adjusted by the exclusion of the balance of dividends payable.

Within these ten years, Grendene generated an accumulated return on equity of 759.3%, which is equivalent to an average compound rate of 24% per annum, of which an accumulated of R\$ 1.7 billion was distributed as dividends, corresponding to an average return on equity of 13.2% p.a. as dividends, that is, slightly over the half of the total average return.

During this same period, the market price of Grendene's shares (adjusted to the number of shares) increased from R\$ 10.33 to R\$ 15.30. With this variation, and considering the reinvestment of dividends effectively paid, the share GRND3 presented a total annual average return to the stockholders of 10.4% p.a., which is lower than the amount recorded in the accounting results, but even so better than the total average return measured by the Ibovespa Index of 6.7% p.a. (this index also includes the dividend reinvestment).

We continue progressing in performing our strategy. The 2014 highlights include the opening of *Casa de Ipanema* (The Ipanema's House) in February, the opening of the third *Galeria Melissa* in October, this time in London, and another 61 new *Clube Melissa* stores, reaching a total of 177 stores at December 31, 2014.

Now there are three strategically placed *Galerias* - in São Paulo, New York, and London - which are there to strengthen the brand that keeps boasting our foreign sales. The next *Galeria*, as already announced, will be located in an Asian city. These efforts have guaranteed the growth of *Melissa* brand products in its main markets as well as of its relevance in Grendene's businesses.

As anticipated by us, the Clube Melissa will probably surpass its estimated potential of 200 stores in 2015.

In our product portfolio, we kept the volume of launches and innovations, such as the remarkable "One by One" shoes, which may be worn in either foot indistinctively, and may be bought per unit. The graphics and colors allow numerous combinations. Concerning design, *Karl Lagerfeld*, *Vivianne Westwood*, *Jason Wu* and *J. Maskrey* were some of the stars in the area who once again developed new products in partnership with Grendene.

In the celebrities portfolio, we counted once again with *Ivete Sangalo*, *Shakira*, *Paula Fernandes*, among many others, and *Juliana Paes* is back. Regarding characters, besides the traditional ones by *Mattel*, *Disney* and others, we had the addition of *Peppa Pig Baby*, all of which contributed to the building of our brands.

We have also extended our operations in the brand portfolio. Aligned with our efforts to develop brands, we negotiated the license for products with the *Azaleia* and *Dijeane* brands, as announced in the Relevant Fact dated October 23, 2014, which started to be manufactured and sold by Grendene in 4Q14. The first figures related to these products allow us to wait good results from them.

As expected, TOG (trade name of the furniture operation A3NP, a subsidiary of Grendene) has started sales in 3Q14 and achieved moderate income in 4Q14, which is typical for a business beginning its operations. It also has already a confirmed portfolio of orders of € 600 thousand euros for delivery in the coming months, especially in Europe. Sales in Brazil will probably start in 2015.

Our expectations concerning this business are still good but, as previously stated, the ultimate proof of success will come when end users start using the products and there are new orders by the retail sector, or as we say with the jargon: "spin the product in the store".

In order to guarantee that we keep growing and that our plants continue to operate with a high level of productivity, we invested approximately R\$ 71 million in the maintenance and update of our facilities, R\$ 14 million in our subsidiary A3NP, and R\$ 34 million in other process-related improvements, in addition to other investments, which, together, totaled R\$ 119 million in 2014.

In addition, the expenses recognized for the year included advertising expenses of R\$ 169.2 million and expenses with the development of new products of R\$ 45.4 million.

Throughout its 44 years of history, Grendene has obtained expressive leadership in the footwear market, and it keeps on believing in its future and potential, investing in the strengthening of its brands and in its growth in both the domestic and foreign markets. This leadership, together with the competitive advantages that we have built, can be estimated when considering that Grendene is responsible for the production of approximately 24% of the estimated footwear manufactured in Brazil, but with only 8% of the estimated employees in the industry (Source: Change in Employment Rates in the Footwear Industry, prepared by the Brazilian Footwear Industry Association (ABICALÇADOS) e Grendene). In addition, we are responsible for approximately 20% of the domestic footwear consumption and 40.3% of the Brazilian footwear exports.

In the last ten years, since Grendene went public, from 2004 to 2014, irrespective of the world crisis and the unfavorable currency exchange rate, Grendene achieved an average compound growth of 6.3% p.a. in net revenue and 9.1% in profit. Even though we had alternate results over these years, we achieved a gain in market share, that is, in Grendene's share of the total apparent consumption in the domestic market. In 2014, we evaluated that our market share was maintained throughout our target markets and, in addition, we improved our net and gross margins, which is in line with our determinations expressed at the beginning of the year. Grendene's management has decided to maintain and, if possible, increase the margins obtained in the next years, consolidating the established tendency. The quality of our products, the strength of our brands and the recognition of both the market and final customers, as well as our high operating efficiency, are the basis of such expectation.

Management's opinion is that the results for 2014 exceeded expectations. Even with the Brazilian economy in recession and the numbers indicating a 6% drop in the footwear manufactured in Brazil, not to mention our margins being adjusted at the beginning of the year, we managed to increase our revenue and improve both our net and gross margins, with only a small decrease in the EBIT margin.

In addition, we believe that our brands were strengthened, our relationship with the retail market was intensified with the high turnover of our products in the stores. We managed to sell, manufacture and deliver large volumes with efficiency and agility, thus confirming that our business model is adequate. Once again Grendene has demonstrated consistent results within an adverse economic scenario.

Management Report - 2014

Our capacity to build strong brands that have a privileged relationship with our customers and to develop a solid relationship with the distribution channels via a long-term process, with cumulative effects, is responsible for guaranteeing this regularity. Since it went public, in 2004, the Company, among many other efforts, invested approximately R\$ 1.4 billion in advertising in order to consolidate and add value and, for the next years, will endeavor with even more actions to get closer to its end customers. Grendene believes that understanding the needs of these customers is a fundamental factor for the success of the Grendene's business model.

All these actions are in line with Grendene's Values, which highlight the aspects that the Company has been receiving from public recognition: Profit, Competitiveness, Innovation, Agility and Ethics.

As a conclusion, it should be recognized that, during these 44 years, the Company did not lack the decisive support and trust of suppliers, customers, partners, stockholders and, especially, thousands of dedicated employees committed to Grendene's Business Vision and Values.

We sincerely thank you all and share with you the success that Grendene has achieved.

The Management

II. Main consolidated indicators (under IFRS)

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR ¹
Gross sales revenue	1,819.4	1,998.6	1,831.6	2,324.5	2,711.4	2,720.3	0.3%	8.4%
Domestic market	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	(3.2%)	7.2%
Exports	355.0	394.8	341.7	479.1	564.5	642.6	13.8%	12.6%
Net revenue	1,455.8	1,604.5	1,481.1	1,882.3	2,187.3	2,233.3	2.1%	8.9%
Cost of goods sold	(889.7)	(953.3)	(840.5)	(1,000.2)	(1,193.6)	(1,207.4)	1.2%	6.3%
Gross profit	566.0	651.2	640.6	882.1	993.7	1,025.9	3.2%	12.6%
Operating expenses	(413.8)	(442.8)	(453.3)	(519.3)	(594.5)	(636.5)	7.1%	9.0%
EBIT	152.2	208.4	187.3	362.8	399.2	389.4	(2.5%)	20.7%
EBITDA	178.5	236.6	216.2	394.5	435.9	436.9	0.2%	19.6%
Finance result, net:	135.6	122.5	153.0	132.5	103.6	135.5	30.8%	-
Profit	272.2	312.4	305.4	429.0	433.5	490.2	13.1%	12.5%

R\$	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Average price (Footwear)	10.98	11.79	12.20	12.56	12.54	13.27	5.8%	3.9%
Domestic market	12.47	13.97	13.85	13.21	12.96	13.60	4.9%	1.8%
Exports	7.35	7.23	8.04	10.56	11.17	12.29	10.0%	10.8%
Exports in U.S. dollars	3.68	4.11	4.80	5.40	5.18	5.22	0.8%	7.2%

R\$	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Basic earnings per share	0.9074	1.0388	1.0157	1.4266	1.4421	1.6328	13.2%	12.5%
Diluted earnings per share	0.9074	1.0394	1.0123	1.4195	1.4367	1.6293	13.4%	12.4%
Dividend per share	0.3658	0.4048	0.7300	0.9760	0.9985	0.7351	(26.3%)	15.0%

Million of pairs	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Volumes	165.7	169.5	150.1	185.0	216.2	204.9	(5.2%)	4.3%
Domestic market	117.4	114.9	107.6	139.7	165.7	152.7	(7.8%)	5.4%
Exports	48.3	54.6	42.5	45.3	50.5	52.2	3.3%	1.6%

Margin %	2009	2010	2011	2012	2013	2014	Var.p.p. ² 14/13	Var. ² 09/14
Gross	38.9%	40.6%	43.3%	46.9%	45.4%	45.9%	0.5 p.p.	7.0 p.p.
EBIT	10.5%	13.0%	12.6%	19.3%	18.3%	17.4%	(0.9 p.p.)	6.9 p.p.
EBITDA	12.3%	14.7%	14.6%	21.0%	19.9%	19.6%	(0.3 p.p.)	7.3 p.p.
Net	18.7%	19.5%	20.6%	22.8%	19.8%	22.0%	2.2 p.p.	3.3 p.p.

R\$	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Final U.S. dollar	1.7412	1.6662	1.8758	2.0435	2.3426	2.6562	13.4%	8.8%
Average U.S. dollar	1.9976	1.7601	1.6750	1.9546	2.1576	2.3536	9.1%	3.3%

Notes:

- 1) CAGR - Compound annual growth rate
- 2) p.p.: percentage points.

III. Market and macroeconomic conditions

We always started our operations in previous years with optimism regarding the Brazilian economy, but, for 2014, our expectations were of a challenging year, and that was confirmed. Maybe the year was indeed more difficult than expected. The economy in downturn, pressure over costs, interests increasing and consumption falling: those were our expectations. The World Cup impacts on business, as well as the election results, were not surprises either.

Together with the adjustments already announced by economic authorities, this scenario is probable to continue in 2015.

Higher interest rates will probably have a negative impact on the consumption for 2015, with more strong effects in items with higher tickets, which depend on credit (domestic appliances, electronics, automobiles, etc.), thus benefiting lower-ticket products, such as Grendene's. The devaluation of the Brazilian real against the U.S dollar will probably continue, thus favoring exports. The results of 4Q14 confirmed this statement, that is, such devaluation of the Brazilian real benefits Grendene's results. In fact, the beginning of 2015 was better than the same period of the previous year, exceeding our expectations and strengthening our beliefs regarding a lower impact on Grendene's business.

In addition, higher interest rates have positive effects on our finance results.

The measures announced so far - increase in taxes levied on imports, increase of the Tax on Financial Transactions (IOF) levied on borrowings, the return of the Economic Domain Intervention Contribution (CIDE), among others - have no direct effects on our business, although certainly they have indirect effects. The economy in general feels the effects when both the credit and fuels are more expensive.

In the foreign scenario, the highlights include the sharp drop in oil prices, but this has little influence over the foreign price of the PVC resin, which is our primarily raw material and is highly influenced by the natural gas prices. Usually, the foreign exchange rate has negative effects on the price of resins when converted to Brazilian reais. However, with the appreciation of the U.S. dollar, the prices of commodities decreased and, thus, such effects are mostly offset.

All things considered, this is a challenging economic scenario, such as many others that we have already faced, and in general our results have been positive.

Brazilian footwear production and apparent consumption

Brazil (million of pairs)	2009	2010	2011	2012	2013	2014*	Var. 14/13	CAGR
Production	814	894	819	864	900	846	(6.0%)	0.8%
Imports	30	29	34	36	39	37	(6.0%)	3.9%
Exports	127	143	113	113	123	130	5.4%	0.5%
Apparent consumption	717	780	740	787	816	753	(7.7%)	1.0%
Consumption per capita (pair)	3.8	4.1	3.8	4.1	4.2	3.9	(7.1%)	0.5%

Source: IEMI / Secex / Abicalçados

*Figures estimated by Grendene based on the Monthly Industrial Research on Physical Manufacturing, prepared by the Brazilian Institute of Geography and Statistics (IBGE)

Grendene

Million of pairs	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Volumes	165.7	169.5	150.1	185.0	216.2	204.9	(5.2%)	4.3%
Share volume - production	20.4%	19.0%	18.3%	21.4%	24.0%	24.2%	0.2 p.p.	3.8 p.p.
Domestic market	117.4	114.9	107.6	139.7	165.7	152.7	(7.8%)	5.4%
Share volume - Domestic market	16.4%	14.7%	14.5%	17.8%	20.3%	20.3%	-	3.9 p.p.
Exports	48.3	54.6	42.5	45.3	50.5	52.2	3.3%	1.6%
Share volume - exports	38.1%	38.2%	37.6%	40.0%	41.1%	40.3%	(0.8 p.p.)	2.2 p.p.

Source: Grendene S.A.

IV. Economic and financial performance

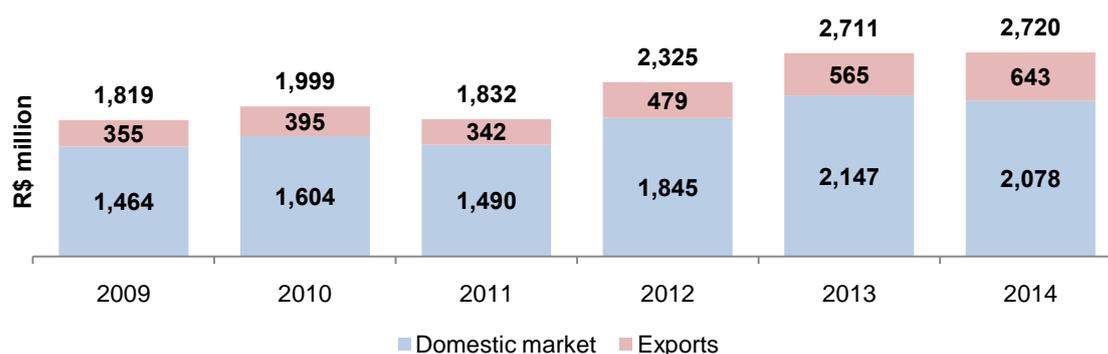
1. Gross sales revenue

Gross revenue in 2014 increased only by 0.3%. When compared to 2013, the average compound rate of growth (CAGR 2008-2014) decreased by 9.5% p.a., against the 11.5% p.a. in the period from 2008 to 2013. Irrespective of that, it remained within the expected range of 8% to 12%.

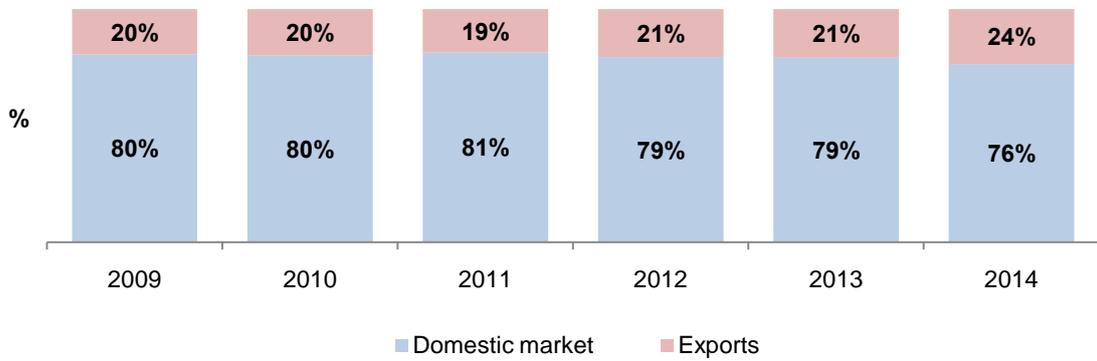
In 2014, we achieved US\$ 273 million in exports, which is not a level attained by many Brazilian manufacturing companies.

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Consolidated gross revenue	1,819.4	1,998.6	1,831.6	2,324.5	2,711.4	2,720.3	0.3%	8.4%
Domestic market	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	(3.2%)	7.2%
Footwear	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	(3.2%)	7.2%
Furniture	-	-	-	-	-	-	0.0%	0.0%
Exports	355.0	394.8	341.7	479.1	564.5	642.6	13.8%	12.6%
Footwear	355.0	394.8	341.7	479.1	564.5	641.7	13.7%	12.6%
<i>Footwear in U.S. dollars</i>	<i>177.7</i>	<i>224.3</i>	<i>204.0</i>	<i>245.1</i>	<i>261.6</i>	<i>272.6</i>	<i>4.2%</i>	<i>8.9%</i>
Furniture	-	-	-	-	-	0.9	0.0%	0.0%
Million of pairs	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Volumes	165.7	169.5	150.1	185.0	216.2	204.9	(5.2%)	4.3%
Domestic market	117.4	114.9	107.6	139.7	165.7	152.7	(7.8%)	5.4%
Exports	48.3	54.6	42.5	45.3	50.5	52.2	3.3%	1.6%
R\$	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Average price (Footwear)	10.98	11.79	12.20	12.56	12.54	13.27	5.8%	3.9%
Domestic market	12.47	13.97	13.85	13.21	12.96	13.60	4.9%	1.8%
Exports	7.35	7.23	8.04	10.56	11.17	12.29	10.0%	10.8%
<i>Exports in U.S. dollars</i>	<i>3.68</i>	<i>4.11</i>	<i>4.80</i>	<i>5.40</i>	<i>5.18</i>	<i>5.22</i>	<i>0.8%</i>	<i>7.2%</i>

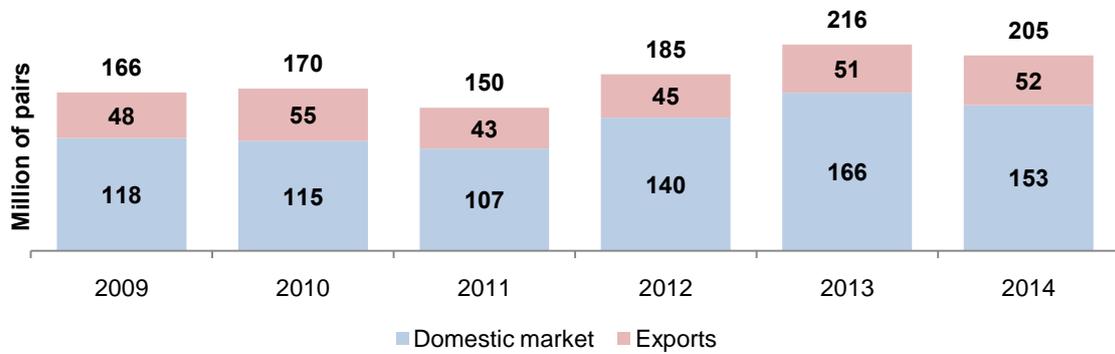
Gross sales revenue



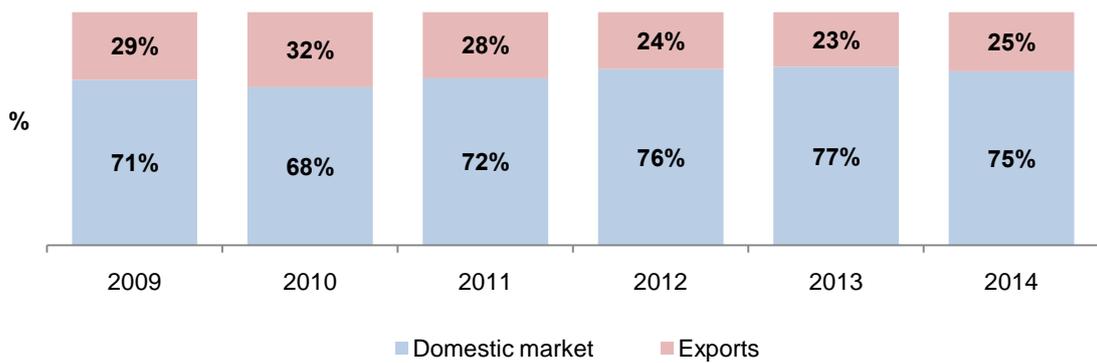
Share (%) in gross sales revenue

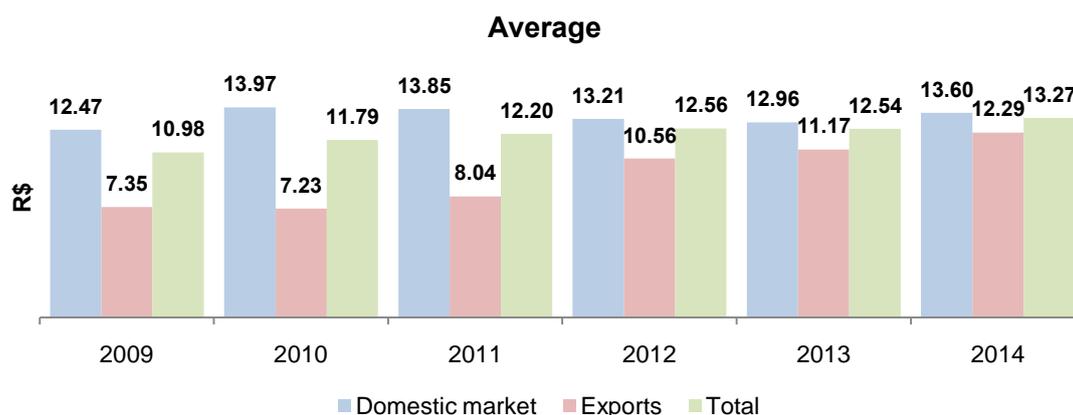


Volume of pairs sold



Share (%) in volume of pairs



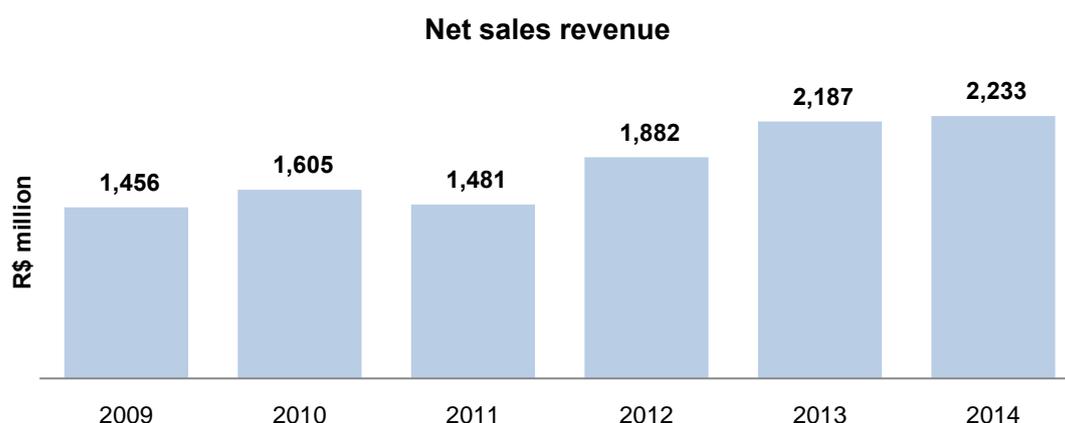


According to data of the Ministry of Development, Industry and Trade (MDIC)/Foreign Trade Secretariat (SECEX)/Brazilian Footwear Industry Association (ABICALÇADOS), Brazilian footwear exports in 2014 vs. 2013 showed an increase of 5.4% in the number of pairs sold and a 2.6% decrease in total exports in U.S. dollars and 7.5% in average price in U.S. dollars.

Grendene's share in the Brazilian footwear exports, when comparing 2014 vs. 2013, remained in 40.3% in volumes of pairs and went from 23.9% to 25.5% in export revenue in U.S. dollars, maintaining the leading position in Brazilian footwear exports for twelve years in a row.

2. Net sales revenue

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Gross sales revenue	1,819.4	1,998.6	1,831.6	2,324.5	2,711.4	2,720.3	0.3%	8.4%
Domestic market	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	2,077.7	(3.2%)	7.2%
Exports	355.0	394.8	341.7	479.1	564.5	642.6	13.8%	12.6%
Sales deductions	(363.6)	(394.1)	(350.6)	(442.2)	(524.1)	(487.0)	(7.1%)	6.0%
Returns and taxes on sales	(274.1)	(283.6)	(255.3)	(328.6)	(393.3)	(383.0)	(2.6%)	6.9%
Discounts granted to customers	(89.5)	(110.5)	(95.3)	(113.6)	(130.8)	(104.0)	(20.5%)	3.1%
Net sales revenue	1,455.8	1,604.5	1,481.1	1,882.3	2,187.3	2,233.3	2.1%	8.9%



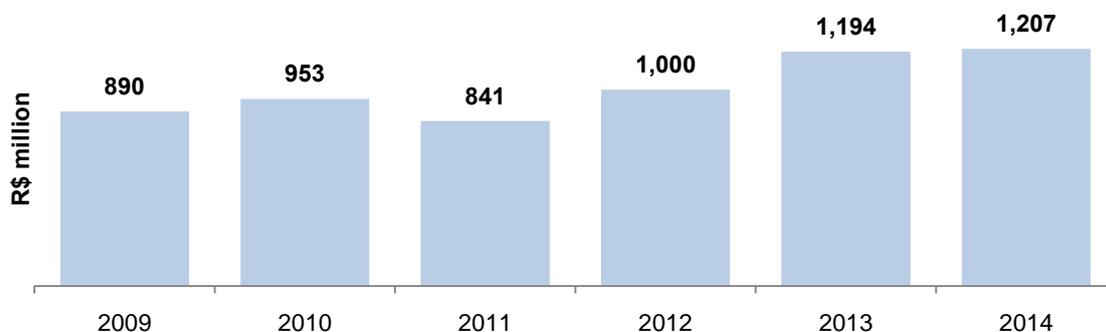
3. Cost of goods sold (COGS)

In the last six years, with all the foreign exchange rate volatility, increase in the minimum wage and inflationary pressures in Brazil, our unit cost increased by 1.9% p.a., which is a number quite below the inflation rates for the period. This is still positive even when considering that Grendene benefits from the payroll charges relief, which is being carried out by the Federal Government since 2011. During this period, the accumulated total cost of sales increased less than the net revenue.

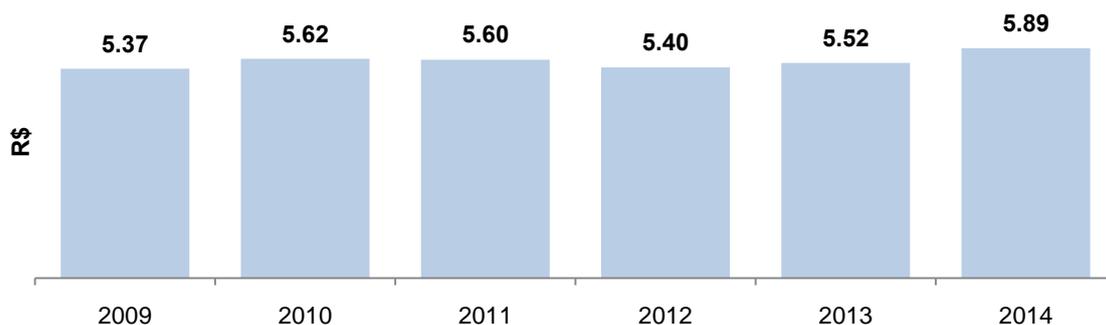
In 2014, COGS grew 1.2% in absolute terms, 0.9 p.p. below the growth in net revenue (2.1%), due to mix changes, the adjustments made in the product portfolio and/or the increase in the prices.

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Cost of goods sold	889.7	953.3	840.5	1,000.2	1,193.6	1,207.4	1.2%	6.3%
R\$ per pair	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Cost of goods sold/pair	5.37	5.62	5.60	5.40	5.52	5.89	6.7%	1.9%

Cost of sales



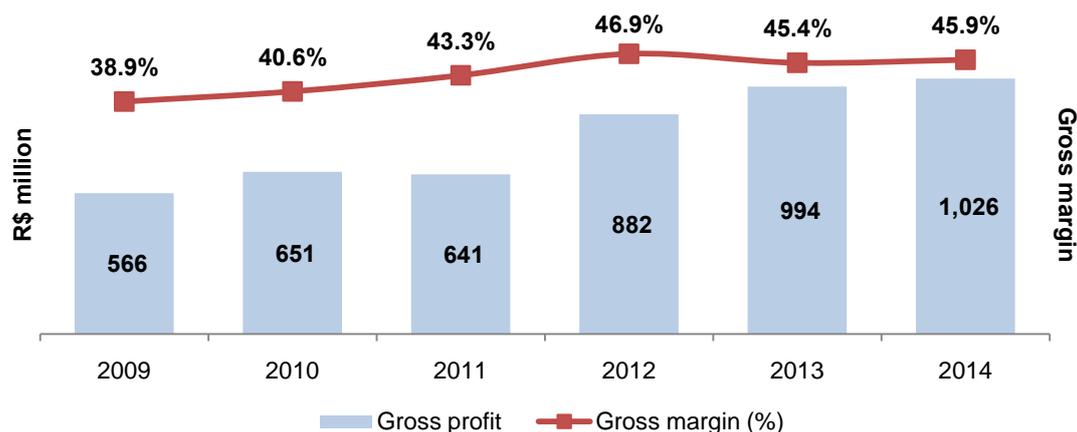
COGS - per pair



4. Gross profit

Our gross profit has expanded by 12.6% p.a. over the last six years. In 2014, it totaled R\$ 1,026 million, with an increase of 3.2% when compared to 2013 (R\$ 994 million). With costs increasing less than net revenue, as expected, Grendene has increased its gross margin by 0.5 p.p., from 45.4% in 2013 to 45.9% in 2014.

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Gross profit	566.0	651.2	640.6	882.1	993.7	1,025.9	3.2%	12.6%
Gross margin	38.9%	40.6%	43.3%	46.9%	45.4%	45.9%	0.5 p.p.	7.0 p.p.

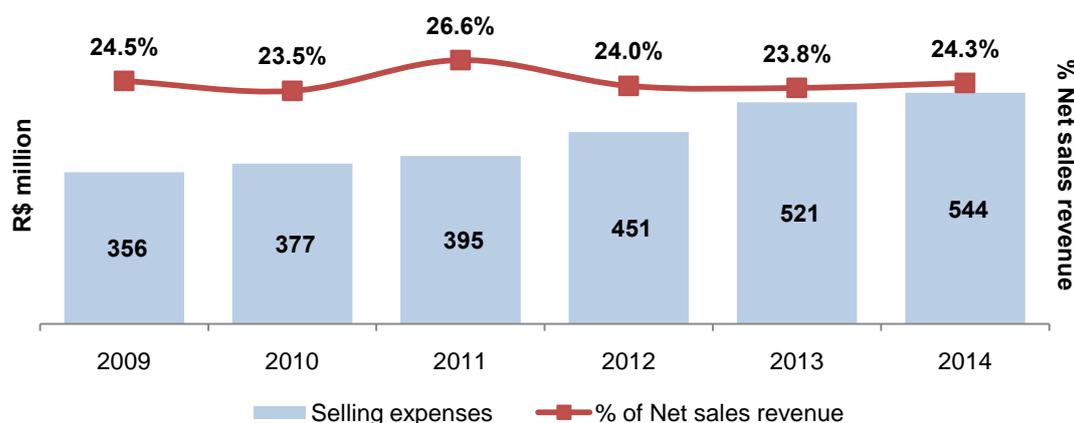


5. Operating expenses (SG&A)

5.1. Selling expenses

The Company's commercial expenses are primarily related to freights, licensing, commissions and advertising, representing over time approximately 24% of the Company's net revenue.

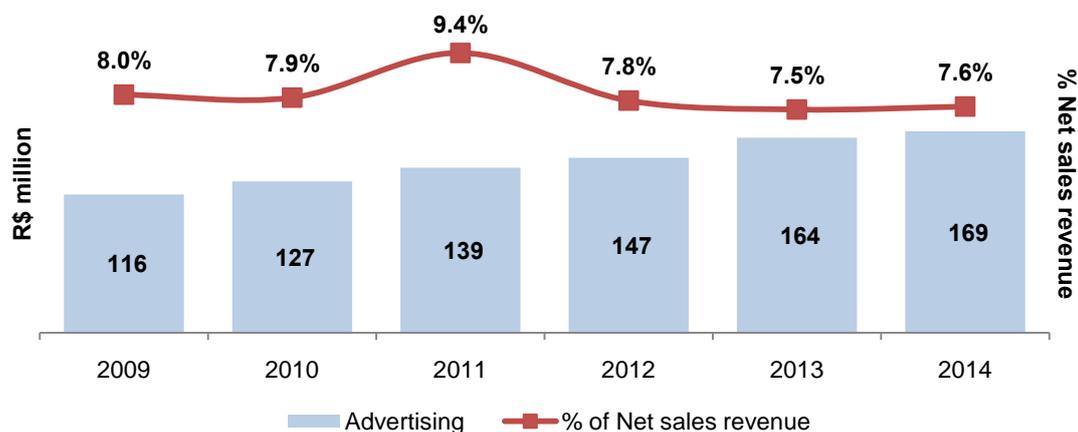
R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Selling expenses	356.3	377.0	394.5	451.0	521.2	543.7	4.3%	8.8%
% of net revenue	24.5%	23.5%	26.6%	24.0%	23.8%	24.3%	0.5 p.p.	(0.2 p.p.)



5.1.1 Advertising expenses

Advertising expenses are in accordance with the Company's strategy.

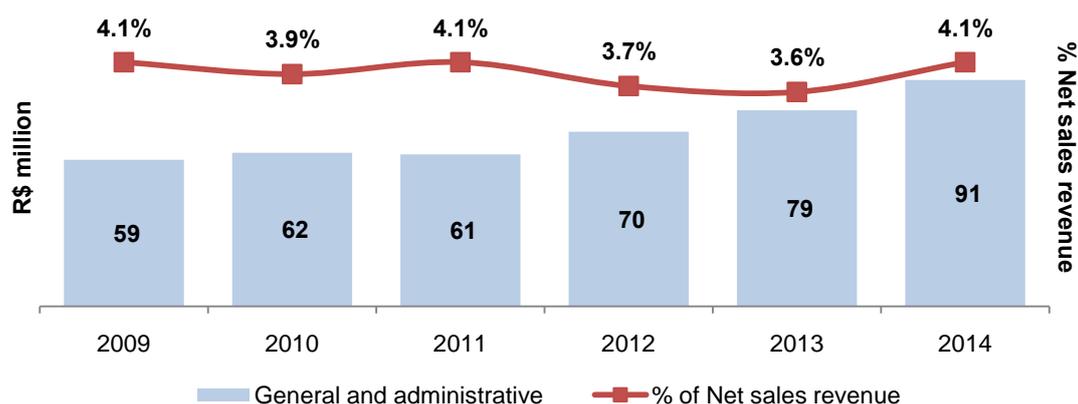
R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Advertising expenses	116.1	127.1	138.7	147.0	163.7	169.2	3.4%	7.8%
% of net revenue	8.0%	7.9%	9.4%	7.8%	7.5%	7.6%	0.1 p.p.	(0.4 p.p.)



5.2. General and administrative expenses (G&A)

The growth in general and administrative expenses was a result of the pre-operating expenditures and non-recurring expenditures incurred in 2014, such as those related to the opening of a Galeria Melissa in London and those related to our furniture business (A3NP).

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
General and administrative expenses	59.0	61.9	61.2	70.4	79.0	91.3	15.5%	9.1%
% of net revenue	4.1%	3.9%	4.1%	3.7%	3.6%	4.1%	0.5 p.p.	-



6. Ebit and Ebitda

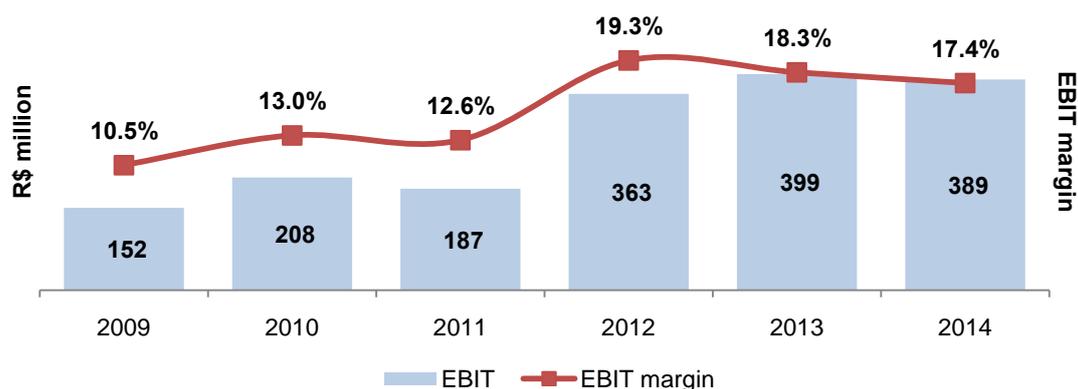
6.1. Ebit

EBIT - earnings before interest and taxes - operating profit before finance result. We understand that because we have large cash position that generates significant revenue financial operating income of our activity is best characterized by EBIT.

Reconciliation of EBIT/EBITDA* (R\$ thousand)	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Profit for the year	272,211	312,399	305,446	429,003	433,540	490,244	13.1%	12.5%
Non-controlling interests	(110)	68	5	888	465	(4,985)	(1,172.0%)	114.4%
Taxes on profit	15,707	18,415	34,845	65,399	68,805	39,678	(42.3%)	20.4%
Finance result, net:	(135,624)	(122,469)	(153,003)	(132,477)	(103,577)	(135,524)	30.8%	-
EBIT	152,184	208,413	187,293	362,813	399,233	389,413	(2.5%)	20.7%
Depreciation and amortization	26,307	28,173	28,917	31,725	36,648	47,461	29.5%	12.5%
EBITDA	178,491	236,586	216,210	394,538	435,881	436,874	0.2%	19.6%

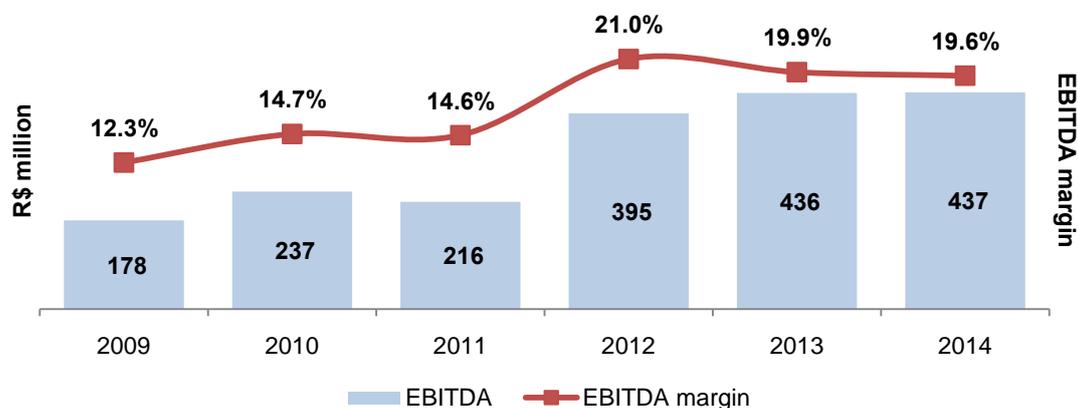
EBIT margin	10.5%	13.0%	12.6%	19.3%	18.3%	17.4%	(0.9 p.p.)	6.9 p.p.
EBITDA margin	12.3%	14.7%	14.6%	21.0%	19.9%	19.6%	(0.3 p.p.)	7.3 p.p.

* In accordance with the Brazilian Securities Commission (CVM) Instruction 527 of October 4, 2012.



6.2. Ebitda

Grendene's business is low-capital-intensive, with depreciation expenses lower than 2% of net revenue (2.0% in 2011, 1.7% in 2012 and 2013 and 2.1% in 2014). Therefore, we understand that the analysis of EBIT is more pertinent for the Company's operational management.



Management Report - 2014

EBITDA - Profit before net finance result, income tax and social contribution on income, depreciation and amortization. EBITDA is not an indicator used in accounting practices adopted in Brazil. It does not represent cash flows for the periods presented and should not be taken as an alternative to profit as an indicator of operational performance or as an alternative to cash flow as an indicator of liquidity. We understand that some investors and financial analysts use the EBITDA as an indicator of a company's operational performance and/or its cash flow. However, taking into account our expressive revenue from financial investment interests, we usually achieve profits exceeding our EBITDA.

7. Finance results, net

Grendene has a solid cash position, and its financial results are an important part of its profit. The purpose of the transactions carried out with foreign exchange rates is to serve as hedge mainly for receivables from exports. Grendene sells U.S. dollars in these transactions, whose long-term results are expected to be nearly zero. Accordingly, the finance result is basically influenced by the interest rate (Special System for Custody and Settlement (SELIC)) and the average cash held by the Company.

In 2014, the finance income totaled R\$ 135.5 million, 30.8% more than in 2013 (R\$ 103.6 million), as shown below:

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Finance income	211.7	178.4	215.8	204.9	183.1	220.4	20.4%	0.8%
Interest received from customers	2.1	2.0	2.9	1.9	1.9	1.9	(2.2%)	(2.6%)
Income from foreign exchange hedge - BM&FBOVESPA	54.2	24.8	3.9	14.8	18.2	16.6	(8.6%)	(21.0%)
Income from financial investments	94.6	92.7	128.8	93.7	81.9	100.1	22.3%	1.1%
Foreign exchange gains	20.2	20.1	35.5	49.7	40.2	41.9	4.2%	15.7%
Adjustment to present value	36.6	35.6	42.1	41.3	38.7	54.7	41.5%	8.3%
Other finance income	4.0	3.2	2.6	3.5	2.2	5.3	137.1%	5.5%
Finance costs	(76.1)	(55.9)	(62.8)	(72.5)	(79.5)	(84.9)	6.8%	2.2%
Expenses of foreign exchange hedge - BM&FBOVESPA	(12.8)	(17.1)	(5.3)	(11.3)	(26.2)	(24.0)	(8.2%)	13.4%
Financing expenses	(20.1)	(10.4)	(15.0)	(9.2)	(19.6)	(21.8)	10.9%	1.6%
Foreign exchange losses	(44.1)	(24.3)	(38.2)	(47.8)	(28.5)	(33.5)	17.4%	(5.4%)
Provision/reversal of foreign financial investments	4.7	5.2	-	-	-	-	-	-
Other finance costs	(3.8)	(9.3)	(4.3)	(4.2)	(5.1)	(5.6)	9.4%	8.4%
Finance result, net	135.6	122.5	153.0	132.5	103.6	135.5	30.8%	-

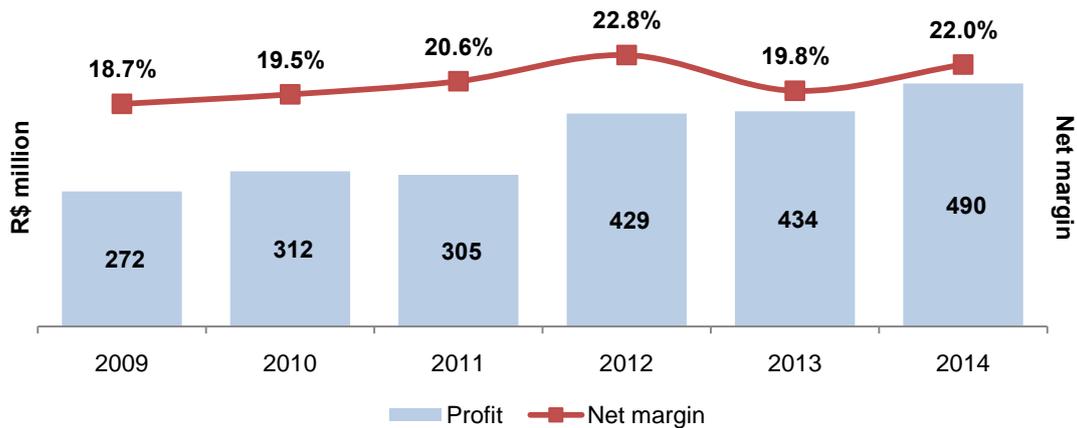
Discounts granted to customers are recorded in sales deductions in the consolidated financial statements.

8. Profit for the year

The Company's profit increased by 12.5% p.a. in the last six years (CAGR), with increase in all Company's margins, that is, gross, ebit and net.

In 2014, Grendene's profit again increased, now by 13.1% when compared to the previous year.

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Profit for the year	272.2	312.4	305.4	429.0	433.5	490.2	13.1%	12.5%
Net margin	18.7%	19.5%	20.6%	22.8%	19.8%	22.0%	2.2 p.p.	3.3 p.p.

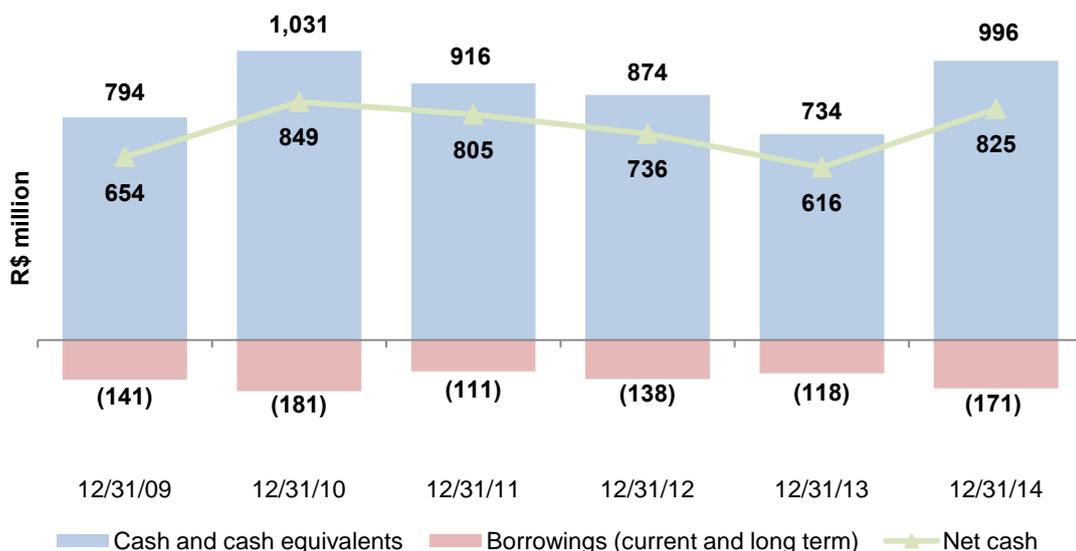


9. Cash generation and net cash

Net cash generated from operations of R\$ 485.0 million is added to the net increase in debt with financial institutions of R\$ 40.6 million, and the result of cash is appropriated to pay investments in property, plant and equipment and intangible assets of R\$ 119.1 million; financial investments in the net amount of R\$ 178.5 million, the net purchase of shares to be held in treasury amounting to R\$ 5.0 million and the payment of dividends in the amount of R\$ 236.0 million. The decrease of R\$ 13.0 million in the amount held in current account and financial investments of very short term completes the amount of the appropriation. The complete cash flow analysis is disclosed in the financial statements.

Grendene generated R\$ 1.5 billion of accumulated cash from its operating activities in the last six years, reaffirming its excellent operating performance.

The comparison of cash and cash equivalents, short and long term financial investments, borrowings (current and long terms) and net cash is shown in the chart below:

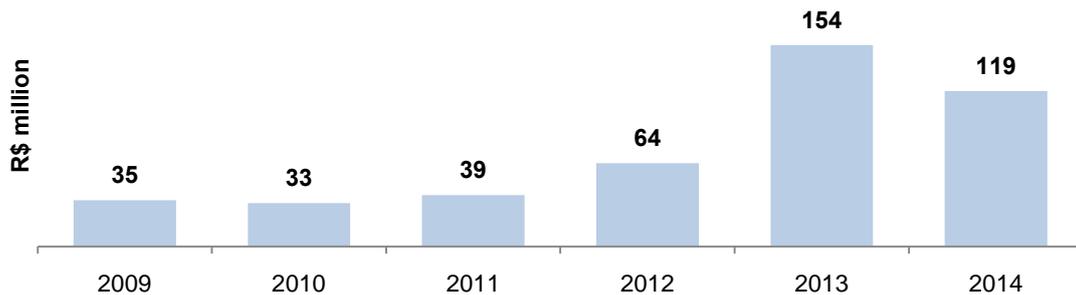


10. Investments (property, plant and equipment and intangible assets)

Investments in 2014 were focused on the maintenance of industrial buildings and facilities, replacement of fixed assets and purchase of new equipment for modernization of the plant and greater production efficiency and in a new furniture business through Grendene's subsidiary A3NP.

R\$ million	2009	2010	2011	2012	2013	2014	Var. 14/13	CAGR
Investments	35.4	33.0	39.4	63.6	154.0	119.1	(22.7%)	27.5%

Investments



11. Independent auditors - CVM Instruction 381/03

In compliance with the CVM Instruction 381/2003, Grendene S.A. informs herein that PricewaterhouseCoopers Auditores Independentes, the provider of external audit services to the Company, did not provide services which were not related to external audit during 2014. The Company's policy for the engagement of services not related to an external audit from independent auditors is based on principles that preserve the independence of the auditor, such as: (a) the auditor must not audit his/her own work; (b) the auditor must not perform managerial functions for his/her client; and (c) the auditor must not promote the interests of his/her clients.

V. Capital markets and corporate governance

1. Capital markets

In 2014, 93.7 million common shares were traded (1.2 times the number of free float shares) through 352.9 thousand transactions, which represented a financial volume of R\$ 1.4 billion. Daily averages were as follows: 378 thousand common shares (0.48% of the free float), financial volume of R\$ 5.7 million and 1,423 trades.

From January to December 2014, Grendene's share (GRND3) devalued 10.9%, considering the reinvestment of the dividends, and the IBOVESPA index devalued 2.9% in the same period. It is important to point out that the dividend yield calculated at the weighted average share price in 2014 was 4.8% p.a. (5.0% p.a. in 2013).

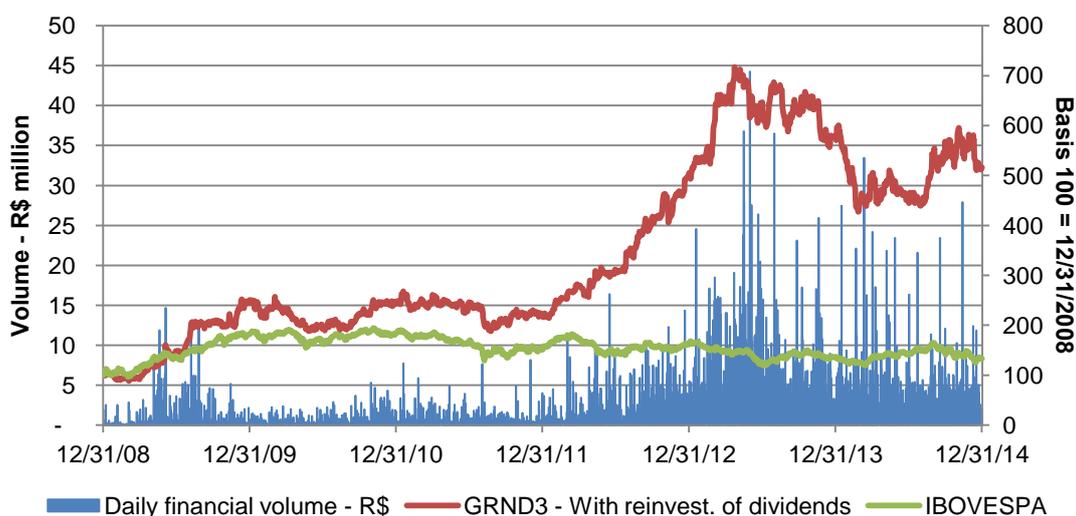
The amount of businesses, number of shares negotiated, financial volume and the daily averages are presented in the following table:

Year	Trading sessions	Number of trades	Amount of shares	Volume R\$	Price R\$		Average amount of shares		Aver. fin. vol. - R\$	
					Weighted average	Closing	Trade	Daily	Trade	Daily
2009	246	19,171	60,645,600	374,317,949	6.17	9.95	3,163	246,527	19,525	1,521,618
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

From January 2015 to April 2015, Grendene will comprise the following BM&FBOVESPA indexes: IBRA, ICON, IDIV, IGCT, IGCX, IGM, INDX, ITAG and SMLL.

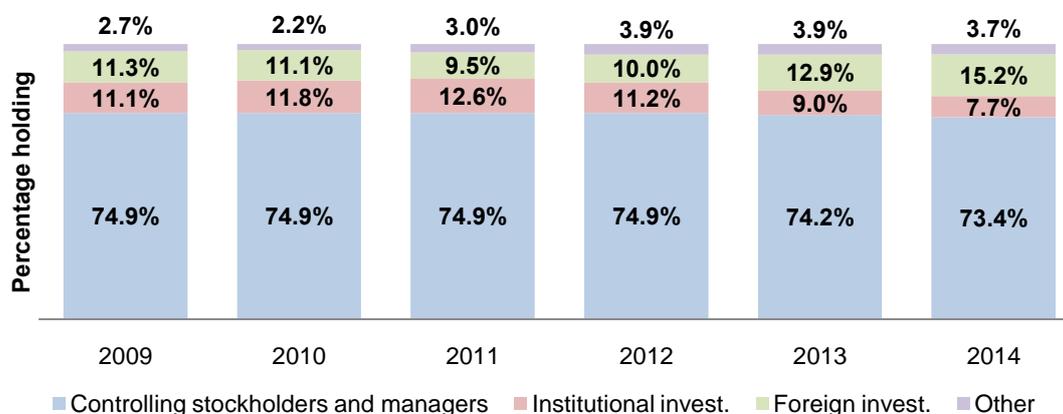
The chart below shows the evolution of Grendene's common shares compared to the IBOVESPA Index, considering the base 100 equal to December 31, 2008, and the daily financial volume.

Daily financial volume and GRND3 x IBOVESPA



At 12/31/2014, the stake of Brazilian institutional investors in the share capital of Grendene S.A. represented 7.7% (29.4% of free float), while foreign investors represented 15.2% (58.1% of free float) and small investors, including individuals, represented 3.7% (12.5% of free float); the remaining 73.4% were held by the controlling stockholders and managers.

Stockholders' profile



2. Dividends

2.1 Dividend policy

In 2015, we will maintain our policy of distributing those profits that are not from state tax incentives after the constitution of both the legal and statutory reserves.

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

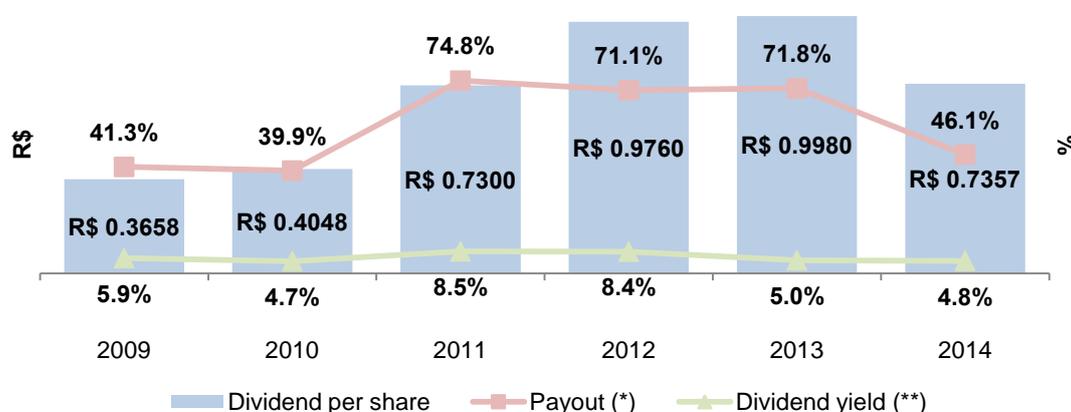
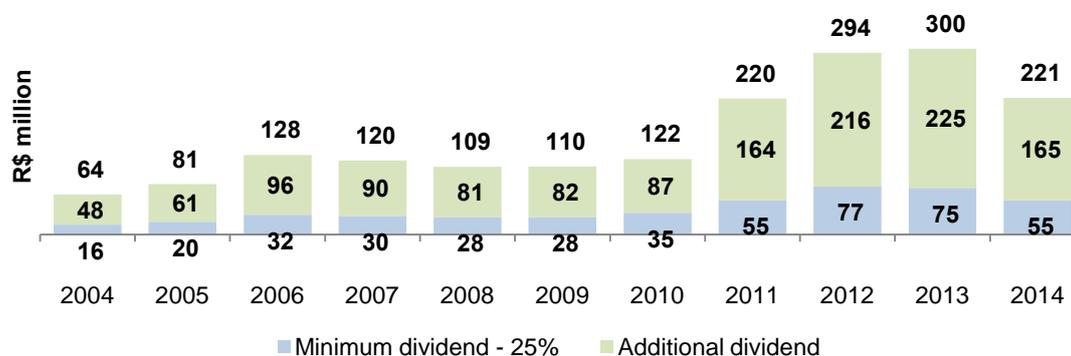
2.2 Dividends approved

In accordance with the Company's bylaws, the minimum mandatory dividend is computed based on 25% of the remaining profit for the year, after transfers to the reserves as required by law. From 2004 to 2014, the dividends distributed according to the percentage established by the Company's bylaws totaled R\$ 452 million.

However, since it went public in 2004, Grendene distributed an average of 54.8% of its profit after the constitution of the legal reserve. The Company approved the management's proposal regarding the distribution, as dividends, of the amount exceeding the percentage established in the bylaws of R\$ 1.3 billion, thus totaling R\$ 1.8 billion in dividends, which represents 5.88 per share (basis: 300,720,000 common shares).

Years	R\$ million		
	Minimum dividend – 25%	Additional dividend	Total dividends
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
Accumulated (R\$ mn)	452	1,316	1,768

Dividends



(*) Payout: Dividend divided by profit after transfer to legal reserves

(**) Dividend yield: Dividend per share in the year divided by the weighted average price of the share, annualized.

According to our current dividend policy, which was established on February 13, 2014, and disclosed through a Significant Event Notice at the same date, and also based on the amount presented below, the amount of dividends for 2014 amounted to R\$ 203,641,453.24, which increased by R\$ 17,172,928.23, arising from the 2013 profit retention reserves resulted in dividends to be distributed totaling R\$ 220,814,381.47, which less the quarterly advances of R\$ 125,356,924.60, resulted in a balance of dividends payable of R\$ 95,457,456.87, to be ratified at the General Annual Meeting of Stockholders responsible for approving the 2014 accounts, as from April 23, 2015.

The holders of common shares (GRND3) on April 9, 2015 (cut-off date) will be entitled to such dividends. Therefore, Grendene's shares (GRND3) will be traded ex-dividend as from April 10, 2015 on the BM&FBOVESPA.

Basis for distribution of dividends

a) Allocation of the profit for 2014

Grendene S.A. (Parent company)	R\$
Profit for the year (2014)	490,243,531.09
(-) Tax incentives reserve	(257,989,369.78)
Legal reserve calculation basis	232,254,161.31
(-) Legal reserve	(11,612,708.07)
Mandatory dividends calculation basis (a)	220,641,453.24
Mandatory dividends – 25%	55,160,363.31
(-) Reserve for the purchase of shares (b) ¹	(17,000,000.00)
Dividends referring to the result for 2014 (a - b) = (c)	203,641,453.24

¹ Reserve recorded in compliance with the stock options or subscription plan ("Stock options"), according to art. 32, §2, of the bylaws.

b) Allocation of the profit for prior years

(+) Profit retention reserve	17,172,928.23
Profit retention reserve	17,172,928.23

c) Total dividends proposed by management

Mandatory dividends – 25% (d)	55,160,363.31
Dividends proposed in addition to the minimum mandatory amount:	
Dividends in addition to the minimum mandatory amount for 2014 (e)	148,481,089.93
Dividends referring to the retained earnings from prior years (f)	17,172,928.23
Sum (e + f) = (g)	165,654,018.16
Total dividends proposed by management (d + g)	220,814,381.47

Distributed dividends related to 2014			
Date of approval	Payment beginning date	Amount in R\$	Dividend per share - R\$
Board of Directors' Meeting (RCA) of 4/24/2014 - 1st advance ¹	5/14/2014	42,063,777.28	0.1401
RCA of 7/24/2014 - 2nd advance ¹	8/13/2014	29,865,909.18	0.0994
RCA of 10/23/2014 - 3rd advance ¹	11/12/2014	53,427,238.14	0.1781
RCA of 2/12/2015 - Balance ¹	4/23/2015	95,457,456.87	0.3181 ²
Total		220,814,381.47	0.7357²

¹ Dividends approved "ad referendum" of the Stockholders Annual General Meeting that will examine the balance sheets and the financial statements for 2014.

² Dividends per share subject to changes due to the amount of treasury shares at the cut-off date (4/9/2015).

3. Corporate governance best practices

With the purpose of keeping analysts and investors informed about the performance of our business, we maintain permanent communication channels. We also make visits, take part in conferences and give presentations in events held throughout the world. In addition, we have a specific investor relations website, in English and Portuguese. Since 2008 we no longer prepare the Annual Report, and the information related to our performance is now included in the Management Report and Reference Form, both of which translated to English and available at our website. International conference calls, with simultaneous translation into English, are held on a quarterly basis for the disclosure of results, and a press release analyzing these results is published. Non deal roadshows are held in Brazil every three months and abroad every six months, and currently two meetings at least with APIMEC (SP and RS) are held per year.

In order to facilitate the analysis of its numbers, we carry out the reconstitution of its database according to IFRS and CPCs so as to allow comparison in the last years, disclosing the five-year period from 2008 to 2014 to the investors under the IFRS.

Since April 14, 2008, in order to align the interest of managers and stockholders, we introduced a Stock Options plan comprehending members of the Board of Directors and the main officers of the Company. Since the Plan started to be applied, a number of 6.9 million stock purchase options were granted (as adjusted by the stock split of September 23, 2009), equivalent to 2.3% of the Company's shares, of which 19.5% are still outstanding (1.3 million shares), equivalent to 0.4% of the Company's shares (Base date: 12/31/2014).

Our shares are listed in the BM&FBOVESPA New Market since October 29, 2004. In November, 2007, we adjusted our free float to 25%, in accordance with the rules established by the New Market listing regulations. For improving liquidity, we also contracted a market maker for the GRND3 shares since September 2005 and, in September 2009, made the split of the shares issued from 100,000,000 to 300,000,000, aiming at higher liquidity for our shares and making it easier to the small investor to acquire them, thus expanding the stockholders base. On March 22, 2010, we approved the capital increase through the issue of 720,000 new common shares, with no par value, in order to comply with the Company's stock purchase or subscription plan. As a result, the Company's share capital then comprised 300,720,000 common shares. For compliance purposes, except for this year, the Company acquired shares in the market in all other years. The outstanding shares at December 31, 2014 represented 26.6% of the issued shares.

3.1 Commitment Clause

The Company, its stockholders, management and members of the Statutory Audit Board are committed to resolve, through arbitration at the Market Arbitration Chamber, any dispute that may arise between them, relating to or originating, especially, from the application, validity, efficacy, interpretation, violation, and their effects, of the provisions of Brazilian Corporation Law, of the Company's bylaws, in the regulations issued by the National Monetary Council, the Brazilian Central Bank and the Brazilian Securities Commission, as well as other regulations applicable to the functioning of marketable securities in general, besides those comprised in the Listing Regulation, the Arbitration Regulation, the Sanctions Regulation and the Contract for Participation in the New Market.

3.2 Board of Directors' statement

In attendance to the provisions of the CVM Instruction 480/09, the Board of Directors states that it discussed, reviewed and agreed with the opinion expressed in the independent auditor's report and the financial statements for the year ended December 31, 2014.

3.3 Awards and recognition

In 2014, Grendene was awarded and recognized for its performance in sundry business lines by several institutions.

Grendene was recognized as the **Best Company in the Textile Sector in Brazil in 2013** in the 41st edition of "**Melhores e Maiores 2014 da Exame**", being the 4th Brazilian Company in General Liquidity and 22nd better dividend payer.



Clube Melissa (Melissa Club): 129 stores at the end of the month of June/2014.

Clube Melissa, the franchise network of Grendene, establishes itself as a sales channel.

Clube Melissa, the official network of Melissa brand stores, achieved the **Seal of Excellence in Franchising (SEF)**, in the Senior category. The award is granted by the Ethics Commission of the Brazilian Association of Franchising (ABF) and happens once a year, to recognize the work of the franchiser, through analysis of the franchisees.

The certification confirmed the excellence of the work developed at the Melissa brand stores, throughout Brazil.

In the award ceremony that took place on September 30, 2014, Grendene was honored as the **leader in the Leather & Shoes sector by the 500 Greatest in the South (500 Maiores do Sul)** ranking, which is sponsored by Revista Amanhã, in partnership with PwC. In the 2014 edition, the Company holds the 9th position overall among the large companies in the State of Rio Grande do Sul and the 29th in the Southern Region of Brazil.



Grendene is one of the highlights of the **Textile, Leather and Apparel Industry** in the 14th edition of the **Valor 1000 Yearbook - 2014 edition**. The publication of the *Valor Econômico* magazine shows Grendene as the best and biggest company in the sector in the Northeastern region of Brazil, 3rd place among the best companies in the sector and the 220th position among the top 1000. The other highlights are the 2nd place in current liquidity, 3rd in activity margin and profit, 4th in EBITDA margin, 7th in interest coverage and profitability and 10th in sustainable growth.

Grendene was recognized by Associação Serrana de Recursos Humanos (Serrana Human Resources Association - ARH Serrana) with the "Highlights of the Year in HR - Edition 2014" award in the *Projects* category with the case of the *Programa Estagiar* (Intern Program).

Programa Estagiar aims to attract and develop young talents who have values aligned with the business and also meet the demand for professionals in early career, through behavioral training and hands-on experience in the Company. ARH Serrana is an association representing professionals engaged in the management of people in the region of Serra Gaúcha.





Grendene was awarded at the Fashion category for the project **Melissa One by One** during the 4th Ibero-American Design Biennial (BID_14), held in Madrid. The purpose of this award is to promote the Ibero-American design and recognize good practices that turn the design into competitive value.

Delmiro Gouveia 2014 Award - Grendene was considered as the second largest company in the State of Ceará. The evaluated criteria included adjusted net sales, adjusted equity, total net assets, taxes generated, number of employees and total assets. Grendene has been a highlight in this award since it was created, in 2001.



Grendene was honored during the award ceremony of the **Brasil Design Award 2014** as an *"Innovative company, a highlight for the design"*, organized by the Brazilian Association of Design Companies (Abedesing) and co-produced by Centro Brasil de Design. The Brasil Design Award, being held since 2009, recognizes the Brazilian capacity for creativity by awarding projects within categories such as product, communication and packaging. It is also recognition for the major highlights among this industry's institutions, media companies, journalists, people and companies.

VI. Social and environmental responsibilities

Management believes that the main indicator of sustainability for a Company is profit generation and a solid financial structure. This factor indicates that the consumers pay for the Company's products more than the cost of the inputs extracted from nature to produce and distribute them and ensures the Company's continuity, job generation and the satisfaction of millions of customers.

However, the financial indicators for times fail to translate all the interfaces of a company with its social and environmental universe. Aware of our responsibility as a leading Company in our segment and employer of over 25 thousand employees, we are improving our processes, aiming to reduce the consumption of inputs and raw materials, including water and all forms of energy, residue generation and losses of resources that represent not only costs to the Company but also exhaust the environment when consumed beyond the necessary. These purposes have been the basis of a number of actions we carried out throughout the years.

In 2014, the actions focused on the completion of structure works, among which the Biological Effluent Treatment Plants (ETEBs) of the units of Crato and Fortaleza, whose operations started in January and February 2014, respectively, with the effluent being used in irrigation and flush toilets. . At Grendene, only around 20% of the water consumption is related to industrial processes; the other 80% are consumed by Grendene's personnel.

Special attention was dedicated to the consumption of water, energy and waste generation. The actions developed reduced costs and operational risks, as well as the environmental impact.

When comparing to 2013, the following reductions should be highlighted:

- 1) 3% of water consumption per manufactured pair.
- 2) 2% of energy consumption per manufactured pair.
- 3) 38% of waste generated per manufactured pair.

In order to reduce water consumption, the Company invested in reuse of effluents in irrigation and toilet bowls, as well as in low-consumption taps, on-line monitoring and replacement of old toilet tanks for those with lower water consumption. We also provided highly-energy-efficient induction engines in some machines and equipment, in addition to other technological solutions for proper equipment use. All these actions resulted in a decrease of 2,411 MWh used per year.

Various awareness raising actions were implemented amongst the employees about consumption of energy (rational use of air conditioning), water (report any leaks and keep the taps closed), paper (reduce the number of print copies of reports and documents), selective garbage collection and reduction of waste in general.

Actions developed together with customers were also taken, such as the recognition of Grendene for joining WalMart's Sustainability Pact. Grendene has become the only awarded company of the footwear industry in the Brazilian supply chain.

In 2014, Grendene has become the first footwear company to be granted with the Supply Certificate by the Brazilian Association of Textile Retail (ABVTEX). The purpose of this certificate is to allow the retail market to certify and monitor its suppliers regarding Environmental, Social and Labor Relation practices.



VII. Human resources

We believe that the execution of our strategy relies upon professionals who have a clear direction, who are aligned and committed to the Company's plans and who identify themselves with Grendene's values.

With the mission of developing professionals aligned with both the business and the market, who are committed to differentiated results, as well as highly motivated teams, the Grendene Academy was created in 2005. The Academy's operation scope includes all the Grendene employees and is supported by four pillars: Leadership and Culture, Young Talents, Commercial and Industrial Operations.

Beyond the Academy, our model of people management has a structured remuneration and performance process, through which employees are systematically evaluated, according to the profile of their position, receive constant feedback, have an individual development plan and a clear opportunity line for growth within the Company.

In Grendene, the targets are monitored and reviewed annually, and the strengths and improvement opportunities are analyzed and evaluated in order to establish levels for the future. The results and the execution of the strategy are monitored on a monthly basis, and the best internal and external practices are discussed in meetings, training sessions and conventions and then spread across the Company, maintaining the development and communication cycle among people.

We have an integrated team motivated and in search of efficiency, which translates into lower turnover numbers and history of good results Grendene.

Social and corporate data	2009	2010	2011	2012	2013	2014
Employees (average/year)	25,853	28,586	24,396	24,084	28,085	26,543
Training (hour/employee)	21	18	15	20	30	33
Meals (year)	6,111,793	7,025,840	5,494,812	5,955,479	6,106,783	5,176,827
Absence	1.74%	2.69%	1.81%	1.73%	2.08%	2.47%
Turnover	3.12%	1.53%	1.22%	2.12%	2.00%	1.66%
Baskets of food staples distributed (units/year)*	264,257	293,873	346,858	292,398	330,814	333,732

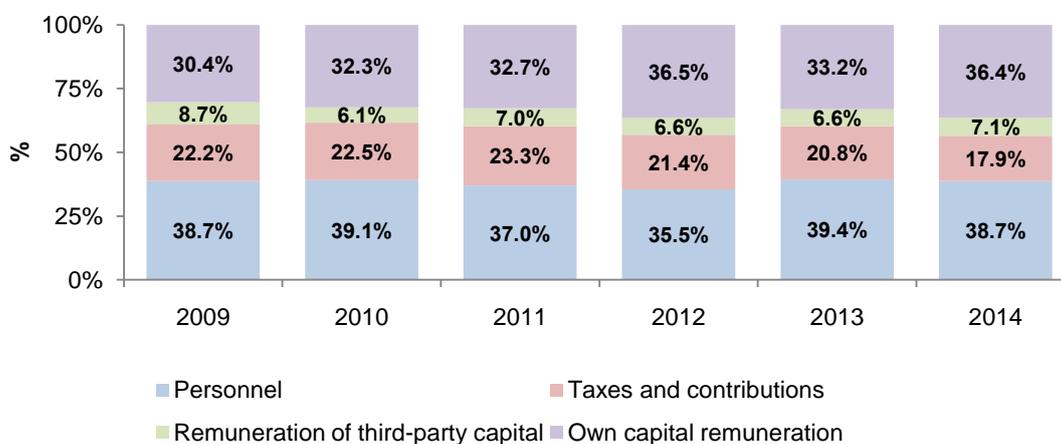
(*) Grendene's policy for the distribution of staple food baskets was firstly adopted in 1990, with the objective of reinforcing the employees' food safety. Over the years, their nutritional value was maintained, while offering different options of items. All Grendene's employees and interns receive the food basket, since the first month of work until they leave the Company.

VIII. Statement of value added

The value added, which is an indicator of the wealth the Company added to society through its economic activities, totaled R\$ 1,348.2 million (2013 - R\$ 1,307.4 million). The complete statement is included in the financial statements.

Statement of value added (in thousands of reais)	2009	2010	2011	2012	2013	2014
Personnel	346,685	378,523	346,200	416,699	515,243	521,449
Taxes, charges and contributions	198,682	217,751	218,478	250,761	271,920	240,918
Third-party capital remuneration	77,666	58,660	65,787	77,518	86,700	95,615
Remuneration of own capital	272,211	312,399	305,446	429,003	433,540	490,244
Total	895,244	967,333	935,911	1,173,981	1,307,403	1,348,226

Distribution of value added



IX. Final considerations and perspectives

As mentioned before, 2015 will be a challenging year, with adjustments made in the domestic economy as well those traditional export markets still facing the effects of the economic crisis.

Even though the economic perspectives for Brazil are not the best, we are encouraged by the fact that, throughout our 44 years of history, we have grown operating within this scenario of many crises, economic plans and changes. To continue working, despite the crises: this is something that belongs to the ethics of operating in the place where we were established and, accordingly, we have achieved long periods of growth and managed to be profitable in different scenarios. Nothing new, therefore.

In 2014, instead of only watching the evolution of the crisis, we have carried out major initiatives, as announced at the beginning of that year. We opened a Galeria Melissa in London and the Casa de Ipanema right there at Ipanema, that is, in the region that served as inspiration for the brand. These were two important branding actions that are expected to generate future results in the form of awareness of our brands.

At the end of 2014, Clube Melissa achieved 177 stores (2013 - over 100 stores), which anticipated our initial expectation of achieving 200 stores within three to four years.

The new furniture business line, conducted at the subsidiary A3NP, became operational at the end of 2014, but it will be a great, positive surprise if it reaches the break-even point in 2015, which is therefore an indication that this operation will continue to have a negative impact on our consolidated margins by an amount expected not to exceed the 2014 figures (impact of R\$ 3.7 million). However, the products and business model developed so far encourage us to rely on our initial expectations.

We have long realized that the design quality with affordability is the dream of the middle class. Our brands and products have excelled in these categories.

Value delivered to the customer at low cost. Famous designers made accessible to everyone. "Affordable Luxury" defines Grendene's proposal of value that the Company has delivered to consumers throughout the world and which will probably set TOG's market orientation.

However, despite our optimistic expectations regarding this business line, the real test in the market will happen during 2015, where we will find whether our business premises are valid or not. If the results are not as expected, we may have to partially or fully reduce the amount invested in this business, thus negatively impacting Grendene's consolidated results. Although we consider that there is just a small risk of this scenario actually happening, the risk still exists.

As mentioned before, the implementation of this proposal requires investments and expenses that may reduce our margins in the short-term. However, decreased margins and increased investments in the short-term are not a concern, since this situation strengthens the business in the immediate future.

For 2015, Grendene is planning to invest R\$ 60 million in the maintenance of our production capacity, that is, an amount equivalent to our annual depreciation. This amount is, of course, only for reference purposes, and, we will not hesitate to invest in good opportunities, even though they are not perceptible at the moment.

The minimum wage was increased by 8.8%, which always represents an increase in consumption, but also higher costs, which were partially compensated by the payroll charges relief measures instituted by "Brasil Maior" government program confirmed for 2015.

The Special System for Refund of Tax Amounts to Exporting Companies (Reintegra) was established again at the end of 2014 and, currently, bears a rate of 3%. We do not rule out, however, the possibility of the government taking new measures to restrict consumption, nor we consider impossible that the measures already mentioned will have larger impacts on your business which exceed our expectations. If that actually happens, our response will be fast and will rely on the flexibility for which Grendene is well-known.

Grendene's major business, the footwear, will continue to be robust, maintaining its levels of growth, margins and profitability. We estimate that the consumption in Brazil, in numbers of pairs sold, will have only a minor increase in 2015 of only one low digit. Nevertheless, as mentioned above, the beginning of 2015 exceeded both our initial expectations and the results of the prior year.

It should be mentioned, however, that an increase in the margins resulting from the increase in volumes traded will not be easy, considering that currently we expect a low increase. In the past six years, the apparent

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consumption of footwear in Brazil grew 1.0% p.a. (CAGR), while Grendene's sales in numbers of pairs grew by 5.4% p.a. (CAGR), above the market rate and winning important market share in all business lines.

In foreign markets our strategy to escape the export of "commodities" is working. We are growing with good margins and we should continue in 2015. Because of the devaluation of the Brazilian currency, the exports contributed to better margin results, which should continue to occur.

In the domestic market consumer desire for our products has not diminished and we are confident that our products will not disappoint them.

We will face the present scenario as we have usually done, with determination, courage and clearness, and obtaining strong results. We need to reinforce the execution of our strategy in 2015, with special care for the market share growth and maintenance of the margins, improving the Company's communication with the market, understanding the needs of distribution channels, innovating in products, reaffirming our brands through aggressive marketing via multiple medias, and striving for operation excellence with continuous improvements. The goal is to strengthen the Company's relationships with its customers and meet their needs with increasing focus. Grendene understands that the stockholders remuneration depends on such things.

Attachment I

OPINION OF THE STATUTORY AUDIT BOARD

The Statutory Audit Board of Grendene S.A., in compliance with the legal and statutory provisions, reviewed the Management Report and the Company's Financial Statements (Parent company), prepared in accordance with the accounting practices adopted in Brazil, and the Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), both referring to the year ended December 31, 2014, and approved by the Company's Board of Directors on February 12, 2015. Based on this review and also taking into consideration the unqualified report from PricewaterhouseCoopers Auditores Independentes dated February 12, 2015, as well as the information and clarification received over the year, the Statutory Audit Board's opinion is that these documents are ready to be submitted to the appreciation of the Annual General Meeting of Stockholders.

Farroupilha, February 12, 2015

João Carlos Sfreddo

Member of the Statutory Audit Board

Eduardo Cozza Magrisso

Member of the Statutory Audit Board

Maurício Rocha Alves de Carvalho

Member of the Statutory Audit Board

Attachment II

(A free translation of the original in Portuguese)

Grendene S.A.

Parent company and consolidated financial statements for
the years ended December 31, 2014 and 2013

(A free translation of the original in Portuguese)

GRENDENE S.A.

Financial statements

December 31, 2014 and 2013

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(A free translation of the original in Portuguese)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Grendene S.A. ("Parent company" or "Company"), which comprise the balance sheet as at December 31, 2014 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, 2014 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 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.

(A free translation of the original in Portuguese)

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, 2014, and the parent company financial performance and cash flows, as well as the consolidated financial performance and cash flows, for the year then ended, in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Other matters

Supplementary information - statements of value added

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2014, 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.

Caxias do Sul, February 12, 2015.

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

Fábio Abreu de Paula
Contador CRC 1MG075204/O-0 "S" CE

(A free translation of the original in Portuguese)

GRENDENE S.A.

Balance sheet

December 31, 2014 and 2013

(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2014	2013	2014	2013
Assets					
Current assets					
Cash and cash equivalents	6	8,525	24,740	26,324	39,360
Financial investments					
Securities at fair value through profit or loss	6	379,572	119,548	379,572	119,548
Held-to-maturity investments	6	254,900	273,117	254,900	273,117
Trade receivables	7	849,528	825,216	907,344	900,048
Inventories	8	193,083	181,709	214,019	205,724
Tax credits	9	5,589	16,362	11,705	22,031
Income tax and social contribution recoverable		1,303	1,478	3,839	1,704
Securities receivable		37,252	69,551	37,423	69,819
Costs and prepaid expenses		1,617	906	2,768	1,210
Other receivables		67,618	60,269	68,633	61,501
Total current assets		1,798,987	1,572,896	1,906,527	1,694,062
Non-current assets					
Long-term receivables:					
Financial investments					
Held-to-maturity investments	6	335,182	301,940	335,182	301,940
Judicial deposits		2,002	2,447	2,022	2,454
Tax credits	9	646	563	646	563
Receivables from subsidiaries		13	-	-	-
Securities receivable		70	288	70	288
Deferred income tax and social contribution	17	7,852	9,060	13,530	15,656
Prepaid expenses		-	-	3,818	3,568
		345,765	314,298	355,268	324,469
Investments	10	86,104	63,373	412	877
Property, plant and equipment	11	345,911	306,230	368,179	315,087
Intangible assets	12	31,790	28,414	51,627	34,847
Total non-current assets		809,570	712,315	775,486	675,280
Total assets		2,608,557	2,285,211	2,682,013	2,369,342

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

GRENDENE S.A.

Balance sheet
December 31, 2014 and 2013
(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2014	2013	2014	2013
Liabilities					
Current liabilities					
Borrowings	13	50,893	32,018	99,567	101,909
Trade payables		31,120	35,588	36,287	39,792
Contractual obligations - Licensing		16,083	16,489	16,288	16,862
Commissions payable		40,699	38,739	40,950	39,078
Taxes and contributions		14,568	12,234	14,980	12,683
Income tax and social contribution payable		4,136	4,272	4,434	4,272
Salaries and social security charges payable		56,479	62,592	57,974	63,756
Provision for labor risks	14	1,844	1,835	1,873	1,838
Other payables		5,465	4,394	9,650	4,876
Total current liabilities		221,287	208,161	282,003	285,066
Non-current liabilities					
Borrowings	13	71,790	15,827	71,790	15,827
Provision for labor risks	14	106	489	286	489
Total non-current liabilities		71,896	16,316	72,076	16,316
Equity					
Share capital	15	1,231,302	1,231,302	1,231,302	1,231,302
Carrying value adjustments		(2,346)	(4,470)	(2,346)	(4,470)
Capital reserves		5,643	5,078	5,643	5,078
Revenue reserves		1,091,616	839,294	1,091,616	839,294
Treasury shares		(10,841)	(10,470)	(10,841)	(10,470)
Total equity		2,315,374	2,060,734	2,315,374	2,060,734
Non-controlling interests					
				12,560	7,226
				12,560	7,226
Total equity				2,327,934	2,067,960
Total liabilities and equity					
		2,608,557	2,285,211	2,682,013	2,369,342

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, 2014 and 2013

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

	Note	Parent company		Consolidated	
		2014	2013	2014	2013
Net sales revenue	21	2,162,959	2,127,807	2,233,298	2,187,264
Cost of goods sold	23	(1,191,772)	(1,181,159)	(1,207,379)	(1,193,562)
Gross profit		971,187	946,648	1,025,919	993,702
Selling expenses	23	(494,345)	(489,708)	(543,744)	(521,220)
General and administrative expenses	23	(78,963)	(71,881)	(91,263)	(79,032)
Other operating income		8,128	8,879	7,974	10,600
Other operating expenses		(9,216)	(4,247)	(9,473)	(4,817)
Equity in the results of investees	10	(10,393)	(2,822)	-	-
Operating profit before finance result and taxes		386,398	386,869	389,413	399,233
Finance result	24				
Finance income		212,070	179,266	220,419	183,061
Finance costs		(67,315)	(64,349)	(84,895)	(79,484)
		144,755	114,917	135,524	103,577
Profit before taxation		531,153	501,786	524,937	502,810
Income tax and social contribution	17				
Current		(39,701)	(56,541)	(40,874)	(56,556)
Deferred		(1,208)	(11,705)	1,196	(12,249)
		(40,909)	(68,246)	(39,678)	(68,805)
Profit for the year before non-controlling interest		490,244	433,540	485,259	434,005
Non-controlling interests		-	-	4,985	(465)
Profit for the year		490,244	433,540	490,244	433,540
Total comprehensive income attributed to:					
Controlling interests		490,244	433,540	490,244	433,540
Non-controlling interests		-	-	(4,985)	465
				485,259	434,005
Basic earnings per share	15.g	1.6328	1.4421	-	-
Diluted earnings per share	15.g	1.6293	1.4367	-	-

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, 2014 and 2013
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2014	2013	2014	2013
Profit for the year	490,244	433,540	485,259	434,005
Other comprehensive income: Items potentially reclassifiable to the Statement of income:				
Exchange differences on subsidiaries abroad	2,124	(33)	1,974	(254)
Comprehensive income for the year, net of taxes	492,368	433,507	487,233	433,751
Total comprehensive income attributed to:				
Controlling interests	492,368	433,507	492,368	433,507
Non-controlling interests	-	-	(5,135)	244
	492,368	433,507	487,233	433,751

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, 2014 and 2013 (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, 2012	1,231,302	(4,437)	4,016	-	67,656	39,716	-	508,826	105,253	-	-	1,952,332	1,230	1,953,562
<i>Total comprehensive income</i>	-	(33)	-	-	-	-	-	-	-	-	433,540	433,507	244	433,751
Profit for the year	-	-	-	-	-	-	-	-	-	-	433,540	433,540	465	434,005
Exchange differences on subsidiaries abroad	10	(33)	-	-	-	-	-	-	-	-	-	(33)	(221)	(254)
Increase in the non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	5,752	5,752
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(57,751)	-	(57,751)	-	(57,751)
Change of the stock option or purchase subscription plan:														
Stock options exercised in the period	-	-	-	(47,281)	-	-	-	-	-	47,281	-	-	-	-
Sale of treasury shares through exercise of purchase options	-	-	-	22,799	-	-	-	-	-	-	-	22,799	-	22,799
Result on sale of shares related to the stock option or subscription plan	20.b	-	(3,430)	24,482	-	(21,052)	-	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	20	-	4,492	-	-	-	-	-	-	-	-	4,492	-	4,492
Proposed appropriations:														
Tax incentives reserve														
Financing - Provin	16.a	-	-	-	-	-	-	29,859	-	-	(29,859)	-	-	-
Income tax	17	-	-	-	-	-	-	87,081	-	-	(87,081)	-	-	-
Tax incentives - subsidiary - ICMS/Procomex	-	-	-	-	-	-	-	304	-	-	(304)	-	-	-
Legal reserve	-	-	-	-	15,830	-	-	-	-	-	(15,830)	-	-	-
Profit retention reserve	-	-	-	-	-	409	-	-	-	-	(409)	-	-	-
Dividends distributed	15.f	-	-	-	-	-	-	-	(105,253)	-	(189,392)	(294,645)	-	(294,645)
Additional proposed dividends	15.f	-	-	-	-	-	-	-	110,665	-	(110,665)	-	-	-
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	10	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 period	-	-	-	(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	20.b	-	(2,701)	4,459	-	(1,758)	-	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	20	-	3,266	-	-	-	-	-	-	-	-	3,266	-	3,266
Proposed appropriations:														
Tax incentives reserve														
Borrowings - Provin and Proapi	16.a	-	-	-	-	-	-	194,711	-	-	(194,711)	-	-	-
Income tax	17	-	-	-	-	-	-	63,278	-	-	(63,278)	-	-	-
Legal reserve	-	-	-	-	11,613	-	-	-	-	-	(11,613)	-	-	-
Reserve for the acquisition of shares	-	-	-	-	-	-	17,000	-	-	-	(17,000)	-	-	-
Dividends distributed	15.f	-	-	-	-	-	-	-	(110,665)	-	(125,357)	(236,022)	-	(236,022)
Additional proposed dividends	15.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

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, 2014 and 2013

(All amounts in thousands of reais)

	Parent company		Consolidated	
	2014	2013	2014	2013
Cash flows from operating activities				
Profit for the year	490,244	433,540	490,244	433,540
Non-controlling interests	-	-	5,334	5,996
Adjustments to reconcile results to cash and cash equivalents generated by operating activities:				
Carrying value adjustments	-	-	2,124	(33)
Equity in the results of investees	10,393	2,822	-	-
Depreciation and amortization	45,729	35,524	47,461	36,648
Deferred income tax and social contribution	1,208	11,705	2,126	7,626
Gain on sale and write-off of investment	465	-	465	-
Gain on sale and write-off of property, plant and equipment	2,753	2,900	2,916	3,437
Gain on sale and write-off of intangible assets	12	76	373	76
Stock option or subscription plan	3,266	4,492	3,266	4,492
Provision for impairment of trade receivables	1,699	(15,503)	2,276	(15,370)
Provision for discount on prompt payments	(11,593)	3,934	(11,959)	3,808
Provision for obsolete inventories	2,673	786	2,003	1,359
Provision for labor risks	(374)	(117)	(168)	(117)
Interest expenses on borrowings	2,307	913	13,324	11,891
Interest income on financial investments	(96,585)	(78,359)	(96,585)	(78,359)
Foreign exchange variations, net	(330)	5,858	(1,788)	4,990
	451,867	408,571	461,412	419,984
Changes in assets and liabilities:				
Trade receivables	(14,418)	(107,986)	2,387	(82,337)
Inventories	(14,047)	(25,597)	(10,298)	(33,139)
Other receivables	35,754	16,305	32,214	14,961
Trade payables	(4,468)	(16,970)	(3,505)	(17,014)
Salaries and social security charges payable	(6,113)	6,287	(5,782)	6,821
Taxes and contributions	2,334	(962)	2,297	(869)
Income tax and social contribution payable	(136)	1,761	162	(9,278)
Other payables	2,625	4,276	6,072	4,176
Net cash provided by operating activities	453,398	285,685	484,959	303,305
Cash flows from investing activities:				
In investments	(31,465)	(15,112)	-	-
In property, plant and equipment	(80,408)	(129,016)	(94,304)	(132,229)
In intangible assets	(11,143)	(16,581)	(24,786)	(21,807)
Financial investments	(2,091,550)	(1,794,818)	(2,091,550)	(1,794,818)
Redemption of financial investments	1,848,783	1,953,913	1,848,783	1,953,913
Interest received	64,303	84,537	64,303	84,537
Net cash provided by (used in) investing activities	(301,480)	82,923	(297,554)	89,596
Cash flows from financing activities:				
New borrowings	271,265	313,930	471,461	549,616
Repayments of borrowings	(196,209)	(335,621)	(413,897)	(579,500)
Interest paid	(2,195)	(705)	(17,011)	(8,549)
Dividends paid	(236,022)	(294,645)	(236,022)	(294,645)
Purchase of treasury shares	(9,471)	(57,751)	(9,471)	(57,751)
Sale of treasury shares through exercise of purchase options	4,115	22,799	4,115	22,799
Gains from sale of treasury shares	384	-	384	-
Net cash used in investing activities	(168,133)	(351,993)	(200,441)	(368,030)
Increase (decrease) in cash and cash equivalents	(16,215)	16,615	(13,036)	24,871
Changes in cash and cash equivalents				
At the beginning of the year	24,740	8,125	39,360	14,489
At the end of the year	8,525	24,740	26,324	39,360
Increase (decrease) in cash and cash equivalents	(16,215)	16,615	(13,036)	24,871
Item not affecting cash flow:				
Foreign exchange variations on investments	(2,124)	33	-	-

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, 2014 and 2013
(All amounts in thousands of reais)

	Parent company		Consolidated				
	2014	2013	2014	2013			
Revenue							
Sales of goods	2,480,483	2,454,269	2,551,771	2,518,745			
Provision for impairment of trade receivables	(1,699)	15,503	(2,270)	15,368			
Other income /expenses	(987)	1,696	(1,011)	1,699			
	<u>2,477,797</u>	<u>2,471,468</u>	<u>2,548,490</u>	<u>2,535,812</u>			
Inputs acquired from third parties							
Raw materials used	(726,000)	(699,697)	(677,963)	(654,703)			
Other production costs	(2,991)	(13,237)	(60,092)	(66,339)			
Materials, electricity, outsourced services and other	(591,334)	(621,175)	(634,584)	(653,533)			
Impairment/recovery of assets	(2,673)	(786)	(2,020)	(1,420)			
	<u>(1,322,998)</u>	<u>(1,334,895)</u>	<u>(1,374,659)</u>	<u>(1,375,995)</u>			
Gross value added	<u>1,154,799</u>	<u>1,136,573</u>	<u>1,173,831</u>	<u>1,159,817</u>			
Retentions							
Depreciation and amortization	(44,539)	(34,523)	(46,125)	(35,572)			
	<u>(44,539)</u>	<u>(34,523)</u>	<u>(46,125)</u>	<u>(35,572)</u>			
Net value added	<u>1,110,260</u>	<u>1,102,050</u>	<u>1,127,706</u>	<u>1,124,245</u>			
Value added received through transfer							
Equity in the results of investees	(10,393)	(2,822)	-	-			
Finance income	212,070	179,266	220,419	183,061			
Rentals	101	97	101	97			
	<u>201,778</u>	<u>176,541</u>	<u>220,520</u>	<u>183,158</u>			
Value added to distribute	<u>1,312,038</u>	<u>1,278,591</u>	<u>1,348,226</u>	<u>1,307,403</u>			
Distribution of value added							
Personnel							
Direct compensation	418,011	421,826	428,328	428,565			
Benefits	50,001	47,175	50,411	47,792			
Government Severance Indemnity Fund for Employees (FGTS)	42,298	38,586	42,710	38,886			
	<u>510,310</u>	<u>507,587</u>	<u>521,449</u>	<u>515,243</u>	38.89%	39.70%	38.68%
Taxes and contributions							
Federal	199,532	229,183	199,106	230,353			
State	41,082	39,807	41,304	41,171			
Municipal	506	392	508	396			
	<u>241,120</u>	<u>269,382</u>	<u>240,918</u>	<u>271,920</u>	18.38%	21.07%	17.87%
Third-party capital remuneration							
Interest, discounts and financial charges	67,315	64,349	84,895	79,484			
Rentals	3,049	3,733	10,720	7,216			
	<u>70,364</u>	<u>68,082</u>	<u>95,615</u>	<u>86,700</u>	5.36%	5.32%	7.09%
Remuneration of own capital							
Dividends	203,642	300,057	203,642	300,057			
Profits reinvested for the year	286,602	133,483	281,617	133,948			
Non-controlling interests in profits reinvested	-	-	4,985	(465)			
	<u>490,244</u>	<u>433,540</u>	<u>490,244</u>	<u>433,540</u>	37.37%	33.91%	36.36%
	<u>1,312,038</u>	<u>1,278,591</u>	<u>1,348,226</u>	<u>1,307,403</u>	100%	100%	100%

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Notes to the financial statements
December 31, 2014 and 2013
(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 and Carlos Barbosa 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 and evaluation of the provisions of Law 12,973/14 (previously Provisional Measure (MP) 627/13)

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, 2013.

a) Parent company financial statements

At the meeting of the executive board held on February 11, 2015, the financial statements of Grendene S.A. were reviewed and revised, and their issuance was authorized.

The parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM), considering the accounting guidelines contained in Brazilian Corporate Law (Law 6,404/76), which include the provisions introduced, amended and revoked by Law 11,638, of December 28, 2007 and Law 11,941, of May 27, 2009, as well as, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

2. Basis of preparation and presentation of the financial statements and evaluation of the provisions of Law 12,973/14 (previously Provisional Measure (MP) 627/13)--Continued

b) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with the 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 standards, revisions of standards and interpretations issued by IASB and that are effective for the financial statements at December 31, 2014.

There are no non-current assets held for sale or discontinued operations at December 31, 2014 and 2013.

c) 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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

2. Basis of preparation and presentation of the financial statements and evaluation of the provisions of Law 12,973/14 (previously Provisional Measure (MP) 627/13)--Continued

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

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 first part of 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.

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.

d) Evaluation of the provisions of Law 12,973/14 (previously MP 627/13)

Law 12,973 (previously Provisional Measure (MP) 627/13) was issued on May 13, 2014. This Law repeals the Transitional Tax System (RTT) and:

- (i) amends Decree-law 1,598/77, which deals with the corporate income tax, as well as the legislation related to the social contribution on net income;
- (ii) provides that future changes in or adoption of accounting methods and criteria will have no effects on the calculation of federal taxes unless and until the tax law addresses those changes;
- (iii) establishes a specific approach for the taxation of profits or dividends;

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

2. Basis of preparation and presentation of the financial statements and evaluation of the provisions of Law 12,973/14 (previously Provisional Measure (MP) 627/13)--Continued

d) Evaluation of the provisions of Law 12,973/14 (previously MP 627/13)--Continued

- (iv) addresses certain aspects of the calculation of interest on capital; and
- (v) provides considerations about investments evaluated under the equity accounting method.

The Law becomes effective from 2015. Companies may opt for its early adoption for 2014.

The Company's management evaluated the provisions of the legislation, the scenario of issue of regulations and tax controls alternative to the accounting disclosure to be regulated by the Brazilian Federal Revenue Service (RFB) and opted not to adopt the provisions comprised in articles 1, 2 and 4 to 70 of Law 12,973/14 for calendar year 2014.

Finally the amendment brought by Art. 2 of Law 12,973/14 (previously MP 627/13) to Decree-law 1,598, of December 26, 1977 (legal provision which addresses the exploration profit), introduced a rule, which, in an express manner, started to determine the exclusion of the revenues arising from subsidies for investments in the calculation of the exploration profit. This legal provision will affect the taxation on the state incentives upon their integration to the basis of dividends. This amendment may influence the future decision of the Company concerning the proportion of the profit to be paid out in accordance with the Company's dividend distribution policy. The Company will maintain the policy of distributing quarterly dividends.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

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	
		2014	2013
Direct investment			
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%
Indirect investment			
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 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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

3. Consolidated financial statements--Continued

There were no investments in associates or joint ventures at December 31, 2014 and 2013.

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, 2014 and 2013
(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, 2014 and 2013
(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 statement of income.

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 at 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, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

c) Financial instruments--Continued

c.1) *Financial assets*--Continued

- b) Held-to-maturity investments: 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, 2014 and 2013
(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 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 18.a.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(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 18.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, 2014 and 2013
(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 for impairment of trade receivables and for prompt payment discount were recorded, in amounts considered sufficient by management. The criteria for the constitution of the provision for impairment of trade receivable 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 for the discount on prompt payment is recorded at the estimated amount of discounts to be granted on trade receivables, for payment of the trade notes at the due dates, and is recorded with sales deductions.

Information related to the breakdown of trade receivables into amounts not yet due and past due is included in Note 7.

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 used in 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 on slow-moving or obsolete inventories.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

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.

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 11 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 statement of income 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, 2014 and 2013, in accordance with technical pronouncement CPC 01 - R1 (IAS 36), - Impairment of Assets.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

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 12.

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. The Company did not identify any item requiring a provision for impairment at December 31, 2014 and 2013.

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*

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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

l) Taxation--Continued

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

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.

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 16).

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 statement of income 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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

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.

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 statement of income 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 20.

The effect of outstanding options on diluted earnings per share is disclosed in Note 15.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 22.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

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, 2014 and 2013, 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 statement of income, utilizing 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.

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 information, 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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

4. Accounting policies--Continued

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 statement of income, 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.

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 statement of income 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.

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

5. Accounting estimates and assumptions--Continued

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.

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.

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

5. Accounting estimates and assumptions--Continued

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; 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 and financial investments

	Parent company		Consolidated	
	2014	2013	2014	2013
Cash and cash equivalents				
Cash and banks	4,289	20,515	13,778	25,531
Financial investments	4,236	4,225	12,546	13,829
Total cash and cash equivalents	8,525	24,740	26,324	39,360
Financial investments				
Securities at fair value through profit or loss	379,572	119,548	379,572	119,548
Held-to-maturity investments	590,082	575,057	590,082	575,057
	969,654	694,605	969,654	694,605
(-) Total current assets	(634,472)	(392,665)	(634,472)	(392,665)
Total non-current assets	335,182	301,940	335,182	301,940
Total	978,179	719,345	995,978	733,965

Cash and banks are substantially 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.

Financial investments are classified as "Securities at fair value through profit or loss", and "Held-to-maturity securities", according to the Company's investment strategy, and have immediate liquidity.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

7. Trade receivables

	Parent company		Consolidated	
	2014	2013	2014	2013
Not yet due	828,320	823,567	884,595	902,975
Overdue for up to 30 days	46,926	39,888	50,896	40,242
Overdue from 31 to 60 days	3,843	3,664	5,643	4,017
Overdue from 61 to 90 days	3,798	1,053	4,454	1,072
Past due for more than 91 days	9,514	7,180	10,646	7,493
	892,401	875,352	956,234	955,799
Provision for impairment of trade receivables	(4,918)	(3,219)	(5,765)	(3,489)
Provision for prompt payment discount	(26,958)	(38,551)	(27,054)	(39,013)
Adjustment to Present Value (AVP)	(10,997)	(8,366)	(16,071)	(13,249)
	849,528	825,216	907,344	900,048

At December 31, 2014 and 2013, the average collection periods for the domestic market for both years were 97 days and 85 and 73 days, respectively, for the foreign market.

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

The provision for impairment of past-due receivables can be presented as follows:

	Parent company			
	2014		2013	
	Balance	Provision	Balance	Provision
Not yet due	828,320	-	823,567	-
Overdue for up to 30 days	46,926	-	39,888	(2)
Overdue from 31 to 60 days	3,843	-	3,664	(2)
Overdue from 61 to 90 days	3,798	(8)	1,053	(9)
Past due for more than 91 days	9,514	(4,910)	7,180	(3,206)
	892,401	(4,918)	875,352	(3,219)

	Consolidated			
	2014		2013	
	Balance	Provision	Balance	Provision
Not yet due	884,595	-	902,975	-
Overdue for up to 30 days	50,896	-	40,242	(2)
Overdue from 31 to 60 days	5,643	-	4,017	(2)
Overdue from 61 to 90 days	4,454	(8)	1,072	(9)
Past due for more than 91 days	10,646	(5,757)	7,493	(3,476)
	956,234	(5,765)	955,799	(3,489)

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

7. Trade receivables--Continued

The changes in the provision for impairment of trade receivables were as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Balance at the beginning of the year	(3,219)	(18,722)	(3,489)	(18,859)
Additions	(6,163)	(5,013)	(7,248)	(6,093)
Realizations	3,527	19,126	3,592	19,143
Reversals	937	1,390	1,386	2,318
Foreign exchange variation	-	-	(6)	2
Balance at the end of the year	(4,918)	(3,219)	(5,765)	(3,489)

Changes in the provision for prompt payment discount are as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Balance at the beginning of the year	(38,551)	(34,617)	(39,013)	(35,205)
Additions	(100,155)	(126,205)	(100,510)	(127,394)
Realizations	96,383	106,712	97,051	107,987
Reversals	15,365	15,559	15,418	15,599
Balance at the end of the year	(26,958)	(38,551)	(27,054)	(39,013)

8. Inventories

	Parent company		Consolidated	
	2014	2013	2014	2013
Footwear	33,902	42,119	54,350	62,434
Components	34,431	33,146	34,700	33,604
Raw materials	58,629	48,823	58,730	49,315
Packaging materials	12,562	11,226	12,613	11,354
Intermediate and other materials	28,183	22,656	28,328	22,784
Goods for resale	434	381	434	3,622
Advances to suppliers	8,244	5,463	8,244	5,464
Imports in transit	10,678	10,229	10,678	10,229
Inventories held by third parties	12,739	11,712	12,739	11,712
Provision for adjustment of obsolete inventories	(6,719)	(4,046)	(6,797)	(4,794)
	193,083	181,709	214,019	205,724

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

8. Inventories--Continued

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

	Parent company		Consolidated	
	2014	2013	2014	2013
Balance at the beginning of the year	(4,046)	(3,260)	(4,794)	(3,435)
Additions	(13,080)	(7,198)	(15,521)	(10,101)
Realizations	3,402	2,815	3,402	2,815
Reversals	7,005	3,597	10,099	5,866
Foreign exchange variation	-	-	17	61
Balance at the end of the year	(6,719)	(4,046)	(6,797)	(4,794)

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

9. Tax credits

	Parent company		Consolidated	
	2014	2013	2014	2013
Withholding Income Tax (IRRF)	41	1,546	434	1,728
Excise tax (IPI) recoverable	42	1,129	258	1,341
Value-added Tax on Sales and Services (ICMS) recoverable	3,416	6,192	5,561	8,631
Social Integration Program (PIS) recoverable	55	51	55	51
Social Contribution on Revenues (COFINS) recoverable	252	232	252	232
Social Security contribution (INSS)	1,908	7,775	1,922	7,833
Other	521	-	521	-
Taxes recoverable - Subsidiaries abroad	-	-	3,348	2,778
	6,235	16,925	12,351	22,594
(-) Total current assets	(5,589)	(16,362)	(11,705)	(22,031)
Total non-current assets	646	563	646	563

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.

GRENDENE S.A.

Notes to the financial statements--Continued
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9. Tax credits--Continued

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.

10. Investments

a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Subsidiaries	79,693	63,011	-	-
Goodwill of subsidiary	8,862	3,141	-	-
Unrealized profits in subsidiaries	(2,863)	(3,656)	-	-
Other investments	412	877	412	877
	<u>86,104</u>	<u>63,373</u>	<u>412</u>	<u>877</u>

b) Changes in investments

Changes in investments are as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Balance at the beginning of the year	63,373	51,116	877	877
Acquisition of subsidiaries	7,738	8,184	-	-
Goodwill of subsidiary	5,721	3,141	-	-
Capital increase in subsidiary	18,006	3,787	-	-
Disposals	(465)	-	(465)	-
Equity in the results of investees	(10,393)	(2,822)	-	-
Exchange differences on subsidiaries abroad	2,124	(33)	-	-
Balance at the end of the year	86,104	<u>63,373</u>	412	<u>877</u>

GRENDENE S.A.

Notes to the financial statements--Continued
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(All amounts in thousands of reais)

10. Investments--Continued

c) A3NP Indústria e Comércio de Móveis S.A.

The parent company recognized goodwill of R\$8,862, arising from the acquisition of this subsidiary, based on the expected future profitability associated with development of new technologies and new markets, with the assumption of the opportunity of operating in the segment of furniture and supplements manufactured from plastic, in industrial scale, with sophisticated design and affordable for the middle class.

The approved investment is R\$52 million for the initial activities, and Grendene S.A. is responsible for R\$22.1 million, which corresponds to 42.5% relating to its interest in the total capital of this subsidiary which was still not fully paid.

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. (*) (**)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Current assets	91,112	89,658	13,348	17,363	28,070	23,487	5,722	1,398	5,817	6,577
Non-current assets	2,788	5,670	1,248	1,294	7,385	7,239	11,835	3,748	19,941	4,927
Total assets	93,900	95,328	14,596	18,657	35,455	30,726	17,557	5,146	25,758	11,504
Current liabilities	72,637	73,191	1,004	4,532	11,591	11,913	3,823	626	5,764	862
Non-current liabilities	-	-	194	-	-	-	-	-	-	-
Total liabilities	72,637	73,191	1,198	4,532	11,591	11,913	3,823	626	5,764	862
Equity of subsidiaries	21,263	22,137	13,398	14,125	23,864	18,813	13,734	4,520	19,994	10,642
Percentage of interest	95.00%	95.00%	99.998%	99.998%	100.00%	100.00%	100.00%	100.00%	42.50%	42.50%
Interest in equity (investment)	20,200	21,030	13,398	14,125	23,864	18,813	13,734	4,520	8,497	4,523

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

10. Investments--Continued

d) Summarized financial information of direct and indirect subsidiaries (consolidated)--Continued

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (*) (**)		A3NP Indústria e Comércio de Móveis S.A. (*) (**)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue	98,597	93,622	10,237	29,052	31,954	24,811	6,002	312	2,935	714
Costs and expenses	(97,511)	(92,350)	(10,965)	(28,749)	(34,497)	(26,495)	(11,225)	(2,267)	(11,698)	(16)
Profit (loss) of the subsidiaries for the year	1,086	1,272	(728)	303	(2,543)	(1,684)	(5,223)	(1,955)	(8,763)	698
Percentage of interest	95.00%	95.00%	99.998%	99.998%	100.00%	100.00%	100.00%	100.00%	42.50%	42.50%
Equity in the results of investees	1,032	1,209	(728)	303	(2,543)	(1,684)	(5,223)	(1,955)	(3,724)	297
Unrealized profits	284	12	-	-	765	(1,004)	(256)	-	-	-
Total equity in results of subsidiaries	1,316	1,221	(728)	303	(1,778)	(2,688)	(5,479)	(1,955)	(3,724)	297
Net cash provided by (used in) operating activities	34,422	14,182	1,470	4,883	(3,012)	256	(4,980)	(5,255)	(7,141)	(4,906)
Net cash provided by (used in) investing activities	-	-	(40)	(141)	(183)	(232)	(7,695)	(191)	(13,537)	(2,055)
Net cash provided by (used in) financing activities	(35,461)	(16,037)	-	-	4,624	2,011	13,382	5,709	21,359	10,003
Increase (decrease) in cash and cash equivalents	(1,039)	(1,855)	1,430	4,742	1,429	2,035	707	263	681	3,042

(*) 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.

11. Property, plant and equipment

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
Cost of PPE							
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	302,737	297,542	19,857	25,221	14,418	4,620	664,395
Accumulated depreciation(*)	4%, 10% and 20%	10% and 20%	10%	20%	-	5% and 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	(137,834)	(154,300)	(9,088)	(15,585)	-	(1,677)	(318,484)
Net book value							
At 12/31/2013	111,755	129,791	9,199	9,122	43,420	2,943	306,230
At 12/31/2014	164,903	143,242	10,769	9,636	14,418	2,943	345,911

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

11. Property, plant and equipment--Continued

Parent Company							
2013							
	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
Cost of PPE							
At the beginning of the year	212,524	210,927	12,450	20,596	13,323	5,411	475,231
Purchases	7,820	58,084	2,196	4,797	56,024	95	129,016
Disposals	(34)	(4,353)	(60)	(1,629)	(1,634)	(1,460)	(9,170)
Transfers	15,888	6,141	2,262	(12)	(24,293)	14	-
At the end of the year	236,198	270,799	16,848	23,752	43,420	4,060	595,077
Accumulated depreciation(*)							
	4%, 10% and 20%	10% and 20%	10%	20%	-	5% and 10%	-
At the beginning of the year	(113,690)	(130,360)	(6,527)	(13,435)	-	(1,661)	(265,673)
Depreciation	(10,584)	(14,518)	(1,149)	(2,657)	-	(536)	(29,444)
Disposals	-	3,701	27	1,462	-	1,080	6,270
Transfers	(169)	169	-	-	-	-	-
At the end of the year	(124,443)	(141,008)	(7,649)	(14,630)	-	(1,117)	(288,847)
Net book value							
At 12/31/2012	98,834	80,567	5,923	7,161	13,323	3,750	209,558
At 12/31/2013	111,755	129,791	9,199	9,122	43,420	2,943	306,230

Consolidated							
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
Cost of PPE							
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	317,899	299,783	21,568	26,334	14,418	12,604	692,606
Accumulated depreciation(*)							
	4%, 10% and 20%	10% and 20%	10%	20%	-	5% and 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	(140,464)	(155,757)	(10,042)	(16,437)	-	(1,727)	(324,427)
Net book value							
At 12/31/2013	116,262	130,856	9,889	9,280	45,857	2,943	315,087
At 12/31/2014	177,435	144,026	11,526	9,897	14,418	10,877	368,179

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

11. Property, plant and equipment--Continued

Consolidated							
2013							
	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
Cost of PPE							
At the beginning of the year	217,459	213,898	13,356	21,342	13,323	5,449	484,827
Purchases	7,906	58,259	2,637	4,871	58,461	95	132,229
Disposals	(34)	(5,194)	(135)	(1,634)	(1,634)	(1,460)	(10,091)
Transfers	15,888	6,141	2,262	(12)	(24,293)	14	-
Foreign exchange variation	721	-	135	72	-	6	934
At the end of the year	<u>241,940</u>	<u>273,104</u>	<u>18,255</u>	<u>24,639</u>	<u>45,857</u>	<u>4,104</u>	<u>607,899</u>
Accumulated depreciation(*)							
	4%, 10% and 20%	10% and 20%	10%	20%	-	5% and 10%	-
At the beginning of the year	(114,218)	(131,715)	(7,060)	(14,022)	-	(1,699)	(268,714)
Depreciation	(11,214)	(14,783)	(1,258)	(2,737)	-	(536)	(30,528)
Disposals	-	4,081	30	1,463	-	1,080	6,654
Transfers	(169)	169	-	-	-	-	-
Foreign exchange variation	(77)	-	(78)	(63)	-	(6)	(224)
At the end of the year	<u>(125,678)</u>	<u>(142,248)</u>	<u>(8,366)</u>	<u>(15,359)</u>	<u>-</u>	<u>(1,161)</u>	<u>(292,812)</u>
Net book value							
At 12/31/2012	103,241	82,183	6,296	7,320	13,323	3,750	216,113
At 12/31/2013	116,262	130,856	9,889	9,280	45,857	2,943	315,087

(*) 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 statement of income, net of PIS/COFINS credits, as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Cost of goods sold	(32,794)	(25,576)	(33,013)	(25,826)
Selling expenses	(1,377)	(448)	(2,618)	(1,116)
General and administrative expenses	(2,897)	(2,652)	(2,984)	(2,746)
	<u>(37,068)</u>	<u>(28,676)</u>	<u>(38,615)</u>	<u>(29,688)</u>

Certain property, plant and equipment items are pledged in guarantee of borrowings, as disclosed in Note 13.c.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

12. Intangible assets

Parent Company						
2014						
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
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
Accumulated amortization (*)						
	20%	10%	20%	20%	-	-
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	(25,774)	(9,843)	(3,102)	(1,823)	-	(40,542)
Net book value						
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

Parent Company						
2013						
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
At the beginning of the year	25,542	12,384	4,374	2,044	355	44,699
Purchases	7,308	1,902	-	1,333	6,038	16,581
Disposals	(79)	-	-	-	-	(79)
Transfers	597	-	-	-	(597)	-
At the end of the year	33,368	14,286	4,374	3,377	5,796	61,201
Accumulated amortization (*)						
	20%	10%	20%	20%	-	-
At the beginning of the year	(16,194)	(7,931)	(1,697)	(888)	-	(26,710)
Amortization	(4,068)	(997)	(690)	(325)	-	(6,080)
Disposals	3	-	-	-	-	3
At the end of the year	(20,259)	(8,928)	(2,387)	(1,213)	-	(32,787)
Net book value						
At 12/31/2012	9,348	4,453	2,677	1,156	355	17,989
At 12/31/2013	13,109	5,358	1,987	2,164	5,796	28,414

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

12. Intangible assets--Continued

Consolidated								
2014								
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Goodwill	Other	Total
Cost of intangible assets								
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	48,077	18,444	4,374	4,660	462	10,931	5,719	92,667
Accumulated amortization (*)								
	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	(26,261)	(9,854)	(3,102)	(1,823)	-	-	-	(41,040)
Net book value								
At 12/31/2013	13,136	6,554	1,987	2,164	5,796	5,210	-	34,847
At 12/31/2014	21,816	8,590	1,272	2,837	462	10,931	5,719	51,627

Consolidated								
2013								
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Goodwill	Total	
Cost of intangible assets								
At the beginning of the year	25,912	13,424	4,374	2,044	355	-	46,109	
Purchases	7,308	1,918	-	1,333	6,038	5,210	21,807	
Disposals	(79)	-	-	-	-	-	(79)	
Transfers	597	-	-	-	(597)	-	-	
Foreign exchange variation	55	149	-	-	-	-	204	
At the end of the year	33,793	15,491	4,374	3,377	5,796	5,210	68,041	
Accumulated amortization (*)								
	20%	10%	20%	20%	-	-	-	
At the beginning of the year	(16,507)	(7,938)	(1,698)	(888)	-	-	(27,031)	
Amortization	(4,107)	(999)	(689)	(325)	-	-	(6,120)	
Disposals	3	-	-	-	-	-	3	
Foreign exchange variation	(46)	-	-	-	-	-	(46)	
At the end of the year	(20,657)	(8,937)	(2,387)	(1,213)	-	-	(33,194)	
Net book value								
At 12/31/2012	9,405	5,486	2,676	1,156	355	-	19,078	
At 12/31/2013	13,136	6,554	1,987	2,164	5,796	5,210	34,847	

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

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

12. Intangible assets--Continued

Amortization costs and expenses are recorded in the statement of income, net of PIS/COFINS credits, as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Cost of goods sold	(3,013)	(2,471)	(3,015)	(2,473)
Selling expenses	(1,632)	(1,788)	(1,660)	(1,822)
General and administrative expenses	(2,826)	(1,588)	(2,835)	(1,589)
	<u>(7,471)</u>	<u>(5,847)</u>	<u>(7,510)</u>	<u>(5,884)</u>

The Company did not have internally generated intangible assets at December 31, 2014 and 2013.

13. Borrowings

	Index	Interest rate (p.a.)	Parent company		Consolidated	
			2014	2013	2014	2013
Property, plant and equipment	Fixed	4.31%	50,481	2,715	50,481	2,715
Working capital	Argentinean pesos	26.33%	-	-	45,447	69,891
Working capital	Euro +	2.00%	-	-	3,227	-
Working capital - ACE	US Dollar +	0.99%	47,126	27,231	47,126	27,231
Total bank financing			97,607	29,946	146,281	99,837
Proapi - Provin	Long-term Interest Rate (TJLP)		25,076	17,899	25,076	17,899
Total borrowings			<u>122,683</u>	<u>47,845</u>	<u>171,357</u>	<u>117,736</u>
(-) Total current liabilities			<u>(50,893)</u>	<u>(32,018)</u>	<u>(99,567)</u>	<u>(101,909)</u>
Total non-current liabilities			<u>71,790</u>	<u>15,827</u>	<u>71,790</u>	<u>15,827</u>

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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

13. Borrowings--Continued

a) Financing - Proapi and Provin--Continued

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, 2014, portions of this financing that are not subject to tax incentives amounting to R\$3,267 and R\$21,809 (R\$4,313 and R\$13,586 in 2013) 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.

b) Payment schedule

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

Maturity	Long-term portions						Total
	2016	2017	2018	2019	2020	2021	
Bank financing	8,503	8,503	8,503	8,402	8,035	8,035	49,981
Proapi	3,656	1,184	3,419	9,136	-	-	17,395
Provin	551	1,581	1,225	1,057	-	-	4,414
Total	12,710	11,268	13,147	18,595	8,035	8,035	71,790

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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

14. Provisions for labor, tax and civil 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:

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Balance at the beginning of the year	2,324	2,441	2,327	2,444
Additions	1,077	1,308	1,283	1,308
Realizations	(1,322)	(619)	(1,322)	(619)
Reversals	(129)	(806)	(129)	(806)
Balance at the end of the year	1,950	2,324	2,159	2,327
(-) Total current liabilities	(1,844)	(1,835)	(1,873)	(1,838)
Total non-current liabilities	106	489	286	489

The outcome of the claims recorded in current liabilities is expected to occur within one year.

b) Possible loss risk - Not provided for

The Company has labor, tax and civil 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:

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Labor	3,123	2,476	3,176	2,476
Tax				
PIS and COFINS	672	672	672	672
INSS	383	383	383	383
ICMS	10,765	10,765	10,765	10,765
Civil	3,634	192	3,634	192
	18,577	14,488	18,630	14,488

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

15. Equity

a) Capital

At December 31, 2014 and 2013, 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 20.

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 capital. The balance is R\$95,099 at December 31, 2014 (R\$83,486 in 2013).

- *Profit retention reserve*

Profit retention reserve balance refers to the amount retained for the purchase of treasury shares, in order to comply with the share-based payment plans, based on estimates made by management annually and submitted for the approval of the shareholders regarding the proposed retention to be held. As the amount of capital budget was not used, within the prescribed period of one year, proposing the distribution of the balance of R\$17,173 to shareholders as dividends in accordance with art. 202, § 6, of the law 6,404/76.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

15. Equity--Continued

d) Revenue reserves--Continued

- *Reserve for the acquisition of shares*

The balance at December 31, 2014 of R\$17,000 refers to the amount retained with the purpose of redemption, repurchase or purchase of shares of its own issue, including the fulfillment of its obligations of granting shares to the participants of the Company's stock option plan.

The reserve for the acquisition of shares may be formed with up to 100% of the remaining profit after the legal and statutory deductions, and the balance of which will have a maximum limit of 20% of capital.

- *Tax incentives*

The government grants comprise tax incentives corresponding to a reduction of 75% of income tax (IRPJ) levied on profits from activities in the states of Ceará and Bahia, calculated based on operating profit (as defined), and ICMS (Provin) and Export (Proapi and Procomex) tax incentives related to the operating activities in these states.

Incentives	Parent company/Consolidated			
	Closing balance in 2013	Incentives generated by the operation	Distributed incentives	Closing balance in 2014
ICMS and Export	337,826	194,711	-	532,537
IRPJ	288,244	63,278	-	351,522
	626,070	257,989	-	884,059

Incentives	Parent company/Consolidated			
	Closing balance in 2012	Incentives generated by the operation	Distributed incentives	Closing balance in 2013
ICMS and Export	307,663	192,163	(162,000)	337,826
IRPJ	201,163	87,081	-	288,244
	508,826	279,244	(162,000)	626,070

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

15. Equity--Continued

e) Treasury shares

In order to comply with the stock option or subscription plan (Note 19), the program for acquisition of 1,500,000 registered common shares was approved at the 55th Board of Directors Meeting held on February 13, 2014, without capital reduction. This amount of registered common shares corresponds to 1.95% of the outstanding shares.

Pursuant to CVM Instruction 10/80, the maximum term for the program is less than 365 days after the acquisition date.

The changes in treasury shares were as follows:

	<u>Common shares</u>	<u>R\$</u>
Balance at the beginning of the year	547,000	10,470
Repurchases	605,782	9,471
Exercise of share purchase options (Note 20)	(463,782)	(8,574)
Treasury shares sold	(29,000)	(526)
Balance at the end of the year	660,000	10,841

In the year ended December 31, 2014, the average purchase price of these shares was R\$15.63 (R\$20.68 in 2013), the lowest price being R\$13.14 (R\$17.19 in 2013) and the highest price R\$18.00 (R\$21.84 in 2013).

f) Dividends

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

Based on the profits for the years ended December 31, 2014 and 2013 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, 2014 and 2013
(All amounts in thousands of reais)

15. Equity--Continued

f) Dividends--Continued

	<u>2014</u>	<u>2013</u>
Profit for the year	490,244	433,540
(-) Legal reserve	(11,613)	(15,830)
(-) Tax incentive reserve	(257,989)	(116,940)
(-) Tax incentive reserve of subsidiary – MHL Calçados Ltda.	-	(304)
Minimum mandatory dividends calculation basis related to the profit for the year	220,642	300,466
Minimum mandatory dividend – 25%	55,161	75,117
(-) Reserve for the aquisition of shares	(17,000)	-
Dividends calculation basis related to the profit for the year	203,642	300,466
(+) Reversal of the balance of profit retention reserve for proposed additional dividend	17,173	-
Total of dividends proposed by management	220,815	300,057
Minimum mandatory dividend – 25%	55,161	75,117
Dividend proposed in addition to the minimum mandatory amount	165,654	224,940
	220,815	300,057

Of the amount proposed in the year ended December 31, 2013, R\$189,392 was paid during 2013, and the remaining balance of R\$110,665 was settled on April 23, 2014.

At the 49th Meeting of the Board of Directors held on February 28, 2013, the Company approved changes in its dividend distribution policy for 2013, according to which an approximate amount of 65% of the profit for the year was allocated for distribution after appropriation to reserves.

The Company's management, through the 55th Meeting of the Board of Directors decided to change the Company's dividend policy, not making a different allocation of state tax incentives to be included in the dividends base, as it was doing, and distribute as dividends all the profits that are not originated from state tax incentives, after the appropriation to legal and statutory reserves. The Company maintains the policy of distributing quarterly dividends.

In 2014, the Company's Board of Directors approved the payment of interim dividends amounting to R\$125,357, distributed as follows: R\$42,064 (representing R\$0.1400 per share) on May 14, 2014, R\$29,866 (representing R\$0.0994 per share) on August 13, 2014 and R\$53.427 (representing R\$0.1781 per share) on November 12, 2014.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

15. Equity--Continued

f) Dividends--Continued

Management also proposed at December 31, 2014 the additional payment of R\$ 95,458 (representing R\$ 0.3181 per share), totaling a dividend of R\$ 220,815 for the year, after legal and statutory deductions.

g) Earnings per share

As required by technical pronouncement CPC 41 (IAS 33) - Earnings per share, the reconciliation of profit to the amounts used to calculate basic and diluted earnings per share (in thousands of Brazilian reais, except per share amounts) is presented below:

	Parent company	
	2014	2013
Numerator		
Profit for the year	490,244	433,540
Denominator		
Weighted average number of common shares	300,720,000	300,720,000
Weighted average number of common treasury shares	(470,744)	(89,831)
	300,249,256	300,630,169
Basic earnings per common share	1.6328	1.4421
Weighted average number of outstanding common shares	300,249,256	300,630,169
Potential increase in common shares due to the stock option or subscription plan	642,267	1,140,198
	300,891,523	301,770,367
Diluted earnings per common share	1.6293	1.4367

16. 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 dully restated, from the date of the disbursement up to the maturity date, by applying the Long-Term Interest Rate (TJLP).

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Notes to the financial statements--Continued
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(All amounts in thousands of reais)

16. Government grants for investments--Continued

a) Incentives - Provin and Proapi--Continued

The table below presents the benefit expiration period:

	<u>Incentive</u>	<u>%</u>	<u>Expiration period</u>	<u>%</u>	<u>Expiration period</u>
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		

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 13).

The table below presents the benefit expiration period:

	<u>Incentive</u>	<u>Maturity</u>
Sobral – CE	PROAPI - EXPORT	Up to Mar/2017

For the year ended December 31, 2014 the Company recognized R\$194,711 (R\$191,859 in 2013), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 21.

Of the total amount for the year ended December 31, 2013, R\$162,000 was allocated to dividend payment, as disclosed in Note 15.d. The remaining R\$29,859 for the year ended December 31, 2013 and R\$194,711 for the year ended December 31, 2014 were allocated to revenue reserves, within "Tax Incentives", in equity.

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Notes to the financial statements--Continued
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16. Government grants for investments--Continued

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 July 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.

For the year ended December 31, 2014 the subsidiary recognized R\$331 (R\$794 in 2013), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 21. Of the total amount for the year ended December 31, 2013, R\$ 304 was allocated to revenue reserves, within "Tax Incentives", in equity, as disclosed in Note 15.d.

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). This benefit is recorded directly in the statement of income as a credit to income tax.

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Notes to the financial statements--Continued
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(All amounts in thousands of reais)

16. Government grants for investments--Continued

c) Income tax incentive--Continued

The table below presents the benefit expiration period:

Industrial units	% of decrease in tax	Maturity
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

17. Income tax and social contribution

a) Current income tax and social contribution

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

	2014					
	Parent company			Consolidated		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	(74,148)	(28,831)	(102,979)	(75,321)	(28,831)	(104,152)
Tax incentives	63,278	-	63,278	63,278	-	63,278
	<u>(10,870)</u>	<u>(28,831)</u>	<u>(39,701)</u>	<u>(12,043)</u>	<u>(28,831)</u>	<u>(40,874)</u>

	2013					
	Parent company			Consolidated		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	(103,740)	(39,882)	(143,622)	(103,755)	(39,882)	(143,637)
Tax incentives	87,081	-	87,081	87,081	-	87,081
	<u>(16,659)</u>	<u>(39,882)</u>	<u>(56,541)</u>	<u>(16,674)</u>	<u>(39,882)</u>	<u>(56,556)</u>

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Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

17. Income tax and social contribution--Continued

b) Deferred income tax and social contribution

Deferred income tax and social contribution are comprised as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Income tax				
Provision for impairment of trade receivables	361	255	621	348
Provision for prompt payment discount	1,685	2,409	1,691	2,438
Adjustment to Present Value (AVP)	687	523	1,495	1,194
Provision for adjustment of obsolete inventories	420	253	484	401
Provision for labor risks	122	145	125	134
Depreciation	(44)	(154)	(44)	(154)
Tax losses in subsidiaries	-	-	1,443	245
Hedging transactions	(192)	53	(28)	53
Provision for bonuses to customers - subsidiary abroad	-	-	1,321	4,791
Other	179	229	1,364	1,019
	<u>3,218</u>	<u>3,713</u>	<u>8,472</u>	<u>10,469</u>
Social contribution				
Provision for impairment of trade receivables	520	367	522	368
Provision for prompt payment discount	2,426	3,470	2,435	3,511
Adjustment to Present Value (AVP)	990	753	990	753
Provision for adjustment of obsolete inventories	605	364	605	364
Provision for labor risks	175	209	194	209
Depreciation	(64)	(222)	(64)	(222)
Tax losses in subsidiaries	-	-	650	127
Hedging transactions	(276)	77	(276)	77
Other	258	329	2	-
	<u>4,634</u>	<u>5,347</u>	<u>5,058</u>	<u>5,187</u>
Non-current assets	<u>7,852</u>	<u>9,060</u>	<u>13,530</u>	<u>15,656</u>

c) Changes in deferred income tax and social contribution

	Parent company		Consolidated	
	2014	2013	2014	2013
Balance at the beginning of the year	9,060	20,765	15,656	23,282
Taxes recorded in the result for the year	(1,208)	(11,705)	1,196	(12,249)
Taxes recorded in equity	-	-	(3,322)	4,623
Balance at the end of the year	7,852	9,060	13,530	15,656

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Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

17. Income tax and social contribution--Continued

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:

	2014			
	Parent company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxes	531,153	531,153	524,937	524,937
Effect of profit adjustments due to change in accounting practice - Law 11,638/07	(185,722)	(185,722)	(186,053)	(186,053)
Adjusted profit before taxes	345,431	345,431	338,884	338,884
Income tax and social contribution at standard rates of 25% and 9%, respectively	(86,358)	(31,089)	(84,721)	(30,500)
Adjustments for calculation of effective rate				
Equity in the results of investees	(2,265)	(815)	-	-
Permanent additions	(2,518)	(907)	(2,518)	(907)
Technological innovation incentive	6,805	2,450	6,805	2,450
Hedging transactions	736	-	736	-
Effect of depreciation recalculation	110	158	110	158
Workers' Meal Program (PAT) deduction as tax incentives	1,909	-	1,909	-
IRPJ deduction tax incentives (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)	4,005	-	4,005	-
Unrealized profits on inventories	(50)	(71)	(50)	(71)
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	1,370	493	1,370	493
Other	1,613	237	(1,642)	(583)
Amount before tax incentive deduction - IRPJ	(74,643)	(29,544)	(73,996)	(28,960)
Effective rate after considering impacts of Law 11,638/07	21.6%	8.6%	21.8%	8.5%
Tax incentives (Profit from tax incentive operations)	63,278	-	63,278	-
Amount recognized in the statement of income	(11,365)	(29,544)	(10,718)	(28,960)
Total taxes recognized in the statement of income	(40,909)		(39,678)	
Current taxes	(39,701)		(40,874)	
Deferred taxes	(1,208)		1,196	
Effective rate	7.7%		7.6%	

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
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17. Income tax and social contribution--Continued

d) Reconciliation of tax expense to statutory rates--Continued

	2013			
	Parent company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxes	501,786	501,786	502,810	502,810
Effect of profit adjustments due to change in accounting practice - Law 11,638/07	(20,295)	(20,295)	(21,089)	(21,089)
Adjusted profit before taxes	481,491	481,491	481,721	481,721
Income tax and social contribution at standard rates of 25% and 9%, respectively	(120,373)	(43,334)	(120,430)	(43,355)
Adjustments for calculation of effective rate				
Equity in the results of investees	(466)	(168)	-	-
Permanent additions	(2,434)	(876)	(2,434)	(876)
Technological innovation incentive	9,978	3,592	9,978	3,592
Hedging transactions	(27)	51	(27)	51
Effect of depreciation recalculation	772	132	772	132
Workers' Meal Program (PAT) deduction as tax incentives	2,649	-	2,649	-
IRPJ deduction tax incentives (Rouanet Law / Child and Adolescent Rights Fund – Funcriança/Audiovisual / Sports/ Fund for the Elderly / National Program to Support Oncology Care - Pronon)	4,371	-	4,371	-
Unrealized profits on inventories	(399)	89	(399)	89
Other	(9,123)	239	(10,117)	118
Amount before tax incentive deduction - IRPJ	(115,052)	(40,275)	(115,637)	(40,249)
Effective rate after considering impacts of Law 11,638/07	23.9%	8.4%	24.0%	8.4%
Tax incentives (Profit from tax incentive operations)	87,081	-	87,081	-
Amount recognized in the statement of income	(27,971)	(40,275)	(28,556)	(40,249)
Total taxes recognized in the statement of income	(68,246)		(68,805)	
Current taxes	(56,541)		(56,556)	
Deferred taxes	(11,705)		(12,249)	
Effective rate	13.6%		13.7%	

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Notes to the financial statements--Continued
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18. 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:

a) Financial instruments

The main financial instruments at December 31, 2014 and 2013 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 – 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.

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

18. Financial instruments and risk management--Continued

a) Financial instruments--Continued

The main financial instruments of the Company and its subsidiaries at December 31, 2014 and 2013 were as follows:

	Carrying amount/Fair value			
	Parent company		Consolidated	
	2014	2013	2014	2013
Financial assets				
Cash and cash equivalents	8,525	24,740	26,324	39,360
Financial investments (*)	969,654	694,605	969,654	694,605
Trade receivables	849,528	825,216	907,344	900,048
Derivatives	3,067	-	3,067	-
Financial liabilities				
Borrowings	122,683	47,845	171,357	117,736
Trade payables	31,120	35,588	36,287	39,792
Derivatives	-	860	-	860

(*) 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.

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Notes to the financial statements--Continued
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18. Financial instruments and risk management--Continued

b) Derivative financial instruments

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

b.1) *Foreign exchange rate hedge*

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 BM&F, advances on foreign exchange contracts (ACC) 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.

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, (ii) imports in transit and (iii) Advances on Foreign Exchange Contracts (ACC). 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 utilization 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\$35,010 at December 31, 2014 (R\$33,223 in 2013) 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.

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Notes to the financial statements--Continued
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(All amounts in thousands of reais)

18. Financial instruments and risk management--Continued

b) Derivative financial instruments--Continued

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

The table below shows the positions at December 31, 2014 and 2013, with the notional and fair values, which were calculated as described in Notes 4.c.1 and 4.c.2.

Description	Notional value			Notional value (R\$)			Balance receivable (payable) Fair value		
	Currency	2014	2013	Currency	2014	2013	Currency	2014	2013
Futures contracts:									
Sale commitments									
Sold position									
Foreign currency	US\$	55,000	50,000	R\$	146,739	119,071	R\$	3,067	(860)
Total	US\$	55,000	50,000	R\$	146,739	119,071	R\$	3,067	(860)

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 receivable of the fair value presented at December 31, 2014, in the amount of R\$3,067, is classified in accounts receivable, while the balance payable of R\$860 at December 31, 2013 is classified in other accounts payable.

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.

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Notes to the financial statements--Continued
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(All amounts in thousands of reais)

18. 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*

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 potentially subject to counterparty credit risk in their financial transactions and trade receivables. The procedures adopted to minimize potential financial and commercial risks include: the selectivity in dealing with financial institutions, analysis of credits granted to customers, and establishment of sales limits. No customer individually represented more than 5% of the Company's total receivables at December 31, 2014 and 2013.

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Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

18. 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

a) Credit risk--Continued

The risk management policy of the Company and its subsidiaries, for financial investments approved by the Board of Directors, establishes that available funds should be maintained in top-tier banks (considered as the top ten largest banks in assets in Brazil) in diversified financial instruments linked to a basket of indicators, comprising Interbank Deposit Certificates (CDI), fixed rates or adjusted for inflation.

b) 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:

	2014					
	Parent company			Consolidated		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	500	49,981	50,481	500	49,981	50,481
Working capital and ACE	47,126	-	47,126	95,800	-	95,800
Financing - Proapi and Provin	3,267	21,809	25,076	3,267	21,809	25,076
	50,893	71,790	122,683	99,567	71,790	171,357

	2013					
	Parent company			Consolidated		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	474	2,241	2,715	474	2,241	2,715
Working capital and ACE	27,231	-	27,231	97,122	-	97,122
Financing - Proapi and Provin	4,313	13,586	17,899	4,313	13,586	17,899
	32,018	15,827	47,845	101,909	15,827	117,736

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Notes to the financial statements--Continued
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18. 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

b) Liquidity risk--Continued

	2014					
	Parent company			Consolidated		
	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	2,547	56,666	59,213	2,547	56,666	59,213
Working capital and ACE	47,315	-	47,315	96,881	-	96,881
Financing - Proapi and Provin	3,414	26,160	29,574	3,414	26,160	29,574
	53,276	82,826	136,102	102,842	82,826	185,668

	2013					
	Parent company			Consolidated		
	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	585	2,486	3,071	585	2,486	3,071
Working capital and ACE	27,292	-	27,292	102,172	-	102,172
Financing - Proapi and Provin	4,433	16,074	20,507	4,433	16,074	20,507
	32,310	18,560	50,870	107,190	18,560	125,750

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.

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Notes to the financial statements--Continued
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18. 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

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.

At December 31, 2014, the Company has advances on export contracts in the amount of US\$17,725 thousand (US\$11,627 thousand in 2013), 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.

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Notes to the financial statements--Continued
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18. Financial instruments and risk management--Continued

c) Risk management--Continued

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, 2014, 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 2014 (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) and CDI.

The table below shows the outstanding positions at December 31, 2014, with the notional values and interest of each contracted instrument:

Operation	Currency	Probable scenario (Carrying amount)	Possible scenario	Remote scenario
DECREASE IN FINANCE INCOME				
Interest on financial investments	R\$	80,712	64,919	49,083
Rate decrease by			25.00%	50.00%
Reference for finance income				
CDI %		11.51%	8.63%	5.76%
IPCA		6.56%	4.92%	3.28%
INCREASE IN FINANCE COST				
Financing charges - Proapi and Provin	R\$	1,367	1,708	2,050
Rate increase by			25.00%	50.00%
Reference for financial liabilities				
TJLP		5.50%	6.88%	8.25%

GRENDENE S.A.

Notes to the financial statements--Continued
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(All amounts in thousands of reais)

18. Financial instruments and risk management--Continued

c) Risk management--Continued

c.3) *Sensitivity analysis of contracted derivative financial instruments*

c.3.1) Foreign exchange rate hedge

The Company projected the impact of foreign exchange hedging transactions in 3 (three) scenarios for 2014, namely:

- Probable scenario: This scenario considered that the transaction would be settled at an U.S. dollar exchange rate of R\$2.6680.
- Possible scenario: This scenario considered that the transaction would be settled at a U.S. dollar exchange rate of R\$3.3350, 25% higher than the rate for the first scenario.
- Remote scenario: This scenario considered that the transaction would be settled at an U.S. dollar exchange rate of R\$4.0020, 50% higher than the rate for the first scenario.

Presented below is the summary of the impact in each projected scenario, for the position maturing on January 31, 2015.

	Currency	Notional value		Amount in R\$	Impact
		2014	US dollar exchange rate in 2014		
Probable scenario					
<u>Sale commitments</u>					
Sold position	US\$	55,000	R\$2.6680	146,739	3,067
Possible Scenario - 25%					
<u>Sale commitments</u>					
Sold position	US\$	55,000	R\$3.3350	183,425	(36,686)
Remote Scenario - 50%					
<u>Sale commitments</u>					
Sold position	US\$	55,000	R\$4.0020	220,110	(73,371)

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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, 2014 and 2013.

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and non-current borrowings	122,683	47,845	171,357	117,736
(-) Cash and cash equivalents	(8,525)	(24,740)	(26,324)	(39,360)
Net debt	114,158	23,105	145,033	78,376
Equity	2,315,374	2,060,734	2,327,934	2,067,960
Gearing ratio	4.9%	1.1%	6.2%	3.8%

GRENDENE S.A.

Notes to the financial statements--Continued
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(All amounts in thousands of reais)

19. Balances and transactions with related parties

The Company carried out the following transactions with related parties during the years:

a) Amounts and transactions receivable and payable - Related parties

	Balances				Parent company				
	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
Subsidiaries									
Grendene Argentina S.A.									
At 12/31/2014	-	-	21,669	-	26,156	-	-	-	-
At 12/31/2013	-	-	29	-	29,558	-	-	-	-
MHL Calçados Ltda.									
At 12/31/2014	21	14	428	73	3,480	71	-	-	-
At 12/31/2013	-	1	3,465	2	15,485	481	-	-	-
Grendene USA, Inc.									
At 12/31/2014	-	-	10,350	121	14,815	791	-	1,363	1,379
At 12/31/2013	-	-	10,497	100	14,142	919	-	1,610	638
Grendene UK Limited.									
At 12/31/2014	-	-	-	-	-	-	-	1,556	1,567
At 12/31/2013	-	-	-	-	-	-	-	114	110
Grendene Italy SRL.									
At 12/31/2014	-	-	2,350	-	2,983	-	-	273	259
At 12/31/2013	-	-	1,607	-	1,596	-	-	11	-
A3NP Indústria e Comércio de Móveis S.A.									
At 12/31/2014	-	-	-	-	-	-	261	-	-
At 12/31/2013	-	-	-	-	-	-	88	-	-
Other									
Telasul S.A.									
At 12/31/2013	-	-	-	-	-	581	-	-	-
VulcabrásJazaléia – CE, Calçados e Artigos Esportivos S.A.									
At 12/31/2014	-	-	-	709	245	715	-	-	-
At 12/31/2013	-	-	-	156	200	156	-	-	-
VulcabrásJazaléia – BA, Calçados e Artigos Esportivos S.A.									
At 12/31/2014	-	-	7	-	19	-	-	-	-
At 12/31/2013	-	-	-	-	6	-	-	-	-
VulcabrásJazaléia – RS, Calçados e Artigos Esportivos S.A.									
At 12/31/2014	-	-	12	-	57	-	-	-	-
VulcabrásJazaléia Argentina S.A.									
At 12/31/2014	-	-	381	-	1,001	-	-	-	-
At 12/31/2013	-	-	668	-	1,859	-	-	-	6
Vulcabrás Distribuidora de Artigos Esportivos Ltda.									
At 12/31/2014	-	-	5	-	10	-	-	-	-
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.									
At 12/31/2014	-	-	12	-	114	-	-	-	-
Calzados Azaléia Colômbia Ltda.									
At 12/31/2014	-	-	457	-	591	-	-	11	2
Calzados Azaléia Peru S.A.									
At 12/31/2014	-	-	430	-	640	-	-	8	3
Agropecuária Grendene Ltda.									
At 12/31/2013	-	-	-	-	34	-	-	-	-
Lagoa Clara Agrícola S.A.									
At 12/31/2014	-	-	23	-	-	-	271	-	-
At 12/31/2013	-	-	18	-	-	-	215	-	-

GRENDENE S.A.

Notes to the financial statements--Continued
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19. Balances and transactions with related parties--Continued

a) Amounts and transactions receivable and payable - Related parties--Continued

	Balances				Consolidated		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
Other									
Telasul S.A. At 12/31/2013	-	-	-	-	-	581	-	-	-
Vulcabrásjajaléia – CE, Calçados e Artigos Esportivos S.A. At 12/31/2014 At 12/31/2013	- -	- -	- -	709 156	245 200	715 156	- -	- -	- -
Vulcabrásjajaléia – BA, Calçados e Artigos Esportivos S.A. At 12/31/2014 At 12/31/2013	- -	- -	7 -	- -	19 6	- -	- -	- -	- -
Vulcabrásjajaléia – RS, Calçados e Artigos Esportivos S.A. At 12/31/2014	-	-	12	-	57	-	-	-	-
Vulcabrásjajaléia Argentina S.A. At 12/31/2014 At 12/31/2013	- -	- -	381 668	- -	1,001 1,859	8,431 6,982	- -	- -	- 6
Vulcabrás Distribuidora de Artigos Esportivos Ltda. At 12/31/2014	-	-	5	-	10	-	-	-	-
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. At 12/31/2014	-	-	12	-	114	-	-	-	-
Calzados Azaleia Colômbia Ltda. At 12/31/2014	-	-	457	-	591	-	-	11	2
Calzados Azaleia Peru S.A. At 12/31/2014	-	-	430	-	640	-	-	8	3
Agropecuária Grendene Ltda. At 12/31/2013	-	-	-	-	34	-	-	-	-
Lagoa Clara Agrícola S.A. At 12/31/2014 At 12/31/2013	- -	- -	23 18	- -	- -	- -	271 215	- -	- -

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

19. Balances and transactions with related parties--Continued

b) Nature, terms and conditions of transactions

Related parties	Nature of transactions	Average terms
<i>Direct subsidiaries</i>		
Grendene Argentina S.A.	Sale of shoes	100 days
MHL Calçados Ltda.	Sale of inputs for the production of shoes. Purchase of inputs for the production of shoes.	109 days 178 days
Grendene USA, Inc.	Sale of shoes Purchases of services and referred to commissions	173 days 8 days
A3NP Indústria e Comércio de Móveis S.A.	Recovered expenses	10 days
<i>Indirect subsidiary</i>		
Grendene Italy S.R.L.	Sale of shoes	212 days
<i>Companies controlled by stockholders of Grendene S.A.</i>		
Telasul S.A.	Purchases of exhibition stands	15 days
Vulcabrás azaleia – 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	29 days 31 days 11 days 149 days
Vulcabrás azaleia – BA, Calçados e Artigos Esportivos S.A.	Sale of inputs for the production of shoes.	71 days
Vulcabrás azaleia – RS, Calçados e Artigos Esportivos S.A.	Sale of inputs for the production of shoes.	105 days
Vulcabrás Azaleia Argentina S.A.	Sale of inputs for the production of shoes. Purchase of products and services with subsidiary Grendene Argentina	118 days 1 days
Vulcabrás Distribuidora de Artigos Esportivos Ltda.	Sale of shoes	69 days
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.	Sale of shoes	72 days
Calzados Azaleia Colômbia Ltda.	Sale of shoes	36 days
Calzados Azaleia Peru S.A.	Sale of shoes	22 days
Agropecuária Grendene Ltda.	Sales of property, plant and equipment	30 days
Lagoa Clara Agrícola S.A.	Recovered expenses	29 days

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, 2014 and 2013.

c) Key management compensation

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

	Parent company	
	2014	2013
Board of Directors	912	840
Statutory Audit Board	329	284
Statutory Directors	3,296	3,040
	<u>4,537</u>	<u>4,164</u>

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

19. Balances and transactions with related parties--Continued

c) Key management compensation--Continued

The Company offers a stock option plan as variable compensation, as described in Note 20, having recognized as an expense the amount corresponding to the option premium at December 31, 2014 of R\$3,266 (R\$4,492 in 2013).

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) Other related parties

The Company utilizes air travel advisory and agency services of companies owned by a related party. At December 31, 2014, the expenses incurred in connection with these services totaled R\$607 (R\$632 in 2013), representing approximately 0.03% of the Company's general expenses. There were no outstanding balances at December 31, 2014.

20. 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 a Committee especially created for this purpose.

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.

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

20. Stock option or subscription plan--Continued

At December 31, 2014, the Company recognized an expense in connection with the stock option plan as personnel cost, based on the fair value at the grant date, in the amount of R\$3,266 (R\$4,492 in 2013).

At December 31, 2014, the Company has four plans in effect: 4th Plan granted on February 24, 2011, 5th Plan granted on March 1, 2012, 6th Plan granted on February 28, 2013 and 7th Plan granted on February 13, 2014.

a) Summary of grants of share purchase options or subscriptions

The options granted and the related changes were as follows:

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
3/1/2012	4.33	3/1/2013	108,949	-	-	-	-	-
3/1/2012	4.33	3/1/2014	217,898	99,620	-	(94,966)	-	4,654
3/1/2012	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
				1,469,936	370,158	(463,782)	(38,002)	1,338,310

2013								
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Closing balance
4/25/2008	7.30	4/25/2009	679,967	60,494	-	(60,494)	-	-
4/25/2008	7.30	4/25/2010	1,359,934	164,737	-	(164,737)	-	-
4/25/2008	7.30	4/25/2011	2,039,901	228,494	-	(228,494)	-	-
3/5/2009	4.26	3/5/2010	300,000	-	-	-	-	-
3/5/2009	4.26	3/5/2011	600,000	-	-	-	-	-
3/5/2009	4.26	3/5/2012	900,000	247	-	(247)	-	-
3/4/2010	10.08	3/4/2011	233,333	209,327	-	(209,327)	-	-
3/4/2010	10.08	3/4/2012	466,666	209,327	-	(209,327)	-	-
3/4/2010	10.08	3/4/2013	700,000	209,328	-	(209,328)	-	-
2/24/2011	10.80	2/24/2012	580,544	534,400	-	(528,444)	-	5,956
2/24/2011	10.80	2/24/2013	1,161,088	534,400	-	(528,444)	-	5,956
2/24/2011	10.80	2/24/2014	1,741,632	534,400	-	-	(35,417)	498,983
3/1/2012	4.33	3/1/2013	108,949	106,727	-	(106,727)	-	-
3/1/2012	4.33	3/1/2014	217,898	106,727	-	-	(7,107)	99,620
3/1/2012	4.33	3/1/2015	326,847	106,727	-	-	(7,107)	99,620
2/28/2013	9.55	2/28/2014	265,183	-	265,183	-	(11,916)	253,267
2/28/2013	9.55	2/28/2015	530,366	-	265,183	-	(11,916)	253,267
2/28/2013	9.55	2/28/2016	795,549	-	265,183	-	(11,916)	253,267
				3,005,335	795,549	(2,245,569)	(85,379)	1,469,936

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
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20. 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 2014, the Company acquired, for the fulfillment of the plans for exercise of options of share purchase, 605,782 shares, at an average price of R\$15.63, totaling R\$9,471. In the first quarter, 463,782 shares were exercised at an average price of R\$18.49, totaling R\$8,574. The average price for each option exercised was R\$8.87, totaling R\$4,115.

The Company recognized the difference between the average exercise price of the options and the shares acquired for the fulfillment of these exercises, in the amount of R\$1,758, 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.

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Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

20. Stock option or subscription plan--Continued

b) Changes of the operations with stock option

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

Stock option or subscription plan	Changes	Grant/ realization date	Maximum number of shares	Number of common shares	Average share price	Expense realized through stock options exercised and canceled
Fourth	Share purchase options issued	2/24/2011	1,741,632	-	9.76	-
	(-) Canceled	7/1/2011	-	(75,456)	9.76	-
	(-) Canceled	5/4/2012	-	(62,976)	9.76	-
	(-) Exercise of share purchase options	3/14/2013	-	(653,682)	10.23	-
	(-) Exercise of share purchase options	3/25/2013	-	(403,206)	10.04	-
	(-) Canceled	3/25/2013	-	(7,786)	9.76	-
	(-) Canceled	5/10/2013	-	(7,334)	9.76	-
	(-) Canceled	8/1/2013	-	(12,631)	9.76	-
	(-) Canceled	9/26/2013	-	(7,666)	9.76	-
	(-) Exercise of share purchase options	3/10/2014	-	(141,963)	9.76	(247)
Fifth	Share purchase options issued	3/1/2012	326,847	-	3.92	-
	(-) Canceled	5/4/2012	-	(6,666)	3.92	-
	(-) Exercise of share purchase options	3/14/2013	-	(66,885)	10.23	-
	(-) Exercise of share purchase options	3/25/2013	-	(39,842)	10.04	-
	(-) Canceled	3/25/2013	-	(3,016)	3.92	-
	(-) Canceled	5/10/2013	-	(2,840)	3.92	-
	(-) Canceled	8/1/2013	-	(4,922)	3.92	-
	(-) Canceled	9/26/2013	-	(3,436)	3.92	-
	(-) Exercise of share purchase options	3/10/2014	-	(94,966)	3.92	(400)
	(-) Canceled	4/28/2014	-	(3,168)	3.92	(9)
Sixth	Share purchase options issued	2/28/2013	795,549	-	8.57	-
	(-) Canceled	5/10/2013	-	(9,156)	8.57	-
	(-) Canceled	8/1/2013	-	(14,943)	8.57	-
	(-) Canceled	9/26/2013	-	(11,649)	8.57	-
	(-) Exercise of share purchase options	3/10/2014	-	(226,853)	8.57	(1,944)
	(-) Canceled	4/1/2014	-	(5,646)	8.57	(24)
	(-) Canceled	4/28/2014	-	(14,740)	8.57	(64)
Seventh	Share purchase options issued	2/13/2014	370,158	-	8.79	-
	(-) Canceled	4/1/2014	-	(5,337)	8.79	(5)
	(-) Canceled	4/28/2014	-	(9,111)	8.79	(8)
Changes in shares in equity						(2,701)

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Notes to the financial statements--Continued
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20. 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:

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

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.

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Notes to the financial statements--Continued
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21. Net sales and services revenue

Net sales and services revenue is comprised as follows:

	Parent company		Consolidated	
	2014	2013	2014	2013
Gross sales and services revenue	2,632,778	2,634,648	2,720,300	2,711,363
<i>Domestic market</i>	2,128,162	2,182,112	2,132,385	2,187,617
<i>Adjustment to Present Value (AVP)</i>	(54,648)	(40,699)	(54,648)	(40,699)
<i>Foreign market</i>	504,679	438,368	590,564	511,762
<i>Adjustment to Present Value (AVP)</i>	(686)	(609)	(3,280)	(3,068)
<i>Tax incentives - Proapi/Procomex</i>	49,789	42,652	49,797	42,761
<i>Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)</i>	5,482	12,824	5,482	12,990
Sales returns	(51,986)	(57,222)	(62,574)	(63,092)
Financial discounts	(102,173)	(127,443)	(103,997)	(130,750)
Taxes on sales and services	(439,771)	(450,078)	(444,789)	(458,636)
ICMS tax incentives - Provin/ Development Promotion Program of the State of Bahia (Probahia)	144,922	149,207	145,245	149,892
INSS	(20,811)	(21,305)	(20,887)	(21,513)
	2,162,959	2,127,807	2,233,298	2,187,264

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% to 19.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
National Institute of Social Security (INSS)	1.00%

22. 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.

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Notes to the financial statements--Continued
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22. Segment reporting--Continued

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

	Parent company				Consolidated	
	2014		2013		2014	2013
	Gross sales revenue	Non-current assets	Gross sales revenue	Non-current assets	Gross sales revenue	Gross sales revenue
Footwear						
Domestic market	2,073,514	13,398	2,141,413	14,125	2,077,729	2,146,918
Foreign market	559,264	54,935	493,235	40,707	641,706	564,445
Furniture						
Domestic market	-	17,359	-	7,664	8	-
Foreign market	-	-	-	-	857	-
	2,632,778	85,692	2,634,648	62,496	2,720,300	2,711,363

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 10.

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, the United Kingdom and Italy, respectively), as follows:

	Consolidated	
	2014	2013
Gross sales to foreign market from:		
Brazil	515,213	452,116
USA	31,947	23,674
Argentina	88,553	88,349
Italy	6,486	306
United Kingdom	364	-
	642,563	564,445

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

Non-current assets abroad represent approximately 7% of the Company's non-current assets.

GRENDENE S.A.

Notes to the financial statements--Continued

December 31, 2014 and 2013

(All amounts in thousands of reais)

23. Costs and expenses by function and nature

The Company presents the statement of income 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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cost of goods sold	(1,191,772)	(1,181,159)	(1,207,379)	(1,193,562)
Selling expenses	(494,345)	(489,708)	(543,744)	(521,220)
General and administrative expenses	(78,963)	(71,881)	(91,263)	(79,032)
	<u>(1,765,080)</u>	<u>(1,742,748)</u>	<u>(1,842,386)</u>	<u>(1,793,814)</u>

b) Costs and expenses by nature

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cost of goods sold				
Raw materials	(556,841)	(557,259)	(560,981)	(557,607)
Personnel expenses	(459,013)	(441,278)	(466,524)	(449,115)
Depreciation and amortization	(35,807)	(28,047)	(36,028)	(28,299)
Other costs	(140,111)	(154,575)	(143,846)	(158,541)
	<u>(1,191,772)</u>	<u>(1,181,159)</u>	<u>(1,207,379)</u>	<u>(1,193,562)</u>
Selling expenses				
Commissions	(103,254)	(96,045)	(106,196)	(98,531)
Freight	(109,995)	(106,195)	(113,730)	(111,017)
Copyrights	(51,686)	(58,772)	(51,686)	(58,772)
Management for development of trademarks	(551)	-	(551)	-
Advertising and publicity	(152,365)	(153,430)	(169,180)	(163,662)
Depreciation and amortization	(3,009)	(2,236)	(4,278)	(2,938)
Other expenses	(73,485)	(73,030)	(98,123)	(86,300)
	<u>(494,345)</u>	<u>(489,708)</u>	<u>(543,744)</u>	<u>(521,220)</u>
General and administrative expenses				
Personnel expenses	(50,077)	(46,779)	(53,832)	(47,181)
Depreciation and amortization	(5,723)	(4,240)	(5,819)	(4,335)
Other expenses	(23,163)	(20,862)	(31,612)	(27,516)
	<u>(78,963)</u>	<u>(71,881)</u>	<u>(91,263)</u>	<u>(79,032)</u>
	<u>(1,765,080)</u>	<u>(1,742,748)</u>	<u>(1,842,386)</u>	<u>(1,793,814)</u>

GRENDENE S.A.

Notes to the financial statements--Continued
December 31, 2014 and 2013
(All amounts in thousands of reais)

24. Finance result

	Parent company		Consolidated	
	2014	2013	2014	2013
Finance income				
Interest received from customers	1,850	1,898	1,861	1,903
Gains on foreign exchange hedge - BM&F	16,623	18,191	16,623	18,191
Income from financial investments	98,644	80,890	100,078	81,856
Foreign exchange gains	37,575	37,687	41,908	40,237
Adjustment to Present Value (AVP)	52,703	38,656	54,690	38,656
Other finance income	4,675	1,944	5,259	2,218
	212,070	179,266	220,419	183,061
Finance costs				
Losses on foreign exchange hedge - and Futures Exchange (BM&F)	(21,988)	(26,192)	(24,040)	(26,192)
Financing expenses	(10,606)	(8,571)	(21,775)	(19,643)
Foreign exchange losses	(31,566)	(27,020)	(33,456)	(28,509)
Other finance costs	(3,155)	(2,566)	(5,624)	(5,140)
	(67,315)	(64,349)	(84,895)	(79,484)
	144,755	114,917	135,524	103,577

25. 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\$520,351
Loss of profits	Profit plus fixed expenses.	R\$49,590
Civil liability	Industrial operations, employer, products and moral damages.	R\$1,790
Aviation	Hull, civil liability.	US\$3,500
Vehicles	Material damages and third-party civil liability (CL).	100% FIPE and R\$100 CL third parties - material damages and R\$350 CL third parties - personal damages DP
Transportation	Export and import.	US\$2,500 per shipping

Atenção

**** Não destacar esta folha do trabalho ****

Departamento de Traduções - 13º andar

Dados do Projeto

Cliente **Grendene S.A.**
 Departamento Assurance
 Tipo de trabalho DF – 31/12/2013
 Idioma P/I
Nome do arquivo **GRENDENEDF14VH.DOCX**
 Código para débito 01035102/0002
 Sócio
 Gerente Rafael Rosito
 Sócio substituto
Encaminhar para **Karmine Souza**

Andamento - Traduções

	Nome	Data	Observações
Entrada		16.01.2015	<input type="checkbox"/> Track Changes <input type="checkbox"/> _____
Tradução	VH	19-20.01.15	<input type="checkbox"/> Free Translation
Correções	Débora	20.01.15	<input type="checkbox"/> Ponto por vírgula <input type="checkbox"/> _____
Cheque padrão	Yara	21.01.15	<input type="checkbox"/> Corretor ortográfico
Revisão da tradução			<input type="checkbox"/> Montagem ITR <input type="checkbox"/> _____
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2ª. Revisão			<input type="checkbox"/> Correções <input type="checkbox"/> _____
Correções			<input type="checkbox"/> Rodapé
3ª. Revisão			<input type="checkbox"/> OK

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