(A free translation of the original in Portuguese)

Listed company

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

Commercial Registry Number (NIRE): 23300021118-CE

Management Report

2012

(A free translation of the original in Portuguese)

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

AUDIT BOARD

Fernando Luis Cardoso Bueno
President of the Audit Board

Audit Board Members
Bolívar Charnerski
Maurício Rocha Alves de Carvalho

EXECUTIVE BOARD

Alexandre Grendene Bartelle
Chief Executive Officer

Pedro Grendene Bartelle
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt
Investor Relations Officer

Gelson Luis Rostirolla
Chief Financial Officer, Administrative and Controller Officer

Rudimar Dall'Onder
Chief Industrial and Sales Officer

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

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MANAGEMENT REPORT - 2012

To the Shareholders,

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, 2012.

The **financial statements of Grendene S.A.** (parent company stand-alone) for the year ended December 31, 2012 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. 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

After 41 years of uninterrupted results, Grendene assured a return on equity of 23.8% (18.2% in 2011), with a robust cash generation from operating activities of R$193.2 million (R$68.1 million in 2011). Net profit was over R$400 million (equivalent to R$1.4266 per share (R$1.0157 per share in 2011)) for the first time, representing a new record for the Company. Based on these numbers, dividends distributed to shareholders totaled R$293.5 million (R$219.5 million in 2011), that is, R$0.976 per existing share at December 31, 2012 (R$0.73 in December 2011). This amount per share represented a dividend yield of 8.4% (8.5% in 2011) when considering the weighted average quotation in 2012 as well as a payout of 71.1%. Since going public, in October 2004, Grendene has already returned to shareholders the amount of R$1.3 billion as dividends.

These results were recognized in the capital markets, and the Company's share grew by 133% in 2012, with a good increase in liquidity, which, at the end of the year (Dec/12) was negotiated at approximately R$4.7 million per day and 913 transactions. The Company's market value reached R$5 billion, 60% above its value in 2004, when it went public (R$3.1 billion).

Our results in 2012 were obtained through the production and sale of 185 million of pairs throughout our 12 footwear production plants, all located in Brazil. 139.7 million of pairs were sold in the domestic market, corresponding to a estimated 20% of the apparent consumption in the country, and 45.3 million of pairs were exported, corresponding to 40% of the Brazilian exports in the period. According to data disclosed by MDIC/SECEX/Abicalçados, Grendene, for ten consecutive years, is the leader of the Brazilian footwear exports, evidencing its competition advantages in foreign markets.

Investments in brand consolidation, relationship with distribution channels, improvement of internal manufacturing process and development of products continued to be the Company's main management focus in 2012.

Grendene has obtained expressive leadership in the footwear market throughout its history, and it keeps on believing in its future and potential, investing in the strengthening of its brands and in its growth in both domestic and foreign markets. This leadership has been confirmed by several independent appraisers, from which the Company has received a number of awards for its capacity of delivering results, innovation, growth, profitability, sustainability and social responsibility. In the last 4 years, from 2008 to 2012, irrespective of the world crisis and the unfavorable currency exchange rate, Grendene achieved an average compound growth of 10.8% p.a. in net revenue, 15.7% in profit and 25.0% in dividends effectively paid. In this period, we alternated years of loss and gain market share (share of Grendene total apparent consumption of domestically published by Abicalçados). In 2012, the year we evaluate have won market share of approximately 5% compared to 2011, our interest more than regained the share lost approximately 2% in 2011 regarding participation observed in 2007 (16% in 2007 to approximately 20% in 2012).

This recovery of the market share becomes more significant because it was achieved through a robust growth in the gross margin, which was one of the Company's targets, representing a margin of 46.9% in 2012, even better than the 2011 margin (3.6 p.p. superior), that is, 43.3%, which was a record in the five-year period from 2007 to 2011 and was 270 bps. superior to the 2010 margin.

Grendene's management has decided to maintain and, if possible, increase the margins obtained in the next years, consolidating the established tendency.

Also, in accordance with the Company's plans, Grendene controlled net cash, which amounted to R$735.9 million (decrease of 8.6% vs. 2011) due to the increase in dividends paid (R$92 million), from R$183.5 million

in 2011 to R$275.5 million in the same period of 2012 (R$87.2 million referring to the 2011 balance and R$188.3 million referring to the quarterly advances in 2012).

However, we estimate that the total of dividends paid for the business year 2013 will be larger than the amount of dividends distributed for 2012. Thus the result of this decision is that for the business year 2013, Grendene's dividend payout ratio (after the allocations to reserves, etc., required by law) will be approximately 65%.

Management understands that the actions carried out and the results obtained in 2012 were effective for controlling costs and correctly applied when considering the economic scenario in Grendene's short-term business actions. Except for certain adjustments, Management considers that it is not necessary to change the Grendene's business model adopted as a strategy to turn into reality the Mission which guides the Company: To make "democratic" fashion, rapidly meeting the market needs and generating attractive returns for the Company and its shareholders.

Management believes that adding value for our shareholders in a long-term basis is a fundamental action for success. This value will result directly from Grendene's capacity to expand and strengthen its brands and keep a high production volume, since, the bigger the volumes and the stronger and more recognized are such brands, the more powerful the Company's business model becomes. Management believes that strong brands are directly related to higher revenues, profitability, and asset and product turnover and, consequently, higher returns over the capital invested.

In addition, the development of brands with a privileged relationship with customers is a long and cumulative process. During the last five years (2008-2012), the Company, among many other efforts, invested R$636 million 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.

In this sense, in 2012, Grendene created the *Club Melissa (ex-jelly)*, as reported in Relevant Fact for July 16, 2012, with the goal of developing a franchise network for the brand Melissa. The network had 42 franchisees when the transaction was announced, has on December 31, 2012 63 stores.

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 41 years, the Company did not lack the decisive support and trust of suppliers, customers, partners, shareholders 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	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Gross sales	1,576.0	1,819.4	1,998.6	1,846.7	2,359.6	27.8%	10.6%
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	23.9%	10.9%
Exports	355.5	355.0	394.8	356.8	514.2	44.1%	9.7%
Exports in U.S. dollars	*193.8*	*177.7*	*224.3*	*213.0*	*263.1*	*23.5%*	*7.9%*
Net revenue	1,249.9	1,455.8	1,604.5	1,482.6	1,882.3	27.0%	10.8%
Cost of products sold	(731.2)	(889.7)	(953.3)	(840.5)	(1,000.2)	19.0%	8.1%
Gross profit	518.7	566.0	651.2	642.1	882.1	37.4%	14.2%
Operating expenses	(352.8)	(413.8)	(442.8)	(454.8)	(519.3)	14.2%	10.1%
EBIT	165.9	152.2	208.4	187.3	362.8	93.7%	21.6%
EBITDA	191.5	178.5	236.6	216.2	394.5	82.5%	19.8%
Finance result, net	84.2	135.6	122.5	153.0	132.5	(13.4%)	12.0%
Net profit	239.4	272.2	312.4	305.4	429.0	40.5%	15.7%

R$	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Average price	10.76	10.98	11.79	12.30	12.75	3.7%	4.3%
Domestic market	12.38	12.47	13.97	13.85	13.21	(4.6%)	1.6%
Exports	7.43	7.35	7.23	8.39	11.34	35.2%	11.1%
Exports in U.S. dollars	*4.05*	*3.68*	*4.11*	*5.01*	*5.80*	*15.8%*	*9.4%*

R$	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Earnings per share[1]	0.7960	0.9052	1.0388	1.0157	1.4266	40.5%	15.7%
Dividend per share[1]	0.3625	0.3658	0.4048	0.7300	0.9760	33.7%	28.1%

Million of pairs	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Volumes	146.4	165.7	169.5	150.1	185.0	23.3%	6.0%
Domestic market	98.6	117.4	114.9	107.6	139.7	29.9%	9.1%
Exports	47.8	48.3	54.6	42.5	45.3	6.6%	(1.3%)

Margin %	2008	2009	2010	2011	2012	Var. 11/12	Variation 08/12
Gross	41.5%	38.9%	40.6%	43.3%	46.9%	3.6 p.p.	5.4 p.p.
EBIT	13.3%	10.5%	13.0%	12.6%	19.3%	6.7 p.p.	6.0 p.p.
EBITDA	15.3%	12.3%	14.7%	14.6%	21.0%	6.4 p.p.	5.7 p.p.
Net	19.2%	18.7%	19.5%	20.6%	22.8%	2.2 p.p.	3.6 p.p.

R$	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Final U.S. dollar	2.3370	1.7412	1.6662	1.8758	2.0435	8.9%	(3.3%)
Average U.S. dollar	1.8346	1.9976	1.7601	1.6750	1.9546	16.7%	1.6%

[1] For the purposes of comparison, profit and dividend per share were calculated by the same number of existing shares at December 31, 2012 (300,720,000 common shares)

Notes:
CAGR: Compound annual growth rate
p.p.: percentage points

III. Market and macroeconomic conditions

Just as in 2011, the Brazilian economy performance was disappointing in 2012. According to the monetary authorities, the GDP would grow by 4.5% in 2012. Grendene cautiously considered a GDP growth of 3.5% for its annual planning. However, the growth of economy in 2012 was very small, something about 1%. On the other hand, this small growth in the economy in general had no expressive negative impacts on the low ticket consumption sector, which is the market where Grendene do business. It is known that this sector is more highly influenced by income, which received a significant impulse with the increase in minimum wage in addition to the low unemployment rates, than by the credit offered, which has grown less in 2012. The decrease in the interest rates helped to lighten the budget of consumers in debt, while inflation in low levels did not diminish income to discretionary consumption. In addition, the measures taken by the government in order to fight the downturn in economy, such as the tax burden reduction in the payroll, played an important role in keeping prices under control and stimulating consumption.

This scenario, correctly anticipated in the plans and actions of Grendene, secured outstanding results confirming the resilience and flexibility of our business model, including results superior to those we expected.

Because of the international crisis, the Brazilian footwear exports in U.S dollars decreased by approximately 16%, while imports had an approximate 19% increase, stimulating the fierce competition in the domestic market. With the downturn in the domestic economy and the low foreign demand, the foreign exchange rate became more favorable to exports, especially as from 2Q.
During the last few years, the footwear industry has been facing unfair competition promoted by products sold with very low prices coming mainly from Asian countries, which use artificial mechanisms to promote the devaluation of their currencies. These practices are creating greater difficulties for the Brazilian exports, which have been losing share in the foreign market.

In 2012, the scenario of decreasing exports and increasing imports in Brazil was repeated, affecting mainly the sport footwear industry, in which Grendene does not compete.

It should be noticed that in spite of the increase in imports never figured above 6% of the apparent consumption in the domestic market during the last five years, and that the imported products were concentrated in industries not so much related with fashion, since the time length for the supply of imported products is much longer than those of domestic suppliers, and fashion is a highly "perishable" product.

Brazilian footwear production and apparent consumption

Brazil (million of pairs)	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Production	816	814	894	819	804*	(1.8%)	(0.4%)
Imports	39	30	29	34	35	4.9%	(2.4%)
Exports	166	127	143	113	113	0.3%	(9.1%)
Apparent consumption	689	717	780	740	726*	(1.9%)	1.3%
Consumption per capita (pair)	3.6	3.7	4.0	3.9	3.8*	(2.6%)	0.7%

Source: IEMI / Secex / Abicalçados
*Estimated by Grendene

Grendene

Million of pairs	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Volumes	146.4	165.7	169.5	150.1	185.0	23.3%	6.0%
Domestic market	98.6	117.4	114.9	107.6	139.7	29.9%	9.1%
Exports	47.8	48.3	54.6	42.5	45.3	6.6%	(1.3%)
Share volume - exports	28.9%	38.1%	38.2%	37.6%	40.0%	6.3%	11.1 p.p.

Source: Grendene S.A.

In 2013 we expect further growth of the economy, around 3% growth in GDP, with inflation not exceeding 6%.

The minimum wage was increased by 8.7%, which always represents an increase in consumption, but also higher costs and exemption measures Leaf government program instituted by “Brasil Maior” and Reintegra will be maintained.

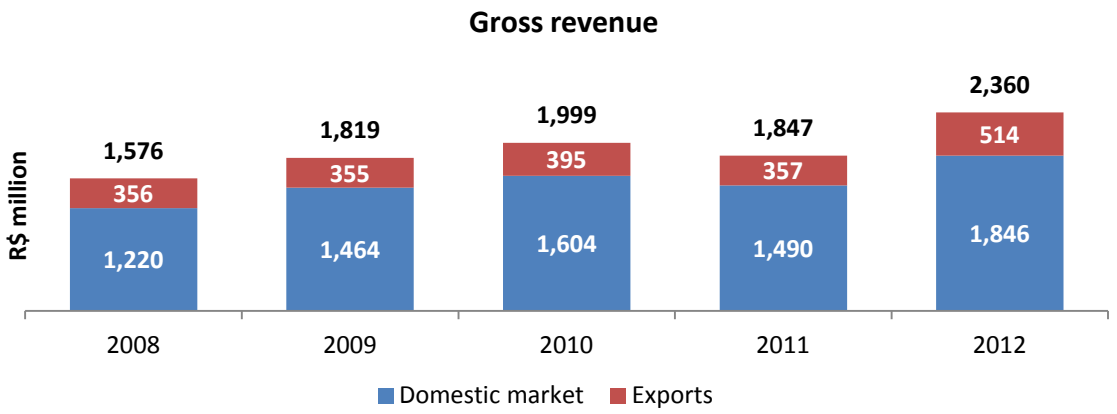
With this scenario we expect a recovery in consumption of footwear in the domestic market which had poor performance in recent years.

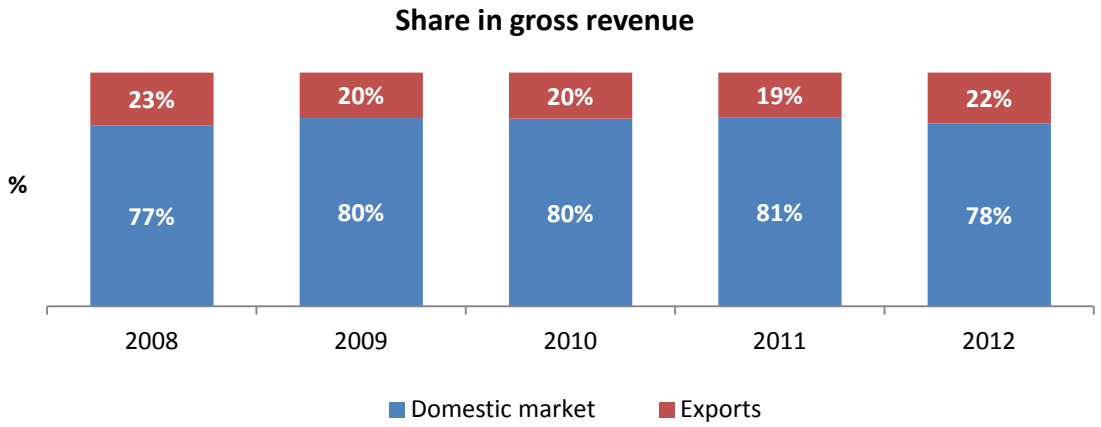
IV. Economic and financial performance

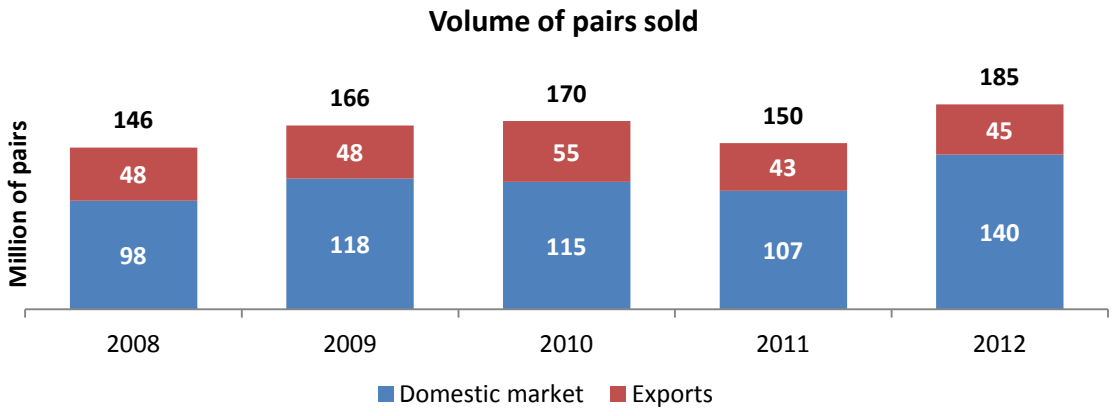
1. Gross revenue

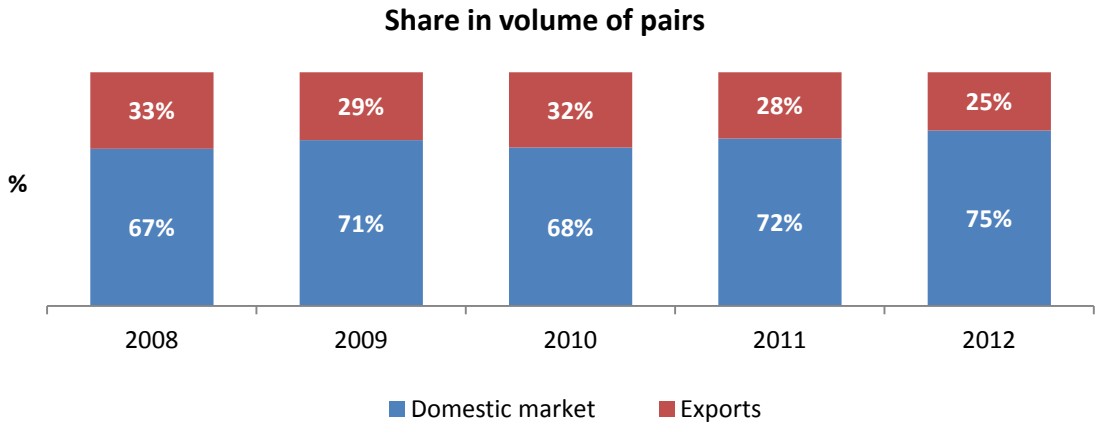
The growth in gross revenue in 2012, when comparing to 2011, increased the compound annual growth rate (CAGR) of the last years to 10.6% p.a. (2008-2012) against 6.1% p.a. in the period from 2007 to 2011.

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Gross revenue	**1,576.0**	**1,819.4**	**1,998.6**	**1,846.7**	**2,359.6**	**27.8%**	**10.6%**
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	23.9%	10.9%
Exports	355.5	355.0	394.8	356.8	514.2	44.1%	9.7%
Exports in U.S. dollars	*193.8*	*177.7*	*224.3*	*213.0*	*263.1*	*23.5%*	*7.9%*
Million of pairs	**2008**	**2009**	**2010**	**2011**	**2012**	**Var. 11/12**	**CAGR (4 years)**
Volumes	**146.4**	**165.7**	**169.5**	**150.1**	**185.0**	**23.3%**	**6.0%**
Domestic market	98.6	117.4	114.9	107.6	139.7	29.9%	9.1%
Exports	47.8	48.3	54.6	42.5	45.3	6.6%	(1.3%)
R$	**2008**	**2009**	**2010**	**2011**	**2012**	**Var. 11/12**	**CAGR (4 years)**
Average price	**10.76**	**10.98**	**11.79**	**12.30**	**12.75**	**3.7%**	**4.3%**
Domestic market	12.38	12.47	13.97	13.85	13.21	(4.6%)	1.6%
Exports	7.43	7.35	7.23	8.39	11.34	35.2%	11.1%
Exports in U.S. dollars	*4.05*	*3.68*	*4.11*	*5.01*	*5.80*	*15.8%*	*9.4%*

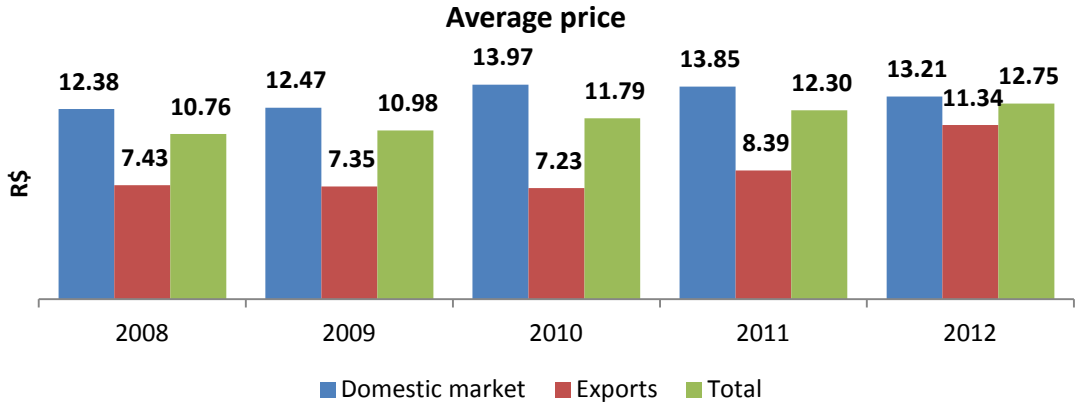








In 2012, the Company maintained its export strategy and, despite the international crises, achieved a growth of 44.1% in gross export revenue in Brazilian reais and 23.5% in U.S. dollars, thus maintaining the Company's price adjustment policy. So, there was an increase of 15.8% in the average price in U.S. dollars and of 35.2% in the average price in Brazilian reais, when comparing to the same period in 2011.

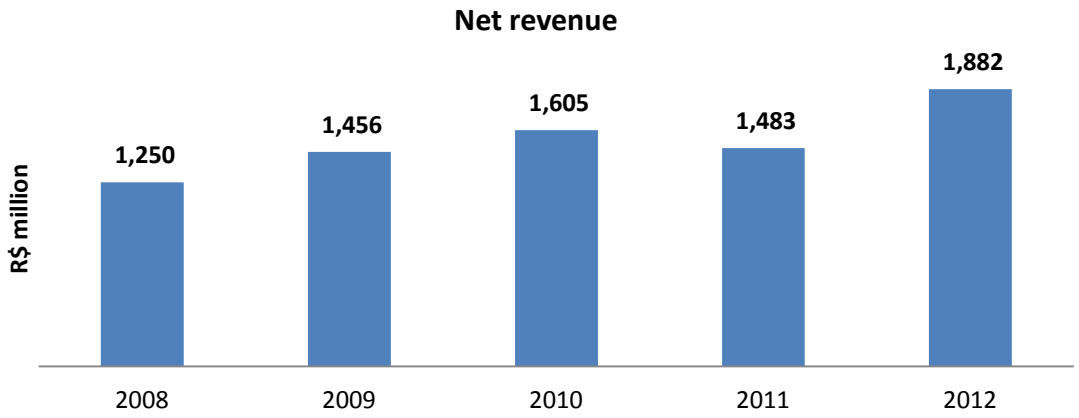


According to data from MDIC/SECEX/Abicalçados, Brazilian footwear exports in 2012 vs. 2011 decreased 15.7% in U.S. dollar and 15.9% in the average price in U.S. dollars, while increasing 0.3% in the volume of pairs sold.

Grendene's share in the Brazilian footwear exports, when comparing 2012 vs. 2011, remained in 40.0% in volumes of pairs and went from 16.4% to 24.1% in export revenue in U.S. dollars, maintaining the leading position in Brazilian footwear exports.

2. Net revenue

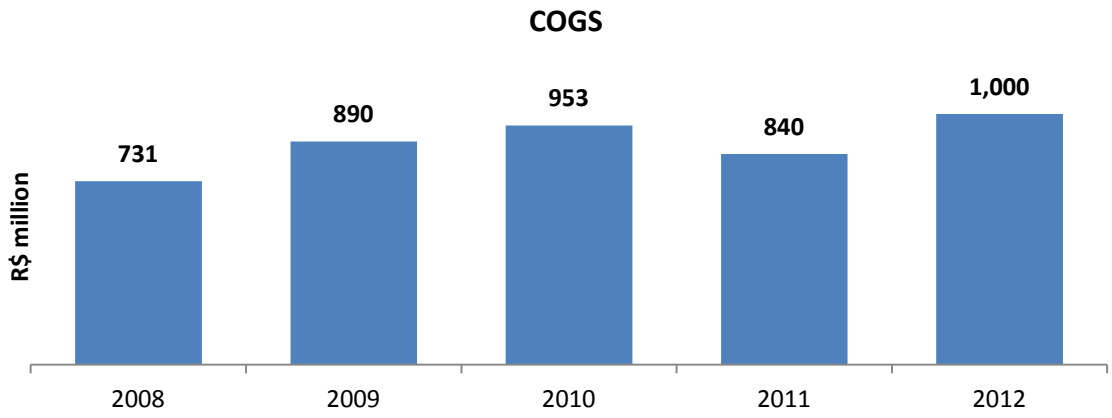
R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Gross revenue	**1,576.0**	**1,819.4**	**1,998.6**	**1,846.7**	**2,359.6**	**27.8%**	**10.6%**
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	23.9%	10.9%
Exports	355.5	355.0	394.8	356.8	514.2	44.1%	9.7%
Sales deductions	**(326.2)**	**(363.6)**	**(394.1)**	**(364.1)**	**(477.3)**	**31.1%**	**10.0%**
Returns and taxes on sales	(251.4)	(274.1)	(283.6)	(253.7)	(328.6)	29.5%	6.9%
Discounts granted to customers	(74.8)	(89.5)	(110.5)	(110.4)	(148.6)	34.7%	18.7%
Net revenue	**1,249.9**	**1,455.8**	**1,604.5**	**1,482.6**	**1,882.3**	**27.0%**	**10.8%**

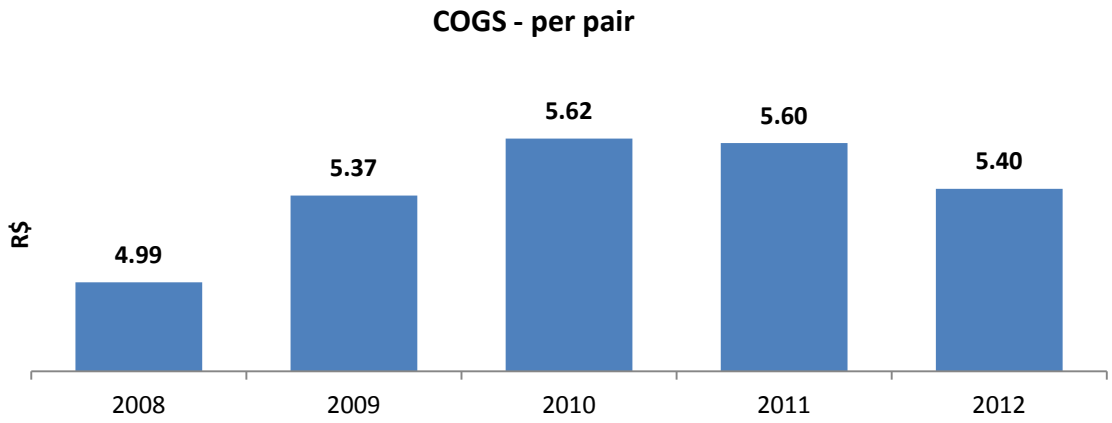


3. Cost of goods sold (COGS)

In 2012, the cost of goods sold grew 19.0% in absolute terms, a number 8.0 p.p. below the growth in net revenue. Grendene's policy of strict costs control was maintained, as well as the better efficiency when using direct labor and the optimization of industrial processes, evidencing the Company's current superior level of operational efficiency. Irrespective of the inflation for the period, COGS per pair fell from R$5.60 in 2011 to R$5.40 in 2012. From 2008 to 2012, the compound average rate of evolution of the COGS per pair was 2.0% p.a., below the increase in net revenue for the same period, which increased by 10.8% p.a. (CAGR).

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Cost of products sold	731.2	889.7	953.3	840.5	1,000.2	19.0%	8.1%
R$ per pair	**2008**	**2009**	**2010**	**2011**	**2012**	**Var. 11/12**	**CAGR (4 years)**
Cost of products sold	4.99	5.37	5.62	5.60	5.40	(3.6%)	2.0%



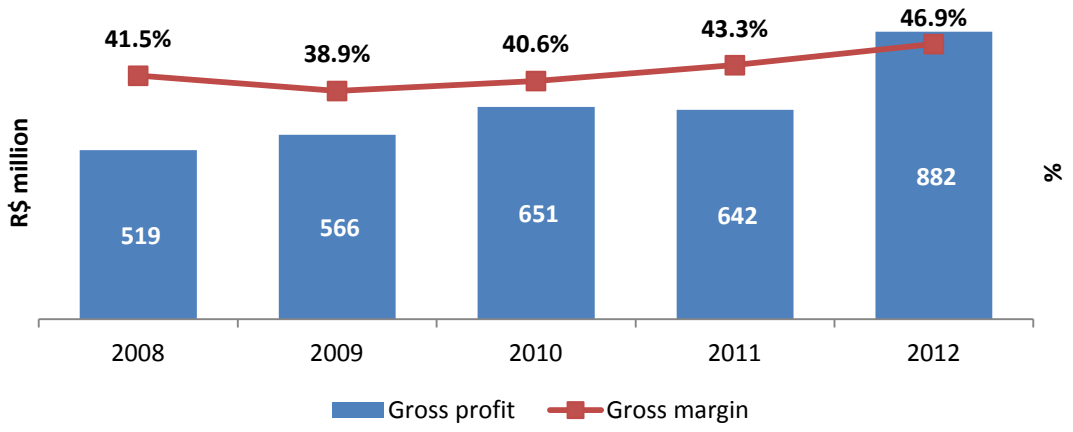


4. Gross profit

In 2012, our gross profit totaled R$882.1 million, an increase of 37.4% when compared to 2011 (R$642.1 million). With costs increasing less than net revenue, as explained before, Grendene has maintained the gross margin recovery, which grew 3.6 p.p., from 43.3% in 2011 to 46.9% in 2012. In the last five years, this was the best margin the Company achieved, standing above the 2011 record and reaffirming the measures adopted.

We noticed that Grendene's expectation of increase in gross margin, which was implicit in the guidance disclosed to the market, was fulfilled not because there was a higher share of revenue of the domestic market (with higher average prices) in total revenue, as expected, but because of a gain in efficiency and productivity superior to the rates initially expected, added to a higher margin in exported products (higher average prices). The share of domestic market revenue in total decreased from 80.7% to 78.2%, while the volume in the domestic market increased from 71.7% to 75.5%.

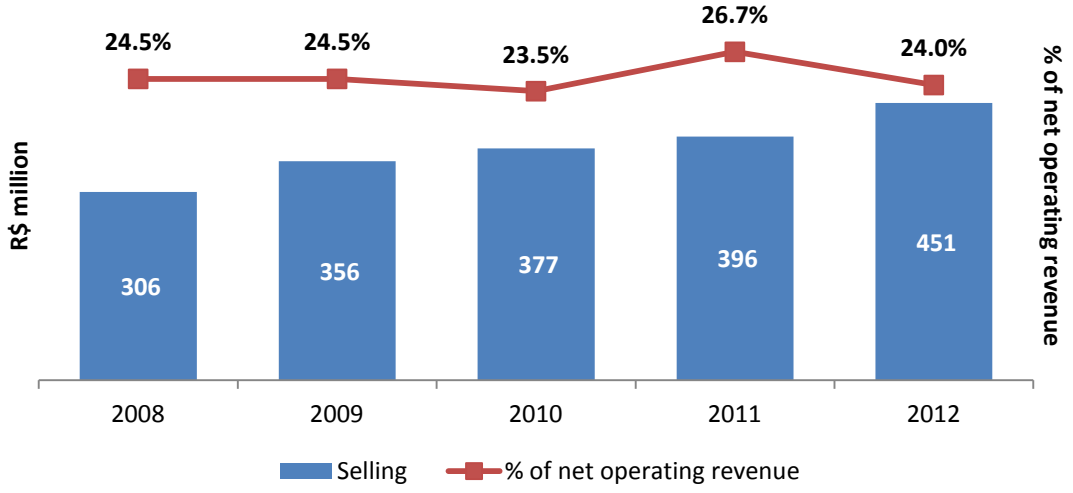
R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Gross profit	518.7	566.0	651.2	642.1	882.1	37.4%	14.2%
Gross margin, %	41.5%	38.9%	40.6%	43.3%	46.9%	3.6 p.p.	5.4 p.p.



5. Operating expenses

5.1. Selling expenses

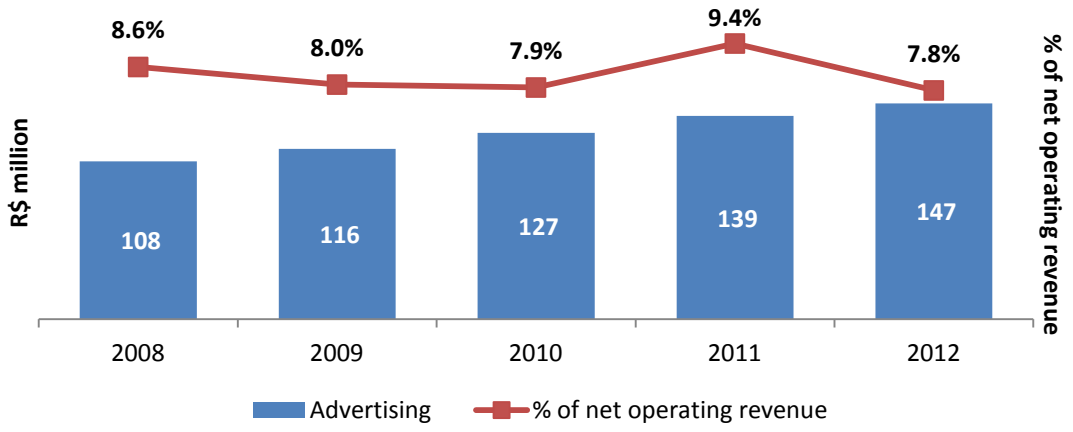
R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Selling expenses	306.4	356.3	377.0	396.1	451.0	13.9%	10.1%
% of net revenue	24.5%	24.5%	23.5%	26.7%	24.0%	(2.7 p.p.)	(0.5 p.p.)



5.1.1 Advertising expenses

Advertising expenses remain in line with the Company's strategy, between 8% and 10% of net revenue.

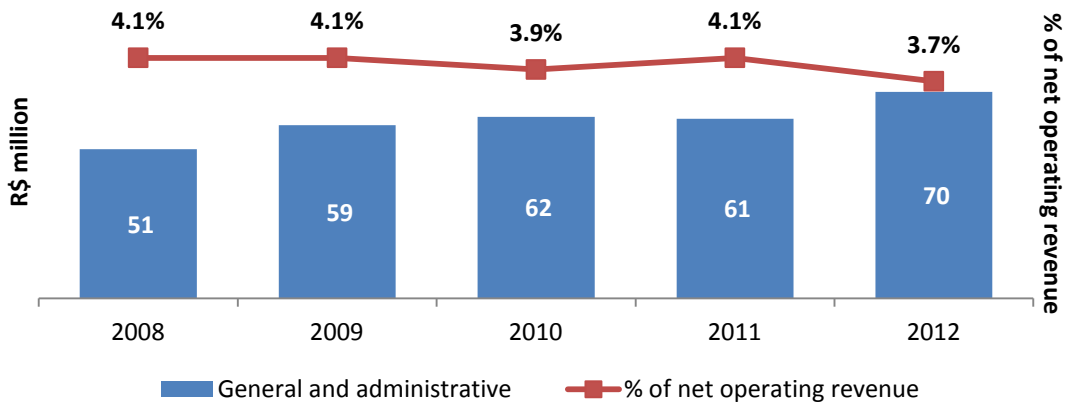
R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Advertising expenses	107.6	116.1	127.1	138.7	147.0	6.0%	8.1%
% of net revenue	8.6%	8.0%	7.9%	9.4%	7.8%	(1.6 p.p.)	(0.8 p.p.)



5.2. General and administrative expenses (G&A)

General and administrative expenses increased by 15.1% in 2012 vs. 2011, but remained below 4% of net revenue in 2012.

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
General and administrative expenses	50.8	59.0	61.9	61.2	70.4	15.1%	8.5%
% of net sales revenue	4.1%	4.1%	3.9%	4.1%	3.7%	(0.4 p.p.)	(0.4 p.p.)



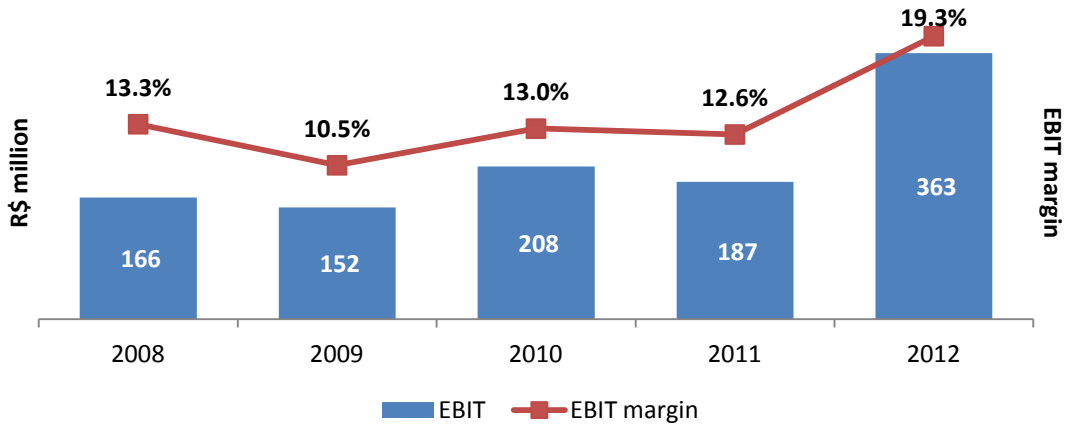
6. Ebit and Ebitda

6.1. Ebit

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

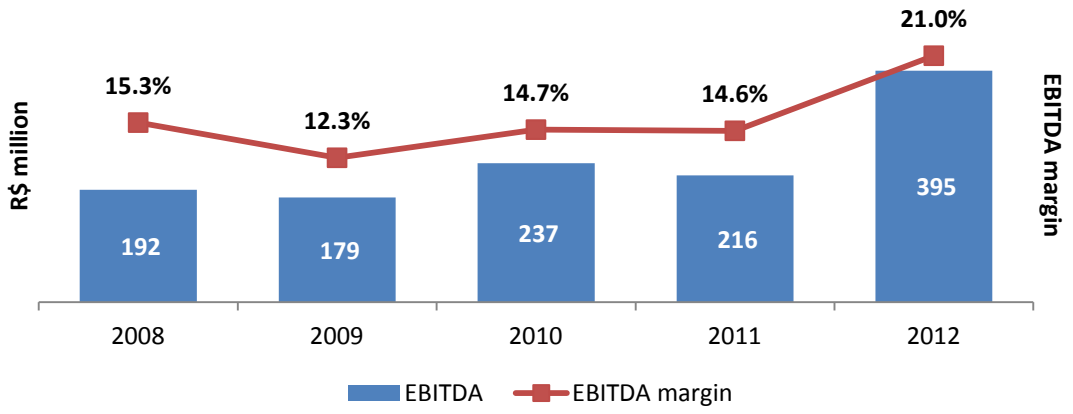
Reconciliation of EBIT/EBITDA* (R$ thousand)	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Profit for the year	**239,367**	**272,211**	**312,399**	**305,446**	**429,003**	**40.5%**	**15.7%**
Non-controlling interests	49	(110)	68	5	888	n.a.	106.3%
Taxes on profit	10,699	15,707	18,415	34,845	65,399	87.7%	57.2%
Finance result, net	(84,238)	(135,624)	(122,469)	(153,003)	(132,477)	(13.4%)	12.0%
EBIT	**165,877**	**152,184**	**208,413**	**187,293**	**362,813**	**93.7%**	**21.6%**
Depreciation and amortization	25,613	26,307	28,173	28,917	31,725	9.7%	5.5%
EBITDA	**191,490**	**178,491**	**236,586**	**216,210**	**394,538**	**82.5%**	**19.8%**
EBIT margin	***13.3%***	***10.5%***	***13.0%***	***12.6%***	***19.3%***	***6.7 p.p.***	***6.0 p.p.***
EBITDA margin	***15.3%***	***12.3%***	***14.7%***	***14.6%***	***21.0%***	***6.4 p.p.***	***5.7 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 (1.8% in 2010, 2.0% in 2011 and 1.7 % in 2012). Therefore, we understand that the analysis of Ebit is more pertinent for the operational Company's management.



EBITDA - Profit before net finance result, income tax and social contribution on income, depreciation, amortization, proceeds from disposals of fixed assets and extraordinary expenses. Ebitda is not an indicator used in accounting practices adopted in Brazil. It does not represent cash flow 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. The Company understands that certain investors and financial analysts use Ebitda as an indicator of operational performance of a company and/or of its cash flow, however, warn that given our significant revenue from interest on investments, generally present higher Net Income to EBITDA

7. Finance result, net

In 2012, the net finance result totaled R$132.5 million, 13.4% below 2011 (R$153.1 million), as shown below:

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Finance costs	**(137.5)**	**(76.1)**	**(55.9)**	**(62.8)**	**(72.5)**	**15.4%**	**(14.8%)**
Expenses of foreign exchange hedge - BM&FBOVESPA	(68.2)	(12.8)	(17.1)	(5.3)	(11.3)	111.8%	(36.2%)
Financing expenses	(17.9)	(20.1)	(10.4)	(15.0)	(9.2)	(38.7%)	(15.2%)
Foreign exchange losses	(33.1)	(44.1)	(24.3)	(38.2)	(47.8)	25.2%	9.6%
Provision/reversal of foreign financial investments	(9.9)	4.7	5.2	-	-	-	-
Other finance costs	(8.4)	(3.8)	(9.3)	(4.3)	(4.2)	(1.7%)	(15.7%)
Finance income	**221.7**	**211.7**	**178.4**	**215.8**	**204.9**	**(5.0%)**	**(1.9%)**
Interest received from customers	1.8	2.1	2.0	2.9	1.9	(34.5%)	1.7%
Income from foreign exchange hedge - BM&FBOVESPA	30.9	54.2	24.8	3.9	14.8	276.6%	(16.8%)
Income from financial investments	88.5	94.6	92.7	128.8	93.7	(27.2%)	1.4%
Foreign exchange gains	60.5	20.2	20.1	35.5	49.7	40.2%	(4.8%)
Adjustment to present value	36.2	36.6	35.6	42.1	41.3	(2.0%)	3.3%
Other finance income	3.8	4.0	3.2	2.6	3.5	34.6%	(1.9%)
Finance result, net	**84.2**	**135.6**	**122.5**	**153.0**	**132.5**	**(13.4%)**	**12.0%**

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

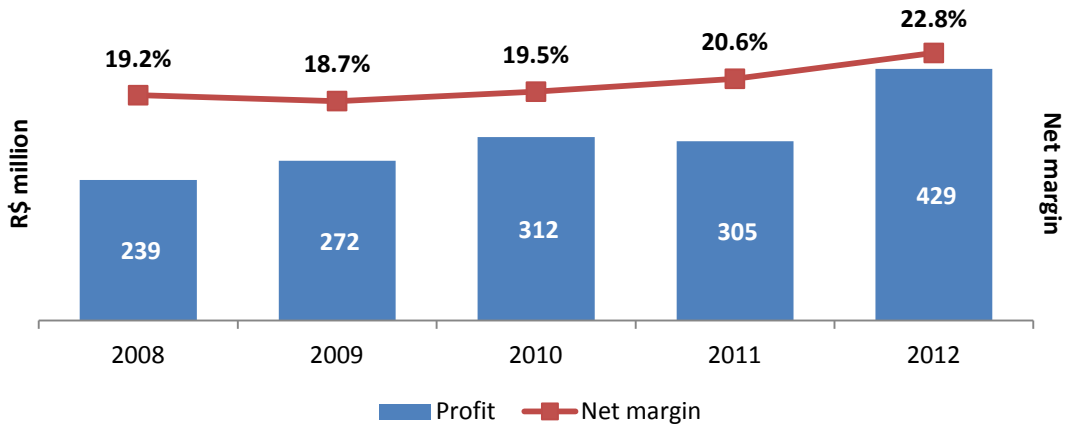
8. Profit for the year

In 2012, our profit was benefited from the increase in sales volume and the improvement of efficiency; on the other hand, it was negatively affected by a lower average interest rate, compared to 2011 which, considering the positive cash scenario, led to lower finance income. These effects have already been explained. **Profit amounted to R$429 million** (2011 - R$305.4 million, an increase of 40.5%), that is, 13.5 p.p. above the growth of net revenue (27.0%) in the same period.

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Profit for the year	239.4	272.2	312.4	305.4	429.0	40.5%	15.7%
Net margin %	19.2%	18.7%	19.5%	20.6%	22.8%	2.2 p.p.	3.6 p.p.

R$	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Earnings per share for the year[1]	0.7960	0.9052	1.0388	1.0157	1.4266	40.5%	15.7%

[1] For the purposes of comparison, earnings per share for the year was calculated by the same number of existing shares at December 31, 2012 (300,720,000 common shares)

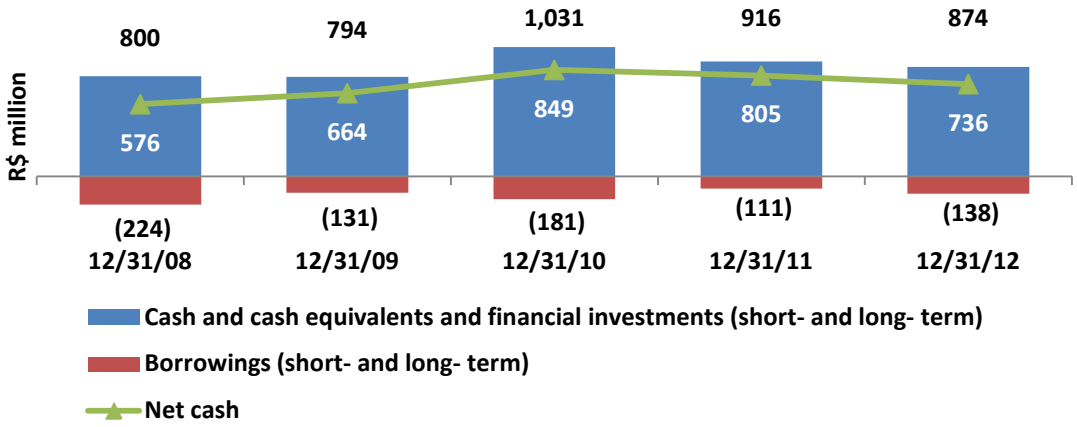


9. Cash generation and net cash

Net cash generated by operating activities at December 31, 2012 totaled R$193.2 million, plus investments made amounting to R $21.8 million, less financing activities amounting to R$262 million (R$275.5 million paid as dividends, less the result of short- and long-term loans of R$14.6 million and plus the acquisition cost of treasury shares of R$1.1 million), resulting in a decrease in cash and financial investments of R$47 million in the year. The complete cash flow analysis is disclosed in the financial statements.

We generated R$671.4 million of accumulated cash from our operating activities in the last four years, reaffirming our excellent operating performance.

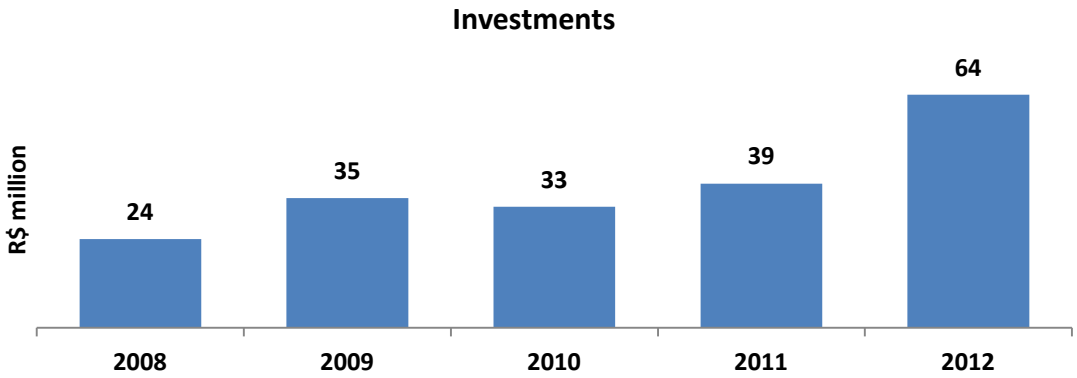
The comparison of cash and cash equivalents, short- and long term- financial investments, borrowings (current and long terms) and net cash is shown in the chart below:



10. Investments (fixed and intangible assets)

Investments in 2012 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.

R$ million	2008	2009	2010	2011	2012	Var. 11/12	CAGR (4 years)
Investment	24.2	35.4	33.0	39.4	63.6	61.6%	27.3%



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 2012. 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 advocate the interests of his/her clients.

12. Balance sheet and statement of income - 2008 to 2012

Consolidated balance sheet under IFRS (all amounts in thousands of reais)

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Assets					
Current assets	**1,157,571**	**1,257,445**	**1,471,448**	**1,646,145**	**1,633,258**
Cash and cash equivalents	44,526	30,765	47,296	61,518	14,489
Financial investments (current)	468,906	472,528	668,170	684,392	465,032
Trade receivables	440,287	555,889	537,457	624,586	806,149
Inventories	141,976	148,571	149,036	144,112	173,944
Taxes recoverable	26,896	20,421	18,863	23,263	25,282
Notes receivable	24,084	15,591	23,122	39,266	65,388
Other non-current assets	10,526	12,913	26,187	67,427	81,806
Prepaid expenses	370	767	1,317	1,581	1,168
Non-current assets	**492,456**	**507,024**	**526,833**	**399,479**	**658,194**
Financial investments	286,366	291,066	315,260	169,670	394,389
Judicial deposits	1,110	2,123	3,222	3,526	2,847
Taxes recoverable	421	853	700	452	522
Other receivables	2,021	1,588	70	70	1,086
Other accounts receivable	258	-	-	-	-
Deferred income tax and social contribution	16,764	18,474	11,491	19,246	23,282
Investments	865	873	877	1,670	877
Property, plant and equipment	174,141	179,638	181,828	191,706	216,113
Intangible assets	10,510	12,409	13,385	13,139	19,078
Total assets	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**	**2,291,452**
Liabilities					
Current liabilities	**213,228**	**257,768**	**305,849**	**229,549**	**323,063**
Borrowings	112,780	97,378	166,500	97,551	123,583
Trade payables	17,973	40,009	31,687	27,011	56,806
Commissions payable	19,534	27,974	26,074	29,123	34,490
Taxes and contributions	7,460	9,143	7,746	13,759	27,102
Salaries and social charges	41,945	63,888	53,352	38,592	56,935
Trade payables	4,779	5,635	5,017	5,271	-
Provision for labor claims	1,236	1,303	1,103	1,003	1,997
Other payables	7,521	12,438	14,370	17,239	22,150
Non-current liabilities	**118,719**	**42,132**	**16,766**	**15,123**	**14,827**
Borrowings	111,191	33,188	14,766	13,123	14,380
Provision for labor claims	-	1,300	2,000	2,000	447
Deferred income tax and social contribution	7,528	7,644	-	-	-
Consolidated equity	**1,318,080**	**1,464,569**	**1,675,666**	**1,800,952**	**1,953,562**
Controlling interests	**1,317,695**	**1,464,396**	**1,675,292**	**1,800,563**	**1,952,332**
Share capital	1,097,199	1,226,760	1,231,302	1,231,302	1,231,302
Carrying value adjustments	484	(4,942)	(7,520)	(2,167)	(4,437)
Capital reserves	255	1,086	1,953	2,685	4,016
Revenue reserves	161,417	230,870	449,557	568,743	721,451
Retained earnings	58,340	10,622	-	-	-
Non-controlling interests	**385**	**173**	**374**	**389**	**1,230**
Total liabilities and equity	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**	**2,291,452**

Consolidated statement of income under IFRS

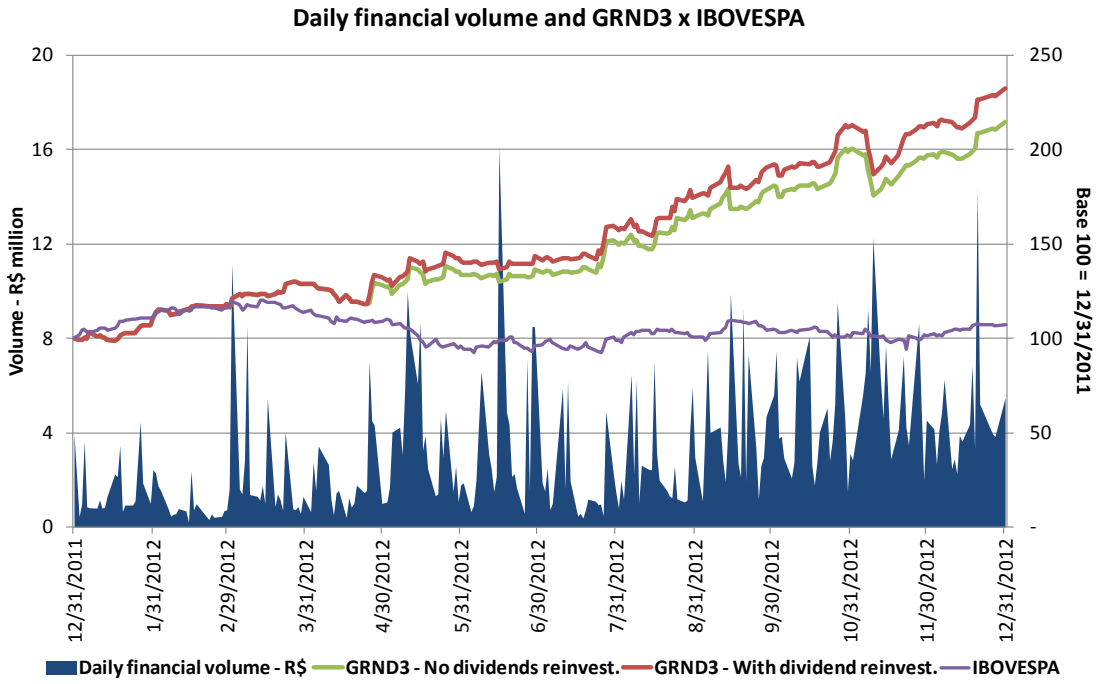
R$ thousand	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Domestic market	1,220,482	1,464,338	1,603,820	1,489,883	1,845,402
Exports	355,553	355,024	394,766	356,823	514,173
Gross revenue	**1,576,035**	**1,819,362**	**1,998,586**	**1,846,706**	**2,359,575**
Sales returns and taxes on sales	*(251,424)*	*(274,140)*	*(283,571)*	*(253,709)*	*(328,639)*
Discounts granted to customers	*(74,748)*	*(89,465)*	*(110,508)*	*(110,361)*	*(148,610)*
Sales deductions	**(326,172)**	**(363,605)**	**(394,079)**	**(364,070)**	**(477,249)**
Net revenue	**1,249,863**	**1,455,757**	**1,604,507**	**1,482,636**	**1,882,326**
Cost of products sold	(731,193)	(889,711)	(953,261)	(840,497)	(1,000,168)
Gross profit	**518,670**	**566,046**	**651,246**	**642,139**	**882,158**
Operating income (expenses), net	**(352,793)**	**(413,862)**	**(442,833)**	**(454,846)**	**(519,345)**
Selling expenses	(306,442)	(356,275)	(377,010)	(396,096)	(450,965)
General and administrative expenses	(50,790)	(58,977)	(61,878)	(61,177)	(70,413)
Share of profit of associate	(66)	-	-	-	-
Other operating income	11,328	3,200	3,368	6,678	5,752
Other operating expenses	(6,823)	(1,810)	(7,313)	(4,251)	(3,719)
Operating profit before finance result and taxes (EBIT)	**165,877**	**152,184**	**208,413**	**187,293**	**362,813**
Finance costs	(137,463)	(76,139)	(55,933)	(62,793)	(72,460)
Finance income	221,701	211,763	178,402	215,796	204,937
Finance result	**84,238**	**135,624**	**122,469**	**153,003**	**132,477**
Profit before taxation	**250,115**	**287,808**	**330,882**	**340,296**	**495,290**
Income tax and social contribution:					
Current	(15,054)	(19,298)	(17,150)	(44,863)	(67,778)
Deferred	4,355	3,591	(1,265)	10,018	2,379
Non-controlling interests	(49)	110	(68)	(5)	(888)
Net profit for the year	**239,367**	**272,211**	**312,399**	**305,446**	**429,003**
Depreciation and amortization	25,613	26,307	28,173	28,917	31,725
EBITDA	**191,490**	**178,491**	**236,586**	**216,210**	**394,538**

V. Capital markets and corporate governance

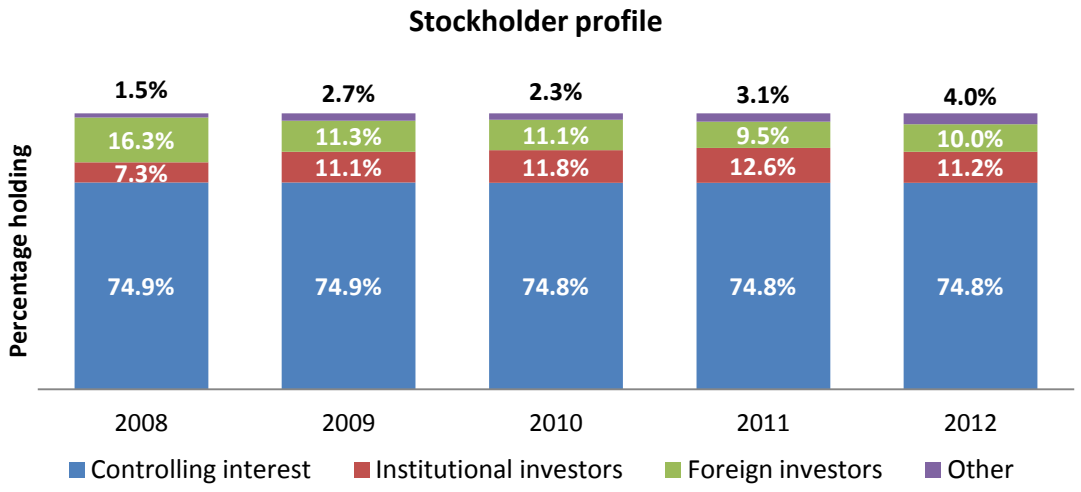
1. Capital markets

From January to December 2012, 66.3 million common shares were traded, which represented 134.6 thousand trades and a financial volume of R$772.9 million. The daily averages were: amount of 269.5 thousand common shares, financial volume of R$3.1 million and 547 trades. The dividend yield calculated at the weighted average share price in 2012 was 8.4% p.a. (8.5% p.a. in 2011).

The chart below shows the evolution of Grendene's common shares compared to the IBOVESPA Index, considering the base 100 equal to December 31, 2011, and the daily financial volume.



At December 31, 2012, the stake of Brazilian institutional investors in the share capital of Grendene S.A. represented 11.2% (44% of free float), while foreign investors represented 10.0% (40% of free float) and small investors, including individuals, represented 4.0% (16% of free float); the remaining 74.8 % were held by the controlling shareholders and managers.



2. Dividends

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

From 2011 we adopted a new dividend policy with annual approval by the Board of Directors of the percentage of Net Income to be distributed (payout) as dividends to shareholders. In the years 2011 and 2012 the percentage of practice approximately 75% of Net Income after constitution of legal reserves (74.8% in 2011 and 71.1% in 2012).

In 2012, we distributed a record amount of dividends since going public in 2004. There was an increase in the distribution of dividends of 33.7% (R$293.5 million in 2012 vs. R$219.5 million in 2011). After the IPO cumulatively have distributed R$1.3 billion in dividends, representing R$4.146992 per share. Based on the balance at December 31, 2012, totaling R$293,502,720.00, less the quarterly advances amounting to R$188,250,720.00, the Company will pay dividends subject to approval by the Shareholders Annual General Meeting that should approve the company´s financial statements for 2012, in the amount of 105,252,000.00, as from **April 24, 2013**. The holders of record of common shares (**GRND3**) on **April 11, 2013 (cut-off date)** will be entitled to such dividends. Therefore, Grendene's shares (GRND3) will be traded **ex-dividend as from April 12, 2013** on the BM&FBOVESPA.

Basis for distribution of dividends in 2012	
Grendene S.A.	**R$**
Profit for the year (2012)	429,002,548.01
Stock option plan	(836,353.44)
Tax incentives - parent company (Grendene S.A.)	(100,924,701.72)
Tax incentives - subsidiary (MHL Calçados Ltda.)	(1,456,776.89)
Transfer to legal reserve	(16,403,892.31)
Dividend calculation basis	**309,380,823.65**
Distribution of dividends - see table below[1]	(293,502,720.00)
Transfer to profit retention reserves[2]	15,878,103.65
Total dividends in 2012	**293,502,720.00**
Number of common shares	**300,720,000**
Dividend per share in 2012	**0.976**

Distributed dividends related to 2012			
Date of approval	**Payment beginning date**	**Amount in R$**	**Dividend per share - R$**
BDM of 4/25/2012 - 1st advance[1]	5/16/2012	58,941,120.00	0.196
BDM of 7/26/2012 - 2nd advance[1]	8/22/2012	42,702,240.00	0.142
BDM of 11/10/2011 - 3rd advance[1]	11/21/2012	86,607,360.00	0.288
BDM of 2/28/2013 - 2012 balance[1]	4/24/2013	105,252,000.00	0.350
Total		**293,502,720.00**	**0.976**

[1]Dividends approved "ad referendum" of the Shareholders Annual General Meeting that will examine the balance sheets and the financial statements for 2012.

[2]Amount retained for realization of the stock options or subscription plan ("Stock options").

2.1 Dividend Policy

Our dividend policy, published in a Material Announcement on February 24, 2011, states that the **dividend payout ratio** – the percentage of the net profit for the business year paid out in dividends – will be considered annually by management in relation to any need for funds for capital expenditure, or for business opportunities, or to fund other commitments of the Company, and it may be altered if the Company's management believes this to be appropriate.

In 2011 and 2012 we set the intended **dividend payout ratio at approximately 75% of the net profit for the year,** after the allocations to reserves, etc., required by law.

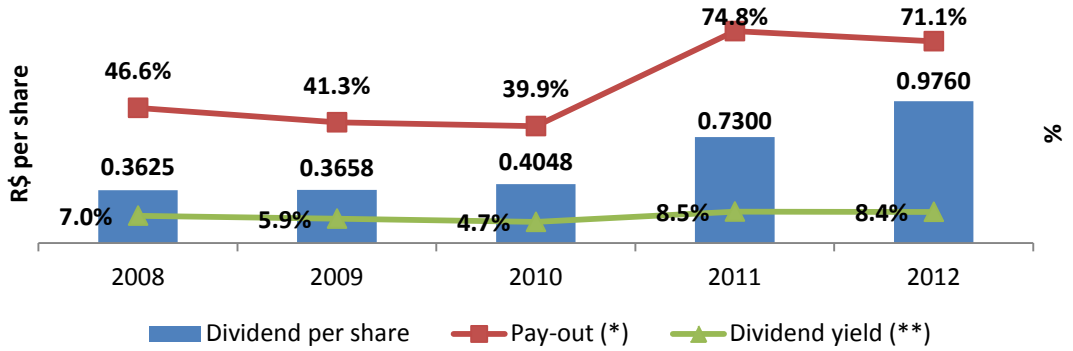
Since in 2013 we will carry out capital expenditure, in additional to habitual levels, of approximately R$60 million on construction of a new factory, and R$22 million in the partnership with Philippe Starck, we have decided to allocate part of the profits made in 2013 to finance these investments.

The result of this decision is that for the business year 2013, Grendene's dividend payout ratio (after the allocations to reserves, etc., required by law) will be approximately 65%.

With the above factors, and due to the strong demand for our products, which continues in this first part of 2013 – and which has led us to approve new investments, as disclosed in our 2012 Results Media Release – we estimate that the total of dividends paid for the business year 2013 will be larger than the amount of dividends distributed for 2012.

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

Grendene's management will continue to consider the dividend payout ratio in relation to any need for funds for capital expenditure, or for business opportunities, or to fund other commitments of the Company, and the policy may be altered again if management believes this to be appropriate.



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

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

For the purposes of comparison, dividend per share was calculated by the same number of existing shares at December 31, 2012 (300,720,000 common shares).

3. Corporate governance best practices

With the purpose of keeping our 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. We also maintain a specific investors relations 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 five years, disclosing the five-year period from 2008 to 2012 to the investors under the IFRS.

Since April 14, 2008, as a means of aligning the interests of managers and stockholders, Grendene has had a stock options plan for leading managers and executives (the plan excludes all stockholders that are members of the controlling block). Since the Plan was established, 5.7 million purchase options were granted (adjusted by the split of September 23, 2009), equivalent to 1.9% of all the Company's shares (Base date: December 31, 2012).

Our shares are listed in the *BM&FBOVESPA* New Market since October 29, 2004. In November, 2007, we adjusted its 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 by Grendene from 100,000,000 to 300,000,000, aiming at higher liquidity for ours shares and making it easier to the small investor to acquire them, thus expanding the shareholders base. ON March 22, 2010, we approved a share capital increase through the issuance of 720,000 new common shares, with no par value, in order to meet the Company's Stock Option and Share Subscription plan, increasing the share capital to 300,720,000 common shares. The outstanding shares at December 31, 2012 represented 25.2% of the issued shares.

3.1 Commitment Clause

The Company, its shareholders, 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 Statement by the Executive Board

In accordance with CVM Instruction 480/09, the Executive Board hereby states that it has discussed, reviewed and agrees with the opinions expressed in the Opinion of the external auditors and the accounting statements for the business year ended December 31, 2012.

3.3 Awards and recognition

In 2012, Grendene was awarded and recognized for its performance by several institutions.

1/19/2012: Grendene received the award **Prêmio Contribuintes Ceará 2011** in the category Largest Taxpayers in the industry segment for the 4th consecutive year. This award was granted to those companies which contributed more to the payment and payment in due time of the State Value-Added Tax (ICMS) and for their contribution to the growth of the economy of Sobral and other regions.

3/22/2012: Grendene was recognized as one of the **100 Best Companies in IDHO - Human and Organizational Development Indicator**, according to a survey made by Gestão e RH Editora.

4/29/2012 to 5/1/2012: Grendene became known internationally for the way it manages its brand portfolio and adds value to such brands. Grendene was recognized as the **Best Mattel Licensee Of The World**. The award was received during the Mattel Global Summit, in Miami, United States. Regarding the awards given to licensees in Latin America, **Grendene** was recognized in two categories: **Best Barbie Marketing Campaign and Best Hot Wheels Licensee.**

5/3/2012: Grendene received, referring to **2011**, for the fifth consecutive year, the **Prêmio Campeãs da Inovação** of AMANHÃ magazine, which selects annually the 50 most innovative companies of the South region of Brazil (Paraná, Santa Catarina and Rio Grande do Sul) and the leaders in over 30 industries. Grendene was recognized as the winner in the leather and footwear industry and was number 4 in the general classification.

6/13/2012: Grendene received the "**Best Overall Licensee 2012**" award, granted by ***Cartoon Network*** due to the Ben 10 license. The event took place in Las Vegas, United States, and all the global licensees of Cartoon attended.

September 17, 24 and 28, 2012: Grendene units located in Fortaleza, Sobral and Crato, respectively, were awarded the **EMPRESA COMPLETA, EMPRESA QUE INCLUI** certificate by the Government of the State of Ceará, through the Labor and Social Development Secretariat, the Labor National System and the Institute for Labor Development. This certificate acknowledges Grendene as an entity with relevant actions for the social inclusion and support of disabled people.

9/25/2012: Grendene is again the **leader in the Leather and Footwear industry, according to the 500 Maiores do Sul (the 500 largest companies in the South Region) ranking**, organized by Amanhã magazine together with PWC. In the 2012 edition, Grendene is ranked in the 12th position in the general list of the big companies in Rio Grande do Sul and in the 31st position in the South region.

10/19/2012: Associação Serrana de Recursos Humanos (ARH Serrana) also granted Grendene the award **"Highlights for the Year in Human Resources - Project Organization category"**. This award is granted to companies, professionals and researchers who excel in the management of people living in Serra Gaúcha, a highland region in the State of Rio Grande do Sul, encouraging and valuing continuous and innovative improvements in the area.

10/24/2012: The sectional ABRH of the State of Rio Grande do Sul granted the **Top Ser Humano** (Top Human Being) award to Grendene's program Crescer+ (Grow+). This award is given to companies and people who value human resources as a strategic differential factor for the growth of both people and companies.

10/31/2012: Through its people management program ***Crescer+***, Grendene was awarded the 1st place in the category - **People Management - Large Companies**, receiving the award **SESI Qualidade no Trabalho** (PSQT). This award is given to the Brazilian companies which invest in the valuation and life quality of their employees.

11/26/2012: Grendene won the award **Prêmio Top de Marketing ADVB/RS 2012** in the category: market segment - fashion. The Top de Marketing (Marketing Top) award is granted to those companies which stand out among their industries, using marketing strategies and tools in the advertising of products and services.

03/12/2012: **Award Delmiro Gouveia 2012 - the third largest company in the category of Ceará Largest Companies in 2012 and Best Accountant Ceara.** The award has five categories of awards, and of the Largest Companies recognizes those who stand out as greater considering jointly: net sales, net worth, total adjusted assets, net end result, taxes generated, and number of employees. And Best Accountant for the quality and transparency of financial statements.

12/13/2012: Grendene received the award **Melhor Performance de 2012** (Best performance in 2012), granted by American Greetings, because of the Moranguinho license.

VI. Social and environmental responsibilities

Management believes that the main indicator of sustainability for a Company is profit generation and a solid financial structure. 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 company reference in our industry and employing more than 24 thousand employees, we made a diagnosis of our processes and execute various actions.

The primary focus in 2012 was to increase efficiency in the treatment and reuse of industrial and sanitary wastewater, significantly reducing the environmental impact of operations, particularly with respect to shares in industrial operations, which are related to reductions in costs and environmental risks. Them stand out the following actions:

- Implementation of waste management in 4 units in 2012 and the other in progress, with the goal of reducing waste disposal to landfills and co-processing around 20%.

- Installation and Operation of Biological Wastewater Treatment (ETEB) initially in the headquarter (Sobral), with capacity to treat approximately 700 m^3 day as removal rate of 99% and 100% organic load of pathogenic microorganisms. In the process of ETEB are not added any chemicals and methane (CH_4) generated in anaerobic reactors, will be used to power the generator that will generate electricity for the entire ETEB, in other words, it will be self-sustaining. Currently all ETEB effluent is reused for irrigation, industrial processes and still be used in the sanitary unit. The high ETEB has embedded technology, high efficiency and low operating cost treatment.

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: Profit, Competitiveness, Innovation & Agility and Ethics.

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, 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.

Beyonf 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 news levels and standards for the future. The esults 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 of and among our personnel.

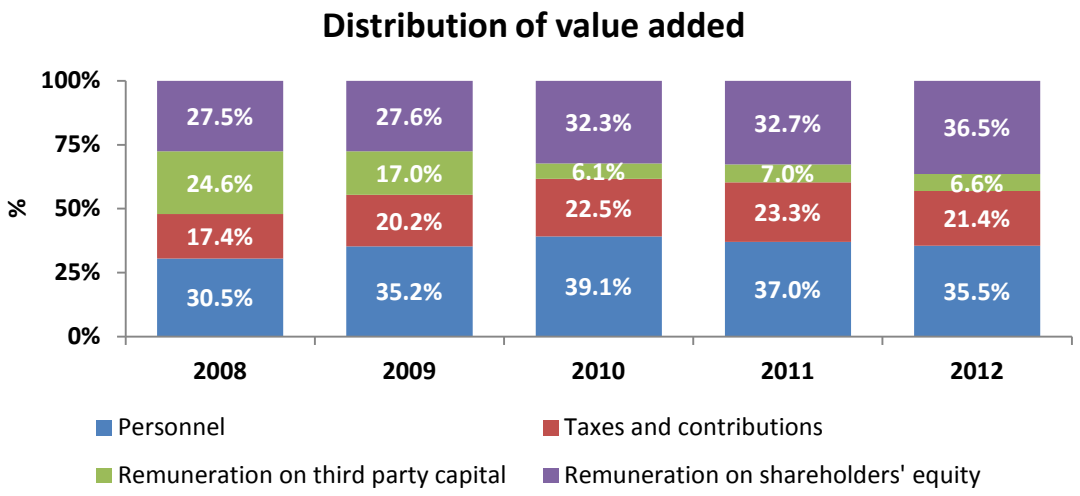
We have an integrated team motivated and in search of efficiency, which translates into lower *turnover* numbers and history of good results Grendene.

Social and corporate data	2008	2009	2010	2011	2012
Employees (average/year)	21,785	25,853	28,586	24,396	24,084
Employees with special needs	942	1,200	1,107	1,073	1,016
Training (hour/employee)	22	21	18	15	20
Meals (year)	4,905,031	6,111,793	7,025,840	5,494,812	5,955,479
Dental care (appointments/year)	22,589	22,266	21,545	19,656	20,485
Baskets of food staples distributed (units/year)	264,257	293,873	346,858	292,398	284,690

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$1.2 billion in 2012 (R$935.9 million in 2011). The complete statement is included in the financial statements.

Value Added Statement (in thousands of reais)	2008	2009	2010	2011	2012
Personnel	265,953	346,685	378,523	346,200	416,699
Taxes and contributions	151,977	198,682	217,751	218,478	250,761
Remuneration on third party capital	139,414	77,666	58,660	65,787	77,518
Remuneration on shareholders' equity	239,367	272,211	312,399	305,446	429,003
Total	**796,711**	**895,244**	**967,333**	**935,911**	**1,173,981**



IX. Final considerations and perspectives

In 2012 and early 2013 we made some important strategic decisions. In June 2012, the Relevant Fact announces our involvement in and support the growth of the franchise network Club Melissa (ex-Jelly) to the end of 2012 it had 63 franchised stores. Although still representing a small value compared to the total Grendene this initiative is crucial to strengthen the brand Melissa and ensure its growth in domestic and international markets. Also part of this strategy the inauguration of the Galeria Melissa New York in February 2012. With these actions we are building a space in the minds of consumers (awareness) that strengthen our brand.

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. To further this strategy we are trading partners with internationally renowned designer Philippe Starck to develop products and create an international brand of shoes. The investments planned for this initiative are included in the amount that Grendene invests annually in advertising between 8% and 10% of net revenue. The goal is to create an international brand with annual revenue potential of US$100 million in 4 to 5 years. The difference is to combine the design of Philippe Starck with internationally renowned Grendene's ability to develop plastic products from a cutting edge design with very competitive cost.

Another important strategic decision was to set up a new subsidiary in order to combine the expertise of Philippe Starck on design of products Grendene implementation and industrial scale production of products made from plastic to sell products, furnishings and accessories, with sophisticated design and affordable for the middle class.

This business segment, according to our preliminary estimates could reach annual revenues of approximately R$100 million in two years.

The investment approved for the initial activities is R$52 million, of which R$22 million will be the amount corresponding to Grendene’s interest and will be managed in a way shared between Grendene and Philippe Starck.

These investments are taken based on our confidence in the development of the internal market and in our ability to grow in the domestic and foreign market with strong brands and consumer products with distinctive design with high added value. The adoption of this strategy has brought us very good results over the years.

The investments are small relative to the size of Grendene, but we believe constitute capture option of exceptional value.

The economy, both internal and external, has not corresponded to our expectations, but the results obtained with our business model has proven robust.

The Brazilian government is concerned about this scenario, taking measures in the fiscal level in order to control the public accounts and the inflation, adopting measures of tax burden reduction for companies which are more affected by these events. The decrease in the interest rate allows consumers to equate debts, with more income remaining for other expenditures.

In spite of the global macroeconomic situation directly or indirectly affecting the Brazilian Market, Grendene demonstrated that is well prepared for any economic scenario. Crises come and go, but for 41 years Grendene has been generating results, and expresses its security with new investments..

In 2012, we consolidated the gains in efficiency in its production processes, showing that we are able to increase our gross margin even when the economy growing slightly. This year we will extend these gains, mainly, to reach its commercial and marketing processes, with a closer approach to its end customers, understanding more deeply their demands and then offering goods even more adequate to their desires.

In foreign markets our strategy to escape the export of "commodities" is working. We are growing with good margins and we should continue in 2013.

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

As a result, proven by strong demand early this year, we decided to resume the project to expand the capacity.

The gain comes from the competitiveness gain market share which combined with a recovery in consumption allows us to anticipate continued growth. The strong demand for our products displayed in 2012 continues in early 2013 demanding that operate at full capacity in the first half, which, as known, is not the period of greatest consumption of the year.

Thus, we anticipate that additional capacity is needed to meet the expected demand in the second half, the traditional period of highest demand of the year.

The new plant will be built on our site in the city of Sobral, Ceará and will add an additional installed capacity of approximately 40 million pairs / year.

We estimate that this investment, including industrial building, plant, machinery and equipment, will be approximately R$60 million and will be fully operational in the second half of 2013, able to meet the expected demand for the end of the year, and that when operating at full capacity, will generate about 4,500 direct jobs.

We need to reinforce the execution of our strategy in 2013, with special care for the market share recovery, 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 shareholders remuneration depends on such things.

Again, Grendene would like to thank all employees, investors, suppliers, customers and the community in general for the renewed demonstration of trust.

Appendix I

Appendix II

Grendene®

OPINION OF THE AUDIT BOARD

The Audit Board of Grendene S.A., in compliance with the provisions of law and of the Bylaws, has examined the Report of Management and the Financial Statements of the Company (holding company) prepared in accordance with accounting practices adopted in Brazil, and the Consolidated Accounting Statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB); all these being for the business year ended December 31, 2012 and approved by the Board of Directors of the Company on February 28, 2013. Based on the examinations carried out, and on the Opinion of the external auditors – PricewaterhouseCoopers Auditores Independentes – dated February 27, 2013, and on the information and explanations received during the course of the business year, this Board is of the opinion that the said documents are in a proper state to be considered by the Ordinary General Meeting of Stockholders.

Farroupilha, February 28, 2013.

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Fernando Luis Cardoso Bueno
Member of the Audit Board

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Bolívar Charnerski
Member of the Audit Board

_____

Maurício Rocha Alves de Carvalho
Member of the Audit Board

(A free translation of the original in Portuguese)

Grendene S.A.

Parent Company and Consolidated financial statements at December 31, 2012 and 2011 and Independent Auditor's Report.

(A free translation of the original in Portuguese)

GRENDENE S.A.

Financial statements

December 31, 2012 and 2011

Contents

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Grendene S.A.
Sobral - CE

We have audited the accompanying financial statements of Grendene S.A., which comprise the balance sheet as at December 31, 2012 and the 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.

We have also audited the accompanying consolidated financial statements of Grendene S.A. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012 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 the parent company financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

In making those risk assessments, the auditor considers internal control relevant to the 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 on the parent company financial statements

In our opinion, the parent financial statements referred to above present fairly, in all material respects, the financial position of Grendene S.A. as at December 31, 2012, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grendene S.A. and its subsidiaries as at December 31, 2012, and their consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil.

Emphasis of matter

As disclosed in Note 2(a) to the financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Grendene S.A., these practices differ from International Financial Reporting Standards (IFRS) applicable to separate financial statements only in relation to the measurement of investments in subsidiaries, associates and jointly-controlled entities based on the equity accounting method, whereas IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Other matters

Supplementary information - statement of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2012, which are the responsibility of the Company's management. The presentation of these statements is required by Brazilian corporate legislation for listed companies, but is considered supplementary information for IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same audit procedures described above and, based

on these procedures nothing has come to our attention that leads us to believe that they have not been prepared, in all material respects, in a manner consistent with the financial statements taken as a whole.

Audit of prior-year information

The financial statements of the Company for the year ended December 31, 2011 were audited by another firm of independent auditors, whose report, dated February 3, 2012, expressed an unqualified opinion on those statements.

Caxias do Sul, February 27, 2013.

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

Emerson Lima de Macedo
Contador CRC 1BA022047/O-1 "S" CE

(A free translation of the original in Portuguese)

GRENDENE S.A.

Balance sheets
at December 31, 2012 and 2011
(All amounts in thousands of reais)

		Parent company		Consolidated	
	Note	2012	2011	2012	2011
Assets					
Current assets					
Cash and cash equivalents	6	**8,125**	51,128	**14,489**	61,518
Financial investments					
Available-for-sale investments		**-**	341,618	**-**	341,618
Financial assets at fair value through profit or loss	6	**183,989**	2,811	**183,989**	2,811
Held-to-maturity investments	6	**281,043**	339,963	**281,043**	339,963
Trade receivables	7	**705,661**	639,365	**806,149**	624,586
Inventories	8	**156,898**	121,061	**173,944**	144,112
Taxes recoverable	9	**16,969**	16,793	**25,282**	23,263
Notes receivable		**65,213**	39,179	**65,388**	39,266
Other receivables		**80,564**	66,030	**81,806**	67,427
Prepaid expenses		**974**	1,309	**1,168**	1,581
Total current assets		**1,499,436**	1,619,257	**1,633,258**	1,646,145
Non-current assets					
Financial investiments					
Held-to-maturity investments	6	**394,389**	169,670	**394,389**	169,670
Judicial deposits		**2,841**	3,520	**2,847**	3,526
Taxes recoverable	9	**522**	452	**522**	452
Notes receivable and other receivables		**1,086**	70	**1,086**	70
Deferred income tax and social contribution	16	**20,765**	19,455	**23,282**	19,246
Investments	10	**51,116**	31,141	**877**	1,670
Property, plant and equipment	11	**209,558**	185,572	**216,113**	191,706
Intangible assets	12	**17,989**	12,162	**19,078**	13,139
Total non-current assets		**698,266**	422,042	**658,194**	399,479
Total assets		**2,197,702**	2,041,299	**2,291,452**	2,045,624

(A free translation of the original in Portuguese)

GRENDENE S.A.

Balance sheets
at December 31, 2012 and 2011
(All amounts in thousands of reais)

		Parent company		Consolidated	
	Note	**2012**	**2011**	**2012**	**2011**
Liabilities					
Current liabilities					
Borrowings	13	**48,633**	96,843	**123,583**	97,551
Trade payables		**52,558**	25,166	**56,806**	27,011
Commissions payable		**33,964**	30,439	**34,490**	29,123
Taxes and contributions		**15,707**	12,928	**27,102**	13,759
Salaries and social security charges payable		**56,305**	38,060	**56,935**	38,592
Accounts payable		**-**	5,111	**-**	5,271
Provision for labor claims	14	**1,994**	1,000	**1,997**	1,003
Other payables		**21,382**	16,066	**22,150**	17,239
Total current liabilities		**230,543**	225,613	**323,063**	229,549
Non-current liabilities					
Borrowings	13	**14,380**	13,123	**14,380**	13,123
Provision for labor claims	14	**447**	2,000	**447**	2,000
Total non-current liabilities		**14,827**	15,123	**14,827**	15,123
Equity	15				
Share capital		**1,231,302**	1,231,302	**1,231,302**	1,231,302
Carrying value adjustments		**(4,437)**	(2,167)	**(4,437)**	(2,167)
Capital reserves		**4,016**	2,685	**4,016**	2,685
Revenue reserves		**721,451**	568,743	**721,451**	568,743
Total equity		**1,952,332**	1,800,563	**1,952,332**	1,800,563
Non-controlling interests				**1,230**	389
				1,230	389
Total equity				**1,953,562**	1,800,952
Total liabilities and equity		**2,197,702**	2,041,299	**2,291,452**	2,045,624

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of income
Years ended December 31, 2012 and 2011
(All amounts in thousands of reais, except earnings per share)

	Note	Parent company		Consolidated	
		2012	2011	2012	2011
Net sales revenue	23	**1,798,541**	1,462,904	**1,882,326**	1,482,636
Cost of sales	22	**(979,681)**	(841,219)	**(1,000,168)**	(840,497)
Gross profit		**818,860**	621,685	**882,158**	642,139
Selling expenses	22	**(422,568)**	(379,046)	**(450,965)**	(396,096)
General and administrative expenses	22	**(63,369)**	(56,806)	**(70,413)**	(61,177)
Other operating income	22	**5,632**	6,587	**5,752**	6,678
Other operating expenses	22	**(3,624)**	(4,171)	**(3,719)**	(4,251)
Equity in the results of investees	10	**16,382**	(1,414)	**-**	-
Operating profit before finance result and taxes		**351,313**	186,835	**362,813**	187,293
Finance result	17				
Finance costs		**(54,993)**	(51,426)	**(72,460)**	(62,793)
Finance income		**188,863**	204,833	**204,937**	215,796
		133,870	153,407	**132,477**	153,003
Profit before taxation		**485,183**	340,242	**495,290**	340,296
Income tax and social contribution	16				
Current		**(56,153)**	(44,986)	**(67,778)**	(44,863)
Deferred		**(27)**	10,190	**2,379**	10,018
		(56,180)	(34,796)	**(65,399)**	(34,845)
Net income for the year before non-controlling interest		**429,003**	305,446	**429,891**	305,451
Non-controlling interest		**-**	-	**(888)**	(5)
Net income for the year		**429,003**	305,446	**429,003**	305,446
Basic earnings per share	15.g	**1.43**	1.02	**-**	-
Diluted earnings per share	15.g	**1.42**	1.01	**-**	-

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
Years ended December 31, 2012 and 2011
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Profit for the year	**429,003**	305,446	**429,003**	305,446
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale investments	**(3,933)**	5,538	**(3,933)**	5,538
Income tax and social contribution	**1,337**	(1,883)	**1,337**	(1,883)
Cumulative translation adjustments	**326**	1,698	**326**	1,698
Comprehensive income for the year, net of taxes	**426,733**	310,799	**426,733**	310,799
Total comprehensive income attributable to:				
Controlling interests	**426,733**	310,799	**425,892**	310,784
Non-controlling interests	**-**	-	**841**	15
	426,733	310,799	**426,733**	310,799

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
Years ended December 31, 2012 and 2011
(All amounts in thousands of reais)

				Capital reserves		Revenue reserves								
	Note	Share capital	Carrying value adjustments	Stock options	Gains from sale of treasury shares	Legal reserve	Profit retention reserve	Government grants	Additional proposed dividends	Treasury shares	Retained earnings	Controlling interests	Non-controlling interests	Total
At December 31, 2010		1,231,302	(7,520)	1,953	-	39,441	22,576	336,416	51,124	-	-	1,675,292	374	1,675,666
Total of comprehensive income		-	*5,353*	-	-	-	-	-	-	-	*305,446*	310,799	*15*	*310,814*
Profit for the year			-								305,446	305,446	15	305,461
Adjustment to market value - financial investments		-	3,655	-	-	-	-	-	-	-	-	3,655	-	3,655
Exchange differences on subsidiaries abroad		-	1,698	-	-	-	-	-	-	-	-	1,698	-	1,698
Purchase of treasury shares		-	-	-	-	-	-	-	-	(11,005)	-	(11,005)	-	(11,005)
Change of the stock purchase option plan:														
Stock options exercised in the period		-	-	-	(11,005)	-	-	-	-	11,005	-	-	-	-
Adjustments of stock option plan		-	-	(198)	-	-	-	-	-	-	198	-	-	-
Sale of treasury shares through exercise of purchase options		-	-	-	7,303	-	-	-	-	-	-	7,303	-	7,303
Gain (loss) on sale of shares related to the stock option plan		-	-	(685)	3,702	-	-	-	-	-	(3,017)	-	-	-
Expenses with stock option plan		-	-	1,615	-	-	-	-	-	-	-	1,615	-	1,615
Proposed allocation:														
Tax incentives reserve														
Financing - Proapi and Provin		-	-	-	-	-	-	10,531	-	-	(10,531)	-	-	-
Income tax		-	-	-	-	-	-	58,694	-	-	(58,694)	-	-	-
Tax incentives - subsidiary:														
Tax incentives - subsidiary - ICMS/Procomex		-	-	-	-	-	-	803	-	-	(803)	-	-	-
Legal reserve		-	-	-	-	11,811	-	-	-	-	(11,811)	-	-	-
Profit retention reserve		-	-	-	-	-	1,262	-	-	-	(1,262)	-	-	-
Dividends paid		-	-	-	-	-	-	-	(51,124)	-	(132,317)	(183,441)	-	(183,441)
Additional proposed dividends		-	-	-	-	-	-	-	87,209	-	(87,209)	-	-	-
At December 31, 2011		1,231,302	(2,167)	2,685	-	51,252	23,838	406,444	87,209	-	-	1,800,563	389	1,800,952
Total of comprehensive income		-	***(2,270)***	-	-	-	-	-	-	-	***429,003***	***426,733***	***841***	***427,574***
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**429,003**	**429,003**	**841**	**429,844**
Adjustment to market value - financial investments		**-**	**(2,596)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,596)**	**-**	**(2,596)**
Exchange differences on subsidiaries abroad	**10**	**-**	**326**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**326**	**-**	**326**
Purchase of treasury shares		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,612)**	**-**	**(2,612)**	**-**	**(2,612)**
Change of the stock purchase option plan:														
Stock options exercised in the period		**-**	**-**	**-**	**(2,612)**	**-**	**-**	**-**	**-**	**2,612**	**-**	**-**	**-**	**-**
Adjustments of stock option plan	**20.b**	**-**	**-**	**(143)**	**-**	**-**	**-**	**-**	**-**	**-**	**143**	**-**	**-**	**-**
Sale of treasury shares through exercise of purchase options		**-**	**-**	**-**	**1,471**	**-**	**-**	**-**	**-**	**-**	**-**	**1,471**	**-**	**1,471**
Gain (loss) on sale of shares related to the stock option plan	**20.b**	**-**	**-**	**(162)**	**1,141**	**-**	**-**	**-**	**-**	**-**	**(979)**	**-**	**-**	**-**
Expenses with stock option plan	**20**	**-**	**-**	**1,636**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,636**	**-**	**1,636**
Proposed allocation:														
Tax incentives reserve														
Financing - Provin	**13.a**	**-**	**-**	**-**	**-**	**-**	**-**	**18,485**	**-**	**-**	**(18,485)**	**-**	**-**	**-**
Income tax	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**82,440**	**-**	**-**	**(82,440)**	**-**	**-**	**-**
Tax incentives - subsidiary:														
Tax incentives - subsidiary - ICMS/Procomex		**-**	**-**	**-**	**-**	**-**	**-**	**1,196**	**-**	**-**	**(1,196)**	**-**	**-**	**-**
Tax incentives - subsidiary - Income tax		**-**	**-**	**-**	**-**	**-**	**-**	**261**	**-**	**-**	**(261)**	**-**	**-**	**-**
Legal reserve		**-**	**-**	**-**	**-**	**16,404**	**-**	**-**	**-**	**-**	**(16,404)**	**-**	**-**	**-**
Profit retention reserve		**-**	**-**	**-**	**-**	**-**	**15,878**	**-**	**-**	**-**	**(15,878)**	**-**	**-**	**-**
Dividends paid	**15.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(87,209)**	**-**	**(188,250)**	**(275,459)**	**-**	**(275,459)**
Additional proposed dividends	**15.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**105,253**	**-**	**(105,253)**	**-**	**-**	**-**
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**

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of cash flows
Years ended December 31, 2012 and 2011
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2012	2011	2012	2011
Cash flows from operating activities				
Profit for the year	**429,003**	305,446	**429,003**	305,446
Non-controlling interests	**-**	-	**841**	15
Adjustments to reconcile profit to cash from operating activities:				
Carrying value adjustments	**-**	-	**326**	1,698
Adjustment to market value - financial investments	**(2,596)**	3,655	**(2,596)**	3,655
Equity in the results of investees	**(16,382)**	1,414	**-**	-
Depreciation / amortization	**30,751**	28,460	**31,725**	28,917
Deferred income tax and social contribution	**(1,310)**	(8,307)	**(4,036)**	(7,755)
Write-off of property, plant and equipment and gain on sale	**2,011**	1,091	**2,094**	1,194
Write-off of investment and gain on sale	**820**	-	**820**	-
Stock option plan	**1,636**	1,615	**1,636**	1,615
Provision for impairment of trade receivables	**2,437**	14,803	**2,401**	14,835
Provision for discount on prompt payments	**5,839**	4,984	**5,974**	5,250
Provision for obsolete inventories	**297**	591	**362**	546
Provision for labor claims	**(559)**	(100)	**(559)**	(100)
Interest expenses on borrowings	**935**	10,799	**3,346**	11,127
Interest income on financial investments	**(91,085)**	(126,105)	**(91,085)**	(126,105)
Foreign exchange variations, net	**9,094**	-	**9,094**	-
	370,891	238,346	**389,346**	240,338
Changes in assets and liabilities:				
Trade receivables	**(74,572)**	(130,615)	**(189,938)**	(106,354)
Inventories	**(36,134)**	15,455	**(30,194)**	4,378
Other receivables	**(40,816)**	(59,612)	**(42,514)**	(62,964)
Trade payables	**27,392**	(3,639)	**29,795**	(4,676)
Salaries and social security charges payable	**18,245**	(14,810)	**18,343**	(14,760)
Taxes and contributions	**2,779**	5,602	**13,343**	6,013
Other payables	**3,730**	1,647	**5,007**	6,172
Net cash provided by operating activities	**271,515**	52,374	**193,188**	68,147
Cash flows from investing activities:				
In investments	**(4,087)**	(793)	**(27)**	(793)
In property, plant and equipment	**(52,241)**	(32,072)	**(53,686)**	(36,326)
In intangible assets	**(10,334)**	(3,274)	**(10,479)**	(3,417)
Financial investments	**(1,544,286)**	(333,467)	**(1,544,286)**	(333,467)
Redemption of financial investments	**1,630,284**	588,940	**1,630,284**	588,940
Net cash provided by investing activities	**19,336**	219,334	**21,806**	214,937
Cash flows from financing activities:				
New borrowings	**378,305**	147,505	**486,787**	151,489
Repayments of borrowings	**(434,581)**	(211,362)	**(468,821)**	(222,361)
Interest paid	**(978)**	(10,609)	**(3,389)**	(10,847)
Dividends paid	**(275,459)**	(183,441)	**(275,459)**	(183,441)
Purchase of treasury shares	**(2,612)**	(11,005)	**(2,612)**	(11,005)
Sale of treasury shares through exercise of purchase options	**1,471**	7,303	**1,471**	7,303
Net cash used in financing activities	**(333,854)**	(261,609)	**(262,023)**	(268,862)
Increase (decrease) in cash and cash equivalents	**(43,003)**	10,099	**(47,029)**	14,222
Cash and cash equivalents:				
At the beginning of the year	**51,128**	41,029	**61,518**	47,296
At the end of the year	**8,125**	51,128	**14,489**	61,518
Increase (decrease) in cash and cash equivalents	**(43,003)**	10,099	**(47,029)**	14,222
Item not affecting cash flow:				
Exchange variations on investments	**(326)**	(1,698)	**-**	-
Reversal of unrealized profits in inventories	**-**	1,509	**-**	-

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of value added
Years ended December 31, 2012 and 2011
(All amounts in thousands of reais)

	Parent company				Consolidated			
	2012		**2011**		**2012**		**2011**	
Revenue								
Sales of products	**2,079,410**		1,670,544		**2,167,646**		1,692,957	
Provision for impairment of trade receivables	**(2,437)**		(13,943)		**(2,401)**		(13,956)	
Other income (expenses)	**(408)**		314		**(470)**		314	
	2,076,565		1,656,915		**2,164,775**		1,679,315	
Inputs acquired from third parties								
Raw materials used	**590,748**		456,053		**556,227**		421,750	
Other production costs	**12,656**		10,683		**66,741**		41,786	
Materials, electricity, outsourced services and others	**512,344**		448,127		**541,716**		467,216	
Impairment/recovery of assets	**297**		591		**371**		530	
	1,116,045		915,454		**1,165,055**		931,282	
Gross value added	**960,520**		741,461		**999,720**		748,033	
Retentions								
Depreciation and amortization	**29,886**		27,631		**30,822**		28,060	
	29,886		27,631		**30,822**		28,060	
Net value added	**930,634**		713,830		**968,898**		719,973	
Value added received through transfer								
Equity in the earnings of investees and dividends evaluated at acquisition cost	**16,382**		(1,414)		**-**		-	
Finance income	**188,863**		204,833		**204,937**		215,796	
Rentals	**146**		142		**146**		142	
	205,391		203,561		**205,083**		215,938	
Value added to distribute	**1,136,025**		917,391		**1,173,981**		935,911	
Distribution of value added								
Personnel								
Direct remuneration	**338,843**		278,905		**345,463**		283,852	
Benefits	**38,176**		32,797		**38,643**		33,270	
Government Severance Indemnity Fund for Employees (FGTS)	**32,332**		28,803		**32,593**		29,078	
	409,351	**36.03%**	340,505	37.12%	**416,699**	**35.50%**	346,200	36.99%
Taxes and contributions								
Federal	**204,802**		188,251		**214,721**		189,116	
State	**35,530**		29,746		**35,755**		29,001	
Municipal	**285**		361		**285**		361	
	240,617	**21.18%**	218,358	23.80%	**250,761**	**21.36%**	218,478	23.34%
Remuneration of third party capital								
Interest, discounts and financial charges	**54,993**		51,426		**72,460**		62,793	
Rentals	**2,061**		1,656		**5,058**		2,994	
	57,054	**5.02%**	53,082	5.78%	**77,518**	**6.60%**	65,787	7.03%
Remuneration of own capital								
Dividends	**293,503**		219,526		**293,503**		219,526	
Profits reinvested for the year	**135,500**		85,920		**136,388**		85,925	
Non-controlling interests in reinvested profits	**-**		-		**(888)**		(5)	
	429,003	**37.77%**	305,446	33.30%	**429,003**	**36.54%**	305,446	32.64%
	1,136,025	**100%**	917,391	100%	**1,173,981**	**100%**	935,911	100%

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

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 and in Sobral. 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

There were no changes in accounting policies and calculation methods adopted in the preparation of the parent company and consolidated financial statements in relation to the financial statements at December 31, 2011.

a) Parent company financial statements

The financial statements were approved by Grendene S.A. executive board meeting held on January 24, 2013.

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. 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.

2. Basis of preparation and presentation of the financial statements-- 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, 2012.

The Company did not acquire any company or business in the years ended December 31, 2012 and 2011. There were no non-current assets held for sale or discontinued operations at December 31, 2012 and 2011.

c) Prospective accounting changes, new pronouncements and interpretations

c.1) *Standards and interpretations of existing standards not yet effective*

The following standards, amendments and interpretations to existing standards were issued by the IASB, but are not effective for the financial year 2012. The following are those that will be effective from the fiscal year beginning on January 1, 2013:

- **IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (revised 2011) -** This change addresses issues related to the disclosure of items of other comprehensive income and creates the need to separate the items that will not be reclassified future for the result and items that may be reclassified to the income statement in future. The Company does not expect this change will have an impact on its financial statements.

- **IAS 19 Employee Benefits (Revised 2011) -** This change addresses aspects related to the accounting and disclosure for employee benefits. The Company does not expect this change will have an impact on its financial statements since the Company has no post-employment benefits.

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

c) Prospective accounting changes, new pronouncements and interpretations--Continued

c.1) *Standards and interpretations of existing standards not yet effective*--Continued

- **IAS 27 Separate Financial Statements (revised 2011) -** As a result of recent IFRS 10 and IFRS 12, which remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not expect this change will have an impact on its financial statements because it does not disclose separate financial statements.

- **IAS 28 Accounting for Investments in Associates and Joint Ventures (revised 2011) -** As a result of recent IFRS 11 and IFRS 12, IAS 28 becomes IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method for investments in joint ventures, in addition to the investment in associates. Management does not expect any impact to the financial statements taken as a whole, since it has not shared investment.

- **IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Liabilities -** This standard changed the disclosures required to include information about compensation arrangements for financial assets and liabilities. The Company does not expect this change will have an impact on its financial statements.

- **IFRS 10, 11 and 12 Guidelines for the Transition -** This change brings additional exceptions during the transition to IFRS 10, 11 and 12, limiting the demand for comparative information only for the previous comparative period. In the case of unconsolidated structured entities, eliminates the requirement to present comparative information for periods prior to the adoption of IFRS 12.

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

c) Prospective accounting changes, new pronouncements and interpretations -- Continued

c.1) *Standards and interpretations of existing standards not yet effective*-- Continued

- **IFRS 10 Consolidated Financial Statements -** introduces a new definition of control, which is used to determine which entities are consolidated and describes the consolidation procedures. This standard does not change the form of consolidation, but introduces a new definition of control and, consequently, what investments should be consolidated depending on further evaluation criteria (eg control over the relevant activity). Based on preliminary assessments management does not expect significant impacts.

- **IFRS 11 shared Investments ("joint arrangements") -** Describes the accounting for investments in joint control; proportionate consolidation is not permitted to shared ventures ("joint ventures"). Currently IFRS allows proportionate consolidation - line by line - "joint ventures" or its registration by the equity method. Proportional consolidation is no longer allowed with the adoption of IFRS 11. Management does not expect any impact to the financial statements taken as a whole, since it has not shared investment.

- **IFRS 12 Disclosure of investments in other entities -** Introduces new disclosure requirements relating to investments in subsidiaries, joint ventures, associates and "structured entities". This standard will not impact the record or measurement of investments, but the Company expects some additional disclosures may be required in order to fully satisfy the disclosure requirements of this standard.

- **IFRS 13 Fair value measurement -** Provides new guidelines on how to measure fair value. This does not change the current regulatory requirements for fair value measurement in IFRS gifts, but introduces new disclosure requirements, guidelines on how to measure assets and liabilities at fair value when permitted or required by current IFRS. Management will evaluate the impact of this new IFRS in its policies and procedures of measurement and disclosure of fair value.

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

c) Prospective accounting changes, new pronouncements and interpretations -- Continued

c.1) *Standards and interpretations of existing standards not yet effective*-- Continued

The following is what will be effective from the fiscal year beginning on January 1, 2014:

- **IAS 32 - Financial Instruments: Disclosures - Compensation of Assets and Liabilities -** Brings additional clarifications to the application guidance contained in IAS 32, on the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Company does not expect this change will have an impact on its financial statements.

The following is what will be effective from the fiscal year beginning on January 1, 2015:

- **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 does not expect this change will have an impact on its financial statements.

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

3. Consolidated financial statements

The consolidated financial statements include the operations of the Company and the following subsidiaries, the Company's ownership interest in which at the end of the reporting period is summarized below:

	Country	Direct interest (2012 and 2011)
Grendene Argentina S.A.	Argentina	95%
MHL Calçados Ltda.	Brazil	99.998%
Grendene USA, Inc.	USA	100%

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.

There were no investments in associates or joint ventures at December 31, 2012 and 2011.

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 assets and liabilities;
- Elimination of the Company's interest in capital, reserves and retained earnings of the 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. The results of operations are recognized on the accrual basis.

a.1) *Sales revenue*

The revenue from the sales 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) *Interest income*

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

4. **Accounting policies**--Continued

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, in management's opinion, have administrative, financial and operational independence, assets and liabilities are translated into Reais at the period-end exchange rate and the results are converted at the average monthly exchange rates for the years.

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 variations are recognized in the Company's equity, as carrying value adjustments. For consolidation purposes, the financial statements of these subsidiaries is included in the consolidated financial statements and adjustments arising from foreign exchange variations on assets and liabilities denominated in U.S. dollars and Argentinean pesos are recognized in consolidated equity, as carrying value adjustments.

b.2) *Transactions denominated in foreign currency*

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.

4. **Accounting policies**--Continued

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.

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 method, less any impairment. Interest, monetary restatements and foreign exchange variations are recognized in the results when incurred.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.1) *Financial assets*--Continued

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. Interest, monetary restatements, foreign exchange variations, less impairment, where applicable, are recognized, when incurred, in the results, as finance income or costs.

d) Available-for-sale financial assets: financial assets that do not qualify in the above categories (c.1a., c.1b. and c.1c). Subsequent to initial recognition, they are measured at fair value and the changes in fair value, except for any impairment, as well as foreign currency differences of these instruments are recorded directly in equity, net of tax effects. These tax effects are recorded 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.

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 measured at fair value through profit or loss: these include financial liabilities usually traded before maturity, liabilities designated at initial recognition as at fair value through profit or loss and derivatives. At the end of each reporting period, they are measured at fair value. Interest, monetary restatements, foreign exchange variations and variations arising from fair value measurements, when applicable, are recognized in the results when incurred.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.2) *Financial liabilities*--Continued

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 restatements and foreign exchange variations, when applicable, are recognized in the results when incurred.

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

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.

c.5) *Impairment of financial instruments*

Financial assets that are not classified as 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.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

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

The Company operates with derivative financial instruments, mainly hedge 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. Changes in fair value are recognized in the results.

Although the Company uses derivatives for hedging purposes, the Company does not adopt the accounting practice of accounting for hedging instruments "hedge accouting."

The fair values of derivative instruments used for hedging purposes are disclosed in Note 18.b.

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 are measured in accordance with 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.

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 the discount prompt payment are recorded at amounts considered sufficient by management. The criteria for the constitution of the provision for impairment of trade receivables takes into consideration the analysis of credit risks of the customers who have receivables overdue for more than 180 days, not considering those that have court or out-of-court settlements or guarantees.

The provision 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 analysis of trade receivables into amounts not yet due and past due is presented 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.

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.

4. **Accounting policies**--Continued

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 residual values and useful lives of assets 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 an 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 Company and they can be measured reliably. The carrying amount of the replaced item or part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The Company did not identify indications of impairment of its property, plant and equipment items at December 31, 2012 and 2011, in accordance with CVM Resolution 639 that approved CPC 01 (R1) - Impairment of Assets and, consequently, no provision for impairment of these assets is required.

The carrying amount of property, plant and equipment items is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount 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. For the purposes of assessing impairment, assets are grouped in cash-generating units (CGU). The Company did not identify any item requiring a provision for impairment at December 31, 2012 and 2011.

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.

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 cash-generating units (CGU). The Company did not identify any item requiring a provision for impairment at December 31, 2012 and 2011.

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.

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.

4. **Accounting policies**--Continued

l) Taxation--Continued

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

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 (as defined); and (ii) ICMS tax incentives related to operating activities located in such states (Note 13).

Government grants are recognized when there is reasonable assurance that the conditions established in the agreements have been fulfilled. They are recognized as revenue in the statement of income over the period necessary to match the expense that the government grant intends to compensate and, subsequently, they are transferred to a revenue reserve within (tax incentive) in equity. The values from state incentives may have different destination as provided in Law 11,941, of May 27, 2009.

4. **Accounting policies**--Continued

n) Share-based payment

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 or credit 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 reporting

The Company and its subsidiaries have a single business segment: production and sale of synthetic footwear for domestic and foreign markets, as disclosed in Note 24.

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, 2012 and 2011, 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 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 periods. 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.

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 provisions is recognized 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 accounting pronouncement CPC 03 (IAS 7) - Statement of Cash Flows, issued by the Brazilian Accounting Pronouncements Committee (CPC). Changes in financial investments are shown in investing activities. The statement of value added was prepared in accordance with accounting pronouncement CPC 09.

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 other capital reserves.

5. Accounting estimates and judgments

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:

5. Accounting estimates and judgments--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 to dispose of the asset. 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 the 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.

5. Accounting estimates and judgments--Continued

Provisions for Labor Claims, Tax and Civil: 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; the provision for impairment of trade receivables; the provision for the discount on prompt payment; the provision for inventory losses; deferred income tax and social contribution; rates and periods utilized to determine the present value adjustment of certain assets and liabilities; the fair value of the share-based payment; and sensitivity analyses of financial instruments.

6. Cash and cash equivalents and financial investments

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash and cash equivalents				
Cash and banks	**3,716**	2,728	**7,914**	5,796
Financial investments	**4,409**	48,400	**6,575**	55,722
Total cash and cash equivalents	**8,125**	51,128	**14,489**	61,518
Financial investments				
Available-for-sale investments	**-**	341,618	**-**	341,618
Financial assets at fair value through profit or loss	**183,989**	2,811	**183,989**	2,811
Held-to-maturity investments	**675,432**	509,633	**675,432**	509,633
	859,421	854,062	**859,421**	854,062
(-) Total current assets	**(465,032)**	(684,392)	**(465,032)**	(684,392)
Total non current assets	**394,389**	169,670	**394,389**	169,670
Total	**867,546**	905,190	**873,910**	915,580

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 "Available-for-sale investments", “Financial assets at fair value through profit or loss” and "Held-to- maturity investments", according to the Company's investment strategy, and have immediate liquidity.

7. Trade receivables

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Not yet due	**704,425**	619,193	**793,984**	616,564
Past-due up to 30 days	**33,698**	29,304	**45,663**	32,244
Past due from 31 days to 60 days	**3,103**	4,929	**4,742**	5,269
Past due from 61 days to 90 days	**662**	2,419	**670**	2,492
Past due for more than 91 days	**22,826**	36,828	**23,238**	22,582
	764,714	692,673	**868,297**	679,151
Provision for impairment of trade receivables	**(18,722)**	(16,285)	**(18,859)**	(16,458)
Provision for discounts on prompt payments	**(34,617)**	(28,778)	**(35,205)**	(29,231)
Adjustment to present value	**(5,714)**	(8,245)	**(8,084)**	(8,876)
	705,661	639,365	**806,149**	624,586

At December 31, 2012 and 2011, the average collection periods for the domestic market were 97 and 93 days, respectively, and 76 and 79 days, respectively, for the foreign market.

There are no liens, guarantees and/or restrictions to the values of accounts receivable.

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

	Parent company			
	2012		**2011**	
	Balances	**Provision**	**Balances**	**Provision**
Not yet due	**704,425**	**-**	619,193	-
Past-due up to 30 days	**33,698**	**(3)**	29,304	-
Past due from 31 days to 60 days	**3,103**	**(6)**	4,929	(3)
Past due from 61 days to 90 days	**662**	**(13)**	2,419	(12)
Past due for more than 91 days	**22,826**	**(18,700)**	36,828	(16,270)
	764,714	**(18,722)**	692,673	(16,285)

	Consolidated			
	2012		**2011**	
	Balances	**Provision**	**Balances**	**Provision**
Not yet due	**793,984**	**-**	616,564	-
Past-due up to 30 days	**45,663**	**(3)**	32,244	-
Past due from 31 days to 60 days	**4,742**	**(6)**	5,269	(3)
Past due from 61 days to 90 days	**670**	**(13)**	2,492	(12)
Past due for more than 91 days	**23,238**	**(18,837)**	22,582	(16,443)
	868,297	**(18,859)**	679,151	(16,458)

7. Trade receivables--Continued

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at the beginning of the year	**(16,285)**	(2,342)	**(16,458)**	(2,483)
Additions	**(3,642)**	(16,205)	**(3,848)**	(16,369)
Reversal/realization	**1,205**	2,262	**1,447**	2,413
Foreign exchange variations	**-**	-	**-**	(19)
Balance at the end of the year	**(18,722)**	(16,285)	**(18,859)**	(16,458)

The changes in the provision for discounts on prompt payments were follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at the beginning of the year	**(28,778)**	(23,794)	**(29,231)**	(23,981)
Additions	**(18,489)**	(14,796)	**(18,725)**	(15,123)
Reversal/realization	**12,650**	9,812	**12,751**	9,873
Balance at the end of the year	**(34,617)**	(28,778)	**(35,205)**	(29,231)

8. Inventories

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Footwear	**25,097**	20,951	**41,460**	43,003
Components	**28,512**	27,519	**28,804**	27,981
Raw materials	**46,339**	38,235	**48,633**	38,420
Packaging materials	**8,367**	6,121	**8,540**	6,217
Intermediate and other materials	**16,094**	16,112	**16,193**	16,228
Goods for resale	**334**	207	**334**	207
Advances to suppliers	**16,076**	3,118	**16,076**	3,118
Imports in transit	**6,310**	1,730	**6,310**	1,730
Inventories held by third parties	**13,029**	10,031	**13,029**	10,281
Provision for adjustment of obsolete inventories	**(3,260)**	(2,963)	**(3,435)**	(3,073)
	156,898	121,061	**173,944**	144,112

8. Inventories--Continued

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

	Parent company		Consolidated	
	2012	2011	2012	2011
Balance at the beginning of the year	**(2,963)**	(2,372)	**(3,073)**	(2,527)
Additions	**(561)**	(983)	**(807)**	(1,191)
Reversal/realization	**264**	392	**436**	661
Foreign exchange variations	**-**	-	**9**	(16)
Balance at the end of the year	**(3,260)**	(2,963)	**(3,435)**	(3,073)

There are no liens, guarantees and / or restrictions on the full use of inventories.

9. Taxes recoverable

	Parent company		Consolidated	
	2012	2011	2012	2011
Income tax and social contribution	**1,650**	4,746	**5,339**	6,975
Withholding income tax	**9,500**	5,073	**9,725**	5,167
Excise tax (IPI)	**420**	314	**421**	315
Value-added Tax on Sales and Services (ICMS)	**5,551**	6,311	**9,941**	10,013
Social Integration Program (PIS)	**64**	52	**65**	131
Social Contribution on Revenues (COFINS)	**295**	739	**302**	1,104
Social Security contribution (INSS)	**11**	10	**11**	10
	17,491	17,245	**25,804**	23,715
(-) Total current assets	**(16,969)**	(16,793)	**(25,282)**	(23,263)
Total non-current assets	**522**	452	**522**	452

a) Income tax and social contribution

Relate to income tax and social contribution prepayments realizable through the offset against federal taxes and contributions payable.

b) Withholding income tax

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

9. Tax credits--Continued

c) ICMS and IPI recoverable

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

d) PIS and COFINS recoverable

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

10. Investments

a) Composition of investments

The Company's investments were as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Subsidiaries	**52,903**	32,450	**-**	-
Unrealized profits in subsidiaries	**(2,664)**	(2,979)	**-**	-
Other investments	**877**	1,670	**877**	1,670
	51,116	31,141	**877**	1,670

b) Changes in investments

The changes in investments were as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Opening balance	**31,141**	31,573	**1,670**	877
Additions	**27**	793	**27**	793
Capital increase of subsidiary	**4,060**	-	**-**	-
Disposals	**(820)**	-	**(820)**	-
Equity in results of subsidiaries	**16,382**	(1,414)	**-**	-
Adjustments – currency translation gain (loss)	**326**	1,698	**-**	-
Reversal of unrealized profits on inventories	**-**	(1,509)	**-**	-
Balance at the end of the year	**51,116**	31,141	**877**	1,670

10. Investments--Continued

c) Summarized financial information of subsidiaries (consolidated)

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*)	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Current assets	**112,796**	57,732	**14,358**	19,591	**16,937**	15,474
Non-current assets	**2,188**	159	**1,980**	2,254	**6,867**	5,508
Total assets	**114,984**	57,891	**16,338**	21,845	**23,804**	20,982
Current liabilities	**90,395**	50,131	**2,516**	10,508	**8,082**	7,241
Non-current liabilities	**-**	-	**-**	-	**-**	-
Total liabilities	**90,395**	50,131	**2,516**	10,508	**8,082**	7,241
Equity of subsidiaries	**24,589**	7,760	**13,822**	11,337	**15,722**	13,741
Ownership percentage	**95%**	95%	**99.998%**	99.998%	**100%**	100%
Interest in equity (investment)	**23,359**	7,372	**13,822**	11,337	**15,722**	13,741
Revenue	**155,488**	66,707	**30,513**	27,216	**19,544**	11,426
Costs and expenses	**(137,720)**	(66,605)	**(28,028)**	(26,413)	**(22,841)**	(12,270)
Net profit/loss for the year	**17,768**	102	**2,485**	803	**(3,297)**	(844)
Ownership percentage	**95%**	95%	**99.998%**	99.998%	**100%**	100%
Equity in the results of subsidiaries	**16,879**	97	**2,485**	803	**(3,297)**	(844)
Unrealized profit	**791**	(800)	**-**	-	**(476)**	(670)
Total equity in results of subsidiaries	**17,670**	(703)	**2,485**	803	**(3,773)**	(1,514)
Net cash provided by (used in) operating activities	**(69,468)**	7,363	**(6,095)**	4,810	**(3,314)**	3,212
Net cash used in investing activities	**-**	-	**(102)**	(207)	**(936)**	(3,803)
Net cash provided by (used in) financing activities	**71,831**	(7,253)	**-**	-	**4,059**	-
Increase (decrease) in cash and cash equivalents	**2,363**	110	**(6,197)**	4,603	**(191)**	(591)

(*) Audited by other auditors.

11. Property, plant and equipment

	Parent company							
	2012							
Cost of property, plant and equipment	**Land and buildings**	**Machinery, equipment and facilities**	**Furniture and fittings**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balances at 12/31/2011	153,605	240,782	10,526	17,454	3,378	3,958	5,846	435,549
Additions	**1,838**	**21,173**	**1,759**	**4,149**	**316**	**17,611**	**5,395**	**52,241**
Disposals	**(296)**	**(10,110)**	**(55)**	**(1,503)**	**(16)**	**(363)**	**(216)**	**(12,559)**
Transfers	**2,024**	**5,988**	**220**	**496**	**184**	**(7,883)**	**(1,029)**	**-**
Balances at 12/31/2012	**157,171**	**257,833**	**12,450**	**20,596**	**3,862**	**13,323**	**9,996**	**475,231**
Accumulated depreciation								
Balances at 12/31/2011	(73,521)	(152,922)	(5,677)	(12,293)	(2,326)	-	(3,238)	(249,977)
Depreciation	**(5,539)**	**(16,895)**	**(889)**	**(2,061)**	**(392)**	**-**	**(468)**	**(26,244)**
Disposals	**3**	**8,979**	**40**	**1,409**	**13**	**-**	**104**	**10,548**
Transfers	**-**	**539**	**(1)**	**(490)**	**(48)**	**-**	**-**	**-**
Balances at 12/31/2012	**(79,057)**	**(160,299)**	**(6,527)**	**(13,435)**	**(2,753)**	**-**	**(3,602)**	**(265,673)**
Net book amount								
Balances at 12/31/2011	80,084	87,860	4,849	5,161	1,052	3,958	2,608	185,572
Balances at 12/31/2012	**78,114**	**97,534**	**5,923**	**7,161**	**1,109**	**13,323**	**6,394**	**209,558**

	Parent company							
	2011							
Cost of property, plant and equipment	**Land and buildings**	**Machinery, equipment and facilities**	**Furniture and fittings**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balances at 12/31/2010	151,522	221,662	9,211	17,268	2,795	3,049	4,211	409,718
Additions	593	16,198	1,307	1,603	409	9,465	2,497	32,072
Disposals	(299)	(3,938)	(23)	(1,553)	(21)	(300)	(107)	(6,241)
Transfers	1,789	6,860	31	136	195	(8,256)	(755)	-
Balances at 12/31/2011	153,605	240,782	10,526	17,454	3,378	3,958	5,846	435,549
Accumulated depreciation								
Balances at 12/31/2010	(68,211)	(140,141)	(4,937)	(12,193)	(1,975)	-	(2,856)	(230,313)
Depreciation	(5,463)	(16,166)	(788)	(1,624)	(315)	-	(458)	(24.814)
Disposals	153	3,420	9	1,490	2	-	76	5,150
Transfers	-	(35)	39	34	(38)	-	-	-
Balances at 12/31/2011	(73,521)	(152,922)	(5,677)	(12,293)	(2,326)	-	(3,238)	(249,977)
Net book amount								
Balances at 12/31/2010	83,311	81,521	4,274	5,075	820	3,049	1,355	179,405
Balances at 12/31/2011	80,084	87,860	4,849	5,161	1,052	3,958	2,608	185,572

11. Property, plant and equipment--Continued

	Consolidated							
	2012							
Cost of property, plant and equipment	**Land and buildings**	**Machinery, equipment and facilities**	**Furniture and fittings**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balances at 12/31/2011	153,605	247,521	11,376	18,083	3,390	3,958	5,881	443,814
Additions	**1,838**	**21,980**	**1,888**	**4,200**	**316**	**17,611**	**5,395**	**53,228**
Disposals	**(296)**	**(10,124)**	**(217)**	**(1,526)**	**(16)**	**(363)**	**(216)**	**(12,758)**
Transfers	**2,024**	**5,938**	**216**	**546**	**188**	**(7,883)**	**(1,029)**	**-**
Foreign exchange variations	**-**	**408**	**93**	**39**	**-**	**-**	**3**	**543**
Balances at 12/31/2012	**157,171**	**265,723**	**13,356**	**21,342**	**3,878**	**13,323**	**10,034**	**484,827**
Accumulated depreciation								
Balances at 12/31/2011	(73,521)	(154,021)	(6,174)	(12,793)	(2,332)	-	(3,267)	(252,108)
Depreciation	**(5,539)**	**(17,678)**	**(973)**	**(2,125)**	**(395)**	**-**	**(475)**	**(27,185)**
Disposals	**3**	**8,981**	**132**	**1,431**	**13**	**-**	**104**	**10,664**
Transfers	**-**	**548**	**(1)**	**(499)**	**(48)**	**-**	**-**	**-**
Foreign exchange variations	**-**	**(3)**	**(44)**	**(36)**	**-**	**-**	**(2)**	**(85)**
Balances at 12/31/2012	**(79,057)**	**(162,173)**	**(7,060)**	**(14,022)**	**(2,762)**	**-**	**(3,640)**	**(268,714)**
Net book amount								
Balances at 12/31/2011	80,084	93,500	5,202	5,290	1,058	3,958	2,614	191,706
Balances at 12/31/2012	**78,114**	**103,550**	**6,296**	**7,320**	**1,116**	**13,323**	**6,394**	**216,113**

11. Property, plant and equipment--Continued

	Consolidated							
	2011							
Cost of property, plant and equipment	**Land and buildings**	**Machinery, equipment and facilities**	**Furniture and fittings**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balances at 12/31/2010	151,522	224,622	9,700	17,853	2,806	3,049	4,242	413,794
Additions	593	19,877	1,579	1,625	410	9,465	2,497	36,046
Disposals	(299)	(4,071)	(23)	(1,580)	(21)	(300)	(107)	(6,401)
Transfers	1,789	6,860	31	136	195	(8,256)	(755)	-
Foreign exchange variations	-	233	89	49	-	-	4	375
Balances at 12/31/2011	153,605	247,521	11,376	18,083	3,390	3,958	5,881	443,814
Accumulated depreciation								
Balances at 12/31/2010	(68,211)	(140,944)	(5,335)	(12,621)	(1,979)	-	(2,876)	(231,966)
Depreciation	(5,463)	(16,494)	(837)	(1,678)	(317)	-	(465)	(25,254)
Disposals	153	3,453	9	1,514	2	-	76	5,207
Transfers	-	(35)	39	34	(38)	-	-	-
Foreign exchange variations	-	(1)	(50)	(42)	-	-	(2)	(95)
Balances at 12/31/2011	(73,521)	(154,021)	(6,174)	(12,793)	(2,332)	-	(3,267)	(252,108)
Net book amount								
Balances at 12/31/2010	83,311	83,678	4,365	5,232	827	3,049	1,366	181,828
Balances at 12/31/2011	80,084	93,500	5,202	5,290	1,058	3,958	2,614	191,706

Depreciation rates

The Company depreciates property, plant and equipment on the straight-line method, based on the estimated useful lives of the assets, using the following depreciation rates:

	Annual depreciation rates
Buildings	4%
Facilities	10%
Machinery and equipment	10%
Furniture and fittings	10%
IT equipment	20%
Tools	20%
Vehicles	20%
Other	10%

11. Property, plant and equipment--Continued

Depreciation is recognized in cost of goods sold, selling expenses and administrative expenses in the consolidated statement of income, representing in the year 2012 the amounts of R$ 20,275, R$ 972 and R$ 2,121, respectively, net of PIS/COFINS credits.

Certain items of equipment are pledged as collateral for financing transactions, as described in Note 13.c.

12. Intangible assets

	Parent company					
	2012					
Cost of intangible assets	**Software**	**Trademarks and patents**	**Goodwill**	**Technology**	**Development of software**	**Total**
Balances at 12/31/2011	19,976	11,312	2,297	780	-	34,365
Additions	**5,426**	**1,072**	**2,077**	**1,264**	**495**	**10,334**
Transfers	**140**	**-**	**-**	**-**	**(140)**	**-**
Balances at 12/31/2012	**25,542**	**12,384**	**4,374**	**2,044**	**355**	**44,699**
Accumulated amortization						
Balances at 12/31/2011	(13,286)	(6,950)	(1,187)	(780)	-	(22,203)
Amortization	**(2,908)**	**(981)**	**(510)**	**(108)**	**-**	**(4,507)**
Balances at 12/31/2012	**(16,194)**	**(7,931)**	**(1,697)**	**(888)**	**-**	**(26,710)**
Net book amount						
Balances at 12/31/2011	6,690	4,362	1,110	-	-	12,162
Balances at 12/31/2012	**9,348**	**4,453**	**2,677**	**1,156**	**355**	**17,989**

12. Intangible assets--Continued

	Parent company				
	2011				
Cost of intangible assets	**Software**	**Trademarks and patents**	**Goodwill**	**Technology**	**Total**
Balances at 12/31/2010	17,810	10,204	2,297	780	31,091
Additions	2,166	1,108	-	-	3,274
Balances at 12/31/2011	19,976	11,312	2,297	780	34,365
Accumulated amortization					
Balances at 12/31/2010	(10,871)	(6,051)	(888)	(747)	(18,557)
Amortization	(2,415)	(899)	(299)	(33)	(3,646)
Balances at 12/31/2011	(13,286)	(6,950)	(1,187)	(780)	(22,203)
Net book amount					
Balances at 12/31/2010	6,939	4,153	1,409	33	12,534
Balances at 12/31/2011	6,690	4,362	1,110	-	12,162

	Consolidated					
	2012					
Cost of intangible assets	**Software**	**Trademarks and patents**	**Goodwill**	**Technology**	**Development of software**	**Total**
Balances at 12/31/2011	20,262	12,268	2,297	780	-	35,607
Additions	**5,477**	**1,072**	**2,077**	**1,264**	**495**	**10,385**
Transfers	**140**	**-**	**-**	**-**	**(140)**	**-**
Foreign exchange variations	**33**	**84**	**-**	**-**	**-**	**117**
Balances at 12/31/2012	**25,912**	**13,424**	**4,374**	**2,044**	**355**	**46,109**
Accumulated amortization						
Balances at 12/31/2011	(13,545)	(6,955)	(1,188)	(780)	-	(22,468)
Amortization	**(2,939)**	**(983)**	**(510)**	**(108)**	**-**	**(4,540)**
Foreign exchange variations	**(23)**	**-**	**-**	**-**	**-**	**(23)**
Balances at 12/31/2012	**(16,507)**	**(7,938)**	**(1,698)**	**(888)**	**-**	**(27,031)**
Net book amount						
Balances at 12/31/2011	6,717	5,313	1,109	-	-	13,139
Balances at 12/31/2012	**9,405**	**5,486**	**2,676**	**1,156**	**355**	**19,078**

12. Intangible assets--Continued

	Consolidated				
	2011				
Cost of intangible assets	**Software**	**Trademarks and patents**	**Goodwill**	**Technology**	**Total**
Balances at 12/31/2010	18,044	11,055	2,297	780	32,176
Additions	2,202	1,108	-	-	3,310
Disposals	(13)	-	-	-	(13)
Foreign exchange variations	29	105	-	-	134
Balances at 12/31/2011	20,262	12,268	2,297	780	35,607
Accumulated amortization					
Balances at 12/31/2010	(11,101)	(6,055)	(888)	(747)	(18,791)
Amortization	(2,430)	(900)	(300)	(33)	(3,663)
Disposals	13	-	-	-	13
Foreign exchange variations	(27)	-	-	-	(27)
Balances at 12/31/2011	(13,545)	(6,955)	(1,188)	(780)	(22,468)
Net book amount					
Balances at 12/31/2010	6,943	5,000	1,409	33	13,385
Balances at 12/31/2011	6,717	5,313	1,109	-	13,139

The Company amortizes the acquisition cost of its intangible assets, using the following amortization rates:

	Annual amortization rates
Trademarks and patents	10%
Software	20%
Goodwill	20%
Technology	20%

Amortization is recognized in cost of goods sold, selling expenses and administrative expenses in the consolidated statement of income, representing in the year 2012 the amounts of R$ 1,430, R$ 1,633 and R$ 1,338, respectively, net of PIS/COFINS credits.

The Company did not have internally generated intangible assets at December 31, 2012 and 2011.

13. Borrowings

	Index	Interest rate (p.a.)	Parent company 2012	Parent company 2011	Consolidated 2012	Consolidated 2011
Property, plant and equipment						
Banco Itaú BBA S.A.	Fixed	4.50%	**3,184**	3,654	**3,184**	3,654
Working capital						
Banco Patagônia S.A.	Argentinean pesos	15.92%	**-**	-	**17,669**	708
Banco Itaú S.A.	Argentinean pesos	23.63%	**-**	-	**13,051**	-
BBVA Francês	Argentinean pesos	19.50%	**-**	-	**22,104**	-
Banco Santander Rio	Argentinean pesos	20.23%	**-**	-	**20,445**	-
Banco Supervielle S.A.	Argentinean pesos	20.25%	**-**	-	**1,681**	-
Working capital - ACC						
Banco Bradesco S.A.	US Dollar +	2.63%	**-**	31,906	**-**	31,906
Banco do Brasil S.A.	US Dollar +	1.01%	**288**	-	**288**	-
Banco HSBC Bank Brasil S.A.	US Dollar +	2.18%	**-**	8,255	**-**	8,255
Working capital - ACE						
Banco HSBC Bank Brasil S.A.	US Dollar +	1.90%	**-**	24,493	**-**	24,493
Banco Bradesco S.A.	US Dollar +	1.32%	**32,099**	28,666	**32,099**	28,666
Banco do Brasil S.A.	US Dollar +	1.06%	**13,557**	-	**13,557**	-
Total bank financing			**49,128**	96,974	**124,078**	97,682
Proapi - Provin	TJLP		**13,885**	12,992	**13,885**	12,992
Total borrowings			**63,013**	109,966	**137,963**	110,674
(-) Total current liabilities			**(48,633)**	(96,843)	**(123,583)**	(97,551)
Total non-current liabilities			**14,380**	13,123	**14,380**	13,123

ACC - Advances against Exchange Contracts
ACE - Advances against Export Contracts
PROAPI - Program of Incentives for the Port and Industrial Activities of Ceará
PROVIN - Program for Attraction of Industrial Investments
TJLP - Long-term Interest Rate

a) Financing - Proapi and Provin

The Company benefits from 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.

Under the Provin program, the financing is granted based on ICMS due, as mentioned above, and the benefit periods and reduction percentage are as follows:

13. **Borrowings**--Continued

a) Financing - Proapi and Provin--Continued

	Provin incentive - Deferred ICMS				
	Incentive	**%**	**Benefit period**	**%**	**Benefit period**
Sobral – CE	PROVIN - ICMS	81%	Up to Feb/2019	75%	Mar/2019 to Apr/2025
Crato – CE	PROVIN - ICMS	81%	Up to Sep/2022	75%	Oct/2022 to Apr/2025
Fortaleza – CE	PROVIN - ICMS	81%	Up to Apr/2025		

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.

The parent company recognized R$ 166,685 (R$ 139,102 in 2011), related to the incentive portions of such financing, in net sales revenue for the year ended December 31, 2012.

Of this amount, R$ 148,200 (R$ 128,571 in 2011) was allocated to the payment of dividends, in accordance with the Company's policy (Note 15.f.) and the remaining R$ 18,485 (R$ 10,531 in 2011) was allocated to revenue reserves, within "Tax incentives", in equity, as disclosed in Note 15.d.

The portions of this financing that did not represent incentives, amounting to R$ 2,215 and R$ 11,670 at December 31, 2012 (R$ 3,047 and R$ 9,945 in 2011), were recorded as current and non-current liabilities, respectively. Under an agreement with the Government of Ceará, the Company offset the installments that fell due in 2011 with credits from tax incentives.

13. **Borrowings**--Continued

a) Financing - Proapi and Provin--Continued

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.

The table below presents the benefit period:

	Incentive	Benefit period
Sobral – CE	PROAPI - EXPORT	Up to Jan/2014

b) Payment schedule

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

	Long-term portions						
Maturity	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Bank financing	470	468	468	468	468	368	2,710
Proapi	4,073	2,653	1,735	1,680	-	-	10,141
Provin	32	306	133	1,058	-	-	1,529
Total	**4,575**	**3,427**	**2,336**	**3,206**	**468**	**368**	**14,380**

c) Guarantees

The guarantees for borrowings are as follows: a) statutory lien on financed machinery and equipment; and b) personal sureties provided by the Company's directors. Existing guarantees are funded by the values.

14. Provision for labor claims, tax and civil

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 claims were as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at the beginning of the year	**3,000**	3,100	**3,003**	3,103
Additions	**384**	-	**384**	-
Reversal/realization	**(943)**	(100)	**(943)**	(100)
Balance at the end of the year	**2.441**	3,000	**2,444**	3,003
(-) Total current liabilities	**(1,994)**	(1,000)	**(1,997)**	(1,003)
Total non-current liabilities	**447**	2,000	**447**	2,000

The Company has labor lawsuits, tax and civil involving risks of loss classified by management as possible, based on the evaluation of the legal advisors, for which no provision was recognized. The composition and estimates are presented below:

	Parent company / consolidated	
	2012	**2011**
Tax		
PIS and COFINS	**2,785**	2,785
INSS	**383**	383
Libor	**3,321**	5,964
Civil	**213**	163
	6,702	9,295

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

15. Equity

a) Share capital

At December 31, 2012 and 2011 fully subscribed and paid-up capital comprised 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 and adjustments for fluctuations in the market price of available-for-sale financial instruments.

c) Capital reserve

This reserve refers to the amount of the stock options granted by the Company to its officers, with a corresponding entry to the results for the year.

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 was R$ 67,656 at December 31, 2012 (R$ 51,252 in 2011).

- *Profit retention reserve*

  The balance at December 31, 2012, amounting to R$ 39,716 (R$ 23,838 in 2011), refers to the amount retained for the purchase of treasury shares, in order to comply with the share-based payment plans.

15. **Equity**--Continued

d) Revenue reserves--Continued

- *Government grants*

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.

	Parent / Consolidated			
Incentives	**Closing balance in 2011**	**Incentives generated by the operation**	**Distributed incentives**	**Closing balance in 2012**
ICMS and Export	287,982	**167,881**	**(148,200)**	**307,663**
IRPJ	118,462	**82,701**	**-**	**201,163**
	406,444	**250,582**	**(148,200)**	**508,826**

	Parent / Consolidated			
Incentives	**Closing balance in 2010**	**Incentives generated by the operation**	**Distributed incentives**	**Closing balance in 2011**
ICMS and Export	276,648	139,905	(128,571)	287,982
IRPJ	59,768	58,694	-	118,462
	336,416	198,599	(128,571)	406,444

15. **Equity**--Continued

e) Treasury shares

In order to comply with the stock option plan (Note 20), programs for the acquisition of 500,000 registered common shares and of 3,000,000 registered common shares were approved at the 40th and 45th Board of Directors Meetings held on February 24, 2011 and March 1, 2012, respectively, without a capital reduction. The total number of Company shares permitted by the programs is up to 3,500,000 registered common shares, equivalent to 4.64% of the outstanding shares.

Pursuant to CVM Instruction 10/80, the maximum term for the program is 365 days.

The changes in treasury shares were as follows:

	Common shares	R$
Balance at the beginning of the year	-	-
Repurchases	310,000	2,612
Exercise of share purchase options (Note 20)	(310,000)	(2,612)
Balance at the end of the year	-	-

The average purchase price of these shares was R$ 8.43, the lowest price being R$ 7.78 and the highest price R$ 9.61.

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, 2012 and 2011 and on the Company's capacity of generating operating cash, management submitted for approval, at the General Meeting of Stockholders, the distribution of dividends, calculated as follows:

15. **Equity**--Continued

f) Dividends--Continued

	2012	2011
Profit for the year	**429,003**	305,446
Gains on sale of shares related to the stock option plan	**(836)**	(2,819)
Tax incentives reserve	**(100,925)**	(69,225)
Tax incentive reserve of subsidiary - MHL Calçados Ltda.	**(1,457)**	(803)
Transfer to legal reserve	**(16,404)**	(11,811)
Calculation basis of dividends	**309,381**	220,788
Management proposal	**293,503**	219,526
Percentage on the calculation basis	**94.9%**	99.4%

Of the amount proposed in the year ended December 31, 2011, R$ 132,317 was paid during 2011, and the remaining balance of R$ 87,209 was settled on April 26, 2012.

In 2012, the Company's Board of Directors approved the payment of interim dividends amounting to R$ 188,250, distributed as follows: R$ 58,941 (representing R$ 0.196 per share) on May 16, 2012, R$ 42,702 (representing R$ 0.142 per share) on August 22, 2012, and R$ 86,607 (representing R$ 0.288 per share) on November 21, 2012.

Management also proposed at December 31, 2012 the additional payment of R$ 105,253 (representing R$ 0.35 per share), totaling a dividend of R$ 293,503 for the year , after legal and statutory deductions.

The intended percentage for payment of dividends represented approximately 75% of the profit for the year after transfers to reserves.

15. **Equity**--Continued

g) Earnings per share

As required by CPC 41/ IAS 33 - Earnings per share, presented below is 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):

	Parent company	
	2012	**2011**
Numerator		
Profit for the year	**429,003**	305,446
Denominator		
Weighted average number of common shares	**300,720,000**	300,720,000
Basic earnings per common share	**1.43**	1.02
Weighted average number of common shares	**300,720,000**	300,720,000
Exercise of option to purchase shares	**1,504,579**	1,022,566
	302,224,579	301,742,566
Diluted earnings per common share	**1.42**	1.01

16. Income tax and social contribution

a) Current income tax and social contribution

Income tax and social contribution payable are recorded in current liabilities under the caption taxes and contributions, net of offsets made in the year and tax incentives, as follows:

	2012					
	Parent company			Consolidated		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	**100,231**	**38,362**	**138,593**	**111,983**	**38,496**	**150,479**
Government grants	**(82,440)**	**-**	**(82,440)**	**(82,701)**	**-**	**(82,701)**
	17,791	**38,362**	**56,153**	**29,282**	**38,496**	**67,778**
Offsets	**(19,441)**	**(35,851)**	**(55,292)**	**(19,520)**	**(35,985)**	**(55,505)**
	(1,650)	**2,511**	**861**	**9,762**	**2,511**	**12,273**

	2011					
	Parent company			Consolidated		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
Amount due	75,261	28,419	103,680	75,126	28,431	103,557
Government grants	(58,694)	-	(58,694)	(58,694)	-	(58,694)
	16,567	28,419	44,986	16,432	28,431	44,863
Offsets	(21,313)	(27,512)	(48,825)	(21,341)	(27,518)	(48,859)
	(4,746)	907	(3,839)	(4,909)	913	(3,996)

16. 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	
	2012	**2011**	**2012**	**2011**
Classified in non-current assets:				
Income tax				
Provision for impairment of trade receivables	**4,613**	4,286	**4,647**	4,329
Provision for discounts on prompt payments	**8,155**	7,194	**8,302**	7,308
Adjustment to present value	**1,346**	2,061	**1,939**	2,219
Provision for adjustment of obsolete inventories	**768**	741	**812**	768
Provision for obligations payable	**-**	1,278	**-**	1,318
Provision for labor claims	**575**	750	**575**	751
Fair value adjustment - Financial investments	**-**	(983)	**-**	(983)
Depreciation	**(926)**	(1,746)	**(926)**	(1,746)
Tax losses in subsidiaries	**-**	-	**974**	915
Other	**494**	724	**1,405**	(570)
	15,025	14,305	**17,728**	14,309
Social contribution				
Provision for impairment of trade receivables	**1,762**	1,543	**1,763**	1,543
Provision for discounts on prompt payments	**3,116**	2,590	**3,169**	2,631
Adjustment to present value	**514**	742	**514**	742
Provision for adjustment of obsolete inventories	**293**	267	**293**	267
Provision for obligations payable	**-**	460	**-**	474
Provision for labor claims	**220**	270	**220**	270
Fair value adjustment - Financial investments	**-**	(354)	**-**	(354)
Depreciation	**(354)**	(629)	**(354)**	(629)
Other	**189**	261	**(51)**	(7)
	5,740	5,150	**5,554**	4,937
Non-current assets	**20,765**	19,455	**23,282**	19,246

c) Changes in deferred income tax and social contribution

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at the beginning of the year	**19,455**	11,148	**19,246**	11,491
Taxes recorded in the result for the year	**(27)**	10,190	**2,379**	10,018
Taxes recorded in equity	**1,337**	(1,883)	**1,657**	(2,263)
Balance at the end of the year	**20,765**	19,455	**23,282**	19,246

16. 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:

	2012			
	Parent company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxes	485,183	485,183	495,290	495,290
Effect of profit adjustments due to change in accounting practice - Law 11,638/07	(13,784)	(13,784)	(14,980)	(14,980)
Adjusted profit before taxes	471,399	471,399	480,310	480,310
Income tax and social contribution at standard rates of 25% and 9%, respectively	(117,850)	(42,426)	(120,078)	(43,228)
Adjustments for calculation of effective rate				
Equity in the results of investees	4,099	1,476	-	-
Permanent additions	(7,742)	(2,787)	(7,742)	(2,787)
Technological innovation incentive	8,584	3,090	8,584	3,090
Hedge transactions	28	7	28	7
Effect of depreciation recalculation	820	275	820	275
Workers' Meal Program (PAT) deduction as tax incentives	2,557	-	2,566	-
Other tax incentives (Rouanet Law/ Child and Adolescent Rights Fund - Funcriança/ Audiovisual/Sports)	3,750	-	3,750	-
Unrealized profits in inventories	(117)	(28)	(117)	(28)
Other	5,377	2,267	2,322	4,438
Amount before tax incentive deduction	(100,494)	(38,126)	(109,867)	(38,233)
Effective rate after considering impacts of Law 11,638/07	21.3%	8.1%	22.9%	8.0%
Tax incentives (Profit from tax incentive operations)	82,440	-	82,701	-
Amount recognized in the statement of income	(18,054)	(38,126)	(27,166)	(38,233)
Total taxes recognized in the statement of income	(56,180)		(65,399)	
Current taxes	(56,153)		(67,778)	
Deferred taxes	(27)		2,379	
Effective rate	11.6%		13.2%	

16. Income tax and social contribution--Continued

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

	2011			
	Parent company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxes	340,242	340,242	340,296	340,296
Effect of profit adjustments due to change in accounting practice - Law 11,638/07	(1,766)	(1,766)	(2,639)	(2,639)
Adjusted profit before taxes	338,476	338,476	337,657	337,657
Income tax and social contribution at standard rates of 25% and 9%, respectively	(84,619)	(30,463)	(84,414)	(30,389)
Adjustments for calculation of effective rate				
Equity in the results of investees	438	158	-	-
Permanent additions	(992)	(357)	(992)	(357)
Technological innovation incentive	11,816	4,254	11,816	4,254
Hedge/swap transactions	146	52	146	52
Effect of depreciation recalculation	996	358	996	358
Workers' Meal Program (PAT) deduction as tax incentives	1,895	-	1,895	-
Other tax incentives (Rouanet Law/ Child and Adolescent Rights Fund - Funcriança/ Sports)	1,762	-	1,762	-
Unrealized profits in inventories	745	268	745	268
Other	45	8	350	(29)
Amount before tax incentive	(67,768)	(25,722)	(67,696)	(25,843)
Effective rate after considering impacts of Law 11,638/07	20.0%	7.6%	20.0%	7.7%
Tax incentives (Profit from tax incentive operations)	58,694	-	58,694	-
Amount recognized in the statement of income	(9,074)	(25,722)	(9,002)	(25,843)
Total taxes recognized in the statement of income	(34,796)		(34,845)	
Current taxes	(44,986)		(44,863)	
Deferred taxes	10,190		10,018	
Effective rate	10.2%		10.2%	

17. Finance result

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Finance costs				
Losses on foreign exchange hedge - Commodities and Futures Exchange (BM&F)	**(11,277)**	(5,324)	**(11,277)**	(5,324)
Financing expenses	**(6,790)**	(15,038)	**(9,223)**	(15,038)
Foreign exchange losses	**(34,438)**	(27,502)	**(47,738)**	(38,138)
Other finance costs	**(2,488)**	(3,562)	**(4,222)**	(4,293)
	(54,993)	(51,426)	**(72,460)**	(62.793)
Finance income				
Interest received from customers	**1,874**	2,869	**1,889**	2,883
Gains on foreign exchange hedge - BM&F	**14,834**	3,939	**14,834**	3,939
Income from financial investments	**92,609**	128,120	**93,747**	128,810
Foreign exchange gains	**34,883**	25,662	**49,708**	35,451
Adjustment to present value	**41,272**	42,122	**41,272**	42,122
Other finance income	**3,391**	2,121	**3,487**	2,591
	188,863	204,833	**204,937**	215,796
Finance result	**133,870**	153,407	**132,477**	153,003

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, are presented below:

a) Financial instruments

The main financial instruments at December 31, 2012 and 2011 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 "available-for-sale financial assets" are measured at fair value.

18. Financial instruments and risk management--Continued

a) Financial instruments--Continued

- 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 - 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 method, and are carried at their contractual amounts. The fair values of borrowings approximate their carrying amounts.

The main financial instruments of the Company and its subsidiaries at December 31, 2012 and 2011 were as follows:

	Carrying amount			
	Parent company		**Consolidated**	
	2012	**2011**	**2012**	**2011**
Financial assets				
Cash and cash equivalents	**8,125**	51,128	**14,489**	61,518
Financial investments	**859,421**	854,062	**859,421**	854,062
Trade receivables	**705,661**	639,365	**806,149**	624,586
Derivatives	**568**	84	**568**	84
Financial liabilities				
Borrowings	**63,013**	109,966	**137,963**	110,674
Trade payables	**52,558**	25,166	**56,806**	27,011

18. Financial instruments and risk management--Continued

a) Financial instruments--Continued

	Fair value			
	Parent company		Consolidated	
	2012	2011	2012	2011
Financial assets				
Cash and cash equivalents	**8,125**	51,128	**14,489**	61,518
Financial investments (*)	**859,421**	854,564	**859,421**	854,564
Trade receivables	**705,661**	639,365	**806,149**	624,586
Derivatives	**568**	84	**568**	84
Financial liabilities				
Borrowings	**63,013**	109,966	**137,963**	110,674
Trade payables	**52,558**	25,166	**56,806**	27,011

(*) The Company measures its financial instruments at fair value through profit or loss, as required by CPC 40/IFRS 7 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 4c.4.

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 are subject to foreign exchange exposure. These instruments are utilized for the specific purpose of hedging, and the portfolio includes the sale of US Dollar futures through financial instruments destined 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 US dollar exchange rate until the settlement of the contracts.

18. Financial instruments and risk management--Continued

b) Derivative financial instruments--Continued

b.1) *Foreign exchange rate hedge*--Continued

The maximum limits of net foreign exchange exposure comprise: *(i)* bank account balances in foreign currency abroad; *(ii)* financial investments abroad; *(iii)* balance receivable from foreign exchange contracts to be closed; *(iv)* projections of exports of up to 90 days, less *(i)* trade payable balances in foreign currency, *(ii)* imports in transit and (iii) advances on exchange contracts. 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 or the utilization of exotic derivatives for speculative purposes, without the express authorization of the Company's officers, are not permitted. To date, there is no authorization by the Company's management to use other forms of hedging.

Foreign exchange hedge transactions are usually effected with the BM&F through specialized brokers, without the requirement of a deposit margin. The guarantee usually comprises the Company's investments in government securities, considering the limits and exposures to foreign exchange risk, as defined in the policy for management of counterparty risk.

The table below shows the positions at December 31, 2012 and 2011, 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$)			Balance receivable Fair value		
	Currency	2012	2011	Currency	2012	2011	Currency	2012	2011
Futures contracts:									
Sale commitments									
Sold position									
Foreign currency	US$	**76,000**	10,000	R$	**156,077**	18,800	R$	**568**	84
Total	US$	**76,000**	10,000	R$	**156,077**	18,800	R$	**568**	84

It should be noted that these transactions were linked to sales and financial assets in foreign currency, which are also subject to exchange rate changes, offsetting any gains or losses. The balance receivable of the fair value presented at December 31, 2012, in the amount of R$ 568 (R$ 84 in 2011), is classified in notes receivable.

18. Financial instruments and risk management--Continued

c) Risk management

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

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

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

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

a) Credit risk:

The Company and its subsidiaries are potentially subject to counterparty credit risk in their financial transactions and accounts receivable. 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, 2012 and 2011.

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:

	2012					
	Parent company			**Consolidated**		
	Up to one year	**From 1 to 9 years**	**Total**	**Up to one year**	**From 1 to 9 years**	**Total**
Property, plant and equipment financing	**474**	**2,710**	**3,184**	**474**	**2,710**	**3,184**
Working capital - ACC and ACE	**45,944**	**-**	**45,944**	**120,894**	**-**	**120,894**
Financing - Proapi and Provin	**2,215**	**11,670**	**13,885**	**2,215**	**11,670**	**13,885**
	48,633	**14,380**	**63,013**	**123,583**	**14,380**	**137,963**

	2011					
	Parent company			**Consolidated**		
	Up to one year	**From 1 to 9 years**	**Total**	**Up to one year**	**From 1 to 9 years**	**Total**
Property, plant and equipment financing	476	3,178	3,654	476	3,178	3,654
Working capital - ACC and ACE	93,320	-	93,320	94,028	-	94,028
Financing - Proapi and Provin	3,047	9,945	12,992	3,047	9,945	12,992
	96,843	13,123	109,966	97,551	13,123	110,674

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

	2012					
	Parent company			Consolidated		
	Projection including future interest			Projection including future interest		
	Up to one year	From 1 to 9 years	Total	Up to one year	From 1 to 9 years	Total
Property, plant and equipment financing	**607**	**3,066**	**3,673**	**607**	**3,066**	**3,673**
Working capital - ACC and ACE	**46,118**	**-**	**46,118**	**135,752**	**-**	**135,752**
Financing - Proapi and Provin	**2,274**	**13,775**	**16,049**	**2,274**	**13,775**	**16,049**
	48,999	**16,841**	**65,840**	**138,633**	**16,841**	**155,474**

	2011					
	Parent company			Consolidated		
	Projection including future interest			Projection including future interest		
	Up to one year	From 1 to 9 years	Total	Up to one year	From 1 to 9 years	Total
Property, plant and equipment financing	630	3,666	4,296	630	3,666	4,296
Working capital - ACC and ACE	93,639	-	93,639	94,355	-	94,355
Financing - Proapi and Provin	3,196	11,927	15,123	3,196	11,927	15,123
	97,465	15,593	113,058	98,181	15,593	113,774

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 loans and financing, 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.

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 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 accounts receivable originating from exports from Brazil, financial investments and foreign investments are utilized as a natural hedge against fluctuations in 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.

The Company had advances on export contracts in the amount of US$ 22,489 thousand at December 31, 2012 (US$ 49,760 thousand in 2011), which is consistent with the sales scheduled for the foreign market up to the maturity of the contracts. There were no other loans or financing 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.

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, 2012, 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 2012 (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, 2012, 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$	55,932	47,339	38,735
Rate decrease by			**25.00%**	**50.00%**
Reference for finance income				
CDI %		6.90%	5.18%	3.45%
Amplified Consumer Price Index (IPCA)		5.53%	4.15%	2.77%
INCREASE IN FINANCE COST				
Financing charges - Proapi and Provin	R$	700	874	1,049
Rate increase by			**25.00%**	**50.00%**
Reference for financial liabilities				
TJLP - Long-term Interest Rate		5.50%	6.88%	8.25%

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 hedge transactions in 3 (three) scenarios for 2012, namely:

- Probable scenario: This scenario considered that the transaction would be settled at a US dollar exchange rate of R$ 2.0536.

- Possible scenario: This scenario considered that the transaction would be settled at a U.S. dollar exchange rate of R$ 2.5671, 25% higher than the rate for the first scenario.

- Remote scenario: This scenario considered that the transaction would be settled at a U.S. dollar exchange rate of R$ 3.0805, 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, 2013.

	Notional value				
	Currency	**2012**	**US dollar exchange rate in 2012**	**Amount in R$**	**Impact**
Probable Scenario					
Sale commitments					
Short position	US$	76,000	R$ 2.0536	156,077	568
Possible Scenario - 25%					
Sale commitments					
Short position	US$	76,000	R$ 2.5671	195,100	(39,023)
Remote Scenario - 50%					
Sale commitments					
Short position	US$	76,000	R$ 3.0805	234,118	(78,041)

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 shareholder 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 change in the dividend policy in 2011, which started including tax incentives related to the Provin and Proapi programs in the dividend calculation basis, did not have impacts on the Company's capital management objectives, policies or processes adopted during the years ended December 31, 2012 and 2011.

	Parent company		**Consolidated**	
	2012	**2011**	**2012**	**2011**
Current and non-current borrowings	**63,013**	109,966	**137,963**	110,674
(-) Cash and cash equivalents	**(8,125)**	(51,128)	**(14,489)**	(61,518)
Net debt	**54,888**	58,838	**123,474**	49,156
Equity	**1,952,332**	1,800,563	**1,953,562**	1,800,952
Gearing ratio	**2.8%**	3.3%	**6.3%**	2.7%

19. Transactions and balances 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

	Parent company							
	Balances				Transactions			
	Asset balances related to loan agreements and current account	Liability balances related to loan agreements and current account	Accounts receivable from sales	Accounts payable	Sales of products	Purchases of goods and services	Finance costs	Finance income
Subsidiaries								
Grendene USA, Inc.								
At 12/31/2012	**-**	**-**	**6,936**	**100**	**10,375**	**1,296**	**876**	**1,692**
At 12/31/2011	-	-	5,753	2,273	7,291	1,032	1,895	1,273
Grendene Argentina S.A.								
At 12/31/2012	**-**	**-**	**-**	**-**	**26,197**	**-**	**-**	**-**
At 12/31/2011	-	-	43,714	-	29,238	-	-	-
MHL Calçados Ltda.								
At 12/31/2012	**-**	**-**	**1,236**	**366**	**13,236**	**355**	**-**	**-**
At 12/31/2011	-	-	9,397	11	14,601	18	-	-
Other								
Telasul S.A.								
At 12/31/2012	**-**	**-**	**3**	**-**	**3**	**1,920**	**-**	**-**
At 12/31/2011	-	-	-	193	13	3,407	-	-
Vulcabrás Azaléia – CE, Calçados e Artigos Esportivos S.A.								
At 12/31/2012	**-**	**-**	**4**	**-**	**431**	**-**	**-**	**-**
At 12/31/2011	-	-	92	-	555	-	-	-
Vulcabrás Azaléia – BA, Calçados e Artigos Esportivos S.A.								
At 12/31/2012	**-**	**-**	**3**	**-**	**11**	**-**	**-**	**-**
At 12/31/2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Vulcabrás Azaléia Argentina S.A.								
At 12/31/2012	**-**	**-**	**533**	**-**	**1,052**	**-**	**116**	**230**
At 12/31/2011	-	-	1,061	-	1,380	-	278	352

19. Transactions and balances with related parties--Continued

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

	Consolidated							
	Balances				Transactions			
	Asset balances related to loan agreements and current account	Liability balances related to loan agreements and current account	Accounts receivable from sales	Accounts payable	Sales of products	Purchases of goods and services	Finance costs (Foreign exchange variations)	Finance income (Foreign exchange variations)
Other								
Telasul S.A.								
At 12/31/2012	**-**	**-**	**3**	**-**	**3**	**1,920**	**-**	**-**
At 12/31/2011	-	-	-	193	13	3,407	-	-
Vulcabrás Azaléia – CE, Calçados e Artigos Esportivos S.A.								
At 12/31/2012	**-**	**-**	**4**	**-**	**431**	**-**	**-**	**-**
At 12/31/2011	-	-	92	-	555	-	-	-
Vulcabrás Azaléia – BA, Calçados e Artigos Esportivos S.A.								
At 12/31/2012	**-**	**-**	**3**	**-**	**11**	**-**	**-**	**-**
At 12/31/2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Vulcabrás Azaléia Argentina S.A.(*)								
At 12/31/2012	**-**	**-**	**533**	**-**	**1,052**	**6,665**	**116**	**230**
At 12/31/2011	-	-	1,061	412	1,380	4,628	278	352

(*) The balance of trade payables and the purchase of goods by the related party Vulcabrás Azaléia Argentina S.A. refer to transactions and balances with the subsidiary Grendene Argentina.

b) Nature, terms and conditions of transactions - Related parties

- The sales to the subsidiaries Grendene USA, Inc. (located in the United States) and Grendene Argentina S.A. (located in Argentina) refer to sales of shoes to supply their local markets. The sales to the subsidiary MHL Calçados Ltda. and the related parties Vulcabrás Azaléia - CE, Calçados e Artigos Esportivos S.A. (located in Brazil), Vulcabrás Azaléia - BA, Calçados e Artigos Esportivos S.A. (located in Brazil), and Vulcabrás Azaléia Argentina S.A. (located in Argentina), refer to sales of inputs used in footwear production. The average collection period for sales in the foreign market is approximately 180 days and for sales in the domestic market is approximately 174 days.

19. Transactions and balances with related parties--Continued

b) Nature, terms and conditions of transactions - Related parties--Continued

- The transactions with Telasul S.A. (located in Brazil) refer to purchases of exhibition stands for promoting the Company's products. The average payment period is 30 days.

- The transactions with MHL Calçados Ltda. (located in Brazil) refer to the purchase of inputs for the production process. The average payment period is 284 days.

- Grendene USA, Inc. sells footwear items produced by the Company and acts as a sales representative for customers based in the United States. Grendene USA, Inc. receives a 6% commission for sales to US customers delivered directly by Grendene. The average payment term of foreign sales commissions is approximately 180 days.

Telasul S.A, Vulcabrás Azaléia - CE, Calçados e Artigos Esportivos S.A., Vulcabrás Azaléia - BA, Calçados e Artigos Esportivos S.A., and Vulcabrás Azaléia Argentina S.A. are controlled by the stockholders of Grendene S.A.

Alexandre G. Bartelle Participações S.A., Grendene Negócios S.A. and Verona Negócios e Participações S.A. are the controlling shareholders of Grendene S.A. There were no other transactions, except for dividends paid, between the Company and its subsidiaries, for the years ended December 31, 2012 and 2011.

19. Transactions and balances with related parties--Continued

c) Key management remuneration

The salaries and social charges for key management personnel were as follows:

	Parent company	
	2012	**2011**
Board of Directors	**768**	852
Statutory Audit Board	**207**	159
Statutory Directors	**2,808**	3,080
	3,783	4,091

The Company offers a stock option plan as variable compensation, as described in Note 20. The stock option expense was R$ 1,636 for the year ended December 31, 2012 (R$ 1,615 in 2011).

The Company did not pay remuneration to its key management personnel 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. The expenses incurred in connection with these services totaled R$ 602 in the year ended December 31, 2012 (R$ 574 in 2011), representing approximately 0.04% of the Company's general expenses. There were no outstanding balances at December 31, 2012.

20. Stock option plan

The Company recognized an expense in 2012 in connection with the stock option plan as personnel expense, based on the fair value at the grant date, in the amount of R$ 1,636 (R$ 1,615 in 2011).

At the Extraordinary General Meeting held on April 14, 2008, the Company's stockholders approved the "Stock Option 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.

20. Stock option plan--Continued

The share purchase options granted under the Stock Option Plan are limited to 5% of the Company's capital. The shares resulting 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 Plan beneficiaries may exercise their options within 6 years from the grant date. The vesting period will be of up to 3 years, with releases of 33% after one year, 66% after two years and 100% after three years.

At meetings of the Board of Directors, option grants were approved as follows: i) on April 25, 2008, 2,039,901 shares (after split); ii) on March 5, 2009, 900,000 shares (after split); iii) on March 4, 2010, 700,000 shares, iv) on February 4, 2011, 1,741,632 shares; and v) on March 1, 2012, 326,847 shares, for purchase options or subscriptions for the Company's shares by directors and managers, except for directors nominated by the controlling stockholders.

The Extraordinary General Meeting held on September 21, 2009 approved the split of common shares issued by the Company, with each common share being represented by 3 (three) shares after the split.

On March 1, 2012, the 45th Meeting of the Board of Directors approved changes in the Regulation of the Stock Option or Share Subscription Plan, items 4.1, 4.2 and 4.5 of Clause IV, as follows:

20. Stock option plan--Continued

Regulation of the Stock Option or Share Subscription Plan - Clause IV - original text	New text approved at the 45th Board of Directors Meeting
4.1. The exercise of options will consist of the purchase of shares for the established exercise price, after the vesting term. For this purpose, the beneficiary must formally request the exercise of the options to the Company, through a Notice of Exercise, in a maximum period of fifteen (15) days, subsequent to the Board of Directors Meeting, which (a) approved the prior year financial statement or (b) approved the financial statements of the first six-month period of the year, within the limits mentioned in item 3.2. above.	4.1. The exercise of options will consist of the purchase of shares for the established exercise price, after the vesting term. For this purpose, the beneficiary must formally request the exercise of the options to the Company, through a Notice of Exercise, in a maximum period of fifteen (15) days, subsequent to the Board of Directors Meeting, which approved the prior year financial statements within the limits mentioned in item 3.2 above.
4.2. The beneficiary can issue the Notice of Exercise only after the disclosure of the results for the year and six-month period.	4.2. The beneficiary can issue the Notice of Exercise only after the disclosure of the results for the year.
4.3. The Board of Directors, at its sole discretion, but within the legal limits mentioned above, can apply a discount of up to 20% on the result of the average referred to in this item.	4.3. The Board of Directors, at its sole discretion, but within the legal limits mentioned above, can apply a discount of up to 50% on the result of the average referred to in this item.

a) Summary of grants of share purchase options or subscriptions

The options granted and the related changes were as follows:

Grant date	Option exercise price - R$	Vesting period as from grant date	Maximum number of shares	Option premium - R$	Fair value at grant date - R$
4/25/2008	7.30	4/25/2009	679,967	0.31	7.61
4/25/2008	7.30	4/25/2010	1,359,934	0.31	7.61
4/25/2008	7.30	4/25/2011	2,039,901	0.31	7.61
3/5/2009	4.26	3/5/2010	300,000	0.42	4.68
3/5/2009	4.26	3/5/2011	600,000	0.42	4.68
3/5/2009	4.26	3/5/2012	900,000	0.42	4.68
3/4/2010	10.08	3/4/2011	233,333	2.28	12.36
3/4/2010	10.08	3/4/2012	466,666	2.28	12.36
3/4/2010	10.08	3/4/2013	700,000	2.28	12.36
2/24/2011	10.80	2/24/2012	580,544	1.20	12.00
2/24/2011	10.80	2/24/2013	1,161,088	1.20	12.00
2/24/2011	10.80	2/24/2014	1,741,632	1.20	12.00
3/1/2012	4.33	3/1/2013	108,949	4.21	8.54
3/1/2012	4.33	3/1/2014	217,898	4.21	8.54
3/1/2012	4.33	3/1/2015	326,847	4.21	8.54

20. Stock option plan--Continued

a) Summary of grants of share purchase options or subscriptions--Continued

	Number of shares				
Grant year	**Closing balance in 2011**	**Granted**	**Exercised**	**Canceled**	**Closing balance in 2012**
2008	518,510	**-**	**(12,633)**	**(52,152)**	**453,725**
2009	297,614	**-**	**(297,367)**	**-**	**247**
2010	654,751	**-**	**-**	**(26,769)**	**627,982**
2011	1,666,176	**-**	**-**	**(62,976)**	**1,603,200**
2012	-	**326,847**	**-**	**(6,666)**	**320,181**
	3,137,051	**326,847**	**(310,000)**	**(148,563)**	**3,005,335**

	Number of shares				
Grant year	**Closing balance in 2010**	**Granted**	**Exercised**	**Canceled**	**Closing balance in 2011**
2008	1,288,876	-	(760,577)	(9,789)	518,510
2009	658,175	-	(339,423)	(21,138)	297,614
2010	693,112	-	-	(38,361)	654,751
2011	-	1,741,632	-	(75,456)	1,666,176
	2,640,163	1,741,632	(1,100,000)	(144,744)	3,137,051

20. Stock option plan--Continued

b) Net result from share purchase options

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

Stock option plan	Changes	Grant/ realization date	Maximum number of shares	Number of common shares	Average share price	Statement of income: Adjustments of stock option plan	Statement of income: Proceeds from sale of shares
First	Share purchase options issued	4/25/2008	2,039,901	-	7.29	-	-
	(-) Exercise of share purchase options	9/3/2009	-	(213,000)	7.05	-	-
	Issue for capital increase	3/22/2010	-	496,875	7.29	-	-
	(-) Exercise of share purchase options	3/22/2010	-	(496,875)	7.29	-	-
	(-) Canceled	3/29/2010	-	(41,150)	7.29	-	-
	(-) Canceled	2/25/2011	-	(9,789)	7.29	-	-
	(-) Exercise of share purchase options	3/15/2011	-	(760,577)	6.64	-	-
	(-) Exercise of share purchase options	3/14/2012	-	(12,633)	4.74	-	(12)
	(-) Canceled	5/4/2012	-	(52,152)	7.29	(37)	-
Second	Share purchase options issued	3/5/2009	900,000	-	4.12	-	-
	Issue for capital increase	3/22/2010	-	223,125	4.12	-	-
	(-) Exercise of share purchase options	3/22/2010	-	(223,125)	4.12	-	-
	(-) Canceled	3/29/2010	-	(18,700)	4.12	-	-
	(-) Canceled	2/25/2011	-	(8,620)	4.12	-	-
	(-) Exercise of share purchase options	3/15/2011	-	(339,423)	6.64	-	-
	(-) Canceled	7/1/2011	-	(12,518)	4.12	-	-
	(-) Exercise of share purchase options	3/14/2012	-	(297,367)	4.74	-	(150)
Third	Share purchase options issued	3/4/2010	700,000	-	9.16	-	-
	(-) Canceled	7/29/2010	-	(6,888)	9.16	-	-
	(-) Canceled	2/25/2011	-	(9,189)	9.16	-	-
	(-) Canceled	7/1/2011	-	(29,172)	9.16	-	-
	(-) Canceled	5/4/2012	-	(26,769)	9.16	(55)	-
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	(47)	
Fifth	Share purchase options issued	3/1/2012	326,847	-	3.92	-	-
	(-) Canceled	5/4/2012	-	(6,666)	3.92	(4)	
	Changes in shares in equity					**(143)**	**(162)**

c) Economic assumptions adopted for the 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:

20. Stock option plan--Continued

c) Economic assumptions adopted for recognition of employee remuneration expenses--Continued

	Granted on 4/25/2008	Granted on 3/5/2009	Granted on 3/4/2010	Granted on 2/24/2011	Granted on 3/1/2012
Total purchase options granted	2,039,901	900,000	700,000	1,741,632	326,847
Exercise price	7.30	4.26	10.08	10.80	4.33
Estimated volatility	36.50%	36.50%	32.80%	27.60%	14.07%
Expected dividends	6%	9%	4%	4%	7%
Weighted average risk-free interest rate	12.00%	9.25%	11.25%	12.50%	9.50%
Maximum maturity	6 years	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	0.31	0.42	2.28	1.20	4.21
Fair value at grant date	7.61	4.68	12.36	12.00	8.54

The volatility was determined based on the average historical fluctuation 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 granted during the service period required by the plan is recorded as an expense, on a straight-line basis, against a capital reserve.

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

21. Insurance

The Company contracts insurance at amounts considered sufficient to cover any losses in its industrial plants. The main types of insurance are as follows:

Risk covered	Amount insured	Effective period	Insurance company
Fire, windstorm and electrical damages:			
Buildings	**139,691**	12/31/2011 to 12/31/2012	Itaú Seguros
Machinery and equipment	**270,231**	12/31/2011 to 12/31/2012	Itaú Seguros
Inventories	**74,003**	12/31/2011 to 12/31/2012	Itaú Seguros

22. Expenses by nature

The Company elected to present the consolidated statement of income by function. As required by IFRS, presented below are the details of the consolidated statement of income by nature:

	Parent company		Consolidated	
	2012	2011	2012	2011
Expenses by function				
Classified as:				
Cost of sales	**(979,681)**	(841,219)	**(1,000,168)**	(840,497)
Selling expenses	**(422,568)**	(379,046)	**(450,965)**	(396,096)
General and administrative expenses	**(63,369)**	(56,806)	**(70,413)**	(61,177)
Other operating income	**5,632**	6,587	**5,752**	6,678
Other operating expenses	**(3,624)**	(4,171)	**(3,719)**	(4,251)
	(1,463,610)	(1,274,655)	**(1,519,513)**	(1,295,343)
Expenses by nature				
Personnel expenses	**(438,866)**	(410,400)	**(446,599)**	(416,883)
Raw materials	**(452,962)**	(352,082)	**(461,581)**	(355,937)
Consumables and supplies	**(51,958)**	(48,263)	**(53,262)**	(49,212)
Freight	**(91,614)**	(68,665)	**(95,727)**	(71,358)
Advertising and publicity	**(136,397)**	(134,303)	**(147,009)**	(138,690)
Copyrights	**(54,158)**	(48,804)	**(54,158)**	(48,804)
Commissions	**(79,838)**	(63,922)	**(82,509)**	(65,305)
Electric energy	**(26,316)**	(22,731)	**(27,322)**	(23,554)
Depreciation and amortization	**(29,886)**	(27,631)	**(30,822)**	(28,060)
Other expenses	**(101,615)**	(97,854)	**(120,524)**	(97,540)
	(1,463,610)	(1,274,655)	**(1,519,513)**	(1,295,343)

23. Net sales revenue

Net sales revenue is comprised as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Gross sales revenue	**2,226,809**	1,807,777	**2,359,575**	1,846,706
Domestic market	***1,872,380***	1,532,728	***1,883,389***	*1,533,442*
Adjustment to present value - AVP	***(37,987)***	*(43,559)*	***(37,987)***	*(43,559)*
Foreign market	***349,575***	*289,266*	***472,507***	*327,037*
Adjustment to present value - AVP	***(754)***	*(603)*	***(2,135)***	*(573)*
Tax incentives - Proapi / Procomex	***33,434***	*27,432*	***33,550***	*27,818*
*Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)**	***10,161***	*2,513*	***10,251***	*2,541*
Sales returns	**(39,995)**	(47,090)	**(41,692)**	(46,490)
Financial discounts	**(110,524)**	(93,620)	**(148,610)**	(110,361)
Taxes on sales	**(388,176)**	(313,955)	**(398,144)**	(317,473)
ICMS tax incentives -Provin/ Development Promotion Program of the State of Bahia (Probahia)	**133,251**	111,670	**134,331**	112,158
INSS - National Institute of Social Security**	**(22,824)**	(1,878)	**(23,134)**	(1,904)
	1,798,541	1,462,904	**1,882,326**	1,482,636

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 18.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
National Institute of Social Security (INSS) (**)	1.00%

(*) Effective as from December 1, 2011, in accordance with Law 12,546 of December 14, 2011, which established the Special System for Refund of Tax Amounts to Exporting Companies (Reintegra).

(**) Effective as from December 1, 2011, in accordance with art. 8 of Law 12,546 of 12/14/2011, which replaced the portion of INSS contributions borne by the Company, equivalent to 20% on the total remuneration paid or credited to insured employees, independent contractors and individual taxpayers providing services to the Company. The rate was 1.50% until July 2012. As from August 1, 2012, it decreased to 1.00%, as established by Provisional Measure 563 of April 3, 2012 and Law 12,715 of September 17, 2012.

The credits arising from the non-cumulative PIS/COFINS are presented as a deduction of cost of goods sold in the statement of income.

24. Segment reporting

As the Company only produces synthetic footwear, it is organized as a single business unit for accounting and management purposes. Although the Company's products are intended for different consumers (men, women, children, mass market etc.), they are not controlled by management as independent segments, and the Company's results are accompanied, monitored and evaluated on an integrated basis.

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

	Parent company				Consolidated	
	2012		2011		2012	2011
	Gross sales	Non-current assets	Gross sales	Non-current assets	Gross sales	Gross sales
Domestic market	**1,834,393**	**13,822**	1,489,169	11,337	**1,845,402**	1,489,883
Foreign market	**392,416**	**36,417**	318,608	18,134	**514,173**	356,823
	2,226,809	**50,239**	1,807,777	29,471	**2,359,575**	1,846,706

The Company's non-current assets refer to investments in its subsidiaries: MHL Calçados Ltda. (located in Brasil), Grendene Argentina S.A. (located in Argentina) and Grendene USA, Inc. (located in the United States).

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 subsidiaries abroad (Grendene USA, Inc. and Grendene Argentina S.A., in the United States and Argentina, respectively), as follows:

	Consolidated	
	2012	2011
Gross sales to foreign market from:		
Brazil	**357,749**	289,638
United States	**19,024**	10,574
Argentina	**137,400**	56,611
	514,173	356,823

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

Non-current assets abroad represented less than 5% of the Company's non-current assets.

Atenção

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

Departamento de Traduções - 1º andar

Dados do Projeto

Cliente	**GRENDENE S.A.**
Departamento	Assurance
Tipo de trabalho	DF - 31.12.12
Idioma	P/I
Nome do arquivo	**GRENDENEDF12RL.DOCX**
Código para débito	01029177/0001
Sócio	
Gerente	Livian Selau
Sócio substituto	
Encaminhar para	**Livian Selau**

Andamento - Traduções

	Nome	**Data**	**Observações**
Entrada		15.01.2013	☐ Track Changes ☐ ____
Tradução	RL	15.01 a 17.01.2013	☐ Free Translation
Correções	Diego	18.01.13	☐ Ponto por vírgula ☐ ____
Cheque padrão/Correções	Graciela	18.01.13	☐ Corretor ortográfico
Revisão da tradução	IFN	18-21.01.13	☐ Montagem ITR ☐ ____
Correções	Diego	21-22.01.13	☐ Formatação
Cheque/Correções	Graciela	22 e 23.01.13	
2ª. Revisão			☐ Correções ☐ ____
Correções			☐ Rodapé
3ª. Revisão			☐ OK

	HISTÓRICO DE ALTERAÇÕES / PONTOS DE ATENÇÃO PARA O USUÁRIO		
Página da versão original	**VERSÃO ORIGINAL**	**Página da versão traduzida**	**VERSÃO TRADUZIDA**