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CNPJ: 89.850.341/0001-60

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Report of Management

2011

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Chairman

Pedro Grendene Bartelle
Vice Chairman

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Deputy Chief Executive Officer

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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

REPORT OF MANAGEMENT 2011

Dear Stockholders,

In this publication the management of **Grendene S.A.** presents its **Report of Management**, and the financial statements for Grendene S.A. and consolidated financial statements of Grendene S.A. for the year ended December 31, 2011. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and also on the basis of accounting practices adopted in Brazil, and the rules of the Brazilian Securities Commission (*Comissão de Valores Mobiliários* – CVM). These reports are given in compliance with the requirements of law and the Company's Bylaws, and the Company has adopted all the rules, revisions of rules, and interpretations issued by the IASB that apply to financial statements up to December 31, 2011.

CONTENTS

I. Message from management

In 2011 there was a strong deceleration in the rate of growth of the Brazilian economy, with GDP growth of less than 3% in the year. In comparison, Brazilian GDP growth in 2010 was 7.5%. This in fact frustrated the expectations published by the majority of economic analysts at the beginning of the year.

In spite of the macro context, Grendene achieved solid results, confirming the resilience of its business plan. The results were lower than we expected, but firm and consistent.

Following 40 years of uninterrupted positive results, in 2011 Grendene achieved return on equity of 18.2%, with cash flow from operational activities, of R$68.1 million (mn). Net profit in the year was above R$300mn, a landmark that the company achieved for the first time in 2010. The 2011 net profit is equivalent to R$1.0157 per share. Based on this result, remuneration to stockholders in the form of dividends totaled R$219.5mn (R$0.73 for each share, in December 2011). This amount per share represented a dividend yield of 8.5%, in relation to the average share price for 2011, and a dividend payout of 74.8%.

The investments in the consolidation of the brand and in the relationship with the distribution channels, and the improvement in internal processes of manufacture and product development, continued to be the main points on which management focused in 2011.

These results were obtained from the production and sale of 150 million pairs of shoes, in our 12 footwear factories, all located in Brazil. 107 million pairs were consumed by Brazil's domestic market – approximately 14% of the country's apparent consumption; and 43 million pairs were exported, corresponding to 37.6% of Brazilian footwear exports in the period. According to figures published by the Secretary of Foreign Trade (Secex), Grendene continued to lead in volume and percentage of Brazilian footwear exports, for the ninth year running, showing its great power of competition in the international markets.

In these 40 years we have earned a significant leadership position in the footwear sector, and we continue to base our activities on strengthening of our brands and growth in the domestic and international markets, confident in the future and in Grendene's potential. Numerous independent agents have attested to this leadership, giving Grendene many awards in recognition of its capacity to deliver results, capacity for innovation, growth, profitability, sustainability and social responsibility. Over the last five years – from 2007 through 2011 – in spite of domestic and external economic difficulties, and in spite of an unfavorable exchange rate, Grendene achieved compound average growth rates of 5.5% p.a. in net revenue, 4.1% p.a. in net profit, and 16.4% p.a. in dividends paid to stockholders. In this period we alternated years of loss and gain in market share (i.e. Grendene's share of total apparent domestic footwear market consumption, as published by the Brazilian Footwear Manufacturers' Association, *Abicalçados*). In 2011, the year in which we believe we lost market share, the loss as we assess it amounted to approximately 2 percentage points in relation to the market share we had in 2007 (16% in 2007, and approximately 14% in 2011).

At the same time, we recovered gross margin – as planned – achieving, in 2011, our best gross margin in the five-year period: 43.3%, which was 270bp more than the gross margin obtained in 2010.

Over the coming years management is determined to maintain and if possible increase the levels of margins obtained in this period, consolidating the trend that has been established.

Also as planned, net cash was at R$804.9mn (5.2% down YoY), due to an increase of R$78.8mn in the total of dividends paid in the year – from R$104.6mn in 2010 to R$183.4mn in 2011 (comprising R$51.1mn, the balance for 2010, and R$132.3mn in interim quarterly payments based on the results of 2011).

In management's opinion, the actions undertaken and the results obtained in 2011 were effective in disciplining costs, but left something to be desired in terms of the efficacy with which our operations took into account the economic context and our short-term commercial decisions and actions. However, with the exception of certain one-off corrections, we see no need to change the business model that we have adopted as our overall strategy for realizing the mission that orients the organization:

"To create democratic fashion, responding rapidly to the market's needs, generating an attractive return for the company and its partners."

We believe that a fundamental measure of our success will be the generation of value for our stockholders over the long-term. This value will be the direct result of our skill in expanding and strengthening our brands and maintaining high production volumes, since the greater the volumes, and the stronger and more recognized are our brands, the more powerful our business model becomes. In our view, strong brands will be directly related to higher revenues, higher profitability, higher turnover of products and assets, and, consequently, greater returns on capital invested.

We also believe that building of brands that enjoy a privileged relationship with clients is a long and cumulative process. In the last five years (2007–2011), among many other efforts, we have invested R$590.0mn in advertising and marketing, as a means of consolidating construction of value, and in the coming years we will seek even more vigorously to get as close as possible to Grendene's final clients. We believe that the understanding of the needs of the final client is a fundamental factor for the success of our business model.

All these actions are coherent with our Values, which highlight precisely the aspects for which we have received public recognition: Profitability, Competitiveness, Innovation and Agility, and Ethics.

Finally, an important recognition: in these 40 years a decisive factor has been the support and trust of suppliers, clients, partners, stockholders and, especially, thousands of dedicated employees who have been committed to our business Vision and Values.

We would like to take this opportunity sincerely to thank them all, sharing with them the success we have achieved.

The Management

II. Principal consolidated indicators (IFRS)

R$mn	2007*	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Gross sales revenue	1,515.5	1,576.0	1,819.4	1,998.6	1,846.7	(7.6%)	5.1%
Domestic market	1,266.2	1,220.5	1,464.4	1,603.8	1,489.9	(7.1%)	4.2%
Exports	249.3	355.5	355.0	394.8	356.8	(9.6%)	9.4%
Exports in US$	128.0	193.8	177.7	224.3	213.0	(5.0%)	13.6%
Net sales revenue	1,198.6	1,249.9	1,455.8	1,604.5	1,482.6	(7.6%)	5.5%
Cost of goods sold	692.7	731.2	889.7	953.3	840.5	(11.8%)	5.0%
Gross profit	505.9	518.7	566.0	651.2	642.1	(1.4%)	6.1%
Operating expenses	332.6	357.2	415.3	438.9	457.3	4.2%	8.3%
Ebit	173.3	161.4	150.8	212.4	184.9	(12.9%)	1.6%
Ebitda	200.6	187.1	177.1	240.5	213.8	(11.1%)	1.6%
Operating result before financial revenue (expenses)	180.8	165.9	152.2	208.4	187.3	(10.1%)	0.9%
Net financial result	99.7	84.2	135.6	122.5	153.0	24.9%	11.3%
Net income	260.5	239.4	272.2	312.4	305.4	(2.2%)	4.1%

R$	2007*	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Average price	10.41	10.76	10.98	11.79	12.30	4.3%	4.3%
Domestic market	12.00	12.38	12.47	13.97	13.85	(0.9%)	3.6%
Exports	6.22	7.43	7.35	7.23	8.39	16.0%	7.8%
Exports in US$	3.19	4.05	3.68	4.11	5.01	21.9%	11.9%

R$	2007*	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Profit per share[1]	0.8663	0.7960	0.9052	1.0388	1.0157	(2.2%)	4.1%
Dividend per share[1]	0.3981	0.3625	0.3658	0.4048	0.7300	80.3%	16.4%

Million of pairs	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Volume	145.6	146.4	165.7	169.5	150.1	(11.4%)	0.8%
Domestic market	105.5	98.6	117.4	114.9	107.6	(6.3%)	0.5%
Exports	40.1	47.8	48.3	54.6	42.5	(22.2%)	1.5%

Margin %	2007*	2008	2009	2010	2011	Change 10/11	Var. 07/11
Gross	42.2%	41.5%	38.9%	40.6%	43.3%	2.7 p.p.	1.1 p.p.
Ebit	14.5%	12.9%	10.4%	13.2%	12.5%	(0.7 p.p.)	(2.0 p.p.)
Ebitda	16.7%	15.0%	12.2%	15.0%	14.4%	(0.6 p.p.)	(2.3 p.p.)
Net	21.7%	19.2%	18.7%	19.5%	20.6%	1.1 p.p.	(1.1 p.p.)

R$	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
US dollar at the end of period	1.7713	2.3370	1.7412	1.6662	1.8758	12.6%	1.4%
Average US dollar	1.9479	1.8346	1.9976	1.7601	1.6750	(4.8%)	(3.7%)

[1] For the purposes of comparability, profit and dividend per share for the years 2007 to 2010 have been calculated based on the number of shares existing on December 31, 2011 (300,720,000 common shares).

Notes:
CAGR: Compound annual growth rate
p.p.: Percentage points
* 2007 - Pro forma data – not audited.

III. The market, and the macro context

Brazilian GDP is estimated to have grown in 2011 by less than 3%, well below the government's forecast at the beginning of the year, of 4.5%, and also below our expectation – which served as the basis for our plan of operations in 2011: An expected GDP growth rate of 4% in the year.

At the beginning of the year the major international concern was the United States, and the possible outcome of its political and economic crisis – at that time the severity of the effects of the crisis in Europe were not widely expected.

Domestically, the year began with concern on meeting the inflation target, and measures adopted at the end of 2010 to contain the economy with high interest rates and restraint on credit. As the slowdown in the economy became confirmed with the worsening of the international economic situation, the government changed direction, withdrawing the previous measures and starting to reduce the interest rate, in August, to soften the effect of the retraction which was becoming more inevitable every day. The problem changed from an overheated economy at the end of 2010 to one with strong indications of slowdown, during the middle part of 2011. The central bank's decision to apply successive cuts in interest rates when inflation was still going up surprised the market, causing fears – which turned out to be unjustified – of a macro economy out of control.

In spite of the negative climate in terms of economic expectations, unemployment continued to fall, and the fears of a catastrophe situation internationally were not confirmed.

In our work, we felt the impact of the slowdown starting from March, with inflation, especially in foods, taking away purchasing power from our consumers, and the desire to consume being reduced by the climate of crisis and uncertainty.

Another ingredient of the crisis was the return of volatility in the exchange rate, to levels not seen since the crisis of 2008. This was not a question of appreciation or depreciation, but instability.

In this context, the protectionist reaction adopted by Argentina to limit its imports by establishing quotas did not help business in general, and especially affected the footwear sector.

Even so, Brazil performed well compared to the overwhelming majority of countries, especially those of Europe. In the export markets it continued to be very competitive in mining products and agribusiness, though much less so in manufacturing, and this was also reflected in the domestic market. According to analysts, while Brazil's GDP grew 16% in the last four years, the contribution by industry to GDP grew by only 4%.

Recognizing these difficulties, the government issued the Law 12.546 of December 14, 2011 (previously, Provisional Measure 540 of August 2, 2011), creating the *Brasil Maior ("Greater Brazil")* Plan. This provides benefits to companies that are labor-intensive, such as Grendene, reducing the Social Security (INSS) contribution – a charge on payroll – to zero from the prior level of 20%, and introducing, in its place, a tax of 3.0% on gross revenue in the domestic market up to the end of 2014. In 2010, this tax cost the Company R$59.9mn. Also, recognizing the difficulty faced by Brazilian exporters, it instituted the *Reintegra* program, which granted a credit of 3.0% of the FOB value of exports, which also benefits Grendene, as Brazil's largest footwear exporter. The *Reintegra* program is in effect up to December 31, 2012.

With this scenario, exports of Brazilian footwear fell by approximately 21%, while imports increased 18.5%, making competition much stiffer in the domestic market. Total Brazilian international trade increased by 25%, with a trade surplus of U$29.8 billion, due to the strong performance of commodities. However, this performance, allied to the substantial inflow of funds for investments, keeps the Brazilian currency at a high value, providing another potential obstacle to exports of footwear.

The footwear sector has in recent years faced predatory competition, principally from the Asian countries that use artificial means to depress the value of their currencies – constituting one more obstacle to Brazilian exports, which have, indeed, lost some scale in the international market in recent years.

Brazil was in the past at one time the world's largest producer of footwear, and today is the third largest producer. It still has an important market share in the footwear segment, due to bringing together quality and design at competitive prices.

Brazilian footwear: Production and apparent consumption

Brazil (mn of pairs)	2007	2008	2009	2010	2011	Change 10/11	CAGR. 07/11
Production	808	816	814	894	849*	(5.0%)	1.2%
Imports	29	39	30	29	34	18.5%	4.3%
Exports	177	166	127	143	113	(21.0%)	(10.6%)
Apparent consumption	660	689	717	780	770*	(1.2%)	3.9%
Per capita consumption (pairs)	3.5	3.6	3.7	4.0	3.9*	(2.0%)	2.9%

Source: IEMI / Secex / Abicalçados
*Estimated by Grendene

Grendene

Mn of pairs	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Volume	145.6	146.4	165.7	169.5	150.1	(11.4%)	0.8%
Domestic market	105.5	98.6	117.4	114.9	107.6	(6.3%)	0.5%
Exports	40.1	47.8	48.3	54.6	42.5	(22.2%)	1.5%
Market share of exports, by volume	22.6%	28.9%	38.1%	38.2%	37.6%	(0.6 p.p.)	15.0 p.p.

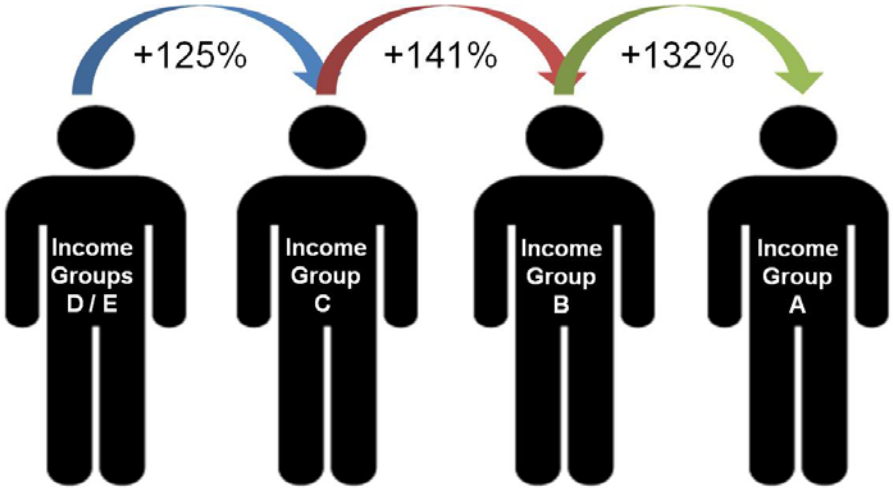
Source: Grendene S.A.

In 2012 the economy was subject to various expansionary measures that had already been fixed in place – increase in the minimum wage, reduction of taxes in various sectors, an announced increase in public investments, and increased private investment. Our expectation for GDP growth – of the order of 3.5% in 2012 – is in line with the broad consensus of analysts in the market. If inflation is controlled, converging to the center of the target range – as the monetary authorities have announced to be their aim – the consumption sector in general and the low-ticket segment in particular will benefit from the increase of disposable income. We expect the related economic dynamics to maintain and sustain the recent phenomenon of ascension of a new Brazilian middle class.

According to a study by the *Data Popular* Institute, R$48.3 billion of the R$63.98 billion that will be injected into the economy this year with the new minimum wage – that is to say, 75.5% of the total – will go to the new middle class. If this income is not directed entirely to purchase of foods and other primary needs, reflecting higher prices due to inflation, very probably we will see part of it directed to fashion products and items related to personal image such as footwear, clothes, cosmetics etc.

The entry of new members of previously excluded groups into the consumption market, with the "C" income group now exceeding 50% of the Brazilian population, favors the products related to fashion that Grendene supplies, especially if they are at accessible prices – "affordable fashion" products

Increments in spending with changes in income group (clothing and footwear) – Brazil



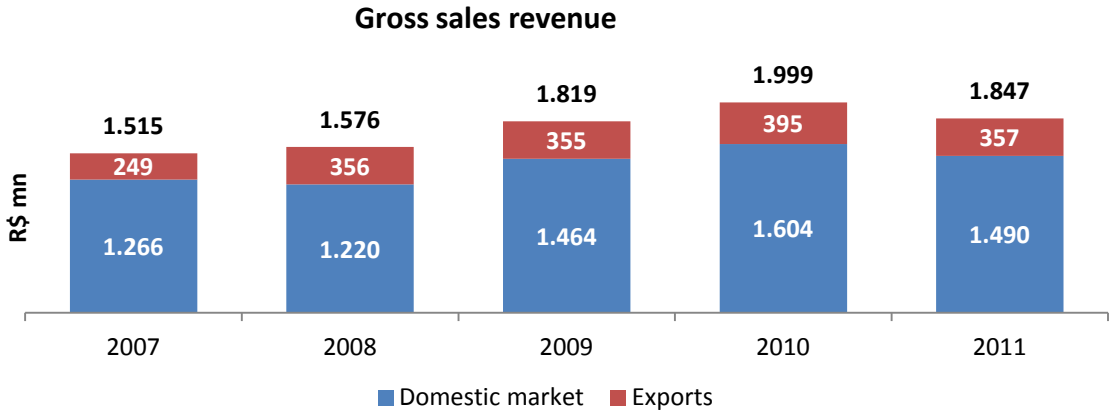
Source: *Exame* magazine / Investor Relations site of Lojas Renner.

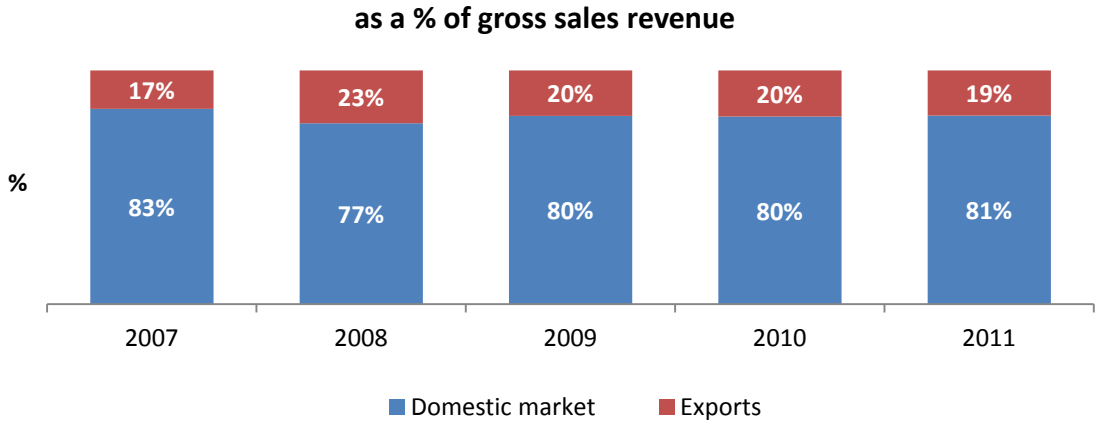
IV. Economic and financial performance

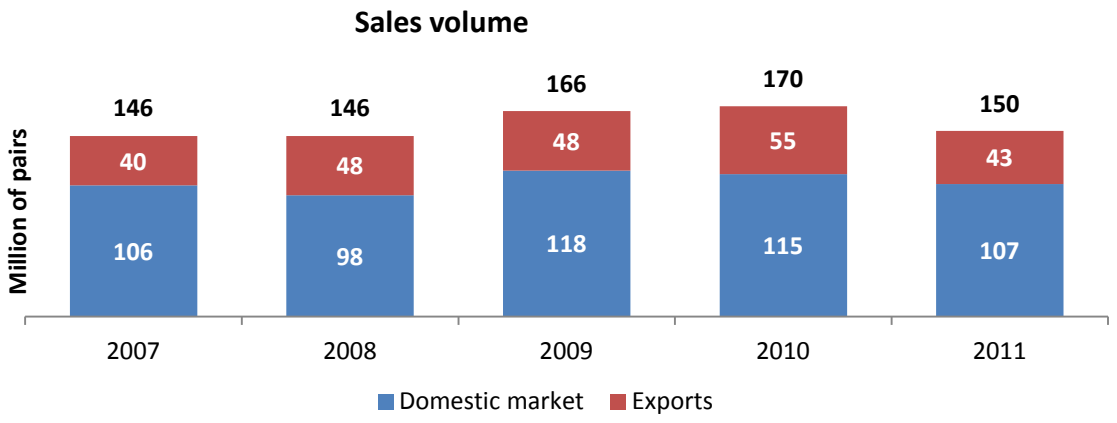
1. Gross sales revenue

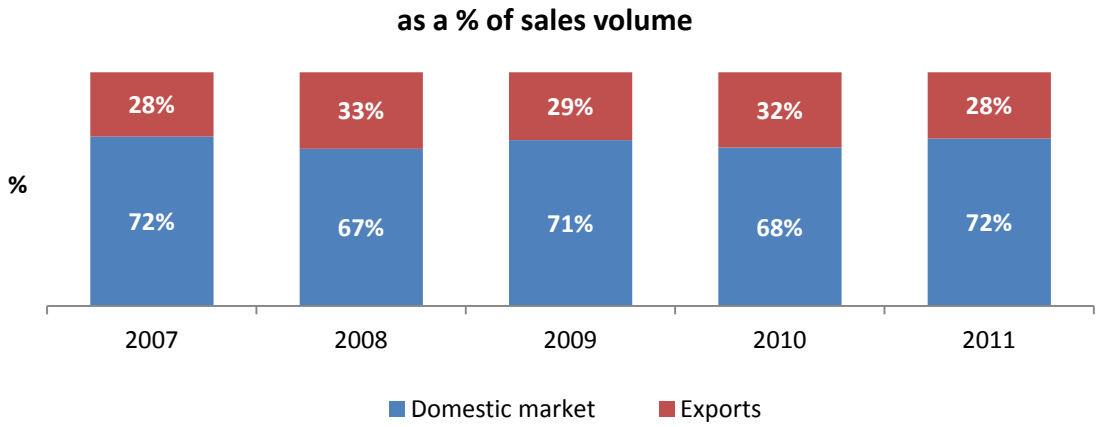
The fall in gross revenue in 2011, from 2010, reduced the CAGR (compound annual growth rate) of Grendene's gross revenue over the last five years (2007–2011) to 5.1% – compared to a CAGR of 9.8% for the period 2006–2010.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Gross sales revenue	**1,515.5**	**1,576.0**	**1,819.4**	**1,998.6**	**1,846.7**	**(7.6%)**	**5.1%**
Domestic market	1,266.2	1,220.5	1,464.4	1,603.8	1,489.9	(7.1%)	4.2%
Exports	249.3	355.5	355.0	394.8	356.8	(9.6%)	9.4%
Exports in US$	*128.0*	*193.8*	*177.7*	*224.3*	*213.0*	*(5.0%)*	*13.6%*
Million of pairs	**2007**	**2008**	**2009**	**2010**	**2011**	**Change 10/11**	**CAGR 07/11**
Volume	**145.6**	**146.4**	**165.7**	**169.5**	**150.1**	**(11.4%)**	**0.8%**
Domestic market	105.5	98.6	117.4	114.9	107.6	(6.3%)	0.5%
Exports	40.1	47.8	48.3	54.6	42.5	(22.2%)	1.5%
R$	**2007**	**2008**	**2009**	**2010**	**2011**	**Change 10/11**	**CAGR 07/11**
Average price	**10.41**	**10.76**	**10.98**	**11.79**	**12.30**	**4.3%**	**4.3%**
Domestic market	12.00	12.38	12.47	13.97	13.85	(0.9%)	3.6%
Exports	6.22	7.43	7.35	7.23	8.39	16.0%	7.8%
Exports in US$	*3.19*	*4.05*	*3.68*	*4.11*	*5.01*	*21.9%*	*11.9%*

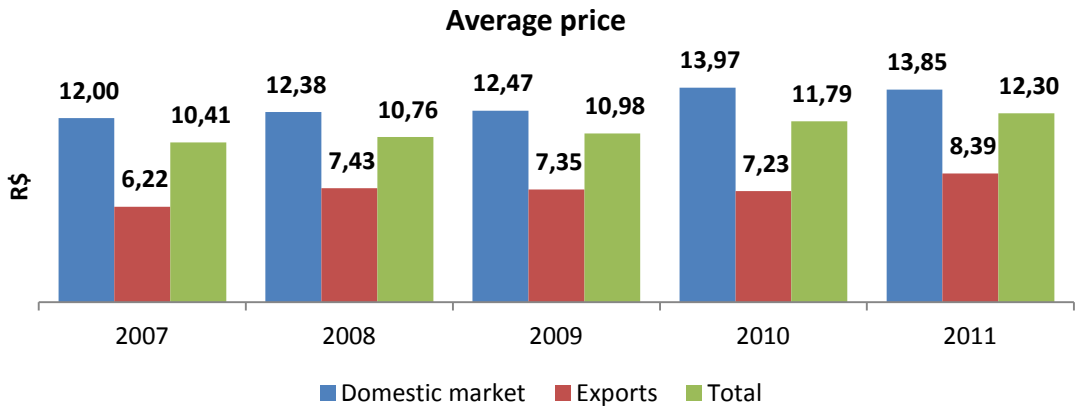








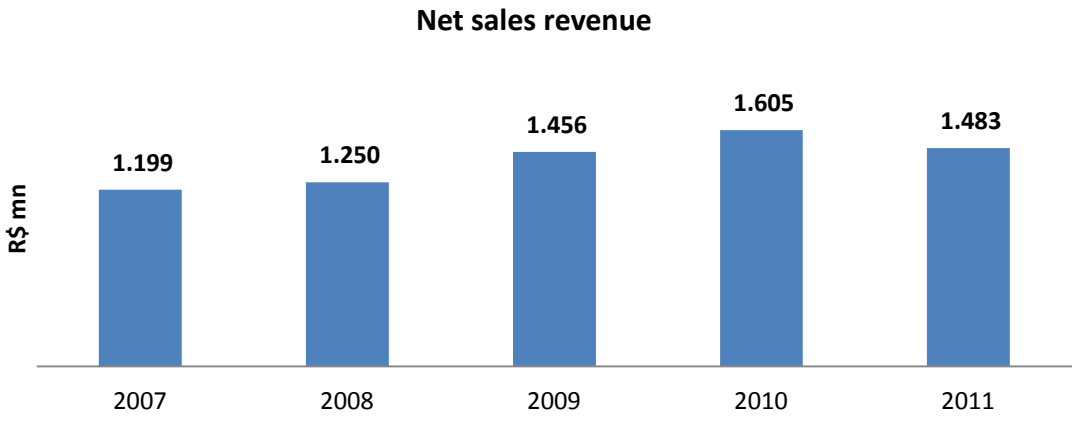
In 2011, the unfavorable context for exports was a factor in Grendene's gross revenue from exports being 9.6% lower in Reais, and 5% lower in dollars, YoY. This also reflected our strategy of increasing prices: our average export price was 21.9% higher in dollars, and 16.0% higher in Reais, than in 2010.



According to figures from the Secretary of Foreign Trade (*Secex*), and the Brazilian Footwear Manufacturers' Association, *Abicalçados*, revenue from Brazilian footwear exports in 2011 was 12.8% lower in dollars than in 2010; volume of pairs sold was 21.0% lower, and average price, in dollars, was 10.3% higher.
Grendene's volume share of Brazilian footwear exports in 2011 was 37.6%, representing 16.4% of Brazilian footwear export revenue, compared to 15.1% in 2010, and maintaining Grendene's leadership in Brazilian footwear exports.

2. Net sales revenue

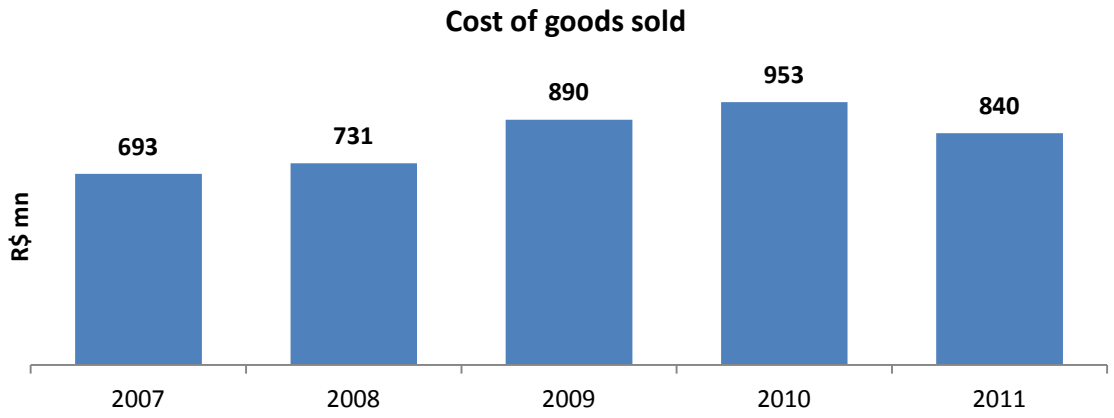
R$ mn	2007	2008	2009	2010	2011	Var. 10/11	CAGR 07/11
Gross sales revenue	**1,515.5**	**1,576.0**	**1,819.4**	**1,998.6**	**1,846.7**	**(7.6%)**	**5.1%**
Domestic market	1,266.2	1,220.5	1,464.4	1,603.8	1,489.9	(7.1%)	4.2%
Exports	249.3	355.5	355.0	394.8	356.8	(9.6%)	9.4%
Sales deductions	**(316.8)**	**(326.2)**	**(363.6)**	**(394.1)**	**(364.1)**	**(7.6%)**	**3.5%**
Returns and taxes on sales	(242.4)	(251.4)	(274.1)	(283.6)	(253.7)	(10.5%)	1.1%
Discounts given to clients	(74.4)	(74.8)	(89.5)	(110.5)	(110.4)	(0.1%)	10.3%
Net sales revenue	**1,198.6**	**1,249.9**	**1,455.8**	**1,604.5**	**1,482.6**	**(7.6%)**	**5.5%**

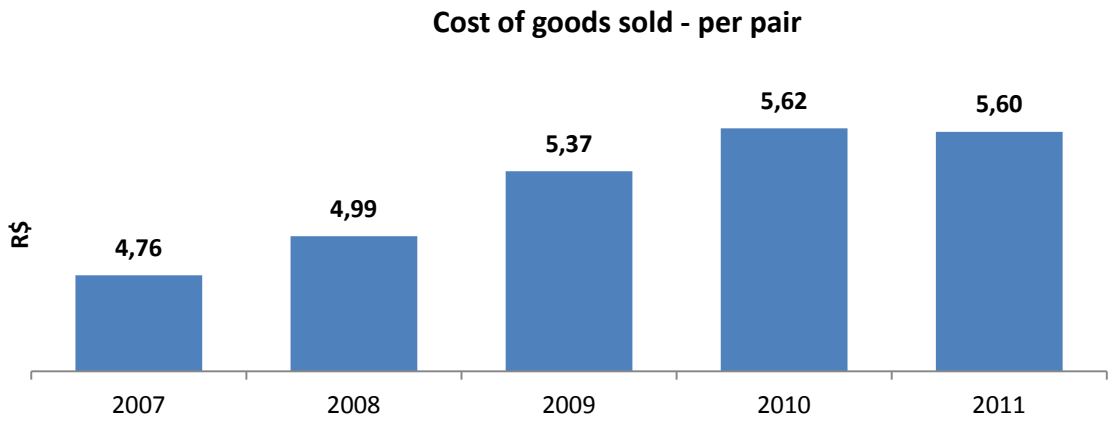


3. Cost of goods sold

In 2011 COGS was 11.8% lower in absolute terms, this reduction being 4.2 percentage points more than in the reduction in net revenue. We maintained the aggressive policy of control of costs, the higher efficiency in the use of labor and the optimization of industrial processes, proving the superior level of operational efficiency that we now enjoy. In spite of the inflation in the period, COGS per pair was reduced from R$5.62 in 2010 to R$5.60 in 2011. In the last five years (2007–2011), the CAGR of our COGS per pair has been 4.1% p.a., lower than the CAGR of our net revenue over the same period, which was 5.5%.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Cost of goods sold	692.7	731.2	889.7	953.3	840.5	(11.8%)	5.0%
R$ per pair	**2007**	**2008**	**2009**	**2010**	**2011**	**Change 10/11**	**CAGR 07/11**
Cost of goods sold	4.76	4.99	5.37	5.62	5.60	(0.4%)	4.1%



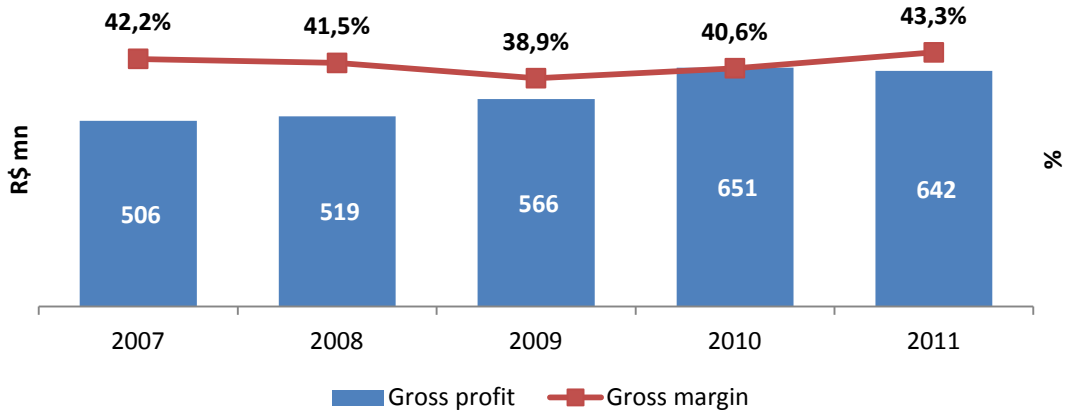


4. Gross profit

Gross profit in 2011 was R$642.1mn, 1.4% less than the 2010 gross profit of R$651.2mn. With the reduction of costs and the reduction of volumes both being higher than the fall in net revenue, as explained above, we continued to increase gross margin this year, by 2.7 p.p., from 40.6% in 2010 to 43.3% in 2011. This margin was our best in the last five years, and reversed the previous short-term downward trend, thus confirming the correctness of the measures we took.

We expected an increase in gross margin (implicit in the guidance that we gave to the market), but it did not take place for the expected reason – that revenue from the domestic market (which has higher average prices) would be an increased percentage of total revenue. Instead it was due to a greater gain in efficiency and productivity than we initially expected, plus the effect of a higher margin on the products exported (at higher average prices). In fact, domestic market revenue as a percentage of total revenue rose only from 80.2% to 80.7% – while domestic market volume as a percentage of total volume rose from 67.8% to 71.7%: both increases are much too small to cause the expected increase in gross margin.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Gross profit	505.9	518.7	566.0	651.2	642.1	(1.4%)	6.1%
Gross margin, %	42.2%	41.5%	38.9%	40.6%	43.3%	2.7 p.p.	1.1 p.p.

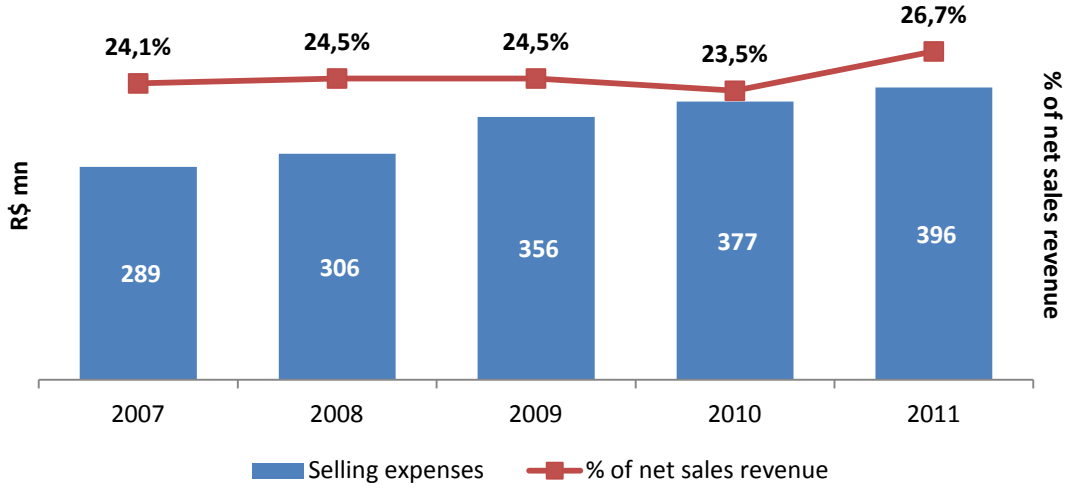


5. Operational expenses (SG&A)

In operational expenses we do not have the same flexibility, due to their more fixed character, and, in the case of advertising and marketing expenses, their strategic nature. They increased as a percentage of net revenue, from 27.4%, in 2010, to 30.8% of net revenue in 2011.

5.1. Selling expenses

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Selling expenses	288.6	306.4	356.3	377.0	396.1	5.1%	8.2%
% of net sales revenue	24.1%	24.5%	24.5%	23.5%	26.7%	3.2 p.p.	2.6 p.p.



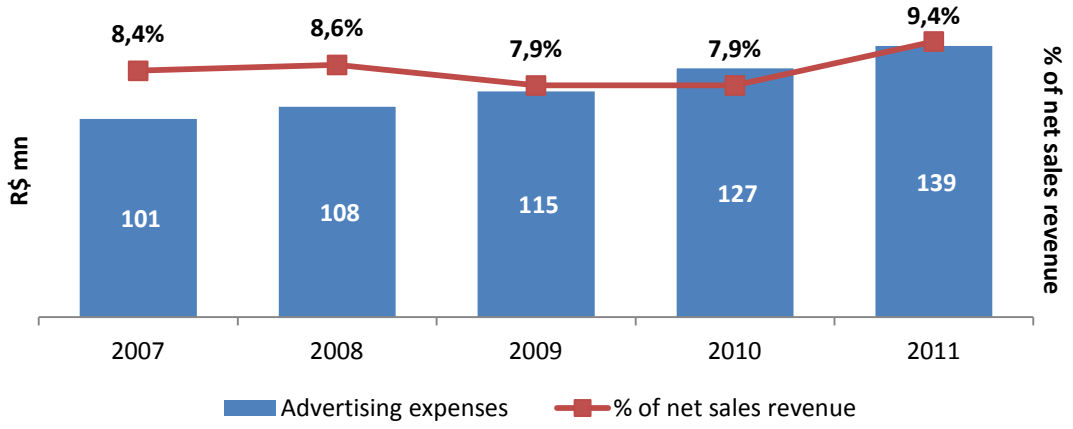
Selling expenses suffered an impact from one atypical default – a long-standing client which closed its business – causing an additional provision for doubtful receivables in the amount of R$13.8mn. Although a considerable proportion of this amount may be recovered due to guarantees given by the client, we have adopted the conservative approach of provisioning 100% of the amount.

R$ mn	2010	2011	Change in R$	Change 11/10
Provision for doubtful accounts	(2.5)	(16.4)	(13.9)	562.8%

5.1.1 Advertising expenses

Grendene's expense on advertising and marketing remains, in line with its continuing strategy, between 8% and 10% of net revenue.

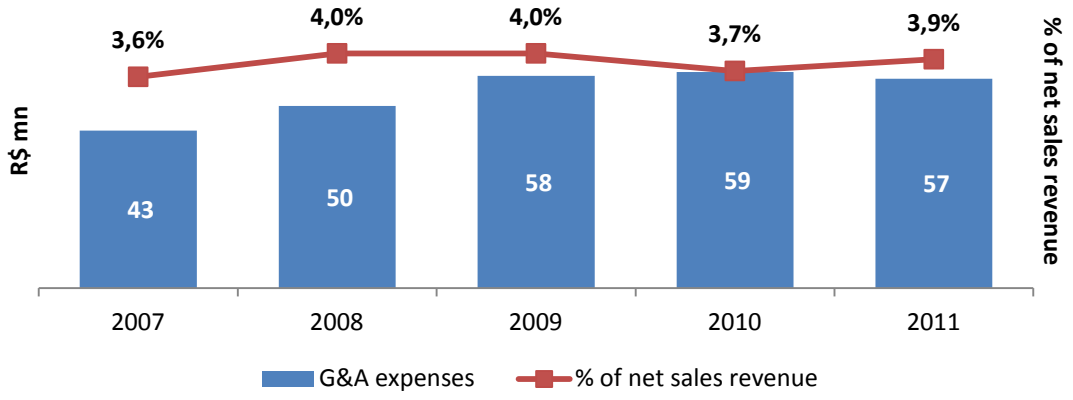
R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Advertising expenses	101.2	107.6	115.4	127.1	138.7	9.1%	8.2%
% of net sales revenue	8.4%	8.6%	7.9%	7.9%	9.4%	1.5 p.p.	1.0 p.p.



5.2. General and administrative expenses (G&A)

G&A expenses were 3.1% lower in 2011 than in 2010, and remained below 4% of net revenue in the year.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
G&A expenses	42.9	49.7	57.9	58.9	57.1	(3.1%)	7.4%
% of net sales revenue	3.6%	4.0%	4.0%	3.7%	3.9%	0.2 p.p.	0.3 p.p.



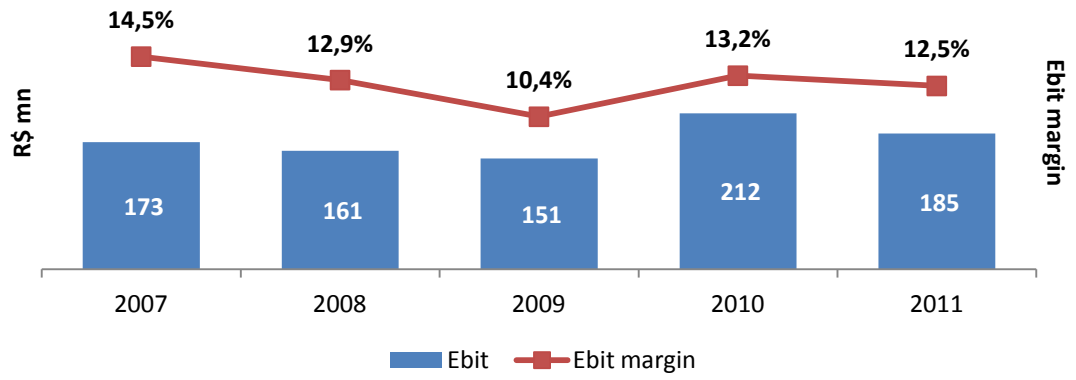
6. Ebit e Ebitda

6.1. Ebit

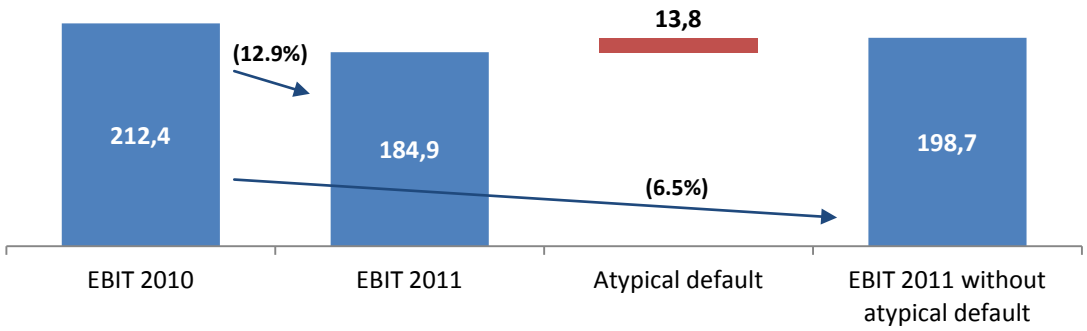
Ebit – Earnings before interest and taxes – represents operational profit before financial effects. Grendene believes that because it has a high cash position, which generates significant financial revenue, Ebit is the most appropriate measure to be used in characterizing the operational profit of its activity.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Ebit	**173,3**	**161,4**	**150,8**	**212,4**	**184,9**	**(12,9%)**	**1,6%**
Depreciation and amortization	27,3	25,6	26,3	28,1	28,9	2,6%	1,5%
Ebitda	**200,6**	**187,1**	**177,1**	**240,5**	**213,8**	**(11,1%)**	**1,6%**

Margin %	2007	2008	2009	2010	2011	Change 10/11	Change 07/11
Ebit	14,5%	12,9%	10,4%	13,2%	12,5%	(0,7 p.p.)	(2,0 p.p.)
Ebitda	16,7%	15,0%	12,2%	15,0%	14,4%	(0,6 p.p.)	(2,3 p.p.)



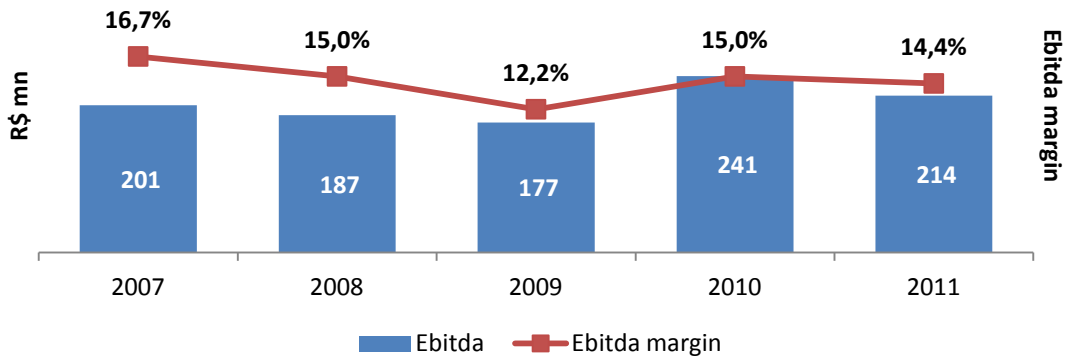
Statement of EBIT, in R$ million, without atypical default



Without this non-recurring event, the reduction in Ebit would have been closer to the reduction in revenue (Ebit would have been R$198.7mn, 6.5% lower than in 2010). See comments on the atypical default under *Selling expenses*.

6.2. Ebitda

Grendene's business is low-capital-intensive, with depreciation around 2% of net revenue (1.8% in 2010, and 2.0% in 2011). As a result we believe that analysis of Ebit is the more appropriate indicator for use in management of the company.



Ebitda: Grendene defines Ebitda as earnings before: net financial expenses; income tax and the Social Contribution tax on net profit; depreciation; amortization; write-offs of fixed assets; and extraordinary expenses. Ebitda is not a measure used in accounting practices adopted in Brazil, and does not represent cash flow for the periods presented, nor should it be considered to be an alternative to net profit as an indicator of operational performance, nor as an alternative to cash flow as an indicator of liquidity. Ebitda has no standardized meaning, and Grendene's definition of it may possibly not be comparable with adjusted Ebitda as used by other companies. Grendene understands that some investors and financial analysts use Ebitda as an indication of operational performance of a company and/or of its cash flow.

7. Net financial revenue (expenses)

For 2011 Grendene reports net financial revenue of R$153.1mn, 24.9% more than in 2010 (R$122.5mn):

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Financial expenses	**(67.8)**	**(137.5)**	**(76.1)**	**(55.9)**	**(62.7)**	**12.3%**	**(1.9%)**
Expenses with foreign exchange hedge - BM&FBOVESPA	(5.7)	(68.2)	(12.8)	(17.1)	(5.3)	(68.9%)	(1.5%)
Financing related expenses	(25.3)	(17.9)	(20.1)	(10.4)	(15.0)	44.6%	(12.2%)
Foreign exchange losses	(34.2)	(33.1)	(44.1)	(24.3)	(38.1)	57.0%	2.7%
Provision / reversal of short-term investments held abroad	6.7	(9.9)	4.7	5.2	0.0	n.s.	n.s.
Other financial expenses	(9.3)	(8.4)	(3.8)	(9.3)	(4.3)	(54.0%)	(17.5%)
Financial income	**167.5**	**221.7**	**211.7**	**178.4**	**215.8**	**21.0%**	**6.5%**
Interest income from customers	1.8	1.8	2.1	2.0	2.9	41.6%	12.7%
Gains with foreign exchange hedge - BM&FBOVESPA	31.0	30.9	54.2	24.8	3.9	(84.1%)	(40.3%)
Income from short-term investments	87.4	88.5	94.6	92.7	128.8	38.9%	10.2%
Foreign exchange gains	11.8	60.5	20.2	20.1	35.5	76.8%	31.6%
Adjustments to present value	32.4	36.2	36.6	35.6	42.1	18.3%	6.8%
Other financial income	3.1	3.8	4.0	3.2	2.6	(18.8%)	(4.2%)
Net financial income	**99.7**	**84.2**	**135.6**	**122.5**	**153.1**	**24.9%**	**11.3%**

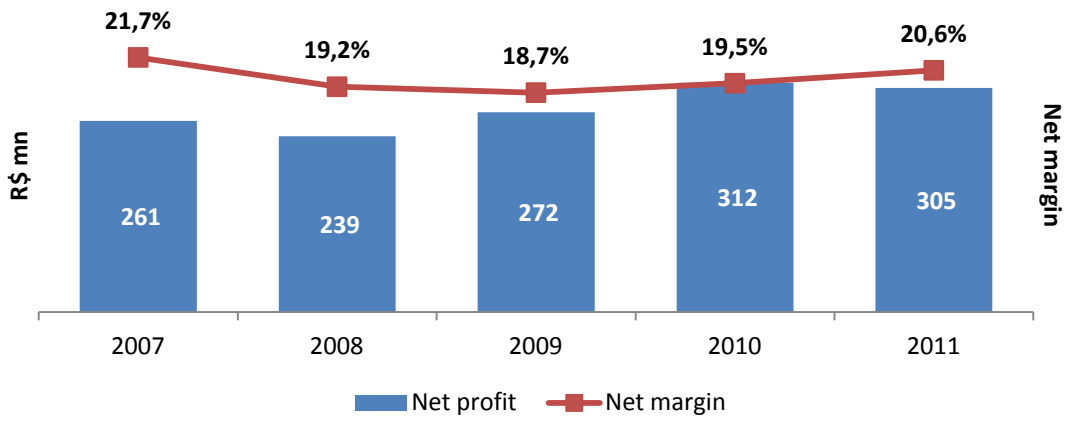
Note: In the consolidated financial statements, the discounts given to clients are classified as deductions from sales.

8. Net profit for the year

Several factors specifically affected net profit in 2011: (1) a negative effect from the fall in sales volume; (2) a positive effect from the increase of efficiency; and (3) a positive effect from higher average interest rates than in 2010, resulting in higher financial revenues due to the Company's positive cash position. All these effects have been commented on above. **Net profit was R$305.4mn,** 2.2% less than in 2010 (R$312.4mn). This reduction of 2.2% is 5.4 percentage points less than the year-on-year reduction in net revenue, of 7.6% from 2010 to 2011.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Net profit	260.5	239.4	272.2	312.4	305.4	(2.2%)	4.1%
net margin %	21.7%	19.2%	18.7%	19.5%	20.6%	1.1 p.p.	(1.1 p.p.)
R$	**2007**	**2008**	**2009**	**2010**	**2011**	**Change 10/11**	**CAGR 07/11**
Profit per share[1]	0.8663	0.7960	0.9052	1.0388	1.0157	(2.2%)	4.1%

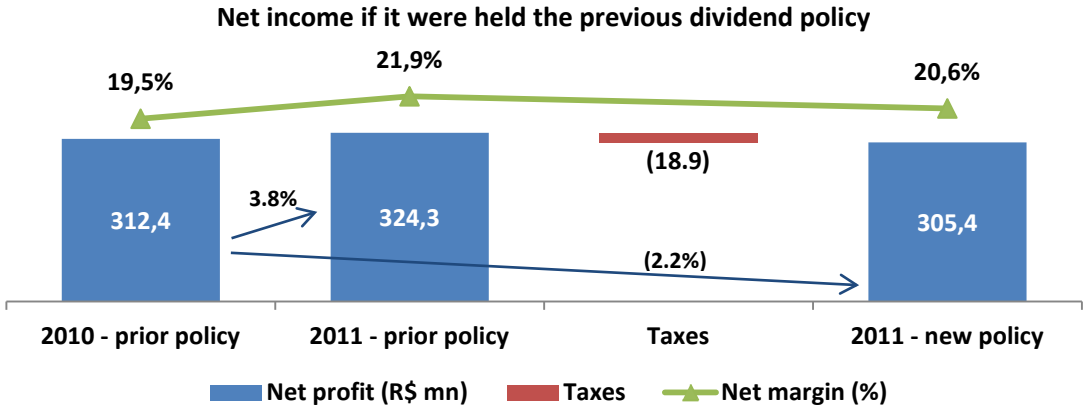
[1] For comparability, in this table net profit per share for the years 2007–2010 is on the basis of the number of shares existing on December 31, 2011 (300,720,000 common shares).

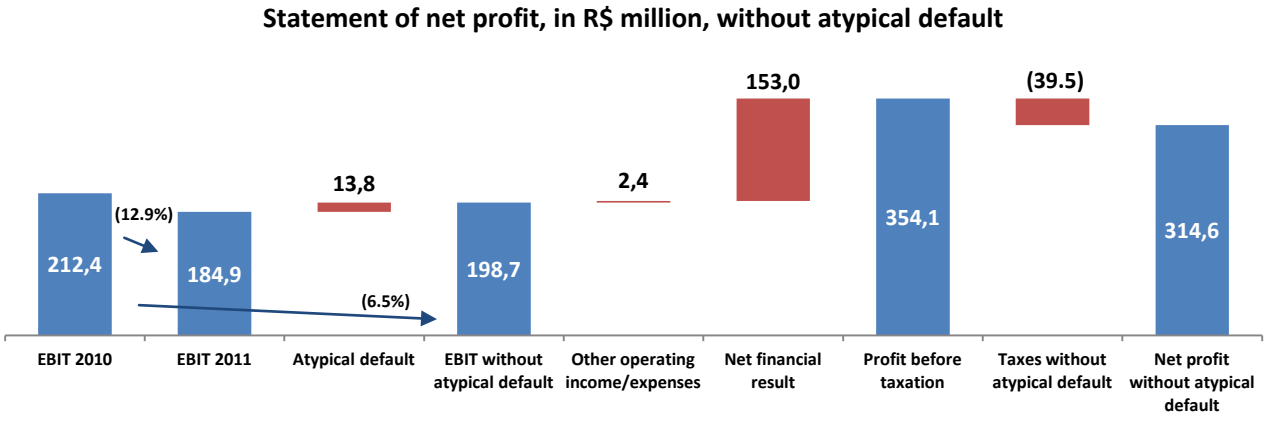


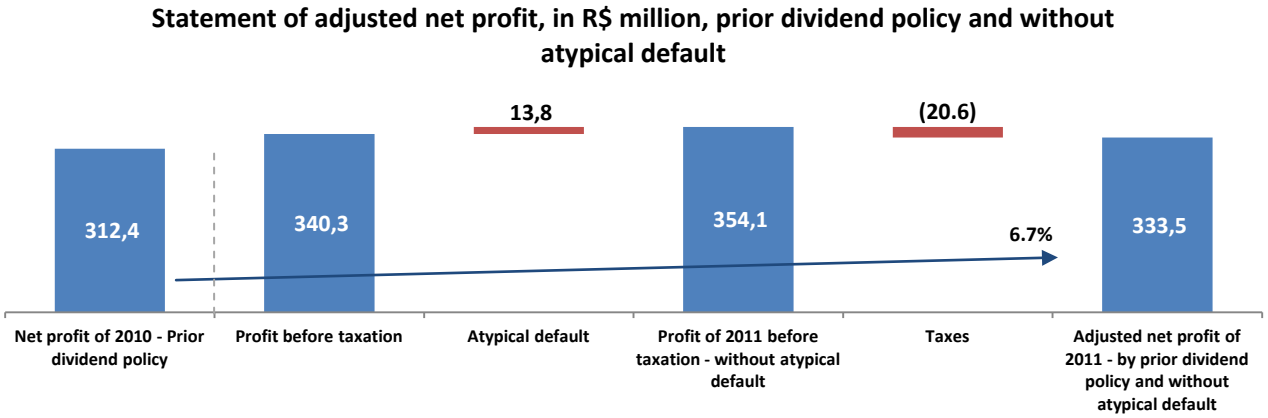
Another important negative impact on net profit in 2011, which is important to highlight, is the increase in taxes resulting from the adoption of a new dividend distribution policy. In 2011 Grendene increased the portion of profit distributed as dividends (the dividend payout) from approximately 40% of net profit (in the previous years) to approximately 75% of net profit, after constitution of the legal reserves. To do this, the company decided to incur taxation on R$128.6mn, to enable these amounts to be included in the basis of dividends, making it possible to make the dividend payment determined by the new dividend policy. This decision resulted in an increase in federal taxes of R$18.9mn, as follows:

Grendene: Effect on income tax and Social Contribution tax of the decision to include, in the dividend calculation, the amounts corresponding to tax incentives				
R$ mn	2010	2011		
	Prior dividend policy	New dividend policy (a)	Prior dividend policy (b)	Difference (a – b)
Profit before taxation	330.8	340.3	340.3	-
Consolidated total of taxes	(18.4)	(34.9)	(15.9)	(18.9)
Net profit for the year	**312.4**	**305.4**	**324.3**	**(18.9)**
Dividends distributed	121.7	219.5	138.1	81.4

By "prior dividend policy" we refer to the policy Grendene had adopted since its listing in October 2004.





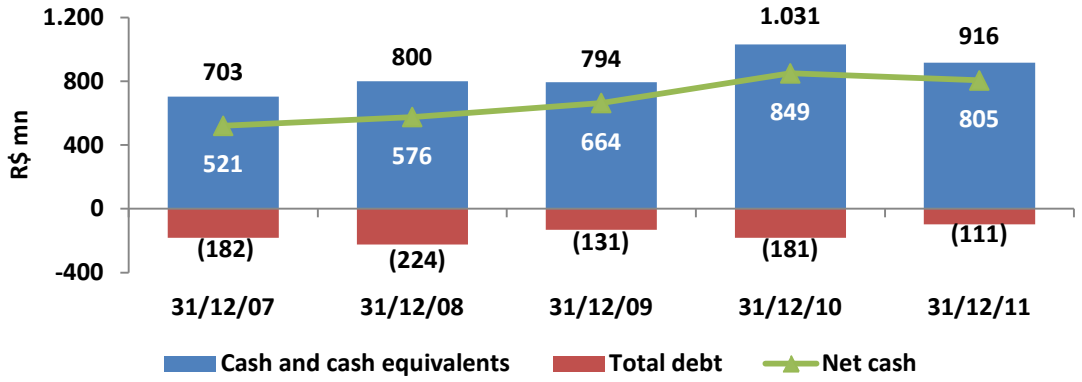


9. Generation of Cash and cash equivalents:

Net cash generated by operations in 2011 totaled R$68.1mn, and interest from investments of cash balances totaled R$126.1mn, creating a total net positive cash flow of R$194.3mn; the company made cash investments of R$333.5mn and redeemed R$588.9mn; effected capital expenditure of R$36.1mn, and used R$4.3mn on other investments. Thus origination of cash, net of investments, was R$283.1mn. Cash outflow arising from financial activities totaled R$268.9mn (R$183.4mn in dividends paid, plus the net flow on short and long term loans, of R$81.7mn, and the cost of acquisition of shares to be held in Treasury, R$3.7mn). The result was an increase in cash and cash equivalents of R$14.2mn in the year.

Note that, due to the increase in taxation of transactions on the BM&FBOVESPA, we have begun to make more use of ACC's (advances against foreign exchange contracts) as a means of hedging for our receivables. The transactions are posted in Assets in Accounts receivable from clients, and in Liabilities as Financing operations. The complete cash flow is part of the Financial Statements.

The distribution of cash, total debt and net cash, can be seen in the graph below:

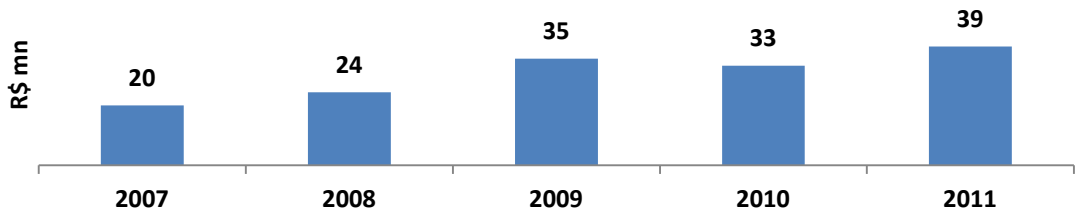


In 2011 we increased the dividend payout to approximately 75% of net profit after constitution of the legal reserves. This resulted in an increase of 80.3% in the volume of dividends declared in 2011, compared to 2010. In 2010 we had adopted the principle of quarterly payments, and we maintained this in 2011.

10. Capital expenditure (on fixed and intangible assets)

In 2011 the principal investments in the period were on maintenance of industrial buildings and facilities; replacement of property, plant and equipment; and acquisition of new equipment for modernization of our factories and greater production efficiency.

R$ mn	2007	2008	2009	2010	2011	Change 10/11	CAGR 07/11
Capital expenditure	19.9	24.2	35.4	33.0	39.4	19.2%	18.6%



11. External auditors: CVM instruction 381/03

To comply with CVM Instruction 381/2003, Grendene S.A. hereby states that Ernst Young Terco Auditores Independentes S.S., the provider of external auditing services to the Company, did not provide any services not related to external auditing during the business year 2011. The Company's policy for contracting any occasional services not related to external auditing from the external auditor is based on the principles that preserve the auditor's independence: (a) the auditor should not audit its own work; (b) the auditor should not carry out management functions in its client; and (c) the auditor should not promote its client's interests.

12. Balance sheet and profit and loss accounts for 2007-2011: in IFRS

To provide comparability for the last five years, we make these financial statements available for 2007 through 2011 in accordance with IFRS. The only figures not audited are the pro-forma figures for 2007.

Consolidated statement of financial position, under IFRS (R$'000)

	31/12/07[1]	31/12/08	31/12/09	31/12/10	31/12/11
Assets					
Current assets	**1,272,890**	**1,443,937**	**1,548,511**	**1,786,708**	**1,815,815**
Cash and cash equivalents	128,841	44,526	30,765	47,296	61,518
Short-term investments	573,934	755,272	763,594	983,430	854,062
Trade accounts receivable	421,162	440,287	555,889	537,457	624,586
Inventories	120,179	141,976	148,571	149,036	144,112
Taxes recoverable	14,212	26,896	20,421	18,863	23,263
Trade notes receivable	7,347	24,084	15,591	23,122	39,266
Other receivables	6,569	10,526	12,913	26,187	67,427
Prepaid expenses	646	370	767	1,317	1,581
Non-current assets	**211,422**	**206,090**	**215,958**	**211,573**	**229,809**
Judicial deposits	797	1,110	2,123	3,222	3,526
Taxes recoverable	325	421	853	700	452
Trade notes receivable	4,577	2,021	1,588	70	70
Other receivables	239	258	0	0	0
Deferred income and social contribution taxes	14,293	16,764	18,474	11,491	19,246
Investments	1,209	865	873	877	1,670
Property, plant and equipment	182,070	174,141	179,638	181,828	191,706
Intagible assets	7,912	10,510	12,409	13,385	13,139
Total assets	**1,484,312**	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**
Liabilities					
Current liabilities	**168,843**	**213,228**	**257,768**	**305,849**	**229,549**
Financial institutions	56,573	112,780	97,378	166,500	97,551
Trade accounts payable	26,721	17,973	40,009	31,687	27,011
Commissions payable	21,358	19,534	27,974	26,074	29,123
Taxes, charges and mandatory contributions	7,853	7,460	9,143	7,746	13,759
Payroll and related charges	42,222	41,945	63,888	53,352	38,592
Accounts payable	5,283	4,779	5,635	5,017	5,271
Provisions for labor risk	720	1,236	1,303	1,103	1,003
Other accounts payable	8,113	7,521	12,438	14,370	17,239
Non-current liabilities	**135,027**	**118,719**	**42,132**	**16,766**	**15,123**
Financial institutions	125,615	111,191	33,188	14,766	13,123
Provision for labor risk	0	0	1,300	2,000	2,000
Deferred income and social contributions taxes	9,412	7,528	7,644	0	0
Shareholders' equity	**1,180,442**	**1,318,080**	**1,464,569**	**1,675,666**	**1,800,952**
Controlling shareholders' equity	**1,180,163**	**1,317,695**	**1,464,396**	**1,675,292**	**1,800,563**
Paid-in capital	964,584	1,097,199	1,226,760	1,231,302	1,231,302
Equity valuation adjustment	(10,150)	484	(4,942)	(7,520)	(2,167)
Capital reserves	0	255	1,086	1,953	2,685
Income reserves	153,344	161,417	230,870	449,557	568,743
Retained earnings	72,385	58,340	10,622	0	0
Non-controlling shareholders' equity	**279**	**385**	**173**	**374**	**389**
Total liabilities and shareholders' equity	**1,484,312**	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**

[1] *2007 – Pro forma balance sheet – not audited.*

Consolidated profit and loss accounts, under IFRS (R$'000)

	31/12/07[1]	31/12/08	31/12/09	31/12/10	31/12/11
Domestic market	1,266,148	1,220,482	1,464,338	1,603,820	1,489,883
Exports	249,311	355,553	355,024	394,766	356,823
Gross sales revenue	**1,515,459**	**1,576,035**	**1,819,362**	**1,998,586**	**1,846,706**
Returns and taxes on sales	*(242,377)*	*(251,424)*	*(274,140)*	*(283,571)*	*(253,709)*
Discount given to clients	*(74,443)*	*(74,748)*	*(89,465)*	*(110,508)*	*(110,361)*
Sales deductions	(316,820)	(326,172)	(363,605)	(394,079)	(364,070)
Net sales revenue	**1,198,639**	**1,249,863**	**1,455,757**	**1,604,507**	**1,482,636**
Cost of goods sold	(692,707)	(731,193)	(889,711)	(953,261)	(840,497)
Gross profit	**505,932**	**518,670**	**566,046**	**651,246**	**642,139**
Operanting income (expenses)					
Selling expenses	(288,554)	(306,442)	(356,275)	(377,010)	(396,096)
General and administrative expenses	(42,908)	(49,667)	(57,854)	(58,938)	(57,086)
Management fees	(1,123)	(1,123)	(1,123)	(2,940)	(4,091)
Equity pickup	0	(66)	0	0	0
Ebit	**173,347**	**161,372**	**150,794**	**212,358**	**184,866**
Other operating income	10,691	11,328	3,200	3,368	6,678
Other operating expenses	(3,223)	(6,823)	(1,810)	(7,313)	(4,251)
Income before financial result	**180,815**	**165,877**	**152,184**	**208,413**	**187,293**
Financial expenses	(67,824)	(137,463)	(76,139)	(55,933)	(62,793)
Financial income	167,527	221,701	211,763	178,402	215,796
Financial result	**99,703**	**84,238**	**135,624**	**122,469**	**153,003**
Income before income and social contributions taxes	**280,518**	**250,115**	**287,808**	**330,882**	**340,296**
Income and social contribution taxes					
Current	(22,722)	(15,054)	(19,298)	(17,150)	(44,863)
Deferred	2,829	4,355	3,591	(1,265)	10,018
Non-controlling interests	(117)	(49)	110	(68)	(5)
Net income	**260,508**	**239,367**	**272,211**	**312,399**	**305,446**
Depreciation and amortization	27,284	25,613	26,307	28,173	28,917
Ebitda	**200,631**	**187,051**	**177,101**	**240,531**	**213,783**

[1] *2007 – Pro forma balance sheet – not audited.*

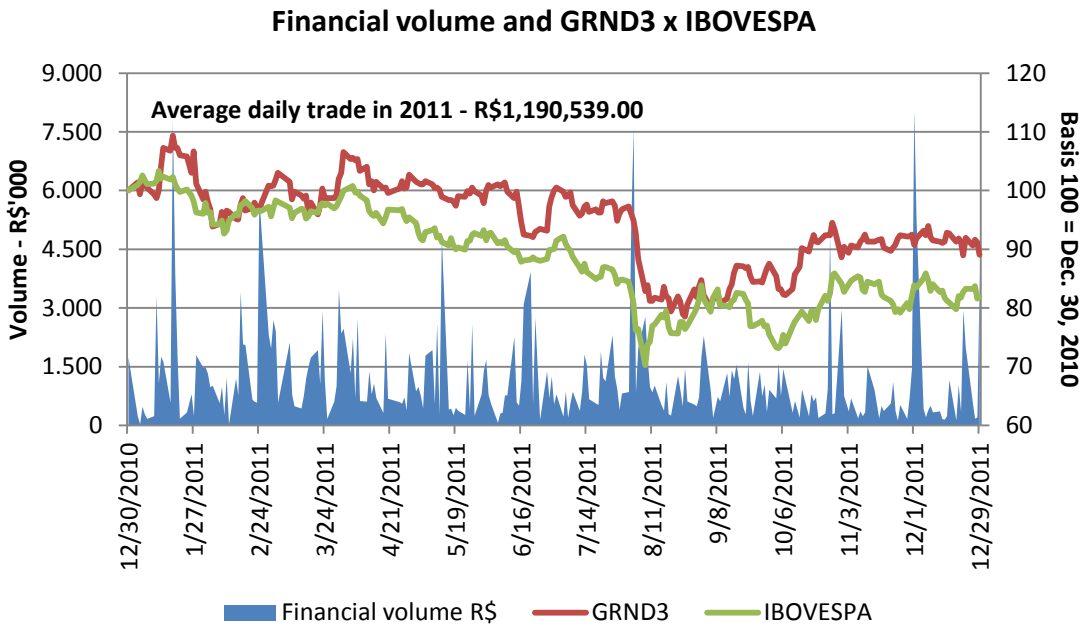
V. Capital markets and corporate governance

1. The capital markets

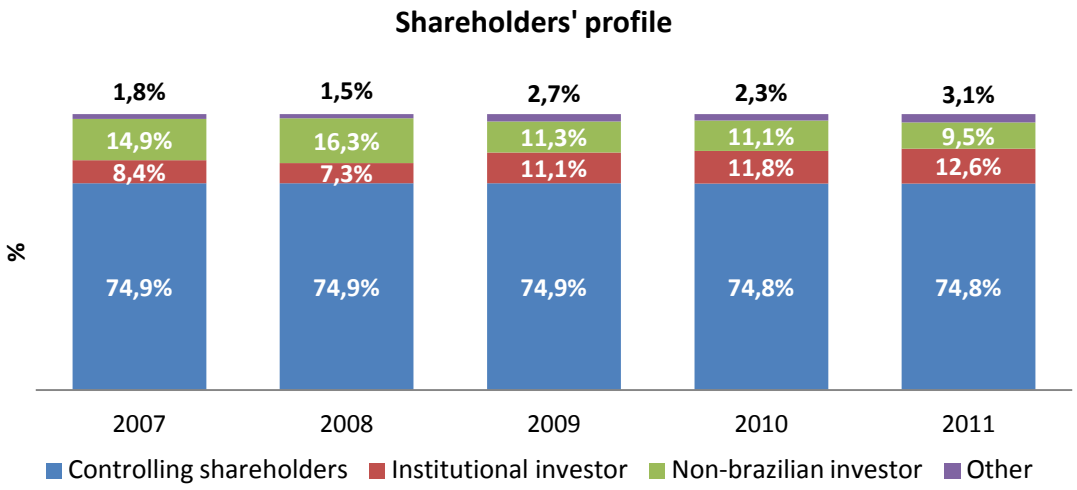
A total of 34.5mn Grendene shares were traded in 2011, in 60,600 trades with financial volume of R$296.4mn. Average daily trading was of 138,700 shares, with financial volume of R$1,190,500, in 243 trades. The dividend yield, calculated on the average price of the share in 2011, was 8.5% p.a. (vs. 4.7% p.a. in 2010).

This chart shows the performance of Grendene's shares compared to that of the Ibovespa Index – based on December 30, 2011 = 100 – and daily financial volume.

Grendene has only "ON" – nominal, common – shares.



On December 31, 2011, Brazilian institutional investors held 12.6% of the share capital of Grendene S.A., foreign investors 9.5%. The remaining 77.9% of the share capital was held by the controlling stockholders, and managers (74.8%), and 3.1% was held by small investors, including individuals.



2. Dividends

Under Grendene's bylaws, the minimum obligatory dividend is calculated as 25% of the net profit for the business year remaining after constitution of the reserves specified by law. Based on the balance at December 31, 2011, and deducting the quarterly interim dividends payments, which totaled R$132,316,800.00, Grendene will, subject to ratification by the Annual General Meeting that approves the accounts for the 2011, pay the balance of dividends, in the amount of **R$87,208,800.00**, as from **April 25, 2012**, to stockholders in the Company's registry on **April 11, 2012** (the cutoff date). The stock will be traded **ex-dividend on April 12, 2012** at *BM&FBOVESPA*.

Basis for distribution of dividends for 2011

Grendene S.A.	R$
Net profit – 2011	305,445,697.15
Stock options plan	(2,818,953.60)
Tax incentives – Holding company (Grendene S.A.)	(69,225,030.22)
Tax incentives – Subsidiaries (MHL Calçados Ltda)	(803,500.49)
Appropriation to legal reserve	(11,811,033.34)
Basis of calculation of dividends	**220,787,179.50**
Payment of dividends – see table below[1]	(219,525,600.00)
Balance of retained earnings reserve[2]	(1,261,579.50)
Total dividends for 2011	**219,525,600.00**
Number of common shares	**300,720,000**
Dividend per share for 2011	**0.73**

Interim dividends already distributed and the remaining balance to be distributed for the year ended on December 31, 2011

Date of approval	Beginning of payment	Amount R$	Amount per share R$
RCA de 05/05/2011 – 1st interim dividend[1]	08/06/2011	45,108,000.00	0.15
RCA de 04/08/2011 – 2nd interim dividend[1]	31/08/2011	26,764,080.00	0.089
RCA de 10/11/2011 – 3rd interim dividend[1]	30/11/2011	60,444,720.00	0.201
RCA de 01/03/2012 – Balance 2011[1]	25/04/2012	87,208,800.00	0.29
Total		**219,525,600.00**	**0.73**

[1] *These payments will be the subject of a ratification decision by the Annual General Meeting that considers the financial statements for 2011.*

[2] *Amounts retained for operation of the stock options plan.*

New dividend policy

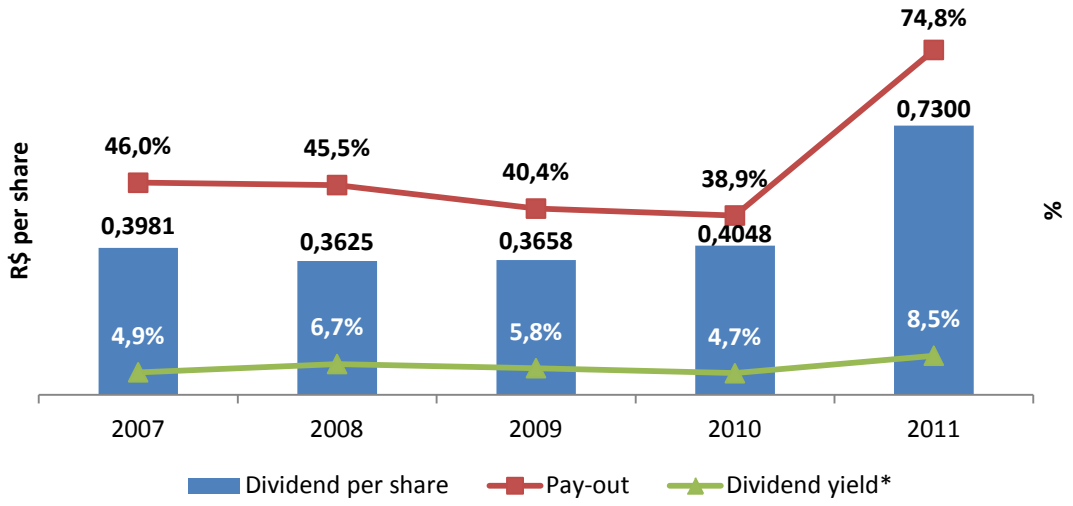
Since its listing, in 2004, Grendene adopted as its dividend policy the distribution of 100% of the accounting profit – which, until 2007, did not include the positive contributions to net profit from the tax incentive benefits to which it was entitled. These amounts were posted directly to Stockholders' Equity, until Law 11638/07 was passed in 2007. Since then, Executive Order (Provisional Measure) 449/08, which subsequently became Law 11941/09, gave Grendene the option to exclude these tax incentive amounts from the calculation basis of dividends, and also exclude them from the Reported Real Profit ("Lalur"). The Company took both these options.

After a detailed analysis of the legal aspects arising from this legislation, and careful consideration of whether it would be in the interests of the Company and stockholders to do so, Grendene decided that, starting with the results for the 2011 business year, it would **increase its distribution of profit as dividends**. It will continue to comply fully with the commitments related to receipt of the tax incentives. Grendene

decided this was beneficial, even though the change legally requires it to pay tax on part of the funds allocated to this payment. This decision was taken after a full analysis of the company's investment needs. The **total dividend payout for 2011 will be 74.8% of the net profit for the year**, after constitution of the reserves required by law.

Continuing the practice, the intended dividend payout for 2012 will also be **approximately 75% of the net profit for the year**, after constitution of the legal reserves.

Management will re-consider this percentage payout level annually, taking into account the need for funds for investment, for business opportunities or to meet other commitments, and the payout level may be changed by management whenever it finds this to be appropriate. If there is any change at any time in the percentage payout, the company will advise the market in a Material Announcement. The company will maintain the policy of quarterly distribution of dividends.



(*) Dividend yield: net profit for the year divided by the average price of the stock in the year.

In the chart above, for comparability, the dividend per share of the years 2007–2010 is calculated using the number of shares existing on December 31, 2011 (300,720,000 shares).

Grendene has only common ("ON") shares.

3. Best corporate governance practices

To keep analysts and investors informed about the performance of its business, Grendene has permanent communication channels, makes visits, takes part in conferences and gives presentation at events in various parts of the world. It also has an investor relations website. Its quarterly conference calls to present results are given in Portuguese with simultaneous translation into English, and it publishes a press release analyzing the quarterly results. It holds a "non-deal" roadshow in Brazil once a quarter, and outside Brazil twice a year, and also holds at least two meetings each year with the Brazilian Association of Capital Markets Professionals (APIMEC) – with the São Paulo and Rio Grande do Sul chapters.

To facilitate analysis of our figures we have made a restated version of our database in accordance with IFRS and the Brazilian Accounting Pronouncements (CPCs), to enable comparability of the last five years, making the period of 2007–2011 available to investors in accordance with IFRS. Note that the (pro-forma) IFRS figures for 2007 are not audited.

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 start of the plan, 5.4 million buy options have been granted (this figure is adjusted for the stock split of September 23, 2009), equivalent to 1.8% of the Company's total shares. (Base date: December 31, 2011.)

Grendene has only common ("ON") shares. They have been listed on the *Novo Mercado* of the BM&FBOVESPA since October 29, 2004. In November 2007 the company adjusted its free float to 25%, in accordance with the listing rules of the *Novo Mercado*. To optimize liquidity, it contracted a market maker for the shares (GRND3) in September 2005, and in September 2009 split the total number of shares from 100,000,000 to 300,000,000, again to increase liquidity and facilitate buying by small investors, aiming to facilitate expansion of the stockholding base. On March 22, 2010 the Board approved a capital increase through issue of 720,000 new nominal common shares, to meet the needs of the stock options plan, increasing the share capital to 300,720,000 common shares. On December 31, 2011 the shares in circulation were 25.12% of the total of shares issued.

3.1 Arbitration commitment clause

The Company, its stockholders, its managers and the members of its Audit Board undertake to have recourse to the Market's Arbitration Chamber for resolution of all and any dispute or controversy that may arise between them, relating to or arising from, in particular, the application, validity, efficacy, interpretation, or violation, or their effects, of the provisions contained in the Corporate Law, the Company's Bylaws, the rules issued by the National Monetary Council, the Brazilian Central Bank or the Brazilian Securities Commission, or in the other rules applicable to the functioning of the securities market in general, as well as those contained in the Regulations of the *Novo Mercado*, the Arbitration Regulations, the Regulations on Sanctions, and/or the *Novo Mercado* Participation Agreement.

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, 2011.

3.3 Awards and recognition

In 2011 Grendene was recognized by numerous organizations and institutions – locally, nationally and internationally – for its performance in various sectors of operation. The following are some examples:

- Recognition and congratulation for **Grendene's 40th birthday** came from the ***Sinos*** media and communications group of Rio Grande do Sul in the February 2011 edition of its official ***Footwear Sector Journal***; from the legislative assembly of Farroupilha, the city of Grendene's foundation; and from the leading retail bank **Bradesco**.
- Inclusion in the **100 best companies by ranking of Corporate Human Development Index –** A survey by *Gestão RH Editora* magazine of Brazil's thousand largest companies (by the criterion of *Exame* magazine).
- **Licensee of the Year,** of the ***Moranguinho* brand (Strawberry Shortcake)**: Best distribution, best product, best sales volume, best relationship with licensor, best investment in media, best point of sale exposure.
- 2011 ***Delmiro Gouveia Awards:*** 2nd largest company in Ceará State in the *Large Companies* category – the category recognizes companies with the highest sales, number of employees and profit.
- **Ceará State 2011 Taxpayer Award –** in the *Largest Contributors* category in the *Industrial* sector, for the fourth year running. The award is given to the companies that contributed most in tax revenue and were most punctual in payment of the ICMS tax. Grendene received special recognition for its contribution to the growth of the economy of Sobral and other regions.
- ***Grandes Líderes – 500 Maiores do Sul***: Award by ***Amanhã*** Magazine, placed 11th in the ranking of Rio Grande do Sul and 29th in the *500 Biggest Companies in the South*, in 2011.
- Outstanding positions in the 38th annual ***Biggest and Best*** rankings of *Exame* Magazine, for 2011: First-ranked in the textile sector for *Market Leadership* and *Current Ratio*; 7th in profitability; 4th in general liquidity; 10th in the ranking of least-indebted companies; 22nd among the 100 largest companies in the North and Northeast; 155th among Brazil's 200 largest business groups; and 247th in the country's 500 largest companies in sales revenue.
- ***Valor 1000 Annual, 2011 Edition***: Rated, among Brazil's 1,000 largest companies, 14th in current liquidity ratio, and 12th in the ranking of the 50 largest by region.
- ***Highlight of the Year*** *in the* ***RH 2011 Awards,*** given by the ***Human Resources Association of the Serra Gaúcha region*** (ARH Serrana) in the *Organizational Projects* category, in recognition of its human resources management model.

VI. Social and environmental responsibility

We believe the main indicators of a Company's sustainability are: generation of profits, and financial solidity. However, we recognize that the financial statements alone do not reflect all the interfaces that a company has with its social and environmental surroundings.

Being aware of its responsibility as a benchmark company in its segment, employing more than 20,000 people, Grendene took a definitive step on its journey for sustainable development when in March 2011 it added the **Sustainable Development Department** to its organizational structure. This Department has the permanent challenge of consolidating the strength and value of this aspect of the Company.

As a first step on this journey, a diagnosis of the scenario was carried out. Based on it, a range of actions for adjustment on the road to Sustainable Development have been and are being put in place. The main focus is to increase efficiency in the treatment and re-use of industrial and sanitary effluents, significantly reducing the environmental impact of operations.

Grendene's Sustainable Development Department has a strategic plan, with short, medium and long-term actions, which cover operations, products and people – ranging from high-performance social and environment management in operations, through analysis of the environmental and social impacts of the units and their surroundings, structured and systemic social responsibility actions, to the program for sustainable development education and awareness for employees and communities close to the Company's units.

VII. Human resources

Grendene knows that the execution of its strategy depends on professionals who have a clear direction, alignment with the Company's plans, and commitment to and identification with its values: Profitability, Competitiveness, Innovation and Agility, and Ethics.

The **Grendene Academy** (*Academia Grendene*), was created in 2005 to develop professionals aligned with the business and the market – committed to differentiated results – and highly motivated teams. It has carried out development actions that provide an integrating link between knowledge, skill and attitudes, transforming opportunities into results. Now in its seventh year, the Grendene Academy is being revitalized, with widening of its scope of operation, emphasizing five main themes: *Leadership and Culture*, *Young Talents*, *Business Vision*, *Selling and Marketing*, and *Industrial Operations*. One example of this new process has been implementation of Grendene's first **Trainee Program**, for which 22,000 candidates from all over Brazil competed and took part.

As well as the Academy, Grendene's human resources management model has a structured remuneration and performance process, through which employees are systematically evaluated, in the light of the profile of the posts they occupy; they receive constant feedback; they have the benefit of an individual development plan and a clear line of opportunity for growth within the organization.

Individuals' targets are reviewed annually; strong points and opportunities for improvement are analyzed, and evaluated to establish new levels and standards for the future. Results and execution of the strategy are monitored monthly. Best internal and external practices are debated in meetings, training programs and conferences, and disseminated throughout the Company, aiming to maintain the cycle of development and communication for and between our people.

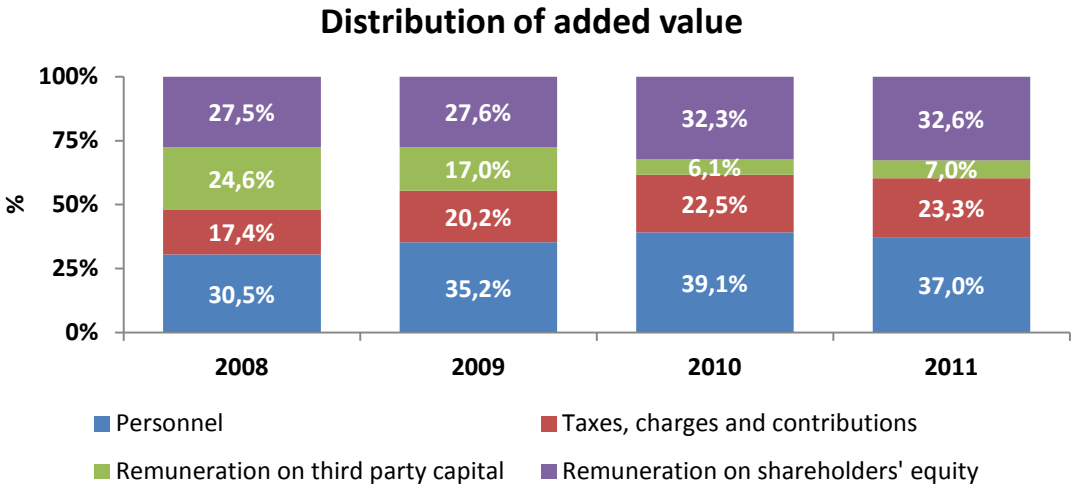
We have a team that is motivated and integrated into the quest for efficiency. The result is very low staff turnover numbers, and a strong contributing factor in Grendene's history of good results.

We take good care of our people, and work toward the aim that the Values should be practiced in a manner that is economically viable, social fair and environmentally correct.

Social and corporate information	2007	2008	2009	2010	2011
Employees (average/year)	20,973	21,785	25,853	28,586	24,396
Employees with special needs	1,115	942	1,200	1,107	1,073
Training (hour/employee)	24	22	21	18	15
Meals served (year)	5,597,287	4,905,031	6,111,793	7,025,840	5,494,812
Dental care (consultations/year)	21,612	22,589	22,266	21,545	19,656
Basket food distributed (units/year)	245,868	264,257	293,873	346,858	292,398

VIII. Added value statement

Added value is an indicator of the wealth that a company adds to society through its economic activity. Grendene's creation of added value in 2011 totaled R$935.9 million (vs. R$967.3 million in 2010). The complete Added Value Statement is part of the Financial Statements.



IX. Final considerations and outlook

If 2011 was a year that began with high expectations which were frustrated as the year developed, 2012 in our view has a good chance of being the opposite – a year that starts with expectations that are low, but improve during the year. As we have noted, above, there are several factors of stimulus to the economy that are already contracted and in place, which have not yet produced effects. At the same time the international situation continues to be a source of concern in an election year in the United States; Europe is far from solving its problems; the Chinese economy slowing down; and several countries are increasing their protectionism (such as Argentina). These factors tend mostly to restrain Brazilian exports in general and exports of footwear in particular.

The Brazilian government has shown concern about this situation, taking fiscal measures to prevent imbalance in the public accounts, and thus head off a return of inflation, even reducing the tax burden for some of the industries most affected. Reduction of interest rates enables consumers to satisfy their desire for financed items – electronics, automobiles, house purchase, etc. – and leave more income available for other spending.

In spite of the global macroeconomic situation which affects Brazil's market in one way or another, Grendene is well prepared for any economic scenario. While crises come and go, Grendene has continued to produce good results for the last 40 years and, most recently, shows its high degree of security and self-confidence in its decision to increase dividends by 80% from their 2010 level, at the same time maintaining quarterly dividend distribution.

In 2011 we consolidated the gains of efficiency in our production processes and showed that we can increase our gross margin even with a fall in volumes. In 2012 we will extend these gains to our selling and marketing processes, bringing ourselves even closer to our final clients, understanding their demands even more deeply and offering products more appropriate to their desires.

At the beginning of the year we opened the *Galeria Melissa* in New York, the first outside Brazil. This was a small investment compared to Grendene's scale, but one of high symbolic value, and one that shows our confidence in the future. With this we show that if we cannot compete with prices of Asian competitors in the commodity-footwear segment, we can compete with design, fashion, quality and competence – characteristics that are so much a feature of Brazilians.

In the domestic market consumers' desire for our products has not diminished. Consumers may postpone their purchase decisions a little, but when they have more money in their pockets we expect them to return and we are confident that our products will not let them down.

We will strengthen the execution of this strategy in 2012, with special attention to recovery of market share, increasing our communication with the market, understanding the needs of the distribution channels, innovating in products, strengthening our brands with aggressive marketing through multiple media, and seeking excellence in the operation through continuous improvements. The objective is to strengthen our relationship with clients and meet their needs in an ever-increasingly focused manner. We are aware that remuneration of the stockholders depends on this.

Once again we extend very hearty thanks to everyone involved with us in this task – employees, investors, suppliers, clients, and the general public – for their renewed manifestation of trust and confidence in Grendene, its products and its future.

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, 2011 and approved by the Board of Directors of the Company on March 1, 2012. Based on the examinations carried out, and on the Opinion of the external auditors – Ernest & Young Terco Auditores Independentes S.S. – dated February 3, 2012, 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, March 1, 2012.

Fernando Luis Cardoso Bueno
Member of the Audit Board

Bolívar Charnerski
Member of the Audit Board

Antonio Ranha da Silva
Member of the Audit Board

GRENDENE S.A.

Individual and Consolidated Financial Statements
Year ended December 31, 2011 and 2010
with Independent Auditor's Report

GRENDENE S.A.

Financial Statements

December 31, 2011 and 2010

Contents

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
Grendene S.A.

We have audited the accompanying individual and consolidated financial statements of Grendene S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011, and the related income statement, of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion on the individual financial statements

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grendene S.A. as at December 31, 2011, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis of a matter

As mentioned in Note 9, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Grendene S.A., these practices differ from the IFRS - applicable to the separate financial statements - solely with respect to the measurement of investments in subsidiaries, affiliates and jointly owned subsidiaries, under the equity method, while such investments would be measured at cost or fair value for IFRS purposes. Our opinion is not qualified in respect of this matter.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2011, prepared by the Company's management, the presentation of which is required by Brazilian corporation law for publicly held companies, and as supplementary information under the IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Statements of cash flows for prior years

As mentioned in Note 2.b, the statements of cash flows for the year ended December 31, 2010 include reclassifications in relation to those originally stated. We have audited and concurred with these reclassifications.

Porto Alegre, February 3, 2012.

Ernst & Young Terco Auditores Independentes S.S.
CRC-2SP15199/O-6/S/RS

Luis Carlos de Souza
Accountant CRC-1SC021585/O-4 S-RS

GRENDENE S.A.

Balance sheets
December 31, 2011 and 2010
(In thousands of reais)

		Company		Consolidated	
	Note	**2011**	**2010**	**2011**	**2010**
Assets					
Current assets					
Cash and cash equivalents	5	**51,128**	41,029	**61,518**	47,296
Short-term investments					
Securities available for sale	5	**344,429**	578,750	**344,429**	578,750
Securities held to maturity	5	**509,633**	404,680	**509,633**	404,680
Trade accounts receivable	6	**639,365**	527,677	**624,586**	537,457
Inventories	7	**121,061**	137,107	**144,112**	149,036
Taxes receivable	8	**16,793**	14,924	**23,263**	18,863
Trade notes receivable		**39,179**	23,070	**39,266**	23,122
Other receivables		**66,030**	25,526	**67,427**	26,187
Prepaid expenses		**1,309**	1,089	**1,581**	1,317
Total current assets		**1,788,927**	1,753,852	**1,815,815**	1,786,708
Non-current assets					
Judicial deposits		**3,520**	3,222	**3,526**	3,222
Taxes receivable	8	**452**	700	**452**	700
Trade notes receivable		**70**	70	**70**	70
Deferred income and social contribution taxes	15	**19,455**	11,148	**19,246**	11,491
Investments	9	**31,141**	31,573	**1,670**	877
Property, plant and equipment	10	**185,572**	179,405	**191,706**	181,828
Intangible assets	11	**12,162**	12,534	**13,139**	13,385
Total non-current assets		**252,372**	238,652	**229,809**	211,573
Total assets		**2,041,299**	1,992,504	**2,045,624**	1,998,281

	Note	Company 2011	Company 2010	Consolidated 2011	Consolidated 2010
Liabilities and equity					
Current liabilities					
Loans and financing	12	**96,843**	158,867	**97,551**	166,500
Trade accounts payable		**25,166**	28,805	**27,011**	31,687
Commissions payable		**30,439**	31,054	**29,123**	26,074
Taxes, charges and mandatory contributions		**12,928**	7,326	**13,759**	7,746
Payroll and related charges		**38,060**	52,870	**38,592**	53,352
Trade accounts payable		**5,111**	4,920	**5,271**	5,017
Provision for labor claims	13	**1,000**	1,100	**1,003**	1,103
Other accounts payables		**16,066**	13,995	**17,239**	14,370
Total current liabilities		**225,613**	298,937	**229,549**	305,849
Non-current liabilities					
Loans and financing	12	**13,123**	14,766	**13,123**	14,766
Provision for labor claims	13	**2,000**	2,000	**2,000**	2,000
Total non-current liabilities		**15,123**	16,766	**15,123**	16,766
Equity					
Paid-in capital	14	**1,231,302**	1,231,302	**1,231,302**	1,231,302
Equity valuation adjustment		**(2,167)**	(7,520)	**(2,167)**	(7,520)
Capital reserves		**2,685**	1,953	**2,685**	1,953
Income reserves		**568,743**	451,066	**568,743**	449,557
Total equity		**1,800,563**	1,676,801	**1,800,563**	1,675,292
Non-controlling shareholders				**389**	374
				389	374
Total equity				**1,800,952**	1,675,666
Total liabilities and equity		**2,041,299**	1,992,504	**2,045,624**	1,998,281

See accompanying notes.

GRENDENE S.A.

Income statements
December 31, 2011 and 2010
(In thousands of reais, except for earnings per share)

	Note	Company		Consolidated	
		2011	2010	2011	2010
Net sales revenue	22	**1,462,904**	1,571,571	**1,482,636**	1,604,507
Cost of sales		**(841,219)**	(950,157)	**(840,497)**	(953,261)
Gross profit		**621,685**	621,414	**642,139**	651,246
Selling expenses		**(379,046)**	(362,420)	**(396,096)**	(377,010)
General and administrative expenses		**(56,806)**	(58,303)	**(61,177)**	(61,878)
Other operating income		**6,587**	3,350	**6,678**	3,368
Other operating expenses		**(4,171)**	(7,300)	**(4,251)**	(7,313)
Equity pickup	9	**(1,414)**	2,718	**-**	-
Operating income before financial income/expenses and taxes		**186,835**	199,459	**187,293**	208,413
Financial income and expenses	16				
Financial expenses		**(51,426)**	(45,667)	**(62,793)**	(55,933)
Financial income		**204,833**	175,585	**215,796**	178,402
		153,407	129,918	**153,003**	122,469
Income before income and social contribution taxes		**340,242**	329,377	**340,296**	330,882
Income and social contribution taxes	15				
Current		**(44,986)**	(15,279)	**(44,863)**	(17,150)
Deferred		**10,190**	(1,208)	**10,018**	(1,265)
		(34,796)	(16,487)	**(34,845)**	(18,415)
Net income for the year before non-controlling interest		**305,446**	312,890	**305,451**	312,467
Non-controlling interest		**-**	-	**(5)**	(68)
Net income for the year		**305,446**	312,890	**305,446**	312,399
Earnings per share – basic	14.g	**1.02**	1.04	-	-
Earnings per share – diluted	14.g	**1.01**	1.04	-	-

See accompanying notes.

GRENDENE S.A.

Statements of comprehensive income
December 31, 2011 and 2010
(In thousands of reais)

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Net income for the year	**305,446**	312,890	**305,446**	312,399
Other comprehensive income:				
Unrealized gains (losses) with investments classified as available for sale	**5,538**	(6,058)	**5,538**	(6,058)
Income and social contribution taxes	**(1,883)**	2,060	**(1,883)**	2,060
Cumulative translation adjustments – foreign currency	**1,698**	(671)	**1,698**	(671)
Comprehensive income for the year, net of taxes	**310,799**	308,221	**310,799**	307,730
Comprehensive income allocated to:				
Controlling shareholders	**310,799**	308,221	**310,784**	307,529
Non-controlling shareholders	**-**	-	**15**	201
	310,799	308,221	**310,799**	307,730

See accompanying notes.

GRENDENE S.A.

Statements of changes in equity – Company
(In thousands of reais)December 31, 2011 and 2010

				Capital reserves		Income reserves							
	Note	Paid-in capital	Equity valuation adjustments	Recognized ptions grante	Income from sale of treasury stock	egal reserv	Unearned come reserv	Profit retention reserve	ax incentive	Proposed additional dividend	Treasury stock	Retained earnings	Total
Balance at December 31, 2009		1,226,760	(4,942)	1,086	-	32,515	1,018	4,533	159,822	34,000	-	10,622	1,465,414
Capital increase through issue of shares		4,542	-	-	-	-	-	-	-	-	-	-	4,542
Reversal of unearned income reserve		-	-	-	-	-	(1,018)	-	-	-	-	1,018	-
Changes in share option plan:													
Share options exercised over the year		-	-	(252)	-	-	-	-	-	-	-	252	-
Adjustments to share option plan		-	-	(29)	-	-	-	-	-	-	-	29	-
Adjustment to market value – short-term investments		-	(3,998)	-	-	-	-	-	-	-	-	-	(3,998)
Exchange differences on foreign subsidiaries abroad		-	(671)	-	-	-	-	-	-	-	-	-	(671)
Exchange losses on investments		-	2,091	-	-	-	-	-	-	-	-	-	2,091
Expenses with share option plan		-	-	1,148	-	-	-	-	-	-	-	-	1,148
Net income for the year		-	-	-	-	-	-	-	-	-	-	312,890	312,890
Proposed allocation:													
Tax incentive reserve													
ICMS tax incentives - Proapi and Provin		-	-	-	-	-	-		141,603	-	-	(141,603)	-
Income tax		-	-	-	-	-	-		32,768	-	-	(32,768)	-
Subsidiary tax incentives:													
Subsidiary tax incentives – ICMS/Procomex		-	-	-	-	-	-		1,719	-	-	(1,719)	-
Subsidiary tax incentive – IRPJ		-	-	-	-	-	-		504	-	-	(504)	-
Legal reserve		-	-	-	-	6,926	-	-	-	-	-	(6,926)	-
Unearned income reserve		-	-	-	-	-	1,509	-	-	-	-	(1,509)	-
Profit retention reserve		-	-	-	-	-	-	18,043	-	-	-	(18,043)	-
Dividends distributed		-	-	-	-	-	-	-	-	(34,000)	-	(70,615)	(104,615)
Proposed additional dividend		-	-	-	-	-	-	-	-	51,124	-	(51,124)	-
Balances at December 31, 2010		1,231,302	(7,520)	1,953	-	39,441	1,509	22,576	336,416	51,124	-	-	1,676,801
Acquisition of treasury stock		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,005)**	**-**	**(11,005)**
Reversal of unearned income reserve		**-**	**-**	**-**	**-**	**-**	**(1,509)**	**-**	**-**	**-**	**-**	**-**	**(1,509)**
Changes in share option plan:													
Share options exercised over the year		**-**	**-**	**-**	**(11,005)**	**-**	**-**	**-**	**-**	**-**	**11,005**	**-**	**-**
Adjustments to share option plan	**19.b**	**-**	**-**	**(198)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**198**	**-**
Sale of treasury stock for exercised share options		**-**	**-**		**7,303**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,303**
Sale of option stock	**19.b**	**-**	**-**	**(685)**	**3,702**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,017)**	
Adjustment to market value – short-term investments		**-**	**3,655**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,655**
Exchange differences on foreign subsidiaries abroad	**9**	**-**	**1,698**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,698**
Expenses with share option plan	**19**	**-**	**-**	**1,615**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,615**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**305,446**	**305,446**
Proposed allocation:													
Tax incentive reserve													
ICMS tax incentives - Proapi and Provin	**12.a**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,531**	**-**	**-**	**(10,531)**	**-**
Income tax	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**58,694**	**-**	**-**	**(58,694)**	**-**
Subsidiary tax incentives:													
Subsidiary tax incentives – ICMS/Procomex		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**803**	**-**	**-**	**(803)**	**-**
Legal reserve		**-**	**-**	**-**	**-**	**11,811**	**-**	**-**	**-**	**-**	**-**	**(11,811)**	**-**
Profit retention reserve		**-**	**-**	**-**	**-**	**-**	**-**	**1,262**	**-**	**-**	**-**	**(1,262)**	**-**
Dividends distributed	**14.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(51,124)**	**-**	**(132,317)**	**(183,441)**
Proposed additional dividend	**14.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87,209**	**-**	**(87,209)**	**-**
Balances at December 31, 2011		**1,231,302**	**(2,167)**	**2,685**	**-**	**51,252**	**-**	**23,838**	**406,444**	**87,209**	**-**	**-**	**1,800,563**

See accompanying notes.

GRENDENE S.A.

Statements of changes in equity – Consolidated
December 31, 2011 and 2010
(In thousands of reais)

				Capital reserves		Income reserves								
	Note	Paid-in capital	Equity valuation adjustments	Recognized options granted	Income from sale of treasury stock	Legal reserve	Profit retention reserve	Tax incentives	Proposed additional dividend	Treasury stock	Retained earnings	Controlling interest	Non-controlling interest	Total
Balances at December 31, 2009		1,226,760	(4,942)	1,086	-	32,515	4,533	159,822	34,000	-	10,622	1,464,396	173	1,464,569
Capital increase through issue of shares		4,542	-	-	-	-	-	-	-	-	-	4,542	-	4,542
Changes in share option plan:														
Share option exercised over the year		-	-	(252)	-	-	-	-	-	-	252	-	-	-
Adjustments to share option plan		-	-	(29)	-	-	-	-	-	-	29	-	-	-
Adjustment to market value – short-term investments		-	(3,998)	-	-	-	-	-	-	-	-	(3,998)	-	(3,998)
Exchange differences on foreign subsidiaries abroad		-	(671)	-	-	-	-	-	-	-	-	(671)	-	(671)
Exchange losses on investments		-	2,091	-	-	-	-	-	-	-	-	2,091	-	2,091
Expenses with share option plan		-	-	1,148	-	-	-	-	-	-	-	1,148	-	1,148
Net income for the year		-	-	-	-	-	-	-	-	-	312,399	312,399	201	312,600
Proposed allocation:														
Tax incentive reserve														
ICMS tax incentives - Proapi and Provin		-	-	-	-	-	-	141,603	-	-	(141,603)	-	-	-
Income tax		-	-	-	-	-	-	32,768	-	-	(32,768)	-	-	-
Subsidiary tax incentives:														
Subsidiary tax incentives – ICMS/Procomex		-	-	-	-	-	-	1,719	-	-	(1,719)	-	-	-
Subsidiary tax incentive – income tax		-	-	-	-	-	-	504	-	-	(504)	-	-	-
Legal reserve		-	-	-	-	6,926	-	-	-	-	(6,926)	-	-	-
Profit retention reserve		-	-	-	-	-	18,043	-	-	-	(18,043)	-	-	-
Dividends distributed		-	-	-	-	-	-	-	(34,000)	-	(70,615)	(104,615)	-	(104,615)
Proposed additional dividend		-	-	-	-	-	-	-	51,124	-	(51,124)	-	-	-
Balances 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
Acquisition of treasury stock		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,005)**	**-**	**(11,005)**	**-**	**(11,005)**
Changes in share option plan:														
Share option exercised over the year		**-**	**-**	**-**	**(11,005)**	**-**	**-**	**-**	**-**	**11,005**	**-**	**-**	**-**	**-**
Adjustments to share option plan	**19.b**	**-**	**-**	**(198)**	**-**	**-**	**-**	**-**	**-**	**-**	**198**	**-**	**-**	**-**
Sale of treasury stock for exercised share options		**-**	**-**	**-**	**7,303**	**-**	**-**	**-**	**-**	**-**	**-**	**7,303**	**-**	**7,303**
Sale of option stock	**19.b**	**-**	**-**	**(685)**	**3,702**	**-**	**-**	**-**	**-**	**-**	**(3,017)**	**-**	**-**	**-**
Adjustment to market value – short-term investments		**-**	**3,655**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,655**	**-**	**3,655**
Exchange differences on foreign subsidiaries abroad	**9**	**-**	**1,698**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,698**	**-**	**1,698**
Expenses with share option plan	**19**	**-**	**-**	**1,615**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,615**	**-**	**1,615**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**305,446**	**305,446**	**15**	**305,461**
Proposed allocation:														
Tax incentive reserve														
ICMS tax incentives - Proapi and Provin	**12.a**	**-**	**-**	**-**	**-**	**-**	**-**	**10,531**	**-**	**-**	**(10,531)**	**-**	**-**	**-**
Income tax	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**58,694**	**-**	**-**	**(58,694)**	**-**	**-**	**-**
Subsidiary tax incentives:														
Subsidiary tax incentives – ICMS/Procomex		**-**	**-**	**-**	**-**	**-**	**-**	**803**	**-**	**-**	**(803)**	**-**	**-**	**-**
Legal reserve		**-**	**-**	**-**	**-**	**11,811**	**-**	**-**	**-**	**-**	**(11,811)**	**-**	**-**	**-**
Profit retention reserve		**-**	**-**	**-**	**-**	**-**	**1,262**	**-**	**-**	**-**	**(1,262)**	**-**	**-**	**-**
Dividends distributed	**14.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(51,124)**	**-**	**(132,317)**	**(183,441)**	**-**	**(183,441)**
Proposed additional dividend	**14.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87,209**	**-**	**(87,209)**	**-**	**-**	**-**
Balances 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**

See accompanying notes.

GRENDENE S.A.

Cash flow statements
December 31, 2011 and 2010
(In thousands of reais)

	Company		Consolidated	
	2011	2010	2011	2010
		Restated		Restated
Cash flow from operating activities				
Net income for the year	**305,446**	312,890	**305,446**	312,399
Non-controlling interest	**-**	-	**15**	201
Adjustment to reconcile P&L to cash and cash equivalents generated by operating activities:				
Equity valuation adjustments	**-**	-	**1,698**	(671)
Exchange losses on investments	**-**	2,091	**-**	2,091
Adjustment to market value – short-term investments	**3,655**	(3,998)	**3,655**	(3,998)
Equity pickup	**1,414**	(2,718)	**-**	-
Dividends received from subsidiary	**-**	9,805	**-**	-
Depreciation / amortization	**28,460**	27,780	**28,917**	28,173
Deferred income and social contribution taxes	**(8,307)**	(851)	**(7,755)**	(661)
Investment disposals	**-**	271	**-**	-
Fixed asset disposals	**1,091**	1,488	**1,194**	1,502
Intangible asset disposals	**-**	127	**-**	126
Share option plan	**1,615**	1,148	**1,615**	1,148
Allowance for doubtful accounts	**14,803**	(2,816)	**14,835**	(2,863)
Provision for prompt payment discount	**4,984**	(3,006)	**5,250**	(3,426)
Provision for obsolete inventory items	**591**	487	**546**	642
Provision for contingencies	**(100)**	500	**(100)**	500
Interest on loans	**10,799**	6,984	**11,127**	7,305
Interest income on short-term investments	**(126,105)**	(89,295)	**(126,105)**	(89,295)
	238,346	260,887	**240,338**	253,173
Changes in assets and liabilities:				
Trade accounts receivable	**(130,615)**	33,114	**(106,354)**	34,930
Inventories	**15,455**	4,096	**4,378**	(1,107)
Other accounts receivable	**(59,612)**	(16,238)	**(62,964)**	(19,225)
Trade accounts payable	**(3,639)**	(9,544)	**(4,676)**	(8,322)
Payroll and related charges	**(14,810)**	(10,335)	**(14,760)**	(10,536)
Taxes, charges and contributions	**5,602**	(1,483)	**6,013**	(1,397)
Other accounts payables	**1,647**	(1,171)	**6,172**	(586)
Net cash generated by operating activities	**52,374**	259,326	**68,147**	246,930
Cash flow from investing activities:				
In investments	**(793)**	(3,012)	**(793)**	(4)
In property, plant and equipment	**(32,072)**	(28,395)	**(36,326)**	(28,600)
In intangible assets	**(3,274)**	(4,406)	**(3,417)**	(4,367)
Short-term investments	**(333,467)**	(397,045)	**(333,467)**	(397,045)
Redemption of short-term investments	**588,940**	261,280	**588,940**	266,504
Net cash used in investing activities	**219,334**	(171,578)	**214,937**	(163,512)
Cash flows from financing activities:				
Loans raised	**147,505**	176,231	**151,489**	184,846
Repayment of loans	**(211,362)**	(115,013)	**(222,361)**	(116,525)
Interest paid	**(10,609)**	(34,906)	**(10,847)**	(35,135)
Dividends paid	**(183,441)**	(104,615)	**(183,441)**	(104,615)
Acquisition of treasury stock	**(11,005)**	-	**(11,005)**	-
Sale of treasury stock for exercised share options	**7,303**	-	**7,303**	-
Capital increase	**-**	4,542	**-**	4,542
Net cash used in financing activities	**(261,609)**	(73,761)	**(268,862)**	(66,887)
Increase in cash and cash equivalents	**10,099**	13,987	**14,222**	16,531
Statement of changes in cash and cash equivalents:				
At beginning of year	**41,029**	27,042	**47,296**	30,765
At end of year	**51,128**	41,029	**61,518**	47,296
Increase in cash and cash equivalents	**10,099**	13,987	**14,222**	16,531
Items not affecting cash flows:				
Exchange variation on investments	**(1,698)**	671	**-**	-
Reversal of unrealized profits on inventories	**1,509**	-	**-**	-

See accompanying notes.

GRENDENE S.A.

Statements of value added
December 31, 2011 and December 31, 2010
(In thousands of reais)

	Company				Consolidated			
	2011		**2010**		**2011**		**2010**	
Revenues								
Sale of products	**1,670,544**		1,795,254		**1,692,957**		1,831,438	
Allowance for doubtful accounts	**(13,943)**		2,816		**(13,956)**		2,860	
Other revenues/expenses	**314**		(1,790)		**314**		(1,790)	
	1,656,915		1,796,280		**1,679,315**		1,832,508	
Inputs acquired from third parties								
Raw materials consumed	**456,053**		543,407		**421,750**		513,809	
Other production costs	**10,683**		11,965		**41,786**		43,820	
Materials, electric energy, outsourced services and other	**448,127**		443,526		**467,216**		458,036	
Loss/recovery of asset values	**591**		487		**530**		648	
	915,454		999,385		**931,282**		1,016,313	
Gross value added	**741,461**		796,895		**748,033**		816,195	
Retentions								
Depreciation and amortization	**27,631**		26,977		**28,060**		27,358	
	27,631		26,977		**28,060**		27,358	
Net value added	**713,830**		769,918		**719,973**		788,837	
Transferred value added received								
Equity pickup and dividends assessed at acquisition cost	**(1,414)**		2,718		**-**		-	
Financial income	**204,833**		175,585		**215,796**		178,402	
Rental	**142**		94		**142**		94	
	203,561		178,397		**215,938**		178,496	
Value added to be distributed	**917,391**		948,315		**935,911**		967,333	
Distribution value added								
Personnel								
Direct compensation	**278,905**		305,837		**283,852**		310,915	
Benefits	**32,797**		35,794		**33,270**		36,317	
Unemployment Compensation Fund (FGTS)	**28,803**		31,017		**29,078**		31,291	
	340,505	**37.12%**	372,648	39.30%	**346,200**	**36.99%**	378,523	39.13%
Taxes, charges and contributions								
Federal	**188,251**		181,550		**189,116**		184,346	
State	**29,746**		33,755		**29,001**		33,031	
Local	**361**		373		**361**		374	
	218,358	**23.80%**	215,678	22.74%	**218,478**	**23.34%**	217,751	22.51%
Debt remuneration								
Interest, discounts and financial charges	**51,426**		45,667		**62,793**		55,933	
Rental	**1,656**		1,432		**2,994**		2,727	
	53,082	**5.78%**	47,099	4.97%	**65,787**	**7.03%**	58,660	6.06%
Equity remuneration								
Dividends	**219,526**		121,739		**219,526**		121,739	
Retained profit for the year	**85,920**		191,151		**85,925**		190,728	
Non-controlling interest in retained profit	**-**		-		**(5)**		(68)	
	305,446	**33.30%**	312,890	32.99%	**305,446**	**32.64%**	312,399	32.30%
	917,391	**100%**	948,315	100%	**935,911**	**100%**	967,333	100%

See accompanying notes.

1. Operations

Grendene S.A. is a publicly-held corporation headquartered in Sobral, Ceará Brazil Production is mainly centered at its headquarters located in the city of Sobral, in the state of Ceará. It also has industrial plants in the cities of Fortaleza and Crato, in the state of Ceará, Teixeira de Freitas in the state of Bahia and Farroupilha, in the state of Rio Grande do Sul. In addition, it has an industrial plant in the city of Carlos Barbosa in the state of Rio Grande do Sul that internally develops molds for the production of footwear. The facilities in all these industrial plants are equipped with the latest equipment.

Grendene develops, manufactures, distributes and sells footwear for various uses and to all income groups, operating in the menswear, women's wear, children's' wear and mass market segments.

Due to the nature of the footwear sector, sales volume may fluctuate during the year. A higher volume of sales is common in the second half of each year. In management's opinion, the Company's operations do not suffer any impact from these effects that would require disclosures or additional information to accompanying notes.

2. Basis for preparation and presentation of financial statements

The financial statements, Company and Consolidated, of Grendene S.A. were approved in the executive board meeting held on January 26, 2012.

There have been no changes in accounting practices and calculation methods adopted in the preparation of the financial statements, Company and Consolidated, vis-à-vis the financial statements as of December 31, 2010.

a) Financial statements - Company

The Company's financial statements were prepared in accordance with accounting practices adopted in Brazil and rules established by the Brazilian Securities and Exchange Commission (CVM), in light of the guidelines contained in Brazilian Corporation Law (Law No. 6404/76), which include new provisions introduced, amended and revoked by Law No. 11638, of December 28, 2007 and Law No. 11941, of May 27, 2009. These practices are different from IFRS, applicable to separate financial statements, only with respect to the assessment of investments in subsidiaries, which are assessed under the equity method, whereas it they would be assessed at cost or fair value for IFRS purposes.

2. Basis for preparation and presentation of financial statements (Continued)

b) Financial statements - Consolidated

The consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and also based on accounting practices adopted in Brazil and CVM rules.

The Company adopted all standards, as well as reviewed standards and interpretations issued by IASB and that are effective for the financial statements for the year ended December 31, 2011.

The Company acquired no other company or business for the years ended December 31, 2011 and 2010. There are no non-current assets available for sale or discontinued operations as of December 31, 2011 and 2010.

Certain cash flow statement transactions for the year ended December 31, 2010 were reclassified in relation to those originally stated for better comparability with the classification adopted for 2011. Accordingly, the Company restates these statements of cash flows.

	2010			
	Company		**Consolidated**	
	Restated	Original	Restated	Original
Operating activities	**259,326**	338,899	**246,930**	326,231
Investing activities	**(171,578)**	(35,813)	**(163,512)**	(33,020)
Financing activities	**(73,761)**	(64,039)	**(66,887)**	(56,844)
	13,987	239,047	**16,531**	236,367

c) Prospective accounting changes, new pronouncements and interpretations

c.1) *Standards and interpretations in effect*

Some new IASB accounting procedures and IFRIC interpretations were published and/or reviewed and are mandatory for the year beginning January 1, 2011. Such procedures had no impact on the Company's financial statements for the first-time application period. The Company's assessment of such new procedures and interpretations is as follows:

2. Basis for preparation and presentation of financial statements (Continued)

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

c.1) *Standards and interpretations in effect* (Continued)

- **IAS 24 Reporting Requirements for Government Entities and Definition of Related Party (Reviewed) –** The reviewed version of IAS 24 simplifies reporting requirements for government entities and clarifies the definition of a related party. The reviewed standard addresses aspects which, according to previous reporting requirements and related-party definition, were overly complex and whose practical application was difficult, mainly in wide-government controlled environments, offering partial exemptions to government entities and a reviewed definition of the related-party concept.

- **IFRIC 14 Early Payment of a Minimum Required Requirement –** This change aims to correct an involuntary consequence of IFRIC 14. This change is only applicable to situations in which an entity is subject to minimum financing requirements and pays contributions in advance so as to meet such requirements. This change allows the entity to record the benefit of such early payment as an asset item.

c.2) *Standards and interpretations not yet in effect*

Standards that will be effective for fiscal years beginning January 1, 2012 and 2013 are listed below:

- **IAS 1 Presentation of the Financial Statements – Presentation of Items and Other Comprehensive Income (reviewed in 2011) –** Change to this standard addresses aspects related to the reporting of other comprehensive income items, and requires that companies separate items that will not be reclassified to P&L in the future from items that may be reclassified to P&L in the future. The Company expects that this change will have no impact on its consolidated financial statements.

- **IAS 12 Income Tax – Recovery of Underlying Assets.** This change provided clarification on how to calculate deferred taxes on investment properties measured at fair value in accordance with IAS 40. The Company expects that this change will have no impact on its consolidated financial statements.

2. Basis for preparation and presentation of financial statements (Continued)

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

c.2) *Standards and interpretations not yet in effect* (Continued)

- **IAS 19 Employee Benefits (reviewed in 2011) –** The change to this standard addresses aspects related to the recording and reporting of employee benefits. The Company expects that this change will have no impact on its consolidated financial statements.

- **IAS 27 – Separate financial statements (reviewed in 2011) –**
  As a result of recent IFRS 10 and IFRS 12, the remaining guidelines of IAS 27 is limited to recording of subsidiaries, jointly-owned entities, and related to the separate financial statements. The Company will start an assessment process to identify whether such standard may or may not have any impacts on its financial statements. Based on preliminary assessments, manage expects no significant impacts thereon.

- **IAS 28 Investments in Associates and Joint Ventures (reviewed in 2011) –** As a result of recent IFRS 11 and IFRS 12, IAS 28 is now IAS 28 Investments in Associates and Joint Ventures, and describes how to apply the equity method for investments in joint ventures, and investments in associates. Management expects no impacts on overall consolidated financial statements, as it has no joint ventures.

- **IFRS 7 Financial Instruments: Disclosures – Improved derecognition disclosure requirements. -** This amendment requires additional disclosure on financial assets transferred, yet not derecognized, so as to enable the Group's financial statement users to understand the relation with those assets not derecognized and related liabilities. Furthermore, the amendment requires disclosures as to the ongoing involvement in the derecognized financial assets so that the user can evaluate the nature of the entity's ongoing involvement in these derecognized assets and related risks. The Company will start an assessment process to identify whether such standard may or may not have any impacts on its financial statements. Based on preliminary assessments, management expects no significant impacts.

2. Basis for preparation and presentation of financial statements (Continued)

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

c.2) *Standards and interpretations not yet in effect* (Continued)

- **IFRS 9 Financial Instruments – Classification and Measurement -** IFRS 9 Financial Instruments closes the first part of the process to substitute for "IAS 39 Financial Instruments: Recognition and Measurement". IFRS 9 uses a simple approach to determine whether a financial asset is measured at amortized cost or fair value. The new approach is based on how the entity manages its financial instruments (its business model) and the contractual cash flow characteristic of financial assets. The standard also requires adoption of a single method to determine impairment losses. The Company expects that this change will have no impact on its consolidated financial statements.

- **IFRS 10 Consolidated Financial Statements –** This standard introduces a new definition for control, which is used to determine which entities are consolidated and describes the consolidation procedures. This standard does not change how companies are consolidated, but introduces a new definition for control and, as a result, which investments are to be consolidated depending on n4ew assessment criteria (e.g.: control over significant activity). The Company will start an assessment process to identify whether such standard may or may not have any impacts on its financial statements. Based on preliminary assessments, management expects no significant impacts.

- **IFRS 11 Joint arrangements –** This standard describes how investments under a common control are to be recorded; proportional consolidation is not allowed for joint ventures. Proportional consolidation (line by line) is currently allowed by IFRS for joint ventures, and so is recording thereof under the equity method. Proportional consolidation will no longer be allowed upon adoption of IFRS 11. Management expects no impacts on overall consolidated financial statements, as it has no joint ventures.

2. Basis for preparation and presentation of financial statements (Continued)

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

c.2) *Standards and interpretations not yet in effect* (Continued)

- **IFRS 12 Disclosures of Interests in Other Entities** – This standard introduces new disclosure requirements regarding investments in subsidiaries, joint-ventures, associates and structured entities. This standard will have no impact on investment recording or measurement, but the Company expects that some additional disclosures might be necessary to fully meet this standard disclosure requirements.

- **IFRS 13 Fair Value Measurement** – This standard provides new guidance on how to measure fair value. It does not change current fair value measurement requirements contained in IFRS, but introduces new disclosure requirements, and guidance on how to measure assets and liabilities at fair value whenever allowed or required by current IFRS. Management will assess the impact of this new IFRS on its fair value measurement and disclosure practices and procedures.

There are no other standards or interpretations issued and not yet adopted that may, based on management's opinion, have a significant impact on P&L or equity reported by the Company.

3. Consolidated financial statements

The consolidated financial statements include operations of the Company and the following subsidiaries, in which ownership interest at balance sheet date is summarized below:

	Country	Direct ownership interest (2011 and 2010)
Saddle Corporation S.A.*	Uruguay	100%
MHL Calçados Ltda.	Brazil	99.998%
Grendene Argentina S.A.	Argentina	95%
Grendene USA, Inc	USA	100%

* Saddle Corporation S.A. operations were discontinued, according to the Minutes of the Special Shareholders' Meeting held on December 10, 2010.

At December 31, 2011 and 2010, there are no investments in affiliate companies or joint ventures.

Financial years of subsidiaries included in the consolidation coincide with those of the Company and the accounting practices have been uniformly applied in subsidiaries and are consistent with the IFRS.

The main consolidation procedures are:

- Eliminating consolidated intercompany assets and liabilities.
- Eliminating equity interest, reserves and retained earnings in consolidated companies; and
- Eliminating intercompany balances or revenues and expenses, as well as unearned income, deriving from business transactions.

4. Summary of significant accounting practices

a) Revenue recognition

Revenue is recognized in P&L when its value can be reliably measured and future economic benefits are likely to be generated the Company and its subsidiaries. Revenue is measured based on fair value of the consideration received, net of discounts, rebates and taxes or charges on sales. The Company assesses revenue transactions in accordance with specific criteria so as to determine if it is the agent or principal and, in the end, has reached the conclusion that it has been performing as the principal in all its revenue contracts. Revenue is not recognized when there is significant uncertainty about realization thereof. Revenues and expenses are recorded on the accrual basis.

a.1) *Sales revenues*

Revenue from sales is recognized in P&L when all risks and benefits inherent to the product have been transferred to buyer, and the Company and its subsidiaries no longer hold control over or responsibility for the product sold.

a.2) *Financial income*

Interest income is recognized under the effective interest rate method as a financial income.

b) Translation of balances stated in foreign currency

b.1) *Functional and reporting currency*

The Company's functional currency is the Real, which is the same currency used to prepare and present its financial statements, Company and Consolidated. The financial statements of each subsidiary included in the consolidation, as well as those on which investment assessment under the equity method were based, are prepared considering the functional currency of each entity. For those subsidiaries located abroad, management concluded that, since these hold administrative, financial and operational independence and their assets and liabilities are translated into Reais at the exchange rate as of the balance sheet closing dates, and that income is computed at the annual average monthly rates.

4. Summary of significant accounting practices (Continued)

b) Translation of balances stated in foreign currency (Continued)

b.1) *Functional and reporting currency* (Continued)

Subsidiaries are assessed under the equity method, whose annual P&L is recognized in proportion to the Company's interest and are recorded as equity pickup. Restatements of the investment account stemming from foreign exchange variation are recorded in the equity valuation adjustment group of accounts in the Company's equity. For consolidation purposes, the financial statements of these subsidiaries are included in the consolidated financial statements and adjustments from exchange variation on assets and liabilities denominated in US dollars and Argentinean pesos are recorded in equity valuation adjustments in consolidated equity.

b.2) *Transactions stated in foreign currency*

Monetary assets and liabilities stated in foreign currency are translated into functional currency (Real) at the exchange rate in force as of the corresponding balance sheet dates. Gains and losses resulting from restatement of such assets and liabilities, detected between the exchange rate in force on transaction date and at year end, are recognized as financial income or expenses at P&L.

c) Financial instruments

Financial instruments are only recognized when the Company or its subsidiaries are parties to the contractual provisions of the instruments. Upon recognition, financial instruments are initially recorded at fair value, plus transaction costs directly attributable to their acquisition or issue, except for financial assets and liabilities classified under the "at fair value through P&L" category, whereupon such costs are posted directly to P&L for the year.

Subsequent measurement

They are subsequently measured at each balance sheet date, in accordance with those rules established for each type of classification of financial assets and liabilities.

4. Summary of significant accounting practices (Continued)

c) Financial instruments (Continued)

c.1) *Financial assets*

These are classified into the categories below in accordance with the purpose for which they were acquired or issued:

a) Financial assets measured at fair value through P&L: An instrument is classified at fair value through P&L if held for trading, i.e., designated as such upon initial recognition. They are classified as kept for trading if they were originated for short-term sale or repurchase purposes. Derivatives are also classified as for trading. These are stated at fair value at each balance sheet date. Interest, monetary restatement, foreign exchange variation and variations arising out of fair value adjustment are recognized in P&L, when incurred.

b) Investments held to maturity: non-derivative financial assets with payments that are fixed or subject to determination which the Company has the intention and the capacity to hold to maturity. After initial recognition, these are measured at amortized cost under the effective interest rate method, less impairment. Interest, monetary restatement, foreign exchange variation and variations arising out of fair value adjustment are recognized in P&L, when incurred.

c) Lending and receivables: Lending and receivables are non-derivative financial assets, with payments that are fixed or subject to determination, but not quoted in an active market. After initial recognition these are measured at amortized cost under the effective interest rate method. Interest, monetary restatement, exchange variation, less impairment, where applicable, are recognized as financial income or expenses in P&L, when incurred.

4. Summary of significant accounting practices (Continued)

c) Financial instruments (Continued)

c.1) *Financial assets* (Continued)

d) Available for sale: Financial assets that do not qualify for categories c.1a., c.1b. and c.1c above. After initial recognition, these are stated at fair value and their fluctuations, except for impairment, as well as foreign currency differences of these instruments are posted directly to equity, net of tax effects. The referred to tax effects are matched against deferred income and social contribution tax asset/ liability When an investment is no longer recognized, accumulated gains or losses in equity are transferred to P&L.

Key financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents, short-term investments and trade accounts receivable.

c.2) *Financial liabilities*

These are classified into the categories below in accordance with the purpose for which they were taken out or issued:

a) Financial liabilities measured at fair value through P&L: these include financial liabilities usually traded before maturity, liabilities classified at fair value through P&L upon initial recognition and derivatives. These are stated at fair value at each balance sheet date. Interest, monetary restatement, foreign exchange variation and variations arising out of fair value adjustment, where applicable, are recognized in P&L, when incurred.

4. Summary of significant accounting practices (Continued)

c) Financial instruments (Continued)

c.2) *Financial liabilities* (Continued)

b) Financial liabilities not measured at fair value: Non-derivative financial liabilities are not usually traded before maturity. After initial recognition these are measured at amortized cost under the effective interest rate method. Interest, monetary restatement and exchange variation, where applicable, are recognized as financial income or expenses in P&L, when incurred.

Key financial liabilities recognized by the Company and its subsidiaries are: trade accounts payable, loans and financing.

c.3) *Market value*

The market value of financial instruments actively traded in organized markets is determined based on amounts quoted in the market at the balance sheet date. In the absence of an active market, the market value is determined through valuation techniques. These techniques include use of recent market transactions between independent parties, discounted cash flow analysis or other valuation methods. Derivative instruments and their respective market values are disclosed in Note 17. b.

c.4) *Impairment of financial instruments*

Financial assets that are not classified at fair value through P&L are annually tested for impairment. Financial assets are considered as impaired when there is objective evidence, as a result of one or more events taking place after initial recognition of the financial asset, that had an impact on the estimated future cash flow of the investment.

4. Summary of significant accounting practices (Continued)

d) Cash and cash equivalents

These include positive bank account balances and short-term investments redeemable within 90 days as from investment date, involving low risk of change in their market value. Short-term investments included in cash equivalents are most classified as "financial assets at fair value through P&L" (Note 5).

e) Short-term investments

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

f) Trade accounts receivable

These are stated at realizable values, and trade accounts receivable from parties abroad are restated at exchange rates in force as of the financial statements date. An allowance for doubtful accounts was set up at an amount considered sufficient by management. Information related to breakdown of trade accounts receivable by amounts falling due is stated in Note 6.

g) Provision for prompt payment discount

These are set up at estimated discount amounts to be granted in relation to trade accounts receivable, for payment of trade bills made at the respective due dates and matched against sales deductions.

4. Summary of significant accounting practices (Continued)

h) Inventories

These are assessed at their average acquisition or production cost, which does not exceed their net realizable values. Net realizable value is calculated by the difference between sales prices in the Company's normal operations and costs incurred to make the sale.

Provisions for slow-moving or obsolete inventory items are set up whenever deemed necessary by management.

i) Investments

For the Company, investments in subsidiaries are assessed under the equity method. Other investments are recorded at acquisition cost and marked to market, where applicable.

j) Property, plant and equipment

These are recorded at their acquisitions or construction cost. Asset depreciation is calculated under the straight-line method at the rates mentioned in Note 10 and considers the estimates economic useful lives of such assets. PP&E is net of Social Contribution Tax on Gross Revenue for Social Integration Program (PIS), Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS) and State Value-Added Tax (ICMS) credits, and is matched against taxes recoverable.

Over the year ended December 31, 2011 and 2010, the Company detected no indications that certain PP&E items may be stated over their realizable value, pursuant to CVM Rule No. 639, which approved Brazilian Financial Accounting Standards Board (CPC) pronouncement CPC 01 (R1) – Impairment of Assets, and, as a result, no provision for impairment of PP&E items is required.

PP&E book value is reviewed when events or changes in circumstances indicate impairment. An impairment loss is recognized at the value by which an asset book value exceeds its recoverable value. This is the higher of fair value of an asset, less its selling cost, and its value in use. For impairment evaluation purposes, assets are grouped in cash-generating unit.

4. Summary of significant accounting practices (Continued)

k) Intangible assets

Intangible assets acquired separately are measured upon initial recognition at acquisition cost and, subsequently, deducting accumulated amortization. The Company's intangible assets have defined useful lives. Amortizations are calculated under the straight-line methods at the rates mentioned in Note 11.

The book value of an intangible asset item is tested for impairment whenever events or changes in circumstances indicate that such book value may not be recovered. At December 31, 2011 and 2010, the Company identified no item requiring a provision for impairment.

l) Other assets and liabilities

An asset is recognized in the balance sheet when its future economic benefits are likely to be generated for the Company or its subsidiaries, and its cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, the settlement of which is likely to generate an outflow of economic benefits. Provisions are recorded based on the best estimates of the risk involved.

Assets and liabilities are classified as current when they are likely to be realized or settled within the following twelve months. Otherwise, they are stated as non-current.

4. Summary of significant accounting practices (Continued)

m) Taxation

m.1) *Taxes on sales*

Revenues from sales are subject to the following taxes and contributions, at the basic rates below:

	Rates
State value-added tax (ICMS)	7.00% to 18.00%
Social contribution tax on gross revenue for social security financing (COFINS)	7.60%
Social contribution tax on gross revenue for social integration program (PIS)	1.65%
Brazilian Social Security Contribution Tax (INSS)	1.50%

Tax credits arising out of non-cumulative taxation by PIS/COFINS are recorded as a deduction from cost of sales in the statement of income.

Sales are reported in the income statement net of the corresponding taxes (net revenue from sales).

m.2) *Current income and social contribution taxes*

Current tax assets and liabilities for the last and prior years are measured at expected value recoverable from or payable to tax authorities. Tax rates and tax laws used in the calculation are those in force or substantially in force as of the balance sheet date in those countries where the Company operates and generates taxable profit.

4. Summary of significant accounting practices (Continued)

m) Taxation (Continued)

m.3) *Deferred income and social contribution taxes*

Additions to book income deriving from temporarily non-deductible expenses or exclusions from temporarily non-taxable profit upon determination of current taxable profit generate deferred tax assets or liabilities. Amounts relating to the impacts on deferred assets and liabilities are recorded and disclosed in non-current assets and liabilities.

Deferred income tax assets and liabilities on temporary differences are recorded to the extent that future taxable profit is likely to be generated to allow use thereof.

Deferred taxes are reviewed at every balance sheet date and, if necessary, a provision for loss is recognized when it is no longer probable that taxable profit will be available to allow all or a portion of deferred tax assets to be used.

n) Tax incentive for investments

Tax incentives correspond to: (i) reduction by 75% of income tax levied on profits of ventures in the states of Ceará and Bahia, calculated based on profit from tax incentive investments ("*lucro da exploração*"); and (ii) ICMS tax incentives related to the operating activities in the referred to states (Note 12).

Government grants are recognized when there is reasonable certainty that the conditions established by the agreements were fulfilled. They are recorded as revenue in the statement of income during the period necessary to match with the expense that the government grant intends to offset, and subsequently destined to income reserve (tax incentive reserve) in equity.

4. Summary of significant accounting practices (Continued)

o) Share-based payment

The Company's officers and managers receive compensation in the form of share-based payment, in such a way that employees render services in exchange for shares ("transactions settled with shares").

The cost of transactions with employees settled with shares, and premium granted is measured based on fair value on the date they were granted. To determine fair value, the Company uses pricing and valuation techniques.

The cost of transactions settled in shares is recognized, together with a corresponding increase in equity, over the period in which performance and / or service condition are fulfilled, ending on the date the employee becomes entitled to premium (vesting date). The cumulative expense recognized for transactions settled in shares at each base date until vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity securities to be acquired. The expense or credit in the income statement for the year is recorded in "personnel expenses" and represents changes in cumulative expense recognized at the beginning and end of that year.

The effect of outstanding options on diluted net income is stated in Note 14.g.

p) Segment information

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 23.

4. Summary of significant accounting practices (Continued)

q) Present value adjustments of assets and liabilities

Current monetary assets and liabilities are adjusted to present value when their effect is considered material in relation to the overall financial statements. At December 31, 2011 and 2010, only trade accounts receivable transactions were considered material and subject to present value adjustment. There are no other current or non-current components that require present value adjustment. Present value adjustment is calculated considering contractual cash flows and the implied interest rates of the corresponding assets and liabilities. Therefore, interest rates accrued on revenues are discounted with a view to recognizing them in conformity with the accrual basis of accounting. This interest is subsequently reallocated to financial income in P&L by using the effective interest rate method in relation to contractual cash flows. Implied interest rates applied were determined based on assumptions and are considered accounting estimates.

r) Significant judgment, accounting estimates and assumptions

Judgment

Preparation of the financial statements of the group requires that management make judgments and estimates and adopt assumptions that affect the stated amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities as of the reporting date. Nevertheless, the uncertainty related to these assumptions and estimates could lead to results that would require a significant adjustment to the book value of the affected asset or liability in future periods.

4. Summary of significant accounting practices (Continued)

r) Judgment, accounting estimates and assumptions (Continued)

Estimates and assumptions

Key estimates and assumptions related to future estimate uncertainty sources and other significant estimate uncertainty sources as of the balance sheet date, involving material risk of a significant adjustment to book value of assets and liabilities for the following financial year, are discussed below:

Impairment of Non-Financial Asset: An impairment loss exists when book value of an asset of cash generating unit exceeds its recoverable value, which is the higher of fair value less selling costs and value in use. Fair value less selling costs is calculated based on information available for similar asset sale transactions or market prices less additional costs to dispose of the asset item. Value in use is calculated based on the discounted cash flow model. Cash flows derive from budget for the following five years and include no restructuring activities to which the Company is not yet committed or significant investments that may improve the asset base of the cash generating unit subject to tests. Recoverable value is sensitive to the discount rate used under the discounted cash flow method, as well as expected future cash receipts, and to the growth rate used for extrapolation purposes.

Taxes: There are uncertainties related to the interpretation of complex tax regulations and to the amount and time of future taxable profit. Accordingly, any differences between actual results and assumptions adopted, or future changes in such assumptions, would require future adjustments to the tax income and expenses already recorded. The Company set up no provision for this item on the back of several factors, such as experience in past tax audits, tax regulations construed differently, and systematic assessments conducted by the Company's management in conjunction with its tax advisors.

4. Summary of significant accounting practices (Continued)

r) Judgment, accounting estimates and assumptions (Continued)

Financial Instrument Fair Value: When the fair value of financial assets and liabilities in the balance sheet cannot be obtained in active markets, it is determined through measurement techniques, including the discounted cash flow method. Data for these methods is based on those used in the market, whenever possible. However, when it is not possible, a certain amount of judgment is required to establish fair value. Judgment includes considerations on data used, such as liquidity risk, volatility and credit risk. Changes in assumptions on these factors could affect the financial instruments reported fair value.

Provisions for tax, civil and labor claims: The Company recognizes a provision for civil and labor claims. Assessment of the chances of loss includes evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance 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 barring period, conclusion from tax audits or additional; exposures identified based on new matter or court decisions.

Other significant items subject to estimates include: the selection of fixed and intangible assets useful lives; allowance for doubtful accounts; provision for prompt payment discount; provision for inventory losses; deferred income and social contribution taxes; rates and terms applied to determining present value adjustment of certain assets and liabilities; fair value of share-based payment; and financial instruments sensitivity analyses.

s) Loans and financing

These are stated at contractual amounts, plus agreed-upon charges including interest and monetary or exchange restatements incurred. After initial recognition these are measured at amortized cost under the effective interest rate method.

4. Summary of significant accounting practices (Continued)

t) Provisions

Provisions are recognized when the Company has a present (legal or not formalized) obligation arising from a past event, the settlement of which is likely to require an outflow of economic benefits, and its amount can be reliably measured. When a provision is expected to be fully or partially reimbursed - in virtue of an insurance agreement, for example -, such reimbursement is recognized as a separate asset item, but only when the amount is more likely than not to be reimbursed. Expenses related to any provision are stated in the statement of operations, net of any reimbursement.

u) Presentation of statements of cash flows and of value added

The statements of cash flows were prepared under the indirect method and are presented in accordance with accounting pronouncement CPC 03 (IAS 7) – Statement of Cash Flows, issued by the Brazilian FASB (CPC). Changes in short-term investments are shown under investment activities. The statements of value added were prepared in accordance with accounting pronouncement CPC 09.

5. Cash and cash equivalents and short-term investments

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Cash and cash equivalents				
Cash	**2,728**	6,192	**5,796**	7,248
Short-term investments	**48,400**	34,837	**55,722**	40,048
Total cash and cash equivalents	**51,128**	41,029	**61,518**	47,296
Short-term investments				
Securities available for sale	**344,429**	578,750	**344,429**	578,750
Securities held to maturity	**509,633**	404,680	**509,633**	404,680
Total short-term investments	**854,062**	983,430	**854,062**	983,430
Total	**905,190**	1,024,459	**915,580**	1,030,726

Cash and cash equivalents are substantially represented by bank deposits that do not accrue interest. Short-term investments classified as cash and cash equivalents correspond to short-term investments redeemable within no longer than three months as from acquisition date.

Short-term investments are classified as “Securities available for sale” and “Securities held to maturity” depending on the Company’s investment strategy, and have immediate liquidity.

6. Trade accounts receivable

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Falling due	**619,193**	528,761	**616,564**	536,153
Overdue up to 30 days	**29,304**	20,679	**32,244**	22,484
Overdue from 31 to 60 days	**4,929**	3,293	**5,269**	4,480
Overdue from 61 to 90 days	**2,419**	1,009	**2,492**	1,039
Overdue for more than 91 days	**36,828**	6,276	**22,582**	6,608
	692,673	560,018	**679,151**	570,764
Allowance for doubtful accounts	**(16,285)**	(2,342)	**(16,458)**	(2,483)
Provision for prompt payment discount	**(28,778)**	(23,794)	**(29,231)**	(23,981)
Present value adjustment (PVA)	**(8,245)**	(6,205)	**(8,876)**	(6,843)
	639,365	527,677	**624,586**	537,457

At December 31, 2011 and 2010, average receipt terms for domestic market are 93 and 88 days, respectively, and 70 and 80 days for the foreign market, respectively.

Breakdown of the allowance for doubtful accounts on overdue amounts by period is as follows:

	Company			
	2011		**2010**	
	Balance	**Provision**	**Balance**	**Provision**
Falling due	**619,193**	**-**	528,761	-
Overdue up to 30 days	**29,304**	**-**	20,679	-
Overdue from 31 to 60 days	**4,929**	**(3)**	3,293	(1)
Overdue from 61 to 90 days	**2,419**	**(12)**	1,009	(8)
Overdue for more than 91 days	**36,828**	**(16,270)**	6,276	(2,333)
	692,673	**(16,285)**	560,018	(2,342)

	Consolidated			
	2011		**2010**	
	Balance	**Provision**	**Balance**	**Provision**
Falling due	**616,564**	**-**	536,153	-
Overdue up to 30 days	**32,244**	**-**	22,484	-
Overdue from 31 to 60 days	**5,269**	**(3)**	4,480	(1)
Overdue from 61 to 90 days	**2,492**	**(12)**	1,039	(8)
Overdue for more than 91 days	**22,582**	**(16,443)**	6,608	(2,474)
	679,151	**(16,458)**	570,764	(2,483)

6. Trade accounts receivable (Continued)

Changes in allowance for doubtful accounts are as follows:

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Balance at beginning of year	**(2,342)**	(5,158)	**(2,483)**	(5,346)
Additions	**(16,205)**	(2,343)	**(16,369)**	(2,563)
Recovery / realizations	**2,262**	5,159	**2,413**	5,423
Exchange variation	**-**	-	**(19)**	3
Balance at end of year	**(16,285)**	(2,342)	**(16,458)**	(2,483)

Changes in provision for prompt payment discount are as follows:

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Balance at beginning of year	**(23,794)**	(26,800)	**(23,981)**	(27,407)
Additions	**(14,796)**	(12,554)	**(15,123)**	(12,618)
Recovery / realizations	**9,812**	15,560	**9,873**	16,044
Balance at end of year	**(28,778)**	(23,794)	**(29,231)**	(23,981)

7. Inventories

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Footwear	**25,445**	22,940	**47,497**	33,917
Components	**27,699**	33,363	**28,161**	33,979
Raw materials	**39,651**	48,235	**39,836**	48,484
Packing materials	**8,444**	13,570	**8,789**	13,700
Intermediate materials and other	**17,730**	17,376	**17,847**	17,482
Goods for resale	**207**	321	**207**	321
Advances to suppliers	**3,118**	2,936	**3,118**	2,942
Imports in transit	**1,730**	738	**1,730**	738
Provision for adjustment of obsolete inventory items	**(2,963)**	(2,372)	**(3,073)**	(2,527)
	121,061	137,107	**144,112**	149,036

7. Inventories (Continued)

Changes in provision for adjustment of obsolete inventories are as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Balance at beginning of year	**(2,372)**	(1,885)	**(2,527)**	(1,885)
Additions	**(983)**	(1,005)	**(1,191)**	(1,242)
Recovery / realizations	**392**	518	**661**	594
Exchange variation	**-**	-	**(16)**	6
Balance at end of year	**(2,963)**	(2,372)	**(3,073)**	(2,527)

8. Tax credits

	Company		Consolidated	
	2011	2010	2011	2010
Income and social contribution taxes	**4,746**	4,111	**6,975**	5,533
Withholding income tax (IRRF)	**5,073**	2,485	**5,167**	2,486
Federal VAT (IPI) recoverable	**314**	3,101	**315**	3,101
State VAT (ICMS) recoverable	**6,311**	5,109	**10,013**	7,488
Social contribution tax on gross revenue for social integration program (PIS) recoverable	**52**	2	**131**	27
Social contribution tax on gross revenue for social security financing (COFINS) recoverable	**739**	776	**1,104**	888
Social security contribution tax (INSS) recoverable	**10**	40	**10**	40
	17,245	15,624	**23,715**	19,563
(-) Total current assets	**(16,793)**	(14,924)	**(23,263)**	(18,863)
Total non-current assets	**452**	700	**452**	700

a) Income and social contribution taxes

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

b) Withholding income tax (IRRF)

This corresponds to withholding income tax on short-term investment redemptions, offset against federal taxes and contributions.

c) ICMS and IPI recoverable

Balances related to sales transactions and may be offset against taxes of the same nature.

8. Tax credits (Continued)

d) PIS and COFINS recoverable

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

9. Investments

Breakdown of the Company's investments is as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Subsidiaries	**32,450**	30,696	**-**	-
Unearned income in subsidiaries	**(2,979)**	-	**-**	-
Other investments	**1,670**	877	**1,670**	877
	31,141	31,573	**1,670**	877

Subsidiaries

	2011						2010	
	Capital	Equity	P&L for the year	Equity interest	Equity pickup	Investment	Equity pickup	Investment
Saddle Corporation S.A*	**-**	**-**	**-**	100.00%	**-**	**-**	(5,087)	-
Grendene Argentina S.A.	**5,650**	**7,760**	**102**	95.00%	**97**	**7,372**	1,294	7,104
MHL Calçados Ltda.	**3,320**	**11,337**	**803**	99.998%	**803**	**11,337**	4,228	10,534
Grendene USA, Inc.	**1,461**	**13,741**	**(844)**	100.00%	**(844)**	**13,741**	2,283	13,058
					56	**32,450**	2,718	30,696

* Saddle Corporation S.A. operations were discontinued, according to the Minutes of the Special Shareholders' Meeting held on December 10, 2010.

Changes in investments may be as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Balances at beginning of year	**31,573**	36,590	**877**	873
Additions	**793**	3,012	**793**	4
Write-off	**-**	(271)	**-**	-
Dividends received	**-**	(9,805)	**-**	-
Equity pickup	**(1,414)**	2,718	**-**	-
Adjustments of currency translation gains/losses	**1,698**	(671)	**-**	-
Reversal of unrealized income in inventories	**(1,509)**	-	**-**	-
Balances at end of year	**31,141**	31,573	**1,670**	877

10. Property, plant and equipment

	Company							
	2011							
PP&E cost	**Land and building**	**Machinery, equipment and facilities**	**Furniture and fixtures**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balance at 12/31/2010	151,522	221,662	9,211	17,268	2,795	3,049	4,211	409,718
Acquisitions	**593**	**16,198**	**1,307**	**1,603**	**409**	**9,465**	**2,497**	**32,072**
Write-offs	**(299)**	**(3,938)**	**(23)**	**(1,553)**	**(21)**	**(300)**	**(107)**	**(6,241)**
Transfers	**1,789**	**6,860**	**31**	**136**	**195**	**(8,256)**	**(755)**	**-**
Balance at 12/31/2011	**153,605**	**240,782**	**10,526**	**17,454**	**3,378**	**3,958**	**5,846**	**435,549**
Accumulated depreciation								
Balance 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)**
Write-offs	**153**	**3,420**	**9**	**1,490**	**2**	**-**	**76**	**5,150**
Transfers	**-**	**(35)**	**39**	**34**	**(38)**	**-**	**-**	**-**
Balance at 12/31/2011	**(73,521)**	**(152,922)**	**(5,677)**	**(12,293)**	**(2,326)**	**-**	**(3,238)**	**(249,977)**
Net book value								
Balance at 12/31/2010	83,311	81,521	4,274	5,075	820	3,049	1,355	179,405
Balance at 12/31/2011	**80,084**	**87,860**	**4,849**	**5,161**	**1,052**	**3,958**	**2,608**	**185,572**

	Company							
	2010							
PP&E cost	**Land and building**	**Machinery, equipment and facilities**	**Furniture and fixtures**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balance at 12/31/2009	148,720	203,128	8,193	16,575	2,644	2,979	3,573	385,812
Acquisitions	354	14,834	981	1,233	160	8,391	2,442	28,395
Write-offs	(315)	(2,504)	(86)	(565)	(4)	(881)	(134)	(4,489)
Transfers	2,763	6,204	123	25	(5)	(7,440)	(1,670)	-
Balance at 12/31/2010	151,522	221,662	9,211	17,268	2,795	3,049	4,211	409,718
Accumulated depreciation								
Balance at 12/31/2009	(62,982)	(125,801)	(4,289)	(11,739)	(1,677)	-	(2,304)	(208,792)
Depreciation	(5,340)	(16,057)	(743)	(1,497)	(300)	-	(585)	(24,522)
Write-offs	111	2,220	82	548	-	-	40	3,001
Transfers	-	(503)	13	495	2	-	(7)	-
Balance at 12/31/2010	(68,211)	(140,141)	(4,937)	(12,193)	(1,975)	-	(2,856)	(230,313)
Net book value								
Balance at 12/31/2009	85,738	77,327	3,904	4,836	967	2,979	1,269	177,020
Balance at 12/31/2010	83,311	81,521	4,274	5,075	820	3,049	1,355	179,405

10. Property, plant and equipment (Continued)

	Consolidated							
	2011							
PP&E cost	**Land and building**	**Machinery, equipment and facilities**	**Furniture and fixtures**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balance at 12/31/2010	151,522	224,622	9,700	17,853	2,806	3,049	4,242	413,794
Acquisitions	**593**	**19,877**	**1,579**	**1,625**	**410**	**9,465**	**2,497**	**36,046**
Write-offs	**(299)**	**(4,071)**	**(23)**	**(1,580)**	**(21)**	**(300)**	**(107)**	**(6,401)**
Transfers	**1,789**	**6,860**	**31**	**136**	**195**	**(8,256)**	**(755)**	**-**
Exchange variation	**-**	**233**	**89**	**49**	**-**	**-**	**4**	**375**
Balance at 12/31/2011	**153,605**	**247,521**	**11,376**	**18,083**	**3,390**	**3,958**	**5,881**	**443,814**
Accumulated depreciation								
Balance 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)**
Write-offs	**153**	**3,453**	**9**	**1,514**	**2**	**-**	**76**	**5,207**
Transfers	**-**	**(35)**	**39**	**34**	**(38)**	**-**	**-**	**-**
Exchange variation		**(1)**	**(50)**	**(42)**	**-**	**-**	**(2)**	**(95)**
Balance at 12/31/2011	**(73,521)**	**(154,021)**	**(6,174)**	**(12,793)**	**(2,332)**	**-**	**(3,267)**	**(252,108)**
Net book value								
Balance at 12/31/2010	83,311	83,678	4,365	5,232	827	3,049	1,366	181,828
Balance at 12/31/2011	**80,084**	**93,500**	**5,202**	**5,290**	**1,058**	**3,958**	**2,614**	**191,706**

10. Property, plant and equipment (Continued)

	Consolidated							
	2010							
PP&E cost	**Land and building**	**Machinery, equipment and facilities**	**Furniture and fixtures**	**Data processing equipment**	**Tools**	**Construction in progress**	**Other**	**Total**
Balance at 12/31/2009	148,719	205,910	8,705	17,354	2,653	2,979	3,605	389,925
Acquisitions	354	14,979	982	1,300	162	8,391	2,442	28,610
Write-offs	(315)	(2,520)	(88)	(757)	(4)	(881)	(134)	(4,699)
Transfers	2,764	6,254	123	(26)	(5)	(7,440)	(1,670)	-
Exchange variation	-	(1)	(22)	(18)	-	-	(1)	(42)
Balance at 12/31/2010	151,522	224,622	9,700	17,853	2,806	3,049	4,242	413,794
Accumulated depreciation								
Balance at 12/31/2009	(62,982)	(126,318)	(4,663)	(12,327)	(1,679)	-	(2,318)	(210,287)
Depreciation	(5,340)	(16,344)	(785)	(1,546)	(302)	-	(591)	(24,908)
Write-offs	111	2,222	84	740	-	-	40	3,197
Transfers	-	(504)	13	496	2	-	(7)	-
Exchange variation	-	-	16	16	-	-	-	32
Balance at 12/31/2010	(68,211)	(140,944)	(5,335)	(12,621)	(1,979)	-	(2,876)	(231,966)
Net book value								
Balance at 12/31/2009	85,737	79,592	4,042	5,027	974	2,979	1,287	179,638
Balance at 12/31/2010	83,311	83,678	4,365	5,232	827	3,049	1,366	181,828

Depreciation rate

The Company depreciates property, plant and equipment under the straight line method, using the following depreciation rates:

	Annual depreciation rates
Buildings	4%
Facilities	10%
Machinery and equipment	10%
Furniture and fixtures	10%
IT equipment	20%
Tools	20%
Vehicles	20%
Other PP&E items	10%

11. Intangible assets

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

	Company					
	2010					
Cost of intangible assets	**Software**	**Trademark and patents**	**Goodwill**	**Technology**	**Other**	**Total**
Balance at 12/31/2009	15,894	9,239	800	780	100	26,813
Acquisitions	1,944	965	1,497	-	-	4,406
Write-off	(28)	-	-	-	(100)	(128)
Balance at 12/31/2010	17,810	10,204	2,297	780	-	31,091
Accumulated amortization						
Balance at 12/31/2009	(8,673)	(5,233)	(800)	(594)	-	(15,300)
Amortization	(2,199)	(818)	(88)	(153)	-	(3,258)
Write-off	1	-	-	-	-	1
Balance at 12/31/2010	(10,871)	(6,051)	(888)	(747)	-	(18,557)
Net book value						
Balance at 12/31/2009	7,221	4,006	-	186	100	11,513
Balance at 12/31/2010	6,939	4,153	1,409	33	-	12,534

11. Intangible assets (Continued)

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

	Consolidated					
	2010					
Cost of intangible assets	**Software**	**Trademark and patents**	**Goodwill**	**Technology**	**Other**	**Total**
Balance at 12/31/2009	16,166	10,128	800	780	100	27,974
Acquisitions	1,944	965	1,497	-	-	4,406
Write-off	(55)	-	-	-	(100)	(155)
Exchange variation	(11)	(38)	-	-	-	(49)
Balance at 12/31/2010	18,044	11,055	2,297	780	-	32,176
Accumulated amortization						
Balance at 12/31/2009	(8,936)	(5,235)	(800)	(594)	-	(15,565)
Amortization	(2,204)	(820)	(88)	(153)	-	(3,265)
Write-off	29	-	-	-	-	29
Exchange variation	10	-	-	-	-	10
Balance at 12/31/2010	(11,101)	(6,055)	(888)	(747)	-	(18,791)
Net book value						
Balance at 12/31/2009	7,230	4,893	-	186	100	12,409
Balance at 12/31/2010	6,943	5,000	1,409	33	-	13,385

11. Intangible assets (Continued)

The Company amortizes its intangible assets at acquisition cost, considering the following amortization rates:

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

Amortization expenses are recorded under cost of goods sold, selling expenses and administrative expenses in the statements of income, representing at December 31, 2011, the net amount of PIS/COFINS tax credits of R$1,068, R$1,294 and R$1,183, respectively.

At December 31, 2011 and 2010, the Company has no internally generated intangible assets.

12. Loans and financing

			Company		Consolidated	
	Index	Interest rate (p.a.)	2011	2010	2011	2010
Fixed assets						
Banco do Nordeste S.A	Fixed	10.00%	**-**	7,481	**-**	7,481
Banco Itaú BBA S.A.	Fixed	4.50%	**3,654**	3,755	**3,654**	3,755
Working capital						
Banco Itaú BBA S.A.	Fixed	7.00%	**-**	75,226	**-**	75,226
Banco Votorantim S.A.	Fixed	7.00%	**-**	73,019	**-**	73,019
Banco Bradesco S.A.	Dollar +	2.63%	**31,906**	-	**31,906**	-
Banco Itaú S.A.	Fixed	14.33%	**-**	-	**-**	630
Banco Patagônia S.A.	Argentinean pesos	13.50%	**-**	-	**708**	6,526
Banco Supervielle S.A.	Fixed	13.75%	**-**	-	**-**	477
Banco HSBC	Dollar +	2.18%	**8,255**	-	**8,255**	-
Banco HSBC Bank Brasil S.A.	Dollar +	1.90%	**24,493**	1,725	**24,493**	1,725
Banco Bradesco S.A.	Dollar +	2.23%	**28,666**	1,308	**28,666**	1,308
Total bank financing			**96,974**	162,514	**97,682**	170,147
Proapi - Provin	TJLP		**12,992**	11,119	**12,992**	11,119
Total loans and financing			**109,966**	173,633	**110,674**	181,266
(-) Total current liabilities			**(96,843)**	(158,867)	**(97,551)**	(166,500)
Total non-current liabilities			**13,123**	14,766	**13,123**	14,766

12. Loans and financing (Continued)

a) ICMS tax incentives - Proapi and Provin

The Company enjoys tax incentives with respect to its activities carried out in the state of Ceará, by means of loans taken out from the Industrial Development Fund of Ceará (FDI) through a financial agent established thereby. The referred to loans are based on ICMS due (Provin) and partly on exports (Proapi), as computed on a monthly basis. Such loans are to be settled within a period ranging from 36 to 60 months after they are released.

Under the program Proapi, loans are granted based on 11% of export FOB value, payable within 60 months and subject to the long-term interest rate (TJLP). Upon loan maturity, the company pays 10% of the loan balance payable and the remaining 90% is granted, representing a net incentive of 9.9% of export FOB value. The table below presents the maturity of this benefit:

	Maturity
Sobral – CE	
PROAPI - EXPORT	Up to Jan/2014

Under the program Provin, loans are granted based on ICMS due, and the terms of the benefit and the percentage of reduction are as indicated below:

	Provin incentive – Deferred ICMS			
	%	Maturity	%	Maturity
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 recording of the reduction benefit must be made at the time the loans are obtained, so as to reflect the accrual method of accounting for the year more adequately, since the cost of ICMS and exports related to operations entitled to the incentive have been recorded concomitantly with the benefits.

12. Loans and financing (Continued)

a) ICMS tax incentives - Proapi and Provin (Continued)

For the year ended December 31, 2011, the Company posted R$139,102 (R$141,603 in 2010) to its P&L, in connection with tax incentive portions of such loans in net sales revenue.

From this amount, R$128,571 was allocated to dividend payment, in accordance with the Company's policy (Note 14.f.) and the remaining portion, R$10,531, was allocated to the "Tax Incentive" account, under equity.

At December 31, 2011, portions of this loan that are not subject to tax incentives amounting to R$3,047 and R$9,945 (R$11,119 in 2010) are recorded as current and non-current liabilities, respectively. Under an agreement with Ceará Government, the Company offset the installments maturing in 2011 using credits from such loans.

b) Payment schedule

Breakdown of non-current loans and financing installments is as follows:

	Long-term portion							
Maturity	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Bank financing	469	469	468	468	468	468	368	3,178
Proapi	2,093	3,848	2,506	1,342	-	-	-	9,789
Provin	-	30	-	126	-	-	-	156
Total	**2,562**	**4,347**	**2,974**	**1,936**	**468**	**468**	**368**	**13,123**

c) Guarantees

Guarantees linked to loans and financing are as follows: a) statutory lien over purchased machinery and equipment; b) land and buildings; and c) personal sureties provided by the Company officers.

13. Provision for labor claims

The Company is defendant in certain labor claims. Estimated loss was provisioned based on the opinion of its legal advisors, in an amount considered sufficient to cover probable losses that may occur should unfavorable court decisions be awarded.

Changes in provision for contingencies are as follows:

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Balance at beginning of year	**3,100**	2,600	**3,103**	2,603
Additions	**-**	700	**-**	700
Recovery / realizations	**(100)**	(200)	**(100)**	(200)
Balance at end of year	**3,000**	3,100	**3,003**	3,103
(-) Total current liabilities	**(1,000)**	(1,100)	**(1,003)**	(1,103)
Total non-current liabilities	**2,000**	2,000	**2,000**	2,000

There are no claims with material amounts or whose likelihood of an unfavorable outcome had been rated as possible, and there are no tax or civil claims. Therefore no provision requiring disclosure has been set up for these types of claim. The claims relating to amounts recorded in current liabilities are expected to be settled within one year.

14. Equity

a) Capital

At December 31, 2011 and 2010, fully subscribed and paid-in capital comprised 300,720,000 common shares of R$4.09 each. Company shares are voting shares of a sole class in relation to shareholder rights, observing applicable legal conditions.

b) Equity valuation adjustments

These correspond to the effects from translation from functional currency to balance sheet currency on foreign investments stated by the equity method and adjustments for variation in market price of financial instruments available for sale.

14. Equity (Continued)

c) Capital reserve

This corresponds to the amount of the share option plans granted by the Company to its management members, whose balancing entry is P&L for the year.

d) Income reserves

- *Legal reserve*

  It is set up at 5% of net income for the year less the amount of tax incentives until its balance reaches 20% of the amount of capital, totaling R$51,252 as of December 31, 2011 (R$39,441 in 2010).

- *Profit retention reserve*

  The balance as of December 31, 2011, amounting R$23,838 (R$22,576 in 2010) refers to the amount retained as profit retention reserve for purchase of shares of own issue, in connection with the share based payment plans.

- *Tax incentives*

  Tax incentives correspond to reduction by 75% of income tax levied on profits of ventures in the states of Ceará and Bahia, calculated based on profit from tax incentive investments ("*lucro da exploração*"); and ICMS tax incentives related to the operating activities in the referred to states.

	Company / Consolidated		
Incentives	**Initial balance in 2010**	**Incentives generated by the operation**	**Final balance in 2011**
ICMS	276,648	**11,334**	**287,982**
IRPJ	59,768	**58,694**	**118,462**
	336,416	**70,028**	**406,444**

	Company / Consolidated		
Incentives	**Initial balance in 2009**	**Incentives generated by the operation**	**Final balance in 2010**
ICMS	133,326	143,322	276,648
IRPJ	26,496	33,272	59,768
	159,822	176,594	336,416

14. Equity (Continued)

d) Capital reserve (Continued)

- *Tax incentives* (Continued)

  Beginning 2011, the Company has changed its dividend distribution policy, and now includes tax incentives related to the Provin and Proapi (ICMS) programs in the dividend calculation base (Note 14.f.).

e) Treasury stock

In order to fulfill the share option plan (Note 19), the acquisition programs of 1,000,000 (one million) common registered shares through the Minutes of the 36th Board of Directors' meeting held on May 13, 2010, and of 500,000 (five hundred thousand) common registered shares through the Minutes of the 40th Board of Directors' meeting held on February 24, 2011 were approved, both with no capital reduction. The Company's total number of shares allowed for both programs is 1,500,000 (one million five hundred thousand) common registered shares, which accounts for 2% of outstanding shares.

Pursuant to CVM Rule No. 10/80, these programs were settled in less than 365 days.

Changes in treasury shares are as follows:

	Common shares	R$
Initial balance – 2010	-	-
Repurchases	1,100,000	11,005
Exercised call options (Note 19)	(1,100,000)	(11,005)
Final balance – 2011	-	-

The average acquisition price of these shares was R$10.00, the lower of which was R$9.14 and the higher of which was R$10.11.

14. Equity (Continued)

f) Dividends

In accordance with the Company's Charter, the minimum mandatory dividend is based on 25% of net income remaining in the period, after the setting up of reserves required by law.

For income earned in the years ended December 31, 2011 and 2010, and based on the Company's capacity to generate operating cash flow, management proposed that the distribution of dividends be decided at the Annual Shareholders' Meeting, as follows:

	2011	2010
Net income for the year	**305,446**	312,890
Effect from adjustments of Law No. 11638/07 for prior years	**-**	10,622
Income from sale of shares related to the share option plan	**(2,819)**	281
Tax incentive reserve	**(69,225)**	(174,371)
Subsidiary tax incentive reserve– MHL Calçados Ltda.	**(803)**	(2,223)
Appropriation of legal reserve	**(11,811)**	(6,926)
Reversal of the unearned income reserve	**-**	1,018
Set up of unearned income reserve	**-**	(1,509)
Dividends calculation base	**220,788**	139,782
Dividends proposed by management	**219,526**	121,739
Percentage on calculation base	**99.4%**	87.1%

Out of the amount proposed in the year ended December 31, 2010, R$70,615 were paid during 2010 and the balance of R$51,124 was settled on April 26, 2011.

In 2011, the Company's Board of Directors approved payment of interim dividends of R$132,317, of which R$45,108, were distributed on June 8, 2011 (representing R$0.15 per share), R$26,764 on August 31, 2011 (representing R$0.089 per share) and R$60,445 on November 30, 2011 (representing R$0.201 per share).

In addition, management proposed at December 31, 2011, a supplementary payment of R$87,209 (representing R$0.29 per share) aggregating total dividend of R$219,526, after statutory and legal deductions.

14. Equity (Continued)

f) Dividends (Continued)

In February 2011, the Board of Directors approved the change in the Company's policy on dividend distribution to include Provin and Proapi tax incentive amounts in the dividends calculation base, even though part of this payment is to be subjected to taxation, notwithstanding compliance with all other commitments relating to tax incentive grants.

The Company expects total dividends to be approximately 75% of net income for the year after the recognition of reserves.

g) Earnings per share

As required by CPC 41/ IAS 33 - Earnings per share, we state the reconciliation of net income to the amounts used to calculate basic and diluted earnings per share (in thousands of reais, except per share amounts), as follows:

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Numerator				
Net income for the year	**305,446**	312,890	**305,446**	312,399
Denominator				
Weighted average number of common shares	**300,720,000**	300,560,219	**300,720,000**	300,560,219
Basic earnings per common share	**1.02**	1.04		
Diluted earnings per common share	**1.01**	1.04		

15. Income and social contribution taxes

a) Current income and social contribution taxes

Income and social contributions taxes payable are recorded in current liabilities under the heading: taxes, charges and mandatory contributions, net of offsets and tax incentives realized over the year as stated below:

	2011					
	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**
Tax incentives	**(58,694)**	**-**	**(58,694)**	**(58,694)**	**-**	**(58,694)**
	16,567	**28,419**	**44,986**	**16,432**	**28,431**	**44,863**
Amounts offset	**(21,313)**	**(27,512)**	**(48,825)**	**(21,341)**	**(27,518)**	**(48,859)**
	(4,746)	**907**	**(3,839)**	**(4,909)**	**913**	**(3,996)**

	2010					
	Company			**Consolidated**		
	Income tax	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Amount due	34,814	13,233	48,047	36,964	13,458	50,422
Tax incentives	(32,768)	-	(32,768)	(33,272)	-	(33,272)
	2,046	13,233	15,279	3,692	13,458	17,150
Amounts offset	(5,677)	(13,712)	(19,389)	(5,811)	(13,963)	(19,774)
	(3,631)	(479)	(4,110)	(2,119)	(505)	(2,624)

15. Income and social contribution taxes (Continued)

b) Deferred income and social contribution taxes

The breakdown of deferred income and social contribution taxes is stated as follows:

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Classified as non-current assets:				
Income tax				
Allowance for doubtful accounts	**4,286**	586	**4,329**	621
Provision for prompt payment discount	**7,194**	5,949	**7,308**	5,995
Adjustment to present value	**2,061**	1,551	**2,219**	1,711
Provision for adjustment for obsolete inventories	**741**	593	**768**	632
Provision for liabilities payable	**1,278**	1,230	**1,318**	1,254
Adjustment to present value - short-term investments	**(983)**	401	**(983)**	401
Depreciation	**(1,746)**	(2,742)	**(1,746)**	(2,742)
Tax losses in subsidiaries	**-**	-	**915**	-
Other	**1,474**	629	**181**	637
	14,305	8,197	**14,309**	8,509
Social contribution tax				
Allowance for doubtful accounts	**1,543**	211	**1,736**	217
Provision for prompt payment discount	**2,590**	2,142	**2,631**	2,158
Adjustment to present value	**742**	558	**742**	558
Provision for adjustment for obsolete inventories	**267**	213	**267**	213
Provision for liabilities payable	**460**	443	**474**	452
Adjustment to present value - short-term investments	**(354)**	144	**(354)**	144
Depreciation	**(629)**	(987)	**(629)**	(987)
Other	**531**	227	**70**	227
	5,150	2,951	**4,937**	2,982
Non-current assets	**19,455**	11,148	**19,246**	11,491

15. Income and social contribution taxes (Continued)

c) Changes in deferred income and social contribution taxes

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Opening balance	**11,148**	10,297	**11,491**	10,830
Tax recorded in the statement of income	**10,190**	(1,208)	**10,018**	(1,265)
Tax recorded in equity	**(1,883)**	2,059	**(2,263)**	1,926
Closing balance	**19,455**	11,148	**19,246**	11,491

d) Reconciliation of tax expenses with statutory rates

Reconciliation of income and social contribution taxes calculated at applicable statutory rates and the amount recorded as income and social contribution tax expenses is as follows:

	2011			
	Company		Consolidated	
	Income tax	**Social contribution**	**Income tax**	**Social contribution**
Net income before taxes	**340,242**	**340,242**	**340,296**	**340,296**
Effect of income adjustments due to change in accounting practice – Law No. 11638/07	**(1,766)**	**(1,766)**	**(2,639)**	**(2,639)**
Adjusted net income before taxes	**338,476**	**338,476**	**337,657**	**337,657**
Income and social contribution taxes at nominal rates of 25% and 9%, respectively	**(84,619)**	**(30,463)**	**(84,414)**	**(30,389)**
Adjustments to derive effective rate				
Equity pickup	**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 from depreciation recalculation	**996**	**358**	**996**	**358**
IRPJ (PAT) deduction tax incentives	**1,895**	**-**	**1,895**	**-**
IRPJ deduction tax incentives (Rouanet Law/ Funcriança/ Sports)	**1,762**	**-**	**1,762**	**-**
Unrealized profits on inventories	**745**	**268**	**745**	**268**
Other	**45**	**8**	**350**	**(29)**
Amount before tax incentive deduction IRPJ – Law No. 11638/07	**(67,768)**	**(25,722)**	**(67,696)**	**(25,843)**
Effective rate before impacts of Law No. 11638/07	**20.0%**	**7.6%**	**20.0%**	**7.7%**
IRPJ deduction tax incentives (Profit from tax incentive operations)	**58,694**	**-**	**58,694**	**-**
Amount recorded in the income statement	**(9,074)**	**(25,722)**	**(9,002)**	**(25,843)**
Total taxes recorded in the income statement	**(34,796)**		**(34,845)**	
Deferred taxes	**(44,986)**		**(44,863)**	
Current taxes	**10,190**		**10,018**	
Effective rate	**10.2%**		**10.2%**	

15. Income and social contribution taxes (Continued)

d) Reconciliation of tax expenses with statutory rates (Continued)

	2010			
	Company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Net income before taxes	329,377	329,377	330,882	330,882
Effect of income adjustments due to change in accounting practice – Law No. 11638/07	(135,329)	(135,329)	(137,048)	(137,048)
Adjusted net income before taxes	194,048	194,048	193,834	193,834
Income and social contribution taxes at nominal rates of 25% and 9%, respectively	(48,512)	(17,464)	(48,458)	(17,445)
Adjustments to derive effective rate				
Equity pickup	680	245	-	-
Permanent additions	(3,404)	(1,225)	(3,404)	(1,225)
Technological innovation incentive	11,069	3,985	11,069	3,985
Hedge/ Swap transactions	426	153	426	153
Effect from depreciation recalculation	1,281	461	1,281	461
IRPJ (PAT) deduction tax incentives	882	-	897	-
IRPJ deduction tax incentives (Rouanet Law/ Funcriança/ Audiovisual)	1,040	-	1,040	-
Other	836	292	(716)	249
Amount before tax incentive deduction IRPJ – Law No. 11638/07	(35,702)	(13,553)	(37,865)	(13,822)
Effective rate before impacts of Law No. 11638/07	18.4%	7.0%	19.5%	7.1%
IRPJ deduction tax incentives (Profit from tax incentive operations)	32,768	-	33,272	-
Amount recorded in the income statement	(2,934)	(13,553)	(4,593)	(13,822)
Total taxes recorded in the income statement	(16,487)		(18,415)	
Deferred taxes	(15,279)		(17,150)	
Current taxes	(1,208)		(1,265)	
Effective rate	5.0%		5.6%	

16. Net financial income (expenses)

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Financial expenses				
Losses with foreign exchange hedge – BM&F	**(5,324)**	(17,136)	**(5,324)**	(17,136)
Financing related expenses	**(15,038)**	(10,398)	**(15,038)**	(10,398)
Foreign exchange losses	**(27,502)**	(20,471)	**(38,138)**	(24,292)
Provision / reversal of short-term investments held abroad	**-**	5,221	**-**	5,221
Other financial expenses	**(3,562)**	(2,883)	**(4,293)**	(9,328)
	(51,426)	(45,667)	**(62,793)**	(55,933)
Financial income				
Interest income from customers	**2,869**	2,007	**2,883**	2,036
Gains with foreign exchange hedge – BM&F	**3,939**	24,781	**3,939**	24,781
Income from short-term investments	**128,120**	92,702	**128,810**	92,726
Foreign exchange gains	**25,662**	17,305	**35,451**	20,055
Adjustment to present value	**42,122**	35,615	**42,122**	35,615
Other financial income	**2,121**	3,175	**2,591**	3,189
	204,833	175,585	**215,796**	178,402
Net financial income	**153,407**	129,918	**153,003**	122,469

17. Financial instruments and risk management

The Company has transactions with financial instruments the risks of which are managed by strategic financial positioning and exposure limit control systems. All transactions are fully recognized in accounts. The valuation of its financial instruments, including derivatives as well as risk management are as follows:

a) Financial instruments

At December 31, 2011 and 2010, the main financial instruments are as follows:

- Cash and cash equivalents – stated at market value, which approximates book value at balance sheet date.

- Short-term investments – classified as “held to maturity”, stated at amortized cost by the effective interest rate method. Investments classified as “available for sale” are measured at their fair value.

17. Financial instruments and risk management (Continued)

a) Financial instruments (Continued)

- Accounts receivable – directly result from the Company's sales operations, are recorded at their original amounts, subject to exchange and monetary variation, estimated losses from doubtful accounts, prompt payment discount and adjustment to present value.

- Accounts payable - directly stem from the Company's sales operations, are recorded at their original amounts, subject to foreign exchange variation and monetary restatement, when applicable.

- Loans and financing – these are classified as financial liabilities stated at cost amortized by the effective interest rate method, and are recorded at the contractual amounts. The market value of these loans and financing approximates book value at balance sheet date.

At December 31, 2011 and 2010, the value of the Company's main financial instruments and those of its subsidiaries were classified as under:

	Book value			
	Company		**Consolidated**	
	2011	**2010**	**2011**	**2010**
Financial assets				
Cash and cash equivalents	**51,128**	41,029	**61,518**	47,296
Short-term investments	**854,062**	983,430	**854,062**	983,430
Trade accounts receivable	**639,365**	527,677	**624,586**	537,457
Derivatives	**84**	582	**84**	582
Financial liabilities				
Loans and financing	**109,966**	173,633	**110,674**	181,266
Trade accounts payable	**25,166**	28,805	**27,011**	31,687

17. Financial instruments and risk management (Continued)

a) Financial instruments (Continued)

	Fair value			
	Company		Consolidated	
	2011	2010	2011	2010
Financial assets				
Cash and cash equivalents	**51,128**	41,029	**61,518**	47,296
Short-term investments	**854,564**	984,221	**854,564**	984,221
Trade accounts receivable	**639,365**	527,677	**624,586**	537,457
Derivatives	**84**	582	**84**	582
Financial liabilities				
Loans and financing	**109,966**	173,633	**110,674**	181,266
Trade accounts payable	**25,166**	28,805	**27,011**	31,687

The fair value of financial instruments is calculated as stated in Note 4.c.3.

b) Derivative financial instruments

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

b.1) *Foreign Exchange Rate Hedge*

The strategy behind contracting these operations is to hedge the Company's revenue from sales and financial assets and those of its subsidiaries that are subject to foreign exchange exposure. These instruments are used for the specific purpose of providing hedge, and the portfolio includes sale of US Dollar futures through financial instruments used for this purpose such as: sales at BM&F, non-deliverable forwards (NDF), advances on exchange contracts (ACC) and advances on delivered exchange (ACE).

In transactions involving BM&F sales and NDF, the impact on the cash flow of the Company and of its subsidiaries is assessed through the calculation of daily adjustments to the exchange rate to US Dollar until contract settlement.

17. Financial instruments and risk management (Continued)

b) Derivative financial instruments (Continued)

b.1) *Foreign Exchange Rate Hedge* (Continued)

The maximum net foreign exchange exposure limits are composed of*: (i)* bank account balances in foreign currency abroad; *(ii)* short-term investments abroad*; (iii)* balance receivable from foreign exchange contracts to be closed; *(iv)* projections of exports of up to 90 days, less *(v)* balances of suppliers in foreign currency and *(vi)* imports in transit. These risks are monitored daily and managed through internal controls, which aim at demonstrating exposure limits and bring these into compliance with the Company's risk management policy.

Other forms of exchange hedge or use of exotic derivatives for speculative purposes are not allowed without express authorization from management.

Exchange hedge operations are usually made with the BM&F through specialized brokers, without margin. The guarantee usually comprises Company investments in CDBs and government securities, observing the limits and exposures to foreign exchange risk, as defined by the risk management policy of the counterparties.

The chart below sets out the nominal positions and fair values at December 31, 2011 and 2010 which were calculated as described in Note 4.c.3.

Description	Notional value			Notional value (R$)			Balance receivable (payable)/Fair value		
	Currency	2011	2010	Currency	2011	2010	Currency	2011	2010
Future contracts:									
Sale commitments (NDF)									
Short position									
Foreign currency	US$	**10,000**	35,000	R$	**18,800**	58,576	R$	**84**	582
Total	US$	**10,000**	35,000	R$	**18,800**	58,576	R$	**84**	582

It should be highlighted that these operations are linked to receipt of sales and financial assets in foreign currency, which are also linked to exchange rate variation, offsetting any gains or losses arrived at.

17. 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 with the exception of its derivative financial instruments are made up of loans and financing and other accounts payable. The main purpose of these financial instruments is to raise funds for Company operations. The Company has other credits, accounts receivable, cash and cash equivalents and short-term investments that are obtained directly through its operations.

The Company is exposed to market (including interest rate risk and commodity price risk), credit and liquidity risk. The financial instruments affected by risks include loans and financing, deposits, securities available for sale and derivative financial instruments.

Risk management activities abide by the Company's risk management policy, under the management of its directors. Management of these risks is carried out based on a control policy that establishes monitoring, measurement techniques and the continual monitoring of exposure. The Company does not carry out transactions with 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 operations and accounts receivable. The procedures adopted to minimize potential financial and commercial risks, are the selection of financial institutions, credit rating analysis, establishment of limits for sales and short maturities of notes receivable. No customer individually represents more than 5% of the Company's accounts receivable at December 31, 2011 and 2010.

17. 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 Company's risk management policy and those of its subsidiaries, concerning short-term investments approved by the Board of Directors establishes that available funds shall be kept in top-tier banks (considered here to be the top ten largest banks in Brazil) in diversified portfolios in financial instruments linked to a basket of indicators made of CDI, fixed rates or inflation linked.

b) Liquidity risk:

Liquidity risk represents the risk posed by lack of funds to service debts (substantially loans and financing). The Company has cash monitoring policies to avoid any mismatch between accounts payable and accounts receivable. In addition, the Company maintains short-term investments that are immediately redeemable to cover any mismatch between maturity dates, contractual liabilities and cash flow management. The table below sets out the contractual payments required by the Company's financial liabilities:

	2011					
	Company			**Consolidated**		
	Up to one year	**From 1 to 9 years**	**Total**	**Up to one year**	**From 1 to 9 years**	**Total**
Fixed asset financing	**476**	**3,178**	**3,654**	**1,184**	**3,178**	**4,362**
Working capital	**93,320**	**-**	**93,320**	**93,320**	**-**	**93,320**
ICMS tax related incentives – 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**

	2010					
	Company			**Consolidated**		
	Up to one year	**From 1 to 9 years**	**Total**	**Up to one year**	**From 1 to 9 years**	**Total**
Fixed asset financing	7,589	3,647	11,236	7,589	3,647	11,236
Working capital	151,278	-	151,278	158,911	-	158,911
ICMS tax related incentives – Proapi and Provin	-	11,119	11,119	-	11,119	11,119
	158,867	14,766	173,633	166,500	14,766	181,266

17. 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)

	2011					
	Company			Consolidated		
	Projection of future interest			Projection of future interest		
	Up to one year	From 1 to 9 years	Total	Up to one year	From 1 to 9 years	Total
Fixed asset financing	**630**	**3,666**	**4,296**	**1,346**	**3,666**	**5,012**
Working capital	**93,639**	**-**	**93,639**	**93,639**	**-**	**93,639**
ICMS tax related incentives – 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**

	2010					
	Company			Consolidated		
	Projection of future interest			Projection of future interest		
	Up to one year	From 1 to 9 years	Total	Up to one year	From 1 to 9 years	Total
Fixed asset financing	7,952	4,290	12,242	7,952	4,290	12,242
Working capital	161,059	-	161,059	168,868	-	168,868
ICMS tax related incentives – Proapi and Provin	-	13,472	13,472	-	13,472	13,472
	169,011	17,762	186,773	176,820	17,762	194,582

c) Market risk:

Interest rate risk: This risk arises from the possibility of the Company to incur losses from fluctuation in interest rates increasing its financial expenses on loans and financing, or reducing gain on its short-term investments. The Company continuously monitors volatility of market interest rates.

In order to reduce 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 inflation linked.

17. 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 is linked to the possibility of variation in exchange rates, thus affecting financial expenses (or income) as well as the liability (or asset) balance of contracts denominated in foreign currency. In addition to accounts receivable in connection with exports from Brazil, there are financial investments and foreign investments that correspond to a natural hedge against variation in exchange rates. For the balance between assets and liabilities subject to foreign exchange rate risk variation the Company and its subsidiaries assess foreign exchange exposure and contract additional derivative financial instruments if necessary as a hedge.

At December 31, 2001, the Company has advances on export contracts in the amount of US$49,760, which is consistent with sales scheduled to the foreign market upon contract maturity. There are no other loans or financing arrangements denominated in or indexed to foreign currencies.

Commodities price risk: This risk refers to the possibility of variation in price of raw materials and other inputs used in the production process. Since the Company's raw materials include commodities, its cost of products sold may be affected by changes in prices of these materials. In order to minimize this risk, the Company maintains ongoing monitoring of price variations in the domestic and foreign markets and also keeps strategic inventories to ensure continuity of its commercial activities, as applicable.

c.2) *Interest rate variation sensitivity analysis*

In order to determine sensitivity of indices of short-term investments and loans to which the Company was exposed at December 31, 2011, 3 scenarios were defined and a sensitivity to variation of indices of these instruments was prepared. Based on the projection of the index of each contract for 2011 (probable scenario), decreased by 25% and 50% for short-term investments and increased by 25% and 50% for loans. These scenarios do not consider probable cash flow related to loan payments and short-term investments redemption.

Earnings from short-term investments as well as financial expenses from loans and financing of the Company are affected by changes in interest rates, such as TJLP, IPCA and CDI.

17. Financial instruments and risk management (Continued)

c) Risk management (Continued)

c.2) *Interest rate variation sensitivity analysis* (Continued)

We set out in the chart below the outstanding positions at December 31, 2011, with nominal value and interest for each contracted instrument:

Operation	Currency	Probable scenario (Book value)	Possible scenario	Remote scenario
FINANCIAL INCOME REDUCTION				
Interest on short-term investments	R$	65,715	54,132	42,490
	Rate decrease by		**25.00%**	**50.00%**

Reference for financial income	**Probable**	**Possible**	**Remote**
CDI %	10.87%	8.15%	5.44%
IPCA	6.64%	4.98%	3.32%

FINANCIAL INCOME INCREASE				
Interest on ICMS tax incentive – Proapi and Provin	R$	743	928	1,114
	Rate increase by		**25.00%**	**50.00%**
Reference for financial liabilities				
TJLP		6.00%	7.50%	9.00%

17. Financial instruments and risk management (Continued)

c) Risk management (Continued)

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

c3.1) Foreign exchange rate hedge

The Company projected the impact of foreign exchange hedge operations in the following 3(three) scenarios for 2011, namely:

- Probable scenario: This scenario considered that the operation would be settled considering exchange rate to US dollar of R$1.8800.

- Possible scenario: This scenario considered that the operation would be settled considering exchange rate to US dollar of R$2.3500, 25% higher than that of the first scenario.

- Remote scenario: This scenario considered that the operation would be settled considering exchange rate to US dollar of R$2.8200, 50% higher than that of the first scenario.

We set out below the summary of impacts in each projected scenario, for operations maturing on 1/31/2012.

	Notional value				
	Currency	**2011**	**US Dollar exchange rate in 2011**	**R$**	**Impact**
Probable scenario					
Non-deliverable forwards (NDF)					
Short position	US$	10,000	R$1.8800	18,800	84
Possible scenario - 25%					
Non-deliverable forwards (NDF)					
Short position	US$	10,000	R$2.3500	23,500	(4,700)
Remote scenario - 50%					
Non-deliverable forwards (NDF)					
Short position	US$	10,000	R$2.8200	28,200	(9,400)

17. Financial instrument 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, and maintain a policy of low leverage level, thus hedging its capital from fluctuations in government's economic policy, and leveraging value to the shareholder.

The Company manages capital structure and adjusts it by considering changes in economic conditions of the country. In order to maintain or adjust its capital structure, the Company may adjust the policy addressing dividend payment to shareholders.

During 2011, there was a modification in the dividends policy, however this change did not impact the objectives, policies or processes for capital managing in place during the years ended December 31, 2010 and 2011.

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Current and non-current loans and financing	**109,966**	173,633	**110,674**	181,266
(-) Cash and cash equivalents	**(51,128)**	(41,029)	**(61,518)**	(47,296)
Net Debt	**58,838**	132,604	**49,156**	133,970
Equity	**1,800,563**	1,676,801	**1,800,952**	1,675,666
Financial leveraging index	**3.3%**	7.9%	**2.7%**	8.0%

18. Transactions and balances with related parties

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

a) Amounts receivable and payable – related parties

	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 products and services	Financial Expenses (Exchange variation)	Financial Income (Exchange variation)
Subsidiaries								
Grendene USA, Inc.								
Balance at 12/31/2011	**-**	**-**	**5,753**	**2,273**	**7,291**	**1,032**	**1,895**	**1,273**
Balance at 12/31/2010	-	-	3,616	5,726	7,997	2,644	1,752	1,986
Grendene Argentina S.A.								
Balance at 12/31/2011	**-**	**-**	**43,714**	**-**	**29,238**	**-**	**-**	**-**
Balance at 12/31/2010	-	-	25,031	-	25,031	-	-	-
MHL Calçados Ltda.								
Balance at 12/31/2011	**-**	**-**	**9,397**	**11**	**14,601**	**18**	**-**	**-**
Balance at 12/31/2010	1	-	1,570	-	14,331	159	-	-
Other								
Telasul S.A.								
Balance at 12/31/2011	**-**	**-**	**-**	**193**	**13**	**3,407**	**-**	**-**
Balance at 12/31/2010	-	-	-	179	-	3,716	-	-
Vulcabrás do Nordeste S.A.								
Balance at 12/31/2011	**-**	**-**	**92**	**-**	**555**	**-**	**-**	**-**
Balance at 12/31/2010	-	-	194	-	1,090	-	-	-
Indular Manufacturas S.A.								
Balance at 12/31/2010	-	-	-	-	181	-	168	136
Vulcabrás Azaléia Argentina S.A.								
Balance at 12/31/2011	**-**	**-**	**1,061**	**-**	**1,380**	**-**	**278**	**352**

18. Transactions and balances with related parties (Continued)

a) Amounts 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 products and services	Financial Expenses (Exchange variation)	Financial Income (Exchange variation)
Other								
Telasul S.A.								
Balance at 12/31/2011	**-**	**-**	**-**	**193**	**13**	**3,407**	**-**	**-**
Balance at 12/31/2010	-	-	-	179	-	3,716	-	-
Vulcabrás do Nordeste S.A.								
Balance at 12/31/2011	**-**	**-**	**92**	**-**	**555**	**-**	**-**	**-**
Balance at 12/31/2010	-	-	194	-	1,090	-	-	-
Indular Manufacturas S.A.								
Balance at 12/31/2010	-	-	-	-	181	-	168	136
Vulcabrás Azaléia Argentina S.A.								
Balance at 12/31/2011	**-**	**-**	**1,061**	**-**	**1,380**	**-**	**278**	**352**

b) Nature, terms and conditions of transactions – Related companies

- Sales transactions with subsidiaries Grendene USA, Inc. (located in the USA) and Grendene Argentina S.A. (located in Argentina) refer to sales of shoes to supply the markets where they are located. Sales transactions with subsidiary MHL Calçados Ltda. and related parties Vulcabrás do Nordeste S/A (located in Brazil), Indular Manufacturas S.A. (located in Argentina) and Vulcabrás Azaléia Argentina S.A. (located in Argentina), refer to sales of inputs used in footwear production. The average days sales outstanding for foreign and local sales is approximately 180 and 60 days, respectively, which are usually the terms observable with other customers in these markets.

- Exceptionally for Grendene Argentina S.A., sales transactions in 2011 were impacted by the new policies on import transactions adopted by that country, which affected the application process for import authorizations, and consequently the local market supply. This required the renegotiation of payment terms. The average days sales outstanding increased from 180 days to 230 days in 2011.

18. Transactions and balances with related parties (Continued)

b) Nature, terms and conditions of transactions – Related companies (Continued)

- The transactions carried out with Telasul S.A. (located in Brazil) refer to purchases of exhibition stands for the Company products display and publicizing, whereas transactions with MHL Calçados Ltda. refer to purchase of inputs for the production process. The average days sales outstanding correspond to approximately 30 days, which are similar to those observable with most suppliers.

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

Companies Telasul S.A, Vulcabrás do Nordeste S.A., Indular Manufacturas S.A. and Vulcabrás Azaléia Argentina S.A. are controlled by Grendene S.A. shareholders.

Companies 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 dividends paid between the Company and its subsidiaries for the years ended December 31, 2011 and 2010.

c) Guarantees

The Company stood as a guarantor for certain loan agreements entered into by Vulcabrás do Nordeste S.A., which is controlled by a shareholder of Grendene S.A. The agreements expired between 2005 and 2011 and were fully settled on October 10, 2011.

d) Management fees

Total compensation and related charges spent in connection with key management personnel are described below:

	Company	
	2011	**2010**
Board of Directors	**852**	808
Executive Board	**3,080**	2,874
Supervisory Board	**159**	-
	4,091	3,682

18. Transactions and balances with related parties (Continued)

d) Management fees (Continued)

The Company offers a stock option plan as variable compensation, as described in Note 19. The balance payable through purchase of shares amounts to R$1,615 at December 31, 2011 (R$1,148 in 2010).

The Company did not pay its key management members compensation identifiable as: a) long-term benefits; b) employment contract termination benefits; and c) post-employment benefits.

e) Other related parties

The Company makes use of air travel advisory and agency services offered by companies owned by a related party. At December 31, 2011, the expenses incurred in connection with these services totaled R$574 (R$462 in 2010), representing approximately 0.05% of the Company general expenses. There are no outstanding balances at December 31, 2011.

19. Share option plan

At December 31, 2011, the Company recorded expense with share option plan as personnel cost, based on the fair value of operations on the grant date, in the amount of R$1,615 (R$1,148 in 2010).

The Company's Extraordinary Shareholders' Meeting of April 14, 2008 approved a Share Option Plan, in force as from April 14, 2008, for Company directors and managers, excepting the controlling directors. The plan is administered by the Company's Board of Directors, which may delegate its prerogatives, observing the restrictions in law, to a Committee especially created for this.

The share purchase options granted on the terms of the Share Option Plan are limited to 5% of Company capital. The shares resulting from option exercise will be issued as a result of capital increase decided by the Board of Directors, within the Company's authorized capital limits or using treasury shares, within legal limits.

The Share Option Plan beneficiaries may exercise their options within up to 6 years as from option grant date. The vesting period will be of up to 3 years, i.e. 33% vesting after one year, 66% after two years and 100% after three years.

Board Meetings approved share option grants 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, and iv) on February 4, 2011, 1,741,632 shares in connection with the share purchase or subscription plan to directors and managers, excepting controlling directors.

19. Share option plan (Continued)

The Special 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 thereafter.

a) Summarized share granting for share purchase option or subscription

Options granted and changes related thereto are broken down as follows:

Grant date	Option exercise price	Grace period as from grant date	Maximum number of shares	Option premium value	Fair value on grant date
4/25/2008	7.30	4/25/2009	679,899	0.31	7.61
4/25/2008	7.30	4/25/2010	1,359,798	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

	Number of shares				
Grant year	**Opening balance in 2010**	**Granted**	**Exercised**	**Cancelled**	**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**

	Number of shares				
Grant year	**Opening balance in 2009**	**Granted**	**Exercised**	**Cancelled**	**Closing balance in 2010**
2008	1,826,901	-	(496,875)	(41,150)	1,288,876
2009	900,000	-	(223,125)	(18,700)	658,175
2010	-	700,000	-	(6,888)	693,112
	2,726,901	700,000	(720,000)	(66,738)	2,640,163

19. Share option plan (Continued)

b) Result from share purchase option, net

Changes in operations involving share option sales, cancellations and purchases in the year were as follows:

	Grant/ realization date	Maximum number of shares	Number of common shares	Average share price	Result: Share plan adjustment	Result: Result from sale of shares
Purchase options for issued shares	4/25/2008	2,039,901	496,875	7.29	(100)	-
(-) Exercise of purchase options	9/3/2009	-	(213,000)	8.26	-	-
(-) Exercise of purchase options	3/22/2010	-	(496,875)	6.31	-	-
Cancelled	3/29/2010	-	(41,150)	7.29	-	-
Cancelled	2/25/2011	-	(9,789)	7.29	(9)	-
(-) Exercise of purchase options	3/15/2011	-	(760,577)	6.64	-	(542)
Purchase options for issued shares	3/5/2009	900,000	223,125	4.12	-	-
(-) Exercise of purchase options	3/22/2010	-	(223,125)	6.31	-	-
Cancelled	3/29/2010	-	(18,700)	4.12	-	-
Cancelled	2/25/2011	-	(8,620)	4.12	(3)	-
Cancelled	7/1/2011	-	(12,518)	4.12	(5)	-
(-) Exercise of purchase options	3/15/2011	-	(339,423)	6.64	-	(143)
Purchase options for issued shares	3/4/2010	700,000	-	9.16	-	-
Cancelled	7/29/2010	-	(6,888)	9.16	-	-
Cancelled	2/25/2011	-	(9,189)	9.16	(12)	-
Cancelled	7/1/2011	-	(29,172)	9.16	(46)	-
Purchase options for issued shares	2/24/2011	1,741,632	-	9.76	-	-
Cancelled	7/1/2011	-	(75,456)	9.76	(23)	-
Change in shares in equity					**(198)**	**(685)**

c) Economic assumptions adopted for recognizing employee compensation expenses

The Company recognizes expenses on variable employee compensation based on the fair value of the share options granted, as estimated using the Black-Sholes options pricing method. To determine the weighted average fair value, the Company utilized the following economic assumptions:

	Granted on 4/25/2008	Granted on 3/5/2009	Granted on 3/4/2010	Granted on 2/24/2011
Total purchase options granted	2,039,901	900,000	700,000	1,741,632
Option price	7.30	4.26	10.08	10.80
Estimated volatility	36.50%	36.50%	32.80%	27.60%
Expected share dividend	6%	9%	4%	4%
Risk-free weighted average interest rate	12.00%	9.25%	11.25%	12.50%
Maximum maturity	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	0.31	0.42	2.28	1.20
Fair value on grant date	7.61	4.68	12.36	12.00

19. Share option plan (Continued)

c) Economic assumptions adopted for recognizing employee compensation expenses (Continued)

Volatility was determined based on the average historical fluctuation over the 18 months preceding the granting date.

Estimated dividends were obtained based on the average dividend payment per share in relation to its market value over the last 12 months.

The Company adopts as its risk-free interest rate the average projected Selic benchmark 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 expense, on a straight-line basis, and matched against Capital Reserves.

The Company is not committed to any repurchase agreements involving shares purchased by the beneficiaries.

20. Insurance

The Company takes out insurance at amounts considered sufficient to cover any losses at its industrial facilities. The main types of insurance are as follows:

Risk covered	Sum insured	Term	Insurer
Fire, windstorm and electrical damage:			
Buildings	114,563	12/31/2010 to 12/31/2011	Bradesco Auto/RE Cia de Seguros
Machinery and equipment	261,760	12/31/2010 to 12/31/2011	Bradesco Auto/RE Cia de Seguros
Inventory	74,093	12/31/2010 to 12/31/2011	Bradesco Auto/RE Cia de Seguros

The insurance policies were renewed on December 21, 2011 with the same risk coverage as that for 2011.

21. Expenses by nature

The Company elected to present consolidated statements of income by function. As required by IFRS, the detail of the consolidated statements of income by nature is presented as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Expenses by function				
Classified as:				
Costs of goods sold	**(841,219)**	(950,157)	**(840,497)**	(953,261)
Selling expenses	**(379,046)**	(362,420)	**(396,096)**	(377,010)
General and administrative expenses	**(56,806)**	(58,303)	**(61,177)**	(61,878)
Other operating revenue	**6,587**	3,350	**6,678**	3,368
Other operating expenses	**(4,171)**	(7,300)	**(4,251)**	(7,313)
Equity pickup	**(1,414)**	2,718	**-**	-
	(1,276,069)	(1,372,112)	**(1,295,343)**	(1,396,094)
Expenses by nature				
Personnel expenses	**(410,400)**	(455,659)	**(416,883)**	(462,376)
Raw materials	**(352,082)**	(417,364)	**(355,937)**	(422,646)
Use and consumption materials	**(48,263)**	(47,305)	**(49,212)**	(47,986)
Freight	**(68,665)**	(73,247)	**(71,358)**	(75,990)
Advertising and promotion	**(134,303)**	(124,278)	**(138,690)**	(127,109)
Copyrights	**(48,804)**	(54,596)	**(48,804)**	(54,596)
Commissions	**(63,922)**	(68,322)	**(65,305)**	(69,239)
Energy	**(22,731)**	(24,207)	**(23,554)**	(25,028)
Depreciation and amortization	**(27,631)**	(26,977)	**(28,060)**	(27,358)
Other expenses	**(99,268)**	(80,157)	**(97,540)**	(83,766)
	(1,276,069)	(1,372,112)	**(1,295,343)**	(1,396,094)

22. Net sales revenue

The breakdown for net sales revenue is as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Net sales revenue	**1,807,777**	1,945,649	**1,846,706**	1,998,586
Sales returns	**(47,090)**	(57,070)	**(46,490)**	(71,315)
Financial discount	**(93,620)**	(95,102)	**(110,361)**	(110,508)
Sales taxes	**(204,163)**	(221,906)	**(207,219)**	(212,256)
	1,462,904	1,571,571	**1,482,636**	1,604,507

23. Segment information

Due to the fact that the Company only produces synthetic footwear, for accounting and management purposes the Company is organized as a single business unit. Although the Company's products are intended for various target groups (men, women, children, mass market etc.), these are not controlled or managed as independent segments insofar as the Company's results are accompanied, monitored and evaluated as a whole.

Consolidated sales in the domestic and foreign markets and non-current assets are represented as follows:

	Company				Consolidated	
	2011		2010		2011	2010
	Gross sales revenue	Non-current assets	Gross sales revenue	Non-current assets	Gross sales revenue	Gross sales revenue
Domestic market	**1,489,169**	**11,337**	1,594,679	10,534	**1,489,883**	1,603,820
Foreign market	**318,608**	**18,134**	350,970	20,162	**356,823**	394,766
	1,807,777	**29,471**	1,945,649	30,696	**1,846,706**	1,998,586

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 USA).

Information on gross sales revenue in the foreign market by geographic segment was prepared considering the country where the revenue originated, i.e. on the basis of sales made by the 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	
	2011	2010
Gross sales to foreign market from:		
Brazil	**289,638**	323,675
United States	**10,574**	18,388
Argentina	**56,611**	52,703
	356,823	394,766

No customer in the domestic or foreign markets individually represents more than 5% of sales.

Non-current assets abroad represent less than 0.5% of consolidated non-current assets.