(A free translation of the original in Portuguese)

Listed Company

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

Commercial Registry Number (NIRE): 23300021118-CE

Management Report

2013

(A free translation of the original in Portuguese)

BOARD OF DIRECTORS

Alexandre Grendene Bartelle
Chairman of the Board of Directors

Pedro Grendene Bartelle
Vice-chairman of the Board of Directors

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

STATUTORY FISCAL COUNCIL

Fernando Luis Cardoso Bueno
Chairman of the Statutory Fiscal Council

Fiscal Council Members
Bolívar Charneski
Maurício Rocha Alves de Carvalho

EXECUTIVE BOARD

Rudimar Dall'Onder
Chief Executive Officer
and Chief Industrial and Sales Officer

Gelson Luis Rostirolla
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt
Investor Relations Officer
Chief Financial Officer, Administrative and Controller Officer

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

MANAGEMENT REPORT 2013

To the Shareholders,

In compliance with the legal and statutory provisions, the Management of **Grendene S.A.** discloses the **Management Report** and the **Consolidated Financial Statements**, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also based on accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM). The Company has adopted all standards and revisions of standards and interpretations issued by IASB, which are effective for the financial statements at December 31, 2013.

The **financial statements of Grendene S.A.** for the year ended December 31, 2013 have been prepared in accordance with accounting practices adopted in Brazil and the rules of CVM, considering the accounting guidelines contained in Brazilian Corporate Law (Law 6,404/76), which include the provisions introduced, amended and revoked by Law 11,638, of December 28, 2007 and Law 11,941, of May 27, 2009. These practices differ from IFRS applicable to separate financial statements only with respect to the measurement of investments in subsidiaries based on the equity accounting method, instead of cost or fair value in accordance with IFRS.

(A free translation of the original in Portuguese)

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I. Message from management

In 2013, total shareholders' gains reached R$433.5 million (profit). Of this amount, R$300.1 million was used for the payment of dividends and the remaining amount was reinvested in the Company.

The earnings per share, of R$1.4417 and 1.1% higher than in the previous year (R$1.4266 per share in 2012), provided a return on equity of 22.2% (23.8% in 2012 and 18,.% in 2011), with a robust cash generation from operating activities of R$303.3 million (R$192.6 million in 2012). This amount per share represented a dividend yield of 5.0% (8.4% in 2012) when considering the weighted average quotation in 2013 as well as a payout of 71.8%.

Since the Company went public in October 2004, the book value per share, adjusted by the stock splits, increase by 180.5%, earnings per share increased by 114,8%, with compound annual growth rates of 12.1% and 8.9%, respectively. The accumulated return to the shareholder, as dividends, was R$1.6 billion, or R$5.1448/share.

The Company's share grew by 14.8% in 2013, considering the reinvestment of dividends with a good increase in liquidity, which, at the end of the year (Dec/13) involved negotiations of approximately R$ 8.7 million per day and 1,596 transactions. The Company's market value reached R$ 5.7 billion, 83.9% above its value in 2004, when it went public (R$ 3.1 billion).

In 2013, our results exceeded the significant milestone of 200 million pairs produced and sold throughout our 13 footwear production plants, all located in Brazil. Of this volume, 165.7 million pairs were sold in the domestic market, corresponding to an estimated 20.1% of the apparent consumption in the country, and 50.5 million of pairs were exported, corresponding to 41.1% of the Brazilian exports in the period, which totaled 216.2 million pairs. According to data disclosed by MDIC/SECEX/Abicalçados, Grendene, has been the leader of the Brazilian footwear exports for eleven consecutive years, evidencing its competition advantages in foreign markets.

In order to ensure the continuity of our growth, approximately R$ 64 million was invested in the new plant, for the purpose of increasing the annual production capacity of 50 million pairs to an installed capacity of approximately 250 million pairs/year. An amount equivalent to the annual depreciation, approximately R$37 million, was also invested in the maintenance and update of our manufacturing facilities; R$ 8 million in our subsidiary A3NP and R$45 million in other process improvements, totaling investments of R$154 million in 2013.

Also, the amount of R$163.7 million was recognized as publicity expenses for the year and R$49.9 million as expenses for the development of new products.

2013 was also a year of major changes in the Company's corporate governance system. The Company's controlling shareholders and founders left the positions of Chairman (CEO) and Vice-chairman, after 42 years leading the Company's daily operations, transferring their responsibilities to new executives, most of them graduated during the Company's development. The smooth transition, without any negative impacts on the results, reflects the maturity of our system.

Grendene has obtained expressive leadership in the footwear market throughout its history, and it keeps on believing in its future and potential, investing to strengthen its brands and growth in both the domestic and foreign markets. This leadership has been confirmed by several independent appraisers, from which the Company has received a number of awards for its capacity of delivering results, innovation, growth, profitability, sustainability and social responsibility. In the past five years, from 2008 to 2013, despite the world crisis and the unfavorable currency exchange rate, Grendene achieved an average compound growth of 11.8% p.a. in net revenue, 12.6% p.a. in profit and 22.5% p.a. in dividends effectively paid. During this period, we alternated years of loss and gain of market share (Grendene's share in the domestic market's total apparent consumption, published by Abicalçados). In 2013, our market share increased in all our target markets and management is committed to maintain and, if possible, increase the margins obtained in the period, consolidating the growth trend established by the brand. The quality of our products, the strength of

our brands, the recognition from retail and end customers, as well as our high operational efficiency provide the basis for this expectation.

In our opinion, the results obtained in 2013, although exceeding those of 2012, were still below the expectations, since the increase in the results was not as good as that recorded in 2012. The results were positive in absolute numbers, but the reduction of margins impacted negatively the profit growth. However, taking into account the difficulties faced, the results can be considered as satisfactory. In 2013, we had to deal with the increase in prices of important raw materials, a sluggish market for the third consecutive year, protest rallies that impacted retail sales in June and July, foreign exchange volatility that makes our customers' purchase decisions more complex and a continued fierce competition.

At the beginning of the year, we expected an economy growth of 3%, but the actual growth should reach no more than 2%. We expected a profit significantly higher than that obtained, which was basically due to unexpected higher costs, as the sales did not decrease and were carried out according to the estimates. We also expected, and obtained, dividends higher than those distributed in 2012, in absolute numbers

We believe that, in spite of all the difficulties, our brands were strengthened, our relationship with retail sales was intensified through the high turnover of our products in the stores and we were able to produce, sell and delivery high volumes of products with efficiency and quickness, which confirms, once more, the efficacy of our business model. Again, our results showed consistency even in an adverse economic scenario.

These consistent results are ensured by our capacity of constructing strong brands, which have a privileged relation with our customers, and developing a solid relationship with the distribution channels through a long-term process and its cumulative effects. Since 2004, among many other efforts, the Company has invested R$ 1.2 billion in advertising in order to consolidate and add value and, for the next years, it will endeavor even more to get closer to its end customers. We believe that understanding the needs of these customers is a fundamental factor for the success of Grendene's business model.

In 2012, Grendene created the Club Melissa (ex-jelly), as reported in Relevant Fact for July 16, 2012, with the goal of developing a franchise network for the brand Melissa. The network, which started with 42 franchisees, had 116 stores at December 31, 2013, a remarkable growth in a slow year for the economy

In 2013, we expanded the capacity of our plant in Sobral, state of Ceará, to approximately 250 million pairs, created a new Company in partnership with the well-known international designer Philippe Stark to develop and sell furniture and, also with the same partnership, moved forward with our plan to develop an international footwear brand.

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

At last, it should be recognized that, during these 43 years, the Company has always counted on the decisive support and trust of its suppliers, customers, partners, shareholders and, especially, its thousands of dedicated employees committed to Grendene's Business Vision and Values.

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

The Management

II. Main consolidated indicators (under IFRS)

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Gross sales revenue	1,576.0	1,819.4	1,998.6	1,831.6	2,324.5	2,711.4	16.6%	11.5%
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	16.3%	12.0%
Exports	355.5	355.0	394.8	341.7	479.1	564.5	17.8%	9.7%
Exports in U.S. dollars	*193.8*	*177.7*	*224.3*	*204.0*	*245.1*	*261.6*	*6.7%*	*6.2%*
Net sales revenue	1,249.9	1,455.8	1,604.5	1,481.1	1,882.3	2,187.3	16,2%	11.8%
Cost of sales	(731.2)	(889.7)	(953.3)	(840.5)	(1,000.2)	(1,193.6)	19.3%	10.3%
Gross profit	518.7	566.0	651.2	640.6	882.1	993.7	12.6%	13.9%
Operating expenses	(352.8)	(413.8)	(442.8)	(453.3)	(519.3)	(594.5)	14.5%	11.0%
Ebit	165.9	152.2	208.4	187.3	362.8	399.2	10.0%	19.2%
Ebitda	191.5	178.5	236.6	216.2	394.5	435.9	10.5%	17.9%
Finance result, net	84.2	135.6	122.5	153.0	132.5	103.6	(21.8%)	4.2%
Profit	239.4	272.2	312.4	305.4	429.0	433.5	1.1%	12.6%

R$	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Average price	10.76	10.98	11.79	12.20	12.56	12.54	(0.2%)	3.1%
Domestic market	12.38	12.47	13.97	13.85	13.21	12.96	(1.9%)	0.9%
Exports	7.43	7.35	7.23	8.04	10.56	11.17	5.8%	8.5%
Exports in U.S. dollars	*4.05*	*3.68*	*4.11*	*4.80*	*5.40*	*5.18*	(4.1%)	5.0%

R$	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Earnings per share[1]	0.7960	0.9052	1.0388	1.0157	1.4266	1.4417	1.1%	12.6%
Dividend per share[2]	0.3625	0.3658	0.4048	0.7300	0.9760	0.9980	2.3%	22.5%

Millions of pairs	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Volumes	146.4	165.7	169.5	150.1	185.0	216.2	16.8%	8.1%
Domestic market	98.6	117.4	114.9	107.6	139.7	165.7	18.6%	10.9%
Exports	47.8	48.3	54.6	42.5	45.3	50.5	11.4%	1.1%

Margin %	2008	2009	2010	2011	2012	2013	Variation 12/13	Variation 08/13
Gross	41.5%	38.9%	40.6%	43.3%	46.9%	45.4%	(1.5 p.p.)	3.9 p.p.
Ebit	13.3%	10.5%	13.0%	12.6%	19.3%	18.3%	(1.0 p.p.)	5.0 p.p.
Ebitda	15.3%	12.3%	14.7%	14.6%	21.0%	19.9%	(1.1 p.p.)	4.6 p.p.
Net	19.2%	18.7%	19.5%	20.6%	22.8%	19.8%	(3.0 p.p.)	0.6 p.p.

R$	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Final U.S. dollar	2.3370	1.7412	1.6662	1.8758	2.0435	2.3426	14.6%	-
Average U.S. dollar	1.8346	1.9976	1.7601	1.6750	1.9546	2.1576	10.4%	3.3 %

[1]For the purposes of comparison, earnings per share were calculated by the number of shares existing at 12/31/2013 (300,720,000 common shares)

[2] For the purposes of comparison, dividend per share was calculated by the number of shares existing at 12/31/2013, excluding treasury shares.

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

In the numbers above, the consistency of growth and delivery of results should be highlighted, particularly the robust increase in operating profit (EBIT), of 19.2% p.a. in the last five years (CAGR). We clarify that the lower increase in the Profit for the period was due to the aggressive dividend policy adopted by Grendene, which

reduced the Company's net cash and, consequently, the finance result. The lower interest rate in the period also contributed to the lower increase in these results.

On the other hand, dividends per share increased 22.5% p.a.in the past five years (CAGR).

III. Market and macroeconomic conditions

Just as in the past years, 2013 was difficult, beginning full of great expectations, which fell flat over the months, and ending with a sluggish activity level. Even though, according to preliminary estimates, the consumption and production of footwear has recovered, growing around 4.7% and 5.1%, respectively. Again, in 2013, we watched the expectation of GDP growth dropping together with the deterioration of many other macroeconomic indicators, such as inflation, high interest rates and an extremely volatile exchange rate.

The costs increased in Brazil, affecting, especially, the prices of ink, packaging material, freight and thermoplastic resins.

The interest rates, maintained artificially low during most part of the year also contributed to reduce our finance results; on the other hand, their increase should have a positive impact on our finance results for 2014. However, in spite of the lower consumer debt load, the higher interest rates may have an adverse impact on their income available in 2014.

The good news was the maintenance of the employment and income levels and, in relation to exports, the devaluation of the Brazilian real. As Grendene's flow of revenues in U.S. dollar is higher than its costs, the expected higher devaluation of Brazilian real is positive to the Company.

Even with Brazilian footwear exports resuming growth in 2013, our share in total exports maintained the upward trend. Imports also increased, affecting mainly the sport footwear industry, in which Grendene does not compete.

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

Brazilian footwear production and apparent consumption

Brazil (millions of pairs)	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Production	816	814	894	819	864	908*	5.1%	2.4%
Imports	39	30	29	34	36	39	9.8%	(0.1%)
Exports	166	127	143	113	113	123	8.5%	(5.8%)
Apparent consumption	689	717	780	740	787	824*	4.7%	3.9%
Consumption per capita (pair)	3.7	3.8	4.0	3.8	4.0	4.2*	7.5%	3.1%

Source: IEMI / Secex / Abicalçados
*Estimated by Grendene

Grendene

Millions of pairs	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Volumes	146.4	165.7	169.5	150.1	185.0	216.2	16.8%	8.1%
Share volume - production	17.9%	20.4%	19.0%	18.3%	21.4%	23.8%	2.4 p.p.	5.9 p.p.
Domestic market (DM)	98.6	117.4	114.9	107.6	139.7	165.7	18.6%	10.9%
Share volume – DM	14.3%	16.4%	14.7%	14.5%	17.8%	20.1%	2.3 p.p.	5.8 p.p.
Exports	47.8	48.3	54.6	42.5	45.3	50.5	11.4%	1.1%
Share volume - exports	28.9%	38.1%	38.2%	37.6%	40.0%	41.1%	1.1 p.p.	12.2 p.p.

Source: Grendene S.A.

IV. Economic and financial performance

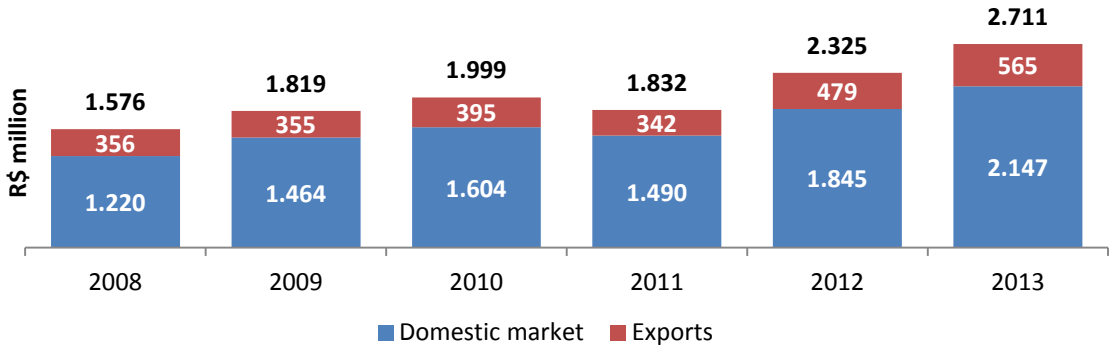
1. Gross sales revenue

The growth in gross revenue in 2013, when comparing to 2012, increased the compound annual growth rate (CAGR) of the past years to 11.5% p.a. (2008-2013) against 10.2% p.a.in the period from 2008 to 2012.

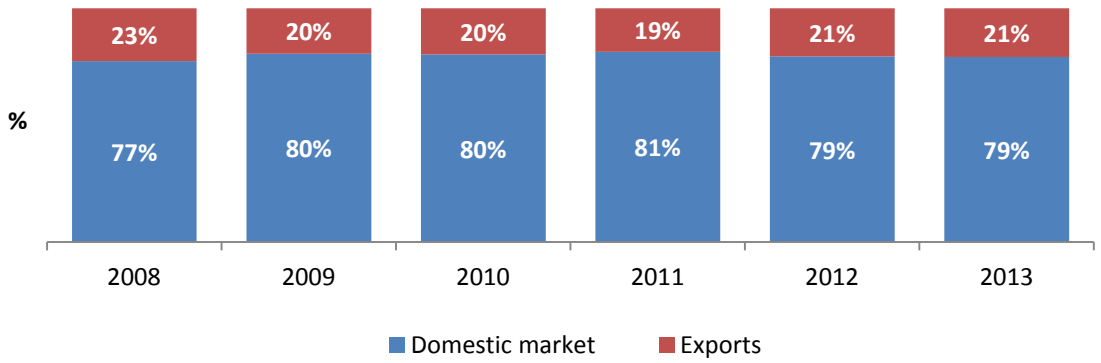
It should be highlighted that not many Brazilian industries reach an export volume of U$262 million, as we did in 2013.

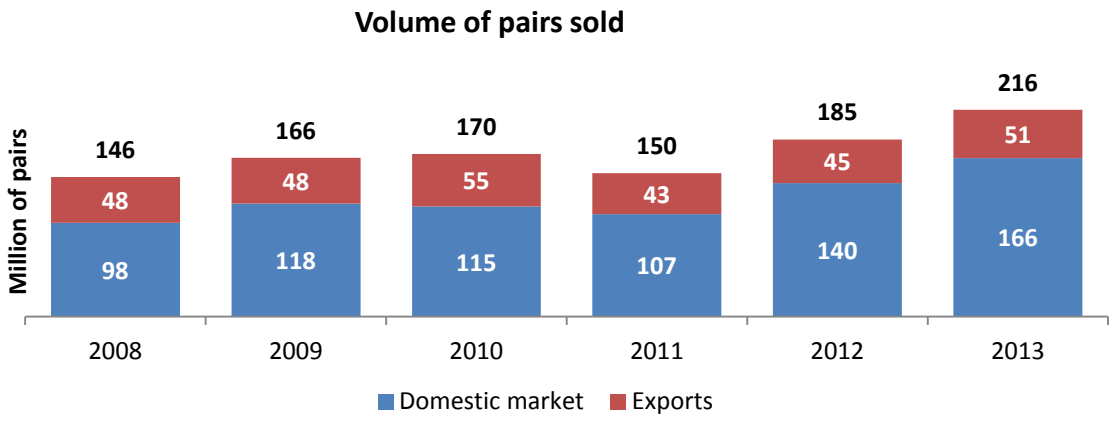
R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Gross sales revenue	**1,576.0**	**1,819.4**	**1,998.6**	**1,831.6**	**2,324.5**	**2,711.4**	**16.6%**	**11.5%**
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	16.3%	12.0%
Exports	355.5	355.0	394.8	341.7	479.1	564.5	17.8%	9.7%
Exports in U.S. dollars	*193.8*	*177.7*	*224.3*	*204.0*	*245.1*	*261.6*	*6.7%*	*6.2%*
Millions of pairs	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Variation 12/13**	**CAGR (5 years)**
Volumes	**146.4**	**165.7**	**169.5**	**150.1**	**185.0**	**216.2**	**16.8%**	**8.1%**
Domestic market	98.6	117.4	114.9	107.6	139.7	165.7	18.6%	10.9%
Exports	47.8	48.3	54.6	42.5	45.3	50.5	11.4%	1.1%
R$	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Variation 12/13**	**CAGR (5 years)**
Average price	**10.76**	**10.98**	**11.79**	**12.30**	**12.56**	**12.54**	**(0.2%)**	**3.1%**
Domestic market	12.38	12.47	13.97	13.85	13.21	12.96	(1.9%)	0.9%
Exports	7.43	7.35	7.23	8.04	10.56	11.17	5.8%	8.5%
Exports in U.S. dollars	*4.05*	*3.68*	*4.11*	*4.80*	*5.40*	*5.18*	(4.1%)	5.0%

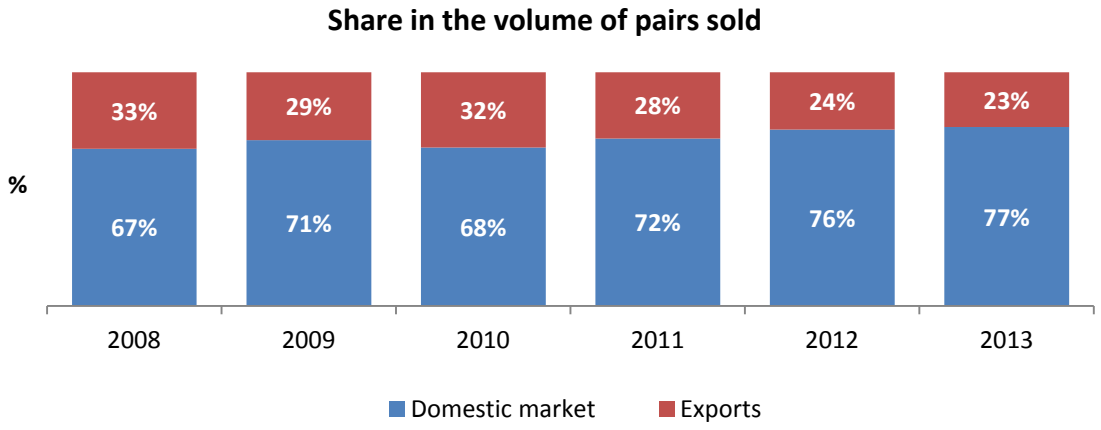
Gross sales revenue

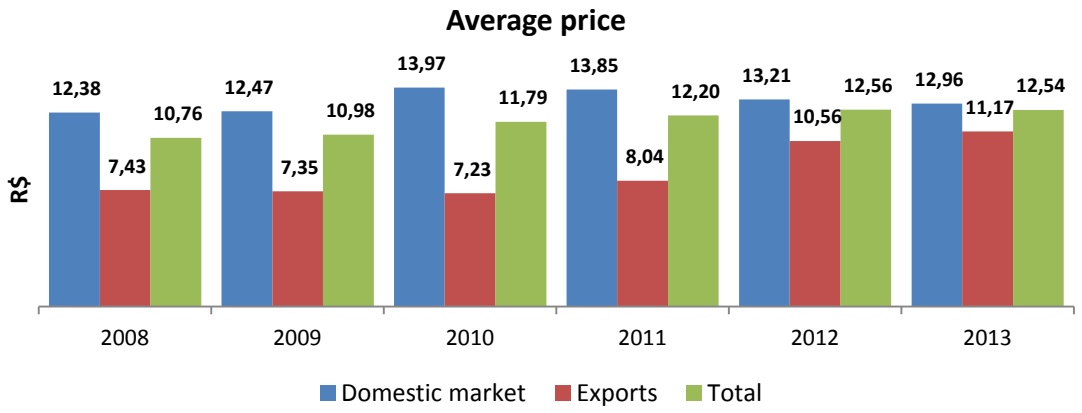


Share in gross revenue







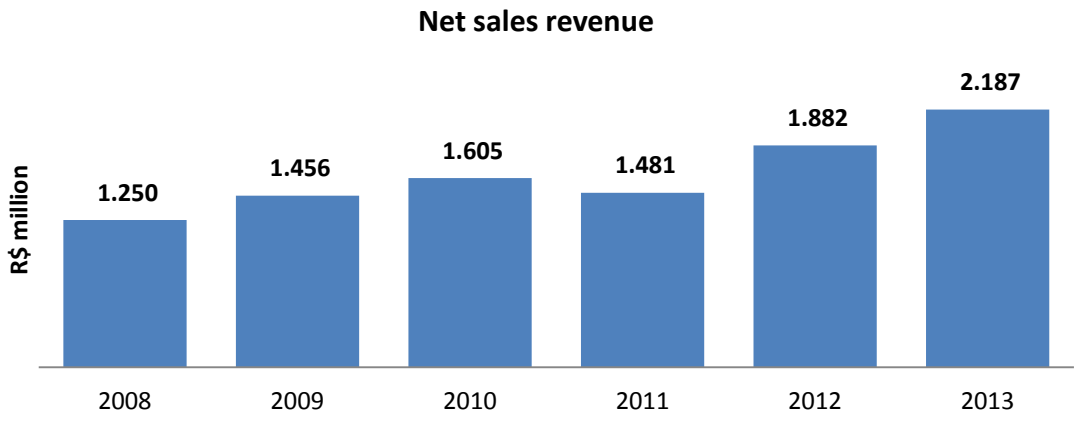


According to data from the MDIC/SECEX/Abicalçados, Brazilian footwear exports in 2013 vs. 2012 increased 0.2% in U.S. dollar and 8.5% in volume of pairs sold, with a decrease of 7.7% in the U.S. dollar average price.

Grendene's share in the Brazilian footwear exports, when comparing 2013 vs. 2012, remained in 41.1% in volumes of pairs and increased from 22.4% to 23.9% in export revenue in U.S. dollars, maintaining the leading position in Brazilian footwear exports for the 11th consecutive year.

2. Net sales revenue

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Gross sales revenue	**1,576.0**	**1,819.4**	**1,998.6**	**1,831.6**	**2,324.5**	**2,711.4**	**16.6%**	**11.5%**
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	16.3%	12.0%
Exports	355.5	355.0	394.8	341.7	479.1	564.5	17.8%	9.7%
Sales deductions	**(326.2)**	**(363.6)**	**(394.1)**	**(350.5)**	**(442.2)**	**(524.1)**	**18.5%**	**9.9%**
Returns and taxes on sales	(251.4)	(274.1)	(283.6)	(255.3)	(328.6)	(393.3)	19.7%	9.4%
Discounts granted to customers	(74.8)	(89.5)	(110.5)	(95.2)	(113.6)	(130.8)	15.2%	11.8%
Net sales revenue	**1,249.9**	**1,455.8**	**1,604.5**	**1,481.1**	**1,882.3**	**2,187.3**	**16.2%**	**11.8%**

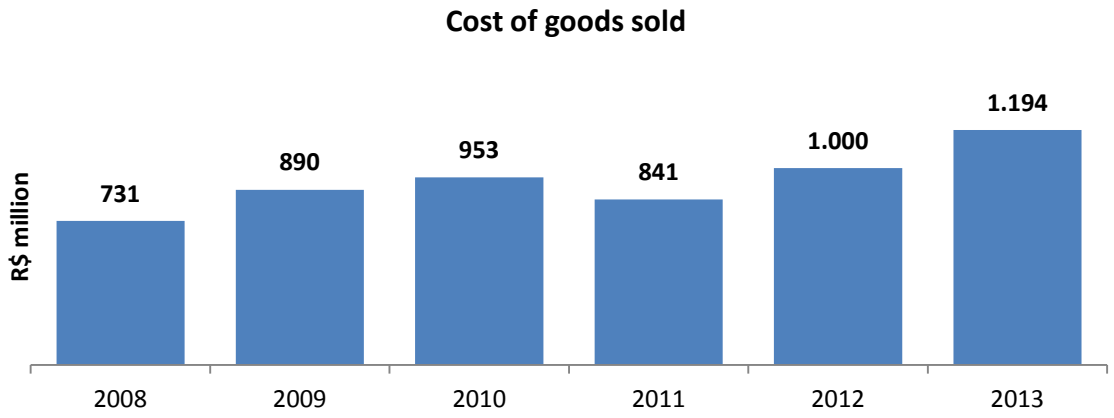


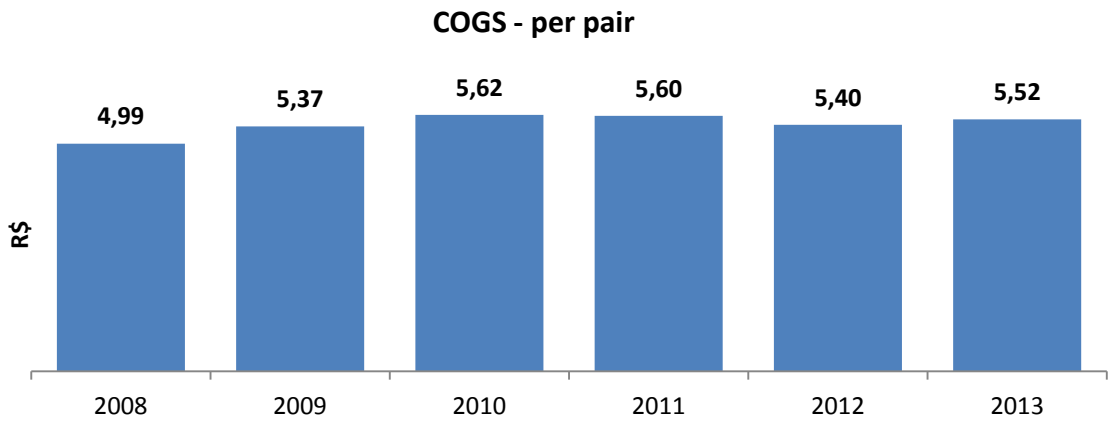
3. Cost of goods sold (COGS)

In the past five years, our unitary cost increased by 2% p.a., as a consequence of the exchange volatility, increase in the minimum wage and inflation pressure. It is true that we benefit from the tax burden reduction in the payroll, introduced by the Federal Government as from 2011. During this period, total (accumulated) cost of sales increased less than net revenue.

In 2013, the cost of sales grew 19.3% in absolute terms, or 3.1 p.p. above the growth of net revenue (16.2%), due to the increase in prices of various inputs, as mentioned above.

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Cost of goods sold	731.2	889.7	953.3	840.5	1,000.2	1,193.6	19.3%	10.3%
R$ per pair	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Variation 12/13**	**CAGR (5 years)**
Cost of goods sold/pair	4.99	5.37	5.62	5.60	5.40	5.52	2.2%	2.0%

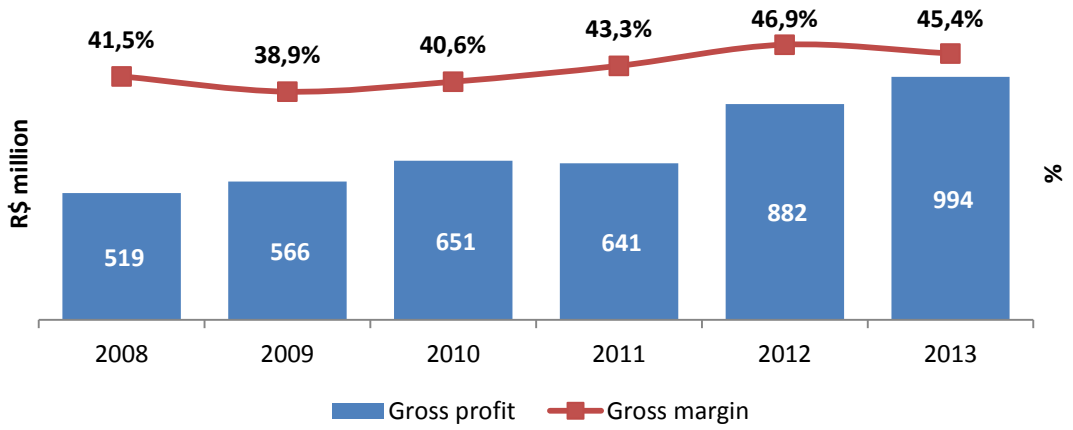




4. Gross profit

Our gross profit has been expanding at a rate of 13.9% pa since 2008. In 2013, gross profit totaled R$993.7 million, an increase of 12.6% when compared to 2012 (R$ 882.1 million). With costs increasing above the net revenue, as explained before, our gross margin dropped by 1.5 p.p., from 46.9% in 2012 to 45.4% in 2013.

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Gross profit	518.7	566.0	651.2	640.6	882.1	993.7	12.6%	13.9%
Gross margin	41.5%	38.9%	40.6%	43.3%	46.9%	45.4%	(1.5 p.p.)	3.9 p.p.

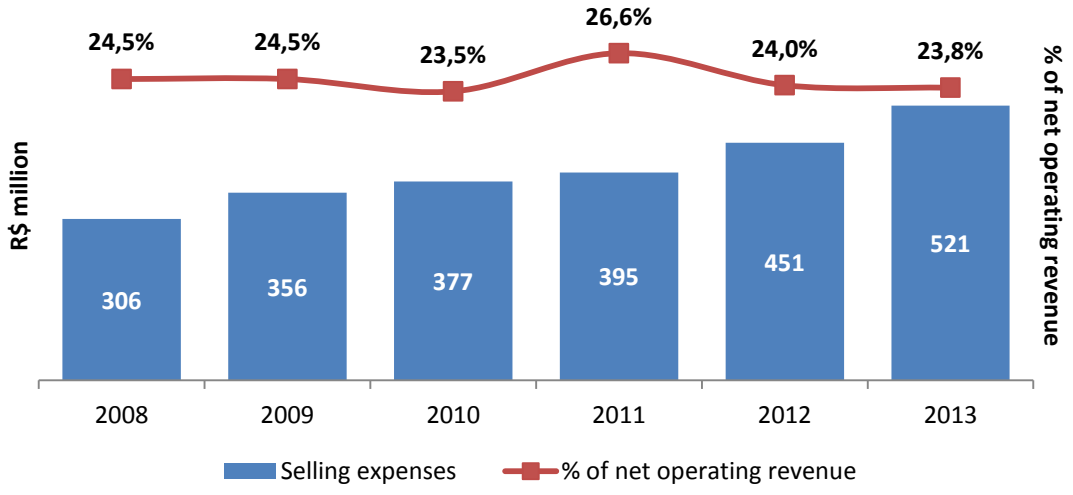


5. Operating expenses (SG&A)

5.1. Selling expenses

The Company's selling expenses, which are predominantly variable, refer to freight, licensing, commissions, publicity and marketing and remained, over the period, at approximately 24% of net revenue.

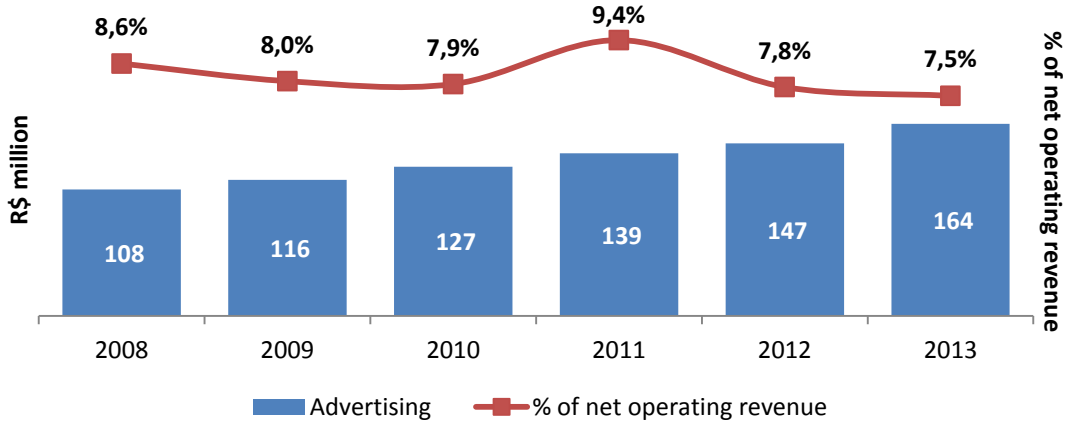
R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Selling expenses	306.4	356.3	377.0	394.5	451.0	521.2	15.6%	11.2%
% of net revenue	24.5%	24.5%	23.5%	26.6%	24.0%	23.8%	(0.2 p.p.)	(0.7p.p.)



5.1.1 Advertising expenses

Advertising expenses remain in line with the Company's strategy.

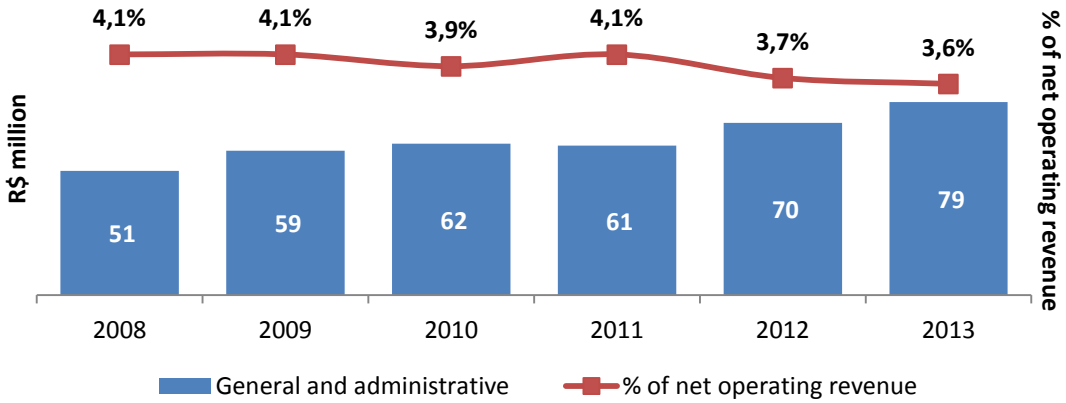
R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Advertising expenses	107.6	116.1	127.1	138.7	147.0	163.7	11.3 %	8.7%
% of net revenue	8.6%	8.0%	7.9%	9.4%	7.8%	7.5%	(0.3 p.p.)	(1.1 p.p.)



5.2. General and administrative expenses (G&A)

General and administrative expenses remained stable in relation to net revenue in 2012 and 2013.

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
G&A expenses	50.8	59.0	61.9	61.2	70.4	79.0	12.2%	9.2%
% of net revenue	4.1%	4.1%	3.9%	4.1%	3.7%	3.6%	(0.1p.p.)	(0.5 p.p.)



6. Ebit and Ebitda

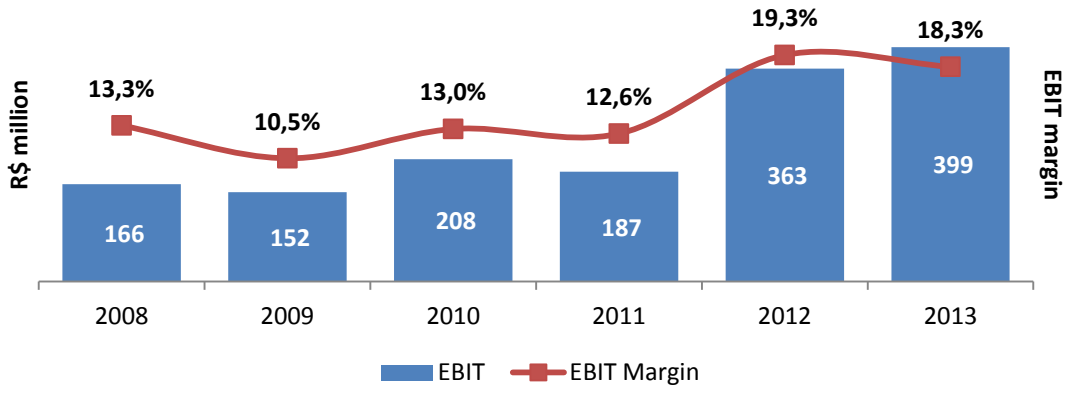
6.1. Ebit

EBIT - earnings before interest and taxes - operating profit before finance result. We understand that, as the Company has a large cash balance that generates significant finance income, the profit from its operating activity is best represented by Ebit.

Reconciliation of EBIT/EBITDA* (R$ thousand)	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Profit for the period	**239,367**	**272,211**	**312,399**	**305,446**	**429,003**	**433,540**	**1.1%**	**12.6%**
Non-controlling interests	49	(110)	68	5	888	465	(47.6%)	56.8%
Taxes on profit	10,699	15,707	18,415	34,845	65,399	68,805	5.2%	45.1%
Finance result, net	(84,238)	(135,624)	(122,469)	(153,003)	(132,477)	(103,577)	(21.8%)	4.2%
Ebit	**165,877**	**152,184**	**208,413**	**187,293**	**362,813**	**399,233**	**10.0%**	**19,2%**
Depreciation and amortization	25,613	26,307	28,173	28,917	31,725	36,648	15.5%	7.4%
EBITDA	**191,490**	**178,491**	**236,586**	**216,210**	**394,538**	**435,881**	**10.5%**	**17.9%**

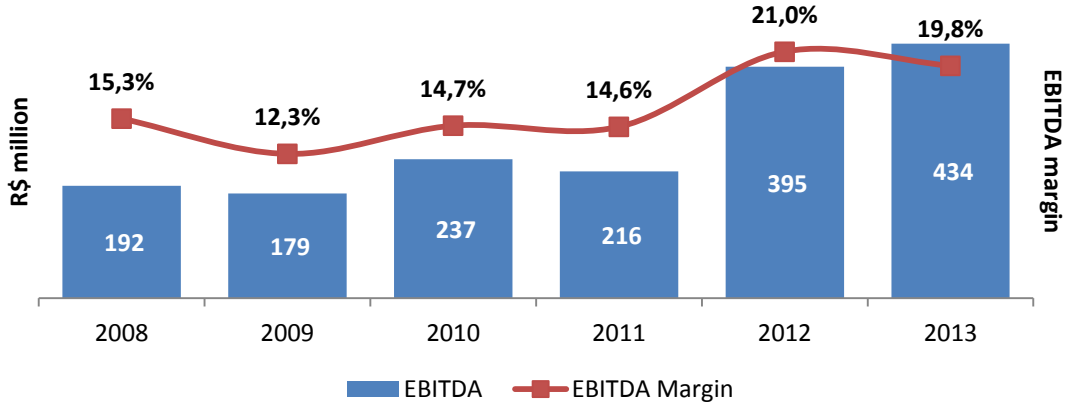
EBIT margin	***13.3%***	***10.5%***	***13.0%***	***12.6%***	***19.3%***	***18.3%***	***(1.0 p.p.)***	***5.0 p.p.***
EBITDA margin	***15.3%***	***12.3%***	***14.7%***	***14.6%***	***21.0%***	***19.9%***	***(1.1 p.p.)***	***4.6 p.p.***

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



6.2. Ebitda

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



EBITDA - Profit before net finance result, income tax and social contribution on income, depreciation and amortization. Ebitda is not a measure used in accounting practices adopted in Brazil. It does not represent cash flow for the periods presented and should not be construed as an alternative to profit as an indicator of operational performance or as an alternative to cash flow as an indicator of liquidity. Management understands that certain investors and financial analysts use Ebitda as an indicator of operational performance of a Company and/or of its cash flow. However, we highlight that due to our expressive income from interest on financial investments, our profit is, in general, higher than the Ebtida.

7. Finance result, net

The Company has a solid cash position and the finance results are an important portion of its profit. Foreign exchange transactions are mainly aimed to hedge receivables from exports. In these exports, the Company is the seller of US currency and their long-term results aim to closely approximate zero. Accordingly, finance results are basically influenced by the SELIC interest rate and the average cash maintained by the Company.

In 2013, the net finance result totaled R$103.6 million, 21.8% below that in 2012 (R$132.5 million), as shown below:

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Finance income	**221.7**	**211.7**	**178.4**	**215.8**	**204.9**	**183.1**	**(10.7%)**	**(3.8%)**
Interest received from customers	1.8	2.1	2.0	2.9	1.9	1.9	0.7	1.5%
Income from foreign exchange hedge - BM&FBOVESPA	30.9	54.2	24.8	3.9	14.8	18.2	22.6%	(10.1%)
Income from financial investments	88.5	94.6	92.7	128.8	93.7	81.9	(12.7%)	(1.6%)
Foreign exchange gains	60.5	20.2	20.1	35.5	49.7	40.2	(19.1%)	(7.8%)
Adjustment to present value	36.2	36.6	35.6	42.1	41.3	38.7	(6.3%)	1.3%
Other finance income	3.8	4.0	3.2	2.6	3.5	2.2	(36.4%)	(10.1%)
Finance costs	**(137.5)**	**(76.1)**	**(55.9)**	**(62.8)**	**(72.5)**	**(79.5)**	**9.7%**	**(10.4%)**
Expenses of foreign exchange hedge - BM&FBOVESPA	(68.2)	(12.8)	(17.1)	(5.3)	(11.3)	(26.2)	132.3%	(17.4%)
Financing expenses	(17.9)	(20.1)	(10.4)	(15.0)	(9.2)	(19.6)	113.0%	1.9%
Foreign exchange losses	(33.1)	(44.1)	(24.3)	(38.2)	(47.8)	(28.5)	(40.3%)	(2.9%)
Provision/reversal of foreign financial investments	(9.9)	4.7	5.2	-	-	-	-	-
Other finance costs	(8.4)	(3.8)	(9.3)	(4.3)	(4.2)	(5.1)	21.7%	(9.3%)
Finance result, net	**84.2**	**135.6**	**122.5**	**153.0**	**132.5**	**103.6**	**(21.8%)**	**4.2%**

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

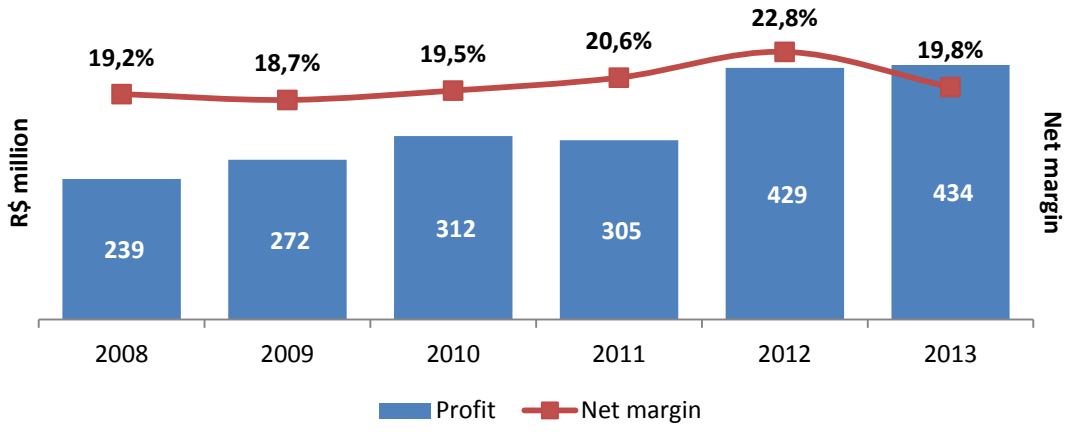
8. Profit for the period

Profit increased by 12.6% p.a. in the past five years (CAGR), with an increase in the Company's gross and net operating margins.

In 2013, the Company's profit remained practically unchanged in relation to 2012, as a result of the increase in costs and the consequent decrease in gross and operating margins, and also the reduced finance result, which was caused by two factors: an average interest rate lower than that of 2012; and a decrease in the average cash balance maintained by the Company due to higher capital expenditures and an aggressive dividend distribution policy.

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Profit for the period	239.4	272.2	312.4	305.4	429.0	433.5	1.1%	12.6%
Net margin	19.2%	18.7%	19.5%	20.6%	22.8%	19.8%	(3.0 p.p.)	0.6 p.p.
Earnings per share for the year[1]	0.7960	0.9052	1.0388	1.0157	1.4266	1.4417	1.1%	12.6%

[1] For purposes of comparison, earnings per share for the year were calculated by the same number of shares existing at December 31, 2013 (300,720,000 common shares).

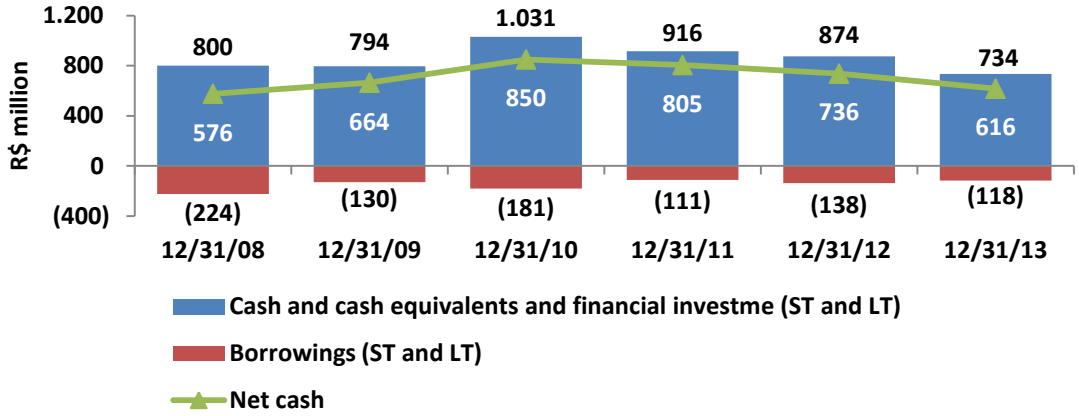


9. Cash generation and net cash

Net cash provided by operating activities in 2013 totaled R$303.3 million; investing activities generated additional R$89.6 million (CAPEX of R$154 million and net redemption of R$243.6 million from financial investments), totaling cash generation of R$392.9 million. Of this amount, R$368.0 million was allocated (R$294.6 million for payment of dividends, R$38.4 million to short and long-term borrowings and R$35.0 million for acquisition of treasury shares), which resulted in an increase in cash and cash equivalents of R$24.9 million for the year. The complete cash flow analysis is disclosed in the financial statements.

The Company generated R$ 974.1 million of accumulated cash from its operating activities in the last five years, reaffirming its excellent operating performance.

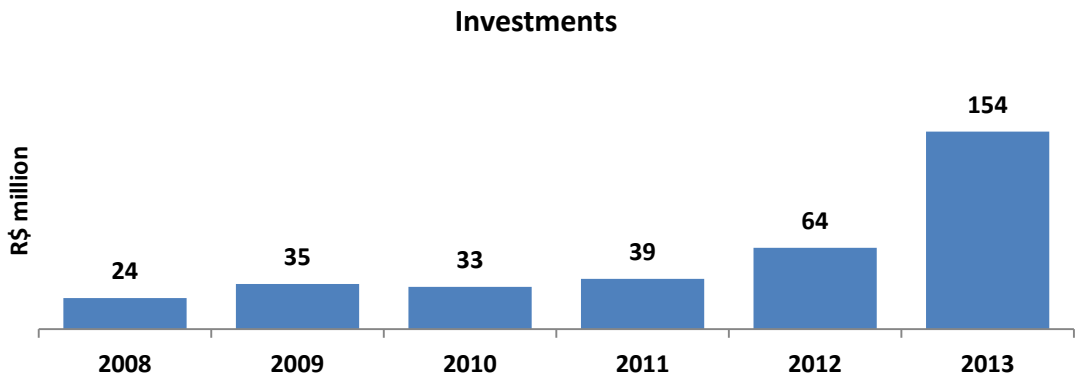
The comparison of cash and cash equivalents, short and long term financial investments, borrowings (current and long terms) and net cash is shown in the chart below:



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

The main investments in 2013 focused on the increase of the production capacity by 40 million of pairs, maintenance of industrial buildings and facilities, replacement of fixed assets, purchase of new equipment for modernization of the plant and improve production efficiency and the new plastic furniture business in our subsidiary A3NP.

R$ million	2008	2009	2010	2011	2012	2013	Variation 12/13	CAGR (5 years)
Investments	24.2	35.4	33.0	39.4	63.6	154.0	142.1%	44.8%



11. Independent auditors - CVM Instruction 381/2003

In compliance with CVM Instruction 381/2003, Grendene S.A. informs herein that PricewaterhouseCoopers Auditores Independentes, the provider of external audit services to the Company, did not provide services which were not related to external audit during 2013. The Company's policy for the engagement of services not related to an external audit from independent auditors is based on principles that preserve the independence of the auditor, such as: (a) the auditor must not audit his/her own work, (b) the auditor must not perform managerial functions for his/her client, and (c) the auditor must not advocate the interests of his/her clients.

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

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

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Assets						
Current assets	**1,157,571**	**1,257,445**	**1,471,448**	**1,646,145**	**1,633,258**	**1,694,062**
Cash and cash equivalents	44,526	30,765	47,296	61,518	14,489	39,360
Financial investments (short-term)	468,906	472,528	668,170	684,392	465,032	392,665
Trade receivables	440,287	555,889	537,457	624,586	806,149	900,048
Inventories	141,976	148,571	149,036	144,112	173,944	205,724
Tax credits	26,896	20,421	18,863	23,263	25,282	23,735
Notes receivable	24,084	15,591	23,122	39,266	65,388	69,819
Costs and prepaid expenses	370	767	1,317	1,581	1,168	1,210
Other receivables	10,526	12,913	26,187	67,427	81,806	61,501
Non-current assets	**492,456**	**507,024**	**526,833**	**399,479**	**658,194**	**675,280**
Financial investments (long-term)	286,366	291,066	315,260	169,670	394,389	301,940
Judicial deposits	1,110	2,123	3,222	3,526	2,847	2,454
Tax credits	421	853	700	452	522	563
Notes receivable	2,021	1,588	70	70	1,086	288
Prepaid expenses	258	-	-	-	-	3,568
Deferred income tax and social contribution	16,764	18,474	11,491	19,246	23,282	15,656
Investments	865	873	877	1,670	877	877
Property, plant and equipment	174,141	179,638	181,828	191,706	216,113	315,087
Intangible assets	10,510	12,409	13,385	13,139	19,078	34,847
Total assets	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**	**2,291,452**	**2,369,342**
Liabilities						
Current liabilities	**213,228**	**257,768**	**305,849**	**229,549**	**323,063**	**285,066**
Borrowings	112,780	97,378	166,500	97,551	123,583	101,909
Trade payables	17,973	40,009	31,687	27,011	56,806	39,792
Commissions payable	19,534	27,974	26,074	29,123	34,490	39,078
Taxes, fees and contributions	7,460	9,143	7,746	13,759	27,102	16,955
Salaries and social security charges payable	41,945	63,888	53,352	38,592	56,935	63,756
Trade payables	4,779	5,635	5,017	5,271	-	-
Provision for labor claims	1,236	1,303	1,103	1,003	1,997	1,838
Other payables	7,521	12,438	14,370	17,239	22,150	21,738
Non-current liabilities	**118,719**	**42,132**	**16,766**	**15,123**	**14,827**	**16,316**
Borrowings	111,191	33,188	14,766	13,123	14,380	15,827
Provision for labor claims	-	1,300	2,000	2,000	447	489
Deferred income tax and social contribution	7,528	7,644	-	-	-	-
Consolidated equity	**1,318,080**	**1,464,569**	**1,675,666**	**1,800,952**	**1,953,562**	**2,067,960**
Controlling interests	**1,317,695**	**1,464,396**	**1,675,292**	**1,800,563**	**1,952,332**	**2,060,734**
Share capital	1,097,199	1,226,760	1,231,302	1,231,302	1,231,302	1,231,302
Carrying value adjustments	484	(4,942)	(7,520)	(2,167)	(4,437)	(4,470)
Capital reserves	255	1,086	1,953	2,685	4,016	5,078
Revenue reserves	161,417	230,870	449,557	568,743	721,451	839,294
Retained earnings	58,340	10,622	-	-	-	-
Treasury shares	-	-	-	-	-	(10,470)
Non-controlling interest	**385**	**173**	**374**	**389**	**1,230**	**7,226**
Total liabilities and equity	**1,650,027**	**1,764,469**	**1,998,281**	**2,045,624**	**2,291,452**	**2,369,342**

Consolidated statement of income under IFRS

R$ thousand	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Domestic market	1,220,482	1,464,338	1,603,820	1,489,883	1,845,402	2,146,918
Exports	355,553	355,024	394,766	341,731	479,048	564,445
Gross sales revenue	**1,576,035**	**1,819,362**	**1,998,586**	**1,831,614**	**2,324,450**	**2,711,363**
Sales returns and taxes on sales	*(251,424)*	*(274,140)*	*(283,571)*	*(255,283)*	*(328,639)*	*(393,349)*
Discounts granted to customers	*(74,748)*	*(89,465)*	*(110,508)*	*(95,269)*	*(113,485)*	*(130,750)*
Sales deductions	**(326,172)**	**(363,605)**	**(394,079)**	**(350,552)**	**(442,124)**	**(524,099)**
Net sales revenue	**1,249,863**	**1,455,757**	**1,604,507**	**1,481,062**	**1,882,326**	**2,187,264**
Cost of goods sold	(731,193)	(889,711)	(953,261)	(840,497)	(1,000,168)	(1,193,562)
Gross profit	**518,670**	**566,046**	**651,246**	**640,565**	**882,158**	**993,702**
Operating income (expenses)	**(352,793)**	**(413,862)**	**(442,833)**	**(453,272)**	**(519,345)**	**(594,469)**
Selling expenses	(306,442)	(356,275)	(377,010)	(394,522)	(450,965)	(521,220)
General and administrative expenses	(50,790)	(58,977)	(61,878)	(61,177)	(70,413)	(79,032)
Other operating income	11,328	3,200	3,368	6,678	5,752	10,600
Other operating expenses	(6,823)	(1,810)	(7,313)	(4,251)	(3,719)	(4,817)
Share of results of associate	(66)	-	-	-	-	-
Operating profit before finance result and taxes (EBIT)	**165,877**	**152,184**	**208,413**	**187,293**	**362,813**	**399,233**
Finance income	221,701	211,763	178,402	215,796	204,937	183,061
Finance costs	(137,463)	(76,139)	(55,933)	(62,793)	(72,460)	(79,484)
Financial result	**84,238**	**135,624**	**122,469**	**153,003**	**132,477**	**103,577**
Profit before taxation	**250,115**	**287,808**	**330,882**	**340,296**	**495,290**	**502,810**
Income tax and social contribution:						
Current	(15,054)	(19,298)	(17,150)	(44,863)	(67,778)	(56,556)
Deferred	4,355	3,591	(1,265)	10,018	2,379	(12,249)
Non-controlling interest	(49)	110	(68)	(5)	(888)	(465)
Profit for the year	**239,367**	**272,211**	**312,399**	**305,446**	**429,003**	**433,540**
Depreciation and amortization	25,613	26,307	28,173	28,917	31,725	36,648
EBITDA	**191,490**	**178,491**	**236,586**	**216,210**	**394,538**	**435,881**

V. Capital markets and corporate governance

1. Capital markets

From January to December 2013, 106.3 million common shares were traded, which represented 395.8 thousand trades and a financial volume of R$2.1 billion. The daily averages were: 430 thousand common shares, financial volume of R$ 8.7 million and 1,596 trades.

In 2013, the Company's share (GRND3) appreciated 14.8% considering the reinvestment of the dividends paid in the year, against a 15.5% devaluation of the IBOVESPA in the same period. The dividend yield calculated at the average share price in 2013 was 5.0% p.a. (8.4% p.a. in 2012).

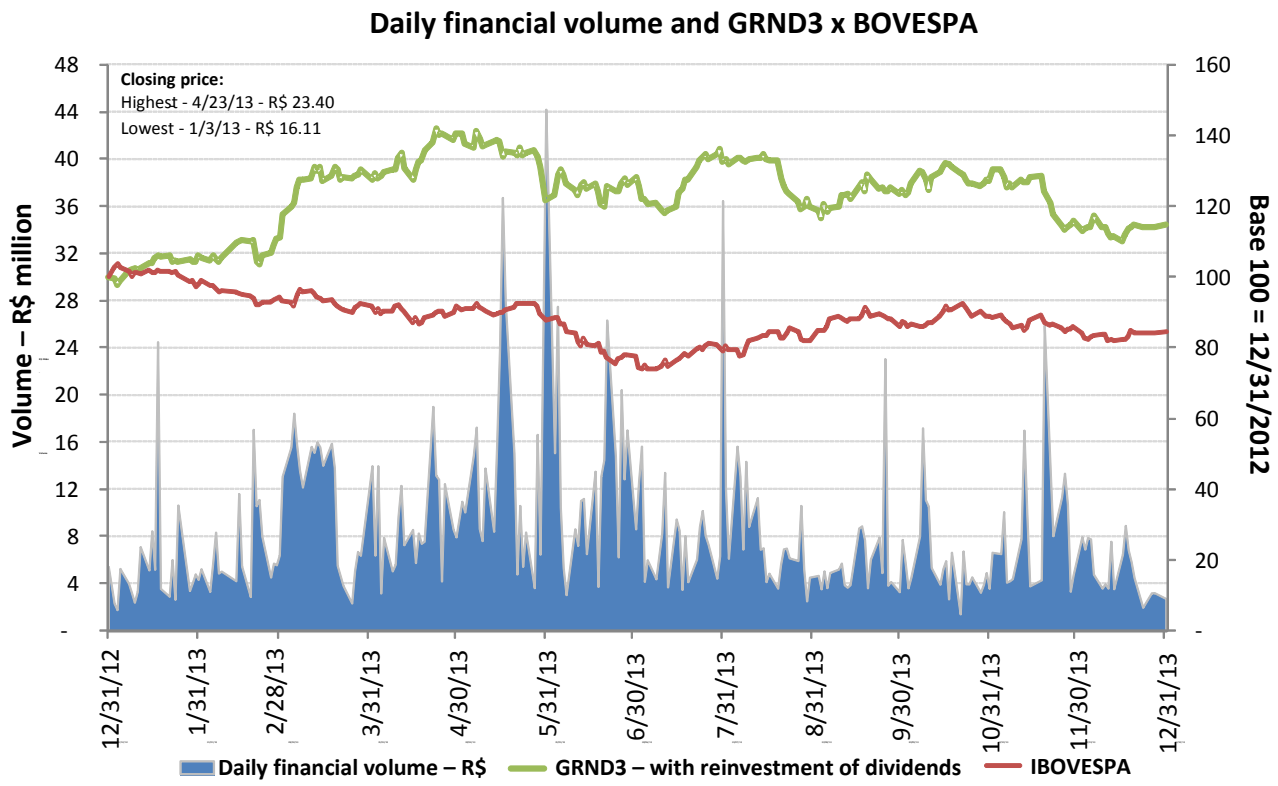
The number of trades, number of shares traded, financial volume and daily averages are shown in the chart below:

Year	Trading sessions	Number of trades	Number of shares	Volume in R$	Price in R$		Average number of shares		Average volume in R$	
					Weighted average	Closing	Trades	Daily	Trades	Daily
2012	246	134,570	66,297,600	772,896,090	11.66	16.49	492	269,502	5,743	3,141,854
2013	248	395,765	106,569,600	2,146,610,763	20.14	18.09	269	429,716	5,423	8,655,688

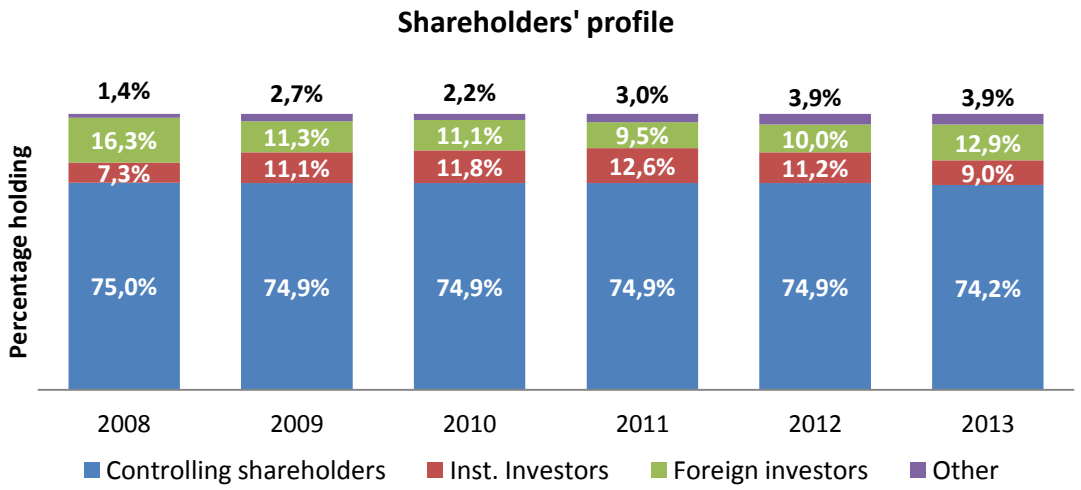
A significant improvement in the liquidity of shares can be noted, since the average daily financial volume increased from R$ 3.1 million in 2012 to R$ 8.7 million in 2013.

From January 2014 to April 2014 Grendene is listed on the following indexes of BM&FBOVESPA: IBRA, ICON, IDIV, IGCT, IGCX, IGNM, INDX, ITAG and SMLL.

The chart below shows the behavior of Grendene's common shares compared to the BOVESPA Index, considering the base 100 as at December 31, 2012, and the daily financial volume.



At December 31, 2013, the interest of Brazilian institutional investors in the share capital of Grendene S.A. represented 9.0% (35% of the free float), while foreign investors represented 12.9% (50% of the free float) and small investors, including individuals, represented 3.9% (15% of the free float); the remaining 74.2% were held by the controlling shareholders and managers.

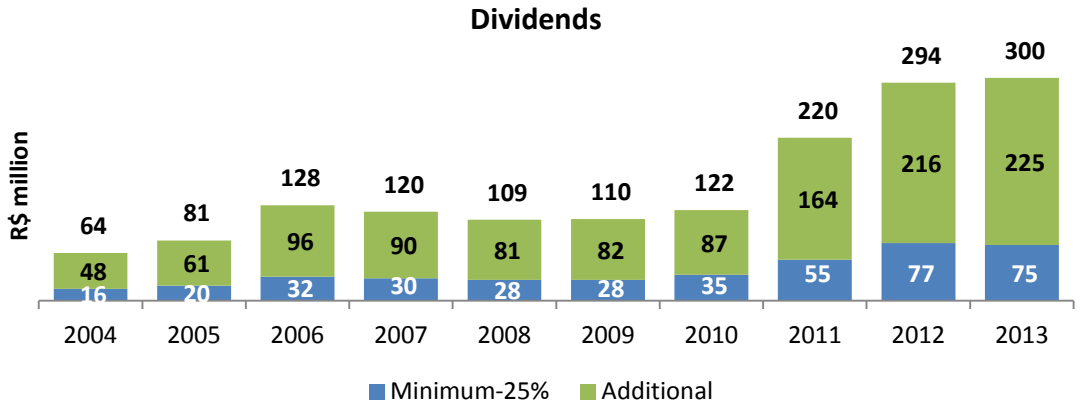


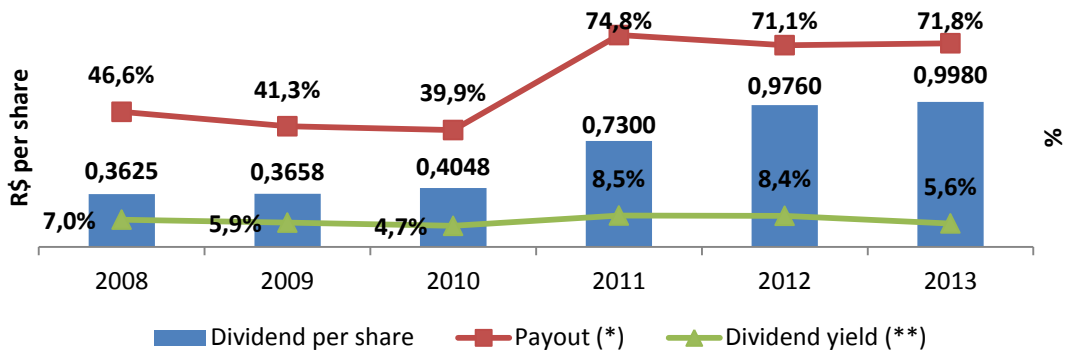
2. Dividends

In accordance with the Company's bylaws, the minimum mandatory dividend is computed based on 25% of the remaining profit for the year, after transfers to reserves as required by law. The Company's dividends distributed according to this percentage amounted to R$397 million

Since it went public, in 2004, Grendene distributed approximately 54,8% of profit after transfer to the legal reserve. Management proposed and received the approval for the distribution of additional dividends of R$1.2 billion, totaling R$1.6 billion of dividends paid, which corresponds to R$5.15 per share.

R$ million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Accumulated since 2004
Minimum dividend – 25%	16.0	20.3	32.1	29.9	27.9	28.0	34.9	55.2	77.3	75.1	**396.8**
Additional dividend	48.1	60.9	96.2	89.8	81.1	82.0	86.8	164.3	216.2	225.0	**1,150.3**
Total dividends	**64.1**	**81.2**	**128.3**	**119.7**	**109.0**	**110.0**	**121.7**	**219.5**	**293.5**	**300.1**	**1,547.1**





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

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

For purposes of comparison, dividend per share was calculated by the number of shares as at December 31, 2013 (300,720,000 common shares, excluding treasury shares).

Based on the balance at December 31, 2013, totaling R$300,057,180.00, less the quarterly advances amounting to R$189,392,220.00, the Company will pay the balance of dividends, subject to approval by the shareholders' Annual General Meeting that approves the Company's financial statements for 2013, in the amount of **R$110,664,960.00** as from **April 23, 2014.** This amount corresponds to R$0.368 per share.

The holders of registered common shares (**GRND3**) on **April 10, 2014 (cut-off date)** will be entitled to such dividends. Therefore, as from **April 11, 2014**, Grendene's shares (GRND3) will star to be traded **ex-dividend** on the BM&FBOVESPA.

Basis for distribution of dividends in 2013

Grendene S.A.	R$
Profit for the year (2013)	433,540,109.38
Tax incentives - parent Company (Grendene S.A.)	(116,940,853.41)
Tax incentives - subsidiary (MHL Calçados Ltda.)	(303,435.34)
Transfer to legal reserve	(15,829,862.80)
Dividend calculation basis	**300,465,857.83**
Distribution of dividends[1] - see table below	(300,057,180.00)
Transfer to profit retention reserves[2]	(408,677.83)

Total dividends in 2013	**300,057,180.00**
Number of common shares	**300,720,000**
Dividend per share in 2013	**0.998**

Distributed dividends related to 2013

Date of approval	Payment beginning date	Amount in R$	Dividend per share - R$
Board of Directors' Meeting (RCA) of 4/25/2013 - 1st advance[1]	5/22/2013	64,053,360.00	0.213
Board of Directors' Meeting (RCA) of 7/25/2013 - 2nd advance[1]	8/14/2013	41,499,360.00	0.138
Board of Directors' Meeting (RCA) of 10/24/2013 - 3rd advance[1]	11/14/2013	83,839,500.00	0.279
Board of Directors' Meeting (RCA) of 2/13/2014 - 2013 balance[1]	4/23/2014	110,664,960.00	0.368
Total dividends in 2013		**300,057,180.00**	**0.998**

[1] *Dividends to be approved "ad referendum" of the Shareholders' Annual General Meeting that will examine the balance sheets and the financial statements for 2013.*

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

2.1 Dividend policy

Considering that:

a) The issuance of the Provisional Measure 627 (MP 627) that repeals the Transition Tax Regime (RTT) and brings other arrangements, among it changes in the Decree-Law No. 1.598/77, which deals with the income tax of legal entities, as well as amends the legislation regarding the social contribution on net income;
b) Specifically the changes brought by the article No. 2 of the Provisional Measure 627 to the Decree-Law No. 1.598, of December 26, 1977 (legal provision that treats the exploitation profit), introduced norm that, expressly, determines the exclusion of revenues related to government grant for investments in the calculation of the exploitation profit);
c) According to studies promoted by the Company, this legal provision will affect the taxation over state grants, when it is part of basis for the calculation of dividends; and
d) This Provisional Measure has not yet been transformed into Law and before its votes had several amendments that may change the topics above.

Due to the Provisional Measure nº 627/2013, the Company decided to change its dividend policy by not doing difference destination of state grants to integrate the basis of dividends, as the Company was doing before, and distribute as dividend the total profit that has no origin from government grants, after the constitution of the Legal and Statutory Reserves.

The Company will review this policy when this Provisional Measure is regulated..

Additionally, the Company will maintain its policy of quarterly dividend distribution.

3. Corporate governance best practices

With the purpose of keeping our analysts and investors informed about the performance of our business, we maintain permanent communication channels. We also make visits, take part in conferences and give presentations in events held throughout the world. We also maintain a specific investor's relations website. International conference calls, with simultaneous translation into English, are held on a quarterly basis for the disclosure of results, and a press release analyzing these results is published. Non deal roadshows are held on a quarterly basis in Brazil and every six months, abroad. Currently, at least two meetings per year are held with APIMEC (SP and RS).

In order to facilitate the analysis of its numbers, Grendene carries out the reconstitution of its database according to IFRS and CPCs so as to allow comparison in the last five years, disclosing the five-year period from 2008 to 2013 to the investors under the IFRS.

Since April 14, 2008, in order to align the interest of managers and shareholders, Grendene introduced a Stock Options plan addressed to members of the Board of Directors and the main officers of the Company (excluding those officers who are also shareholders and belong to the control group). Since the Plan was established, 6.5 million purchase options were granted (adjusted by the split of September 23, 2009), or the equivalent to 2.2% of all the Company's shares (Base date: December 31, 2013).

Grendene's shares are listed in the BM&FBOVESPA New Market since October 29, 2004. In November, 2007, the Company adjusted its free-float to 25%, in accordance with the rules established by the New Market listing regulations. For improving liquidity, the Company also contracted a market maker for the GRND3 shares since September 2005 and, in September 2009, made the split of the shares issued from 100,000,000 to 300,000,000, aiming at higher liquidity for its shares and to make easier for the small investor to acquire them, thus expanding the shareholders base. On March 22, 2010, a share capital increase through the issuance of 720,000 new common shares, with no par value was approved, in order to meet the Company's

Stock Option and Share Subscription plan, increasing the share capital to 300,720,000 common shares. The outstanding shares at December 31, 2013 represented 25.8% of the total shares issued.

3.1 Commitment Clause

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

3.2 Executive Board's Statement

In compliance with the provisions of CVM Instruction 480/09, the Executive Board represents hereby to have reviewed, discussed and agreed with the opinion expressed in the independent auditor's report and the financial statements for the year ended December 31, 2013.

3.3 Awards and recognition

In 2013, Grendene was awarded and recognized for its performance by several institutions.

Melissa wins Drapers Awards 2013!
Drapers magazine is the greatest weekly fashion business publication in the United Kingdom. Every year, Drapers promotes **Drapers Footwear & Accessories Awards**, in which the best brands in the United Kingdom compete for the desired awards. In 2013, Melissa won in the **Women's Footwear Brand of the Year** category.

For the second consecutive year, Grendene is among the companies that stood out in people management practices in the state of Rio Grande do Sul. On October 10, 2013, the Company received, from the sectional Human Resources Brazilian Association of Rio Grande do Sul (ABRH-RS), the **Top Human Being** ("**Top Ser Humano ABRH-RS 2013")** award, for the case **Leaders Academy (Academia de Líderes)**, which is a program that develops leaderships focused on people management and on results for the business of Grendene.

In September 2013, Grendene was recognized in in the international survey "***The Research & Innovation performance of the G20"***, conducted by **Thomson-Reuters** among the G-20 countries, as one of the ten institutions (including four companies, five universities and one institute) that are more dedicated to research, innovation and development of intellectual property in Brazil, together with Petrobrás and Whirlpool.

The survey conducted by the **AMANHÃ Magazine** and Grupo Troiano de Branding awarded Grendene with the **Prize Corporate Reputation** in the footwear manufacturer. The survey listed the companies with the most solid image in 25 categories, divided into five basic aspects of corporate reputation: Admiration and Trust, Ability to Innovate, Quality of Products and Services, Social and Environmental Responsibility and History and Evolution.

Grendene is among the **500 Best Companies in the South Region of 2013**, an initiative of **Grupo Amanhã**, in partnership with PwC (PricewaterhouseCoopers), a global reference in audit, tax and corporate advisory. Started 23 years ago, the project lists the most complete and important regional ranking in Brazil, identifying the 500 biggest companies in the South Region. *Classification:* highest profitability and highest gross revenue in the Leather and Footwear sector and 10th. largest Company in Rio Grande do Sul in 2013.

In November 2013, Grendene received an award for being in the **"Annual Balance Sheet - Best of the Largest - 2013" Ranking** promoted by the **ACSP (São Paulo Trade Association)** in partnership with Fundação Getúlio Vargas, in the Leather and Footware industry.

For the 6th. consecutive year, Grendene received the **Prize Champions of Innovation 2013** granted by **AMANHÃ Magazine**, which selects annually the 50 most innovative companies of the South region of Brazil (Paraná, Santa Catarina and Rio Grande do Sul) and the leaders in over 30 economic sectors. Grendene was recognized as champion in the Leather and Footwear sector.

Delmiro Gouveia 2013 Award – Grendene was a highlight in a number of categories: Top Company for its economic and financial performance, third place among the largest companies in the State of Ceará and the top Company in accounting matters because of its financial statement quality and transparency.

VI. Social and environmental responsibility

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

We understand, however, that the financial indicators not always translate all the interfaces of a Company with its social and environmental universe. Aware of our responsibility as a leading Company in our segment and employer of over 25 thousand employees, we are improving our processes, aiming to reduce the consumption of inputs and raw materials, including water and all forms of energy, residue generation and losses of resources that represent not only costs to the Company but also exhaust the environment when consumed beyond the necessary. Various actions intended to achieve these objectives have been implemented over the years.

In 2013, the actions focused on the completion of structure works, among which the Biological Effluent Treatment Plants (E.T.E.B.s) of the units of Crato and Fortaleza, whose operations started in January and February 2014, respectively.

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

In the comparison with 2012, the following **reductions** should be highlighted:

1) 6.54% of water consumed per pair produced;
2) 4.42% of energy consumed per pair produced;
3) 5.40% of residue generation per pair produced;

In order to reduce water consumption, the Company invested in new hydrometers for on-line monitoring and reused effluents treated from sanitary effluent treatment plants to irrigate the green areas of Sobral Unit (100% of areas irrigated). Also, pilot tests of energetic efficiency were conducted and, among other technological solutions for the proper use of equipment, high efficiency induction motors started to be used. As a result, taking into consideration only the use of high efficiency motors, we had a reduction of 173,524 kWh/year and a reduction of emissions by 161 Ton/CO^2 per year (GHG emissions inventory - MCT/Nov-13). We also started a gradual replacement of the traditional filament light bulbs in our offices by LED bulbs, known to reduce the energy consumption.

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

Actions developed together with customers were also taken, such as the participation of Grendene in the 3rd. edition of Wal-Mart's program.

Actions implemented in one of our line of products reduced the consumption of virgin material by 45 metric tons, energy consumption by 74 thousand kWh and, consequently, CO^2 emissions were reduced by 68 metric tons per kWh.

VII. Human resources

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

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

Grendene's people management model comprises not only the Academy, but also a structured remuneration and performance process, through which the employees are systematically evaluated, according to the profile of their position, receive constant feedback, have individual development plans and a clear opportunity line for their growth within the Company.

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

Grendene's team is motivated and integrated in the search for efficiency, which leads to low turnover and a history of good results for the Company.

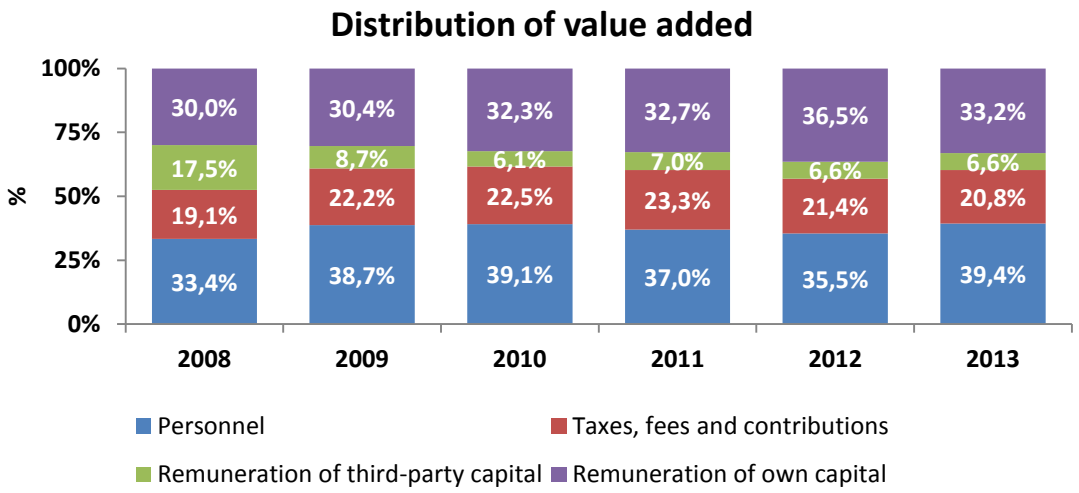
Social and corporate data	2009	2010	2011	2012	2013
Employees (average/year)	25,853	28,586	24,396	24,084	28,085
Training (hour/employee)	21	18	15	20	30
Meals (year)	6,111,793	7,025,840	5,494,812	5,955,479	6,106,783
Absence	1.74%	2.69%	1.81%	1.73%	2.08%
Turnover	3.12%	1.53%	1.22%	2.12%	2.00%
Baskets of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

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

VIII. Statement of value added

The value added, which is an indicator of the wealth added to society by the Company through its economic activities, totaled R$1.3 billion in 2013 (R$1,174.0 million in 2012). The complete statement is included in the financial statements.

Statement of value added (in thousands of reais)	2008	2009	2010	2011	2012	2013
Personnel	265,953	346,685	378,523	346,200	416,699	515,243
Taxes, fees and contributions	151,977	198,682	217,751	218,478	250,761	271,920
Remuneration of third-party capital	139,414	77,666	58,660	65,787	77,518	86,700
Remuneration of own capital	239,367	272,211	312,399	305,446	429,003	433,540
Total	**796,711**	**895,244**	**967,333**	**935,911**	**1,173,981**	**1,307,403**



IX. Final considerations and perspectives

Based on the difficulties faced in 4Q13 and the small growth of retail sales at Christmas season, 2014 is expected to be a tough year. Most market forecasts suggest a growth around 2% and inflation reaching 6%, with higher interest rates.

In spite of the not-so-great expectations for the Brazilian economy, we feel encouraged by the fact that we have grown in scenarios with multiple crises, different economic plans and changes over the 43 years of our history. Ignoring crises and choosing to work instead is part of the ethics prevailing in the region where the Company was born and we have grown and been profitable over extended periods of different economic frameworks. There is nothing new, therefore.

We will keep on investing to improve the efficiency of our processes, which will probably imply additional expenses and one-off costs related to these projects. Also, the expenses incurred by our subsidiary A3NP, which is still at the pre-operating stage, might have a negative impact on our margins in 2014. In addition to the impact from expenses, we also plan to increase our CAPEX, which should be approximately R$120 million per year.

2014 will be a year of great initiatives. We will probably open the Melissa Gallery in London and Ipanema House ("Casa de Ipanema") in Rio de Janeiro. These are two important branding actions, which should increase awareness of our brands.

Currently, Melissa Club has more than 100 stores with good results and should keep on the same pace, confirming our expectations to reach 200 stores in 3 or 4 years.

The new furniture business line, conducted at the subsidiary A3NP, should start sales in the second half of 2014, although it is not likely to be profitable in this first year. However, the products and business model developed so far encourage us to rely on our initial expectations.

We have long realized that a design quality at affordable prices is the dream of the middle class and our brands and products have excelled in these categories.

Stimulated by the progresses we are making in the furniture business created in partnership with Philippe Starck, we are also working on the idea of developing another international footwear brand, with the same partner, as announced last year. The investments planned for this initiative are included in the amount that Grendene invests annually in advertising - between 8% and 10% of net revenue. The goal is to create an international brand with potential for annual revenue of US$ 100 million in a period of 4 to 5 years. The distinctive characteristic would be the combination between Philippe Starck's internationally renowned talent and Grendene's ability to develop plastic products from a cutting edge design, with very competitive cost.

Value delivered to the customer at low cost. Famous designers made accessible to everyone. "*Affordable Luxury*" defines Grendene's proposal of value to consumers throughout the world.

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

The minimum wage was increased by 6.8%, which always represents an increase in consumption, but also an increase in costs. Therefore, the measures to reduce payroll tax burden, introduced by the Federal Government program "Brasil Maior" will be maintained.

Our margins can also be affected by some tax aspects, since we will not count on the 3% credit on exports granted by the Government program "Reintegra"; however, as the foreign exchange rate will probably be more favorable, this loss will be easily compensated. On the other hand, we intend to request the extension

of the incentives granted under "Proapi" (exports) program, which expired on January 30, 2014. The investments required to be entitled to the benefit are included in the amount of CAPEX mentioned above.

Finally, it should be pointed out that an increase in the margins as a result of the increase in volumes is not expected, due to the forecast of low economic growth. In the past five years, the apparent consumption of shoes grew 3.1% p.a. (CAGR) in Brazil, while Grendene's sales in numbers of pairs grew by 8.1% p.a. (CAGR), above the market and winning important share in all operation lines.

In the foreign market, our strategy to escape from the export of commodities is working well. We are growing with good margins, which should continue to occur in 2014. Because of the devaluation of the Brazilian currency, the exports contributed to better margin results, which should continue to occur.

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

We will face the present scenario as we have usually done, with determination, courage and clearness, and obtaining strong results. In 2014, we will reinforce the implementation of our strategy, with special attention to the market share growth, improving our communication with the market, understanding the distribution channels' needs, innovating in products, strengthening our brands through aggressive multiple media marketing strategies and striving for excellence in our operations with continuous improvements. The goal is to strengthen the Company's relationship with its customers and meet their needs with increased focus. Grendene understands that the shareholders' remuneration depends on these actions.

(A free translation of the original in Portuguese)

Attachment I

OPINION OF THE STATUTORY FISCAL COUNCIL

The Statutory Fiscal Council of Grendene S.A., in compliance with the legal and statutory provisions, reviewed the Management Report and the Company's Financial Statements (Parent Company), prepared in accordance with the accounting practices adopted in Brazil and the Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), both referring to the year ended December 31, 2013 and approved by the Board of Directors on February 13, 2014. Based on this review and also taking into consideration the Report from PricewaterhouseCoopers Auditores Independentes – unqualified – dated February 13, 2014, and the information and clarification received over the year, the Statutory Fiscal Council's opinion are in a condition to be submitted to the appreciation of the Shareholders' Annual General Meeting.

Farroupilha, February 13, 2014.

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Fernando Luis Cardoso Bueno
Fiscal Council Member

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Bolívar Charneski
Fiscal Council Member

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Maurício Rocha Alves de Carvalho
Fiscal Council Member

(A free translation of the original in Portuguese)

Attachment II

(A free translation of the original in Portuguese)

Grendene S.A.

Parent company and consolidated financial statements at December 31, 2013 and 2012 and independent auditor's report

(A free translation of the original in Portuguese)

GRENDENE S.A.

Financial statements

Years ended December 31, 2013 and 2012

Contents

(A free translation of the original in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Grendene S.A.
Sobral – CE

We have audited the accompanying financial statements of Grendene S.A. ("Parent Company"), which comprises the balance sheet as at December 31, 2013 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Grendene S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Grendene S.A. as at December 31, 2013, 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 financial position of Grendene S.A. and its subsidiaries as at December 31, 2013, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

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

Other matters

Supplementary information - statements of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2013, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Caxias do Sul, February 13, 2014

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

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Balance sheet
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

		Parent company		Consolidated	
	Note	2013	2012	2013	2012
Assets					
Current assets					
Cash and cash equivalents	6	**24,740**	8,125	**39,360**	14,489
Financial investments					
Securities at fair value through profit or loss	6	**119,548**	183,989	**119,548**	183,989
Held-to-maturity investments	6	**273,117**	281,043	**273,117**	281,043
Trade receivables	7	**825,216**	705,661	**900,048**	806,149
Inventories	8	**181,709**	156,898	**205,724**	173,944
Tax credits	9	**16,362**	15,319	**22,031**	19,943
Income tax and social contribution recoverable		**1,478**	1,650	**1,704**	5,339
Securities receivable		**69,551**	65,213	**69,819**	65,388
Costs and prepaid expenses		**906**	974	**1,210**	1,168
Other receivables		**60,269**	80,564	**61,501**	81,806
Total current assets		**1,572,896**	1,499,436	**1,694,062**	1,633,258
Non-current assets					
Long-term receivables:					
Financial investments					
Held-to-maturity investments	6	**301,940**	394,389	**301,940**	394,389
Judicial deposits		**2,447**	2,841	**2,454**	2,847
Tax credits	9	**563**	522	**563**	522
Securities receivable		**288**	1,086	**288**	1,086
Deferred income tax and social contribution	17	**9,060**	20,765	**15,656**	23,282
Prepaid costs and expenses		**-**	-	**3,568**	-
		314,298	419,603	**324,469**	422,126
Investments	10	**63,373**	51,116	**877**	877
Property, plant and equipment	11	**306,230**	209,558	**315,087**	216,113
Intangible assets	12	**28,414**	17,989	**34,847**	19,078
Total non-current assets		**712,315**	698,266	**675,280**	658,194
Total assets		**2,285,211**	2,197,702	**2,369,342**	2,291,452

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Balance sheet
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

		Parent company		Consolidated	
	Note	2013	2012	2013	2012
Liabilities					
Current liabilities					
Borrowings	13	**32,018**	48,633	**101,909**	123,583
Trade payables		**35,588**	52,558	**39,792**	56,806
Contractual obligations		**16,489**	18,011	**16,862**	18,209
Commissions payable		**38,739**	33,964	**39,078**	34,490
Taxes and contributions		**12,234**	13,196	**12,683**	13,552
Income tax and social contribution payable		**4,272**	2,511	**4,272**	13,550
Salaries and social security charges payable		**62,592**	56,305	**63,756**	56,935
Provision for labor risks	14	**1,835**	1,994	**1,838**	1,997
Other payables		**4,394**	3,371	**4,876**	3,941
Total current liabilities		**208,161**	230,543	**285,066**	323,063
Non-current liabilities					
Borrowings	13	**15,827**	14,380	**15,827**	14,380
Provision for labor risks	14	**489**	447	**489**	447
Total non-current liabilities		**16,316**	14,827	**16,316**	14,827
Equity	15				
Share capital		**1,231,302**	1,231,302	**1,231,302**	1,231,302
Carrying value adjustments		**(4,470)**	(4,437)	**(4,470)**	(4,437)
Capital reserves		**5,078**	4,016	**5,078**	4,016
Revenue reserves		**839,294**	721,451	**839,294**	721,451
Treasury shares		**(10,470)**	-	**(10,470)**	-
Total equity		**2,060,734**	1,952,332	**2,060,734**	1,952,332
Non-controlling interest				**7,226**	1,230
				7,226	1,230
Total equity				**2,067,960**	1,953,562
Total liabilities and equity		**2,285,211**	2,197,702	**2,369,342**	2,291,452

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statement of income
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais, except earnings per share)

		Parent company		Consolidated	
	Note	2013	2012	2013	2012
Net sales revenue	21	**2,127,807**	1,798,541	**2,187,264**	1,882,326
Cost of products sold	23	**(1,181,159)**	(979,681)	**(1,193,562)**	(1,000,168)
Gross profit		**946,648**	818,860	**993,702**	882,158
Selling expenses	23	**(489,708)**	(422,568)	**(521,220)**	(450,965)
General and administrative expenses	23	**(71,881)**	(63,369)	**(79,032)**	(70,413)
Other operating income	23	**8,879**	5,632	**10,600**	5,752
Other operating expenses	23	**(4,247)**	(3,624)	**(4,817)**	(3,719)
Equity in the results of investees	10	**(2,822)**	16,382	**-**	-
Operating profit before finance result and taxes		**386,869**	351,313	**399,233**	362,813
Finance result	24				
Finance income		**179,266**	188,863	**183,061**	204,937
Finance costs		**(64,349)**	(54,993)	**(79,484)**	(72,460)
		114,917	133,870	**103,577**	132,477
Profit before taxation		**501,786**	485,183	**502,810**	495,290
Income tax and social contribution	17				
Current		**(56,541)**	(56,153)	**(56,556)**	(67,778)
Deferred		**(11,705)**	(27)	**(12,249)**	2,379
		(68,246)	(56,180)	**(68,805)**	(65,399)
Net income for the year before non-controlling interest		**433,540**	429,003	**434,005**	429,891
Non-controlling interest		**-**	-	**(465)**	(888)
Profit for the year		**433,540**	429,003	**433,540**	429,003
Total comprehensive income attributable to:		**433,540**	429,003	**433,540**	429,003
Controlling interests		**-**	-	**465**	888
Non-controlling interest				**434,005**	429,891
Basic earnings per share	15.g	**1.4421**	1.4266	**-**	-
Diluted earnings per share	15.g	**1.4367**	1.4195	**-**	-

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of comprehensive income
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Profit for the year	**433,540**	429,003	**434,005**	429,891
Other comprehensive income:				
Items potentially reclassifiable to the statement of income:				
Losses on available-for-sale investments	**-**	(3,933)	**-**	(3,933)
Income tax and social contribution	**-**	1,337	**-**	1,337
Exchange differences on foreign subsidiaries	**(33)**	326	**(254)**	279
Comprehensive income for the year, net of taxes	**433,507**	426,733	**433,751**	427,574
Total comprehensive income attributable to:				
Controlling interests	**433,507**	426,733	**433,507**	426,733
Non-controlling interest	**-**	-	**244**	841
	433,507	426,733	**433,751**	427,574

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

GRENDENE S.A.

Statements of changes in equity
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

(A free translation of the original in Portuguese)

				Capital reserves		Revenue reserves								
	Note	Share capital	Carrying value adjustments	Options granted	Gains from sale of treasury shares	Legal reserve	Profit retention reserve	Tax Incentives	Additional proposed dividends	Treasury shares	Retained earnings	Controlling interests	Non-controlling interest	Total
At December 31, 2011		1,231,302	(2,167)	2,685	-	51,252	23,838	406,444	87,209	-	-	1,800,563	389	1,800,952
Total comprehensive income		-	*(2,270)*	-	-	-	-	-	-	-	*429,003*	*426,733*	*841*	*427,574*
Profit for the year		-	-	-	-	-	-	-	-	-	429,003	429,003	888	429,891
Adjustment to market value - financial investments		-	(2,596)	-	-	-	-	-	-	-	-	(2,596)	-	(2,596)
Exchange differences on subsidiaries abroad	10	-	326	-	-	-	-	-	-	-	-	326	(47)	279
Purchase of treasury shares		-	-	-	-	-	-	-	-	(2,612)	-	(2,612)	-	(2,612)
Change of the stock purchase or subscription option plan:														
Stock options exercised in the period		-	-	-	(2,612)	-	-	-	-	2,612	-	-	-	-
Adjustments of stock option plan	20.b	-	-	(143)	-	-	-	-	-	-	143	-	-	-
Sale of treasury shares through exercise of purchase option		-	-	-	1,471	-	-	-	-	-	-	1,471	-	1,471
Result on sale of shares related to the stock option or subscription plan	20.b	-	-	(162)	1,141	-	-	-	-	-	(979)	-	-	-
Stock option or subscription plan expenses	20	-	-	1,636	-	-	-	-	-	-	-	1,636	-	1,636
Proposed allocations:														
Tax incentives reserve														
Financing - Provin	16	-	-	-	-	-	-	18,485	-	-	(18,485)	-	-	-
Income tax	17	-	-	-	-	-	-	82,440	-	-	(82,440)	-	-	-
Tax incentives - subsidiary - ICMS/Procomex		-	-	-	-	-	-	1,196	-	-	(1,196)	-	-	-
Tax incentives - subsidiary - Income tax		-	-	-	-	-	-	261	-	-	(261)	-	-	-
Legal reserve		-	-	-	-	16,404	-	-	-	-	(16,404)	-	-	-
Profit retention reserve		-	-	-	-	-	15,878	-	-	-	(15,878)	-	-	-
Dividends distributed	15.f	-	-	-	-	-	-	-	(87,209)	-	(188,250)	(275,459)	-	(275,459)
Additional proposed dividends	15.f	-	-	-	-	-	-	-	105,253	-	(105,253)	-	-	-
At December 31, 2012		1,231,302	(4,437)	4,016	-	67,656	39,716	508,826	105,253	-	-	1,952,332	1,230	1,953,562
Total comprehensive income		**-**	**(33)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***433,540***	***433,507***	***244***	***433,751***
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**433,540**	**433,540**	**465**	**434,005**
Exchange differences on subsidiaries abroad	**10**	**-**	**(33)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(33)**	**(221)**	**(254)**
Increase in the share of non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,752**	**5,752**
Purchase of treasury shares		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(57,751)**	**-**	**(57,751)**	**-**	**(57,751)**
Change of the stock purchase or subscription option plan:														
Stock options exercised in the period		**-**	**-**	**-**	**(47,281)**	**-**	**-**	**-**	**-**	**47,281**	**-**	**-**	**-**	**-**
Sale of treasury shares through exercise of purchase option		**-**	**-**	**-**	**22,799**	**-**	**-**	**-**	**-**	**-**	**-**	**22,799**	**-**	**22,799**
Result on sale of shares related to the stock option or subscription plan	**20.b**	**-**	**-**	**(3,430)**	**24,482**	**-**	**(21,052)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stock option or subscription plan expenses	**20**	**-**	**-**	**4,492**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,492**	**-**	**4,492**
Proposed allocations:														
Tax incentives reserve														
Financing - Provin	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**29,859**	**-**	**-**	**(29,859)**	**-**	**-**	**-**
Income tax	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**87,081**	**-**	**-**	**(87,081)**	**-**	**-**	**-**
Tax incentives - subsidiary - ICMS/Procomex		**-**	**-**	**-**	**-**	**-**	**-**	**304**	**-**	**-**	**(304)**	**-**	**-**	**-**
Legal reserve		**-**	**-**	**-**	**-**	**15,830**	**-**	**-**	**-**	**-**	**(15,830)**	**-**	**-**	**-**
Profit retention reserve		**-**	**-**	**-**	**-**	**-**	**409**	**-**	**-**	**-**	**(409)**	**-**	**-**	**-**
Dividends distributed	**15.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(105,253)**	**-**	**(189,392)**	**(294,645)**	**-**	**(294,645)**
Additional proposed dividends	**15.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,665**	**-**	**(110,665)**	**-**	**-**	**-**
At December 31, 2013		**1,231,302**	**(4,470)**	**5,078**	**-**	**83,486**	**19,073**	**626,070**	**110,665**	**(10,470)**	**-**	**2,060,734**	**7,226**	**2,067,960**

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statement of cash flows
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2013	2012	2013	2012
Cash flows from operating activities				
Profit for the year	**433,540**	429,003	**433,540**	429,003
Non-controlling interest	**-**	-	**5,996**	841
Adjustments to reconcile profit to cash from operating activities:				
Carrying value adjustments	**-**	-	**(33)**	326
Adjustment to market value - financial investments	**-**	(2,596)	**-**	(2,596)
Equity in the results of investees	**2,822**	(16,382)	**-**	-
Depreciation / amortization	**35,524**	30,751	**36,648**	31,725
Deferred income tax and social contribution	**11,705**	(1,310)	**7,626**	(4,036)
Write-off of investment and gain on sale	**-**	820	**-**	820
Write-off of property, plant and equipment and gain on sale	**2,900**	2,011	**3,437**	2,094
Gain on sale and write-off of intangible assets	**76**	-	**76**	-
Stock option or subscription plan	**4,492**	1,636	**4,492**	1,636
Provision for impairment of trade receivables	**(15,503)**	2,437	**(15,370)**	2,401
Provision for discount on prompt payments	**3,934**	5,839	**3,808**	5,974
Provision for obsolete inventories	**786**	297	**1,359**	362
Provision for labor risks	**(117)**	(559)	**(117)**	(559)
Interest expenses on borrowings	**913**	935	**11,891**	3,346
Interest income on financial investments	**(78,359)**	(91,085)	**(78,359)**	(91,085)
Foreign exchange variations, net	**5,858**	9,094	**4,990**	8,542
	408,571	370,891	**419,984**	388,794
Changes in assets and liabilities:				
Trade receivables	**(107,986)**	(74,572)	**(82,337)**	(189,938)
Inventories	**(25,597)**	(36,134)	**(33,139)**	(30,194)
Other receivables	**16,305**	(40,816)	**14,961**	(42,514)
Trade payables	**(16,970)**	27,392	**(17,014)**	29,795
Salaries and social security charges payable	**6,287**	18,245	**6,821**	18,343
Taxes and contributions	**(962)**	1,175	**(869)**	796
Income tax and social contribution payable	**1,761**	1,604	**(9,278)**	12,547
Other payables	**4,276**	3,730	**4,176**	5,007
Net cash provided by operating activities	**285,685**	271,515	**303,305**	192,636
Cash flows from investing activities:				
In investments	**(15,112)**	(4,087)	**-**	(27)
In property, plant and equipment	**(129,016)**	(52,241)	**(132,229)**	(53,228)
In intangible assets	**(16,581)**	(10,334)	**(21,807)**	(10,385)
Financial investments	**(1,794,818)**	(1,544,286)	**(1,794,818)**	(1,544,286)
Redemption of financial investments	**2,038,450**	1,630,284	**2,038,450**	1,630,284
Net cash provided by investing activities	**82,923**	19,336	**89,596**	22,358
Cash flows from financing activities:				
New borrowings	**313,930**	378,305	**549,616**	486,787
Repayments of borrowings	**(335,621)**	(434,581)	**(579,500)**	(468,821)
Interest paid	**(705)**	(978)	**(8,549)**	(3,389)
Dividends paid	**(294,645)**	(275,459)	**(294,645)**	(275,459)
Purchase of treasury shares	**(57,751)**	(2,612)	**(57,751)**	(2,612)
Sale of treasury shares through exercise of purchase option	**22,799**	1,471	**22,799**	1,471
Net cash used in financing activities	**(351,993)**	(333,854)	**(368,030)**	(262,023)
Increase (decrease) in cash and cash equivalents	**16,615**	(43,003)	**24,871**	(47,029)
Cash and cash equivalents:				
At the beginning of the year	**8,125**	51,128	**14,489**	61,518
Cash and cash equivalents at the end of the period	**24,740**	8,125	**39,360**	14,489
Increase (decrease) in cash and cash equivalents	**16,615**	(43,003)	**24,871**	(47,029)
Item not affecting cash flow:				
Exchange variations on investments	**33**	(326)	**-**	-

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statement of value added
Years ended December 31, 2013 and 2012
(All amounts in thousands of reais)

	Parent company				Consolidated			
	2013		**2012**		**2013**		**2012**	
Revenue								
Sales of goods	**2,454,269**		2,079,410		**2,518,745**		2,167,646	
Provision for impairment of trade receivables	**15,503**		(2,437)		**15,368**		(2,401)	
Other income /expenses	**1,696**		(408)		**1,699**		(470)	
	2,471,468		2,076,565		**2,535,812**		2,164,775	
Inputs acquired from third parties								
Raw materials used	**699,697**		590,748		**654,703**		556,227	
Other production costs	**13,237**		12,656		**66,339**		66,741	
Materials, electricity, outsourced services and others	**621,175**		512,344		**653,533**		541,716	
Impairment/recovery of assets	**786**		297		**1,420**		371	
	1,334,895		1,116,045		**1,375,995**		1,165,055	
Gross value added	**1,136,573**		960,520		**1,159,817**		999,720	
Retentions								
Depreciation and amortization	**34,523**		29,886		**35,572**		30,822	
	34,523		29,886		**35,572**		30,822	
Net value added	**1,102,050**		930,634		**1,124,245**		968,898	
Value added received through transfer								
Equity in the results of investees	**(2,822)**		16,382		**-**		-	
Finance income	**179,266**		188,863		**183,061**		204,937	
Rentals	**97**		146		**97**		146	
	176,541		205,391		**183,158**		205,083	
Value added to distribute	**1,278,591**		1,136,025		**1,307,403**		1,173,981	
Distribution of value added								
Personnel								
Direct remuneration	**421,826**		338,843		**428,565**		345,463	
Benefits	**47,175**		38,176		**47,792**		38,643	
Government Severance Indemnity Fund for Employees (FGTS)	**38,586**		32,332		**38,886**		32,593	
	507,587	**39.70%**	409,351	36.03%	**515,243**	**39.41%**	416,699	35.50%
Taxes and contributions								
Federal	**229,183**		204,802		**230,353**		214,721	
State	**39,807**		35,530		**41,171**		35,755	
Municipal	**392**		285		**396**		285	
	269,382	**21.07%**	240,617	21.18%	**271,920**	**20.80%**	250,761	21.36%
Third-party capital remuneration								
Interest, discounts and financial charges	**64,349**		54,993		**79,484**		72,460	
Rentals	**3,733**		2,061		**7,216**		5,058	
	68,082	**5.32%**	57,054	5.02%	**86,700**	**6.63%**	77,518	6.60%
Remuneration of own capital								
Dividends	**300,057**		293,503		**300,057**		293,503	
Profits reinvested for the year	**133,483**		135,500		**133,948**		136,388	
Non-controlling interests in profits reinvested	**-**		-		**(465)**		(888)	
	433,540	**33.91%**	429,003	37.77%	**433,540**	**33.16%**	429,003	36.54%
	1,278,591	**100%**	1,136,025	100%	**1,307,403**	**100%**	1,173,981	100%

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

1. General information

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

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

Due to the characteristics of the footwear sector, the sales volume can fluctuate during the year and a higher sales volume is expected in the second half of the year. In the opinion of its management, these effects do not have any effect on the Company's operations in such a way that the notes would have to provide additional information or disclosures.

2. Basis of preparation and presentation of the financial statements and evaluation of the impacts of the Provisional Measure 627/13

There were no changes in accounting policies and calculation methods adopted in the preparation of the parent company and consolidated financial statements in relation to the financial statements at December 31, 2012.

a) Parent company financial statements

At a meeting held on February 7, 2014, the financial statements of Grendene S.A. were reviewed and revised, and their issuance was authorized.

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

2. Basis of preparation and presentation of the financial statements and evaluation of the impacts of the Provisional Measure 627/13-- Continued

b) Consolidated financial statements

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

The Company has adopted all standards, revisions of standards and interpretations issued by IASB and that are effective for the financial statements at December 31, 2013.

From the second quarter of 2013, the companies A3NP Indústria e Comércio de Móveis S.A. and Grendene UK Limited. will become part of the parent company and consolidated financial statements as described in Note 10.c.

There are no non-current assets held for sale or discontinued operations at December 31, 2013 and 2012.

c) Standards and interpretations of standards not yet in effect

The standard that will be in effect for the year beginning January 1, 2014 is the following:

- **IAS 32 - Financial instruments: Disclosures- Asset and liability offsetting** – These amendments are to the application guidance in IAS 32, "Financial instruments: presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Company does not expect this change will have an impact on its financial statements.

The standard that will be in effect for the year beginning January 1, 2015 is the following:

2. Basis of preparation and presentation of the financial statements and evaluation of the impacts of the Provisional Measure 627/13--Continued

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

- **IFRS 9 - Financial Instruments -** IFRS 9 Financial Instruments completes the first part of the project to replace "IAS 39 Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new approach is based on the manner in which an entity manages its financial instruments (its business model) and the contractual cash flow characteristic of financial assets. The standard also requires the adoption of only one method for determining losses on impairment of assets. The Company is evaluating, but does not expect this change will have an impact on its financial statements.

- **IFRIC 21- Levies -** Guidance on when to recognize a liability for a tax imposed by the government, both the rates that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those in which the values and the period of taxation are clear. The Company is evaluating the impact the adoption of these amendments on its financial statements.

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

d) Evaluation of the impacts of the Provisional Measure 627/13

On November 11, 2013 has been published the Provisional Measure no. 627 that repeals the Transition Tax Regime (RTT) and brings other arrangements, such as:

(i) changes in the Decree-Law No. 1.598/77, which deals with the income tax of legal entities, as well as amends the legislation regarding the social contribution on net income;

(ii) establishes that the modification or adoption of accounting methods and criteria, through administrative acts issued based in the commercial law, which are subsequent to the publication of this Provisional Measure, will have no implication in the determination of federal taxes until tax law regulates the matter;

(iii) includes specific treatment about potential taxation of profits and dividends;

2. Basis of preparation and presentation of the financial statements and evaluation of the impacts of the Provisional Measure 627/13--Continued

d) Evaluation of the impacts of the Provisional Measure 627/13--Continued

(v) includes considerations about the calculation of interest on equity; and

(vi) includes considerations about investments accounted by equity method.

The considerations of the Provisional Measure will be effective from 2015. The early adoption for 2014, which is an option for the companies according to this Provisional Measure, may eliminate potential tax effects, specially related to the payment of dividends until the date of the publication of this Provisional Measure, as well as interest on equity and equity in the results of investees.

The Company monitors the various amendments already proposed in the legislative to the Provisional Measure and will decide for the early adoption or not when the Provisional Measure became a Law or before if it is determined by the Federal Revenue Service acts (the date of the option it is not set yet). Despite this, management prepared studies of the possible effects that could result from the application of this new standard and conclude that:

a) the early adoption may eliminate the risk of taxation of the portion of dividens paid based on statutory accounting exceeded those calculated using the methods and criteria effective on December 31, 2007. The amounts calculated in the studies are considered irrelevant by the management.

b) the changes brought by the article No. 2 of the Provisional Measure 627/13 to the Decree-Law No. 1.598 of December 26, 1977 (legal provision that treats the exploitation profit) introduced norm that, expressly, determines the exclusion of revenues related to government grant for investments in the calculation of the exploitation profit. The Company will be subject to this new rule on a voluntary basis from 2014 or mandatory from 2015. According to studies promoted by the Company, this legal provision will affect the taxation over state grants, when it is part of basis for the calculation of dividends. This change may influence Company's future decision about the portion of the net income to be distributed (payout) according to the Company's dividend policy, which percentage is defined annually.

3. Consolidated financial statements

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

	Country	Direct interest 2013	Direct interest 2012
Grendene Argentina S.A.	Argentina	95.00%	95.00%
MHL Calçados Ltda.	Brazil	99.998%	99.998%
Grendene USA, Inc.	USA	100.00%	100.00%
Grendene UK Limited	United Kingdom	100.00%	-
A3NP Indústria e Comércio de Móveis S.A.	Brazil	42.50%	-

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

- **Grendene Argentina S.A.**: this company is headquartered in Argentina, and its main objectives are trading in and supplying the local market.

- **MHL Calçados Ltda.**: this company is headquartered in the State of Bahia, Brazil, and its main objectives are the manufacture and trading of footwear.

- **Grendene USA, Inc.**: this company is headquartered in the United States of America, and its main objective is to act as a sales representative by trading and distributing the Company's products in the American market.

- **Grendene UK Limited**: this company is headquartered in the United Kingdom, and its main objective is to act as a sales representative by trading and distributing the Company's products.

- **A3NP Indústria e Comércio de Móveis S.A.**: this company is headquartered in Brazil, and its purposes are to manufacture, sell, import and export furniture and supplements made from plastic.

There were no investments in associates or joint ventures at December 31, 2013 and 2012.

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

3. Consolidated financial statements--Continued

The main consolidation procedures are:

- Elimination of intercompany assets and liabilities;
- Elimination of the interest in capital, reserves and retained earnings of consolidated companies; and
- Elimination of intercompany revenues and expenses, as well as of unrealized profits from intercompany transactions.

4. Accounting policies

a) Revenue recognition

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

a.1) *Sale revenue*

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

a.2) *Interest income*

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

4. **Accounting policies**--Continued

b) Translation of balances denominated in foreign currency

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

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

b.2) *Foreign currency transactions*

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

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

4. **Accounting policies**--Continued

c) Financial instruments

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

Subsequent measurement

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

c.1) *Financial assets*

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

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

b) Held-to-maturity investments: non-derivative financial assets with fixed or determinable payments and defined maturities for which the Company has the positive intent and ability to hold to maturity. After initial recognition they are measured at amortized cost using the effective interest method, less any impairment. Interest, monetary restatement and foreign exchange variation are recognized in profit or loss when incurred.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.1) *Financial assets--Continued*

c) Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interest, monetary restatement, foreign exchange variation, less impairment, where applicable, are recognized immediately in profit or loss, as finance income or costs.

d) Available-for-sale financial assets: where applicable, are included in this classification the financial assets that dot not qualify for categories c. 1a, c. 1b. and c.1c above. Subsequent to initial recognition, they are measured at fair value and their fluctuations, except any impairment, as well as foreign currency differences of these instruments are recognized directly in equity, net of tax effects. These tax effects are recognized against a deferred income tax and social contribution asset/liability. When an investment is derecognized, the gain or loss accumulated in equity is transferred to the results.

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

c.2) *Financial liabilities*

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

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

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.2) *Financial liabilities--Continued*

b) Financial liabilities measured at amortized cost: non-derivative financial liabilities that are not usually traded before maturity. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interest, monetary restatement and foreign exchange variation, when applicable, are recognized immediately in profit or loss.

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

c.3) *Offsetting financial instruments*

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

c.4) *Market value*

The fair values of financial instruments actively traded in organized markets are determined based on quoted market prices at the end of the reporting period. In the absence of an active market, the fair value is determined by using valuation techniques. These techniques include the use of recent market transactions between independent parties, discounted cash flow analysis or other valuation methods. The financial instruments and their respective fair values are disclosed in Note 18.a.

c.5) *Impairment of financial instruments*

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

4. **Accounting policies**--Continued

c) Financial instruments--Continued

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

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

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

The fair values of derivative instruments used for hedging purposes are disclosed in Note 18.b. The Company does not have transactions with speculative derivative financial instruments.

d) Cash and cash equivalents

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

e) Financial investments

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

4. **Accounting policies**--Continued

f) Trade receivables

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

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

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

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

g) Inventories

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

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

4. **Accounting policies**--Continued

h) Investments

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

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

i) Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction. Cost includes expenditure that is directly attributable to the acquisition of the items. The depreciation of assets is calculated using the straight-line method at the rates mentioned in Note 11 and takes into consideration the estimated useful lives of assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are recognized net of the Social Integration Program (PIS), Social Contribution on Revenues (COFINS) and Value-added Tax on Sales and Services (ICMS) credits, which are recorded in taxes recoverable.

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

The carrying amount of property, plant and equipment items is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash-generating units (CGU). The Company did not identify any item requiring a provision for impairment at December 31, 2013 and 2012.

The Company did not identify indications of impairment of its property, plant and equipment items at December 31, 2013 and 2012, in accordance with technical pronouncement CPC 01 - R1 (IAS 36) - Impairment of Assets and, consequently, no provision for impairment of these assets is required.

4. **Accounting policies**--Continued

j) Intangible assets

Intangible assets refer to separately acquired intangible assets, which are initially recognized at acquisition cost and, subsequently, less accumulated amortization. The Company's intangible assets have finite useful lives. Amortization is calculated using the straight-line method at the rates mentioned in Note 12.

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

The carrying amount of an intangible asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped in cash-generating units (CGU). The Company did not identify any item requiring a provision for impairment at December 31, 2013 and 2012.

k) Other assets and liabilities

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

l) Taxation

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

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

4. **Accounting policies**--Continued

l) Taxation--Continued

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

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

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

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

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

m) Government grants for investments

Tax incentives correspond to: (i) reduction of 75% in income tax levied on profits of the business in the states of Ceará and Bahia, calculated based on operating profit (as defined); and (ii) ICMS tax incentives related to operating activities located in such states (Note 16).

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

4. **Accounting policies**--Continued

n) Share-based payment

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

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

The cost of equity-settled transactions is recognized, together with a corresponding credit in equity, over the year in which the performance and/or service condition are fulfilled, ending on the date in which the employee is fully entitled to exercise the option (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity securities to be acquired. The expense in the statement of income for the year is recognized in "personnel expenses" and represents the change in the cumulative expenses recognized at the beginning and end of that year, as presented in Note 20.

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

o) Segment reporting

The segments of the Company and its subsidiaries are as follows: i) production and sale of synthetic footwear for domestic and foreign markets and, since the second quarter of 2013, ii) sale, import and export of furniture and supplements made from plastic. Segment information is presented in Note 22.

4. **Accounting policies**--Continued

p) Adjustment of assets and liabilities to present value

Current monetary assets and liabilities are adjusted to present value when the effect is considered material in relation to the financial statements taken as a whole. At December 31, 2013 and 2012, only trade receivables transactions were considered material and adjusted to their present values. There were no other current or non-current components that required adjustment to present value. The adjustment to present value is calculated considering the cash flows of the transactions and the implicit interest rates of the related assets. Therefore, interest embedded in revenues is discounted in order to recognize it in conformity with the accrual basis of accounting. This interest is subsequently reallocated to finance income, in the statement of income, utilizing the effective interest method in relation to the contractual cash flows. The implicit interest rates applied were determined based on assumptions and are considered as accounting estimates.

q) Accounting judgments, estimates and assumptions

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

r) Borrowings

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

4. Accounting policies--Continued

s) Provisions

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

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

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

u) Treasury shares

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

5. Accounting estimates and assumptions

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

5. Accounting estimates and assumptions--Continued

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

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

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

5. Accounting estimates and assumptions--Continued

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

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

6. Cash and cash equivalents and financial investments

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Cash and cash equivalents				
Cash and banks	**20,515**	3,716	**25,531**	7,914
Financial investments	**4,225**	4,409	**13,829**	6,575
Total cash and cash equivalents	**24,740**	8,125	**39,360**	14,489
Financial investments				
Securities at fair value through profit or loss	**119,548**	183,989	**119,548**	183,989
Held-to-maturity investments	**575,057**	675,432	**575,057**	675,432
	694,605	859,421	**694,605**	859,421
(-) Total current assets	**(392,665)**	(465,032)	**(392,665)**	(465,032)
Total non-current assets	**301,940**	394,389	**301,940**	394,389
Total	**719,345**	867,546	**733,965**	873,910

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

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

7. Trade receivables

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Not yet due	**823,567**	704,425	**902,975**	793,984
Past-due up to 30 days	**39,888**	33,698	**40,242**	45,663
Past due from 31 days to 60 days	**3,664**	3,103	**4,017**	4,742
Past due from 61 days to 90 days	**1,053**	662	**1,072**	670
Past due for more than 91 days	**7,180**	22,826	**7,493**	23,238
	875,352	764,714	**955,799**	868,297
Provision for impairment of trade receivables	**(3,219)**	(18,722)	**(3,489)**	(18,859)
Provision for discounts on prompt payments	**(38,551)**	(34,617)	**(39,013)**	(35,205)
Adjustment to Present Value (AVP)	**(8,366)**	(5,714)	**(13,249)**	(8,084)
	825,216	705,661	**900,048**	806,149

At December 31, 2013 and 2012, the average collection periods for the domestic market were 97 days in both years, and 73 and 76 days, respectively, for the foreign market.

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

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

	Parent company			
	2013		**2012**	
	Balance	**Provision**	**Balance**	**Provision**
Not yet due	**823,567**	**-**	704,425	-
Past-due up to 30 days	**39,888**	**(2)**	33,698	(3)
Past due from 31 days to 60 days	**3,664**	**(2)**	3,103	(6)
Past due from 61 days to 90 days	**1,053**	**(9)**	662	(13)
Past due for more than 91 days	**7,180**	**(3,206)**	22,826	(18,700)
	875,352	**(3,219)**	764,714	(18,722)

	Consolidated			
	2013		**2012**	
	Balance	**Provision**	**Balance**	**Provision**
Not yet due	**902,975**	**-**	793,984	-
Past-due up to 30 days	**40,242**	**(2)**	45,663	(3)
Past due from 31 days to 60 days	**4,017**	**(2)**	4,742	(6)
Past due from 61 days to 90 days	**1,072**	**(9)**	670	(13)
Past due for more than 91 days	**7,493**	**(3,476)**	23,238	(18,837)
	955,799	**(3,489)**	868,297	(18,859)

7. **Trade receivables**--Continued

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

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**(18,722)**	(16,285)	**(18,859)**	(16,458)
Additions	**(5,013)**	(7,045)	**(6,093)**	(7,255)
Realizations	**19,126**	4,437	**19,143**	4,678
Reversals	**1,390**	171	**2,318**	176
Foreign exchange variations	**-**	-	**2**	-
Balance at the end of the year	**(3,219)**	(18,722)	**(3,489)**	(18,859)

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

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**(34,617)**	(28,778)	**(35,205)**	(29,231)
Additions	**(126,205)**	(18,489)	**(127,394)**	(18,725)
Reversals/realizations	**122,271**	12,650	**123,586**	12,751
Balance at the end of the year	**(38,551)**	(34,617)	**(39,013)**	(35,205)

8. Inventories

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Footwear	**42,119**	25,097	**62,434**	41,460
Components	**33,146**	28,512	**33,604**	28,804
Raw materials	**48,823**	46,339	**49,315**	46,633
Packaging materials	**11,226**	8,367	**11,354**	8,540
Intermediate and other materials	**22,656**	16,094	**22,784**	16,193
Goods for resale	**381**	334	**3,622**	334
Advances to suppliers	**5,463**	16,076	**5,464**	16,076
Imports in transit	**10,229**	6,310	**10,229**	6,310
Inventories held by third parties	**11,712**	13,029	**11,712**	13,029
Provision for adjustment of obsolete inventories	**(4,046)**	(3,260)	**(4,794)**	(3,435)
	181,709	156,898	**205,724**	173,944

8. Inventories--Continued

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

	Parent company		Consolidated	
	2013	2012	2013	2012
Balance at the beginning of the year	**(3,260)**	(2,963)	**(3,435)**	(3,073)
Additions	**(7,198)**	(561)	**(10,101)**	(807)
Reversals/realizations	**6,412**	264	**8,681**	436
Foreign exchange variations	**-**	-	**61**	9
Balance at the end of the year	**(4,046)**	(3,260)	**(4,794)**	(3,435)

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

9. Tax credits

	Parent company		Consolidated	
	2013	2012	2013	2012
Withholding income tax	**1,546**	9,500	**1,728**	9,725
Excise tax (IPI) recoverable	**1,129**	420	**1,341**	421
Value-added Tax on Sales and Services (ICMS)	**6,192**	5,551	**8,631**	7,758
Social Integration Program (PIS) recoverable	**51**	64	**51**	65
Social Contribution on Revenues (COFINS) recoverable	**232**	295	**232**	302
Social Security contribution (INSS)	**7,775**	11	**7,833**	11
Taxes recoverable - Subsidiaries abroad	**-**	-	**2,778**	2,183
	16,925	15,841	**22,594**	20,465
(-) Total current assets	**(16,362)**	(15,319)	**(22,031)**	(19,943)
Total non-current assets	**563**	522	**563**	522

a) Withholding income tax

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

b) ICMS and IPI recoverable

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

c) PIS and COFINS recoverable

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

9. Tax credits--Continued

d) INSS recoverable

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

10. Investments

a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Subsidiaries	**63,011**	52,903	**-**	-
Goodwill of subsidiary	**3,141**	-	**-**	-
Unrealized profits in subsidiaries	**(3,656)**	(2,664)	**-**	-
Other investments	**877**	877	**877**	877
	63,373	51,116	**877**	877

b) Changes in investments

Changes in investments are as follows:

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Opening balance	**51,116**	31,141	**877**	1,670
Additions	**-**	27	**-**	27
Acquisition of subsidiaries	**8,184**	-	**-**	-
Goodwill of subsidiary	**3,141**	-	**-**	-
Capital increase in subsidiary	**3,787**	4,060	**-**	-
Disposals	**-**	(820)	**-**	(820)
Equity in the results of subsidiaries	**(2,822)**	16,382	**-**	-
Exchange differences on foreign subsidiaries	**(33)**	326	**-**	-
Balance at the end of the year	**63,373**	51,116	**877**	877

10. Investments--Continued

c) New subsidiaries

c.1) *A3NP Indústria e Comércio de Móveis S.A.*

The 49th Meeting of the Board of Directors, held on February 28, 2013 approved the acquisition of 42.5% of the total capital equivalent to 50.1% of the voting capital of A3NP Indústria e Comércio de Móveis S.A., thus acquiring control of the company.

A3NP Indústria e Comércio de Móveis S.A. is already active, but has not started production, which will be the sale of furniture and complements made from plastic, with sophisticated design and affordable for the middle class; therefore it has not generated any revenue yet.

The parent company recognized goodwill of R$ 3,141, arising from the acquisition of this subsidiary, based on the expected future profitability associated with development of new technologies and new markets, with the assumption of the opportunity of operating in the segment of furniture and supplements manufactured from plastic, in industrial scale, with sophisticated design and affordable for the middle class.

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

c.2) *Grendene UK Limited*

The 43rd Meeting of the Board of Directors held on November 10, 2011 approved the establishment of Grendene UK Limited, and the Company will hold 100% of the subsidiary's total capital.

The subsidiary will aim at commercial representation and distribution of the Company's products in the United Kingdom.

10. Investments--Continued

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

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (**)		A3NP Indústria e Comércio de Móveis S.A. (*)(**)	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Current assets	**89,658**	112,796	**17,363**	14,358	**23,487**	16,937	**1,398**	-	**6,577**	-
Non-current assets	**5,670**	2,188	**1,294**	1,980	**7,239**	6,867	**3,748**	-	**4,927**	-
Total assets	**95,328**	114,984	**18,657**	16,338	**30,726**	23,804	**5,146**	-	**11,504**	-
Current liabilities	**73,191**	90,395	**4,532**	2,516	**11,913**	8,082	**626**	-	**862**	-
Total liabilities	**73,191**	90,395	**4,532**	2,516	**11,913**	8,082	**626**	-	**862**	-
Equity of subsidiaries	**22,137**	24,589	**14,125**	13,822	**18,813**	15,722	**4,520**	-	**10,642**	-
Percentage of interest	**95.00%**	95.00%	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	-	**42.50%**	-
Interest in equity (investment)	**21,030**	23,359	**14,125**	13,822	**18,813**	15,722	**4,520**	-	**4,523**	-

	Grendene Argentina S.A. (*)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (**)		A3NP Indústria e Comércio de Móveis S.A.(*)(**)	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue	**93,622**	155,488	**29,052**	30,513	**24,811**	19,544	**312**	-	**714**	-
Costs and expenses	**(92,350)**	(137,720)	**(28,749)**	(28,028)	**(26,495)**	(22,841)	**(2,267)**	-	**(16)**	-
Net profit/loss for the year	**1,272**	17,768	**303**	2,485	**(1,684)**	(3,297)	**(1,955)**	-	**698**	-
Percentage of interest	**95.00%**	95.00%	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	-	**42.50%**	-
Equity in the results of subsidiaries	**1,209**	16,879	**303**	2,485	**(1,684)**	(3,297)	**(1,955)**	-	**297**	-
Unrealized profit	**12**	791	**-**	-	**(1,004)**	(476)	**-**	-	**-**	-
Total equity in results of subsidiaries	**1,221**	17,670	**303**	2,485	**(2,688)**	(3,773)	**(1,955)**	-	**297**	-
Net cash provided by (used in) operating activities	**14,182**	(69,468)	**4,883**	(6,095)	**256**	(3,314)	**(5,255)**	-	**(4,906)**	-
Net cash used in investing activities	-	-	**(141)**	(102)	**(232)**	(936)	**(191)**	-	**(2,055)**	-
Net cash provided by (used in) financing activities	**(16,037)**	71,831	-	-	**2,011**	4,059	**5,709**	-	**10,003**	-
Increase (decrease) in cash and cash equivalents	**(1,855)**	2,363	**4,742**	(6,197)	**2,035**	(191)	**263**	-	**3,042**	-

(*) Audited by other independent auditors.

(**) Amount consolidated in the subsidiary Grendene USA Inc. and indirect subsidiary Grendene New York L.L.C.;
Amount consolidated in the subsidiary Grendene UK Limited. and indirect subsidiary Grendene Italy, SRL.; and
Amount consolidated in the subsidiary A3NP Indústria e Comércio de Móveis S.A. and indirect subsidiary Z Plus EUR Company S.R.L..

11. Property, plant and equipment

	Parent company							
	2013							
	Land and buildings	Machinery, equipment and facilities	Furniture and fixtures	Data processing equipment	Tools	Construction in progress	Other	Total
Cost of PPE								
Opening balance	157,171	257,833	12,450	20,596	3,862	13,323	9,996	475,231
Additions	**3,428**	**51,473**	**2,196**	**4,797**	**495**	**56,024**	**10,603**	**129,016**
Disposals	**-**	**(4,180)**	**(60)**	**(1,629)**	**(10)**	**(1,634)**	**(1,657)**	**(9,170)**
Transfers	**4,829**	**19,744**	**2,262**	**(12)**	**(71)**	**(24,293)**	**(2,459)**	-
Closing balance	**165,428**	**324,870**	**16,848**	**23,752**	**4,276**	**43,420**	**16,483**	**595,077**
Accumulated depreciation (*)	**4%**	**10%**	**10%**	**20%**	**20%**	**-**	**10 e 20%**	**-**
Opening balance	(79,057)	(160,299)	(6,527)	(13,435)	(2,753)	-	(3,602)	(265,673)
Additions	**(5,716)**	**(18,836)**	**(1,149)**	**(2,657)**	**(443)**	**-**	**(643)**	**(29,444)**
Disposals	**-**	**3,692**	**27**	**1,462**	**9**	**-**	**1,080**	**6,270**
Transfers	**-**	**(83)**	**-**	**-**	**83**	**-**	**-**	**-**
Closing balance	**(84,773)**	**(175,526)**	**(7,649)**	**(14,630)**	**(3,104)**	**-**	**(3,165)**	**(288,847)**
Net book amount								
At 12/31/2012	78,114	97,534	5,923	7,161	1,109	13,323	6,394	209,558
At 12/31/2013	**80,655**	**149,344**	**9,199**	**9,122**	**1,172**	**43,420**	**13,318**	**306,230**

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

11. Property, plant and equipment--Continued

	Consolidated 2013							
	Land and buildings	Machinery, equipment and facilities	Furniture and fixtures	Data processing equipment	Tools	Construction in progress	Other	Total
Cost of PPE								
Opening balance	157,171	265,723	13,356	21,342	3,878	13,323	10,034	484,827
Additions	**3,428**	**51,656**	**2,637**	**4,871**	**495**	**58,461**	**10,681**	**132,229**
Disposals	**-**	**(5,021)**	**(135)**	**(1,634)**	**(10)**	**(1,634)**	**(1,657)**	**(10,091)**
Transfers	**4,829**	**19,744**	**2,262**	**(12)**	**(71)**	**(24,293)**	**(2,459)**	**-**
Foreign exchange variations	**-**	**720**	**135**	**72**	**-**	**-**	**7**	**934**
Closing balance	**165,428**	**332,822**	**18,255**	**24,639**	**4,292**	**45,857**	**16,606**	**607,899**
Accumulated depreciation (*)	**4%**	**10%**	**10%**	**20%**	**20%**	**-**	**10 e 20%**	**-**
Opening balance	(79,057)	(162,173)	(7,060)	(14,022)	(2,762)	**-**	(3,640)	(268,714)
Additions	**(5,716)**	**(19,724)**	**(1,258)**	**(2,737)**	**(445)**	**-**	**(648)**	**(30,528)**
Disposals	**-**	**4,072**	**30**	**1,463**	**9**	**-**	**1,080**	**6,654**
Transfers	**-**	**(83)**	**-**	**-**	**83**	**-**	**-**	**-**
Foreign exchange variations	**-**	**(77)**	**(78)**	**(63)**	**-**	**-**	**(6)**	**(224)**
Closing balance	**(84,773)**	**(177,985)**	**(8,366)**	**(15,359)**	**(3,115)**	**-**	**(3,214)**	**(292,812)**
Net book amount								
At 12/31/2012	78,114	103,550	6,296	7,320	1,116	13,323	6,394	216,113
At 12/31/2013	**80,655**	**154,837**	**9,889**	**9,280**	**1,177**	**45,857**	**13,392**	**315,087**

	Consolidated 2012							
	Land and buildings	Machinery, equipment and facilities	Furniture and fixtures	Data processing equipment	Tools	Construction in progress	Other	Total
Cost of PPE								
Opening balance	153,605	247,521	11,376	18,083	3,390	3,958	5,881	443,814
Additions	1,838	21,980	1,888	4,200	316	17,611	5,395	53,228
Disposals	(296)	(10,124)	(217)	(1,526)	(16)	(363)	(216)	(12,758)
Transfers	2,024	5,938	216	546	188	(7,883)	(1,029)	-
Foreign exchange variations	-	408	93	39	-	-	3	543
Closing balance	157,171	265,723	13,356	21,342	3,878	13,323	10,034	484,827
Accumulated depreciation (*)	4%	10%	10%	20%	20%	-	10 e 20%	-
Opening balance	(73,521)	(154,021)	(6,174)	(12,793)	(2,332)	-	(3,267)	(252,108)
Additions	(5,539)	(17,678)	(973)	(2,125)	(395)	-	(475)	(27,185)
Disposals	3	8,981	132	1,431	13	-	104	10,664
Transfers	-	548	(1)	(499)	(48)	-	-	-
Foreign exchange variations	-	(3)	(44)	(36)	-	-	(2)	(85)
Closing balance	(79,057)	(162,173)	(7,060)	(14,022)	(2,762)	-	(3,640)	(268,714)
Net book amount								
At 12/31/2011	80,084	93,500	5,202	5,290	1,058	3,958	2,614	191,706
At 12/31/2012	78,114	103,550	6,296	7,320	1,116	13,323	6,394	216,113

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

11. Property, plant and equipment--Continued

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

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Cost of products sold	**(25,576)**	(23,041)	**(25,826)**	(23,328)
Selling expenses	**(448)**	(406)	**(1,116)**	(972)
Administrative expenses	**(2,652)**	(2,070)	**(2,746)**	(2,121)
	(28,676)	(25,517)	**(29,688)**	(26,421)

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

12. Intangible assets

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

	Parent company					
	2012					
	Software	**Trademarks and patents**	**Goodwill**	**Technology**	**Development of software**	**Total**
Cost of intangible assets						
Opening balance	19,976	11,312	2,297	780	-	34,365
Additions	5,426	1,072	2,077	1,264	495	10,334
Transfers	140	-	-	-	(140)	-
Closing balance	25,542	12,384	4,374	2,044	355	44,699
Accumulated amortization (*)	20%	10%	20%	20%	-	-
Opening balance	(13,286)	(6,950)	(1,187)	(780)	-	(22,203)
Amortization	(2,908)	(981)	(510)	(108)	-	(4,507)
Closing balance	(16,194)	(7,931)	(1,697)	(888)	-	(26,710)
Net book amount						
At 12/31/2011	6,690	4,362	1,110	-	-	12,162
At 12/31/2012	9,348	4,453	2,677	1,156	355	17,989

12. Intangible assets--Continued

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

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

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

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

	Parent company		Consolidated	
	2013	2012	2013	2012
Cost of products sold	**(2,471)**	(1,428)	**(2,473)**	(1,430)
Selling expenses	**(1,788)**	(1,603)	**(1,822)**	(1,633)
Administrative expenses	**(1,588)**	(1,338)	**(1,589)**	(1,338)
	(5,847)	(4,369)	**(5,884)**	(4,401)

The Company did not have internally generated intangible assets at December 31, 2013 and 2012.

13. Borrowings

			Parent company		Consolidated	
	Index	Interest rate (p.a.)	2013	2012	2013	2012
Property, plant and equipment	Fixed	4.50%	**2,715**	3,184	**2,715**	3,184
Working capital	Argentinean pesos	22.50%	**-**	-	**69,891**	74,950
Working capital - ACC	US Dollar +	1.01%	**-**	288	**-**	288
Working capital - ACE	US Dollar +	0.97%	**27,231**	45,656	**27,231**	45,656
Total bank financing			**29,946**	49,128	**99,837**	124,078
Proapi - Provin	TJLP		**17,899**	13,885	**17,899**	13,885
Total borrowings			**47,845**	63,013	**117,736**	137,963
(-) Total current liabilities			**(32,018)**	(48,633)	**(101,909)**	(123,583)
Total non-current liabilities			**15,827**	14,380	**15,827**	14,380

a) Financing - Proapi and Provin

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

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

At December 31, 2013, portions of this financing that are not subject to tax incentives amounting to R$ 4,313 and R$ 13,586 (R$ 2,215 and R$ 11,670 in 2012) are recorded as current and non-current liabilities, respectively.

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

13. Borrowings--Continued

b) Payment schedule

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

	Long-term portions					
Maturity	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Bank financing	469	468	468	468	368	2.241
Proapi	2,788	2,655	1,765	3,254	-	10.462
Provin	322	524	1,112	1,166	-	3.124
Total	**3,579**	**3,647**	**3,345**	**4,888**	**368**	**15,827**

c) Guarantees

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

14. Provisions for labor, tax and civil risks

a) Probable loss risk - Provided for

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

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

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**2,441**	3,000	**2,444**	3,003
Additions	**1,308**	280	**1,308**	280
Realizations	**(619)**	(1,989)	**(619)**	(1,989)
Reversals	**(806)**	1,150	**(806)**	1,150
Balance at the end of the year	**2,324**	2,441	**2,327**	2,444
(-) Total current liabilities	**(1,835)**	(1,994)	**(1,838)**	(1,997)
Total non-current liabilities	**489**	447	**489**	447

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

14. Provision for labor, tax and civil risks--Continued

b) Possible loss risk - Not provided for

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

	Consolidated	
	2013	**2012**
Labor	**2,476**	3,321
Tax		
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	**672**	2,785
INSS	**383**	383
Value-added Tax on Sales and Services (ICMS)	**10,765**	-
Civil	**192**	213
	14,488	6,702

15. Equity

a) Capital

At December 31, 2013 and in 2012, fully subscribed and paid-up capital comprises 300,720,000 common shares of R$ 4.09 each, which comprise voting shares of a sole class in relation to stockholder rights, observing the applicable legal conditions.

b) Carrying value adjustments

These adjustments refer to the effects of the conversion from the functional currency to the reporting currency of foreign investments accounted for under the equity method and adjustments for fluctuations in the market price of available-for-sale financial instruments.

c) Capital reserves

This refers to the amount of the stock option or share subscription plan granted by the Company to its officers, as described in Note 20.

15. Equity--Continued

d) Revenue reserve

- *Legal reserve*

  This reserve is credited with 5% of the profit for the year, less the amount of tax incentives, and is limited to 20% of the capital. The balance is R$ 83,486 at December 31, 2013 (R$ 67,656 in 2012).

- *Profit retention reserve*

  The balance at December 31, 2013, amounting to R$ 19,073 (R$ 39,716 in 2012), refers to the amount retained for the purchase of treasury shares, in order to comply with the share-based payment plans, based on estimates made by management annually and submitted for the approval of the shareholders regarding the proposed retention to be held.

- *Tax Incentives*

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

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

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

15. Equity--Continued

e) Treasury shares

In order to comply with the stock option or subscription plan (Note 20), the program for acquisition of 3,500,000 registered common shares was approved at the 49th Board of Directors Meeting held on February 28, 2013, without capital reduction. This amount of registered common shares corresponds to 4.63% of outstanding shares.

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

The changes in treasury shares were as follows:

	Common shares	R$
Balance at the beginning of the year	-	-
Repurchases	2,792,569	57,751
Exercise of share purchase options (Note 20)	(2,245,569)	(47,281)
Balance at the end of the year	**547,000**	**10,470**

The average purchase price of these shares was R$ 20.68, the lowest price being R$ 17.19 and the highest price R$ 21.84.

f) Dividends

According to the bylaws, the minimum mandatory dividend is based on 25% of net income, adjusted for the changes in reserves, as required by law.

Based on the profits for the years ended December 31, 2013 and 2012 and on the Company's capacity of generating operating cash, management submitted for approval, at the General Meeting of Stockholders, the distribution of dividends exceeding the minimum mandatory, calculated as follows:

15. Equity--Continued

f) Dividends--Continued

	2013	2012
Profit for the year	**433,540**	429,003
(-) Constitution of legal reserve	**(15,830)**	(16,404)
(-) Tax incentives reserve	**(116,940)**	(100,925)
(-) Tax incentive reserve of subsidiary - MHL Calçados Ltda.	**(304)**	(1,457)
Basis of calculation	**300,466**	310,217
Management proposal – Dividends	**300,057**	293,503
Percentage on the basis of calculation	**99.9%**	94.6%
Minimum mandatory dividends – 25%	**75,117**	77,554
Proposed dividend in excess of minimum mandatory	**224,940**	215,949
	300,057	293,503

Of the amount proposed in the year ended December 31, 2012, R$ 188,250 was paid during 2012, and the remaining balance of R$ 105,253 was settled on April 24, 2013.

At the 49th Meeting of the Board of Directors held on February 28, 2013, the Company approved changes in its dividend distribution policy for 2013, according to which an approximate amount of 65% of the profit for the year will be allocated for distribution after appropriation to reserves. In 2011 and 2012, this policy allocated approximately 75% of the profit for distribution. The Company will maintain the policy of distributing quarterly dividends.

In 2013, the Company's Board of Directors approved the payment of interim dividends amounting to R$ 189,392, distributed as follows: R$ 64,053 (representing R$ 0.213 per share) on May 22, 2013, R$ 41,500 (representing R$ 0.138 per share) on August 14, 2013 and R$ 83.839 (representing R$ 0.279 per share) on November 14, 2013.

Management also proposed at December 31, 2013 the additional payment of R$ 110,665 (representing R$ 0.368 per share), totaling a dividend of R$ 300,057 for the year, after legal and statutory deductions.

g) Earnings per share

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

15. Equity--Continued

g) Earnings per share--Continued

	Parent company	
	2013	**2012**
Numerator		
Profit for the year	**433,540**	429,003
Denominator		
Weighted average number of common shares	**300,720,000**	300,720,000
Weighted average number of common treasury shares	**(89,831)**	-
	300,630,169	300,720,000
Basic earnings per common share	**1.4421**	1.4266
Weighted average number of outstanding common shares	**300,630,169**	300,720,000
Potential increase in common shares due to the stock option or subscription plan	**1,140,198**	1,504,579
	301,770,367	302,224,579
Diluted earnings per common share	**1.4367**	1.4195

16. Government grants for investments

a) Incentives - Provin and Proapi

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

The table below presents the benefit expiration period:

	Incentive	%	Expiration period	%	Expiration period
Sobral - CE	PROVIN - ICMS	81%	Up to Feb/2019	75%	Mar/2019 to Apr/2025
Crato - CE	PROVIN - ICMS	81%	Up to Sep/2022	75%	Oct/2022 to Apr/2025
Fortaleza - CE	PROVIN - ICMS	81%	Up to Apr/2025		

16. Government grants for investments--Continued

a) Incentives - Provin and Proapi--Continued

Proapi - Program of Incentives for the Port and Industrial Activities of Ceará, consists of the financing for the manufacturing companies, mainly exporting companies of footwear and artifacts of fur and leather, except for "wet blue", headquartered in the state, through the use of funds arising from the returns from the FDI operations while not credited to the State treasury account (Note 13).

The table below presents the benefit expiration period:

	Incentive	Expiry
Sobral - CE	PROAPI - EXPORT	Up to Jan/2014

The Company has a history of investment in the region and adherence to the conditions established by the covenants of tax incentives it enjoys, which are always granted for a fixed term and admit renewal. The Company has adopted the necessary renewal of the incentive arrangements - Proapi.

For the year ended December 31, 2013 the parent company recognized R$ 191,859 (R$ 166,685 in 2012), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 21.

Of this amount, R$ 162,000 (R$ 148,200 in 2012) was allocated to dividend payment, in accordance with the Company's policy (Note 15.f.) and the remaining R$ 29,859 (R$ 18,485 in 2012) was allocated to revenue reserves, within "Tax Incentives", in equity, as disclosed in Note 15.d.

b) Incentives - Procomex and Probahia

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

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

16. Government grants for investments--Continued

b) Incentives - Procomex and Probahia--Continued

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

For the year ended December 31, 2013 the subsidiary recognized R$ 794 (R$ 1,196 in 2012), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 21. Of this amount, R$ 304 was allocated to revenue reserves, within "Tax Incentives", in equity, as disclosed in Note 15.d.

c) Income tax incentive

The Company and its subsidiary MHL Calçados Ltda. benefit from the incentive of decrease of 75% of the income tax calculated based on the operation profit, in the industrial units headquartered in the operation area of the Superintendency for the Development of the Northeast (SUDENE). This benefit is recorded directly in the statement of income as a credit to income tax.

The table below presents the benefit expiration period:

Industrial units	% of decrease in tax	Expiry
Sobral - CE	75%	Up to Dec/2022
Fortaleza - CE	75%	Up to Dec/2020
Crato - CE	75%	Up to Dec/2016
Teixeira de Freitas - BA	75%	Up to Dec/2017

17. Income tax and social contribution

a) Current income tax and social contribution

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

	2013					
	Parent company			**Consolidated**		
	Income tax	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Amount due	**(103,740)**	**(39,882)**	**(143,622)**	**(103,755)**	**(39,882)**	**(143,637)**
Tax Incentives	**87,081**	**-**	**87,081**	**87,081**	**-**	**87,081**
	(16,659)	**(39,882)**	**(56,541)**	**(16,674)**	**(39,882)**	**(56,556)**
Offsets	**18,137**	**35,610**	**53,747**	**18,137**	**35,610**	**53,747**
	1,478	**(4,272)**	**(2,794)**	**1,463**	**(4,272)**	**(2,809)**

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

17. Deferred income tax and social contribution--Continued

b) Deferred income tax and social contribution

Deferred income tax and social contribution are comprised as follows:

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Income tax				
Provision for impairment of trade receivables	**255**	4,613	**348**	4,661
Provision for discounts on prompt payments	**2,409**	8,155	**2,438**	8,302
Adjustment to Present Value (AVP)	**523**	1,346	**1,194**	1,196
Provision for adjustment of obsolete inventories	**253**	768	**401**	829
Provision for labor risks	**145**	575	**134**	562
Depreciation	**(154)**	(926)	**(154)**	(926)
Tax losses in subsidiaries	**-**	-	**245**	-
Hedging transactions	**53**	(134)	**53**	(134)
Provisions for bonuses to customers – subsidiary abroad	**-**	-	**4,791**	2,260
Other	**229**	628	**1,019**	978
	3,713	15,025	**10,469**	17,728
Social contribution				
Provision for impairment of trade receivables	**367**	1,762	**368**	1,763
Provision for discounts on prompt payments	**3,470**	3,116	**3,511**	3,169
Adjustment to Present Value (AVP)	**753**	514	**753**	514
Provision for adjustment of obsolete inventories	**364**	293	**364**	293
Provision for labor risks	**209**	220	**209**	220
Depreciation	**(222)**	(354)	**(222)**	(354)
Tax losses in subsidiaries	**-**	-	**127**	-
Hedging transactions	**77**	(51)	**77**	(51)
Other	**329**	240	**-**	-
	5,347	5,740	**5,187**	5,554
Non-current assets	**9,060**	20,765	**15,656**	23,282

c) Changes in deferred income tax and social contribution

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**20,765**	19,455	**23,282**	19,246
Taxes recorded in the result for the year	**(11,705)**	(27)	**(12,249)**	2,379
Taxes recorded in equity	**-**	1,337	**4,623**	1,657
Balance at the end of the year	**9,060**	20,765	**15,656**	23,282

17. Deferred income tax and social contribution--Continued

d) Reconciliation of tax expense to statutory rates

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

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

17. Deferred income tax and social contribution--Continued

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

	2012			
	Parent company		Consolidated	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxes	485,183	485,183	495,290	495,290
Effect of profit adjustments due to change in accounting practice - Law 11,638/07	(16,315)	(16,315)	(17,511)	(17,511)
Adjusted profit before taxes	468,868	468,868	477,779	477,779
Income tax and social contribution at standard rates of 25% and 9%, respectively	(117,217)	(42,198)	(119,445)	(43,000)
Adjustments for calculation of effective rate				
Equity in the results of investees	4,099	1,475	-	-
Permanent additions	(7,742)	(2,787)	(7,742)	(2,787)
Technological innovation incentive	8,584	3,090	8,584	3,090
Hedge transactions	28	7	28	7
Effect of depreciation recalculation	820	275	820	275
Workers' Meal Program (PAT) deduction as tax incentives	2,557	-	2,566	-
Other tax incentives (Rouanet Law/ Child and Adolescent Rights Fund - Funcriança/ Audiovisual/ Sports)	3,750	-	3,750	-
Unrealized profits on inventories	(117)	(28)	(117)	(28)
Other	4,744	2,040	1,689	4,210
Amount before tax incentive deduction IRPJ	(100,494)	(38,126)	(109,867)	(38,233)
Effective rate after considering impacts of Law 11,638/07	21.3%	8.1%	22.9%	8.0%
Tax incentives (Profit from tax incentive operations)	82,440	-	82,701	-
Amount recognized in the statement of income	(18,054)	(38,126)	(27,166)	(38,233)
Total taxes recognized in the statement of income	(56,180)		(65,399)	
Current taxes	(56,153)		(67,778)	
Deferred taxes	(27)		2,379	
Effective rate	11.6%		13.2%	

18. Financial instruments and risk management

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

a) Financial instruments

The main financial instruments at December 31, 2013 and 2012 were as follows:

- Cash and cash equivalents – classified as loans and receivables and measured at fair value, which approximates the carrying amount.

- Financial investments - financial investments classified as "held-to-maturity" are measured at amortized cost using the effective interest rate method, and those classified as "financial assets at fair value through profit or loss" are measured at fair value.

- Trade receivables - classified as loans and receivables and arise directly from the Company's sales operations. They are carried at their original amounts, adjusted by foreign exchange and monetary variations, and the estimated losses on impaired receivables, and discounts for prompt payments and the adjustment to present value.

- Trade payables - these are classified as liabilities measured at amortized cost and arise directly from the Company's commercial operations. They are carried at their original amounts, adjusted by foreign exchange and monetary variations, when applicable.

- Borrowings - classified as financial liabilities measured at amortized cost using the effective interest method, and are carried at their contractual amounts. The fair values of borrowings approximate their carrying amounts.

18. Financial instruments and risk management--Continued

a) Financial instruments--Continued

The main financial instruments of the Company and its subsidiaries at December 31, 2013 and 2012 were as follows:

	Carrying amount/Fair value			
	Parent company		Consolidated	
	2013	2012	2013	2012
Financial assets				
Cash and cash equivalents	**24,740**	8,125	**39,360**	14,489
Financial investments (*)	**694,605**	859,421	**694,605**	859,421
Trade receivables	**825,216**	705,661	**900,048**	806,149
Derivatives	**-**	568	**-**	568
Financial liabilities				
Borrowings	**47,845**	63,013	**117,736**	137,963
Trade payables	**35,588**	52,558	**39,792**	56,806
Derivatives	**860**	-	**860**	-

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

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

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

18. Financial instruments and risk management--Continued

b) Derivative financial instruments

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

b.1) *Foreign exchange rate hedge*

The strategy when contracting these transactions is to hedge the sales revenue and financial assets of the Company and its subsidiaries that are subject to foreign exchange exposure. These instruments are used for the specific purpose of hedging, and the portfolio includes sale of US Dollar futures through financial instruments used for this purpose such as: sales at BM&F, advances on foreign exchange contracts (ACC) and advances on future exports (ACE).

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

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

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

Foreign exchange hedge transactions are usually made with the BM&F through specialized brokers, without the need to deposit margin. The guarantee amounted to R$ 33,223 at December 31, 2013 (R$ 30,831 in 2012) and usually comprises the Company's investments in government securities, considering the limits and exposures to foreign exchange risk, as defined in the policy for management of counterparty risk.

18. Financial instruments and risk management--Continued

b) Derivative financial instruments--Continued

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

The table below shows the positions at December 31, 2013 and 2012, with the notional and fair values, which were calculated as described in Notes 4.c.1 and 4.c.2.

Description	Notional value			Notional value (R$)			Balance receivable (payable) Fair value		
	Currency	2013	2012	Currency	2013	2012	Currency	2013	2012
Futures contracts:									
Sale commitments									
Sold position									
Foreign currency	US$	**50,000**	76,000	R$	**119,071**	156,077	R$	**(860)**	568
Total	US$	**50,000**	76,000	R$	**119,071**	156,077	R$	**(860)**	568

It should be noted that these transactions are linked to sales and financial assets in foreign currency, which are also subject to exchange rate changes, offsetting any gains or losses. The balance payable of the fair value presented at December 31, 2013, in the amount of R$ 860, is classified in accounts payable, while the balance receivable of R$ 568 at December 31, 2012 is classified in notes receivable.

c) Risk management

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

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

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

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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

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

a) Credit risk:

The Company and its subsidiaries are potentially subject to counterparty credit risk in their financial transactions and trade receivables. The procedures adopted to minimize potential financial and commercial risks include: the selectivity in dealing with financial institutions, analysis of credits granted to customers, and establishment of sales limits. No customer individually represented more than 5% of the Company's total receivables at December 31, 2013 and 2012.

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

b) Liquidity risk:

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

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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

b) Liquidity risk:--Continued

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

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

	2013					
	Parent company			Consolidated		
	Projection including future interest			Projection including future interest		
	Up to one year	From 1 to 9 years	Total	Up to one year	From 1 to 9 years	Total
Property, plant and equipment financing	**585**	**2,486**	**3,071**	**585**	**2,486**	**3,071**
Working capital, ACC and ACE	**27,292**	**-**	**27,292**	**102,172**	**-**	**102,172**
Financing - Proapi and Provin	**4,433**	**16,074**	**20,507**	**4,433**	**16,074**	**20,507**
	32,310	**18,560**	**50,870**	**107,190**	**18,560**	**125,750**

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

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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

c) Market risk:

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

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

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

At December 31, 2013, the Company has advances on export contracts in the amount of US$ 11,627 thousand (US$ 22,489 thousand in 2012), which is consistent with the sales scheduled for the foreign market up to the maturity of the contracts. There were no other borrowings denominated in, or indexed to, foreign currencies.

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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

c) Market risk:--Continued

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

c.2) *Interest rate fluctuation sensitivity analysis*

In order to verify the sensitivity of indices of financial investments and loans to which the Company was exposed at December 31, 2013, three different scenarios were defined and a sensitivity analysis of the fluctuation of the indices of these instruments was prepared. Based on the projection of the index of each contract for 2013 (probable scenario), decreases of 25% and 50% for financial investments and increases of 25% and 50% for loans were calculated. The scenarios do not consider the probable cash flow related to loan repayments and investment redemptions.

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

18. Financial instruments and risk management--Continued

c) Risk management--Continued

c.2) *Interest rate fluctuation sensitivity analysis*--Continued

The table below shows the outstanding positions at December 31, 2013, with the notional values and interest of each contracted instrument:

Operation	Currency	Probable scenario (Carrying amount)	Possible scenario	Remote scenario
DECREASE IN FINANCE INCOME				
Interest on financial investments	R$	42,972	34,344	25,696
Rate decrease by			**25.00%**	**50.00%**
Reference for finance income				
CDI %		9.78%	7.33%	4.89%
Amplified Consumer Price Index (IPCA)		5.77%	4.33%	2.89%
INCREASE IN FINANCE COST				
Financing charges - Proapi and Provin	R$	797	996	1,194
Rate increase by			**25.00%**	**50.00%**
Reference for financial liabilities				
Long-Term Interest Rate (TJLP)		5.00%	6.25%	7.50%

18. Financial instruments and risk management--Continued

c) Risk management--Continued

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

c.3.1) Foreign exchange rate hedge

The Company projected the impact of foreign exchange hedge transactions in 3 (three) scenarios for 2013, namely:

- Probable scenario: This scenario considered that the transaction would be settled at an US dollar exchange rate of R$ 2.3814.

- Possible scenario: This scenario considered that the transaction would be settled at a U.S. dollar exchange rate of R$ 2.9768, 25% higher than the rate for the first scenario.

- Remote scenario: This scenario considered that the transaction would be settled at an U.S. dollar exchange rate of R$ 3.5721, 50% higher than the rate for the first scenario.

Presented below is the summary of the impact in each projected scenario, for the position maturing on January 31, 2014.

	Notional value				
	Currency	**2013**	**US dollar exchange rate in 2013**	**Amount in R$**	**Impact**
Probable scenario					
Sale commitments					
Sold position	US$	50,000	R$ 2.3814	119,071	(860)
Possible Scenario - 25%					
Sale commitments					
Sold position	US$	50,000	R$ 2.9768	148,840	(29,769)
Remote Scenario - 50%					
Sale commitments					
Sold position	US$	50,000	R$ 3.5721	178,605	(59,534)

18. Financial instruments and risk management--Continued

c) Risk management--Continued

c.4) *Capital management*

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

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

The Company's dividend policy may include tax incentives related to the Provin and Proapi programs in the dividend calculation basis, provided there is no impact on the Company's capital management objectives, policies or processes adopted. There is no impact during the years ended December 31, 2013 and 2012.

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Current and non-current borrowings	**47,845**	63,013	**117,736**	137,963
(-) Cash and cash equivalents	**(24,740)**	(8,125)	**(39,360)**	(14,489)
Net debt	**23,105**	54,888	**78,376**	123,474
Equity	**2,060,734**	1,952,332	**2,067,960**	1,953,562
Financial leverage index	**1.1%**	2.8%	**3.8%**	6.3%

19. Balances and transactions with related parties

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

a) Amounts and transactions receivable and payable - Related parties

	Parent company								
	Balances				Transactions				
	Other receivables	Other payables	Trade receivables	Trade payables	Sales of goods	Purchases of goods and services	Recovery of expenses	Finance income	Finance costs
Subsidiaries									
Grendene USA, Inc.									
At 12/31/2013	**-**	**-**	**10,497**	**100**	**14,142**	**919**	**-**	**1,610**	**638**
At 12/31/2012	-	-	6,936	100	10,375	1,296	-	1,692	876
Grendene Argentina S.A.									
At 12/31/2013	**-**	**-**	**29**	**-**	**29,558**	**-**	**-**	**-**	**-**
At 12/31/2012	-	-	-	-	26,197	-	-	-	-
Grendene UK Limited.									
At 12/31/2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**114**	**110**
At 12/31/2012	-	-	-	-	-	-	-	-	-
Grendene Italy SRL.									
At 12/31/2013	**-**	**-**	**1,607**	**-**	**1,596**	**-**	**-**	**11**	**-**
At 12/31/2012	-	-	-	-	-	-	-	-	-
MHL Calçados Ltda.									
At 12/31/2013	**-**	**1**	**3,465**	**2**	**15,485**	**481**	**-**	**-**	**-**
At 12/31/2012	-	-	1,236	366	13,236	355	-	-	-
A3NP Indústria e Comércio de Móveis S.A.									
At 12/31/2013	**-**	**-**	**-**	**-**	**-**	**-**	**88**	**-**	**-**
At 12/31/2012	-	-	-	-	-	-	-	-	-
Other									
Telasul S.A.									
At 12/31/2013	**-**	**-**	**-**	**-**	**-**	**581**	**-**	**-**	**-**
At 12/31/2012	**-**	**-**	3	-	3	1,920	-	-	-
Vulcabrás Azaléia – CE, Calçados e Artigos Esportivos S.A.									
At 12/31/2013	**-**	**-**	**-**	**156**	**200**	**156**	**-**	**-**	**-**
At 12/31/2012	-	-	4	-	431	-	**-**	-	-
Vulcabrás Azaléia – BA, Calçados e Artigos Esportivos S.A.									
At 12/31/2013	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**-**
At 12/31/2012	-	-	3	-	11	-	-	-	-
Vulcabrás Azaléia Argentina S.A.									
At 12/31/2013	**-**	**-**	**668**	**-**	**1,859**	**-**	**-**	**-**	**6**
At 12/31/2012	-	-	533	-	1,052	-	-	230	116
Agropecuária Grendene Ltda.									
At 12/31/2013	**-**	**-**	**-**	**-**	**34**	**-**	**-**	**-**	**-**
At 12/31/2012	**-**	**-**	-	-	-	-	-	-	-
Lagoa Clara Agrícola S.A.									
At 12/31/2013	**-**	**-**	**18**	**-**	**-**	**-**	**215**	**-**	**-**
At 12/31/2012	**-**	**-**	-	-	-	-	-	-	-

19. Balances and transactions with related parties--Continued

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

	Consolidated								
	Balances				Transactions				
	Other receivables	Other payables	Trade receivables	Trade payables	Sales of goods	Purchases of goods and services	Recovery of expenses	Finance income	Finance costs
Other									
Telasul S.A.									
At 12/31/2013	**-**	**-**	**-**	**-**	**-**	**581**	**-**	**-**	**-**
At 12/31/2012	**-**	**-**	3	-	3	1,920	-	-	-
Vulcabrás Azaléia – CE, Calçados e Artigos Esportivos S.A.									
At 12/31/2013	**-**	**-**	**-**	**156**	**200**	**156**	**-**	**-**	**-**
At 12/31/2012	-	-	4	-	431	-	**-**	-	-
Vulcabrás Azaléia – BA, Calçados e Artigos Esportivos S.A.									
At 12/31/2013	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**-**
At 12/31/2012	-	-	3	-	11	-	-	-	-
Vulcabrás Azaléia Argentina S.A.									
At 12/31/2013	**-**	**-**	**668**	**-**	**1,859**	**6,982**	**-**	**-**	**6**
At 12/31/2012	-	-	533	-	1,052	6,665	-	230	116
Agropecuária Grendene Ltda.									
At 12/31/2013	**-**	**-**	**-**	**-**	**34**	**-**	**-**	**-**	**-**
At 12/31/2012	**-**	**-**	-	-	-	-	-	-	-
Lagoa Clara Agrícola S.A.									
At 12/31/2013	**-**	**-**	**18**	**-**	**-**	**-**	**215**	**-**	**-**
At 12/31/2012	**-**	**-**	-	-	-	-	-	-	-

b) Nature, terms and conditions of transactions

b.1) *Subsidiaries*

Grendene USA, Inc.: Refer to the sales of shoes manufactured by the Company. Purchases of goods and services are 6% commission for sales to US customers delivered directly by the Parent company, Grendene USA, Inc. The average collection period for sales is approximately 195 days and for payment of commissions is approximately 160 days.

Grendene Argentina S.A.: Refer to the sales of shoes manufactured by the Company. The average term for sales is approximately 180 days.

Grendene Italy S.R.L. (Indirect subsidiary): Refer to the sales of shoes manufactured by the Company. The average term for sales is approximately 180 days.

19. Balances and transactions with related parties--Continued

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

b.1) *Subsidiaries*--Continued

MHL Calçados Ltda. (headquartered in Brazil): Refer to the transactions of purchases and sales of inputs for the production of shoes. The average collection period is approximately 243 days and for payment is approximately 268 days.

A3NP Indústria e Comércio de Móveis S.A. (headquartered in Brazil): Refer to the transactions of reimbursement to the Company for recovery of expenses. The average receipt period is approximately 22 days.

b.2) *Other companies*

Telasul S.A, Vulcabrás Azaléia - CE, Calçados e Artigos Esportivos S.A., Vulcabrás Azaléia - BA, Calçados e Artigos Esportivos S.A., Vulcabrás Azaléia Argentina S.A., Agropecuária Grendene Ltda. and Lagoa Clara Agrícola Ltda. are controlled by stockholders of Grendene S.A..

Telasul S.A. (headquartered in Brazil): Refer to purchases of exhibition stands for promoting the Company's products. The average payment period is 15 days.

Vulcabrás Azaléia – CE, Calçados e Artigos Esportivos S.A.: Refer to the transactions of purchases and sales of inputs for the production of shoes. The average sales collection period is approximately 32 days and for payment is approximately 30 days.

Vulcabrás Azaléia – BA, Calçados e Artigos Esportivos S.A.: Refer to the transactions of sale of inputs for the production of shoes. The average term for sales is approximately 105 days.

Vulcabrás Azaléia Argentina S.A.: Refer to the transactions of sale of inputs for the production of shoes. The average term for sales is approximately 102 days.

The balance of trade payables and the purchase of products and services refer to transactions and balances with the subsidiary Grendene Argentina.

Agropecuária Grendene Ltda. (headquartered in Brazil): Refer to the transactions of sale of property plant and equipment. The average receipt period is approximately 30 days.

19. Balances and transactions with related parties--Continued

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

b.2) *Other companies*--Continued

Lagoa Clara Agrícola Ltda. (headquartered in Brazil): Refer to the transactions of reimbursement to the Company for recovery of expenses. The average receipt period is approximately 30 days.

Alexandre G. Bartelle Participações S.A., Grendene Negócios S.A. and Verona Negócios e Participações S.A. are the controlling stockholders of Grendene S.A. There are no other transactions, except dividends paid, between the Company and its subsidiaries, for the years ended December 31, 2013 and 2012.

c) Key management compensation

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

	Parent company	
	2013	**2012**
Board of Directors	**840**	768
Statutory Audit Board	**284**	207
Statutory Directors	**3,040**	2,808
	4,164	3,783

The Company offers a stock option plan as variable compensation, as described in Note 20, having recognized as an expense the amount corresponding to the option premium at December 31, 2013 of R$ 4,492 (R$ 1,636 in 2012).

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

d) Other related parties

The Company utilizes air travel advisory and agency services of companies owned by a related party. At December 31, 2013, the expenses incurred in connection with these services totaled R$ 632 (R$ 602 in 2012), representing approximately 0.04% of the Company's general expenses. There were no outstanding balances at December 31, 2013.

20. Stock option or subscription plan

At December 31, 2013, the Company recognized an expense in connection with the stock option plan as personnel cost, based on the fair value at the grant date, in the amount of R$ 4,492 (R$ 1,636 in 2012).

At the Extraordinary General Meeting held on April 14, 2008, the Company's stockholders approved the "Stock Option or Share Subscription Plan", to be effective as from April 14, 2008, for the Company's directors and managers, except for directors nominated by the controlling stockholders. The plan is administered by the Company's Board of Directors, which may delegate this function, within the restrictions established by law, to a Committee especially created for this purpose.

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

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

At Board of Directors meetings, option grants were approved as follows: i) on April 25, 2008, 2,039,901 shares (after split), ii) on March 5, 2009, 900,000 shares (after split), iii) on March 4, 2010, 700,000 shares, iv) on February 4, 2011, 1,741,632 shares, v) on March 1, 2012, 326,847 shares and vi) on February 28, 2013, 795,549 shares for object purchase option or subscription of the Company's shares by officers and managers, except for directors nominated by the controlling stockholders.

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

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

20. Stock option or subscription plan--Continued

Regulation of the stock option or share subscription plan - Clause IV - original text	New text approved at the 45th Board of Directors Meeting
4.1. The exercise of options will consist of the purchase of shares for the established exercise price, after the vesting term. For such, the beneficiary must formally request the exercise of the options to the Company, through a Notice of exercise, in a maximum period of fifteen (15) days, subsequent to the Board of Directors Meeting, which (a) approved the Prior year balance sheet or (b) approved the Financial statements of the first six-month period of the year, within the limits mentioned in item 3.2. above.	4.1. The exercise of options will consist of the purchase of shares for the established exercise price, after the vesting term. For this purpose, the beneficiary must formally request the exercise of the options to the Company, through a Notice of Exercise, in a maximum period of fifteen (15) days, subsequent to the Board of Directors Meeting, which approved the prior year financial statements within the limits mentioned in item 3.2 above.
4.2. The beneficiary can issue the Notice of Exercise only after the disclosure of the results for the year and six-month period.	4.2. The beneficiary can issue the Notice of Exercise only after the disclosure of the results for the year.
4.5. The Board of Directors, at its sole discretion, but within the legal limits mentioned above, can apply a discount of up to 20% on the result of the average referred to in this item.	4.5. The Board of Directors, at its sole discretion, but within the legal limits mentioned above, can apply a discount of up to 50% on the result of the average referred to in this item.

a) Summary of grants of share purchase options or subscriptions

The options granted and the related changes were as follows:

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

20. Stock option or subscription plan--Continued

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

2012								
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Closing balance
4/25/2008	7.30	4/25/2009	679,967	74,772	-	-	(14,278)	60,494
4/25/2008	7.30	4/25/2010	1,359,934	179,015	-	-	(14,278)	164,737
4/25/2008	7.30	4/25/2011	2,039,901	264,723	-	(12,633)	(23,596)	228,494
3/5/2009	4.26	3/5/2010	300,000	10,338	-	(10,338)	-	-
3/5/2009	4.26	3/5/2011	600,000	10,338	-	(10,338)	-	-
3/5/2009	4.26	3/5/2012	900,000	276,938	-	(276,691)	-	247
3/4/2010	10.08	3/4/2011	233,333	218,250	-	-	(8,923)	209,327
3/4/2010	10.08	3/4/2012	466,666	218,250	-	-	(8,923)	209,327
3/4/2010	10.08	3/4/2013	700,000	218,251	-	-	(8,923)	209,328
2/24/2011	10.80	2/24/2012	580,544	555,392	-	-	(20,992)	534,400
2/24/2011	10.80	2/24/2013	1,161,088	555,392	-	-	(20,992)	534,400
2/24/2011	10.80	2/24/2014	1,741,632	555,392	-	-	(20,992)	534,400
3/1/2012	4.33	3/1/2013	108,949	-	108,949	-	(2,222)	106,727
3/1/2012	4.33	3/1/2014	217,898	-	108,949	-	(2,222)	106,727
3/1/2012	4.33	3/1/2015	326,847	-	108,949	-	(2,222)	106,727
				3,137,051	326,847	(310,000)	(148,563)	3,005,335

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

In 2013, the Company acquired, for the fulfillment of the plans for exercise of options of share purchase, 2,792,569 shares, at an average price of R$ 20.68, totaling R$ 57,751. In the first quarter, 2,245,569 shares were exercised at an average price of R$ 21.06, totaling R$ 47,281. The average price for each option exercised was R$ 10.15, totaling R$ 22,799.

The Company recognized the difference between the average exercise price of the options and the shares acquired for the fulfillment of these exercises, in the amount of R$ 21,052, directly in equity, since the settlement of options plans occurs through equity instruments, as described in technical pronouncement CPC 10 – R1 (IFRS 2) – Share-based Payment.

20. Stock option or subscription plan--Continued

b) Changes of the operations with stock option

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

Stock option or subscription plan	Changes	Grant/ realization date	Maximum number of shares	Number of common shares	Average share price	Expense realized through stock options exercised and canceled
First	Share purchase options issued	4/25/2008	2,039,901	-	7.29	-
	(-) Exercise of share purchase options	9/3/2009	-	(213,000)	7.05	-
	Issue for capital increase	3/22/2010	-	496,875	7.29	-
	(-) Exercise of share purchase options	3/22/2010	-	(496,875)	7.29	-
	(-) Canceled	3/29/2010	-	(41,150)	7.29	-
	(-) Canceled	2/25/2011	-	(9,789)	7.29	-
	(-) Exercise of share purchase options	3/15/2011	-	(760,577)	6.64	-
	(-) Exercise of share purchase options	3/14/2012	-	(12,633)	4.74	-
	(-) Canceled	5/4/2012	-	(52,152)	7.29	-
	(-) Exercise of share purchase options	3/14/2013	-	(209,369)	10.23	(159)
	(-) Exercise of share purchase options	3/25/2013	-	(244,356)	10.04	(193)
Second	Share purchase options issued	3/5/2009	900,000	-	4.12	-
	Issue for capital increase	3/22/2010	-	223,125	4.12	-
	(-) Exercise of share purchase options	3/22/2010	-	(223,125)	4.12	-
	(-) Canceled	3/29/2010	-	(18,700)	4.12	-
	(-) Canceled	2/25/2011	-	(8,620)	4.12	-
	(-) Exercise of share purchase options	3/15/2011	-	(339,423)	6.64	-
	(-) Canceled	7/1/2011	-	(12,518)	4.12	-
	(-) Exercise of share purchase options	3/14/2012	-	(297,367)	4.74	-
	(-) Exercise of share purchase options	3/25/2013	-	(247)	10.04	-
Third	Share purchase options issued	3/4/2010	700,000	-	9.16	-
	(-) Canceled	7/29/2010	-	(6,888)	9.16	-
	(-) Canceled	2/25/2011	-	(9,189)	9.16	-
	(-) Canceled	7/1/2011	-	(29,172)	9.16	-
	(-) Canceled	5/4/2012	-	(26,769)	9.16	-
	(-) Exercise of share purchase options	3/14/2013	-	(390,357)	10.23	(891)
	(-) Exercise of share purchase options	3/25/2013	-	(237,625)	10.04	(543)
Fourth	Share purchase options issued	2/24/2011	1,741,632	-	9.76	-
	(-) Canceled	7/1/2011	-	(75,456)	9.76	-
	(-) Canceled	5/4/2012	-	(62,976)	9.76	-
	(-) Exercise of share purchase options	3/14/2013	-	(653,682)	10.23	(611)
	(-) Exercise of share purchase options	3/25/2013	-	(403,206)	10.04	(377)
	(-) Canceled	3/25/2013	-	(7,786)	9.76	(10)
	(-) Canceled	5/10/2013	-	(7,334)	9.76	(10)
	(-) Canceled	8/1/2013	-	(12,631)	9.76	(19)
	(-) Canceled	9/26/2013	-	(7,666)	9.76	(12)
Fifth	Share purchase options issued	3/1/2012	326,847	-	3.92	-
	(-) Canceled	5/4/2012	-	(6,666)	3.92	-
	(-) Exercise of share purchase options	3/14/2013	-	(66,885)	10.23	(295)
	(-) Exercise of share purchase options	3/25/2013	-	(39,842)	10.04	(176)
	(-) Canceled	3/25/2013	-	(3,016)	3.92	(5)
	(-) Canceled	5/10/2013	-	(2,840)	3.92	(6)
	(-) Canceled	8/1/2013	-	(4,922)	3.92	(12)
	(-) Canceled	9/26/2013	-	(3,436)	3.92	(10)
Sixth	Share purchase options issued	2/28/2013	795,549	-	8.57	-
	(-) Canceled	5/10/2013	-	(9,156)	8.57	(16)
	(-) Canceled	8/1/2013	-	(14,943)	8.57	(45)
	(-) Canceled	9/26/2013	-	(11,649)	8.57	(40)
	Changes in shares in equity					**(3,430)**

20. Stock option or subscription plan--Continued

c) Economic assumptions adopted for recognition of employee compensation expenses

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

	Granted on 4/25/2008	Granted on 3/5/2009	Granted on 3/4/2010	Granted on 2/24/2011	Granted on 3/1/2012	Granted on 2/28/2013
Total purchase options granted	2,039,901	900,000	700,000	1,741,632	326,847	795,549
Exercise price	7.30	4.26	10.08	10.80	4.33	9.55
Estimated volatility	28.2%	36.50%	32.80%	27.60%	14.07%	25.51%
Expected dividends	6%	9%	4%	4%	7%	5%
Weighted average risk- free interest rate	13.00%	9.25%	11.25%	12.50%	9.50%	7.25%
Maximum maturity	6 years	6 years	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	0.66	0.42	2.28	1.20	4.21	8.38
Fair value at grant date	7.61	4.68	12.36	12.00	8.54	17.93

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

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

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

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

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

21. Net sales revenue

Net sales revenue is comprised as follows:

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Gross sales revenue	**2,634,648**	2,226,809	**2,711,363**	2,324,450
Domestic market	***2,182,112***	*1,872,380*	***2,187,617***	*1,883,389*
Adjustment to Present Value (AVP)	***(40,699)***	*(37,987)*	***(40,699)***	*(37,987)*
Foreign market	***438,368***	*349,575*	***511,762***	*437,382*
Adjustment to Present Value (AVP)	***(609)***	*(754)*	***(3,068)***	*(2,135)*
Tax incentives - Proapi / Procomex	***42,652***	*33,434*	***42,761***	*33,550*
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	***12,824***	*10,161*	***12,990***	*10,251*
Sales returns	**(57,222)**	(39,995)	**(63,092)**	(41,692)
Financial discounts	**(127,443)**	(110,524)	**(130,750)**	(113,485)
Taxes on sales	**(450,078)**	(388,176)	**(458,636)**	(398,144)
ICMS tax incentives - Provin/ Development Promotion Program of the State of Bahia (Probahia)	**149,207**	133,251	**149,892**	134,331
INSS	**(21,305)**	(22,824)	**(21,513)**	(23,134)
	2,127,807	1,798,541	**2,187,264**	1,882,326

Taxes on sales

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

	Rates
Value-added tax on sales and services (ICMS)	7.00% to 18.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
National Institute of Social Security (INSS)	1.00%

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

22. Segment reporting

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

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

	Parent company				Consolidated	
	2013		2012		2013	2012
	Gross sales revenue	Non-current assets	Gross sales revenue	Non-current assets	Gross sales revenue	Gross sales revenue
Footwear						
Domestic market	**2,141,413**	**14,125**	1,834,393	13,822	**2,146,918**	1,845,402
Foreign market	**493,235**	**40,707**	392,416	36,417	**564,445**	479,048
Furniture						
Domestic market	**-**	**7,664**	-	-	**-**	-
	2,634,648	**62,496**	2,226,809	50,239	**2,711,363**	2,324,450

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

The summary of the financial information of these subsidiaries is disclosed in Note 10.

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

	Consolidated	
	2013	2012
Gross sales to foreign market from:		
Brazil	**452,116**	357,749
United States	**23,674**	19,024
Argentina	**88,349**	102,275
United Kingdom	**306**	-
	564,445	479,048

22. Segment reporting--Continued

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

Non-current assets abroad represent approximately 6% of the Company's non-current assets.

23. Expenses by nature

The Company presents the consolidated statement of income by function. As required by technical pronouncement CPC 26 – R1 (IAS 1) – Presentation of Financial Statements, income by nature as follows:

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Expenses by function				
Classified as:				
Cost of products sold	**(1,181,159)**	(979,681)	**(1,193,562)**	(1,000,168)
Selling expenses	**(489,708)**	(422,568)	**(521,220)**	(450,965)
General and administrative expenses	**(71,881)**	(63,369)	**(79,032)**	(70,413)
Other operating income	**8,879**	5,632	**10,600**	5,752
Other operating expenses	**(4,247)**	(3,624)	**(4,817)**	(3,719)
	(1,738,116)	(1,463,610)	**(1,788,031)**	(1,519,513)
Expenses by nature				
Personnel	**(541,739)**	(438,866)	**(549,746)**	(446,599)
Raw materials	**(557,259)**	(452,962)	**(557,607)**	(461,581)
Consumables and supplies	**(72,547)**	(51,958)	**(74,072)**	(53,262)
Freight	**(115,055)**	(91,614)	**(119,888)**	(95,727)
Advertising and publicity	**(153,440)**	(136,397)	**(163,672)**	(147,009)
Copyrights	**(58,772)**	(54,158)	**(58,772)**	(54,158)
Commission	**(96,045)**	(79,838)	**(98,531)**	(82,509)
Electric energy	**(26,830)**	(26,316)	**(27,665)**	(27,322)
Depreciation and amortization	**(34,523)**	(29,886)	**(35,572)**	(30,822)
Other expenses	**(81,906)**	(101,615)	**(102,456)**	(120,524)
	(1,738,116)	(1,463,610)	**(1,788,031)**	(1,519,513)

24. Finance result

	Parent company		Consolidated	
	2013	**2012**	**2013**	**2012**
Finance income				
Interest received from customers	**1,898**	1,874	**1,903**	1,889
Gains on foreign exchange hedge - and Futures Exchange (BM&F)	**18,191**	14,834	**18,191**	14,834
Income from financial investments	**80,890**	92,609	**81,856**	93,747
Foreign exchange gains	**37,687**	34,883	**40,237**	49,708
Adjustment to Present Value (AVP)	**38,656**	41,272	**38,656**	41,272
Other financial income	**1,944**	3,391	**2,218**	3,487
	179,266	188,863	**183,061**	204,937
Finance costs				
Losses on foreign exchange hedge - BM&F	**(26,192)**	(11,277)	**(26,192)**	(11,277)
Financing expenses	**(8,571)**	(6,790)	**(19,643)**	(9,223)
Foreign exchange losses	**(27,020)**	(34,438)	**(28,509)**	(47,738)
Other financial expenses	**(2,566)**	(2,488)	**(5,140)**	(4,222)
	(64,349)	(54,993)	**(79,484)**	(72,460)
	114,917	133,870	**103,577**	132,477

25. Insurance

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

Type	Coverage	Coverage amount
Patrimonial	Property, plant and equipment and inventories are insured against fire, windstorm, flood and electrical damages.	**R$ 418,026**
Loss of profits	Profit plus fixed expenses.	**R$ 44,892**
Civil liability	Industrial operations, employer, products and moral damages.	**R$ 1,635**
Aviation	Hull, civil liability.	**US$ 3,500**
Vehicles	Material damages and third-party civil liability (CL)	**100% FIPE and R$ 90 CL third parties - material damages and R$ 330 CL third parties - personal damages**
Transportation	Export and import	**U$ 2,000 per shipping**