Grendene

2Q06 Results
August, 2006

GRND3 NOVO MERCADO BOVESPA BRASIL

itag Índice de Ações com *Tag Along* Diferenciado


Company Overview


Company´s Overview

Grendene is one of the world´s largest producer of synthetic footwear, with approximately 18 thousand employees, gross revenues of R$535 mn and 55.7 million pairs sold in 1H06.

Market and brands

- Operates in 4 segments: men, women, kids and mass market.
- Strong brands.
- Leadership in Kids.

Products

- Synthetic and injected footwear on PVC and EVA
- Strong marketing culture and product differentiation

Market share

- 22,3 million pairs sold (2Q06)
- 19% of Brazil´s production
- 15% of the Brazilian footwear exports

Production capacity

- Installed capacity of 176 million pairs/year
- In-house technology for plastic injection and production of moulds.
- Strategic location of plants in State of Ceará creates important tax and labor cost advantages

Sales channels

- Domestic market via sales representatives
- External markets via direct exports and also through international subsidiaries and special sales division (Melissa line with selective distribution)
- Around 17,300 sales point in Brazil and 19.500 averseas.

Competitive differentials and strategy

Strong brands

- Strong and recognized brands, benchmark in synthetic footwear industry
- Capacity of creating and launching fashion trends at global level in the segments it operates.
- Strategy of recognizing and identification in the products

Marketing and innovation capacity

- More selective focus in some products
- Greater volume leverage potential
- Higher added value products
- More concentrated media, fewer campaigns but with greater impact, to prolong the cycle of the product
- Analyzing niche markets to launch new brands, licenses and products

Distinct production process with scale

- Verticalized production and development of proprietary injection technology allow efficient, versatile and fast production on large scale, generating superior quality products at competitive prices, even when considering less value-added products.
- Ability to rapidly increase its installed capacity at low-cost

High corporate governance level

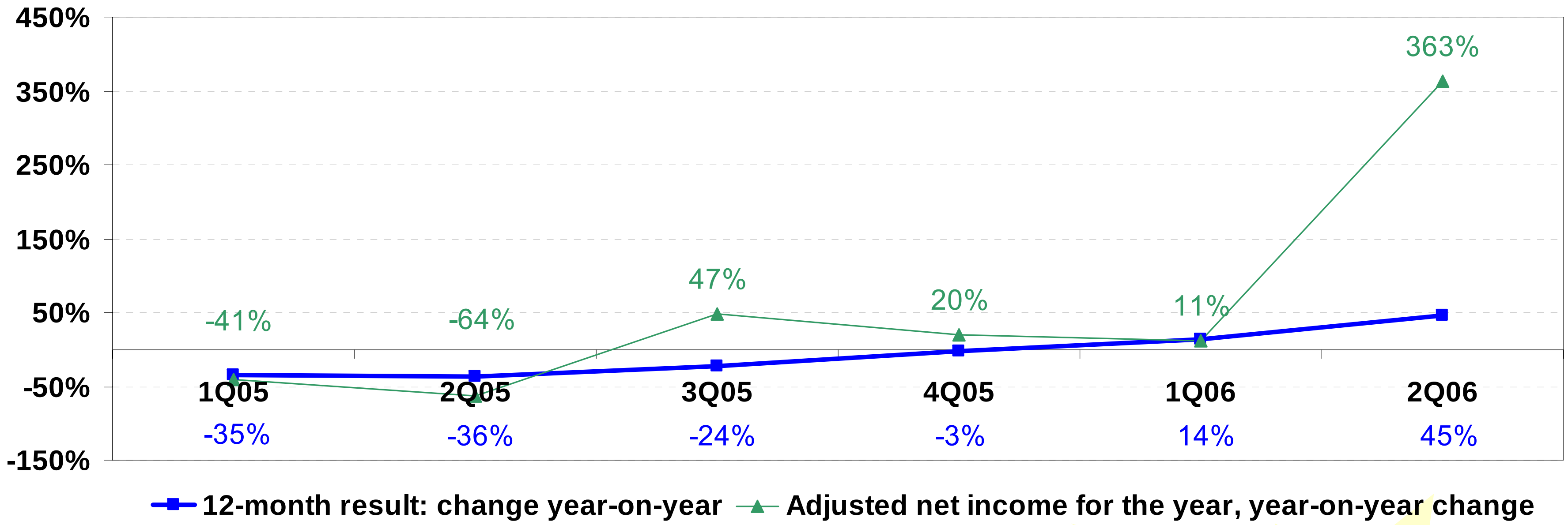
- Highest corporate governance standards: listed at *Novo Mercado*
- Dividend policy: up to 100% of the distributable net income
- 100% tag along rights and only voting shares
- Independent members on the Board of Directors

Solid financial structure and profitability

- Gross revenues of R$249.7 mn in 2Q06 (R$261.2 mn in 2Q05)
- Adjusted EBITDA of R$38 mn in 2Q06 (R$17.1 mn in 2Q05)
- Adjusted net income of R$41.8 mn in 2Q06 (R$9 mn in 2Q05)
- Net cash of R$473.8 mn in June 30, 2006
- R$ 189 mn cash provided by operating activities in June 30, 2006.

2Q06 & revised outlook

Adjusted quartely net income, and 12-month net income: year-on-year changes

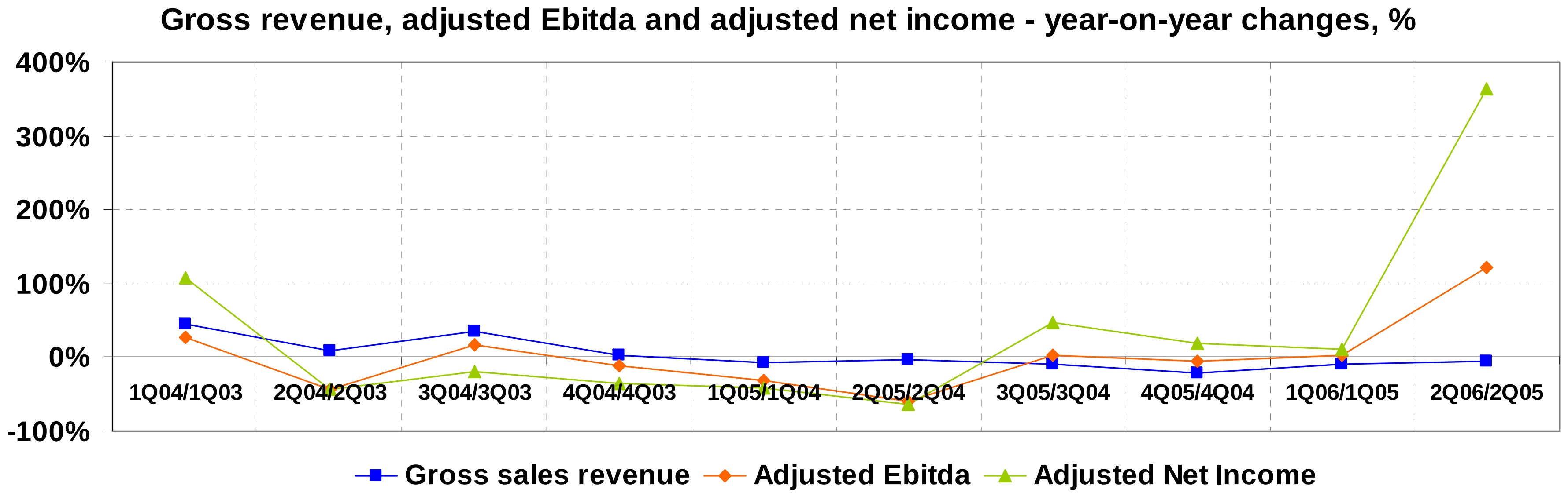


CAGR: 29%p.a in adjusted net income acumulated in 12M up to 2Q06

Guidance for 2006 are:

- 2006 gross revenue in line with 2005 - with the possibility of a slight increase; and
- 2006 sales volume in line with 2005 - with the possibility of a slight decrease.

2Q06: proportionately lower fall in sales, and higher recovery in margins



- **Trend to profitability being maintained:** margins improvement due to continuous control of industrial costs and expenses but not a turnaround in sales yet;
- **2Q06 gross revenues** low 4.4% YoY and **sales volume** 10.8% with **average prices** higher 7.2% due to higher added value product mix;
- **Adjusted Ebitda** up 123%, R$ 38 mn and margin of 19.3%, due to gross profit improvement and SG&A expenses reduction;
- **Net income:** R$ 42 mn, margin 21.2% of net sales (vs. R$9 mn and 4.4%);
- **Non-recurring income** of R$10mn (net of taxes and legal fees) in PIS/COFINS tax credits.

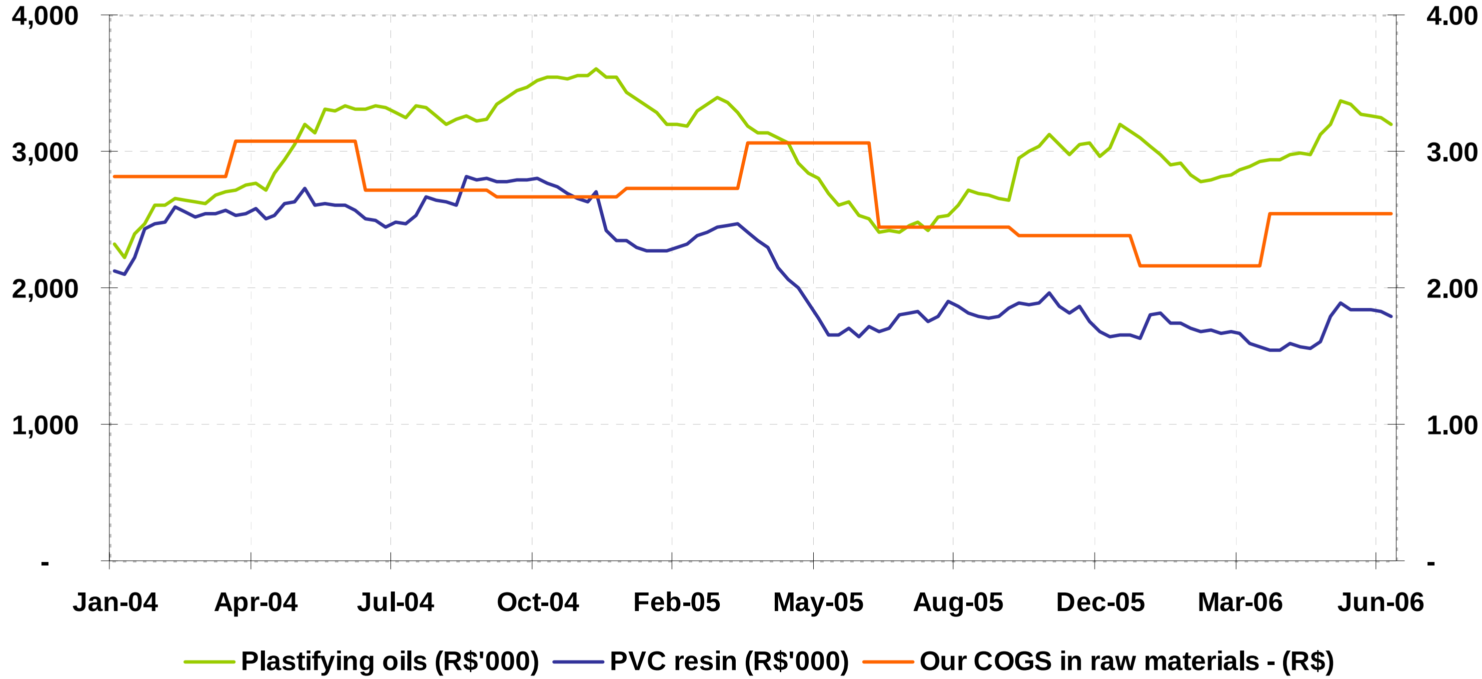
2Q06 earnings – adjusted net income 363% up YoY ...

Main Financial and Economic Indicators

(R$ mn)	2Q05		2Q06		Var.%	1H05		1H06		Var.%
Gross Revenues	261.2		249.7		**(4%)**	575		535		**(7%)**
Domestic	226.0		217.3		**(4%)**	484		446		**(8%)**
Exports	35.2		32.4		**(8%)**	92		89		**(3%)**
Net Sales	203.2		197.1		**(3%)**	452		425		**(6%)**
Gross Profit	62.3	*30.7%*	72.9	*37.0%*	**17%**	155	*34.3%*	159	*37.3%*	**2%**
Adjusted EBITDA	17.1	*8.4%*	38.0	*19.3%*	**123%**	67	*14.8%*	89	*21.0%*	**33%**
Net Financial Result	(2.7)		14.8		**n.s.**	(3)		22		**n.s.**
Adjusted Net Income	9.0	*4.4%*	41.8	*21.2%*	**363%**	46	*10.2%*	83	*19.6%*	**80%**
EPS (R$ per share)	0.09		0.42		**364%**	0		1		**80%**
Sales Volume (million pairs)	25.1		22.3		**(11%)**	56		56		**(1%)**
Average Price (R$)	10.42		11.17		**7%**	10.20		9.62		**(6%)**

- **Gross profit:** gross margin recovered from 31% to 37% of net sales due to 12% decrease in COGS (higher added value products – higher average price – costing less – stable COGs per pair)
- **Financial management helped the net income:** changing from net expenses of R$2.6 mn to net income of R$14.8mn due to FX exposure elimination;
- **Interim dividends:** payment on 30/Aug/06, R$39mn (R$0.39 per common share), approximately 100% of distributable first half 2006 profit. To shareholders of record on 14/Aug/06. Ex-dividend on 15/Aug/06.

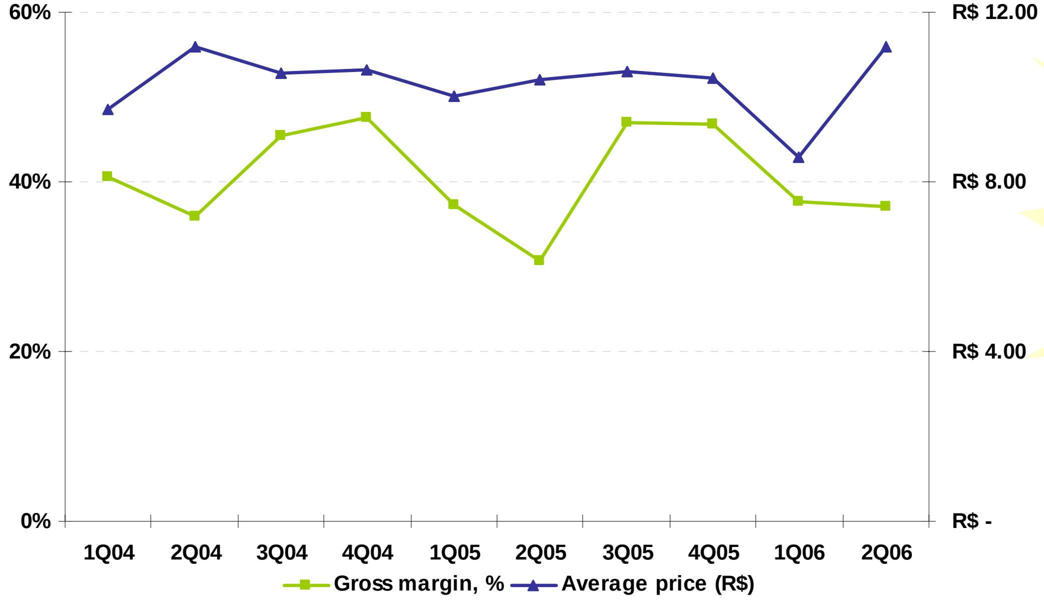
Raw material costs: low correlation of our input cost per pair with petrochemicals price



Fonte: ICIS-LOR / Grendene

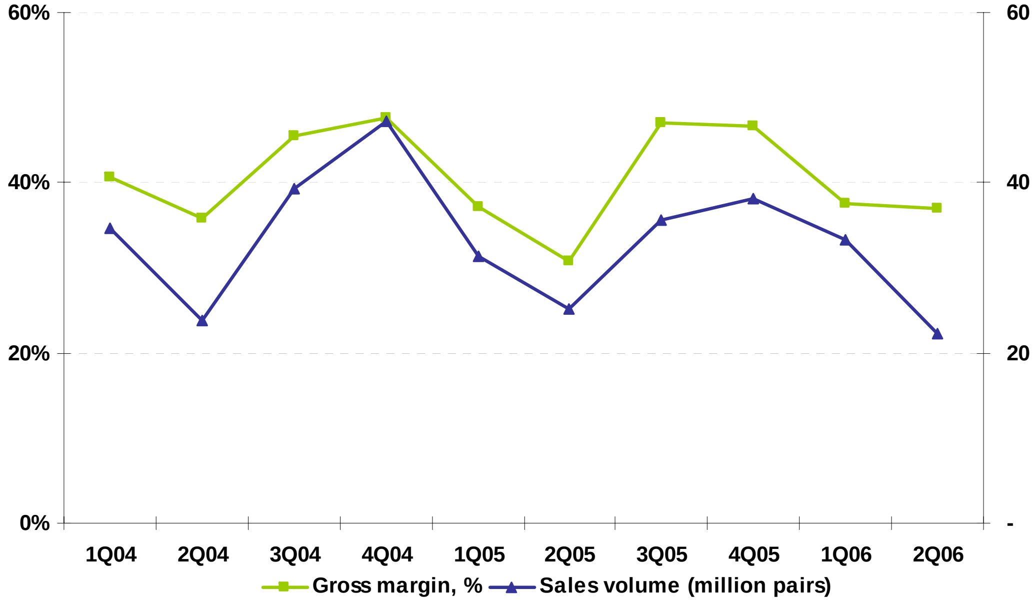
- Including all **raw material,** we produced and sold products with average price increase (higher added value) costing less (lower raw material consumption);
- **Lower cost production** (lower quantity and utilization of PVC) and higher price of final product = margin gain
- **Influence factors:** PVC resin price and plastifying oils; FX rate; design (variety of models and plastic content)... all contributing to a stable cost per pair in 2Q06.

Average price Vs. volume: adding value due to product mix, smaller number of launches and focus on greater volume potential products

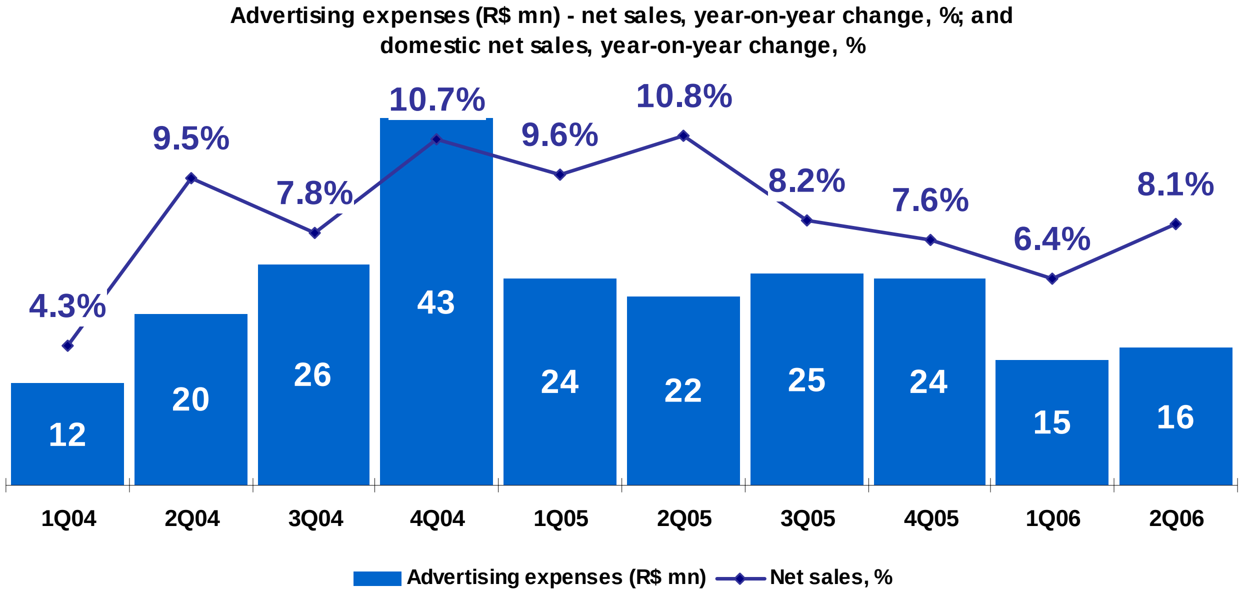


*Higher **average price ...** due to greater added value products launchings...*

*... with a greater potential in terms of leverage in **volume**, without affects the gross margin.*

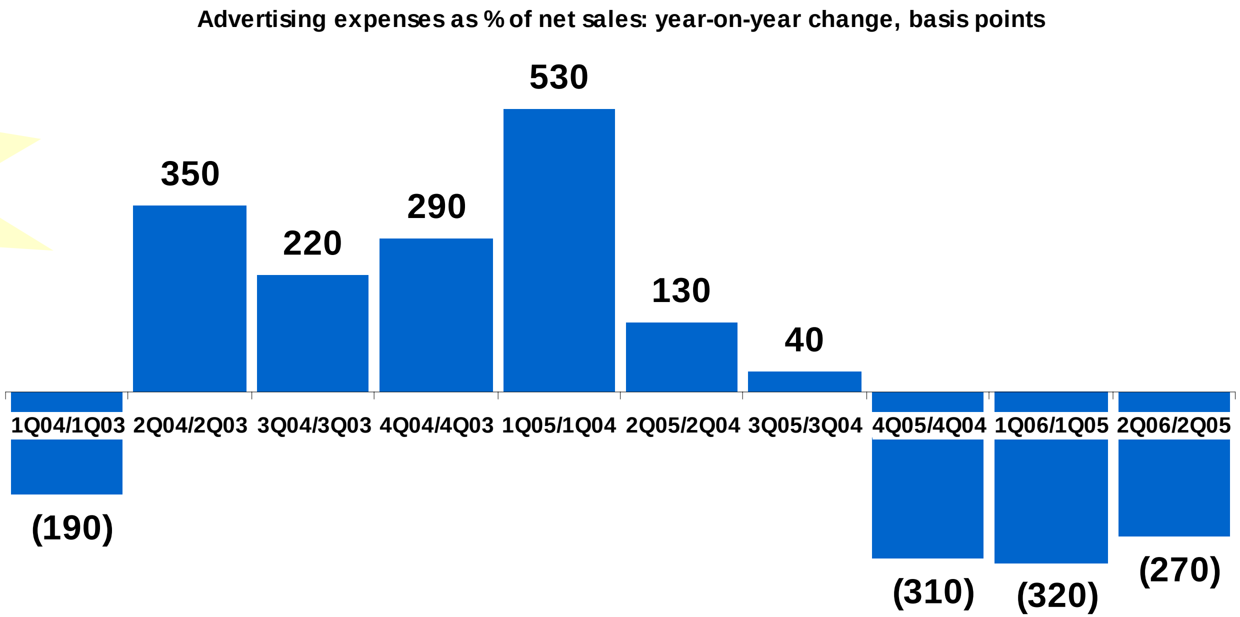


Selling expenses lower, from 27.3% to 25.3% of net sales, due to advertising expenses reduction in 2Q06 ...

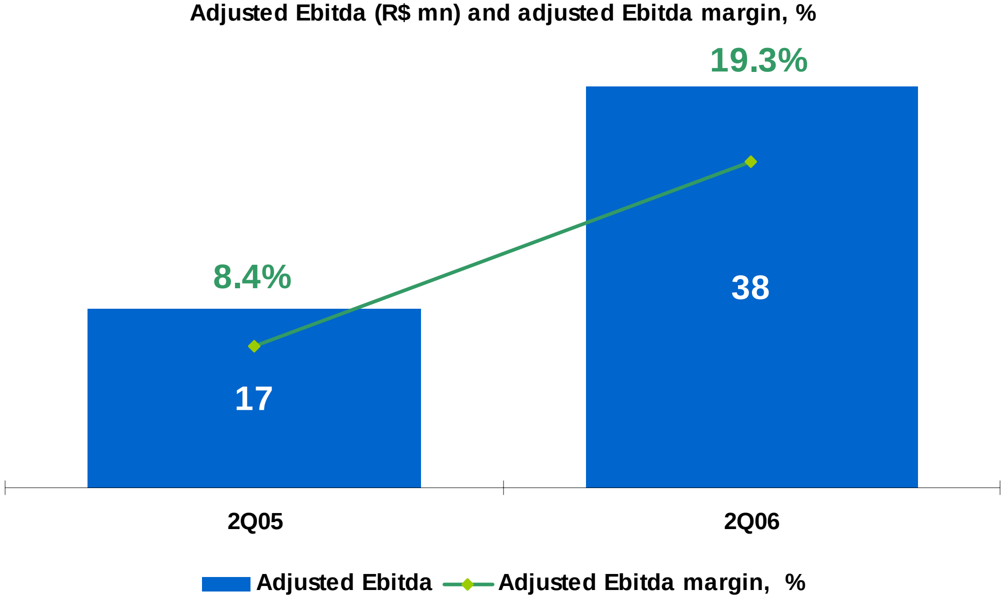


*Smaller number of **launches** and campaigns**...***

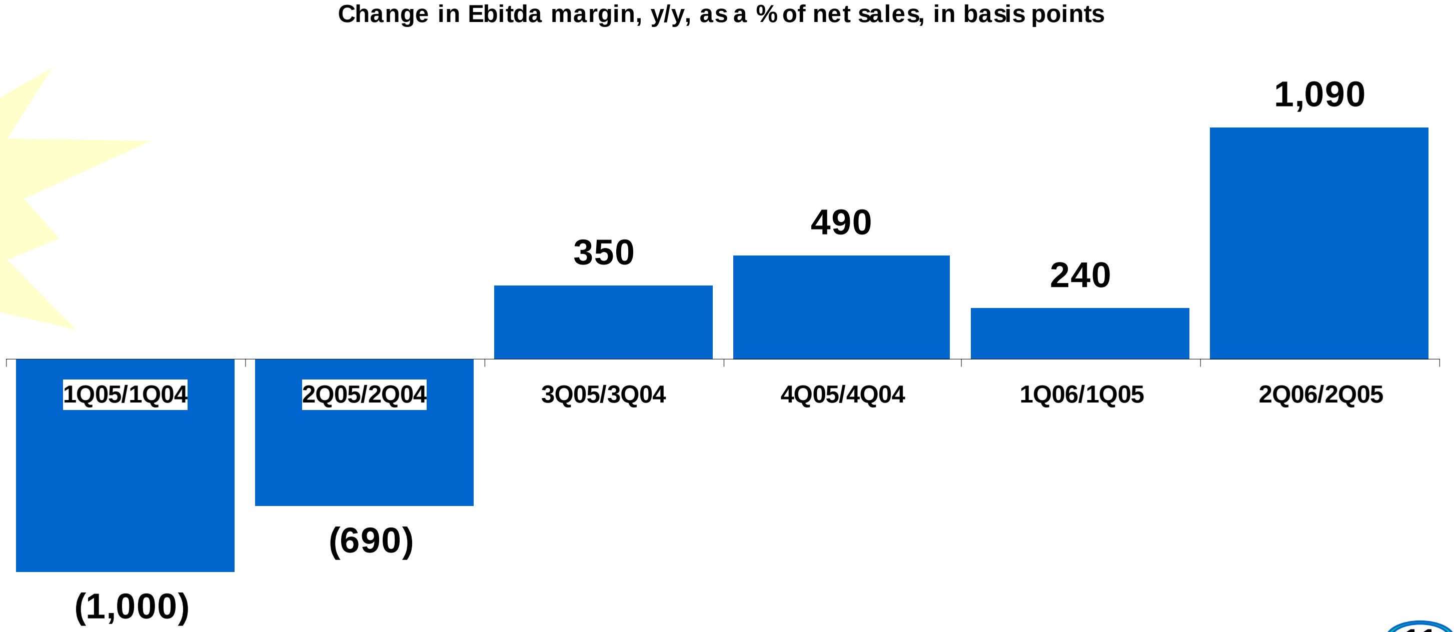
*...and greater selectiveness in products for which we use **TV ads**.*



Adjusted EBITDA: margin increased from 8.4% to 19.3% ...

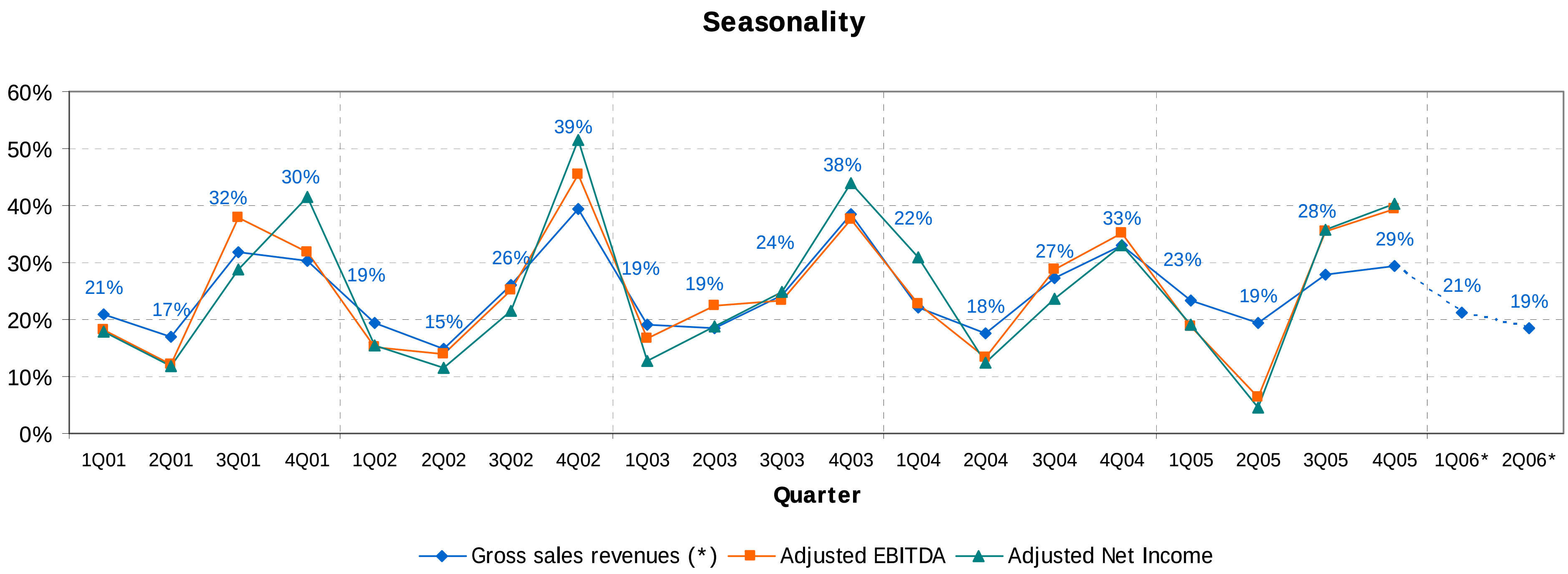


... due to **gross profit** improvement...



... and due to **SG&A expenses** decrease.

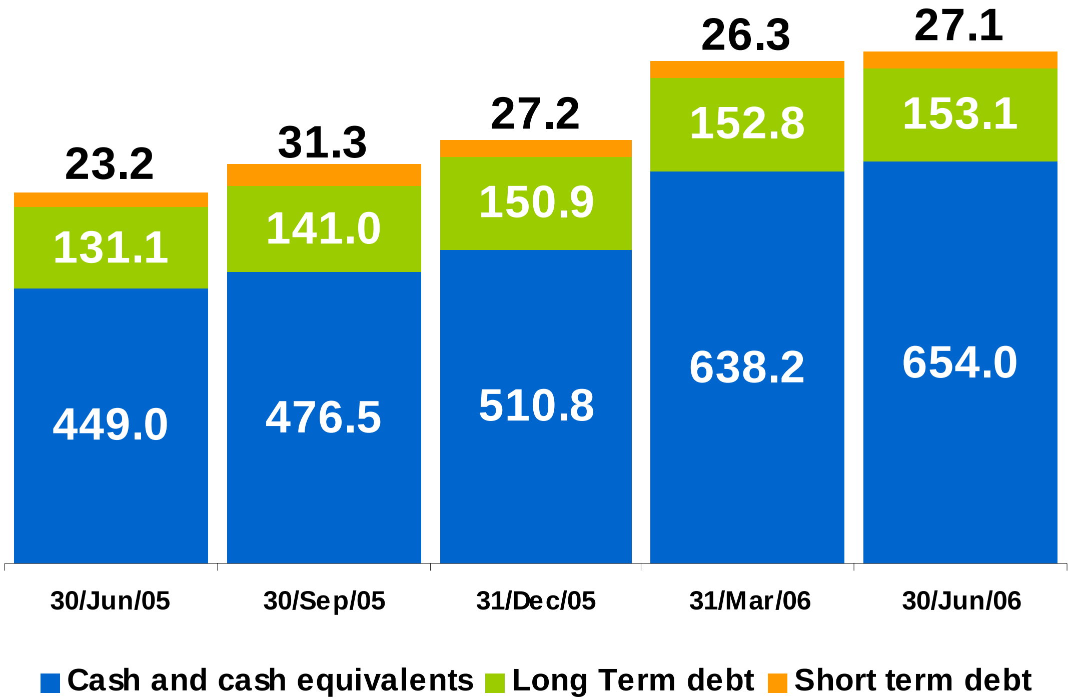
Seasonality... each quarter over total year



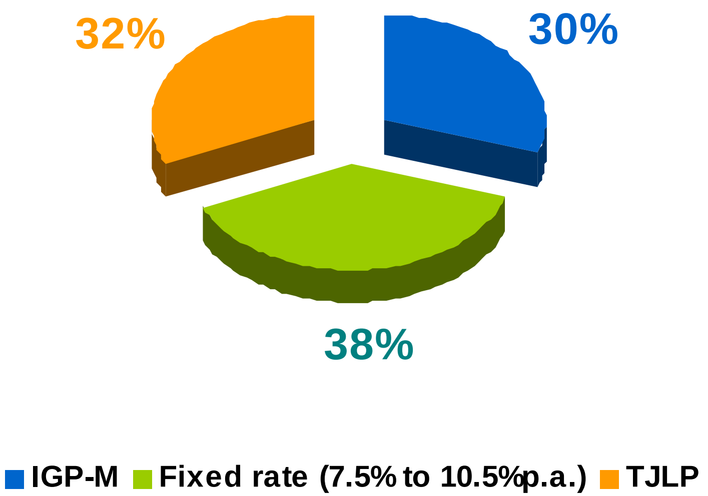
(*) Calculated based on the gross revenue guidance equal to 2005.

Debt

Net cash R$ 473.8 million on Jun. 30, 2006



Cost of debt at Jun. 30, 2006



Outlook ...

Recovery of growth in sales

- Recovery specially in the domestic market in 1H06
- 2006-2207 spring-summer collection was very well accepted by the principal clients, store owners and retailers
- Higher focus in the R&D and marketing strategies
- Spring-summer launches confirmation by consumers

Macroeconomic scenario

- Total wages higher than GDP
- Lower inflation rate
- Interest rate decreasing
- Higher available credit
- Longer payment terms in economics

Specialized consultants in sales area

- Hiring of the Management Development Institute in July 2006 to develop the project “Improving the Sales Management”
- Focused in sales increase
- INDG diagnosis will contribute for future strategic movements

Guidance

- Gross revenue = 2005 or slightly > easy to calculate 2S06
- Sales volume = 2005 or slightly < easy to calculate 2S06
- Average price up due to higher value added products
- Important historical data since the IPO will help the market projections
- Significant changes will be reported

Sound financial situation

- High net cash allows future strategic movements
- Three Interim dividends in 2006
- High general profitability
- Strong cash flow
- High leverage potential in the case of growth sales recovery

Grendene´s IR Team

- Grendene IR team

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