

The background of the entire page is a vibrant orange color. Overlaid on this background is a dense, intricate pattern of green lines. These lines are drawn in a scribbled, hand-drawn style, creating a complex web of intersecting lines that form various geometric shapes like triangles and polygons. The lines vary in thickness and orientation, giving the pattern a dynamic and organic feel.

annual report

2004

Grendene[®]

annual report

2004

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Grendene®

main indicators

	2001	2002	2003	2004	Variation (%) 2004/2003
Earnings (R\$ million)					
Gross Revenues	697.1	906.9	1,276.4	1,525.0	19.5%
Domestic Market	589.7	740.2	973.7	1,289.8	32.5%
Export Market	107.4	166.7	302.7	235.2	(22.3%)
Net Revenues	577.2	755.2	1,061.1	1,211.6	14.2%
Gross Profit	238.6	333.2	504.0	525.7	4.3%
Gross Margin	41.3%	44.1%	47.5%	43.4%	(4.1 pp)
Earnings Before Interest, and Tax (EBIT)	81.2	115.4	223.4	180.0	(19.4%)
EBIT Margin	14.7%	15.3%	21.1%	14.9%	(6.2 pp)
Adjusted Earnings Before Interest Taxes, Depreciation, and Amortization (EBITDA) ⁽¹⁾	156.5	211.8	354.2	320.4	(9.5%)
EBITDA Margin	27.1%	28.0%	33.4%	26.4%	(7.0 pp)
Adjusted Net Income ⁽¹⁾	95.8	117.2	237.8	201.8	(15.1%)
Net Margin	16.6%	15.5%	22.4%	16.7%	(5.7 pp)
Sales (thousand pairs)					
Domestic Market	79,402	99,856	94,368	116,561	23.5%
Masculine	24,465	22,206	18,691	21,778	16.5%
Feminine	24,310	28,809	24,564	33,184	35.1%
Children	18,739	19,865	24,318	27,074	11.3%
Mass Consumption	11,888	28,976	26,795	34,525	28.8%
Export Market	14,954	16,446	26,927	28,692	6.6%
Total	94,356	116,302	121,295	145,253	19.8%
Financial Indicators (R\$ million)					
Shareholders' Equity	338.3	437.0	692.7	737.3	6.4%
Current Liquidity	4.8	2.5	6.6	4.8	(27.3%)
Return on Equity – ROE	28.3%	26.8%	34.3%	27.4%	(20.1%)
Gross Debt	101.9	211.0	132.2	148.6	12.4%
Gross Debt in Local Currency (%)	57.0%	29.6%	100.0%	100.0%	-
Gross Debt/EBITDA	0.65	1.00	0.37	0.46	24.3%
Net Debt (Net Cash)	17.6	(0.6)	(95.4)	(184.2)	93.1%
Capital Expenditure – (CAPEX)	35.4	20.8	57.9	27.5	(52.5%)
Performance					
Nº of employees	15,892	18,661	21,549	23,204	7.7%
Average productivity (R\$'ooo/employee)	44.7	52.5	63.5	68.1	7.2%
Shares⁽²⁾					
Trading price on Bovespa on 31/12 (R\$)	-	-	-	31,5	-
Nº of shares (million) ⁽³⁾	100	100	100	100	-
Earnings per share (R\$)	0.96	1.17	2.38	2.02	(15.1%)
Dividend per share (R\$)	0.82	0.19	0.86	0.64	-
Market capitalization (R\$ million)	-	-	-	3,150	-

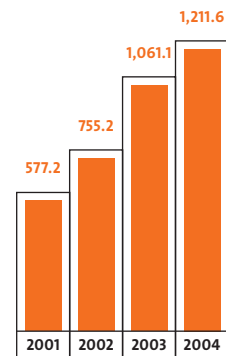
(1) To help with the comparison, adjustments have been made and are described in the Financial Statements.

(2) Trading started on October 29, 2004.

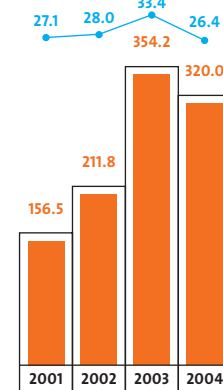
(3) Constant amount of shares constant for comparability reasons.

NET SALES

_R\$ Million



EBITDA AND MARGIN

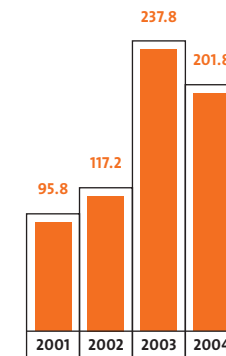


● EBITDA (R\$ MILLION)

● EBITDA MARGIN (%)

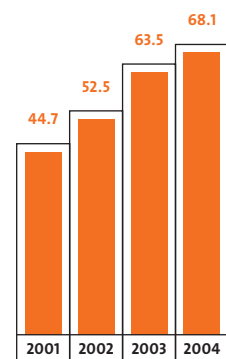
NET INCOME

_R\$ Million

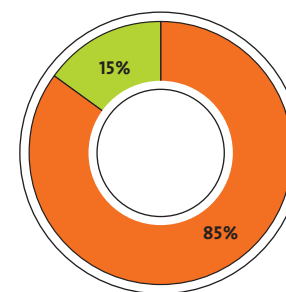


PRODUCTIVITY PER EMPLOYEE

_R\$ th/employee



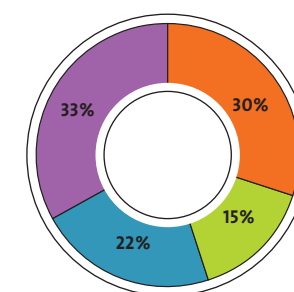
GROSS REVENUES BY MARKET 2004



● DOMESTIC

● EXPORTS

GROSS REVENUES BY SEGMENT 2004



● CHILDREN

● MASS CONSUMPTION

● MASCULINE

● FEMININE

_profile

One of the largest manufacturers in the world of synthetic footwear and leader in several segments in the Brazilian market, Grendene has an installed capacity of 160 million pairs. Its products are sold under successful brand names such as Melissa, Grendha, Rider, Baby, Kids, and Ipanema. Its industrial units, located in the states of Ceará and Rio Grande do Sul are differentiated by the use of exclusive and proprietary technology.

Grendene is one of the largest manufacturers in the world of synthetic footwear, made from PVC and EVA (Ethylene Vinyl Acetate). Its products are sold on the Brazilian market under well-known brand names, such as Melissa and Grendha (feminine), Rider (masculine), Baby and Kid's (children and infants) and Ipanema (mass consumption). In 2004, Grendene sold 145 million pairs of shoes and had a 21% share of the domestic Brazilian market.

Grendene specializes in manufacturing thermoplastic-injected shoes, made with its own exclusive technology from molds which it produces itself. This allows the company to manufacture innovative and original footwear more quickly, with greater precision, less labor and at lower costs than its competitors.

Annual productive capacity is 160 million pairs, produced at four industrial units. Three are located in the state of Ceará (Sobral, Crato and Fortaleza) and one in the state of Rio Grande do Sul (Farroupilha), where the company was founded in 1971. A fifth unit, located in Carlos Barbosa, also in Rio Grande do Sul, produces molds for the shoes. At the end of 2004, Grendene had 23,200 employees compared with 21,500 at the end of 2003.

Grendene benefits from a combination of advantages which ensure its outstanding position on its operating market and represent intangible assets which can increase its market value. These are its brands, innovative capacity, technology, productive system, distribution network, client relationships and history of solid growth.

Grendene products can be found at 17,300 sales points in Brazil and 19,500 abroad. The company exports to more than 57 countries. Export sales account for an average of 20% of annual volume and 14% of all Brazilian footwear exports. The Brazilian market is served by commercial representatives while international sales are handled by direct exports, distributors, commercial representatives; and wholly-owned subsidiaries (in the United States and Argentina).



1.



2.



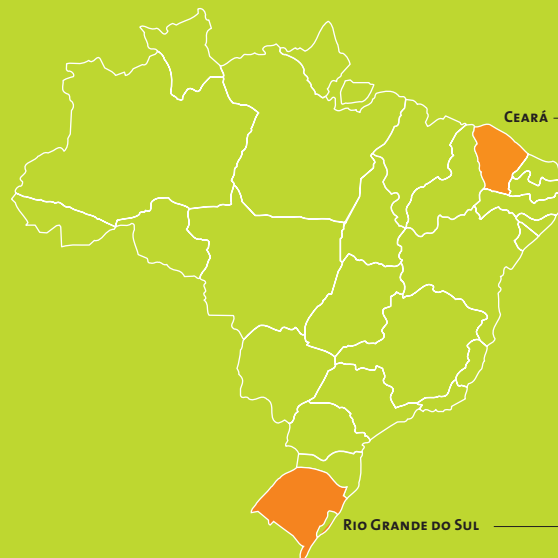
3.



4.



5.



CEARÁ

RIO GRANDE DO SUL

1. FARROUPILHA

ESTABLISHED: 1971
 CONSTRUCTED AREA: 54,000 SQUARE METERS
 INSTALLED CAPACITY: 5 MILLION PAIRS
 LINES: FOOTWEAR (PVC AND EVA)
 ADMINISTRATIVE CENTER

2. CARLOS BARBOSA

ESTABLISHED: 1980
 CONSTRUCTED AREA: 3,000 SQUARE METERS
 LINE: MOLDINGS

3. FORTALEZA

ESTABLISHED: 1990
 CONSTRUCTED AREA: 22,000 SQUARE METERS
 INSTALLED CAPACITY: 5 MILLION PAIRS
 LINE: PVC, FOOTWEAR AND COMPONENTS (PVC)

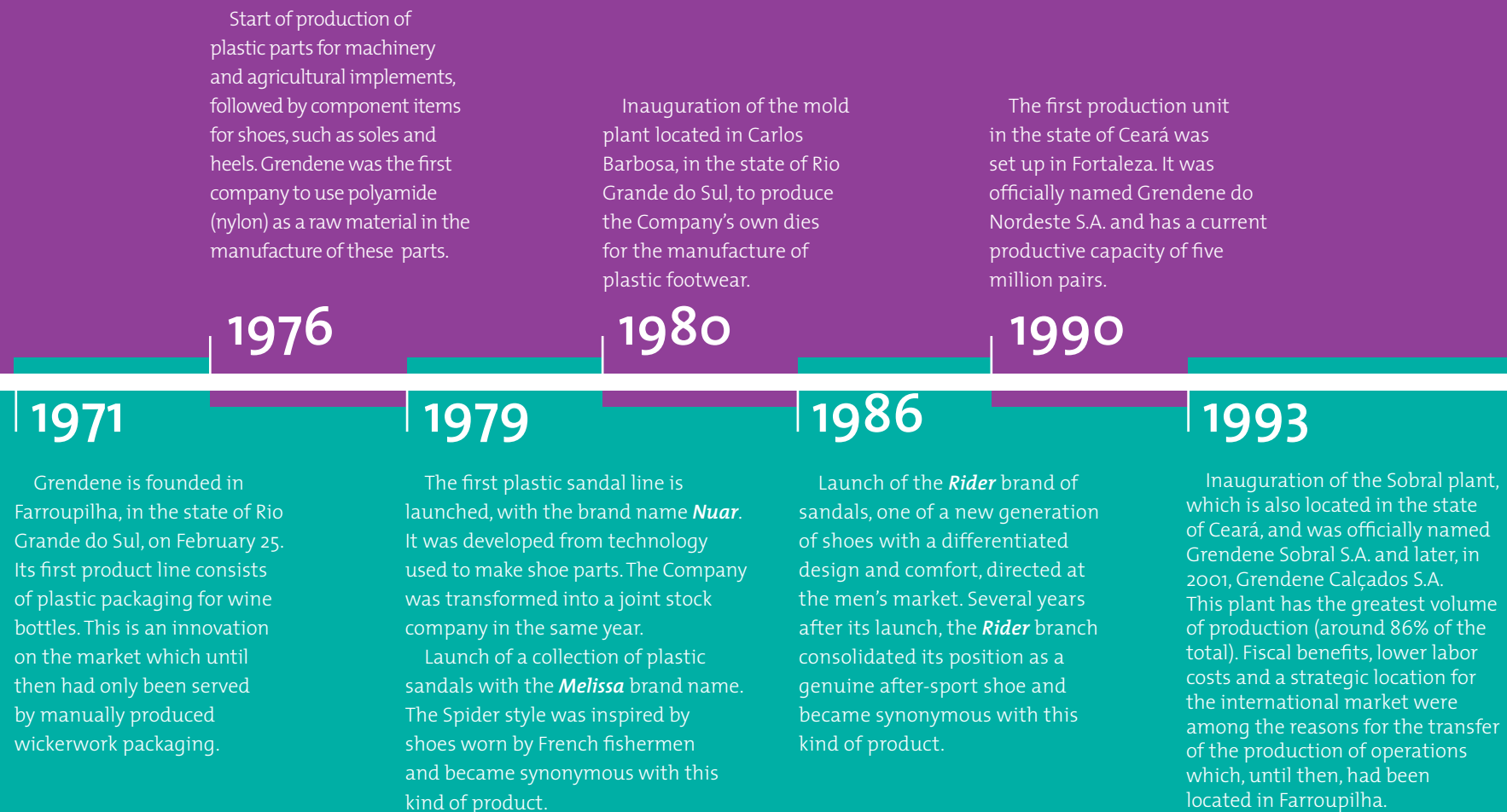
4. SOBRAL

ESTABLISHED: 1993
 CONSTRUCTED AREA: 166,000 SQUARE METERS
 INSTALLED CAPACITY: 138 MILLION PAIRS (154 MILLION IN THE MIDDLE OF 2005)
 LINE: PVC, FOOTWEAR AND COMPONENTS (PVC)

5. CRATO

ESTABLISHED: 1997
 CONSTRUCTED AREA: 22,000 SQUARE METERS
 INSTALLED CAPACITY: 12 MILLION PAIRS
 LINE: FOOTWEAR AND COMPONENTS (EVA)

_historical background



Launch of the **Grendha** product line for the women's market.

1994

Grendene Nordeste S.A., located in Fortaleza (CE), is incorporated by the parent company, Grendene S.A.

1998

Partnership agreement signed with top model Gisele Bündchen for the launch of a product bearing her name – ***Ipanema by Gisele Bündchen***.

2002

Grendene's initial public offering was on October 29 and its common shares start trading on the *Novo Mercado* of the São Paulo Stock Exchange.

The **Melissa** line commemorates 25 years' existence with the launch of the **Melissa Celebration** line, and the **Rider** line completes 18 years.

2004

1997

Start of operations at the third unit located in Ceará, in the town of Crato, under the name Calçados Grendene Ltda. The plant has current annual productive capacity of 12 million pairs of EVA (Ethylene Vinyl Acetate) products.

2001

Corporate restructuring with the incorporation of Indústria de Calçados Grendene Ltda. by Grendene Calçados S.A., and the launch of the ***Ipanema*** line of flip-flops and sandals.

2003

In August, Grendene Calçados S.A. was incorporated into Grendene S.A., as part of the preparations for Company's initial public offering. Following the corporate restructuring, the Company became a holding company for an operating company, with only one wholly-owned subsidiary, Saddle Corporation, based in Uruguay, which controls two wholly-owned subsidiaries: Grendha Shoes, in the United States, and Saddle Calzados, in Argentina.

_message from the board of directors

“It was a very special year in terms of retailer and customer satisfaction. We gained more market share and consolidated our brands. It is the force of the market which motivates us and sustains our growth, allowing us to maintain our DNA as an innovative company with the ability to reinvent and surpass itself.”

Although profitability was below expectations, we had a good year in terms of business performance, with an expansion in all product lines, greater market share and the consolidation of our brands. We are getting ready for new spurts of growth. The initial public offering, which we carried out at the end of October, with the launch of our shares on the São Paulo Stock Exchange's *Novo Mercado*, reflected our intention of ensuring the Company's continuity and look for growth and efficiency, and having a differentiated corporate governance model.

Our growth in 2004 was above the Brazilian footwear sector average of around 5%. Our revenues increased by 19.5% to R\$1,525 million and sales volume of shoes rose by 19.8% to a total of 145.3 million pairs. The operational cash generation (EBITDA) came to R\$320 million and net income amounted to R\$202 million. We began publishing a statement of our cash flow, which showed the high level of cash generation from the operations. At the end of 2004, the amount of cash and cash equivalents increased to R\$105 million from R\$16 million in 2003.

However, we had expected more and this creative dissatisfaction – which pushes us to find new ways of improving our existing skills – has driven Grendene since it was founded in 1971 and is incorporated into our culture.

Three factors outside the Company's control affected the result – the exchange rate, the higher tax burden and the rise in the price of the main raw material, PVC. The devaluation of the dollar reduced export revenues and had a negative effect on the financial result of investments in foreign currency. In terms of taxes, the increase in the COFINS (Social Security Financing Tax) had an impact of 3.4% on our gross margin. This increase, along with the impact of higher petrochemical prices on costs, could not be passed on entirely to the customer, even with the readjustments made in the second semester of 2004. This was due to the fact that consumers' income did not accompany Brazil's economic growth at the same rate.

We also decided to increase our marketing expenses. They amounted to 8% of net sales in 2004 compared with the historic average of 6%.

This move was part of our strategy of strengthening the positioning of our brands in the period after becoming a listed Company, marking a new phase in Grendene's life and consolidating the success of our products at the sales point.

It is precisely this performance that made the year very special in terms of retailer and customer satisfaction, since it is the force of the market which encourages us and sustains our growth.

We were pleased to receive two important awards in 2004. These were for Business Excellence from the Fundação Getúlio Vargas business school, for the second consecutive year, and the best company in the finishing, textiles and footwear category in Brazil, in the ranking of the *Melhores & Maiores* (Best and Biggest) supplement of the magazine *Exame*. We received another award for our efforts at the beginning of 2005 when we were chosen as Wal-Mart's International Supplier of 2004.

A performance like this does not come about by chance but through lots of research and development. This is a vital area in the fashion products market and, for this reason, is given priority by Grendene. We launched 480 new products during the year. This shows our ability to innovate, anticipate trends and identify the customer's desires rapidly, while creating innovative models and more efficient productive processes.

We invested R\$10.8 million in this area in 2004 and intend spending a similar amount in 2005. These investment are aligned to our strategy of increasing our market share by constantly creating new products which provide quality, originality, practicality, comfort and emotional appeal at competitive prices.

To sustain our growth, we began investments in 2004 to expand the productive capacity of our plant at Sobral by 10%. Sobral is responsible for 86% of our production and the investment, amounting to R\$25 million, will increase installed capacity from 160 million pairs to 176 million pairs from May 2005.

For all these reasons, 2004 was an important step in a new cycle of development. As a listed company, we are building a new culture on a daily basis, improving our systems and processes to ensure transparency, structuring the disclosure of our performance, and creating a differentiated relationship with our stakeholders. At the same time, we are maintaining our DNA as an innovative Company with the ability to reinvent and surpass itself.

We face the future with confidence and wish to thank all those who have helped make Grendene a company which complies with its ambitions to grow: the shareholders, for their trust in our ability to create long-term value; our 23,000 employees, for their dedication and commitment to results; our suppliers, for their partnership; and our clients and customers, who prefer our brands and constantly challenge us to surpass ourselves in terms of quality and creativity.



_brands

Over the years, Grendene has consolidated strong brands, such as **Melissa** sandals and the **Rider** Line, which are recognized on the market. These brands have become synonymous with plastic and after-sport sandal products respectively. The products are different, thanks to their originality, practicality, design and emotional appeal to the customer. This strategy is based on associating the products with Brazilian and international celebrities and, in the case of the *Kid's* line, through licensing agreements involving children's characters who are well-known in Brazil and abroad.

Of the most recently-created brands, **Ipanema**, launched in 2001, has already gained a large market share. In 2002, a **Ipanema** special line, bearing the signature of top model Gisele Bündchen was launched.

The licenses include names such as Xuxa, Senninha, Guga, Sandy, Wanessa Camargo, Eliana, Rouge, Kelly Key, Ivete Sangalo, Adriane Galisteu, Alexandre Herchcovitch, Pininfarina and Mormaii. They also include the characters of Sponge Bob, Hello Kitty, Powerpuff Girls and characters from Disney, Mattel (such as Barbie), Warner Bros (*Looney Tunes*) and the *Sítio do Pica Pau Amarelo*, a famous Brazilian children's series.

At the end of 2004, the Company had 345 brands registered in Brazil, with more than 60 registration applications outstanding. It had approximately 414 brands registered abroad in 82 countries with 183 registration applications outstanding. The Company has also registered seven industrial patents, 12 utility models and 342 industrial designs, mainly in footwear production.





01. strategy

Grendene's strategy is to grow in Brazil and abroad. It is supported by producing the most modern synthetic footwear, increasing business on the domestic and international markets, expanding installed capacity, and constantly renewing its portfolio, with the focus on products and concepts that express the value of the brand.

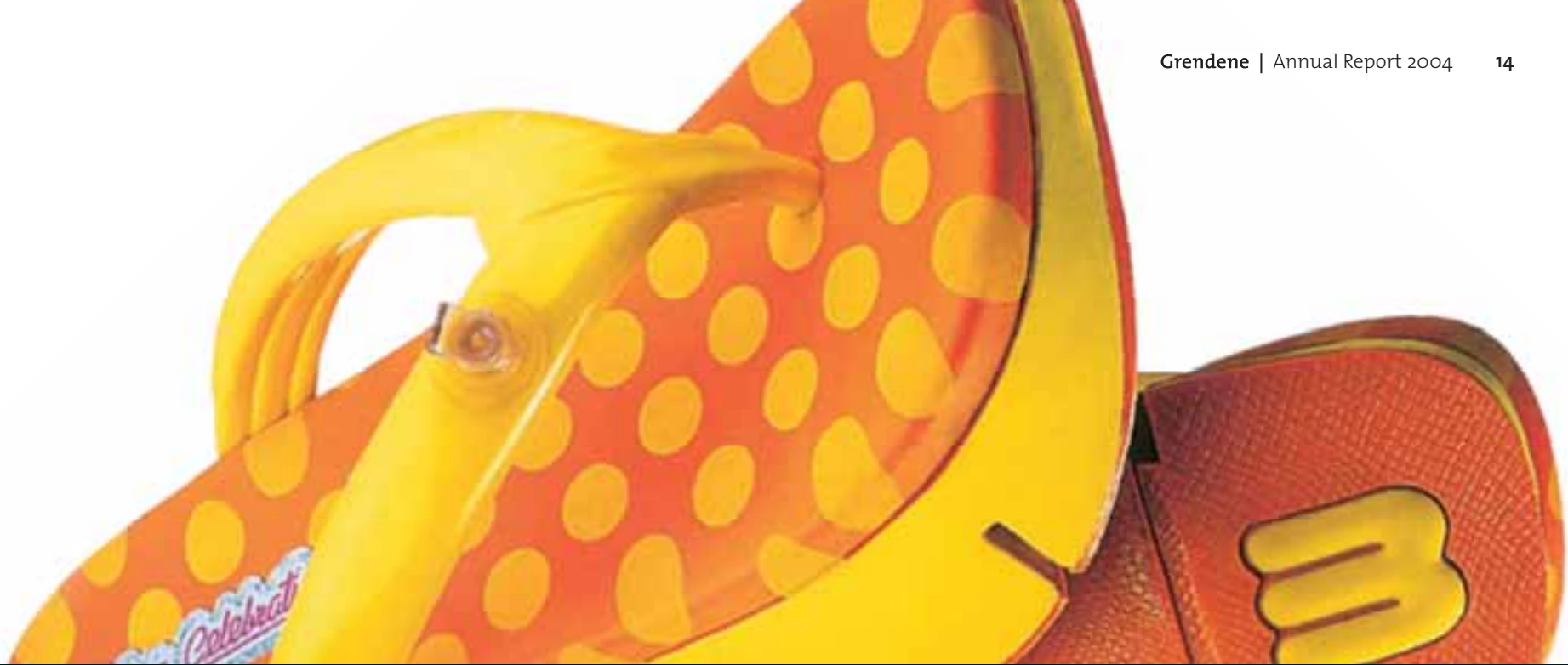
Grendene's strategy is to increase its share of the market inside and outside Brazil, particularly in South America, expand the development of quality products which are original, practical, comfortable and with an emotional appeal, at competitive prices. The strategy is based on five main drivers:

1_ Modernization of Synthetic Footwear

To concentrate on creating synthetic footwear through an automated production process which brings significant gains of scale. At the same time, to consolidate, give due value to and publicize the use of synthetic shoes, stressing their advantages over other kinds of footwear, in terms of price, lightness, differentiated design, versatility, comfort and ease in accompanying fashion trends.

2_ Growth on the Domestic Market

The Brazilian footwear market has great growth potential compared with other countries. According to the Brazilian Footwear Industry Association (Abicalçados), annual per capita consumption is 2.8 pairs, below countries such as the United States (the world's greatest consumer with 6.7 pairs), France (5.3) or Germany (5.2).



Grendene has consistently increased its market share in its four operating areas (masculine, feminine, children's and mass consumption). Besides consolidating and publicizing the use of synthetic footwear, the Company pursues ways of strengthening client loyalty by permanently consulting customers as part of its sales strategy. The aim is to concentrate on and expand the Brazilian customer base, the main business focus, highlighting the feminine and mass consumption segments. The domestic market was responsible for around 80% of volume and 85% of gross revenues in 2004.

3_ Growth on the Export Market

To intensify its presence on the markets where it is already present, identify new markets with the right consumer profile for its product line, through competitive prices, differentiated design and a constant eye on new fashion trends, operating with its own designs and brands and those of third parties. Around 20% of total volume of footwear was exported in 2004, representing approximately 15% of the gross revenues for the year.

To keep the Melissa line separate, as a more conceptual product from the other brands, with a strategic focus on selective sales points, such as specialist stores, boutiques and fashion and design stores. This line is an important instrument in identifying customer preferences and defining trends, while adding value to the full plastic kind of footwear. In terms of the other lines, the plan is to give continuity to the strategy applied over 57 countries. At the same time, new commercial openings are being made in South America, particularly in the Andean countries where new agents and authorized, exclusive distributors have been accredited.

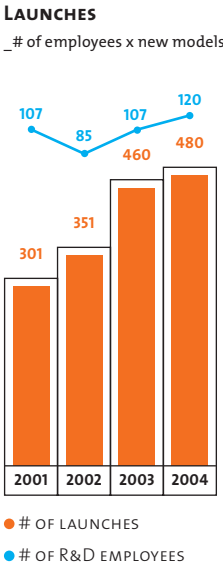
4_ Growth in Productive Capacity

The industrial units are prepared for a rapid increase in installed capacity at a relatively low investment cost. One example is the expansion of capacity at the seventh plant in the Sobral Unit. This plant opened in 2003 and the expansion project of the seventh plant was carried out in six months. The plant expansion gives priority to regions which can bring gains of scale and cost advantages. A new increase of 10% was planned for Sobral in the middle of 2005 at an investment cost of R\$25 million. This will boost annual capacity from 160 million to 176 million pairs.

5_ Continuous Renewal of the Portfolio

One of Grendene's pillars is its constant innovation, focused on products and concepts which express the value of the brands. In 2004, around 480 models were launched, while the active portfolio contained 180 products. The Company has its own 120 strong research team, made up of people from different professional backgrounds. This team is constantly developing new products and technologies which are focused on the Company's businesses and sustainable design.

The process is backed by structured marketing planning, which is essential to consolidate the image of the products. The strategy involves the use of the Company's own brands, as well as associating them with nationally and internationally known celebrities and children's characters. This gives the products more emotional appeal with the public and increases added value.





02. Grendene's market

Grendene is positioned as a manufacturer of fashion products and was responsible for 21% of Brazilian footwear production in 2004. With leadership in sales volumes, or an outstanding position in the masculine, feminine, children's and mass consumer areas, it is supported by the constant renewal of its portfolio, marketing and customer service.

Grendene operates in a market where there are around 7,200 small, medium and large competitor companies and which produced a total of approximately 700 million pairs of shoes in 2004. The volume was 5.2% higher than in 2003, according to an estimate by the Brazilian Footwear Industry Association (Abicalçados), and sales amounted to around R\$17.2 billion, based on the consumer price.

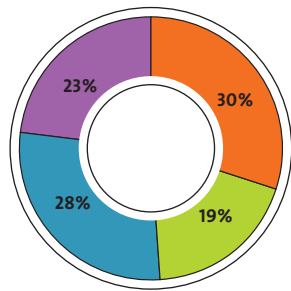
Grendene sold 145.3 million pairs of shoes in 2004, 19.8% higher than the previous year. The Company was responsible for 21% of domestic production and has a leading position as a manufacturer of fashion products at competitive prices.

Brazil is the third-largest exporter of footwear in the world, behind China and India, and had sales of 212 million pairs in 2004. Grendene had a 14% share of this total. The footwear sector is an important job creator and employs an estimated 280,000 people.

The Company operates in four market segments with a leadership in terms of sales volume or market share. Its strategy is based on the constant renewal of its portfolio and aggressive marketing through publicity and advertising. The sales distribution is weighted in such a way that the Company is not disproportionately dependent on one segment or market. The Southeastern region, which is the main consumer center of Brazil, was responsible for 52% of sales volume in 2004.

SALES VOLUME BY SEGMENT

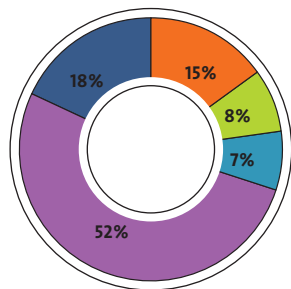
_Domestic Market – 2004



- MASS CONSUMPTION
- MASCULINE
- FEMININE
- CHILDREN

SALES VOLUME BY REGION

_Domestic Market – 2004



- SOUTH
- NORTH
- CENTERWEST
- SOUTHEAST
- NORTHEAST

MASCULINE

Rider brand was launched in 1986 and has a differentiated design. It is extremely comfortable and has become synonymous with this style of product in Brazil. Abroad, *Rider* sandals are seen as the genuine after-sport sandal and are sold in over 85 countries. The adult and children's line of sandal is split into three shapes, according to the customer's use and preference: sports (vamped slip-ons), beach (flip-flops) and adventure (sandals and sneaker-type sandals).

FEMININE

In the feminine market, Grendene's products are sold under the **Melissa**, **Grendha** and **Ipanema Gisele Bündchen** brands.

- **Grendha** – This line, launched in July 1994, covers five segments, according to type and positioning: casual (classic models), tropical (fashionable beachwear), fashion (trends and innovation), summer (sandals and flip-flops for the beach) and promotional (licensed). In this last segment, the products are promoted through TV campaigns, linking their image to celebrities, such as Adriane Galisteu, Ivete Sangalo, Wanessa Camargo, Daniela Cicarelli and Gianecchini (TV presenters; singers; actors and actresses), amongst others.

- **Ipanema Gisele Bündchen** – This line was launched in July 2002 through a licensing agreement with top model Gisele Bündchen, with specific back-up advertisement and a dedicated Internet site. The **Ipanema Gisele Bündchen** line includes sandals and flip-flops. The contract was renewed at the beginning of 2005 and will continue until 2007.

- **Melissa** – The Melissa line of products, launched in 1979, was the first full plastic shoe in Brazil and boosted Grendene's growth. It was also the first brand in the sector to be featured through merchandising on Brazilian television. Actresses wore Melissa shoes in soap operas, such as *Dancing Days*, which launched the fashion for full plastic sandals with lurex socks.

The brand was repositioned as a premium product line in 1999 and sold through specific, differentiated channels, as a way of increasing the value of the brand and the kind of full plastic products. The line validates shapes and is based on an affectionate relationship with customers. It has a dedicated sales team, with 19 exclusive offices in Brazil and three abroad (Mexico, United States and Europe).

The Melissa brand, which celebrated 25 years of success in 2004, is sold as a fashionable trend-setting line through exclusive, differentiated channels.





The original Spider model was inspired by the shoes worn by French fishermen and were worn by exclusive models, signed by designers such as Alexandre Herchcovitch, Marcelo Sommer and the Campana brothers. It is positioned as a trend-setting fashion product. Two collections are launched every year and presented during the São Paulo Fashion Week, Brazil's most important fashion event. Launches are held in January (Autumn-Winter collection for the southern hemisphere) and another in July (Spring-Summer collection for the southern hemisphere). Among the outstanding new models, developed jointly with Grendene's research team, were the braided plastic shoes and bags from the Campana line, Scarfun by Herchcovitch and Esmerald by Sommer.

The Melissa brand celebrated its 25th anniversary in 2004 with a series of events. The highlight was the Plastic.o.rama, a multi-media presentation of 90 photos with Melissa as their common theme, held at the end of March 2005 in the Rio de Janeiro Modern Art Museum (MAM). The shoes inspired images or were personalized by designers, artists and stylists. They painted and drew on the shoes, added pebbles, feathers, pearls, stickers, etc and created exclusive models from this sandal which has become synonymous with the product category.

The children's and feminine segments are sold with the support of celebrities' names and licenses, through the strategy of adding value and emotional appeal to the products, ensuring volume and sales growth.

CHILDREN

The *Kid's* product line is designed for children and pre-teens and was launched in 1984. The line includes a series of products launched with the licensing of names and brands of children's characters who are known domestically and internationally, with the aim of adding emotional appeal to the products. Some of the products in this line are sold with accessories which add value and are a differential.

MASS CONSUMPTION

This segment operates under the *Ipanema* brand and includes lower-unit price items. The line was launched in July 2001 and is designed to increase the Company's operations on the unisex flip-flops and sandals market. The line offers products at a competitive price, focuses on the distribution, and adds value by associating the shoes with fashion. The *Ipanema* line covers three segments: basic (basic and classic models), feminine and masculine themes.



innovation

As part of its policy of innovating, renewing and extending its product lines, Grendene develops an average of 480 products annually and has around 180 products in its active portfolio.

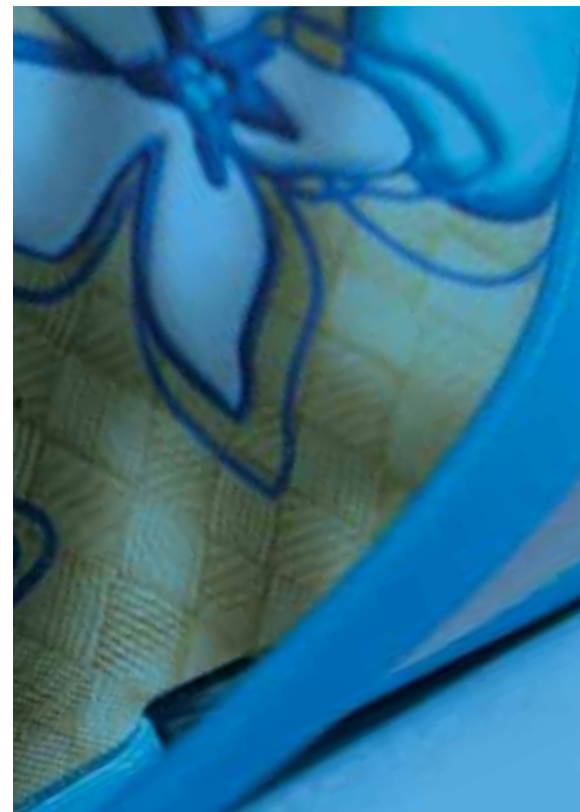
Grendene uses the concept of planned obsolescence as a way of creating barriers to competitors and reducing piracy. The research and development area is dedicated exclusively to creating concepts, designs, models of shoes, and samples of colors and materials. It consists of around 120 people from different backgrounds, such as architects, fashion stylists, designers, business administrators, modelers, chemists, seamstresses, technicians, and specialists in marketing and mock-ups. These identify new technologies and develop new products, based on consumer research and identification of trends.

Local and international trends confirmation research is carried out and the Company takes part in footwear and trade fairs, and meetings on design themes. Specialist magazines are also studied. The creative process is self-sustainable, based on trends, the development of successful products, market research and sales feedback. The Company invested R\$11 million in Research and Development in 2004.

The concept is sustainable design and involves the integration of the commercial, social and environmental aspects in the development of products. Priority is given to processes which recycle all the materials used, even in cases where the shoes are made from different component materials. This approach brings financial advantages and eliminates negative impact risks to the environment. The entire development of products is focused on the business and the production process.







03. management's discussion & analysis (MD&A)

Gross revenues of R\$1.5 billion were 19.5% higher than the previous year and reflect the Company's strategy of focusing growth on the feminine and mass consumption areas. The emphasis is on increasing business on the domestic market where sales rose by 32.5% year-on-year, boosted by new product launches.

GROSS REVENUES

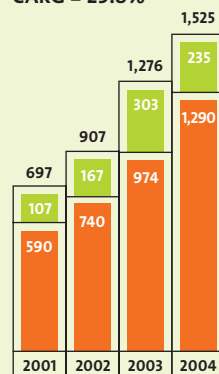
Gross revenues in 2004 came to R\$1,525 million, a rise of 19.5% over the 2003 figure of R\$1,276 million. Of this, 84.6% was from the domestic market and 15.4% from exports, compared with 76.3% and 23.7% respectively in 2003. The higher revenues were due mainly to the highly successful strategy of focusing growth on the feminine and mass distribution segments.

The year-on-year rise in 2004 was impressive, especially when it is considered that the comparison base was also very high, since gross revenues in 2003 rose by 40.7% over 2002. Although there was virtually no GDP growth in 2003, it was a highly favorable year for Grendene. This was because of the low pressure on costs, an exchange rate which benefited exports, and the launch of an export product with a high average price which was an international success. These factors did not recur in 2004.

Grendene's gross revenues over the last four years have grown by 29.8% annually and volumes have risen by 15.5%. This is a higher rate of growth than Brazilian GDP (2.2% p.a.) and average volume for the footwear sector (4.7% p.a.). The domestic market offset the fall in revenues and the average sales price seen in exports, caused by the less favorable exchange rate and the less profitable mix of cheaper products, so that the average sales price remained stable in 2004.

GROSS REVENUES

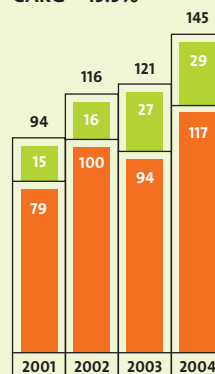
_In million of Reals

CARG = 29.8%

● DOMESTIC
● EXPORTS

SALES VOLUME

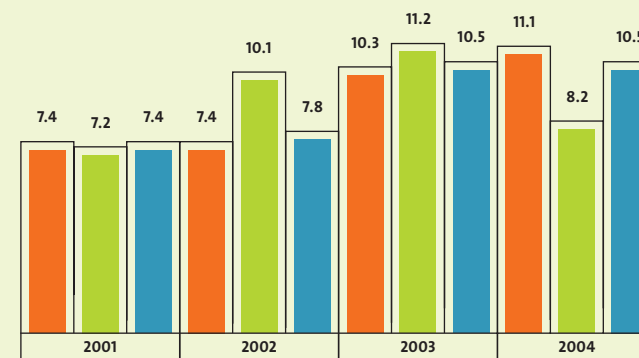
_In million pairs

CARG = 15.5%

● DOMESTIC
● EXPORTS

AVERAGE PRICE

_In R\$



● DOMESTIC
● EXPORTS
● TOTAL MARKET

Domestic market

Sales on the domestic market were 32.5% higher than in 2003. This was due to a rise of 23.5% in the volume of shoes sold and 7.2% in the average sales price. Two mass market areas were outstanding – the Ipanema and Ginga lines – and presented increases of 52.4% in revenues, 28.8% in volume and 18.2% in the average price, in line with the strategy of refusing to allow products to compete as commodities.

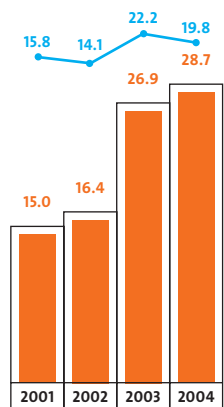
The feminine sector showed the second-highest growth, increasing by 44.3% in revenues, 35.1% in volume and 6.9% in average price. The launch of products in these segments, backed by new advertisement campaigns, made a significant contribution to this result. Advertisements for the Ipanema feminine line featured *Gisele Bündchen*, while the Grendha line featured celebrities such as *Daniela Cicarelli*, *Carolina Dieckman*, *Adriane Galisteu* and *Ivete Sangalo*. A new *Gianecchini* Collection was also one of the most recent launches, as part of the 2004 Spring and Summer collection.

All the segments presented sales growth in 2004. The highlights were the mass consumption segment that registered an increase of 52.4% in revenues and 28.8% in volume and the feminine segment, with increases of 44.3% and 35.1% respectively.

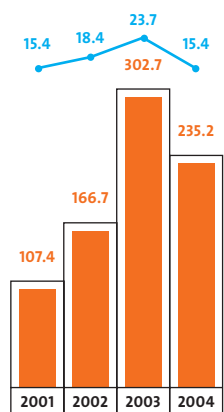
The masculine segment also showed a big rise in revenues, volume and the average price of 28.8%, 16.5% and 10.5% respectively, boosting growth on the domestic market. The “Let’s Rider” campaign linked to the beach, adventure and sport line collection, was a success with the advertising theme song “*Vamos Fugir*” (Let’s run away) by the pop group, *Skank*.

In the children’s segment, there was an increase of 16.9% in revenues, 11.3% in volume and 5% in the average price. During the year, ads were launched or continued to be shown featuring *Kelly Key*, *Wanessa Camargo*, *Sandy*, *Xuxa* and *Guga*, while new products were launched through the *Barbie*, *Hello Kitty* and *Senninha* licenses.

The domestic market’s share of gross revenues rose from 76.3% in 2003 to 84.6% in 2004, resulting in higher volume of 77.8% and 80.2% respectively. This performance reflects the Company’s strategy of consolidating brands and market positioning, investing more in advertising and publicity, as well as the lower exports.



● EXPORTS (MILLION PAIRS)
● AS A % OF SALES VOLUME



● EXPORTS (R\$ MILLION)
● AS A % OF GROSS REVENUES

Export market

Exporting has a seasonal aspect, with a certain concentration in the first quarter of every year. In 2004 there was a rise of 6.6% in export volume but a drop of 22.3% in gross revenues from exports, due to a fall of 27.1% in the average sale price year-on-year. This growth in volume was impressive, considering that exports in 2003 had increased by 63.7% over 2002. The fall in gross revenues from exports in 2004 occurred on a base which had grown significantly in two consecutive years – 81.6% in 2003 and 55.2% in 2002.

The external market's share of revenues fell from 23.7% in 2003 to 15.4% in 2004. This was due to the special sales of the **Melissa Love System** product on the American market where it was sold directly to retailers by the **Grendha Shoes** subsidiary in 2003 but not in 2004. **Grendha Shoes** normally operates as a representative and distributor for small volumes while Grendene's direct exports attend the large retailers.

NET SALES

Net sales amounted to R\$1,211.6 million in 2004, an increase of 14.2% over the R\$1,061 million reported in 2003. The net sales in 2004 were hit by the rise in the COFINS tax from 3.0% to 6.4% in February 2004, net of credits for purchasing input and raw materials.

COST OF GOODS AND SERVICES SOLD

The cost of goods and services sold in 2004 came to R\$685.9 million, an increase of 23.1% over the previous year's figure of R\$557.1 million. This was compatible with the increase in sales volume, which rose by 19.8% to 145.3 million pairs compared with 121.3 million in 2003. The increase in the cost of goods and services sold was due to higher labor costs arising from normal wage negotiations and new hires in the period, since the workforce increased from 21,549 at the end of 2003 to 23,204 at the end of 2004. Other contributory factors were higher raw material costs, such as PVC resins and plasticizing oils. The higher depreciation was due to the increase in property, plant and equipment in 2003, which was felt in 2004, and increases in other costs reflecting the increase in utility prices.

Higher prices of the main raw materials, PVC resins and plasticizing oils, and pay increases for the workforce were the main reasons for the higher cost of goods sold.

COST OF GOODS AND SERVICES SOLD – R\$ million

	2004	2003	Variation (%)
Raw material, input, intermediate material, freight and packaging	408.0	331.1	23.4
Labor	221.6	177.7	24.7
Depreciation	21.6	18.0	20.0
Other costs ⁽¹⁾	34.7	30.3	14.5
Cost of goods and services sold	685.9	557.1	23.1
Volume of pairs sold (million)	145.3	121.3	19.8

(1) "Other costs" include electrical energy, water, gas, consultancy, information technology services and maintenance, amongst others.

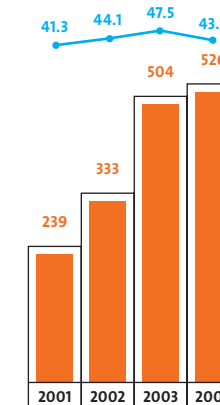
GROSS PROFIT

Gross profit in 2004 came to R\$525.7 million, 4.3% higher than the R\$504.0 million reported in 2003, with gross margins of 43.4% and 47.5% respectively. The gross margin in 2003 rose due to the macroeconomic conditions and the favorable market. The recovery in the gross margin was due to the reduction in the fixed costs through the higher volume sold and the stability of PVC prices in Reais in the last quarter of the year.

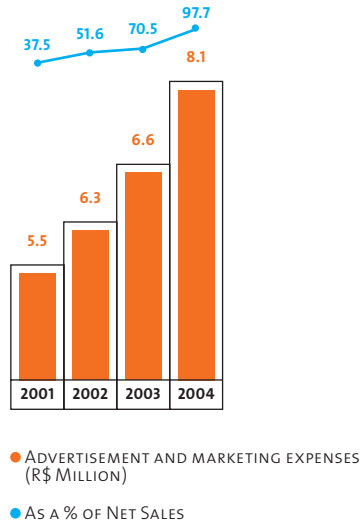
SALES EXPENSES

There was a 27.7% rise in sales expenses in 2004, caused by the higher sales volume and increased marketing expenses. Sales expenses in 2004 amounted to 23.1% of net sales compared with 20.6% in 2003. The higher advertisement and marketing expenses were part of the Company's strategy to exhibit its brands through the media. This benefited the business in terms of sales by launching products linked to celebrities. The aim, particularly in the third and fourth quarters, was to bring about a high turnover of products at the retail level which left Grendene with minimum stocks at the end of 2004. This investment was made to consolidate the Company's brands and market positioning. It will bring future returns, helping the brand recall in 2005, just as it

Gross Profit – R\$ Million
Gross Margin – %



● GROSS PROFIT
● GROSS MARGIN



brought immediate results, with gains in market share seen in all segments where the Company operates in 2004. Costs related to advertisement and marketing in 2005 should return to the average ratio of net sales seen between 2003 and 2004.

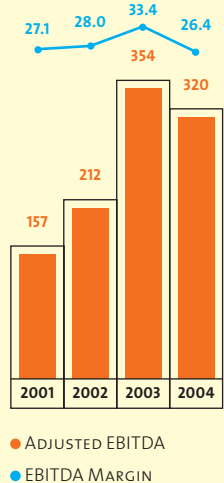
Besides this, new licensing agreements were negotiated at the end of 2004, as part of the Company's strategy of constantly innovating products and bringing new characters to future collection. Grendene's 2005 portfolio will include the license for *Batman*, *Hot Wheels*, *Barney*, *Strawberry Collection* and new products from the license with *Walt Disney*, such as *Nemo*, *Winnie the Pooh* and the *Princess*.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses amounted to R\$66 million in 2004, representing 5.5% of the net sales, compared with R\$61.6 million and 5.8% respectively in 2003. The increase was due mainly to the expenses arising from the secondary public common shares offering which occurred in the fourth quarter of 2004.

At the end of 2004, the expenses arising from the public offer for the secondary distribution of common shares issued by Grendene S.A., amounting to R\$3.3 million, were accounted. These included legal fees, external audit, printing prospectuses, legal advertisement (minutes and announcements) and other expenses involved in the registration process of the Brazilian Securities and Exchange Commission (CVM) and the *Novo Mercado* of the BOVESPA stock exchange, and the Company's initial public offering.

Adjusted EBITDA _ R\$ Million
EBITDA margin _ %



ADJUSTED EBITDA

The adjusted EBITDA for 2004 came to R\$320.4 million compared with R\$354.2 million in 2003, a fall of 9.5%, with margins of 26.4% and 33.4% respectively. This lower adjusted EBITDA margin was mainly due to the lower revenues from exports, the appreciation of the Real against the dollar, the product mix, the cost of the main raw material, PVC, the higher rate of the COFINS tax, and higher investments in advertisement and marketing. The following table shows the conciliation of the adjusted EBITDA for the periods in question:

ADJUSTED EBITDA (R\$ million)

	2004	2003
Gross profit	525.7	504.0
(-) Sales expenses	(279.3)	(218.8)
(-) General and administrative expenses	(66.0)	(61.6)
(-) Management compensation	(0.4)	(0.2)
(+) Equity pickup	0.0	0.0
(+) Fiscal benefit adjustments	113.2	108.8
(+) Depreciation and amortization	27.2	22.0
Adjusted EBITDA	320.4	354.2

NET FINANCIAL RESULT

The net financial result in 2004 was a deficit of R\$58.7 million, comprised of financial expenses of R\$110.4 million and financial income of R\$51.7 million. In 2003, the net financial result was a deficit of R\$53.4 million, comprised of R\$137.8 million in expenses and financial income of R\$ 84.4 million.

R\$ million	2004	2003
Financial expenses		
Client discounts	58.6	54.3
Expenses from exchange rate variation	22.8	54.8
Expenses from financing	18.5	15.5
Other financial expenses	10.5	13.2
Total financial expenses	110.4	137.8
Financial income		
Income from financial investments	32.3	20.2
Income from exchange rate variation	13.8	46.7
Interest received from clients	2.5	2.1
Other financial income ⁽¹⁾	3.1	15.4
Total financial income	51.7	84.4
Net financial result	(58.7)	(53.4)

(1) A non-recurring income of R\$10.9 million from monetary updating of legal gains related to the PIS and Finsocial taxes in 2003 was accounted.

Investments in marketing reflected higher advertising expenses aimed at brand consolidation and market positioning, and the cost of negotiation new licenses as part of the strategy of constant innovation.



OTHER OPERATING INCOME

Other operating income in 2004 amounted to R\$13.5 million, representing 1.1% of net sales. These were R\$6.9 million in gains from hedge operations on the BM&F futures market, non-recurring income from the recovery of the COFINS tax (Law 10,833/03) amounting to R\$3.4 million and R\$0.7 million in credit from the assumed IPI (Tax on Industrialization Products), as well as R\$0.9 million from the sale of input material. In 2003, other operating income totaled R\$23.4 million, or 2.2% of net sales.

OTHER OPERATING EXPENSES

In 2004, other operating expenses totaled R\$3.8 million, equivalent to 0.3% of net sales, due mainly to the negative adjustment of the hedge on the BM&F, amounting to R\$1.5 million, taxes on other operating income of R\$0.9 million, and provisions on obsolete stocks and labor contingencies of R\$0.8 million.

INCOME TAX AND SOCIAL CONTRIBUTION TAX

Provisions for Income Tax in 2004 came to R\$31.9 million, below the year-on-year figure of R\$44.3 million. In 2004, a fiscal benefit from income tax of R\$20 million was obtained compared with R\$30.5 million in 2003. The Social Contribution tax (CSLL) in 2004 amounted to R\$11.8 million compared with R\$13.5 million in 2003. Income tax and the CSLL was lower than in 2004, as the pre-tax profit was lower than in 2003.

As the table shows, there was a payment of cash from income tax of R\$11.9 million in 2004 and R\$13.8 million in 2003 (provision for Corporate Income Tax (IRPJ) – incentive of IRPJ).

PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION CONSOLIDATED

Item	2004	2003
IRPJ corporate Tax – Provision	31,955	44,346
Social Contribution – Provision	11,794	13,480

NET CORPORATE INCOME TAX TO PAY

Item	2004	2003
IRPJ Corporate Tax – Provision – Consolidated	31,955	44,346
(-) IRPJ incentive	(20,048)	(30,500)
(=) Net to Pay	11,907	13,846

ADJUSTED NET INCOME

In 2004, the Adjusted Net Income fell by 15.1% to R\$201.8 million compared with R\$237.8 million in 2003. The net margin came to 16.7% in 2004 compared with 22.4% in 2003.

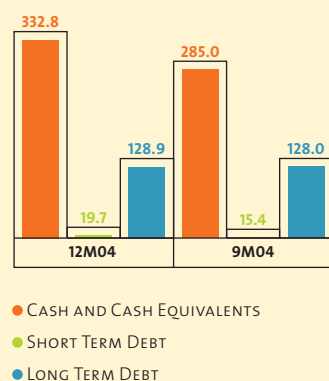
Since the income from fiscal incentives is accounted directly in Shareholders' Equity, in the fiscal incentive reserve account, without passing through the Statements of Income, the adjusted net income on December 31, 2004, was reconciled as shown in the following table:

R\$ million	2004	2003
Adjusted net income before fiscal incentives (pro forma consolidated)	88.6	129.0
(+) Fiscal incentives (Provin, Proapi and IRPJ)	113.2	108.8
Adjusted net income for the period (after including fiscal incentives)	201.8	237.8

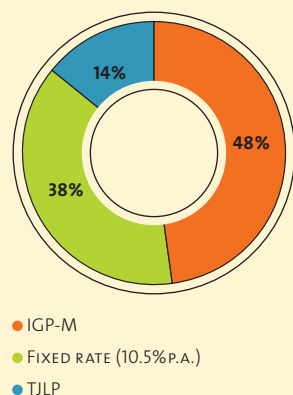
FISCAL INCENTIVES

Approval was given in December 2004 for the anticipated renewal of the fiscal incentives (Provin) related to the ICMS (VAT) tax of the industrial units located in Crato and Fortaleza, in Ceará state, for another 10 years, thereby extending them until 2022 and 2025 respectively.

NET CASH OF R\$184.2 MILLION IN 2004



COST OF DEBT



Net cash amounting to R\$184.2 million at the end of the year reflects the Company's ability to generate cash, its solid financial position and ensures that resources are available for capital expenditure in production and innovation.

DEBT

On December 31, 2004, the cash, cash equivalents and consolidated financial investments came to R\$332.8 million, while loans and financing totaled R\$148.6 million (R\$128.9 million of which was long term and R\$19.7 million short term). On December 31, 2003, the cash, cash equivalents and consolidated financial investments came to R\$227.6 million, while loans and financing came to R\$132.2 million (R\$117.4 million of which was long term and R\$14.8 million short term).

On September 30, 2004 the cash, cash equivalents and consolidated financial investments amounted to R\$285 million and the total loans and financing came to R\$143.4 million.

The loans and financing consist of obligations contracted with Banco do Nordeste (final maturity in 2011, corrected at pre-fixed rates of 10.5% a year) to acquire industrial equipment and loans for civil construction, and with Banco do Estado do Ceará in regular mutual loan contracts linked to fiscal benefits (repayment period of 60 months, corrected by the IGP-M index and long-term interest rates – TJLP, plus 0% in interest) granted to the Company by the State of Ceará.

R\$ million	2004	2003
Total debt	148.6	132.2
Cash, cash equivalents and financial investments	332.8	227.6
Net debt (Net cash)	(184.2)	(95.4)

On December 31, 2004, the Company had net cash of R\$184.2 million, higher than the R\$95.4 million reported on December 31, 2003. This increase arose from the cash generation in the period, resulting from the increase in accounts receivable and the lower inventories.

ADJUSTED CASH FLOW (PRO FORMA)

Under the requirements of the *Novo Mercado*, the Company would have to disclose its quarterly cash flow figures from the first quarter of 2005. However, in line with its high standards of Corporate Governance, Grendene decided to bring forward its cash flow disclosure from the year 2004 and compare it with 2003. In order to maintain the standard of comparison, an Adjusted Cash Flow (pro forma) table related to the reporting years 2004 and 2003 was drawn up.

The cash flow statement shows the large amounts of cash the Company generates through its operating activities and how carefully it manages its current assets and liabilities accounts to manage resources in the operations. There were enough resources available to carry out the investments in the period and substantially improve the net cash situation in 2004 compared with 2003.



CONSOLIDATED CASH FLOW (In thousands of Reais)

	2004		2003	
	Audited	Pro Forma	Audited	Pro Forma
OPERATING ACTIVITIES				
Net income for the year	67,654	201,805	203,221	237,762
Adjustments to reconcile net income to cash generated by the operating activities				
Equity pickup	-	-	(45,071)	(45,071)
Depreciation	27,221	27,221	21,960	21,960
Fiscal incentives from income tax and export incentives, Proapi and Provin	113,203	-	108,780	45,073
Deferred income tax	(9,446)	(1,228)	-	-
Adjustments from previous periods	4	4	19	19
Decrease in assets	1,722	1,722	-	-
	200,358	229,524	288,909	259,743
Variations in current assets and liabilities:				
Accounts receivable	(67,576)	(79,919)	(71,935)	(59,592)
Inventories	30,606	14,233	(48,397)	(32,024)
Other accounts receivable	19,615	19,615	(23,920)	(23,920)
Suppliers	(1,466)	(1,466)	(26)	(26)
Wages and social charges	5,874	5,874	4,733	4,733
Tax obligations	(1,704)	(1,704)	8,838	9,288
Other accounts payable	(134)	(584)	5,238	5,238
Cash generated from operating activities	185,573	185,573	163,440	163,440

CONSOLIDATED CASH FLOW (In thousands of Reais)

	2004		2003	
	Audited	Pro Forma	Audited	Pro Forma
Cash flow from investment activities				
In investments	-	-	(105)	(105)
In fixed assets	(27,501)	(27,501)	(57,284)	(57,284)
Cash generated from investment activities	(27,501)	(27,501)	(57,389)	(57,389)
Cash flow from financing activities				
Capital increase	-	-	5,877	5,877
Short and long-term loans	16,428	16,428	(78,751)	(78,751)
Dividends paid and proposed	(69,331)	(69,331)	(17,121)	(17,121)
Net cash generated by (used in) financing activities	(52,903)	(52,903)	(89,995)	(89,995)
Increase in available cash	105,169	105,169	16,056	16,056
Statement of increase in cash and cash equivalents				
At the start of the year	227,605	227,605	211,549	211,549
At the end of the year	332,774	332,774	227,605	227,605
Increase in cash	105,169	105,169	16,056	16,056



_productive process

Grendene's productive process is differentiated. It is undertaken in modern manufacturing plants using scale and verticalization and gives the Company a competitive differential on the market. Grendene has always developed its footwear through an injection process involving thermo-plastic. It uses its own technology, developed over more than 30 years, including its own molds. It also formulates the PVC in its own plant and shoe production is automated, with the fusion of the upper and the component parts to the sole during the injection process.

Producing its main raw material, PVC, in its own plants makes Grendene more flexible. It does not depend on third parties and can develop specific formulas for each kind of component and shoe. The Company can also quickly resolve problems which may arise with the raw material during the productive process. The machinery and equipment, acquired from international suppliers, are adapted and assembled by Grendene's team according to the Company's own specifications and maintained in secrecy.

As a result, production has become economically viable, fast, differentiated and with better quality. Large volumes can be produced in a short time. This compares with most competitors which use the traditional production methods involving manual labor and more expensive costs. Grendene can therefore create differentiated models or remove existing models from the market rapidly, in line with fashion trends and customer acceptance.

This production structure results in a high quality shoe which is highly competitive in terms of cost.





04. capital markets

The Company's IPO was a secondary public offer of common shares which began trading on the São Paulo Stock Exchange from October 29, 2004. Grendene joined the *Novo Mercado*, where companies with differentiated corporate governance practices are listed, and has a free float of 19.9% of its shares.

Grendene was listed through a Secondary Public Offering of Common Shares. Distribution began on October 28, 2004 (announced in the *Valor Econômico* newspaper), according to article 52 of CVM Instruction No. 400 of December 29, 2003 and the Market Notice of October 7, 2004. The initial public offering took place within the *Novo Mercado* of the BOVESPA. This stock market trades shares of companies which practice the highest level of Corporate Governance in the Brazilian Capital Markets. The shares began trading on October 29, 2004, under ticker **GRND3**.

As the Company was listed on the *Novo Mercado* of the Bovespa, it became part of the **IGC Index of Shares with Differentiated Corporate Governance**. This index aims to follow the performance of a theoretical portfolio consisting of shares in companies which have good levels of corporate governance.

Between October 29 and December 31, 2004, 14,569,900 common shares were traded. There were 10,263 trading operations and the financial volume amounted to R\$486,522,000. During the same period, the Company traded a daily average of 346,900 common shares with an average financial volume of R\$11,584,000 and 244 daily trades on average. The following chart shows the performance of the Grendene common shares (ON) compared with the BOVESPA index and the IGC index. The base of 100 is October 28, 2004 – the date of the publication of the start of the secondary public offering at a price of R\$31.00 per share.

IGC participation

Code: GRND3

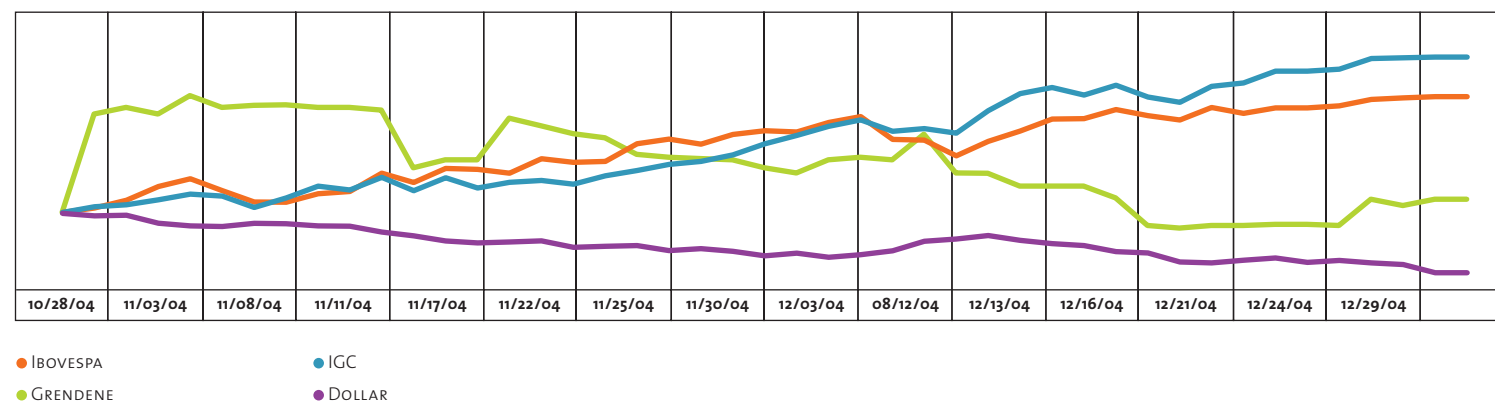
Type: ON

Theoretical portfolio: 39,800,024

Participation: 0.7%

GRENDENE ON performance

_Base 100 = 10/28/04

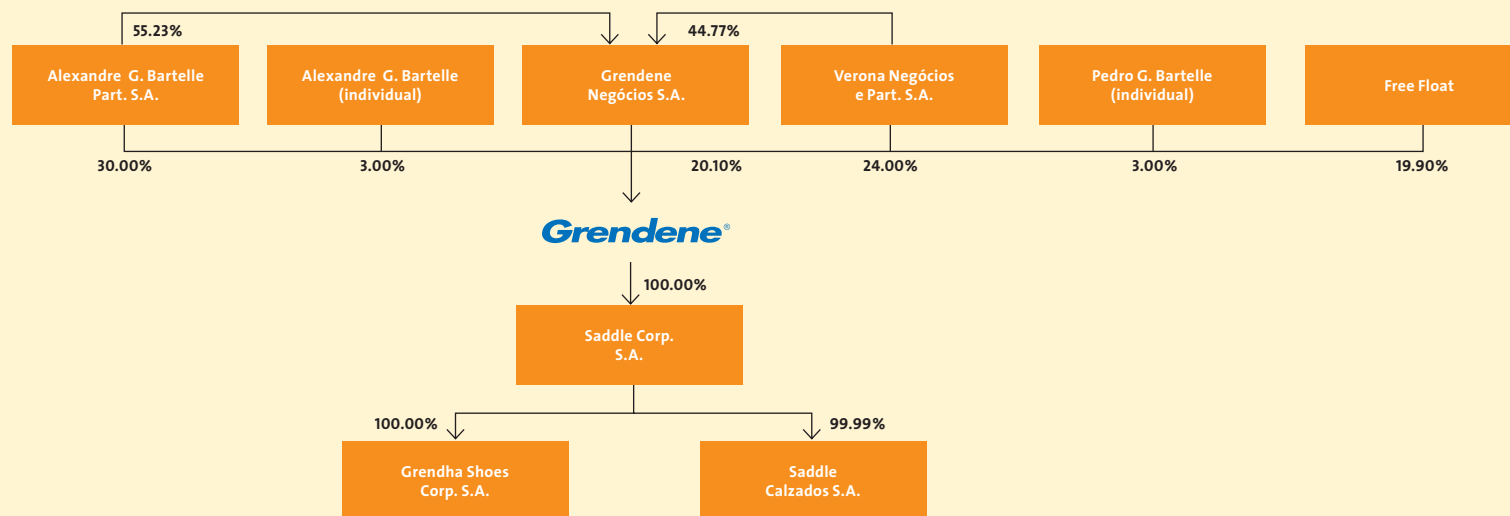
**SHARE CAPITAL**

The Company has 100 million common shares outstanding, and the controlling sellers offered 17.3% of the capital, corresponding to 17,304,348 common shares at an issue price of R\$31.00 for a total amount of R\$536,434,788.00. The number of shares offered was increased by another 2,595,652 as a supplementary lot, due to the fact that demand exceeded supply. The tender document closing the secondary issue of the common shares was published on December 7, 2004. The market capitalization, based on the trading price of R\$31.50 on December 31, 2004, was R\$3,150 million.

SHAREHOLDER STRUCTURE

Shareholders	2004	
	Shares	(%)
AGBPar	30,000,000	30.0%
Verona	24,000,000	24.0%
Grendene Negócios	20,100,000	20.1%
Alexandre Grendene Bartelle	3,000,002	3.0%
Pedro Grendene Bartelle	2,999,986	3.0%
Market (Free float)	19,900,012	19.9%
Total	100,000,000	100%

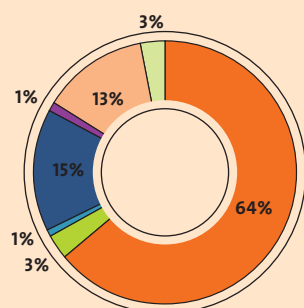
Shareholder Structure



Dividends of R\$64.1 million were equivalent to 32% of the adjusted net income (pro forma) of R\$201.8 million in 2004 and represented a pay-out of 100% of the parent company's distributable net income.

DESCRIPTION OF SUBSCRIBERS

_ Number of Shares



- FOREIGN INVESTORS
- OTHER FINANCIAL INSTITUTIONS
- PARTNERS, MANAGERS, EMPLOYEES, OTHERS LINKED TO THE COMPANY AND/OR LEAD COORDINATOR
- PRIVATE INDIVIDUALS
- INVESTMENT CLUBS
- INVESTMENT FUNDS
- PRIVATE PENSION FUNDS

The secondary distribution of common shares increased the number of shareholders by 8,998. Of these, 7,745 were private individuals who acquired 2.9 million shares, equivalent to 15% of total shares. Foreign investors subscribed to 64% of the offer.

Subscribers by Type	Number	Number of Shares
Private Individuals	7,745	2,943,672
Investment Clubs	160	289,220
Investment Funds	244	2,575,259
Private Pension Funds	107	620,947
Foreign Investors	226	12,699,031
Other Financial Institutions	207	565,775
Partners, Managers, Employees, Others Linked to the Company and/or Lead Coordinator	309	206,096
TOTAL	8,998	19,900,000

SHAREHOLDER REMUNERATION

In 2004, a total of R\$69.3 million in dividends was distributed from the profits accumulated in the year ending December 31, 2003, before the initial public offering. Shareholders whose names were registered with the Company on the date of the meeting which approved the Financial Statements for the year ending December 31, 2004 had the right to receive the entire dividend, with payment from May 11, 2005. The proposal by the Board of Directors for the distribution of dividends totaling R\$64.1 million, representing a dividend of R\$0.641515 per common share, was approved in the ordinary general meeting of shareholders on April 18, 2005.

The accountable net income for the year ending December 31, 2004 amounted to R\$70.1 million, and will be distributed as follows in line with the Board of Directors' proposal:

Legal reserve – The amount of R\$3.5 million, corresponding to 5% of the net income.

Dividend distribution proposal – The Board of Directors proposes that the Ordinary General Meeting of Shareholders approve the distribution of dividends equivalent to 100% of the available accountable net income, calculated as follows:

R\$ million	2004
Net income for the year (parent company)	70.1
Legal reserve	(3.5)
Unrealized profit from parent company stocks abroad	(2.4)
Dividend calculation base	64.1
Pay-out on distributable net income	100%

In the statement of the accountable result of the balance sheet on December 31, 2004 the amount of R\$25.6 million has been deducted to cover the following items: provisions for stock adjustment, Provision for Bad Debts, punctuality discounts, unrealized profit from parent company stocks, labor contingencies and obsolete stock. These items began being accounted from 2004, due to the Company's IPO, since these provisions had not been accounted until the year 2003. As a result, the 2004 accounting balance sheet did not show the reversal of the provisions for 2003, amounting to R\$29.2 million, the result of the parent company's lower accountable net income.



05. investments and outlook

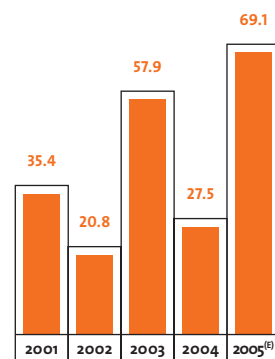
Investments of R\$141.2 million in the last four years were directed at expanding productive capacity and updating machinery and equipment to sustain the Company's growth strategy and maintain the rate of innovative product launches. In 2005, investments of R\$69.1 million are planned, with the emphasis on new expansion projects.

Grendene has invested R\$141.2 million over the last four years, of which R\$27.5 million was spent in 2004. The investments are guided by the Company's strategy of increasing its activities on the domestic and international markets. For this reason, the greatest volume is being directed at expanding capacity in order to attend the growing demand for products, and upgrading machinery and equipment.

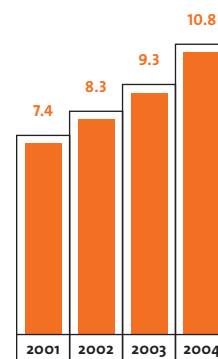
These investments were responsible for an increase of 54% in volume since 2001 and the launch of innovative products on the market.

Capital Expenditure

_R\$ Million

*(E) Estimative.***R&D Investments**

_R\$ Million



In 2005, the Company intends investing R\$69.1 million, of which R\$35 million will go towards expanding capacity. The unit at Sobral (CE), which is currently responsible for 86% of total production, will conclude projects in the middle of 2005 and increase volume by an additional 16 million pairs of shoes at an investment cost of R\$25 million.

Capital Expenditures – CAPEX

	2001	2002	2003	2004	2005 ^(E)
Industrial buildings and plant	11.4	5.3	23.3	10.7	11.6
Machinery and equipment	19.3	9.1	20.5	11.3	20.5
IT equipment and software	1.4	4.7	6.3	2.6	1.0
Other investments ⁽¹⁾	3.3	1.7	7.8	2.9	36.0
Total CAPEX	35.4	20.8	57.9	27.5	69.1

1) Includes investments in vehicles, aircraft, real estate, utensils, brands and patents, Sobral expansion and new plant at Teixeira de Freitas, in Bahia state.

(E) Estimative.







_clients

Grendene's relationship with its clients is based on maintaining a long-term partnership which brings consistent results for the Company and the retailer. The Company carries out permanent research and identifies market trends in order to provide suitable products for the sales point in line with the consumer profile of each retail store. Periodically, a group of 25 to 30 clients is invited to visit one of the Company's plants to follow the production process and become familiar with the differential of the production lines and the technology added to the products.

The role of the commercial representatives and their teams is fundamental in this process. They act as consultants to the retailers and increase their ability to attract and retain customers. The sales representatives use a special software, adapted to Grendene's needs, which is a differentiated tool in the sales process. The program is updated on a daily basis and presents the whole line of products and background information about the models, sizes and colors acquired by the clients, the advertisement campaigns and media plan, with the dates and times of appearance. The process helps the client's buying needs in line with the kind of establishment it operates and profile of the final consumer. Grendene also provides marketing and post-sales support.



o6. corporate governance

When it opened its capital in October 2004 Grendene subscribed to the highest standards of corporate governance by listing its shares on the *Novo Mercado* of the São Paulo Stock Exchange. By doing so, it committed itself to differentiated management practices, transparency and protection for minority shareholders, and providing in-depth information about its business performance.

As a company listed on the ***Novo Mercado***, Grendene trades only common shares. These give voting rights at general shareholder meetings, elections to the Board of Directors – which, in turn, chooses the Executive Management Board – and allow shareholders to participate in the Company's strategic decisions, directly and indirectly. All shareholders also enjoy the same conditions as the majority shareholders in the event of control being sold, i.e. 100% tag-along rights. A minimum of 25% of the Company's shares will be traded on the stock exchange within three years. At the end of 2004, the free float came to 19.9%. Grendene is also committed to prepare its annual balance sheet according to the United States Generally Accepted Accounting Principles (USGAAP) or International Accounting Standards (IAS), within a period of two years. Among other obligations, it is also adhered to the Market Arbitration Panel to resolve corporate conflicts.

As part of its policy of transparency and wide-ranging communication, the Investor Relations team provides updated information and keeps in contact with representatives of the capital markets.

BOARD OF DIRECTORS

The Board of Directors is responsible for establishing the Company's general business policies, including its long-term strategy and supervision of the Executive Management, amongst other tasks. The Company's By-laws establish a minimum of five and a maximum of seven board members, who are elected at a general shareholders' meeting for a period of one year and may be re-elected. The current Board of Directors consists of six members who were elected at the Extraordinary General Meeting of shareholders on August 18, 2004. It has a mandate until the general meeting of shareholders to be held in April 2005. They were re-elected on April 18, 2005 with mandate until the general meeting to be held in April 2006. The current chairman of the Board of Directors is also the chief executive officer of Grendene.

Of the six board members, Alexandre Grendene Bartelle and Pedro Grendene Bartelle are the founders of the Company and, along with their sister, Elizabeth Bartelle Laybauer, are majority shareholders with a direct and/or indirect ownership of the Company capital. The other three members are independent. They are: Mailson Ferreira da Nóbrega, an economist; Renato Ochman, a lawyer; and Oswaldo de Assis Filho, an engineer and economist. The Company has a seat available on the Board of Directors for a representative of the minority shareholders.

None of the advisers or directors has a right to receive any payment should they terminate their activities. There are no current plans for stock options purchasing rights issued by the Company. Under the relevant corporate law, members of the Board of Directors are prohibited from voting at any meeting of shareholders or to take part in any operation or business which brings a conflict of interests with the Company.

EXECUTIVE BOARD

The executive board of directors are legal representatives of the Company and are responsible for its day-to-day operations and the implementation of the policies and general directives established by the Board of Directors. They are elected by the Board of Directors, with a mandate of three years and may be dismissed at any time.

The current Executive Management Board consists of five directors, four elected at a Board of Directors meeting held on August 18, 2004 and one elected at a Board of Directors meeting held on April 29, 2005. It has a mandate until the first meeting of the Board of Directors to be held after the Ordinary General Meeting of shareholders in 2007.

FISCAL COUNCIL

The Fiscal Council is a non-permanent body, independent of the executive management and the Company's external auditor. The Council's main responsibility is to review management's activities and the financial statements, and report its observations to the general meetings of shareholders. Once established, it consists of three members and three substitute members, elected for a mandate of one year who may be re-elected. The IPO occurred on October 29, 2004 and the first General Meeting of Shareholders as a publicly held Company was on April 18, 2005. No request was made for the establishment of a Fiscal Council.

TRADING POLICY

In line with its commitment to maintain the highest standards of corporate governance, based on the Brazilian Securities and Exchange Commission (CVM) Instruction No. 358, of January 3, 2002, and the regulations of the *Novo Mercado* of the Bovespa, the Board of Directors of Grendene S.A., approved a Trading Policy for securities issued by Grendene itself. This decision was made on January 28, 2005 and stated the rules about trading that may be carried out by the management and related people. The Investor Relations Director will assume responsibility for the overall implementation of the necessary procedures and the observance of the rules and general administration of the Trading Policy. The policy aims to ensure the adoption of control mechanisms and transparency in the trading of securities issued by Grendene S.A. to all those interested, without privilege to anyone and to the detriment of none.

INVESTOR RELATIONS

The Investor relationship area (IR), created at the time of the secondary public offering of shares, consists of a director, a manager and two analysts. This area is responsible for remaining in contact with the capital markets and releasing information for investors and analysts. On the day when the Company was listed on the *Novo Mercado*, a bilingual IR site was launched, providing access to information on the Initial Public Offering. It also included all the obligatory information required by the Brazilian Securities and Exchange Commission (CVM) and the Bovespa, as well as occasional information provided by the Company, and an annual diary of corporate events.

The IR team took part in domestic and international deal and non-deal road-shows ahead of the capital opening and also held many meetings with analysts and investors in Rio de Janeiro and São Paulo. It took part in five conferences and events organized by financial institutions in Brazil and abroad. The Investor Relations area also published the quarterly results through press releases and held tele-conference calls to discuss the results for the third and fourth quarters of 2004, and first quarter of 2005. The Company anticipated the *Novo Mercado* requirement and published its cash flow statement for the year ending in 2004. The IR team held also public meetings with analysts from the Association of Capital Market Investment Professionals (Apimec) in São Paulo, Rio de Janeiro, Porto Alegre and Belo Horizonte, between March 23 and April 4, 2005.

INDEPENDENT AUDITORS

The Company's relationship with the independent auditors follows the principals of independence which state that the auditor must not audit his/her own work or provide management or legal services to the client. This position ensures that there will be no conflicts of interest. These conditions are laid down in CVM Instruction No. 381, of January 14, 2003, and circular CVM/SEP/SNC No. 02/2003, of March 20.

The external auditing services provided by Ernst & Young Auditores Independentes S.S. in the fiscal year of 2004 included: i) auditing the annual financial statements; ii) auditing the financial statements for the period ending on June 30, 2004 with the aim of supporting the initial public offering process; and iii) revising the accounting balance sheets, included in the public share issue prospect. The company also provided revision services of taxes and contribution on income (prepared by Grendene) and



gave answers and advice on the fiscal procedures adopted. The fees for these services totaled R\$164,000.00, representing 18% of total fees related to the external audit. It is the view of the Company and the independent auditors that these services do not affect the independence and objectivity of the auditors in relation to the audit of the financial statements.

_information technology

Grendene uses a higher level of information technology than the industry average. Since 2002, it has used a new Enterprise Resource Planning (ERP) program which was totally adapted to meet the needs of all the Company's areas. The web interface is a differential feature of this new ERP and allows access by Intranet and the Internet to all the system's business functions.

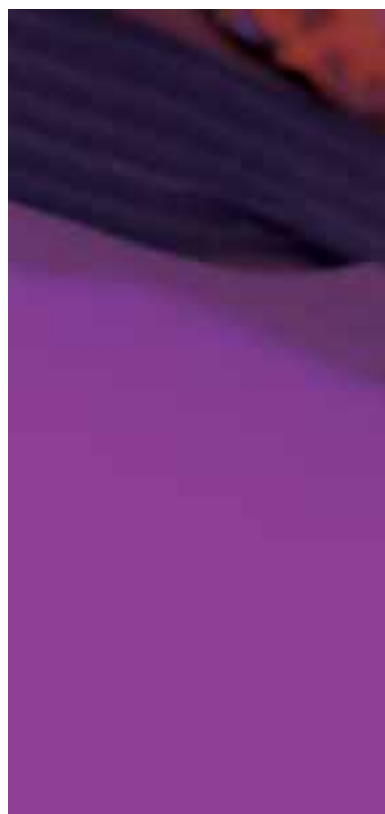
At the same time, it ensures that the information is centralized and secure. All the units are connected to an integrated corporate system with a single data base which is stored and replicated in two separate areas with simultaneous updating. This active contingency site ensures the integrity of the information and brings a high level of security in carrying out activities, with resource management running 24 hours a day, seven days a week in real-time.

The systems allow all the internal controls to be automated with the constant monitoring of production and shipments. Data is sent in real-time to the administrative center in Farroupilha and makes client service faster and more efficient.

On top of this, the telecommunications system has two land lines and one satellite link. This means there is a constant connection between the industrial units and the sales representatives. Data, voice and video services are transmitted securely in an environment which is constantly controlled and guaranteed.







07. risk management

Knowledge of inherent operational risk factors is fundamental in maintaining business sustainability. For this reason, the Company has been implementing management practices to analyze possible internal and external risks and specific control methods to reduce or eliminate the impact on results.

Grendene tries to identify risk factors and adopt preventive measures to eliminate or reduce the effects of any risk which may compromise its operations and financial situation.

OPERATIONAL

The risks of stoppages through operational problems are reduced by the fact that the Company has its own plant structure in which production is carried out in different industrial units. At the same time, it also has its own PVC production plant. Even the main plant which is located in Sobral, in the state of Ceará, and is responsible for 86% of average production volume has a decentralized structure, with seven units in the same area. To cope with possible electrical energy shortages, the Company has its own generators capable of generating 30% of the energy needed.

The installations and equipment have insurance cover against damage and replacement in a way which is compatible with the practices of the Brazilian footwear industry. Insurance policies also cover natural disasters, damage to assets and stocks and 12 months payroll, as well as other expenses. The insurance also covers civil responsibility claims except those involving the environmental. Insurance has not been contracted to cover environmental claims caused by the industrial operations since an evaluation shows that the impacts would not be substantial.

MARKET

The Company's sales are equally distributed across the four market areas in which it operates (masculine, feminine, children's and mass consumption). Sales are not dependent on one specific segment and are very diversified in terms of products. For this reason, any possible fall in sales of products from a specific segment would not have a significant adverse overall effect on results which may be offset by a better performance in another area. At the same time, the market is also diversified, with 80% of sales volume coming from the domestic market and 20% from exports. The Company's ability to innovate, seen in the launch of an average of 1.5 products a day, is another way of reducing the market risks.

INFORMATION TECHNOLOGY

Information technology and innovation are among the Company's main competitive differentials. The systems are all operated by IT and there is a contingency plan to recover all the data base and return to normal operations within a period of less than eight hours. The database is replicated and automatically updated in two separate locations.



PIRACY

The Company aims to preserve the value and identity of its brands and takes initiatives to combat the risk of its products being forged or copied. It takes legal proceedings to eliminate unfair competition, through search and seizure processes.

It also constantly renews its product lines and the relationships with distributors and retailers to reduce the effects of companies which copy successful models. To prevent international piracy, Grendene registers its main brands in around 80 countries.

SUPPLIERS

The main inputs used are PVC resin and plasticizing oils, and synthetic leather (coverline). The Company uses these resins and oils to produce PVC, the main raw material used in shoe production. These raw materials, added to other composites, allow the production of the soles and uppers used in shoes production. Since the raw materials are commodities, the prices fluctuate in line with the international market, based on the price of petroleum and the swings of supply and demand. For this reason, contracts are not maintained with the suppliers of these raw materials. The finishing is usually concentrated on a few suppliers for each type of raw material. This brings more competitive prices and products and materials which are made to order in line with the requested features.

Paper and packaging is usually supplied through a long-term relationship with a main provider which sells cardboard and machine-glazed paper used in the finishing of individual shoe boxes. The prices of these input materials are relatively volatile since they accompany the price of pulp on the international market. For this reason, stocks of cardboard and machine-glazed paper are maintained and a buying program is arranged in advance.

ENVIRONMENTAL

The industrial processes present a low risk of causing environmental damage. The raw material is 100% recyclable – the PVC leftovers are completely reused in the productive process – and all the production units have adopted processes to control emissions, liquid effluents and solid waste.

EXCHANGE RATE

The Company has no loans or financing contracted or indexed to any foreign currency. Approximately 37% of the cost of products and services sold in 2004 were linked to the exchange rate. Almost all were represented by raw material costs. Even when acquired on the domestic market, PVC is priced in dollars, since it is an international commodity. However, most of the costs related to the dollar have a partial natural hedge since exports accounts for around 15% of gross revenues.

INTEREST RATES

On December 31, 2004, R\$71.3 million of the long and short-term debt, equivalent to 48% of total debt, was subject to the IGP-M index without interest, R\$56.5 million, or 38% at a fixed interest rate of 10.5% p.a. and R\$20.8 million, or 14% at long-term interest rates (TJLP). On December 31, 2003, these ratios were 52.6%, 42.6% and 4.8%, respectively of the total debt of R\$132.3 million. Should interest rates rise in Brazil, the additional net financial expenses from interest would not be significant, thanks to the debt profile. This profile shows that 62.6% of total debt of R\$148.6 million on December 31, 2004, arose from the financing of fiscal benefits, ICMS (VAT) and export credits from the location of its plants in the state of Ceará.

CREDIT

Sales are spread across more than 13,000 clients, of whom the 10 largest were responsible for approximately 16% of all sales in 2004. The largest client represented around 2.7% of total sales and the second and third-largest had 2.1% each. Granting clients credit is based on an in-depth analysis using a data base, the client's history, and imposing a credit limit by area. Besides this, sales team check the credit management system before visiting clients and obtain reports on their credit position. The Company also adopts a policy of only shipping goods to clients who are not behind with payments or in debt. The level of default affecting Grendene is very low. Taking delayed payments into account, it amounts to around 5% and the effective loss on revenues is 0.4%.

LIQUIDITY

The Company has a strong generation of operating cash and keeps its resources invested with top-line financial institutions. On December 31, 2004, around 24% of its cash and cash equivalents was held in investments denominated in foreign currency. This position was adopted in 2002 and aims to diversify and meet the needs for resources from the Company's foreign subsidiaries. Cash and cash equivalents are used to cover loans, carry out investments, meet working capital needs and pay dividends.

Widespread sales and a portfolio of more than 13,000 clients, plus selective criteria in offering credit reduce the risks of default and its impact on revenues.

FISCAL BENEFITS

The industrial units located in the state of Ceará enjoy fiscal benefits through long-term commitments contracted with the state government and in accordance with the law which regulates such benefits. The Company also has federal fiscal benefits which foresee the reduction or exemption, according to the case, of income tax and non-refundable extras, based on the profit, such as incentives issued by the former Sudene regional development agency, now called Adene (Northeastern Development Agency).

At state level, the Company has two fiscal incentive models: 1) Provin, a benefit related to the ICMS tax, with a reduction of 75% on sales tax on the domestic market; 2) Propapi, an incentive on the exported FOB value, which represents 10% of the export revenues.

The periods during which the ICMS (VAT) fiscal benefits last have been extended by another 10 years, i.e. from 2009 to 2019 in Sobral, from 2012 to 2022 in Crato and from 2015 to 2025 in Fortaleza. This ensures that these tax benefits will be sufficiently long term.

The Company complies with all the requirements related to these benefits and believes there is no risk of them being suspended, due to the size of the Company, the quality of its projects and the fact that Grendene is the biggest private sector employer in the state of Ceará. At the same time, these benefits are ensured by federal and state law.

At federal level, the Company has a fiscal benefit which reduces income tax by 75%, granted by the federal government through Adene. The period of this benefit is 10 years. It will last until 2012 at the Sobral unit, until 2010 at the Fortaleza and until 2006 at the Crato unit.



acknowledgements

Grendene's management practices were recognized in 2004 when the Company was awarded the FGV Prize in the Business Excellence category from the Fundação Getúlio Vargas business school. The FGV selects the 12 best companies in Brazil from the ranking of the 500 largest companies in the country and awards those which are outstanding in terms of their commercial and financial performance in their operating sectors.

Grendene was also chosen as the best company in the finishing, textiles and footwear industrial sector by the magazine *Exame*. The magazine produces an annual supplement of the Best and Biggest companies in Brazil in various sectors. Grendene won this same category in 1991, 1995 and 1996. The magazine also chose Grendene as the third best company in the North and Northeast of Brazil in 2004.

Grendene was also chosen as the Wal-Mart International Supplier of 2004. This recognition, which was announced in March 2005, was attributed to the quality of Grendene's products, shipments and delivery time, and cooperation with Wal-Mart's business growth. Wal-Mart is the largest retailer in the world. It had sales of US\$285 billion in the fiscal year ending on January 31, 2005, and serves more than 100 million clients a week.



o8. social responsibility

Grendene's commitment to social development is seen in its close relationship with its employees and the contribution it makes to improving the lives of the people in the communities where it operates in the belief that sustained growth integrates the Company's operational strategy.

Grendene has developed a series of initiatives directed at its employees and the communities where it operates, aimed at improving professional skills, accepting diversity and encouraging social inclusion. This, combined with preserving the environment and the constant pursuit of profitability and growth, forms a three-pronged approach to corporate responsibility and is directly responsible for more than 23,000 jobs provided by the Company.

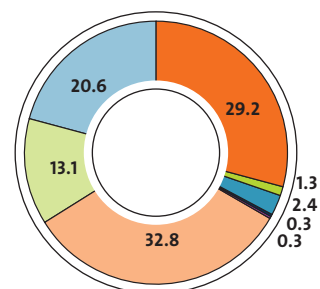
HUMAN RESOURCES

At the end of 2004, Grendene employed 23,204 direct workers and another 399 outsourced workers. Most employees – 83.2% – were below 35 and, given the nature of the business, work in the operating area (92.3%).

The employees are committed to quality in terms of production. As a result, they have the freedom to give opinions and suggestions to help improve the processes. Equally, when they leave the Company, whether willingly or otherwise, they are interviewed on the reasons for leaving and/or possible failures which have brought this decision. This approach allows Grendene to find ways of satisfying its workforce.

Educational level

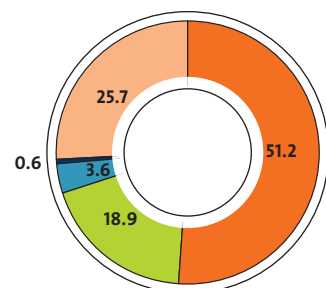
_(%)



- INCOMPLETE BASIC
- BASIC
- INCOMPLETE HIGH SCHOOL
- HIGH SCHOOL
- INCOMPLETE COLLEGE
- COLLEGE
- MASTER AND POST GRADUATE DEGREE

Working time at the Company

_(%)



- TO 1 YEAR
- FROM 1 TO 5 YEARS
- FROM 5 TO 10 YEARS
- FROM 10 TO 20 YEARS
- FROM 20 TO 30 YEARS
- MORE THAN 30 YEARS



The Company also has a diversity policy. It employs 617 people with special needs and has 13,032 workers who are black or of mixed race.

This way of operating is reflected positively in the productivity index per employee. In 2004, the revenue and sales volume per employee came to R\$64,903.70 and 6,257 pairs respectively.

Number of Employees

2004

	Direct	Outsourced
Farroupilha	1,380	84
Sobral	15,820	245
Fortaleza	2,878	36
Crato	2,844	34
Carlos Barbosa	282	0
Total	23,204	399

Training

Grendene believes that qualified workers make more assertive decisions and, for this reason, invests in training. In 2004, employees received 587,000 hours of training (equivalent to 25.31 hours per worker) compared with 405,000 hours in 2003. This training included technical and behavioural instruction. The training program focuses on ingraining the principles and values which direct the Company performance, strengthening team work and boosting employees' commitment to the business.

The Company also undertakes programs for interns, aimed at creating suitable staff for its workforce. At the end of 2004, the Company had 48 interns. New employees receive an Integration Manual containing all the contracted working regulations, plus an appendix Manual on Agreements, Benefits and Hours of Work.

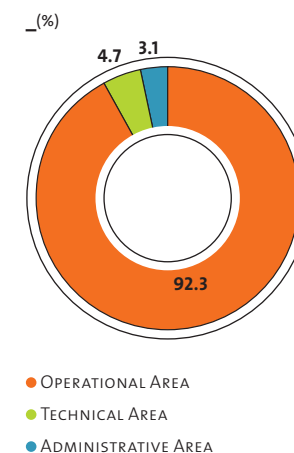
Health and Safety

Grendene has an Internal Committee for the Prevention of Accidents (known as Cipa) in all its plants and a Specialist Service in Safety Engineering and Occupational Medicine (known as SESMT). The latter is responsible for advising and supporting the production area and providing the most efficient safety procedures, not only to preserve the health and physical well-being of the employee but also to facilitate the area's objectives.

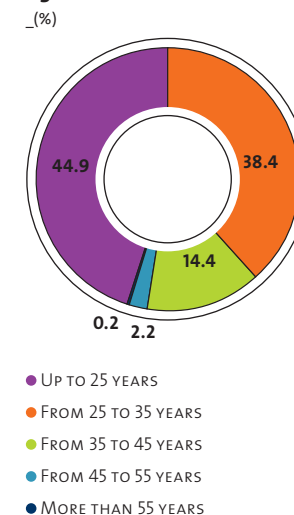
The Company also provides its employees with useful information to ensure their safety and continuous improvement of work conditions. All employees receive a Work Safety Manual which covers the importance of accident prevention, basic safety and hygiene, how the cloakrooms, delivery and storage areas function, the concepts of the "5S" program (sense of tidiness, cleanliness, order, neatness and disciplines), fire prevention and the correct use of individual protection equipment, amongst other topics.

The Work Safety Manual also contains information encouraging the selective collection of garbage and correct disposal of paper and cardboard, plastic, metal, glass and organic and industrial waste.

Job Position Breakdown



Age Distribution



Benefits

As the creator of a large number of direct and indirect jobs, Grendene is aware of its commercial, social and environmental responsibilities. As part of these, it provides its employees with a series of benefits, of which the following are worth highlighting:

Food Basket – This contains basic foodstuffs and is provided monthly.

Meals – Five restaurants serve three meals a day. The meals are subsidized at a rate of 95% and the menus are created by nutritionists.

Medicine – The Company has agreements with drugstores which allow employees to purchase medicines at lower prices, with the costs discounted from the paycheck. There are also drugstores within the grounds of the Ceará units.

Optical – Employees can also buy glasses and lens at lower prices and pay in installments, with the costs discounted from the paycheck. The Company also has agreements with opticians to carry out consultancies at a cost equivalent to that of the UNIMED private health plan, with the price being discounted from the paycheck in up to two installments.

Dental – Free dental assistance is provided inside the Company through an agreement with the Social Service for Industry body (Sesi) which provides all the equipment and instruments.

Health – Medical assistance – including general, gynecology and obstetrics treatment, as well as hygiene and work safety – is provided on the Company premises.

Infirmary – Out-patient attendance is available in the Company 24 hours a day.

Hearing – All employees have access to internal services to check their hearing.



To give its employees job satisfaction, the Company provides intensive training programs and various benefits – many of which are extended to their families.

Nursery – The Company provides free daycare facilities for employees and looks after children from three months to six years.

Psychology – Psychological attendance is available internally, with referral to external treatment if necessary.

Laboratory – Agreement for preventive exams of the womb at a cost which may be discounted from the employee's paycheck in up to two installments.

Social Service – This service helps employees and their dependents resolve social and work problems, by providing guidance and accompaniment, with referral to external treatment if necessary.

Banking Services – The Company has installed Day and Night banking posts (ATM) in the plants for salary-related matters, advances, holidays and other services.

Loans – Loans are made to employees with over three months service to help build their own homes and cover costs of health and education. The amount can be discounted from the employee's paycheck in up to six installments.

Family Well-being – This service provides employees with guidance on sexual and reproductive health, Aids, family planning and sexually-transmitted diseases. It also provides free contraceptive methods.

Funeral Assistance – This service helps cover the funeral costs in cases where an employee dies.

Presents – All employees receive a chocolate basket at Easter. In the week before Christmas, employees hold a party during which children aged up to 12 receive toys and kits containing chocolate, biscuits, sweets, popcorn, hot dogs and soft drinks.

COMMUNITY

For Grendene, corporate responsibility includes commitment to the communities with which it has relations and supporting initiatives which help social development. To put this concept into practice, the Company supports various initiatives, including the following:

Social and Educational Campaigns – In 2004, seven campaigns and lectures were organized on the following subjects: Dengue disease, with 1,586 participants; Conjunctivitis, with 547 participants; Noise, with 218 participants; Sexually-Transmitted Diseases and Aids, with 513 participants; High blood pressure, with 546 participants; Oral Health, with 162 participants; and Pathology of the Spinal Column and Bad Posture Habits, with 192 participants. The lectures were held at the Company's industrial units.

Corporate Citizen Program – The Company is involved in wide-ranging social initiatives and supports various charitable bodies (orphanages, children's homes, old folks homes), hospitals, public security bodies, fire services, associations of parents of handicapped children, associations to combat cancer, public schools and the Junior Achievement Association. Employees in all its manufacturing plants also take part in campaigns to donate warm clothing, foodstuffs and blood. One example is the partnership the Company has with the Hematology Center of Ceará which involves a monthly campaign on blood donation. Two hundred employees at Sobral were involved in this project in 2004 and took part in a lecture on the benefits of donating blood. Thanks to this campaign, 59 bags of blood were collected.

Adopt a Public Place – Grendene is responsible for looking after public places in the towns where its plants are located. One example is the recovery of the São João square, in Sobral, one of the town's most popular leisure areas.

Donation Campaign – Employees have taken part in this campaign since 1994. The "Christmas without Hunger" campaign helped needy communities. In 2004, employees collected clothes, shoes, toys and 32,600 kilos of foodstuff for distribution in the urban and rural areas.

Shoe Donations – From 2003 to 2006, Grendene is carrying out a donation program to distribute three million pairs of shoes to needy children in the public school network in Ceará. The distribution is coordinated by the state government through the Social Action and Education secretariats. In 2004, one million pairs were donated on commemorative days such as Easter, St. John's Day, Children's Day and Christmas.

Other Donations – Basic food baskets are donated every month to various charitable organizations in neighboring communities, such as the Mothers' Home, located near the Santa Casa de Misericórdia Hospital in Sobral. This institution houses mothers with new-born babies who are under long-term treatment. Another initiative is Grendene's partnership with Nutrinor – a company which administers the industrial units' restaurants – to provide daily soup donations to the Good Samaritan Home and to the children of the Alto Novo district in Sobral.

Grendene is also a partner in various national social projects, such as the federal government's literacy campaign *Alfabetização Solidária*, mainly in units with a high level of illiteracy. During the 5th Literacy Week in 2004, the Company received an award from the government for its participation.



Community initiatives focus on creating economic growth and encouraging social inclusion for people living near the industrial units.

The aim of sustainable growth is expressed in the efforts to minimize the impact of the Company's operations on the environment, and in the reduction and recycling the waste and raw materials.

ENVIRONMENTAL RESPONSIBILITY

To preserve and improve the environment, Grendene is constantly aiming to reduce, reuse and recycle the waste and raw materials used in the productive process.

The leftovers from PVC and synthetic leather are completely reused, the waste from EVA is reprocessed and the packaging for products is reused by the Company and recycled by third parties. In the painting cabins, where exhaust and air-cleaning systems are maintained, all the waste is used by glue and paints producers, and the acetone is recycled and used in washing the molds. Although the production process only uses water to cool certain equipment, the Company still uses a closed circuit system which reduces the need for natural water resources, limiting its waste.

The leftovers from the restaurants are also stored in refrigerated areas, collected daily and used for the production of animal feed. Only organic waste from the industrial areas, offices and employees' personal hygiene areas, is disposed of in landfills. Material such as empty cans, metal drums and paper and cardboard packaging are stored and sold to waste merchants.

Besides this, the Company has its own sewage system in the Crato plant and in two of the Sobral manufacturing units. The system uses anaerobic filters, digester decanters, a stabilization pond and system for aerating the water.

All these measures form the Company's environmental preservation policy. Thanks to this policy, Grendene has managed to make continuous reductions in the cost of production, particularly in acquiring raw materials. In 2004, the recycling of leftovers from sandals and PVC, for example, amounted to around 4,100 tonnes, i.e. approximately 7.1% of total PVC consumed over the year in shoe production.



As part of the environmental policy, the technology used to develop the PVC is the most ecologically correct and sustainable in the world. It involves constant laboratory testing of products and formula controls. It uses flattened, rolled PVC with polyester underlay, the waste of which is totally recyclable. This meets a European standard which is planned to be met only in 2008.

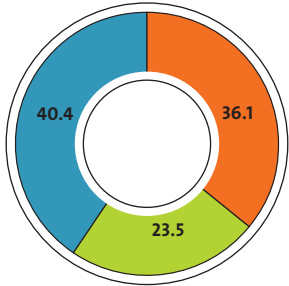
The industrial processes of each productive chain of PVC are safe and regulated worldwide, thereby eliminating any chance of environmental risks related to the production of plastic.

Licenses

Grendene has valid environmental licensing for all its industrial units and complies rigorously with the conditions required by the licensing authorities. The plants at Sobral, Fortaleza and Crato are licensed by the State Environmental Superintendent's Office (Semace) of Ceará, and the units at Farroupilha and Carlos Barbosa by the Henrique Luis Roessler State Foundation for Environmental Protection (Fepam) of Rio Grande do Sul. The Company manages the solid waste according to a plan and sends quarterly reports on the state of each unit to the Semace and Fepam.

The Company also rigorously respects the various laws and regulations related to the environment at national, state and municipal level.

Waste disposal
_(%)



- LANDFILLS
- CO-PROCESSING
- EXTERNAL RECYCLING

ENVIRONMENTAL PERFORMANCE INDICATORS

	2002	2003	2004
Energy consumption (Kwh/year)	74,586,362	87,845,276	101,561,473
Energy consumption by product unit (kwh/pair/year)	0.64132	0.72423	0.69952
Water consumption (m³/year)	247,871	293,367	305,274
Water consumption by product unit (m³/pair)	0.00213	0.00242	0.00210
Solid waste generated – garbage, refuse, litter, etc (t/year)	2,666,600	1,358,154	2,154,774
Solid waste generated – Restaurant (t/year)	304,300	228,470	484,937
Production (pairs/year)	116,302,000	121,295,000	145,187,223

Energy	Participation in total (%) - 2004
Electrical energy acquired from distributors	98.9%
Energy from wind/sun	0.0%
Fuel (Generator)	0.7%
Wood (Boiler)	0.4%
Natural Gas	0.0%
Total	100.0%

STATEMENT OF ADDED VALUE

The added value indicator of the wealth of the Company brought to society through its business activities totaled R\$600 million in 2004. This value is arrived at by calculating the difference between revenues obtained (R\$1,453 billion) and costs related to the acquisition of products and services from third parties (R\$853 million).

CONSOLIDATED ADDED VALUE STATEMENT FOR THE YEAR

	2004	2003
DESCRIPTION	R\$ thousand By the Corporate Law	R\$ thousand By the Corporate Law
1 – REVENUES	1,452,652	1,225,326
1.1) Sales of goods, products and services	1,475,462	1,225,529
1.2) Provision for Bad debts-Reversal/Constitution	(23,184)	-
1.3) Non-Operational	374	(203)
2 – INPUT ACQUIRED FROM SUPPLIERS		
(Includes value of ICMS and IPI taxes)	877,395	550,965
2.1) Raw materials consumed	539,315	299,721
2.2) Cost of goods and services sold	4,945	35,105
2.3) Materials, energy, services from third parties and others	323,347	211,463
2.4) Loss/Recovery of assets	9,788	4,676
3 – GROSS ADDED VALUE (1 - 2)	575,257	674,361
4 – RETENTIONS	27,221	21,960
4.1) Depreciation, amortization and obsolescence	27,221	21,960
5 – NET ADDED VALUE PRODUCED BY THE ENTITY (3 - 4)	548,036	652,401
6 – ADDED VALUE RECEIVED BY TRANSFER	51,772	129,422
6.1) Equity pickup	-	45,071
6.2) Financial income	51,772	84,351
7 – TOTAL ADDED VALUE TO BE DISTRIBUTED (5 + 6)	599,808	781,823
8 – DISTRIBUTION OF ADDED VALUE*	599,808	781,823
8.1) Export market and charges	256,912	208,131
8.2) Taxes and contributions	157,486	235,690
8.3) Interest and rent	117,756	134,781
8.4) Interest on own capital and dividends	-	-
8.5) Retained profit/loss for the period	67,654	203,221

* The total of item 8 should be exactly the same as item 7.

The Added Value Statement must refer to the financial year of the company.

_corporate information

Board of Directors

Chairman

Alexandre Grendene Bartelle

Deputy chairman

Pedro Grendene Bartelle

Directors

Mailson Ferreira da Nóbrega

Renato Ochman

Elizabeth Bartelle Laybauer

Oswaldo de Assis Filho

EXECUTIVE BOARD OF DIRECTORS

Alexandre Grendene Bartelle – Chief Executive Officer

Pedro Grendene Bartelle – Vice President

Gelson Luis Rostirolla – Administrative and Controller Director

Marcus Peixoto – Chief Financial Officer and Investor Relations Director

Rudimar Dall'Onder – Industrial and Commercial Director

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Members of the Board of Directors and Executive Board Officers

Alexandre Grendene Bartelle – Chairman of the Board of Directors and Chief Executive Officer (55). Mr. Bartelle has a degree in Law from the University of Caxias do Sul. He founded Grendene in 1971, along with his grandfather, Pedro Grendene. Over the years he has been among those responsible for redirecting the Company's business line by developing new concepts, products and innovative design, as well as the decision to transfer the main industrial unit to the state of Ceará. He is involved in other businesses in Brazil and abroad, including Telasul S.A., a producer of tubular furniture, Dell'Anno Móveis Ltda., a modular wood kitchen and closet manufacturing Company, Agropecuária Jacarezinho Ltda., a sugar mill and cattle-raising enterprise, and Reebok Chile, a footwear company.

Pedro Grendene Bartelle – Deputy chairman of the Board of Directors and executive vice president (55). He was among those responsible for redirecting the Company's business line by developing new concepts, products and innovative design, as well as the decision to transfer the main industrial unit to the state of Ceará. He is involved in other businesses in Brazil and abroad, including Vulcabrás and Vulcabrás do Nordeste, a footwear company where he is chief executive officer and chairman of the Board of Directors, Agropecuária Manacá Ltda., a sugar mill and cattle-raising enterprise, and Reebok Chile, a footwear company.

Mailson Ferreira da Nóbrega – Director (63). After graduating in economics at Centro Universitário de Brasília (CEUB), Mr. Nóbrega began his career with Banco do Brasil S.A., as head of the rural and industrial credit area in the Pernambuco branch. After nine years with Banco do Brasil, he became head of the Economic Advisory area of the Industry and Trade Ministry and then headed the same area in the Finance Ministry. He has been general secretary of the Finance Ministry on two occasions and between 1988 and 1990 was Finance Minister and chairman of the National Monetary Council, the National Foreign Trade Council (CONCEX), the National Private Insurance Council (CNSP), the Federal Privatization Council and the Financial Policy Council (CONFAZ). He is currently a partner in the Tendências Consultoria

Integrada consultancy and is involved in various social and business organizations. He is a member of the boards of directors of a number of companies in Brazil and abroad, including the official Brazilian statistics body, the IBGE, and the Brazilian-Dutch Chamber of Commerce. He is also on the editorial committee of the *Estado de São Paulo* newspaper and the Board of Directors of the São Paulo State Industry Federation (Fiesp). Mr. Nóbrega has also acted as a representative of the Brazilian government at international events and committees and is the author of a number of books and articles on the Brazilian economy published in Brazil and abroad.

Renato Ochman – Director (45). Mr. Ochman graduated in Law from the Catholic University of Rio Grande do Sul and has a master's degree and postgraduate degree in Business Law from the Catholic University of São Paulo (PUC/SP). He began his career as an assistant professor of civil law at PUC/SP and lectured at the Fundação Getúlio Vargas business school between 1989 and 1993, and between 2001 and 2003. Since 1989, he has been a partner in the Ochman, Real Amadeo Advogados Associados legal firm which specializes in corporate law and capital markets. He is involved in a number of social and business organizations and is currently a member of the Board of Directors of Ultrapar Participações S.A. and a member of the Fiscal Council of the Association to Assist Handicapped Children (AACD). He is also the author of various legal articles published in specialist newspaper and magazines.

Elizabeth Bartelle Laybauer – Director (50). Mrs. Laybauer graduated in Biology at the University of Taubaté, in Literature at the Science and Pedagogy College, and with honors in Psychology from the University of Caxias do Sul. She has also taken part in congresses and seminars in all her fields of study. Between 1981 and 1995, she was administrative manager of Faster Ltda., a footwear company. She has also been administrative manager of Ottone Importações e Exportações Ltda.

Oswaldo de Assis Filho – Director (55). He graduated in 1973 in Electronic Engineering at the Technological Institute of Aeronautic (ITA) and has a master's degree in Economics from the Economics and Business Management

college of São Paulo university. Between 1978 and 1983, he was a director of Banco Mercantil de São Paulo. From 1984 to 1991, he was a partner in the Planibanc Corretora de Valores, a brokerage house, and from 1992 to 1994 was a partner in the Convenção Corretora de Valores, a brokerage house. In 1994, he became vice president of Banco Itamarati, a position he occupied until 1996. From 1996 to 1997, he was vice president of Banco de Crédito Nacional (BCN) and in 1998 became a partner in Banco Pactual S.A., a position he still holds. He is currently a member of its Corporate Finance group.

Gelson Luis Rostirolla – Administrative and Controller Director (52). Mr. Rostirolla graduated in Business Management and Accounting at the Oeste Catarinense university. He entered the Company in 1980 as financial manager and in 1985 became financial director, a position he held until April of 2005. He began his career in 1972 as administrative and financial manager of Leticia Avícola S.A., a company which operates in the poultry area and supplies Sadia S.A., Perdigão S.A., Frangosul S.A. and Seara Avícola S.A. He is vice president of Saddle Corp. and a member of the Board of Directors of Vulcabrás do Nordeste.

Marcus Peixoto – Chief Financial Officer and Investor Relations Director (34). He graduated in 1993 in Electronic Engineering at the Technological Institute of Aeronautic (ITA). He worked as an Equities Analyst in 1994. He was an investment analyst for near a decade at Garantia/CSFB (1994–2003) and joined Banco Pactual in December of 2003. He joined Grendene on April 29, 2005. He has been a chartered Financial Analyst (CFA) since 1998.

Rudimar Dall'Onder – Industrial and Commercial director (48). He graduated in Mechanical Engineering at the University of Caxias do Sul and entered the Company in 1979 as manager of the Information Technology department. In 1987, he became Industrial and Commercial director, a position he still holds.

SHAREHOLDER INFORMATION

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Ticker: GRND3

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**NEWSPAPERS IN WHICH OBLIGATORY CORPORATE
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Diário Oficial do Estado do Ceará, O Povo and Valor Econômico.



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