

### Question and Answer Session

**Gustavo Hungria, Pactual:**

Good Morning Flávio, good morning everyone! My question concerns PDA. Just to check if I understand it correctly, you mentioned that PDA for personal loans used to account for 24% of total PDA and now accounts for 41%, is that right?

**Guararapes:**

Exactly. In the same period last year personal loans were just beginning and at that time, the delinquency rate was approximately 10%. Now we have included new risk levels, even for customers with no history of default with Riachuelo. And we have a higher risk rate for clients acquiring Riachuelo's card in order to take out a personal loan. Of course this higher risk is offset by higher interest rates - 12.9% against 8.9% for Riachuelo's older clients.

**Gustavo Hungria, Pactual:**

In view of the percentage change due to the larger increase of the personal credit portfolio, even so the growth in results these other services – in which personal credit is included – has not kept pace with the delinquency rate. The delinquency rate has doubled, more than doubled.

Are we to assume that you are anticipating higher PDA than you really expect for this kind of operation, and, therefore in the next quarters, should we expect to see a smaller PDA/revenue ratio in percentage terms? Or will provisions always have to be higher due to the personal loan operations?

**Guararapes:**

I would say that the accurate figure is the one we have today. A year ago we had no historical data that would allow us to make the most appropriate provisions. Now, after this period, I would say that the PDA ratio will tend to stabilize or even to decrease. I would not say that for the personal loan segment, however. With personal loans we think the ratio will really be around 18%, just as it is in the rest of the market, but from Riachuelo's card, from the sale of goods, I think there is a downward tendency and PDA should reach 6% to 7%. It also increased over last year's figure, which was 4%, and I have already talked about that in our previous meeting. It was a decision taken by the Company, first to adopt a sales policy, a riskier credit policy. I think it was 1 p.p. up, but it this was largely offset by the increase in sales.

Another aspect was the adoption of longer payment plans, which were more profitable. First, eight installments with interest, and since last Christmas, eight installments with interest and a grace period. These plans were chiefly responsible for the increase in our financial revenue, but must have accounted for a bit more than 1 p.p. of our delinquency.

Another important aspect is that the overall delinquency rate has, in fact, increased in Brazil as a whole. So the combination of these three factors pushed up the delinquency level, but we expect it to level off and even fall a bit.

**Gustavo Hungria, Pactual:**

And this 6% to 7% you are talking about for default on the sale of goods, what was the precise percentage for the first quarter?

**Guararapes:**

7%.

**Gustavo Hungria, Pactual:**

And you expect it to stay around 6 to 7%?

**Guararapes:**

Yes. Delinquency also presents seasonality – which is the fourth factor. The 1Q is burdened with default from the strong end-of-year sales. So, a 7% delinquency rate in the first quarter means less to come, maybe less than 6% along the year.

**Gustavo Hungria, Pactual:**

OK, Flávio. Thanks a lot.

**Guararapes:**

Thanks, Gustavo.

**Clecius Peixoto, MIC:**

Good morning, Flávio. First of all, I would like to congratulate you on not only recording much bigger growth than the Brazilian retail sector overall, but also for providing us with ever improving disclosure and guidance. As investors, we really appreciate that.

I would like to dwell a little bit more on what Gustavo mentioned, on the credit and delinquency issue. Based on the figures you gave us, if I divide PDA by interest revenues, and separate this by sales and interest revenue from other financial products, in the 1Q05 PDA was 43% of total sales revenue and this increased to 50.5%. Concerning PDA and personal loan interest revenue, and dividing that by interest revenue from other services, it grew from 28% to 58%.

Why does this worry me? With your growth, which is very fast, you always run the risk of underestimating real delinquency, because some of the recent loans have not had time to become delinquent. I mean, people who took out these

loans over Christmas and have paid the first installment still have eight installments ahead and this may result in delinquency in future months.

I see here you have receivables of R\$ 320 million at the end of 1Q. Could you give us an idea of the associated ratio, and of your total provisions at the close of the 1Q in relation to this R\$ 320 million?

Out of this R\$320 million, what are your total accrued provisions?

**Guararapes:**

Thanks, Clecius. I'm checking with Eduardo and Ricardo.

**Clecius Peixoto:**

Because, in the way you handle your provisioning, Christmas period purchases have not had time to become delinquent yet. For example, people who bought via the 0+6 plan and haven't paid the first installment would be only 60 days overdue, i.e. not part of the total provisions.

**Guararapes:**

The rule governing provisioning years is a rule of the financial market, a rule of the Central Bank. Obviously the recent maturity dates have less weight, starting with up to 30 days, 0.5% or 1%, and then gradually growing until it reaches 100% when over 180 days. So, this is the provisioning system we use.

**Clecius Peixoto:**

Of course, but this being the practice, if we have a scenario where delinquency is increasing, you run the risk of Christmas sales default hitting the 2Q not the 1Q.

**Guararapes:**

Yes, this is what happens, because of the seasonality. But historically the 1Q has a higher loss percentage than the rest of the year, and the 1Q increase tends to decrease from the 2Q on.

OK, I've got the information now. Riachuelo's provisions are R\$21 million, which is equivalent to approximately 7.3% of the Company's portfolio.

**Clecius Peixoto:**

So, using the historical average of 16.7% that you expected for the quarter, do you expect to recover some of this in the coming quarters?

**Guararapes:**

Yes.

**Clecius Peixoto:**

And do you have any idea of the average duration of your portfolio at the end of the quarter?

**Guararapes:**

Average duration?

**Clecius Peixoto:**

That's right.

**Guararapes:**

The average financing term is around 120 days.

**Vagner Salaveri, Geração Futuro:**

Good morning everyone! Good morning, Flávio. Congratulations on your results. My question is to do with what you said in your Press Release about there being 51, 52 studies for new stores through 2009. I would like to have an idea of the regional distribution of these new stores, if there is a larger concentration in any region, if there will be an increase in stores in the South or Northeast. How do you see the geographical distribution of these new stores?

**Guararapes:**

Good morning, Vagner. We have a breakdown by size and state, and what is interesting is the consistency. There is no region with a larger number of stores.

We're talking about ongoing negotiations over the next three years and this number has actually increased. In fact, at the last meeting we had with the expansion area, we signed an agreement to permit new stores with less than 3,000 m<sup>2</sup>. We're going to have a more compact format, starting at around 2,000 m<sup>2</sup>. Some of these negotiations have been promptly withdrawn, since many malls couldn't offer us the 3 or 4,000 m<sup>2</sup> we wanted. So, the number of new stores will increase with the addition of this new format.

**Vagner Salaveri:**

Let me understand something, then. Given this compact size in order to have a larger number of malls, what kind of average increase in sales area are we talking about through 2009? Since the stores are smaller, you can open more, but what will be your average store size and what is the average increase in sales area per year?

**Guararapes:**

We're sticking to our intention of doubling the number of stores, sales/m<sup>2</sup> and average size, because there will be a larger number of stores, but with the same area. So it doesn't change in the long term. It's just a way of overcoming our difficulties with certain malls and the realization that we can supply our customers with an adequate product mix in a compact format. But it doesn't mean a big increase in our long-term sales-area expansion forecasts.

**Vagner Salaveri:**

OK. One more question. You mentioned that 17 stores were being remodeled to update the layout. Will they all be ready by the 4Q for the Christmas sales? What's the deadline and the schedule? As far as I understood, you finished 4 by Mother's Day and Valentine's Day. So how will things progress along the year?

**Guararapes:**

Well, we expect to finish all the remodeling up to September, or rather 10 stores by September. We still have to begin some of them. So the remodeling process will be a continuous one, given our liability in this area following the lengthy period without physical investments. The program will involve remodeling at least 10 stores a year, or 10% of the stores being remodeled year after year.

**Vagner Salaveri:**

So up to September, 10 stores will be remodeled, and as of 2007, approximately 10% or 10 stores a year?

**Guararapes:**

Exactly.

**Vagner Salaveri:**

OK. Thanks a lot and best regards to you all.

**Gustavo Cruz, Santander:**

Good Morning, Flávio. Just to confirm a couple of comments you made during the presentation. The opening of 5 new stores until the end of the year will begin around June 3, is that right?

**Guararapes:**

We have one opening in June, two in July, one in October and another in November.

**Gustavo Cruz:**

And the second question is that you mentioned what your EBITDA would be without PDA. Just to confirm, that would be R\$42.7 million in the 1Q05 and R\$55.4 million in the 1Q06? Is that right?

**Guararapes:**

Exactly, Gustavo.

**Gustavo Cruz:**

OK, Flávio. Thanks.

**Gustavo Hungria, Pactual:**

Well, I'm going to take advantage of the opportunity to ask one more question. Concerning sales performance, can you give us an idea of Riachuelo's same-store sales in April and how they're doing in May? In other words, what do you expect for the next quarter?

**Guararapes:**

Gustavo, we've taken note of this practice here of make monthly reports and we will disclose April's sales next Friday, if you can remain patient until then. Thanks for the question and I can say that things are going fine.

**Gustavo Hungria:**

Are you maintaining your 20% guidance for same-store sales growth in 2006?

**Guararapes:**

A bit more than that. In order to reach our 40% target, it has to be a little higher, a bit more than 25%.

**Marcello Milman, Banco Espírito Santo:**

Good morning, Flávio. Morning everyone. Just to get back to PDA, you recorded PDA of R\$55.4 million in the 1Q. Can you say how much of the PDA came from financial operations, because as I understood it, it concerns loans only and not total financial services. If you could separate this, I would be very happy.

**Guararapes:**

I will pass the floor to our PDA specialist, Hidemi. But just to anticipate, we are working on systems to separate PDA per plan. However, this is no easy task, because some plans change as they go along. Let's say the customer bought at 5 times with interest, at some point – without interest – he stops being

delinquent and that debt changes to the revolving plan. So these plans migrate along their existence and it's difficult to separate delinquency by plan. I'll now hand you over to Ricardo, who has some other comments.

In the 1Q05, considering Riachuelo only, I don't have the Guararapes figures here, we recorded PDA of R\$8.8 million, R\$2 million of which from personal loans. In the 1Q06, we recorded PDA of R\$16.7 million, R\$6.8 million of which from personal loans. However, the important thing to say here is that, in terms of PDA, the 1Q05 and 1Q06 are not comparable. We are talking about personal loans that began at the end of 2004, and all the installment sales. Anything more than 180 days overdue is written off as a loss. So, with products launched at the end of 2004, there is a delayed effect.

It is important to consider that in 2005, the losses from personal loans were around 12% and we knew that this had started from zero, was increasing and would reach a higher level, around 18%, 19%.

It was also different situation in the card segment, which represented around 4% of goods sold in the 1Q05 and that 4% referred to sales in up to 5 times, without interest. There were no long-term installment plans then, no grace periods and all the rest. So this is what we have to consider. In practice, although they are booked, they are not comparable. It is a completely different situation now.

**Marcello Milman:**

Changing the subject completely - some time ago, the papers were saying that Guararapes was trying to open a bank. Can you comment on that and what would be the advantages and disadvantages of such an investment?

**Guararapes:**

Well, this is not something new. We undertook our first feasibility study into the possibility of opening our own bank 6 years ago and we continue to update it. I guess it was some rumors on this study that led to the articles. In fact, it's something we've always had in our minds. Only at the beginning, right after the study was done, we thought that the complexity that it would add to the business would not yet offset the bottom-line gains.

These gains are tax-related – CPMF and other taxes. There are also gains from charges and as financial operations grow, these become more and more attractive. We are currently updating this study, and it shows very attractive potential gains.

But of course there are other priorities - logistics, expanding the industrial area, expanding stores - but this subject has always been on the agenda. I would say that in the long term, like so many other retail chains, we will probably end up having our own bank, but only in the long term.

**Marcello Milman:**

Thanks a lot.

Having no further questions, I will now pass the floor to the speaker, for his final comments.