

Guilherme Arruda, UBS Pactual:

Good morning everyone. Could you give us your guidance for store openings in 2008? What are your plans for these stores? How many have you already contracted? Have you already identified locations and other details?

Nilton Rocha:

We expect to open about 14 to 17 stores in 2008. Some of these have already been contracted, while others are in the final stages, and we also have a third lot that I would say is in a very advanced stage. But the final count is somewhere around the figures I gave you.

Guilherme Arruda:

Great. Are any more reforms slated for next year?

Nilton Rocha:

Yes. The store remodeling program continues. We will do at least five general store remodelings, with also some other smaller remodelings.

Guilherme Arruda:

Right. The second question has to do with the increase in loss levels. I would like to know how much of this is recurring. The release attributes this to sector issues, such as your view that this is due to higher debt levels among the general public and such factors, but I'd like to know to what degree you believe these loss levels are also due to the company as well.

Perhaps the regions in which you are located, your methods for lending and risk control, things like that. Because the overall industry numbers have not deteriorated that much. And I don't know if some portion of this is also nonrecurring.

Túlio Queiroz:

The macroeconomic component does explain part of the increase in the quarter. The loss curve line for the Riachuelo Card really does show seasonal impacts across quarters.

The third quarter is the peak of losses in the year due to installments with higher risk levels because of the high concentration of interest-bearing sales in the yearend holiday season.

Part of this increase in loss levels is due to macro factors, but the major factor for this increase from 8% to 10% in the quarter is the seasonality of the quarter. Loss levels will most likely decline in the fourth quarter and first quarter of next year, as was the case last year.

Guilherme Arruda:

OK. Thank you.

Gustavo Oliveira, Citi Group:

Good morning. My question is about gross margin, which improved consistently. In your opinion, how much of this is because of the integration with the Guararapes manufacturing plants, and how much is due to weather conditions, which were better this year?

Túlio Queiroz:

The main factor for gross margin expansion this quarter was the greater integration between Riachuelo and Guararapes, with the quarter showing strong acceleration in integration levels. For the first time in the past three years, the percentage of Guararapes products in Riachuelo sales has surpassed the mark of 30%.

The most important factor, and the reason for the margin expansion, is the increased capacity of Guararapes to meet the fashion needs of Riachuelo. Over the past two years, substantial investments have been made in plants to acquire machinery precisely to be able to produce fashion elements and develop production for women's lines.

I would say the main factor for this margin expansion was this higher degree of integration. This is so much the case that if you observe figures for Riachuelo and Guararapes, both showed margin compression, but the consolidated figures showed strong expansion due to this process.

Gustavo Oliveira:

OK. And do you believe this will improve even further?

Túlio Queiroz:

Without a doubt. In fact, this integration is only now beginning to accelerate. As I mentioned before, for the first time we have surpassed the 30% mark for Guararapes products. However, now Guararapes is starting its second production shift at some key production plants. Of course there is the cost structure due to the hiring of employees and the start of a second shift, but the productivity of this second shift will still improve considerably, and consequently will start to contribute to margin expansion at the consolidated level.

Gustavo Oliveira:

Ok, thank you.

Vagner Salavarry, Geração Futuro:

Good morning everyone. Given your comments on the new level of integration between Riachuelo and Guararapes, I'd like to know your expectations for 2008 in terms of how this will positively impact consolidated sales. Should we also expect gross margin expansion to continue? And will this greater integration have a greater impact on margin expansion or on higher sales?

I would also like to hear an analysis for the fourth quarter and for the coming years on our expectations for improvement in sales, given that growth this quarter was not, I imagine, what you were expecting.

Nilton Rocha:

Yes, it was not as good as we hoped. The level of growth in the last quarter was not what we planned. As Tulio said, this process of integration with Guararapes, which has now accelerated, has caused some initial distortions that were expected – not desired, but expected – and that occurred over the course of the year, but mainly in this past quarter.

We believe that with this detected, which we have already done, we can now adjust the entire process, which is heavy, intense and involves millions of clothing items between Guararapes and Riachuelo. But once this is up to full speed, which we expect to achieve, without a doubt margins will improve next year accompanied by natural growth in our sales.

This is an inherent part of the learning curve and of all the investments we have made, both in personnel and machinery, what takes some time to develop. We believe that this quarter we are paying some of this price, of this accelerated learning process. Sales in the fourth quarter could increase, though perhaps not substantially.

For next year we expect quite a different situation, with this process well advanced and consolidated, and with the company able to take advantage of this integration, a factor that none of our competitors here in Brazil has.

Vagner Salavarry:

So, in view of the automation of the distribution center, for which I imagine you must already have a pilot project, as well as the increased verticalization you are operating with, and the improvements in the automation process at distribution centers, and this verticalization with Vale a Pena products [basic high-quality products from own production in a greater number of stores, then the analysis is that the current moment is one of transition from the previous model to the new model, and that results of this transition will be felt more substantially over the course of 2008 – is that a correct analysis?

Nilton Rocha:

You used the right word: transition. We are currently in transition. I am glad that you remembered the distribution center. We currently are carrying out an automation project in the São Paulo distribution center, a pilot project that should be expanded next year and which has already begun to be reflected in results.

We are in the process of contracting a new operating system for inventory control, planning, distribution and markdown, which should occur by yearend, and which we will also use next year.

We plan to intensify the Vale a Pena and Value Added strategies that already exist at Guararapes. We also plan to invest more in marketing next year, which until a short time ago had been suspended due to our previous strategy, but which we now believe is necessary given that stores can now handle this heavier investment in marketing, so we plan to ratchet up these efforts next year. Therefore, for next year we hope, as you all also do, that results will truly be much better than this year.

Vagner Salavarry:

And in the financial area, are the financial operations in line with what you were expecting? Because Túlio mentioned a slightly higher seasonal impact on loan losses, but that was in line with expectations, so were there any new developments or surprises.

Nilton Rocha:

The numbers were exactly in line with what we expected. This peak normally occurs in September, but tends to wane by December and continue to decline through March. And the personal loan operation is also in line with what we expected. Note that these are income generating operations that merit investment.

I would also like to announce that as of April next year we will have our own financing unit, through which we will be able to offer financing for all of our sales and all personal loans as well.

Vagner Salavarry:

OK. Thank you very much.

Luiz Felipe Magon, UBS Pactual:

Good morning, everyone. I wanted to go back to the previous question and understand a bit better the dynamics of recent sales, not just from the last quarter. I understand that you are in a transition period, but I also believe that you did not expect a performance as negative as the one you are actually having.

For example, if you look at other players in the market, and I know they aren't going through the same transitional phase involving the reformulation of stores and the integration process, but they are able to deliver a much better performance than what we have observed here.

So, what I would really like to understand a bit better is where you think you made mistakes, so to speak. What happened that was different from what was planned initially? I want to try to understand a bit more what we can expect during the fourth quarter, if fourth quarter results will really be in line with what happened in the third quarter, or if we will begin to see a recovery, but that, from what I understand should, not be that significant a recovery.

I would like to better understand this short-term sales dynamic and understand where you may have made mistakes and what you are doing to remedy that.

Túlio Queiroz:

Your comment is well taken. The main factor, as Nilton has already mentioned, is this transitional phase, under which Riachuelo is beginning to sell larger volumes of Guararapes products.

Imagine that for this process to function properly it must be accompanied by the development of excellent communication between the retail and production operations to support product development. Riachuelo's sales logistics structure requires greater integration between Riachuelo and Guararapes.

This process, as Nilton mentioned, involves millions of items, from different segments. Guararapes is now beginning to develop products for the women's line, which has more sophisticated fashion elements. Thus, there are structural elements that are inherent to the transition period, and many adjustments must be made. And, as a result, this affects the store's mix. Clearly, we don't have the ideal mix right now at Riachuelo stores in terms of both Vale a Pena products and the other Guararapes products. There is still a lot of development needed to improve the mix.

Now, to address what you mentioned regarding the comparison with other competitors. Clearly, we are far from an ideal performance, but there is an element that is important to understand, which involves the maturation of the Company's sales database.

If you look at the 2000-05 period, we opened only seven stores, which means that today we have selling area aged between two and five years, which increasingly contributes to much lower sales growth in these areas in relation to the consolidated sales.

With the opening of nine stores last year, and with the opening of these seven stores, you are contributing to the upcoming years with a base – in the stores themselves – that will be further supported by maturation. Bear in mind that this year, with the nine stores we opened last year, we are currently in a maturation year, which represents the beginning of the growth curve.

It's important to look at the quantities; which are poised to improve significantly. There are qualitative issues at work here, as we already mentioned, but it's important to understand better this element of the comparison base.

Luiz Felipe Magon:

So, just to understand a bit better: It's normal, as you mentioned, but during this transition adjustments must be made to the initial strategy. What I would like to understand is if you believe that today you have a clear idea of the direction in which you are heading or if you still have doubts as to the direction that should be taken.

I am not sure if you have understood my point. In the past in conversations I have gotten the impression that you were still studying different options. Is that a reality now? Do you know where you want to be, how you would like to operate and are you moving in that direction?

Túlio Queiroz:

Yes. This acceleration of the integration process is already a concrete fact. I think this quarter was a good demonstration of the Company's decision to better integrate Riachuelo and Guararapes. We are convinced that this process will add many other positive elements. It's no coincidence that a second production shift in the factories is now being implemented.

Starting in the first half of next year, the second shift should contribute more significantly to the Company's performance. A series of adjustments must be made to the sales area with the implementation of the sales management system, together with this more macro-level review of processes that is being carried out with Epicani, as well as the DC automation that you are all familiar with, which will surely provide greater agility and optimization for the distribution and management of stock levels.

So, I would say that the current moment is a moment of complete transition. Not just in terms of greater verticalization, but also in the structure supporting operations, to make this viable and truly enjoy the fruits of a successful integration.

Luiz Felipe Magon:

Perfect, now it's clear. And regarding the fourth quarter? Can you give us an idea of how that is going?

Túlio Queiroz:

We would rather not talk about any specific numbers for months in the fourth quarter. But what I can say – and as has already been mentioned – is that there is a greater contribution from areas that completed three months of existence and the synergy between Riachuelo and Guararapes will improve further over the coming months. So the expectation, within the known scenario, is for a trend of improvement.

Luiz Felipe Magon:

Great. Thanks, Túlio.

Operator: Once again, to ask a question, please press *1. Please wait once again as we collect the questions. Mr. Ricardo Fernandes of Itaú would like to ask a question.

Ricardo Fernandes, Itaú:

Good morning. My question is whether this integration will reach 100%? Basically, will everything you make be sold at the Riachuelo stores? And what are you going to do with the brands that you already sell outside of the group, to third parties, to multi-brand companies?

Nilton Rocha:

The integration process should continue. To complement the previous question regarding our strategy, we don't have any doubts whatsoever regarding our strategy. It is well defined and we believe completely in it. We are only making minor corrections as they become necessary.

Regarding the percentage of integration to be reached, we don't have a goal of 100%. This doesn't really exist. And we don't believe that it would be a good idea. It's important for Riachuelo to continue to have information and influence from outside suppliers, including importers, because this also energizes the stock, giving new life to the collection – something the Company places an important value on.

But naturally, the integration should reach a level that is sustainable and supported by the operation, since the profitability it generates is much higher compared to outside goods, which is the underlying reason for this verticalization.

Ricardo Fernandes:

But what I don't understand is that you have been involved with this integration for some time now. Each quarter the percentage of Guararapes products that Riachuelo sells

increases, and this is having a negative impact on even in-store sales, the productivity of each store.

It seems to me that consumers do not like what you are stocking in the stores. When are you going to complete the integration and when do you think you can begin to work on the actual merchandise aspect?

Because I think that a 2% or 3% increase store sales is very poor, to be honest. The economy is growing much faster than this, at a faster rate, and this number is more characteristic of a bad supermarket. So, I am no sure what you are failing to do to capture and win over consumers.

Nilton Rocha:

First, I am going to respond to the question about whether consumers like this: they do. The increase in sales of Guararapes products in Riachuelo stores, a statistic I can tell you, was 42% in the third quarter.

In other words, compared to last year, 42% more Guararapes products were sold at Riachuelo stores in the third quarter. As Túlio mentioned, there are adjustments we need to continue to make, adjustments in the mix. We had higher than expected declines in deliveries in relation to what should have been delivered between August and September, which was due to the enormous scale of the process. The only way to understand this complexity is to visit the factories, in Natal as well as in Fortaleza.

Now, behind all of this one thing is very clear and I will repeat it again: our belief and certainty that this is the correct strategy. We are going through an adjustment phase. And because of these adjustments we are selling 3% to 4%, perhaps 5% less than the competition. That's more or less the difference.

We think that this is reasonable enough. Of course we would prefer that this were not the case. However, the numbers are quite reasonable given the scale of the process and the gains we think we can earn because of it in the near future. That's why we are insisting that this process really is the best course. We are working night and day on these adjustments in the industrial operations and in the retail operations. And we are certain that we will soon see the fruits of this labor.

Since our company is not here just for the quarter, but rather hopes to always be here, we have to think long term. And this is a long-term strategy that once again we believe will soon begin to produce results. Or should I say, better results that it already has.

Ricardo Fernandes:

But when are you going to be able to stabilize this integration? When are these adjustments that you are talking about going to cease having a negative impact on retail sales?

Nilton Rocha:

I repeat: I do not agree that they are having a negative impact. We are selling slightly less than we should be, but we believe that over the next year, with this entire process optimized, in both the industrial and retail operations, we will see a strong impact on sales, drawing on this entire process that is being implemented.

And in the coming year, we will resume the advertising effort, investing more heavily in communication, primarily television, which will certainly put us in a better position relative to our competitors, which are already spending millions on advertising. Over the past few years, as part of our strategy, we have not been investing in this area. This will be resumed beginning in November and December. And for next year, the advertising budget will be considerable.

Ricardo Fernandes:

OK, thank you.

Renata Coutinho, Santander:

Good morning, everyone. My question relates to operating income. I really do believe that this maturation process will take some time, and that we will see the effects from sales of maturing stores over the next year. But what I am most worried about is the level of expenses, which was pretty high. Given the pace of growth in the number of stores, staying steady next year, selling expenses and store opening costs will likely continue to increase at the same rate they are at now.

I don't know if you have already commented on this, but I would like to hear more on your outlook for expenses as a percentage of sales over the coming quarters. You also just mentioned that you are going to invest more in advertising and marketing, and this should also have an impact on operating income. My concern for the next few quarters is not with the recovery in sales, but rather with the impact of expense levels on operating income. So could you please comment on that?

Túlio Queiroz:

I will begin by addressing selling expenses. This is probably the worst possible moment for the ratio of selling expenses to net revenue on its own, in other words a snapshot of this ratio in the quarter. Why is that? As you mentioned, nine of our stores are currently maturing, having been opened last year. This year we have already opened three stores and are going to inaugurate an additional four stores.

Therefore, the ratio of selling expenses to net revenue, especially in these new stores, as well as in the 18,000 m² in new selling area resulting from the remodeling over the course of 2006, results in an expense-revenue ratio quite different from the average of other companies, driving the ratio slightly higher.

Adding the impact from the strategic transition to our sales performance means that the quarterly snapshot is not very positive in this area. However, as you mentioned, the organic growth project will continue over the upcoming quarters. The natural evolution is that these new stores mature and contribute with higher revenue, and together with all of the other elements we have mentioned such as the development of our product mix and some adjustments in this integration process, this ratio of selling expenses to revenue ratio will tend to balance out over the coming quarters.

Selling expenses this year already include an amount related to the higher investment in marketing, although it is not that significant yet, since this year the campaign is not as structured as it will be next year. This year our focus was on holidays. We recorded

commercials for Mother's Day and Father's Day using some well known actors and actresses.

Next year, however, the structure will be somewhat bigger. Selling expenses this year already reflect some of this impact, though not yet in a significant way, but this impact will increase next year. We will have a well designed advertising campaign backed by a highly predictable budget.

Renata Coutinho:

OK, thank you.

Tiago Almeida, Skopos:

I am going to divide my question into two parts. In terms of same-store sales, was there any region in Brazil in which same-store sales performed very differently from this average of 2.8? In the Northeast? Could you say a little about same-store sales across the different regions?

The other question is: In a breakdown of same-store sales and looking only at stores older than five years, which is your mature segment, what is the level of same-store sales, considering only these older stores? Or looking at stores opened in the last three years, is there a big difference from the average or is it very similar?

Túlio Queiroz:

Look, Tiago, I think you mentioned the most important consideration. In same-store sales by region the differences are not as significant as when you look analyze a breakdown by age range of same-store sales. In fact, analyzing the performance of fully mature stores, those more than six years old or even older than ten years, same-store sales are actually quite lower than the areas aged between one and five years.

I could say without a doubt that selling area and even stores in the maturation phase, from one to five years, have same-store sales at least twice the company's consolidated same-store sales.

Tiago Almeida:

So, the level of same-store sales at mature stores is slightly more than half the level at stores aged between one and five years old?

Túlio Queiroz:

Yes, exactly.

Tiago Almeida:

But of today's total, how much is mature store and how much is new store?

Túlio Queiroz:

Well, we don't want to get into numbers or even stores by age range. But I can make a comment without entering into specifics regarding the number. We know that 15% of

selling area is between one and five years old, and this area has sales much higher than the group's consolidated average.

The most important statistic is that there is still 16% of selling area less than a year old, in other words, the new stores that are included in this 16% will start to contribute to the same-store sales indicator once they reach 13 months, which should lead the pace of maturation to accelerate even more.

Tiago Almeida:

In terms of an added value analysis by store distribution, have you considered closing any stores that are not producing the desired returns and opening or moving them to other areas?

Túlio Queiroz:

Tiago, as you well know, the Brazilian market is still highly fragmented, with opportunities in all regions in which we operate. Specifically on store performance, there are not any stores that merit taking such a drastic decision as closure.

Why is that? There is a process to follow before opening a store, a study of the region is done. The market potential for a given region is ascertained. And the Company only opens a store in that region if it believes in that market. Looking at market data, we know that in our market the presence of the informal market is still strong, and there is still a lot of migration to take place from the informal to the formal market, and without a doubt the Company is at the base of this migration, of this consumer with monthly income of up to R\$1,000 that is penetrating the formal market.

Tiago Almeida:

For next year, what is the approximate date for the branding, starting with the bank, will we start to see movement on this front in the second half of 2008? Will this movement take place for sure?

Nilton Rocha:

As I mentioned, the financing company should start operations in April. From that point on, an exchange will begin, with the substitution or addition of our private-label clients to a brand, in other words Mastercard or Visa.

Tiago Almeida:

What is the estimated volume of migrations per month?

Nilton Rocha:

We don't have an exact number. But I will say that we hope to end next year with approximately one million cards.

Tiago Almeida:

OK. Thanks very much.

Ricardo Fernandes, Itaú:

I'm sorry, I forgot to ask if the bank license to open a finance company has already been granted. Can you give us an update on this?

Túlio Queiroz:

Ricardo, regarding the bank license and the expected start-up of the finance company, the forecast continues to be for April of next year. As of October, we still had not received the bank license, but we will likely have it by the end of the quarter and begin operating by April.

Note that all of the elements related to the system supporting this finance operation, which of course are necessary, have already being taken care of. Therefore, the company is sticking to its forecast that the finance operations will begin in April next year.

Ricardo Fernandes:

Is there any chance of the bank license not coming through?

Túlio Queiroz:

It is already being processed by the Banco Central. It was already technically approved, with praise, actually. The rest is merely a formality, the bureaucratic process that is involved. The chances of the license not coming through are virtually zero, I would say.

Ricardo Fernandes:

OK. One last question, returning to the issue of merchandise: Did you carry out any price adjustments in the quarter, upwards or downwards? Did you increase prices or do something along those lines that could cause a negative impact on sales?

Nilton Rocha:

No, our pricing strategy has remained unchanged. There was a slight increase in the products we call Vale a Pena in this third quarter, but in general terms we maintained the same product line, only with higher volumes. And price margin and cost composition were unchanged. There were no major changes.

Ricardo Fernandes:

OK, thank you.