3Q06 Earnings Results

GUARARAPES-RIACHUELO ANNOUNCES 3Q06 RESULTS

November 07, 2006

Quote (Closing)
GUAR3: R$ 100.40
GUAR4: R$ 95.99

Market Value
R$ 6.1 billion

Portuguese Conference call
Wednesday (11/08)
11:00 AM (São Paulo)
Phone.: (0xx11) 2101-4848
Code: Guararapes

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São Paulo, November 07, 2006 – Guararapes Confecções S.A. (Bovespa: GUAR3 - ON e GUAR4 - PN), the largest Brazilian apparel manufacturing company and the parent company of Lojas Riachuelo – the second largest Brazilian apparel department store chain, announces its results for the third quarter of 2006 (3Q06).

The following financial and operational data, except where otherwise indicated, are presented on a consolidated basis and in Reais, pursuant to the Brazilian Corporate Law.

Financial and Operating Highlights

- ✓ In the 9M06, Riachuelo's gross sales increased 16.2%, excluding the effect from remodelings
- ✓ Consolidated Gross Margin went up 0.6 p.p. in the 3Q06 and 0.8 p.p. in the 9M06
- ✓ EBITDA came to R$ 68.1 million in the quarter, increasing 9.5% in the 3Q06 and 12.8% in the 9M06
- ✓ Financial Service Revenue moved up 47.9% in the 3Q06
- ✓ Consolidation of the "Saque Fácil" Operation in 70 stores
- ✓ Confirmation of 9 new stores and 15 remodelings for 2006

Financial Highlights (R$ million)	3Q06	3Q05	Chg. (%)	9M06	9M05	Chg. (%)
Gross Revenue	546.5	522.0	4.7%	1,503.4	1,389.8	8.2%
Net Revenue	**384.0**	**368.3**	**4.3%**	**1,052.9**	**979.3**	**7.5%**
Gross Profit	**168.2**	**159.2**	**5.7%**	**477.5**	**436.1**	**9.5%**
Gross Margin	*43.8%*	*43.2%*	*0.6 p.p.*	*45.3%*	*44.5%*	*0.8 p.p.*
Financial Service Revenues	57.7	39.0	47.9%	163.3	106.6	53.1%
Adjusted EBITDA¹	**68.1**	**62.2**	**9.5%**	**195.3**	**173.1**	12.8%
EBITDA Margin	*17.7%*	*16.9%*	*0.8 p.p.*	*18.5%*	*17.7%*	*0.9 p.p.*
Net Income (Loss)	**37.0**	**40.9**	**-9.3%**	**103.7**	**2.8**	**3623.9%**
Adjusted Net Income (Loss)²	**44.2**	**44.2**	**-0.1%**	**122.8**	**114.5**	**7.3%**

1 - Includes Financial Services Revenues

2 - Excludes non-recuring effects from Social Contribution Taxes

EBITDA represents net revenues net of cost of services, selling expenses, general and administrative expenses, and other net operating revenues (expenses) added to depreciation and amortization reversals. EBITDA or Adjusted EBITDA should not be considered an alternative to net income (loss) as an indicator of our operating performance, or an alternative to cash flow as an indicator of liquidity. EBITDA is not a measure recognized by the accounting practices adopted in Brazil and other companies may define it in different ways.

Management Comments

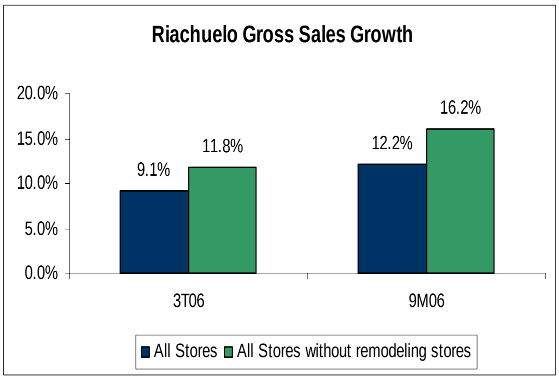
Based on a vertically integrated business model, we have been promoting a higher integration between Guararapes and Riachuelo since the end of 2004, when we initiated the *Vale a Pena* (VP - "It's Worth It") business strategy, through which we offer high quality products at exceptionally competitive prices. In order to optimize our vertical integration earnings, we introduced the Fast Fashion concept, which also improved integration for higher value-added items, allowing us to identify our customers' wishes, produce better products and rapidly make them available in our stores.

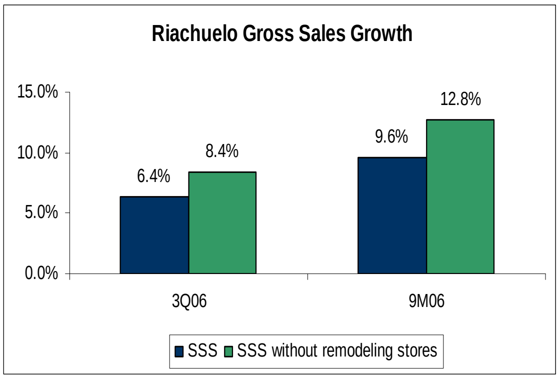
During the quarter, approximately 60% of Guararapes production was destined to Riachuelo, and, more importantly, higher added value products are increasingly accounting for a larger share of this amount, improving the retail segment's performance due to a more sophisticated product mix.

Therefore, in the 9M06, the Company's consolidated gross margin went up 0.8 p.p. year-on-year, from 44.5% to 45.3%. In the quarter, there was a 0.6 p.p. increase, from 43.2 to 43.8, year on year. This performance would have been even better, had margins not been affected by the markdown of winter items following the mild temperatures in the period.

Always focused on result generation, the company will have completed the remodeling of 15 stores by the end of 2006. During all the quarter, 8 stores were still being remodeled, which means that 30% to 50% of their sales area was unavailable. Since these are highly strategic markets for the company, the impact of remodelings strongly affects our sales performance and, therefore, should be carefully considered.

In order to exclude the impact of these remodelings and the maturation process of the new areas resulting from such remodelings, we excluded the aforementioned 15 stores to analyze sales growth. Therefore, even with a high comparison base reported in 2005 (41.1% in relation to 9M04), "all-store excluding remodelings" gross sales climbed 16.2% in the 9M06. Applying the same methodology to "same store excluding remodelings", 9M gross sales grew by 12.8% year-on-year, as it shown in the chart below:

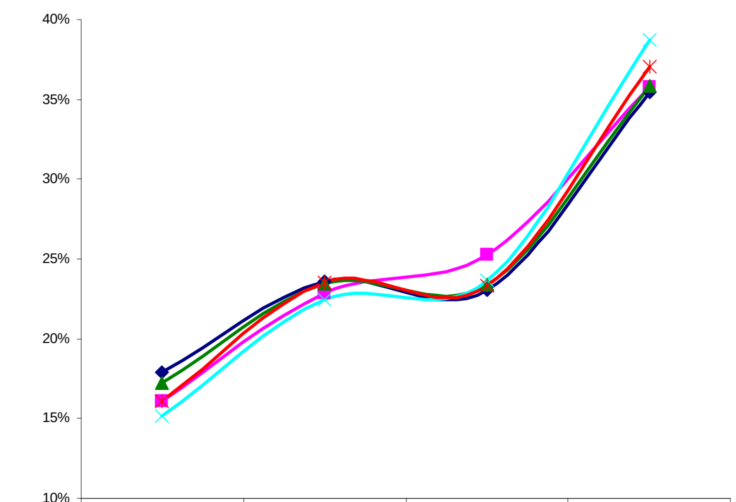




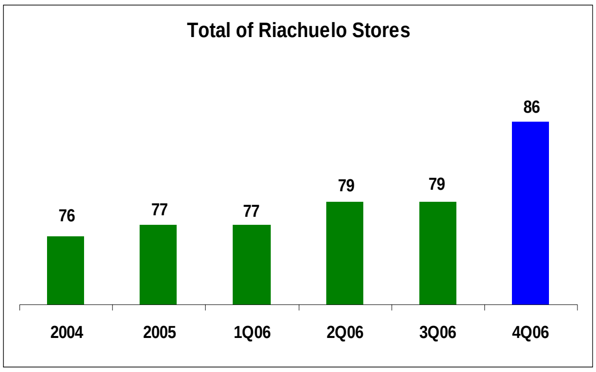
A comprehensive process review project will be implemented by the end of the year, as to maximize the group's productivity. By mapping and redesigning all the management and logistics processes, the project aims to reduce operating expenses through debottlenecking (if applicable) and the improvement of the flow of information in the group.

Our sales are highly seasonal in nature, being heavily influenced by the various commemorative dates, such as Mothers' Day, Fathers' Day, Valentine's Day, Children's Day and Christmas.

We expect to have a better sales performance in the fourth quarter due to the additional approximately 33,000 m² compared to last year: 21,000m² from new stores and 12,000m2 from remodeling projects.



	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2001	18%	24%	23%	35%
2002	16%	23%	25%	36%
2003	17%	23%	23%	36%
2004	15%	22%	24%	39%
2005	16%	24%	23%	37%



In addition to remodeling 15 stores, the Company will also open 9 outlets until December. By the end of the third quarter, we had only opened two stores, but in October and November, we have opened 4 stores: one in Manaus, in Amazonas; one in Curitiba, in Paraná; one in Contagem, in Minas Gerais; and one in Vitória da Conquista, in Bahia.

Following a period in which investments were centered on the construction of the Midway Mall, this year the focus changed to the organic growth of the retail segment. The IT and Business Intelligence areas were subject to an intensive development in order to provide the necessary support for this growth. In addition to the fully operational SAP system, we now have specific systems dedicated to the integrated control of the Company's financial and commercial operations.

Operating Performance

Guararapes Confecções

The parent company is responsible for the manufacturing division of the group. More than 60% of the output goes to the apparel retail chain, Riachuelo, and the remainder to 10,000 small and medium-scale retail clients nationwide, including Pool, Omni and Wolens.

With two industrial complexes, one in Fortaleza and the other in Natal, turning out an assortment of clothing, such as shirts, shorts, pants, etc, the parent company production totaled 12,864,000 items in the third quarter, 6.6% up on the 12,070 items reported in the same period of the previous year. In the first nine months, production moved up 8.2% year-on-year, from 32,150,000 to 34,791,000 items.

Sales volume reached 12,060,000 items in the 3Q06, 4.2% up on the 11,576,000 sold in the 3Q05; and 30,983,000 in the 9M06, 5.7% up on the 29,317,000 sold in the 9M05.

Parent company net revenue totaled R$117.2 million in the quarter and R$300.0 million in the 9M06, up by 7.9% and 7.4% year-on-year, respectively.

Gross profit increased from R$34.2 million in the 3Q05 to R$37.7 million in the 3Q06, climbing 10.3% year-on-year. In the 9M06, gross profit reached R$95.6 million, 8.6% more than the R$88.0 million recorded in the 9M05.

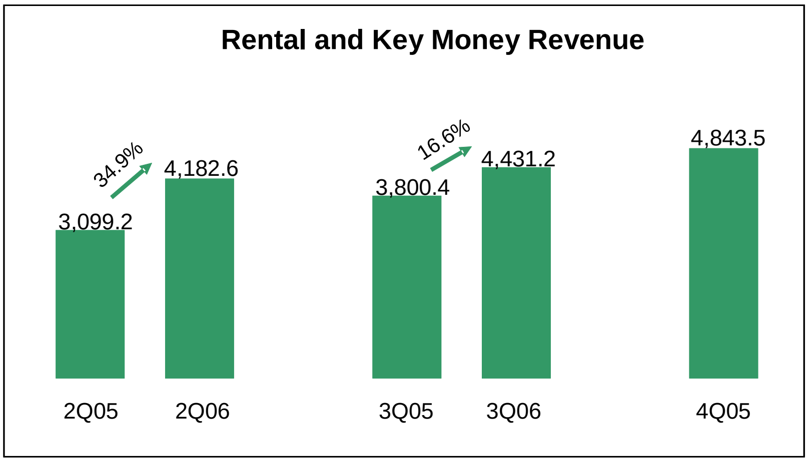
Investments in the automation of the cutting and sewing lines have been generating productivity gains, leading to improved margins. These investments, together with the expansion of the "Vale a Pena" (It is worth it) VP strategy, resulted in a 0.7 p.p. increase in the gross margin, which widened from 31.5%, in the 3Q05, to 32.2%.

Midway Mall

Opened on April 27, 2005, and with 99% of its total area rented, Midway Mall comprises 231,000 m^2 spread over two floors of stores and service outlets and a third floor for future expansion. Other six floors are destined to indoor parking for 3,500 cars.

The graph below shows revenue and EBITDA trends along 2006. It is worth noting that these revenues are booked under other operating revenue and expenses.

Midway Results *(R$ thousand)*	**1Q06**	**2Q06**	**3Q06**	**9M06**
EBITDA	**2,820.3**	**3,293.9**	**3,608.1**	**9,722.4**
EBITDA Margin	**80.0%**	**78.8%**	**81.4%**	**80.1%**
Rental and Key Money Revenue	**3,526.9**	**4,182.6**	**4,431.2**	**12,140.7**

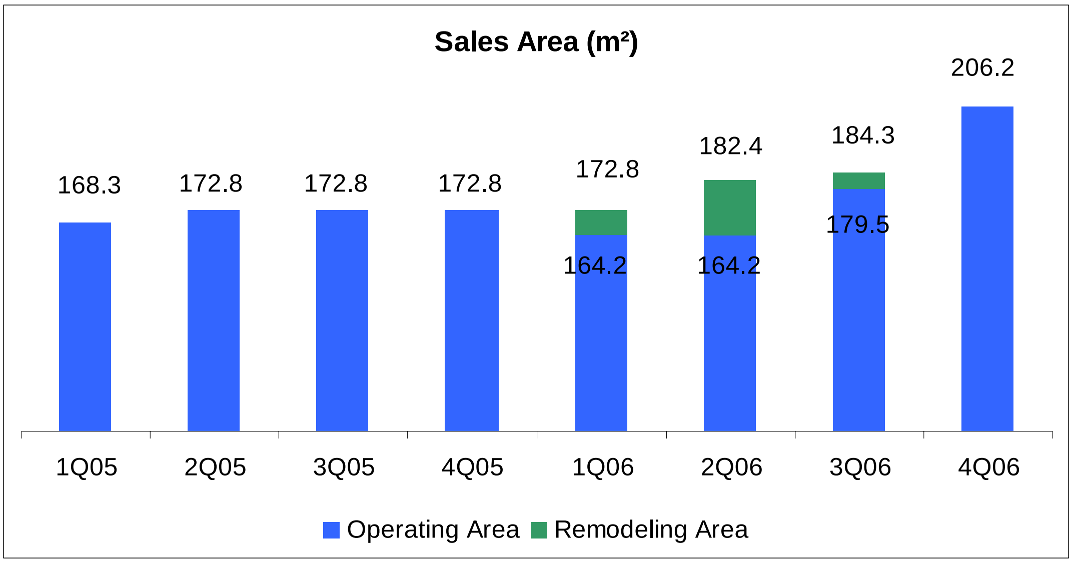


TCV

Transportadora Casa Verde – TCV – is responsible for part of the group's logistics. Thanks to investments in recent years, particularly in technology, it has become highly effective in ensuring that Guararapes Confecções' products reach Lojas Riachuelo chain in a timely manner.

Lojas Riachuelo

As of 2006, we began to concentrate our efforts on Riachuelo's organic expansion. Our chain will close the year with 9 new and 15 fully remodeled stores to fit into the Company's current architectural concept. By the end of 2006, the increase in the sales area will surpass 33,000m2: 21,000m² from new stores and 12,000m² from remodeling projects.



Eleven stores had part of their area closed due to remodeling projects during the quarter, three of which (São Bernardo do Campo, Ibirapuera and Londrina) completed the remodeling in July. Therefore, during August and September, eight stores were still being refurbished, having from 30% to 50% of their sales area unavailable. By the end of September, the remodeling process in Anápolis was concluded; therefore, there were seven ongoing remodeling projects at the end of the September.

Remodeling Stores	Status
Vitória Shopping	Concluded - Apr
Manaus Shopping	Concluded - May
Brasília Park Shopping	Concluded - May
Campo Grande Shopping	Concluded - Jun
São Bernardo Campo Shopping	Concluded - Jul
Ibirapuera Shopping	Concluded - Jul
Londrina	Concluded - Jul
Anápolis	Concluded - Sep
Natal Centro	Concluded - Oct
Aracajú Centro	Concluded - Oct
Bauru	Concluded - Oct
Sorocaba Shopping	Concluded - Oct
S. J. Rio Preto Centro	November
Salvador Lapa Shopping	November
Campo Grande Centro	November

New Stores	Status	Area(m²)
Aracajú Shopping	Concluded - Apr 26	3,470
Fortaleza Centro	Concluded - Jun 05	2,600
Manaus GV Centro	Concluded - Oct 19	1,600
Curitiba Estação Shopping	Concluded - Oct 25	1,950
BH Contagem Shopping	Concluded - Oct 26	2,650
Vitória Conquista Shopping	Concluded - Nov 03	2,000
Florianópolis Shopping	November 09	2,100
São José dos Campos	November 30	2,600
Cuiabá 3 Américas Shop.	December 01	2,250

The Company inaugurated only two new stores in the third quarter, one in Aracajú Shopping and one in Fortaleza Centro. However, four new stores were inaugurated in October and November. The first, which opened on October 19, has a sales area of 1,600 m² and is located in Manaus, in Amazonas.; the second, inaugurated on October 25, has a 1,950 m^2 of sales area and is located in Shopping Estação, in Paraná; the third, inaugurated on October 26, has 2,650 m^2 of sales area and is located in Contagem, in Minas Gerais; the fourth, inaugurated on November 03, has 2,000 m² of sales area and is located located in Vitoria da Conquista, in Bahia.

The inauguration of a store in Vitoria da Conquista reflects the process of research, analysis and identification of new business opportunities, including cities with less than 500,000 inhabitants, providing the opening of a new market horizon to be exploited As we know the main markets in the country and the different cost structures according to the format of our future stores, the expansion area has accurate information to be used in the Company's projections and feasibility studies. Therefore, all decisions as to the opening of a new store or remodeling of an existing one are based on potential value generation.

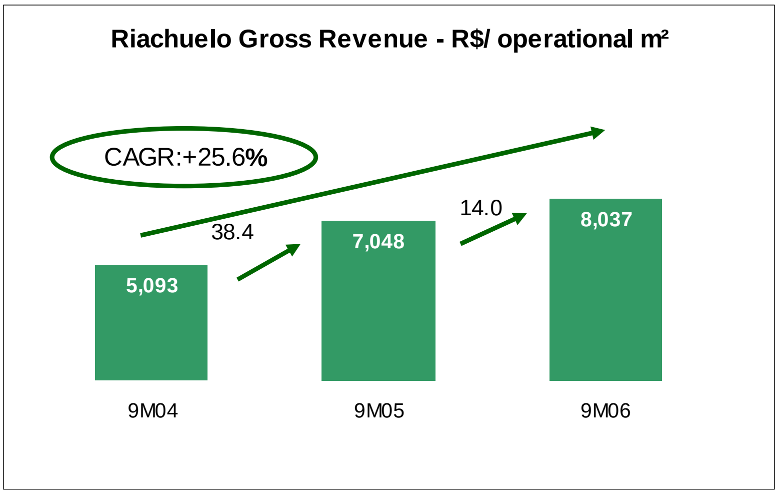
As we have two distribution centers, one in São Paulo and the other in Natal, the current logistics framework is capable of coping effectively with the entire expansion plan as we seek to reduce merchandise delivery times between the centers and the stores. As of the 1Q07, we will begin the Pilot Automation Project of the Guarulhos Distribution Center; 12 stores located in São Paulo will participate.

Guararapes' products accounted for 26.9% of Riachuelo's total sales volume in the 3Q06, versus 24.3% in the 3Q05, and 23.4% in the 9M06, versus 21.6% in the 9M05.

Gross Revenue

Riachuelo's gross revenue totaled R$489.0 million in the third quarter, 8.9% up on the R$448.9 million reported in the 3Q05. The nine-month figure stood at R$1,359.5 million, 12.4% up on the R$1,209.7 million recorded in the 9M05.

Gross revenue per operational m² climbed from R$ 7,000 in the 9M05 to R$8,000 in the 9M06, growth of 14.0%.



Net Revenue

Lojas Riachuelo's net revenue totaled R$338.5 million in the 3Q06, 9.0% more than the R$310.6 million reported in the 3Q05. Net revenue per operational m² came to R$939.5 million in the 9M06, 12.2% up on the R$837.6 million reported in the same period last year.

Cost of Goods Sold (COGS)

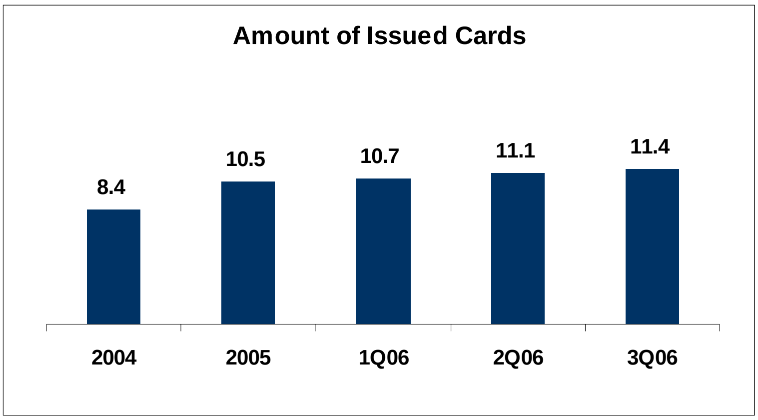
The cost of goods sold rose 11.0%, from R$186.8 million in the 3Q05 to R$207.4 million in the 3Q06. In the 9M06, COGS totaled R$553.3 million, 13.3% over the R$488.3 million reported in the same period last year. The gross margin narrowed 0.6 p.p., from 41.7% in the 3Q05 to 41.1% in the 3Q06 due to the efforts to sell the autumn/winter products as a consequence of the usual mild temperatures in the period.

Financial Operations and Riachuelo Private Label Card

As the Company's portfolio is basically comprised of people who do have bank accounts and whose monthly income doesn't exceed R$1000.00, our retail business presents an excellent synergy with the commercialization of different kinds of financial products.

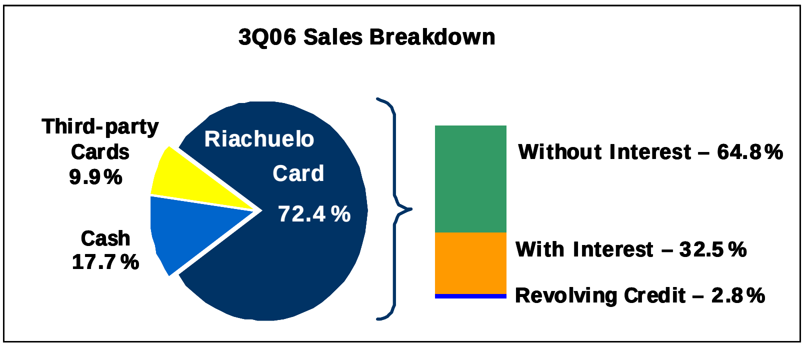
The development of the financial business inside our retail chain provides clients large banks do not consider strategic targets with credit opportunities, through products designed exclusively for their income range.

In addition to increasing the purchase power of these costumers, retail financial operations allow these consumers to use such products within their family budget through monthly credit limits with carefully established with the help of fully integrated *credit score* systems.



By September 30, 2006, more than 11.4 million Riachuelo private label cards had been issued. Approximately 370,000 units were issued in the third quarter and more than 910,000 in the nine months. Approximately 50% of the cards issued were active.

In the third quarter, Riachuelo cards accounted for 72.4% of total sales, 35.2% of which involving interest, as shown in the adjacent graph. The average ticket of Riachuelo private label card sales moved up from R$82.44 in the 3Q05 to R$88.29 in the 3Q06.



Interest sales moved up from 30.2% (22.5% of the total) to 35.2% (25.5% of total sales) of all sales with Riachuelo's private label card in the 3Q06.

Riachuelo's financial operations are essentially composed of the following:

- Interest Sales

All sales under the 6, 7 or 8 installment plans and revolving credit options are subject to interest of 4.9% and 9.9% per month, respectively. As of the end of 2005, the Company offers a payment option featuring interest plus a 60-day grace period. Interest is incurred for the whole period, including the grace period.

Revolving credit is when clients opt to pay the minimum amount due and refinance the remainder for payment on the next due date.

- Personal Loans

The personal loans portfolio moved from R$111.3 million in the end of June, to R$119.8 million in the end of September. The net portfolio, excluding losses, was R$81.6 million, against R$80.5 million in the previous quarter.

Interest rates range from 8.4% to 12.0% per month depending on the risk level of the client and the maximum value per contract is R$ 2,000 and 12 months to pay.

In such operations, the Company relies on partner banks who handle all the financial details of the operation, including the funding.

- "Saque Fácil"

"Saque Fácil" is the quarter's highlight; it exceeded the Company's expectations. It allows Riachuelo's clients to withdraw money from ATMs inside our stores, at the maximum value of R$200.00. This product has great potential to outperform conventional personal loans' volume and profitability levels, despite not jeopardizing their performance, due to its convenience and simplicity.

We believe its loss to be smaller than that of personal loans, since the average ticket and terms are shorter.

- Fines and Delinquent Interest

When bill payments become overdue, the overdue amount is subjected to a fine of 2% and interest of 9.9% per month. Since around 35% of our customers do not pay on the stipulated date, but approximately 9% remain in default after 180 days, this operation generates considerable financial revenue.

- Other Financial Products

Riachuelo offers its clients three different types of insurance (unemployment, home and personal accident) and three kinds of assistance (home, vehicle and dental), in addition to the so-called “Protected Card”, where clients pay a monthly fee to have their card insured against loss and theft.

Financial Operations Revenue

In the 3Q06, revenue from financial services increased 47.9% year-on-year to R$ 57.7 million

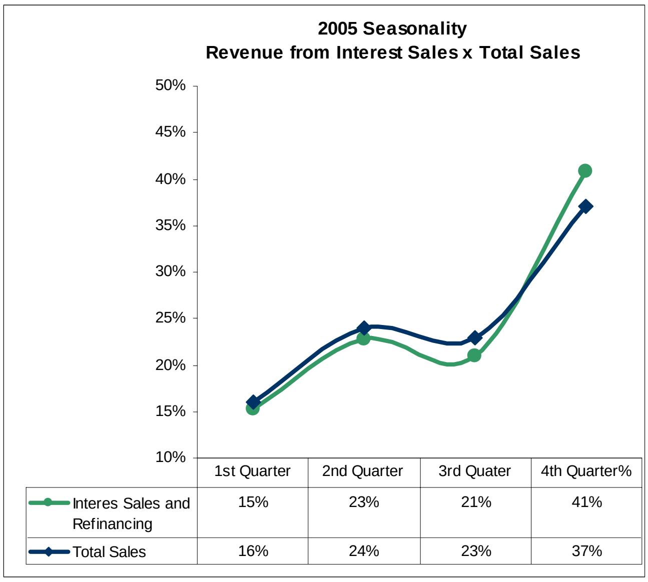
Revenues from personal loan operations are recognized along the term of the contract, i.e. while the company is receiving the installments. Therefore, it is worth emphasizing that the current portfolio will still be generating revenue in the coming quarters. Sales with interest operations are accounted for on an accrual basis, being booked at the moment of sale.

The performance presented in the table below reflects the Company’s goal of adding value through greater exposure to sales with interest and personal loans, and also “Saque Fácil”. Even though expenses from losses and provisions for doubtful accounts increased, the financial revenue from these operations keep generating a better result when compared to the one presented in 2005. It is worth noting that we consider the expenses from losses and provisions, concerning personal loan operations, sales with interest, and also, sales without interest.

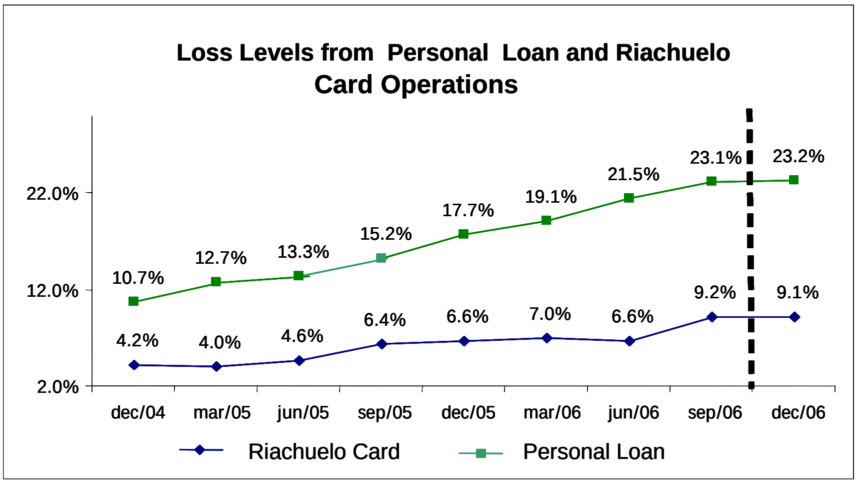
Financial Operations Revenue

R$ (thousand)	1Q06	1Q05	Chg.(%)	2Q06	2Q05	Chg.(%)	3Q06	3Q05	Chg.(%)	9M06	9M05	Chg.(%)
Financial Operation Revenue	38,755	28,874	34.2%	66,864	38,767	72.5%	57,675	39,003	47.9%	163,293	106,644	53.1%
Losses and PDA	(16,728)	(8,815)	89.8%	(30,398)	(13,544)	124.4%	(31,202)	(16,110)	93.7%	(78,327)	(38,469)	103.6%
Total	**22,027**	**20,059**	**9.8%**	**36,466**	**25,223**	**44.6%**	**26,473**	**22,893**	**15.6%**	**84,966**	**68,175**	**24.6%**

Revenues from sales with interest are booked at the moment of the sale, so these revenues are as seasonal as our sales. Therefore, the first and the third quarter present results lower than those for the second and fourth.



The following graph shows loss trends from Riachuelo Private Label Card and personal loan operations. The figures indicate the amount overdue by 180 days in relation to total expected payments for the period.



The quarter-on-quarter increase in losses from Riachuelo's Private Label Card operations is mainly due to interest sales with grace period beginning at the end of 2005. Such operations present a higher risk as a consequence of their longer term and higher average ticket, which reflects on the loss trends from Riachuelo's Private Label card as of August (180 days + 60 days). In addition, sales with interest represented more than 40% of Riachuelo card sales in the 4Q05.There were also aggravating economic factors, such as the population's increasing indebtedness, with greater exposed to the payroll deductible loans.

Therefore, we expect to maintain the current level in the fourth quarter of 2006 and reduce it to 8% by the end of March 2007. This is a natural trend in our operations due to the great concentration of sales in the last quarter and our clients' increased disposition to enter into debt. Since the reflection of all forms of payment have been shown in our loss indicators, the indebtedness curve shows quarterly standards.

Being entirely new and having a higher natural risk, personal loans were gradually implemented. Initially, these operations were only offered to our low-risk customers, so volume was limited. The increase in the loss level is explained by this quest for a balance between risk and volume.

This product's break-even is estimated at a loss level higher than 40% and the current level is considerably below that adopted by the market, the Company hopes to maintain the loss level close to the current levels.

Consolidated Results

The Company's consolidated results consider the results of the parent company and its subsidiaries.

Consolidated Gross Revenue

Consolidated gross revenue for the quarter totaled R$ 546.5 million, 4.7% up on the R$ 522.0 million recorded in the 3Q05. The nine months-figure stood at R$ 1,503.4 million, 8.2% more than the R$ 1,389.8 million reported in the nine months of 2005.

Consolidated net revenue climbed 4.3% from R$ 368.3 million, in the 3Q05, to R$ 384.0 million in the 3Q06. In the 9M06, net revenue totaled R$1,052.9 million, 7.5% up on the R$979.3 million reported in 9M05.

Consolidated Costs

COGS totaled R$ 215.8 million in the third quarter, up by 3.2% over the same period in the previous year, accompanied by a consolidated gross margin of 43.8%, 0.6 p.p. higher than the 43.2% recorded in the 3Q05.

Nine-months consolidated COGS stood at R$ 575.5 million, 5.9% more than the 9M05 figure of R$ 543.2 million. The period gross margin reached 45.3% or 0.8 pp over the same period of the previous year.

Selling and General and Administrative Expenses

Consolidated selling expenses totaled R$ 128.7 million in 3Q06, 16.7% over the R$ 110.2 million reported in the same period in 2005. Excluding expenses from losses and PDA relative to Personal Loan and Riachuelo Card Operations, this growth was 3.5%.

Expenses from losses and PDA, booked under selling expenses, came to R$ 31.2 million in the third quarter. Of this amount R$ 23.8 million refers to card operations and R$ 7.4 million to personal loan operations. Supported by the Business Intelligence system, we have developed parameters and ratings over the years to manage the risks of all the Company's financial operations.

In the 9M06, selling expenses totaled R$ 360.0 million, up by 21.9% over the 9M05 figure of R$ 295.3 million. However, excluding expenses from losses and PDA relative to Personal Loan and Riachuelo Card Operations, this growth was 9.7%

G&A expenses increased by 7.1%, from R$ 38.4 million reported in the 3Q05, to R$ 41.1 million in the 3Q06. In the nine-months, theses expenses reached R$121.1 million, up by 10.4% year-on-year.

Operating Result

The Company considers the results from both apparel sales and financial services as results from its core business.

Therefore, our EBIT and EBITDA are added to financial service revenue in order to present our operating cash generation more accurately; since the expenses related to Financial Operations losses and PDA are booked under selling expenses.

Adjusted EBIT[1] totaled R$ 53.9 million in the third quarter, up by 6.3% over the same period in the previous year. In the nine months, adjusted EBIT[1] came to R$ 153.7 million, 10.3% more than the R$ 139.3 million reported in the 9M05.

Adjusted EBITDA¹ totaled R$ 68.1 million in the 3Q06, 9.5% up year-on-year, chiefly due to the 47.9% increase in the period financial operation revenue. In the first nine months, the Adjusted EBITDA climbed 12.8% year-on-year, reaching R$195,3 million.

EBITDA Reconciliation	3Q06	3QT05	9M06	9M05
Gross Profit	**168,195**	**159,157**	**477,472**	**436,052**
(-) Selling Expenses	(128,654)	(110,238)	(359,986)	(295,301)
(-) Administrative Expenses (excl. CSLL extraod.)	(41,134)	(38,412)	(121,109)	(109,693)
(-) Other Operating Expenses/Income	(2,170)	1,224	(6,000)	1,636
(+) Financial Service Revenues	57,675	39,003	163,293	106,644
Adjusted EBIT¹	**53,912**	**50,735**	**153,670**	**139,337**
EBIT Margin	*14.0%*	*13.8%*	*14.6%*	*14.2%*
(+) Depreciation and Amortization	14,219	11,506	41,591	33,734
Adjusted EBITDA	**68,130**	**62,241**	**195,261**	**173,071**
EBITDA Margin	*17.7%*	*16.9%*	*18.5%*	*17.7%*

The EBITDA margin stood at 17.7% in the third quarter, 0.8 pp over the 16.9% in the 3Q05, and at 18.5% in the 9M06, 0.9 pp more than the 17.7% recorded in the 9M05.

Financial Revenue and Expenses

Part of the Company's financial revenue refers to tax incentives in the scope of the Ceará Industrial Development Fund (IDF) and the Program for Industrial Development Support in Rio Grande do Norte (PIDS). According to these programs, 75% of ICMS (tax on distribution of goods and services) payable is registered as financing (TJLP and TR + 3% p.a., respectively) and the Company accounts income with the funding until the settlement of the financing.

The lower net financial revenue, excluding financial operating revenue was due to a lower cash position. Net cash (cash + short-term financial investments), i.e., cash net of gross debt, stood at R$28.7 million at the end of the quarter, compared to R$70.1 million last year. This reduction is a consequence of investments in store openings and remodeling.

Pre-tax Result / Equity Result

The pre-tax/equity result came to R$ 57.6 million in the third quarter, down by 4.8% on the R$ 60.5 million recorded in the same period in the previous year. It is worth noting that in the 3Q05, there was the positive non-recurring CSLL effect of R$3.1 million.

In the nine-months, the figure stood at R$ 163.7 million, 285.4% up on the R$ 42.5 million recorded in the 9M05.

Net Income and Adjusted Net Income

Adjusted net income after tax benefits, i.e. excluding the CSLL non-recurring effects, totaled R$44.2 million, remaining stable compared to the same period of the previous year. In the 9M06, adjusted net income after tax benefits came to R$ 122.8 million, 7.3% up on the R$114.5 million reported in the 9M05.

In addition, in compliance with CVM Circular Letter 309, of December 17, 1986, the value of the income tax excludes tax benefits.

The Company has income tax benefits on the sale of the products it manufactures, providing a capital reserve is constituted in an equivalent amount.

CAPEX

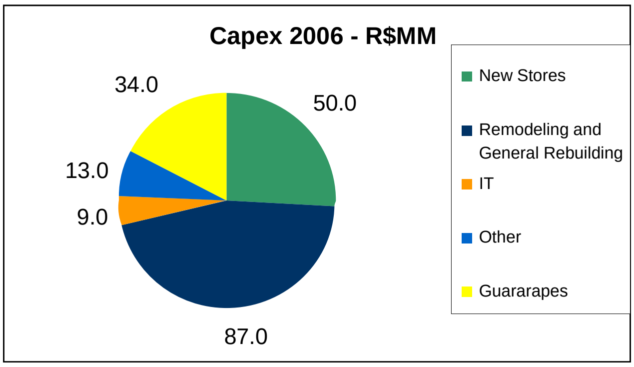
In the 3Q06, the group invested R$ 65.6 million, out of which, R$47.2 million were destined to store openings and remodeling.

Investments	3T06	9M06
New Stores	17.9	31.0
Stores Remodeling	29.3	64.5
General Rebuilding	2.5	5.9
IT	2.4	5.5
Guararapes	10.2	25.4
Other	3.3	11.0
Total	**65.6**	**143.1**

Outlook

As a result of the addition of yet another store, adding up to nine now; the parent company's acquisition of property for Riachuelo, and investments in general remodeling, CAPEX will come to close to R$ 193.00 million in 2006.

Out of this amount, R$ 87.0 million are destined to remodeling and general refurbishments, approximately R$50.0 million will go to the opening of new stores; R$9.0 million to automation and IT; R$34.0 to plant improvements and property acquisition; and the remainder to other segments, such as logistics, Call Center and Head Office.



For the fourth quarter, we expect a good performance driven by the increase in sales are as a consequence of store openings and remodeling. As seven stores were still being remodeled at the end of September, December sales potential is stronger than this quarter's.

The year of 2005 was important for the consolidation of VPs – basic, low-cost products. In the second vertical integration stage, which began at the end of the same year, we began to emphasize the *Fast Fashion* concept, taking advantage of the agility it generates to produce more fashionable products with wider margins. To optimize even further this integration process, the automation of our Distribution Center located in Guarulhos and the implementation of Guararapes' second production shift are scheduled for 2007.

Aiming at developing Riachuelo's financial operations, we have filed a request with the Central Bank for authorization to create our own financing company. This new company, whose startup is scheduled for the second half of 2007 due to the necessary adjustments in the operating systems, aims at exploring business opportunities in its client base by associating of part of its 11.4 million card base with a major credit card company.

The expected year-on-year increase of 25% to 30% in Riachuelo's total gross sales for the second half of 2006 was based on non-linear growth, i.e. growth of 15% in the 3rd quarter and 30% in the 4th quarter, as our available end-of-year sales area will be 15% larger than at the end of the third quarter.

Considering the current context and observing monthly 2004 x 2005 growth of 29.5%; 34.1% and 29.3%, for October, November and December 2005, respectively, we expect to boost Riachuelo's total gross sales by 20% year-on-year in the final quarter.

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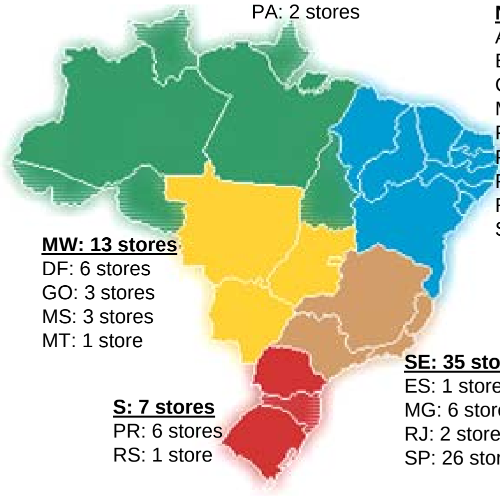
About Guararapes-Riachuelo

Guararapes is the largest apparel manufacturing company in Brazil and the controller of Riachuelo, the country's second largest apparel department store chain, with 83 stores nationwide, distributed as in the adjacent map.

In developed countries, large-scale companies account for 30% to 40% of the textile retail market, whereas in Brazil the sum of the biggest firms accounts for less than 7%. The main competitive advantage of the small outfits is the informality of their operations.



However, big chains have grown due to scale gains, investments in product quality, position in the fashion market and fast inventory turnover. With such characteristics, the Company is can adapt rapidly to the season's trends.

In recent years, Guararapes has invested heavily in its support operations by modernizing its facilities, opening two distribution centers in Natal and Sao Paulo and implementing IT for financial and operational management.

As a result of these investments, the gap between the beginning of production in Guararapes and sales of the finished product in Riachuelo has fallen from 180 to 40 days. One of the Company's most important advantages is this integration between retail and production, a model that has proved highly successful since it allows the Company to respond quickly to changes in the market.

Riachuelo private-label cards are another major asset, establishing long-term relationships with a growing customer base, which had already exceeded 11.4 million by September 2006. Another of the Company's main operations nowadays is financial services, which offer customers account sales with interest, personal credit and insurance, among others.

Quarterly Consolidated Income Statement

In R$ thousand

Income Statement	3Q06	3Q05	Chg. (%)
Gross Revenue	546,486	521,979	4.7%
Gross Revenue - Parent Company	*149,541*	*138,391*	*8.1%*
Gross Revenue - Riachuelo	*489,022*	*448,858*	*8.9%*
Deductions	(162,488)	(153,670)	5.7%
Net Revenue	**383,999**	**368,309**	**4.3%**
Net Income - Parent Company	*117,185*	*108,648*	*7.9%*
Net Income - Riachuelo	*338,517*	*310,596*	*9.0%*
Cost of Goods and Services Sold	(215,804)	(209,151)	3.2%
COGS - Parent Company	*(79,437)*	*(74,412)*	*6.8%*
COGS - Riachuelo	*(207,378)*	*(186,783)*	*11.0%*
Gross Profit	**168,195**	**159,157**	**5.7%**
Gross Profit - Parent Company	*37,748*	*34,237*	*10.3%*
Gross Profit - Riachuelo	*131,139*	*123,814*	*5.9%*
Gross Margin	*43.8%*	*43.2%*	*0.6 p.p.*
Gross Margin - Parent Company	*32.2%*	*31.5%*	*0.7 p.p.*
Gross Margin - Riachuelo	*38.7%*	*39.9%*	*-1.1 p.p.*
Selling Expenses	(128,654)	(110,238)	16.7%
General and Administrative Expenses	(41,134)	(38,412)	7.1%
Extraordinary Items: Social Contribution	-	3,126	n.m.
Other Operating Expenses/Income	(2,170)	1,224	n.m.
Financial Service Revenues	57,675	39,003	47.9%
Adjusted EBIT[1]	**53,912**	**50,735**	**6.3%**
Interest without Extraordinary Social Contribution	-	3,370	-100.0%
Net Financial Expenses	3,513	3,304	6.3%
Non-operating Result	151	(49)	n.m.
Earnings Before Income Tax and Social Contribution	**57,575**	**60,486**	**-4.8%**
Income and Social Contribution Taxes	(20,533)	(19,625)	4.6%
Net Income (Loss)	**37,043**	**40,861**	**-9.3%**
Tax Benefits	7,119	9,570	-25.6%
Net Income (Loss) after Company's fiscal benefits	**44,162**	**50,431**	**-12.4%**
Adjusted Net Income (Loss) after Company's fiscal benefits	**44,162**	**44,197**	**-0.1%**
Depreciation and Amortization	14,219	11,506	23.6%
EBITDA	**10,456**	**26,364**	-60.3%
Adjusted EBITDA[1]	**68,130**	**62,241**	9.5%
EBITDA Margin	***17.7%***	***16.9%***	***0.8 p.p.***

1 - Includes financial services revenues

2 - Excludes non-recuring effects from Social Contribution Taxes.

Accumulated Income Statement - Consolidated

In R$ thousand

Income Statement	9M06	9M05	Chg. (%)
Gross Revenue	1,503,445	1,389,833	8.2%
Gross Revenue - Parent Company	*384,478*	*356,536*	*7.8%*
Gross Revenue - Riachuelo	*1,359,470*	*1,209,688*	*12.4%*
Deductions	(450,513)	(410,540)	9.7%
Net Revenue	**1,052,933**	**979,293**	**7.5%**
Net Income - Parent Company	*299,960*	*279,283*	*7.4%*
Net Income - Riachuelo	*939,479*	*837,628*	*12.2%*
Cost of Goods and Services Sold	(575,461)	(543,242)	5.9%
COGS - Parent Company	*(204,354)*	*(191,279)*	*6.8%*
COGS - Riachuelo	*(553,327)*	*(488,274)*	*13.3%*
Gross Profit	**477,472**	**436,052**	**9.5%**
Gross Profit - Parent Company	*95,606*	*88,004*	*8.6%*
Gross Profit - Riachuelo	*386,152*	*349,354*	*10.5%*
Gross Margin	*45.3%*	*44.5%*	*0.8 p.p.*
Gross Margin - Parent Company	*31.9%*	*31.5%*	*0.4 p.p.*
Gross Margin - Riachuelo	*41.1%*	*41.7%*	*-0.6 p.p.*
Selling Expenses	(359,986)	(295,301)	21.9%
General and Administrative Expenses	(121,109)	(109,693)	10.4%
Extraordinary Items: Social Contribution		(66,480)	n.m.
Other Operating Expenses/Income	(6,000)	1,636	n.m.
Financial Service Revenues	163,293	106,644	53.1%
Adjusted EBIT[1]	**153,670**	**139,337**	**10.3%**
Interest without Extraordinary Social Contribution	-	(39,905)	-100.0%
Net Financial Expenses	9,380	9,312	0.7%
Non-operating Result	620	205	202.4%
Earnings Before Income Tax and Social Contribution	**163,670**	**42,469**	**285.4%**
Income and Social Contribution Taxes	(59,926)	(39,683)	51.0%
Net Income (Loss)	**103,744**	**2,786**	**3623.9%**
Tax Benefits	19,074	15,018	27.0%
Net Income (Loss) after Company's fiscal benefits	**122,818**	**17,804**	**589.8%**
Adjusted Net Income (Loss) after Company's fiscal benefits[2]	**122,818**	**114,489**	**7.3%**
Depreciation and Amortization	41,591	33,734	23.3%
EBITDA	**31,968**	**(53)**	n.m.
Adjusted EBITDA[1]	**195,261**	**173,071**	12.8%
EBITDA Margin	***18.5%***	***17.7%***	***0.9 p.p.***

1 - Includes financial services revenues

2 - Excludes non-recuring effects from Social Contribution Taxes.

Accumulated Income Statement Consolidated

In R$ thousand

Assets	9/30/2006	9/30/2005	6/30/2006
Current Assets	**781,199**	**696,569**	**818,653**
Cash Equivalents	118,362	138,282	171,950
Credits	325,644	313,964	332,202
Inventories	281,072	204,017	269,901
Other	56,120	40,306	44,600
Long Term Assets	**12,722**	**24,853**	**25,352**
Deferred Income Tax	-	2,367	-
Judicial Deposits and others	1,256	14,647	14,633
Recoverable taxes	11,466	7,839	10,719
Permanent Assets	**690,584**	**558,700**	**640,049**
Investments	161,729	159,559	162,630
Property, plan and equipment	478,131	353,637	431,312
Deferred	50,725	45,504	46,106
Total Assets	**1,484,505**	**1,280,121**	**1,484,054**

Liabilities	9/30/2006	9/30/2005	6/30/2006
Current Liabilities	**318,123**	**289,797**	**346,177**
Loans and financing	3,500	370	3,500
Suppliers	163,993	169,299	205,742
Taxes, charges and contributions	48,081	40,657	52,115
Dividends payable	202	195	203
Provisions	55,316	48,175	46,655
Other	47,030	31,100	37,962
Long Term Liabilities	**156,970**	**166,339**	**172,627**
Loans and financing			
Provisions			
Debt with Related Parties	86,181	67,821	84,034
Other	70,789	98,517	88,593
Taxes and contributions	6,290	19,718	19,718
Social Contribution	64,499	78,800	68,876
Shareholders' Equity	**1,009,412**	**823,986**	**965,250**
Paid-in capital	800,000	660,000	800,000
Capital Reserves	19,074	15,018	11,955
Profit Reserve	86,594	146,182	86,594
Legal			
Profit Retention			
Accumulated Profit/Loss	103,744	2,786	66,701
Total Liabilities	**1,484,505**	**1,280,121**	**1,484,054**