**Guilherme Assis, Raymond James:**

Hello. Good morning everyone. I have two questions, Tulio. The first question is with regard to costs pressure that we have seen based on the increase of the price of cotton, and I would like to know the Company's price policy to try to neutralize this impact that you had, so how you readjusted your prices in the new collection or along time to try to neutralize this impact that we see that in your gross margin the impact was relatively small.

The second question is about the expansion plan, I saw that you reduced your guidance for 2012 for about 30 stores a year as of 2012 and I would like to understand about your plan, what you intend to do, you mentioned in the release a compact stores and I would like to know if this model is ready in Riachuelo to be launched. What is it going to be like? What are you expecting for that? These are my two questions. Thank you very much.

**Tulio Queiroz:**

Hello, Guilherme, good morning. With regard to your first question, an increase in the price of cotton, well, in fact we did take some measures. Of course, there is a pressure, but in our business when you take a look at the whole group of raw materials that we use, and this is very clear because we have all the links in the production chain, all the group of raw material represents approximately 13% of the final sales price, which is an amount regarding the end of 2010. Of course, if we take a look from now on, if we think of additional prices, more pressure on costs with cotton, and then it would be just very easy to transfer this additional increase to the sales price. Since you have an increase of 10%, if you transfer R$0.3 to the sales price you keep your contribution margin.

In the industrial side, of course we had to review all the structure to minimize the impact of the increase in cotton, within possible all products were reassessed for us to see if it was possible or not to increase the share of man-made fibers in the composition of fabrics. So, this was a point that was taken into consideration.

Other than that, along the whole of the year of 2009 and even before that, we used to work with raw materials from local suppliers, most of the raw materials used in the Guararapes industry until 2009 was from local producer. But in 2010 we changed the strategy, most of the raw material used comes generally from imports from Asia and that helped us a little into this specific issue of 2010, but roughly speaking, of course there is a pressure in the price of cotton, of course it is an important component, not only cotton but also man-made fiber increased.

But if you take a look at the model as a whole, in the fashion segment you can add much more value with differentiated products, betting on a better synergy between retail and industry, generating more variety per m² than thinking of passing some cents the final sales crisis. This is not really concern for us.

Going to your second question, with regard to our expansion plan, well, no doubts the Company accelerated and much its rhythm of growth, especially as of 2010. In 2010 we opened 16 new stores. We were at a pace of five to nine stores at the maximum per year and in 2010 we went up to 16. The objective for 2011 is to continue having a higher level.

So, in 2011, we are thinking of 22 new stores and we are counting on the renovation of 18 stores. All these new models, thinking about strategies to expose a lot more variety per m², so rethinking equipment, thinking of which equipment really will benefit consumers, will help consumers see the whole variety the Company is making an effort to develop. And then, for 2012 and 2013 undoubtedly the idea is to continue growing our level of openings, so for 2012 the objective is to open 30 stores and as of 2013, this level of 30 can be surpassed by the intensification of this compact model.

We currently have already three compact stores in operation. In 2011, we are going to open two more, in 2012 10 more, but then in 2013 we are going to accelerate the number of stores with 15,000 m² sales area. The greatest advantage of this compact model is that they start to reach municipalities with below 3,000 inhabitants, from 100,000 to 300,000 inhabitants with two different strategies.

One, to gain popularity that is going to smaller markets with a store that is aligned in offer all departments and another format of compact stores thinking of even mature markets that are very competitive where you eventually cannot find in a certain mall this 25,000 m² of sales areas of your original format. So, you think of departments with higher added value and more fashionable department, so these compact models have been with us for some time. We have been testing it for some years now.

For 2011 and 2012, the focus is still our original model because our key customer is a C income class customer and we have a huge opportunity for the opening of stores in the traditional model, but as of 2013 we are going to be focusing on the compact store model.

**Guilherme Assis:**

OK. Thank you, Tulio. Just a follow up on the issue of cotton, you mentioned that the raw material accounts for approximately 13% of total sales price, this is for the whole of 2010, and what was your adjustment of prices along 2010 to neutralize this impact?

I know that you also changed your mix, your mix of raw material of products for sale. But the price increased, more specifically, what was it for a similar closing item that had the cotton as raw material?

**Tulio Queiroz:**

Well, this 13% is our position in the end of 2010. It does represent the whole of the year, and it is a level that was very close to what we had in 2009. Of course, in 2010 we replaced raw materials of some local suppliers to imported suppliers. As for price adjustments, it is very much in line with what you said, in 2010 we have an increase of average prices, approximately 10% increase, but this 10% was much more geared because of a more elaborated mix with more variety per m², less markdown, more increased value than because of inflation.

We really did not change significantly the basic levels of products, what changed was the mix breakdown with more fashion products, products with higher value added and therefore the average price was increased.  That is basically it.

**Guilherme Assis:**

OK. Thank you very much.

**Felipe Rotenberg, Banco Safra:**

Good morning, Tulio. I would ask you to talk about bit about working capital in this 4Q. I realized that you had a relevant increase in your cash cycle, with receivables, inventory and a reduction of the time with your suppliers. So, I would like to understand what happened, if it was specific for this quarter and what we should expect from now on. Thank you.

**Tulio Queiroz:**

Well, Felipe, good morning. It is true that the Company business model, the integrated model, is an intensive capital model. It is important to highlight that the Company aware of that is obsessed to capture a gross margin. We have to bring synergies of the integrated models, develop relations between the industry, retail and financial companies to capture more and more gross margins which will certainly pay for this additional capital that is necessary for the business model.

Specifically year on year, I think inventory is natural, if we open an important number of stores, particularly in the end of the year, then you have to have additional inventory. This is normal, sometimes, you open the store and you start to the sell and really operate therefore in the end of December. As for receivables, especially when talking about the clients, you have to be a bit attentive because in 2009 we still did not have the discount of receivables and then along 2010, because of BNDES, the debt was much more balanced with a long-term profile.

When we had the discount of receivables in the numbers, we would discount the client's account. So, there is a difference of R$80 million, R$85 million, because of the criteria, if you compare 2009 to 2010, but as for the major structure of operating models there were no changes. Riachuelo card still accounts for 50% to 55% of sales, what is different is that now we have a 10-month installment for payments especially for the months of November and December. So, basically that is it. This is the context in terms of the main numbers of our working capital.

I would just like to make it very clear that all our efforts when we talk about integration and improvements of synergies involve precisely a better management of stock levels and this tune that we have between product development and delivery to retail.

It is important to highlight that from 2006 to 2010 we increased the gross margin of merchandise in basically 700 b.p., again grounded on this integration, this integrated model. So, it was really a capture of margin bringing more added value, more variety and exploring this issue of the integrated model.

And it is very true that we are along the way, the numbers are starting to reflect this improvement as for our better integration, but we know that there is a lot to come. I think we still have a lot to do with this tune between industry and retail.

If we had some cases from abroad, they work with large factory idleness to be able to respond very quickly to retail needs, to replace a best seller or to instantaneously develop a new trend. So, what I mean is that we achieved some improvements, the margin numbers reflect that but our objective is the medium and long term continues to be closer to the gross margins that the main players have, like Zara and H&M.

**Felipe Rotenberg:**

OK. Thank you very much, Tulio.

**Guilherme Mazzilli, Ashmore:**

Hello. Good morning. Congratulations on the results of your 4Q. I have two questions. Just on a follow up of the first question with regard to the gross margin of retail that you said you were transferring a bit of the price of cotton. For this year, with regard to the year of 2010, what do you see? Because you said you have room to increase the margin along time, so for 2011 what do you think the gross margin is going to be like?

**Tulio Queiroz:**

Well, what I can say about 2011 is that we have not had major changes in the behavior of margins. The trends are to be continued. We had an expansion of 2010, a bit more than 100 bases along the year. It is true that in the 4Q we had a small pressure, but much more based on the hiring of sewing ladies in Guararapes that pressured production cost, because you have a learning curve to reflect in industrial efficiency than because the price of cotton etc. So, along the 1Q11 things are going to be exactly as forecasted by the Company.

**Guilherme Mazzilli:**

OK, so my two questions, first with regard to same-store sales, you are starting this year with a much larger base than you had last year. How do you see that? Could you give us an idea for same-store sales for this 1Q and what do you think that is going to happen along the year?

And the second question about your CAPEX of 2011, if you could give us some idea of what you expect for 2011? And then you talked about 18 renovations, do you have any statistics of how much stores that goes through renovation increase in sales? Is significant or not? So, these are my two questions.

**Tulio Queiroz:**

Well, the first part of your first question about same-store sales in the 1Q, what I can say is that the performance along the 1Q in margin and same store sales is 100%, as planned by the Company. Of course, I cannot just disclose numbers but I can tell you that it is just precisely as we thought it would be in the beginning of the year.

As for renovations and impact of sales in these renovations, well, in fact along 2010 we had some encouraging examples where changed the look of the stores, we brought equipments that allow for an exposure of more variety per m² and the performance was not only positive with an increase of 20% in sales, but very fast.

In the previous models, sometimes when we renovate it, it is natural that the price of the sales area is closed for about three months and then in the previous model it would take approximately two months for us to be really back up and around with our clients, and with this new model, this new store is much more appealing to customers. So, the performance is not only very positive but it is also very fast.

Another important data that has to do with this rethinking of store structures and bringing more, a better purchasing experiences and more variety and everything is that of our stores opened along 2010 the Company fortunately made a mistake in the forecast of sales in year 1, all stores showed more than what we expected in year 1. Of course, we have to wait. We are going to know if there was just a dislocation in the curve maturity of these stores or if we are effectively going to sell more, in a five-year scenario, in a mature scenario we have to know if we are going to sell really more than what we expected or not.

As for our CAPEX for 2011, what I can say is that undoubtedly the Company is increasing the number of investments, especially in new stores and renovations, so the number we expect for 2011 would be a CAPEX of about R$250 million.

**Guilherme Mazzilli:**

OK. Just one more thing, out of your stores, how many still have to be remodeled, renovated? And compact stores, what do you think their performance is like compared to traditional stores, giving the fact that at some point this is going to be your growth driver? Maybe not in 2011 nor in 2012, but it will be at some point in time.

**Tulio Queiroz:**

Well, the compact stores, we have had a very good performance, some of them in São Paulo, one in Bourbon Shopping Mall and for all the Company's investments, and that regardless of an original store, a compact store or even a renovated store, all new investments go through an investment committee and all the return of this investment and the outlook for the next year is carefully analyzed, regardless of being an original format, a renovated or a compact store, in these studies we demand a tier of about 20%.

So, for this project to be submitted to the committee, they have to be at a level of 20% return. What I mean is that, of course, we want to dive in a model that is possible to increase capillarity, to increase the number of stores, to reach more municipalities, to reach smaller markets, but in no way will we just make do without the level of profitability that we have.

**Guilherme Mazzilli:**

So, you are saying that the ones that are opened are performing as you thought?

**Tulio Queiroz:**

Precisely, exactly as we thought.

**Guilherme Mazzilli:**

And how many stores have been through renovations of the 123 stores?

**Tulio Queiroz:**

Well, considering all stores and then I am not talking about only renovations, in the two last years we opened stores with more variety, in better format and everything. So, if we think of all stores of the group we would have 80 stores to bring to a more modern format with regard to equipments.

Now, what is important to say is that in 2011 we are already adopting a new way of performing this renovation, it is what we call internally retrofit. And what is that? It is a mild modification, you think the essence of the store in terms of purchasing experience, exposing more variety, bringing more fashion elements without really changing with the structure of the store.

Well, what does it mean? Well, the renovation is much faster, we are talking about two months of renovation and the investment is 50% lower per m² than a traditional renovation. So, I think is the greatest triumph, so you add much more value with regard to the purchasing experience, product exposure with a lot less investments in time.

**Guilherme Mazzilli:**

80 stores you still have to go?

**Tulio Queiroz:**

Yes.

**Guilherme Mazzilli:**

OK. Thank you, Tulio. And once more congratulations on your results.

**Operator:**

Well, thank you. There are no further questions. We will now turn the call over to Mr. Queiroz for his final considerations.

**Tulio Queiroz:**

Once more I would like to thank you all for your participation and tell you that our whole team is available by phone or email: ir@riachuelo.com.br. Thank you very much.

**Operator:**

Thank you. The audio conference is now closed. We thank you for your joining us and have a nice day.