

**Operator:**

Good morning or good afternoon, ladies and gentlemen and thank you for waiting. At this time, we would like to welcome everyone to Lojas Renner 4Q06 earnings conference call.

We would like to inform you that a presentation is available to download at the Company's website [www.lojasrenner.com.br/ir](http://www.lojasrenner.com.br/ir). Also, this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a Q&A section. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Lojas Renner management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Lojas Renner and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Ms. Paula Picinini, Investor Relations Manager at Renner. Ms. Picinini, you may begin your conference.

**Paula Picinini:**

Good morning or good afternoon, everyone. I would like to welcome our shareholders and investors to our conference call, in which we will discuss the Company's results for 2006. I would also like to take this opportunity to highlight some information on the quarter ended last December. José Galló, our CEO, José Carlos Hruby, our CFO and Gildo Melo da Silva, our Controller Senior Manager, are here with me today.

After some initial comments from our CEO, I will move on to the results published on our website.

**José Galló:**

Good morning or good afternoon, everyone. 2006 was the first year in which we experienced the full effects of our pulverized model, facing all the responsibilities and challenges that it implies; a year in which we carried out the projects and the commitments we assumed at the time of the IPO. In June 2005, during our road show, we undertook to speed up expansion, enter new markets and begin offering financial services. These three guiders provided the basis for achieving our main goals in 2006.

The year closed as we expected, in line with what we have been forecasting since the IPO. We maintained double-digit growth, and margins were in line with 2005,

given that additional expenses of the large number of new stores almost entirely offset the higher contribution from financial services. On the investment side, we not only reached our objectives, but exceeded our initial plans, opening 15 new stores with CAPEX of close to R\$120 million.

In terms of financial services, the 0+8 installment plan accounted for 13.6% of the total sales, and we began to intermediate personal loans and the sales of capitalization bonds.

Our outlook for 2006 is still positive and we are expecting to maintain accelerated growth and we expect to open around 12 new stores, with the same CAPEX level as in 2006. In 2007, we believe financial services will make an even bigger contribution and financed sales may exceed the 2006 figure. We will also begin offering insurance through our store network. Operational improvements and the larger contribution of financial services should both favor our margins.

Those were our initial remarks and now I would like to draw your attention to Paula, who will comment on our 2006 results. Thank you.

**Paula Picinini:**

OK. Let us go straight to slide number three, which shows net revenues. On the left, we can see that total net revenue came to R\$506.9 million in the 4Q06, 25.5% more than the same period in 2005, while same-store sales moved up 11.7% year-on-year. Please remember that although this was the lowest quarterly growth of the year, it was obtained over the strongest quarter in 2005, when growth came to 18.5% in 4Q05.

In annual terms, net revenue totaled R\$1.4 billion, 26.4% up on 2005, while same-store sales grew by 16.7%.

On the following slide, we have net sales per square meter, which came to R\$8,862, 14.5% more than last year.

Going to slide five, the map on the left shows where our units are located. You can see our strong presence in the South, Southeast, and Midwest and also the start-up of our operations in the Northeast. The map also shows our three distribution centers, one in Porto Alegre, in the state of Rio Grande do Sul, one in Greater São Paulo and one Advanced Distribution Center in Olinda, Pernambuco, which provides support for the operations in the Northeast. The graph on the right shows that we closed the year with a selling area of 178,000 square meters in 81 stores, 18.1% more than at the end of 2005.

On slide six, we have our gross profit and gross margin. In the 4Q06, our gross margin increased by 0.6%, from 44.9% to 45.5%, which we attribute to the improvements we introduced into buying procedures and inventory management. Higher temperatures also helped to reduce markdowns.

For the year as a whole, the gross margin came to 45.6%, identical to the 2005 figure. Despite the improvements I just mentioned, the annual gross margin was

impacted by the cancellation of cell phone sales in January and February and unfavorable temperatures in the 3Q06, which led to a higher volume of markdowns.

On the next slide, we have selling expenses, which totaled R\$112.7 million in the 4Q06, 29.4% up year-on-year. This was equivalent to 22.2% of net sales, versus 21.6% in the 4Q05. This 0.6% upturn was mainly due to increased marketing expenses – R\$13.7 million – and pre-operating costs of R\$2.6 million related to the six inaugurations that took place in the quarter. On the other hand, differently from the 4Q, the annual figure remained at 24.9% of net sales, reaching R\$357 million in 2006.

Slide eight deals with general and administrative expenses. In the 4Q06, these expenses came to R\$54.3 million, 51.2% up year-on-year, fueled by higher customer acquisition costs and the activation of the Renner card, representing R\$7.2 million. Increased logistics expenses of R\$12.6 million and expenses from the employees profit sharing program of R\$13 million booked in December. I should also remind you that the higher logistics expenses were due to the build-up of initial inventories of the six new stores opened in the quarter and the start-up of operations in the Northeast, which were non-existent in the 4Q05.

Annual G&A expenses totaled R\$142.5 million, 44.6% more than in 2005. In addition to the factors I just mentioned, this increase was caused by the need to structure our support areas, particularly the administrative, buying an IT one, in order to support our expansion plan, as well as the adaptations to the Company's corporate governance model adopted in July, 2005.

On slide nine, we have our income from financial services, which totaled R\$27.1 million in 2006, equivalent to 14.7% of EBITDA, versus 10.7% in 2005. As of the 4Q, this table includes only the results of financial services and the Renner private label card, including the recovery of overdue credit and credit losses from the 0+5 interest-free plan. Collection expenses, which were previously booked under G&A expenses, were also transferred to this account. The changes are designed to highlight the real contribution of financial services and the Renner private label card, considering their related expenses.

On the next page, you will find the 2006 figures in the new format, on a quarterly basis, as well as the reconciliation of the chart in accordance with the previous design that we used to do this.

On the slide eleven, you can see that 4Q06 EBITDA totaled R\$69.8 million, accompanied by an EBITDA margin of 13.8%, versus 14.3% in the 4Q05. This decrease was due to the higher expenses incurred in the 4Q06, as previously mentioned.

For the full year, EBITDA reached R\$184.4 million, 29.4% more than in 2005, while the EBITDA margin came to 12.8% versus 12.5% in 2005. This improvement was caused by the increased share of the financial services result.

On slide twelve, we have the net financial result, which was negative by R\$6.9 million in 2006, versus a positive R\$20.6 million last year. However, the comparison is not really a valid one, since the 2005 figure included R\$23 million booked as a result of the positive exchange variation on the dollar-denominated debt outstanding on that year. At the bottom of the slide you can see that our net cash and cash equivalents totaled R\$193.8 million, versus R\$213.3 million in 2005.

Concluding the results part of our presentation, slide thirteen shows our net income, which came to R\$40.1 million in the 4Q06, versus R\$45.7 million in the same quarter last year. The reduction was due to the increase in SG&A expenses. In addition, the 4Q05 was impacted by fiscal benefits of R\$10.3 million from the payment of interest on equity in November and December of that year. In the 4Q06, these benefits totaled R\$6.5 million.

Annual net income reached R\$98.8 million, 23.1% up on last year, reflecting all the aspects mentioned previously.

On the following slide, you can see 2006 CAPEX, which came to R\$118.9 million, highlighting the investments in 15 new stores, totaling R\$81.2 million. We also invested R\$17.4 million in store remodeling. The remainder went to technological and logistics systems.

Slide fifteen shows our expansion plan. In addition to the nine new stores opened in the first nine months of 2006, already mentioned in our 3Q06 conference call, on the left you can see the six stores inaugurated in the final quarter: Shopping Farol, in Tubarão; Shopping Via Parque and Shopping Leblon, in Rio de Janeiro; Shopping Iguatemi Bahia, in Salvador; Shopping SP Market Center, in São Paulo and Shopping Bougainville, in Goiânia.

On the right, towards the top, we have listed the six stores we plan to open in the 1H07: Shopping Iguatemi, in Florianópolis; Shopping Tijuca, in Rio de Janeiro; Shopping Piracicaba, in Piracicaba, in the state of São Paulo; Shopping Amazonas, in Manaus; Shopping Salvador, in Salvador and Shopping Jardins, in Aracaju. The opening of the Shopping Amazonas store marks our arrival in the North region and the continuity of our expansion in the Northeast, with two more stores, one in Salvador and another in Aracaju.

The next slide gives a summary of our balance sheet. Under assets, we have highlighted the main account item, Trade Account Receivables, which totaled R\$402.1 million. Another relevant asset item – Permanent Assets – basically comprising store installations and technological equipment, came to R\$280.4 million. Cash and cash equivalents were yet another important asset item, accounting for 21% of the total.

Looking at Liabilities, we can see that shareholders' equity accounts for 45% of the total. It is also clear that suppliers are still financing all of our inventories, as well as other asset items.

Slide seventeen presents some details on the Renner Card. In the chart on the left, you can see that we reached 10.3 million cards at the end of the year, having added 1.6 million new cards in 2006. On the right, you can see that average tickets reached R\$103.84 for the year, 6.3% up on 2005.

Now let us move on to slide eighteen, where we show sales breakdown by payment auction. Here, we would like to highlight the 0+8 installment plan with interest, which accounted for 13.6% of total sales. On the right at the bottom, we show the comparison with 2005.

As you can see on slide nineteen, we closed the year with a workforce of 7,764. We hired 1,502 new employees in 2006, 1,404 of which in the 15 new stores that opened during the year.

Slide twenty deals with dividend payments. First, you can see that we paid a total of R\$40.7 million in interest on equity in July and December 2006, as approved by the Board of Directors.

Management bodies have proposed that complementary payment dividends in the total amount of R\$33.4 million, which will form part of the agenda at the next ordinary shareholders' meeting. Together, interest on equity and dividends come to R\$74.1 million in the year, corresponding to 75% of adjusted net income.

Finally, we shall be holding an ordinary and extraordinary shareholders' meeting on April 2<sup>nd</sup> 2007, pursuant to the call notice published in the newspapers today. The ordinary meeting will deal with important issues, including approval of the 2006 financial statements, the allocation of 2006 net income and the election of the Company's Board of Directors and Fiscal Council Members. The extraordinary meeting will decide on the ratification of the Company's capital increase and discuss the amendments to the stock option plan, removed from the agenda of the last shareholders' meeting held on October 3<sup>rd</sup> to allow a deeper evaluation of the matter. Thus, the company hired Towers Perin, a consultancy specialized in executive compensation to advise the Board of Directors in the alignments of the Company's stock option plan to the best practices adopted by foreign and domestic companies. Based on Towers Perin's research, the Board of Directors decided to amend the plan to submit it to the shareholders' meeting approval. In our website, shareholders can find all the information regarding the documents they need to present to participate, and it is our sincere hope that they will attend the meeting, or at least be represented there.

That brings us to the end of our presentation and, together with our team, we will now be happy to answer any questions you may have. Thank you all very much.

**Lori Serra, Morgan Stanley:**

Yes, actually I want to ask you a question. Let me start first on sales. Can you give us a sense of how you see your business right now, in terms of demand trends? I know you do not want to specifically give guidance, but just in terms of the trends you are seeing at the store level and specifically, if you could comment on the

pace acceptance of you stores in some of the North areas. That would be very helpful. Thank you.

**Paula Picinini:**

OK. We do not give any specific information on a monthly basis, but we can assure you that everything continues to be in line with our budget, in line with our expectations for the year. And we continue to be very confident that is absolutely possible to reach our targets for this year that are absolutely the same numbers and the same indications that we have been doing or giving since the time of the IPO. So, to continue growing in a double-digit number, but not so strong as the result that we presented in the last two years, is absolutely possible.

And in terms of acceptance of our model in the new market, we can say that after almost one year in the Northeast, we can see that we have success in these operations and we will continue to open stores there. The results are absolutely in line with our expectations in that region and that is the reason why we are opening more stores in the Northeast, going to other capitals where we did not have any stores yet, and also going to the North.

Just a complement, regarding the business trend that you first asked. In terms of margins, we also continue to have exactly the same expectation with positive gross margin, we are not any kind of problem in our inventory or something like that. So, everything is in line with our expectations for the 1Q.

**Lori Serra:**

And just a related question on the revenue side, or the store productivity side: we saw the percentage of Renner card sales fall on the quarter, and you referenced in the release the fact that newer stores take a while to build up a card base.

Would your expectation be that as those newer stores you have opened last year start to mature, you will get to that sort of low 70% or mid-70% kind of acceptance rate, on average, or card rate, rather, in the stores you have opened last year?

**Paula Picinini:**

Yes. We believe that it is absolutely possible to come back to the same level of around 70% of our sales in the card, and we consider that it is absolutely normal to have this dilution when you have a large number of new stores, because you have these new customers that are not used to have the Renner card or are not used yet to buy in Renner. So, there is this natural movement, and we consider that with the maturation process of these stores we will have a higher penetration of the card, probably coming back to around 70% of our sales.

**Lori Serra:**

OK. And my last question is on the G&A expenses, and I understand the 4Q there was some timing issues. So, as I look to full year, the increase was about 45%, which was an access of the sales growth, and I understand there are certain

strategic investments you make as you enter new markets, and you documented those pretty well, I think in the call. But there is also cost, I would guess, for the administration that you should be able to leverage as you get to be a bigger Company. So, as you look for the 2007, is it a corporate sort of goal to see administrative costs no more than flat as percentage of sales, or hopefully deleveraged in 2007?

**Paula Picinini:**

Yes, it is a point of concern or it is a point of attention of our management here, especially to dilute or to have some stabilization of these numbers. So, it is our target for 2007 to maintain the G&A expenses in a stable level, and in 2008, based on the results of the new stores that we have opened this year and with the stabilization of the expenses we believe that there is condition to start having some improvement in our margins, especially coming from the dilution of fixed costs.

**Lori Serra:**

OK. Thank you.

**Kitty Wong, Fiduciary Global Advisors:**

Hi, could you also comment on the selling expenses? Is that a percentage of your sales going forward or we should see some moderation at the percentage of sales also?

And also, there is another question on the financial services result. The credit loss as the percentage of your financial service revenues seems to have peaked up in the 4Q. So, if you could comment on what we should expect going forward, that would be great. Thank you very much.

**Paula Picinini:**

OK. Regarding selling expenses, it is the same trend that we have in G&A expenses. Basically, we are working to have the dilution of the fixed costs, of course, in selling expenses, the greatest part of the cost are variable, but we continue to have room and conditions to have some dilution, with the higher productivity of the new stores. So, the trend is absolutely the same, stable in 2007, dilution in 2008.

And regarding the financial services, you asked about the bad debt; it is important to bear in mind that that number that we presented bad debt, or credit losses, even for the 0+5 interest-free plan, or the 0+8 interest-bearing plan, they are both made based on a percentage of sales.

So, there is the seasonality of the 4Q that makes this number increase, because we make provisions based on our net sales to support bad debt. If you look at the numbers on a quarterly basis, you can see that the basic fact regards to the seasonality of that period. Basically that.

**Kitty Wong:**

Thank you.

**Operator:**

This concludes the Q&A session. At this time, I would like to turn the floor back over to Ms. Picinini for closing remarks.

**Paula Picinini:**

OK. Thank you again for attending our conference call and we hope to see you all at our upcoming event. Thanks.

**Operator:**

Thank you. This thus concludes today's presentation. You may disconnect your lines at this time and have a nice day.