Joseph Giordano, JPMorgan:

Good morning Flávio, good morning Tulio. First of all, thank you for the same-store explanation. I would like to have more color please, what caused that rupture that you mentioned? I understand there was a system problem, was it a disconnect between this demand on the store and what you are buying in China?

Also, looking at the inventory levels, we see an increase which is considerable in the 4Q, I would like to understand what is left of the inventories. Thank you.

Tulio Queiroz:

Thank you, Joseph. Concerning the same-store sales performance, I think Flávio made it clear that there is a difference between basic items and what we call mobile fashion. I think it all started with the change in the management of basics, starting the end of 2013, in the beginning of 2014, we opened up more space, more room at Guararapes to benefit on the shorter lead time in the fashion side of the business and we started because of that, bringing the basic items from abroad.

To do that we need to adjust logistics, adjust systems and adjust planning and that is exactly when we had a law in that management, a rupture. So, all the coverage levels for lead time need to be corrected, both within the system and also in terms of management and that is where we had a problem.

There was a lack of availability for basic items, especially in the 4Q. In terms of inventory levels, we were concerned about that, our inventory grew 38% year-on-year, and, of course, there was also a reflex of the Company's need for working capital, but it is also due to that mismatch I just mentioned.

When we need to respond to items which are performing well in the stores we will be able equalize all that. One of the essences of the fast fashion concept is to be able to generate more value per square meter. In other words, to bring in more margin and consequently your inventory levels drop, so we need to be more responsive to those demands and not work so much on forecast.

So that level of inventory was a consequence of that mismatch and we are already working on it. We have adjusted that already in the first two months of the year.

Joseph Giordano, Analyst

So in the 1Q, you have an inventory level which is a bit higher and you are giving a guidance of relatively flat gross margin. I would like to understand what kind of markdown are you thinking about or are you going have a lower markdown in the 1Q?

Tulio Queiroz:

OK. Just to make something more clear and this has to do with your question concerning the markdown for the 1Q. That increase in inventory levels, as you can observe, most of it had to do with ongoing imports for exactly to those basic items where we had difficulties in the planning stage back in the 4Q.

If something good can be said about that is that we are talking about inventories which are less perishable. When we talk about basic items, they have inventories of a better quality, if you will.

So, even for the first two months of the year, our margin has not suffered, and now, again, we are working on it. Even with difficulties, even with the pressures coming from inflation and from exchange rates, we are still working with a flat gross margin for products for 2014.

So, a good part of our inventory is that non-perishables, so again, if we can extract something good out of a bad piece of news that is what I would have to say. But now back on your second question, the level of markdown for January and February was exactly the same as we had in the previous years. We did not have to bleed our margins to make our inventories slow.

Joseph Giordano:

One more question. What can you tell us about the competitive environment? Do you have any idea on the same store performance of other players? What have you seen in the market in terms of competition? What are you doing differently, on top of working your model side of the business, better than the competition apparently?

Tulio Queiroz:

In terms of competition, I think whenever we have macroeconomic difficulties as we are having now, we need to work on our business plan, and, at the same time, we have good opportunities to gain share from those players which are less capitalized. And that is where we are basing our decisions in terms of investments.

I believe there is great opportunity in terms of shopping malls. Our market is still quite fragmented, so the main players in the industry have an opportunity continue to consolidate. And the most professional players, the best equipped players are now being able to offer more to the consumer.

Our objective is quite clear, it is to become the first player in the fast fashion area in Brazil, and that is why we are making all those investments and dedicating so much managerial time and efforts to do that. We need to be able to identify fast movers, slow movers and be able to respond within the same season.

On top of that, we have increasingly offered a more complete solution to the consumer, a broader mix to the consumer. When we talk about more specialized boutique stores, they have increasingly more difficulty in terms of offering availability and diversity, ehen you look at broader mixes. So I think that is1 our main distinguishing factor. We need to become a real fast fashion player and that is what we are aiming at.

Joseph Giordano:

OK. Thank you.

Wagner Salaverry, Quantitas:

Good morning, everyone. Tulio, a question. Have you noticed a change in sales geographically speaking? When you talk about the breakdown between older and newer store, is there a significant sales performance between newer and older stores? Also, if you have noticed a change in sales performance when comparing the Southern part of the country with the Northern part of the country?

Tulio Queiroz:

Good morning. What we did noticed in the 1Q, looking specifically at January and February, a change in sales performance as a whole. We have a higher flow in the store and higher efficiency in turning that flow into sales, converting that flow into sales. The performance among regions was very similar to that observed in 2014. In other words, an emphasis in the southern region of the country, with an excellent performance, and also the northern region with very good performance.

I think, we see a little more difficulty especially the Midwest. The North Eastern, which has difficulties up to the 3Q14 showed better results as early as the 4Q14, and has kept that good performance in the beginning of the 2015.

In what concerns, much more mature and newer stores, I would say the curve remains the same. Of course, when we have a same store performance which is better, the curve, as a whole, moves upwards, and the young stores benefit from that. I think for the 1Q that is what we have to say.

Wagner Salaverry:

OK. Thank you.

Operator:

Thank you. The Q&A session is now over. And I would like to turn the floor over to Mr. Tulio Queiroz for his final remarks.

Tulio Queiroz:

Once again, thank you all for participating in this conference call. The team is available to comments any questions. Thank you and have a good afternoon.

Operator:

Thank you. The conference call to discuss Guararapes Riachuelo's results is now over. You may disconnect your lines now.