

Operator:

Good morning ladies and gentlemen and thank you for standing by. Welcome to **Guararapes Riachuelo's** audio conference to discuss results relative to the **fourth quarter of 2018**.

This conference call is being broadcast simultaneously over the Internet and may be accessed at www.riachuelo.com.br/ri. The slide deck is also available for download at the same URL. Participants will be connected in listen-only mode during the company's remarks. After that we will start a Q&A session when further instructions will be provided. Should you need assistance during the call, please request the help of an operator by pressing star 0.

Before moving on, we'd like to state that forward-looking statements made during this conference call concerning the company's business outlook, financial and operational forecasts and targets are based on assumptions and beliefs on the part of the company's management, as well as on information currently available for the company.

Forward-looking statements are no guarantee of performance as they involve risks, uncertainties and assumptions which refer to future events which depend on circumstances that may or may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect the company's future results, and therefore, these results will differ materially from those expressed in these forward-looking statements.

I'd like now to turn the conference over to Mr. Oswaldo Nunes, Riachuelo's CEO. Please Mr. Nunes, you have the floor.

Oswaldo Nunes, CEO:

Good morning everyone. It is a pleasure to have you all at our conference call where we will be discussing 2018, the final quarter of the year as well, and also give you some color about the year ahead of us.

Despite a challenging scenario in 2018, we can highlight a few important initiatives, initiatives which were very relevant for the company: We have evolved in terms of Governance; we have strengthened our consulting board with now two independent members; and also the creation of non-statutory committees for strategy; we have been giving strong support to the board and in terms of guiding the board in strategic issues; now we have one single class of stock that was also a very important step towards a better governance.

In the longer run, we will have a chance to talk about the future as we move on in a more structured way and we will approve at the next board meeting our strategic plan, which will give us guidance about where and how we plan to reach our objectives in the near future.

We are going to address the issues which we consider to be more impactful, more urgent to our businesses and which will improve our performance in line with our purpose, in line with our differentials, which are based on our business models, of course.

Looking at the company's day-to-day management for 2018, I'd like to highlight that we have a new level of productivity for stores, stores is where we have our main operational leverage as you know, and that reflected in a dilution of 3.4% in terms of expenses in the fourth quarter of 2018.

We also reconfigured the structure and the role to be played by the marketing division. At the end of the year we brought in Elio França, an experienced professional in retail, he's the new marketing director and his mission is to provide more focus so that we can understand better the profile and the behavior of consumers in general, he will also help us distinguish the brand, also in line, as I said, with our strategic purposes.

Another important achievement in 2018 was the evolution of our e-commerce. 2018 was the first full-year for the e-commerce channel, we went through a maturation process, so we experienced a strong growth in sales, which ended up in line with what was planned. That performance reinforces the importance of this channel as a foundation for the digitalization process of the retail.

Also, we were awarded with Excellent Service Seal, that also reinforces the good quality of our operations and the good experience we have with our consumers through this new channel.

We opened fewer stores in 2018 and we took the opportunity to remodel 42 stores which will mature all along the year 2019. The focus now is to evolve in visual merchandising and adapt our store model so that we have a better presentation for our collections, focusing on products and reinforcing our value proposition with a good cost benefit ratio, and we've been reaping very positive results, as we can see by the figures.

Now, looking specifically at the fourth quarter, we were not very happy with the growth of our sales because even though there was a pickup in economy, the pickup

in the economy was not that strong, consumers' confidence index did grow, but that did not reflect on our sales.

As we see it, the problem was in-house. Our store model was a challenge, the idea was to promote and increase the logistics from the DCs to the stores and only for the items on which we have high demand in the 2 weeks prior to Christmas. We missed that balance and we operated with a lot of SKUs as leftovers at the stores and with some stores with the lack of some SKUs. As a consequence, we had a very high level of breakage for December even though with a higher-than-ideal level for inventory.

Starting in January, we resumed the flow from the DCs to the stores so that we gradually recovered some of that lost ground, so gradually we hope that each store will have as many as SKUs as possible according to their real demand. We believe that starting in April that process will be back to normal from the DCs to the stores.

Along with it, the lack of sales in December pressured our inventory level at the end of the year and also led to some pressure on gross margin and same-store sales for the first quarter over a growth base of two digits that we had in 2018. But we understand that that's an effort the company has been making to create the operating conditions so that as of the second quarter we will resume a growth base of same-store sales with more robust margins and with better adjusted inventory levels and a more balanced mix of SKUs, both at the DCs and at the stores.

Looking forward to 2019, we have just made a change in our IT management: We promoted our director of e-commerce, Mr. Alves, to the Innovation and IT Officer, and our main motivations for that change is that we need to look at our businesses from a more digital standpoint. We know that involves a big change in mindset within the company, and we need to use technology more intensely, more artificial intelligence to solve customers' problems, always trying to optimize the several contact points that we already have with those clients. We also need to deepen the concept of omnichannel and put together a digital strategy that will guide the company's businesses as a whole.

As for e-commerce, one of the main challenges for this year is to continue to grow in a healthy manner, growing sales and improving margins and making an effort to bring down the relative cost tagged to transportation as we have a very pulverized network of physical stores, so the way to address that is through the omnichannel.

In 2019 we will prioritize investments in technology so that we can speed up the digitalization process in the company deepening our knowledge about clients' behaviors since we already have, as I said, many points of contact, we want to improve the platforms productivity to create conditions and put conditions in place to

improve the conversion for the average ticket level, so we need to have a better alignment with our digital strategy, once again, at the end of the day, fostering the omnichannel.

Also in 2019, we will open, in the second half of the year, a store at the Morumbi Mall and we expect it to be a more technological store to offer a more interactive and more customized experience for the customer. We are talking about 2,700 m² of gross area and we are very excited with this opportunity where we will have a higher level of interaction and a better experience, as I said, with this new store at the Morumbi Mall.

In closing, I'd like to say that we will soon formalize our strategic plan, bring our strategic priorities of course, they are grouped along different pillars which will guide us as we move forward for the next years. I'm talking about activity areas which we consider key to improve the company's performance, and what I can anticipate now is that those pillars will address sales, customers, expansion, behavior and a result-driven culture, and of course, results will come from common strategic drivers, which always includes digital transformation.

Given all that, I can safely say we are quite optimistic as we look forward, we have ambitious targets, transformational targets for the company, but of course, it is up to us along with our teams and the support of the board to execute that strategic plan so that we can deliver better results throughout this journey which starts in the coming months of this year.

I now give the floor over to Newton.

Newton Rocha, DRI:

Thank you Oswaldo. Good morning everyone. I would like to make a brief report of the company in financial terms for 2018 and also strategic actions which started last year, and which will continue in this year.

We closed 2018 with a net income excluding nonrecurring effects of R\$260.5 million, a growth of 34.2% compared to the previous year. Another piece of good news is that the co-branded and private label combined reached 7.3%, a lower index when compared to last year, which was 7.9%. Also, at the end of 2018 the company had 31 million issued cards, 24.7 million of which PL and 6.3 million branded cards.

Our personal loans portfolio, without considering taxes and interest, total R\$689.4 million at the end of the year, a growth of 82.1%. The loss ratio reached 19.6%, in line with our expectations. Because it is a very profitable product, that's why it yielded that higher level of loss, still in line with our expectation and we'll see its volume

throughout the year grow in a more moderate way. We are always trying to reach a risk balance.

Net revenue for the financial reached R\$143 million, an increase of 6.4% year on year. With initiatives made recently, including change of systems and the addition of new products, such as insurance policy for cell phones, we expect to have a considerably higher performance for this year. Putting it all together, the total revenue totaled R\$2,147 billion, 25% higher than last year, a quite interesting result.

Our app, which has today 3.6 million downloads, has on average 1.8 million accesses a day, which proves that we were right in choosing this tool as a communication means. I can say that in the near future it will become the main mean to increase company's revenues.

For 2018, we have approved automated credit for new clients with a response of up to 7 seconds using our platform, which provides a very good consumer experience. Only 7 seconds, and it is a very short consultation that the consumer can make and the reply, either yes or no, is also quite expedited.

We also captured new clients for the PL cards through a tablet into the app, that can happen anywhere our client or customer is. That process takes about 4 minutes to be finished and allows for the immediate purchase of goods, provided of course that the customer is approved. Collection and renegotiation have also been automated through digital devices and through our negotiation portal using chat bots.

Also, through app we are now finalizing the validation process of personal loans so that we can allow customers to apply for a loan wherever he or she may be, however he or she may desire. This will make their lives a lot easier and it will make it easier for the product to reach our customers wherever they are.

In November last year we requested authorization from the Central Bank to operate as a multiple bank with credit portfolio, investment and financing. This is happening 10 years after the start of our financial arm, and the idea is to offer initially to our millions of clients a larger range of financial and nonfinancial products, which are necessary for their day-to-day activities in a very simple, fast, modern and safe way. All of that supported by a digital platform which is quite wide where the customer in a very easy manner can choose the best product that they wish.

This way, we will tap on the synergy coming from the physical retail that we have across the country and put together a very powerful ecosystem where the customer will be at center stage, as predicted by our strategic plan. That's why our proposed was defined that way: "With you at all moments improving your life". That's the motto, that's the definition of our intention with this change from a financial institution to a

bank, and that shows clearly how we wish to work with our clients to better serve them with whatever we can offer within this new business model.

So those were the main highlights I had to share with you. I give now the word back to Tulio, our CFO, who will go into details about our numbers for the quarter.

Tulio Queiroz, CFO:

Thank you Newton, thank you Oswaldo. Before moving on to the slide, I'd like to introduce the other members who are present here. Here with us Marcelo Oscar, Controller and IR, and Gilberto Izumida, the Group's Accountant.

Moving to pslide number 3 we have numbers relative to the consolidated net revenue from goods and products totaled R\$1,627.0 billion in the fourth quarter, a growth of 3.4% from the previous period. Year to date, net revenue totaled R\$5,093.4 billion, up 7.0% when compared to the last year.

In the bottom part of the slide we can see figures for our same-store sales. So, in this fourth quarter gross stayed at 0.9%, from a positive standpoint now we have the South and Southeastern regions, and from the negative standpoint the Northeastern region of Brazil, especially with impacts coming from macroeconomic situations.

In the year to date, grow for same-store sales came at 3.7%, and here again with an important pressure coming from the Northeastern of Brazil and a positive contribution coming from the Southeastern region. Cell phones and perfumes and fragrances accounted in the year for 13% of sales, in the fourth quarter they accounted for 15% of sales.

On slide number 4, we have numbers relative to average ticket and the total base for Riachuelo cards. Average ticket in this fourth quarter grew by 1.8%, coming at R\$199.5. Year to date the growth was up 2.1% reaching R\$190.6. What we can see in the fourth quarter is that there was a growth which was higher than that of same-store sales and the conversion point was slightly negative, as mentioned by Oswaldo just now because of that breakage that we had.

In the bottom part of the slide, we have numbers relative to the total card base, which came at 31 million cards at the end of the fourth quarter, up by 5% year on year.

On slide number 5, we have a snapshot of our financial performance, loss level from the financial operation and also our provision for portfolio. On the top part of the slide we can see the current loss levels where the blue line shows the real loss level for Riachuelo, closing the year at 7.3%. We have to look at this number as a relatively

stable figure throughout the next 6 months, and on the top part we have numbers relative to our personal loan, which closed the year at 19.6%.

As Newton mentioned, from here on we are going to be offering that portfolio in a more moderate manner, always seeking a better balance between volume and risk.

In the bottom part of this slide we have a breakdown of our provision for all brackets in the portfolio. As a whole, what we can see is that provision of up to 180 days at 7.6%, in other words quite adherent to our projected loss level, and 9.2% above the minimum required by the Central Bank and with a coverage for over 90 days at 93.0%.

On the next slide, slide number 6, we have numbers relative to our financial operation performance, which totaled R\$149.3 million in this fourth quarter. Excluding nonrecurring effects, we would be reaching R\$99.9 million, showing a growth of 79.2%. Year to date the same result reached R\$468.8 million, a growth of 29.5% year on year.

Just to highlight a few numbers, it is important to highlight the following: The branded card spending in 2018 has already exceeded the mark of R\$6 billion, R\$6,380 billion, and our personal loan portfolio totaled or closed the year at R\$689.4 million.

On top of this strong growth in volumes, as we saw throughout all the quarters of the year, especially in terms of personal loans and we had a maturing phase of our branded card, it is important to highlight the stability of the loss levels throughout the year. It's worth reminding that the company has been growing numbers, not only in 2018, but for the past few years, and besides, to set the stage for going forward, some small operating expenses relative to the plan of having a bank are already been incurred, but the future gains will more than offset the increase in those small expenses.

On the next slide, slide number 7, we have a snapshot of our consolidated gross profit, which totaled R\$1,418.7 billion in this quarter, a growth of 10.9%. In 12 months of 2018 the number reached R\$4,669.0 million, growth of 13.7%. The main number to pay attention to here, in orange, we have a product gross margin, a highlight of the quarter as well despite difficulties raised by or mentioned by Oswaldo. Despite those difficulties, we managed to maintain gross margins at a very flat level even with a mix coming from perfumes and cell phones, which were much higher, to the tune of 15% of sales. So, if we exclude cell phones and perfumes and fragrances, that gross margin would add up to 58.7% and with a growth of 0.8%.

In the last 12 months, when we look at the gross margin at 52.9%, if we exclude that same effect coming from cell phones and perfumes, the gross margin would total 56.8% with a growth of 0.3%.

On to the next slide, slide number 8, we have our operating expenses, which totaled in the quarter R\$762.0 million, a drop of 1.4% when compared to the same quarter of the previous year. The last 12 months we had R\$2,787.6 billion, a growth of 8.4% on the right-hand side of the slide.

In the year as a whole, we reached a new productivity level, the closed year we see a dilution of operating expenses to the tune of 1.1% and this was widely shared with you throughout the quarters, the company intensified the search for this new productivity level, especially starting in the month of May. So the fourth quarter reflects that very well, reflects this new intensity in terms of productivity. We reported a dilution of operating expenses to the tune of 3.4 p.p.

This is an ongoing work, it's been ongoing since 2014 where all gaps have been bridged and addressed, new productivity models were designed or studied by store, by position, by period, and the company has created or generated new knowledge around those issues discussing a challenging new productivity level. Of course, having in mind that we need to assure good services and with an eye on the customer's journey.

On to the next slide, slide number 9, we have numbers relative to our adjusted EBITDA, our consolidated EBITDA which totaled R\$1,075.5 billion in the fourth quarter. If we exclude nonrecurring effect, excluding those effects, R\$469.4 million, a growth of 33.3% when compared to the previous period. Year to date, the group's EBITDA totaled R\$1,701.3 billion. If we exclude those non-recurring effects, R\$1,095.2 billion, a growth of 23.2%.

In general, this is a combination of several factors. As we have shared with you, we had a more difficult top line, but we managed to maintain our gross margins for products and we also worked to increase productivity, as it was mentioned, and without about that brought in some relief to our operating leverage, also a financial operation which work really well throughout the year, and from the nonrecurring standpoint the main effect, as shown in our release, comes from the ICMS and the PIS/COFINS, which was also addressed at a relevant matter which was earlier announced.

On the next slide, slide number 10, we have numbers relative to consolidated net income, which came at R\$1,012.1 billion in the fourth quarter. If we exclude nonrecurring effects, R\$274.5 million, a growth of 58.9% when compared to the

previous period. Last twelve months, R\$1,235.7 billion. If we exclude non-recurring effects, R\$498.0 million, a growth of 45.2%.

On slide 11 we have numbers relative to our financial cycle in number of days. We closed the year at 166 days, a growth of 22.7%. The pressure came mainly from inventory, we closed the year with 139 days, which was also addressed by Oswaldo earlier. In terms of clients, we closed the year at 105, a growth of 2.9%, and for suppliers a drop of 8.1%, leading to a number of 78 days, mainly driven by the mix.

On the next slide, slide number 12, we have numbers relative to net debt. We closed the year at R\$981.0 million and the leverage level, as referred to EBITDA, of 0.6 times. As it has been recently, the company felt the pressure coming from working capital, on the other hand, the company tried to increase productivity in what relates to operating cash generation, which offset part of that effect, and we also maintained our investment levels at a very moderate level, as we will see on the next slide.

On slide number 13 we have numbers for CAPEX, investments and fixed assets, which totaled R\$385.7 million in 2018, and of course, it's only natural that most of those investments were allocated to the retail, and I have to emphasize 40 remodeling works, strong investment in IT, 23% of the total and 17% of investments being allocated to new stores.

Those were our initial comments, and from now on we remain available for questions or comments you may have. Thank you very much.

Question and Answer Session

Operator:

Thank you. We will now start the Q&A session. If you have a question, please, press star 1. If your question has been answered, you may redraw your question by pressing star 2.

Questions will be addressed as they arrive. Please, kindly move your phone off the hook as you ask the question. This way optimum sound quality will be offered.

Our first question comes from Julia Faga, from Itaú BBA.

Julia Faga, Itaú BBA:

Hello everyone. Good morning. I'd like to talk about the supply issue you mentioned. What does your inventory look like? Were you expecting to higher your inventory? Because you still have some carryover stock from the winter collection, promotions and you're expecting to sell that in the next season. So, I'd like to have some more color on that because we see that your inventory level is slightly high.

I'd like to have a breakdown of that inventory, how much of that is coming from the fourth quarter, how much is carried over and is there any attempt of putting a mark down for the coming quarters to manage that high level of inventory? That's it, thank you.

Oswaldo Nunes, CEO:

Hello Julia, this is Oswaldo. Thank you for your question. As we mentioned earlier, of course the low sales in December brings pressure to inventory levels for January because it is an important month and it pressured not only same-store sales but also margins.

When you mentioned the winter collection inventories that were carried over, you are correct, and it's always important for us to remember that – and of course, we understand, we look at this as a learning curve coming from 2018 – the imported goods chain, especially the one around winter products, which cannot be met by our local apparel industry, it is a chain where you are gambling 8-9 months ahead, in advance.

As I said in previous quarters, we made a big bet for 2018, of course, whatever is seasonal was addressed, but there is also an important portion of nonperishable jackets or sweatshirts, knitwear, of black, grey, navy blue prints that you have to carryover to 2019, but we understand we need to pay closer attention to that process because that's not good for inventory and it's not good for our financial cycles.

Another lesson learned coming from 2018 is how to work with the seasonality of sales throughout the year, when we compare to a more linear production process of our own clients. Until last year, our policy was to anticipate production of basic products with longer lifecycles, denim, dress, shirts and so on and so forth.

But still we understand that that's not really positive, even if you're talking about different products where you predict sales more accurately, we are still betting in the future and we know that sales might and will vary, then when you get there, at the end of the road, you would not always have the ideal level that you wanted, and that forces you to have a larger carryover.

Again, lessons learned from 2018 that we plan to apply in 2019. And, as we look ahead, we have this work ahead of us of adjusting those mixes, and this is happening now in the first quarter. For the second quarter we only expect to see very residual effect, we should see no impact on margins in a more significant way. That's what we hope for.

Julia Faga, Itaú BBA:

Okay, thank you very much.

Operator:

Next question comes from Helena Vilares, from Bradesco BBI.

Helena Vilares, Bradesco BBI:

Hello everyone, thank you for taking my question. I'd like to first have some more color on the front of initiatives related to Midway Finance, you were approved by the Central Bank, so I'd like to have some more detail on how you see that operation this year, when do you expect the Central Bank to finally approve that?

And the second question has to do with productivity levels. We see that SG&A has been dropping consistently. Could you break that down in terms of lines and initiatives which are generating that operating leverage you mentioned?

And lastly, also in terms of SG&A, we have, for a year, been seeing a transfer of SG&A from retail to finance. Have we reached the base point? Can we expect 2019 to be more normal or should we expect some more transfer that will reflect on the consolidated results? Thank you.

Tulio Queiroz, CFO:

Helena, thank you for your questions. I'll start with the first one relative to Midway. First and foremost, to understand that process, the process by which we will transform our financial into a multiple bank, underneath all that we have the intention of placing customers at the center of our focus. Today, we are talking about a relationship which takes place through our card only, we want to expand that relationship including the possibility of offering bank account, a current account and other products. But most importantly, we are focusing this project on the customer profile that we have today, on the relationship that we have today, people who are today buying at Riachuelo.

The company operates with its own card, that has been there for over 30 years, and basically, all that relationship that the company has with customers comes from the fact that the customer perceives some quality and an environment which is much friendlier than the one offered by the bank environment. But, as we've seen several banks offering digital platforms and new Fintechs, what's happening is that those barriers that existed before brought in relationship or handling relationships between banks and customers they are collapsing. So, today relationship with digital bank is much more friendly and simple, so there is a new type of competition for our card operations, and we are paying close attention to that.

We want to elevate, increase that relationship with our customers, we have 2 operations which are quite mature, in other words, a financial platform with a huge active customer base and retail platform which is extremely wide, comprehensive and spread throughout Brazil.

The idea is that all of that combined will have created an ecosystem where the system will take center stage, as I said. Of course, Newton in the coming quarters will be sharing with you more detail about the development of that specific strategic plan, but in essence, that transformation follows along those lines.

As for your second question relative to productivity levels, here essentially and more importantly, we shouldn't emphasize one or other point, there is no silver bullet that helped dilute by 3 p.p. This is an ongoing work, as I said in my opening remarks, we started doing it in 2014 through a very detailed survey of productivity levels broken down by position, by store cluster and using specific productivity indicators for each one of those positions.

So today, the whole of the retail operation, which of course is the one with the highest demand in terms of personnel, all of that operation is modeled around productivity platforms and with direct connection with the physical volumes that flow through the stores. And we always have benchmarks emerging from those assessments and what we do in practice is to bring in the benchmark, try to understand what's new, what kind of knowledge was created, we discuss feasibility around standardizing a new process and then we replicate that across the organization. That has happened in different ways and in different occasions.

The main operating expenses of the group are: number 1, of course, people ; number 2 occupancy cost, so we are working around expanding the group, relationship with shopping malls, with real estate owners, property owners; and number 3, a deferred operating expense is electric energy, and here too we work around a new operating procedure to implement and we are constantly monitoring that in our stores, the idea is to achieve important savings in terms of consumption because we cannot control price, of course, we have to control consumption.

Those are the main pillars towards productivity. And it is, as I said, an ongoing effort. For the support areas, the same goes. We are constantly conducting surveys conducted by the support areas in terms of pricing, cost, and we're always assessing if those products are really necessary, if they are really contributing to value generating.

The secret, if I may, of this value generation pillar lies exactly there: Discipline in our efforts.

As for your third question concerning the transfer of operating expenses between Midway and Riachuelo, I'd say that the main difference in criteria took place late last year, the 2018 basis squared, so moving forward and not only 2019, but also the basis of comparison for 2018 will also be under control. So, with that we are talking about a pure comparison basis.

I think those are the 3 questions you asked, correct?

Helena Vilares, Bradesco BBI:

Okay, thank you very much.

Operator:

Our next question comes from Felipe Casemiro, from HSBC.

Felipe Casemiro, HSBC:

Good afternoon everyone. Thanks for taking my questions. My first question is about sales. Following up on Oswaldo's comment earlier on, I can think of the same-store sales level for the first quarter is not very much disconnected from the fourth quarter, in other words, a low number but still in the initial of the stock up. So, what can we expect for 2019 in terms of same-store sales given that the first quarter is not that relevant? But can we expect a recovery going forward? So, what do you think about that?

And my second question about results. I'd like to understand non-recurring expenses. You used that in the adjusted EBITDA, so it is clear that R\$692 million refers to tax credits, but there is a difference of R\$86 million expenses that you also have added to that, so I think that R\$50 million financial, R\$36 million on retail. I'd like to understand the breakdown of those non-recurring expenses and have a bit more color on that if you will please.

Oswaldo Nunes, CEO:

Thank you Felipe. As for your first question about the same-store sales coming at a low digit, when we look at the second quarter and we look at the recovery coming from inventory levels at the DC so that we can allow stores to bring in as many SKUs as they really demand so we will have SKUs that will be more efficiently allocated, we do believe that we will resume growth for same-store sales at a higher level than the average that we had for last year actually.

Tulio Queiroz, CFO:

Felipe, this is Tulio speaking now. As for your second question about the non-recurring expenses, I will give you a step-by-step disclosure of the main elements.

Let's start with the EBITDA effect. As I mentioned and you also mentioned in your question, the main non-recurring effect comes from the ICMS is PIS/COFINS, the main volume produced an effect of R\$684 million. On top of that, we made a provisioning to pay lawyer fees concerning that case, a tax suit. Another non-recurring expense was a credit coming from employees.

As for the PIS/COFINS issue, what we also did was that we aligned the SELIC rates associated with that topic, and that had an impact on the financial results. So, R\$684 million, as I said, for EBITDA plus R\$483 million and the financial revenues lines which have to be with the update of the SELIC rates. Of course, this will generate PIS/COFINS, I'm not going to go into all the minutia.

So, totally, the EBITDA effect that I mentioned R\$655 million and the total effect for the financial result at R\$460 million, as I mentioned, and net profit R\$ 795 million.

As for the Midway Finance specifically, what we did was that we did a PDD adjustment of R\$60 million relative to the classification of clients and the risk base. This has to do with internal controls and risk controls that we routinely execute. So, any fine tuning that is needed leads to an adjustment in those numbers. On top of that, we have a positive adjustment for operating expenses referred to charge back or cancellations made using the branded card. So, for EBITDA the effect is negative, at R\$49 million.

In the net income line, we have an additional effect which has to do with the change in the rate of social contribution, which was changed for financial institutions. At the end of the year, we moved from 20% to 15% starting in 2019. So, in practice, all the nondeductible expenses we use a 20% rate. When we change the rate and we change the year, we need to revert the base. So that's good news actually, that will affect results in the short run.

So once again, that affected the income tax of line by R\$30 million. As I said, impacts in 2019 the company will benefit because we will have a contribution rate, which will be 5% lower.

If we add all these effects together, EBITDA, as I said, R\$606 million, in the financial results an effect of R\$460 million and for net income the effect is of R\$737 million.

Felipe Casemiro, HSBC:

Okay, thank you. And, if I may, one final follow-up about e-commerce, I'd like to understand your strategy a little more, I'd like to understand for the year what is in your mind in terms of pick-and-collect and other omnichannel initiatives, and if you are working with the idea of using some kind of marketplace platform to increase your reach. That is my final question, thank you.

Oswaldo Nunes, CEO:

Felipe, our strategy for the digital channel is the following: We think that the natural way to go is to have a full-fledged, robust digital platform, a very low level of inefficiency that is able to maximize flows and especially conversion of average tickets. We are now investing on that. At the same time, the idea is to strengthen all omnichannel initiatives. The pick-and-collect is present in all stores varying from 25% to 30% depending on the month, but on average, surprisingly, there are a couple stores where that number is above 50%, quite impressively, because of location, different flows, easier access, the strength of the brand, that all contributed to boost that number in same stores.

And the question about marketplace platform, that's something we are discussing right now, trying to understand it a little better, trying to know what kind of competition that represents, trying to identify opportunities in those new ecosystems. We know that with that comes along a new challenge of how to better position the brand in a platform such as that.

As about becoming a marketplace, that is for the future, but looking at what we already have today, if we could offer the reach of our physical network to other retailers or other industries that could be an opportunity, yes. But that's something we will be discussing in the future. We are now trying to understand the specificities and trying to identify opportunities.

Felipe Casemiro, HSBC:

Thank you, have a nice day.

Operator:

The Q&A session is now over. I'd like to turn the conference over to Mr. Queiroz, CFO, for his final remarks.

Tulio Queiroz, CFO:

Thank you very for participating in our call. Just to make sure we remain available for other comments or questions you may have. Thank you again, have a nice day everyone.

Operator:

Thank you. Guararapes Riachuelo conference call to discuss results is now over. Please, you may disconnect your lines now and have a nice day.