

Guilherme Assis:

Hello good morning thank you for taking my question. I would like to explore a few topics. In terms of accounting terms I would like to have some more color on the following: you did mention that there was an impact coming from taxes in 4Q, the PIS COFINS over ICMS, we have seen that before.

But I would like to understand a little better to have an idea of size of the nonrecurring impact. Correct me if I am wrong but if we look at the other operating revenues we see R\$188 million in this quarter and last year in 4Q we saw this level down at R\$60 million. So those R\$120 million of difference can we consider those nonrecurring? How can we size that difference? That is one question.

The second question would be the following: I would like to have some more color on the contribution of the new categories, mobile and franchise, their contribution to the revenues and also the margins, the gross margin for retail continues to grow, even with the negative contribution coming from a lower margin from mobile and franchise.

So if you could perhaps give us more color on how much of the sales fall under those categories and what would be the margin for the clothing retail front if you did not have mobile and franchise. Those are the questions thank you.

Tulio Queiroz:

Thank you Guilherme for your question. I will address second question first concerning the performance of cellphones and perfumes or cosmetics. Yes those two operations have been gaining strength, have been increasing their share the company's sales as a whole. In the mobile operation at a very interesting level of EBITDA, even though the percentage margin is lower of course. We would be allocating 10 m² but that would result in a very relevant level of sales. So that is one of the highest EBITDA/m² of the company.

As for the breakdown in sales that number will remain around 5 and 6% of sales, 5 and 6% as I said, a very robust...

Guilherme Assis:

Sorry to interrupt we are talking about the mobile right?

Tulio Queiroz:

Yes. As for perfumes and cosmetics that is an operation we rolled out throughout the year and that rollout is not finished yet. We start the year with only five stores,

we in the year with 199 stores. So there are some rollouts to occur throughout the year 2018.

That is an operation which makes us very optimistic. It is a category where we see very good acceptance and it is very much in contact with fashion. It provides a very good buying experience for the consumers and of course it also adds a very attractive EBITDA, even though as I said the gross margin is smaller, lower.

I cannot break it down yet because as I said we are still rolling that out, as we advance throughout the months I will be able to give a better final number. But in any event the gross margin for products when you exclude mobile and perfume elements or effects we have already resumed, we have actually exceeded our historical record which we had posted in 2013, 2014.

So the gross margin for fashion is quite relevant. This margin expansion is quite linked as I said in my remarks, it is quite linked to all the actions we implemented throughout the past years.

Our logistics system is 100% based on SKUs and that has contributed significantly for this increase in gross margin. Today we are getting it right, more frequently if you will. We had better sales per square meter and so those numbers are relevant because of all those efforts we made in the past year. So excluding perfumes and the mobile element we would have at least 2 or 2.5 percentage in gross margin for products in an annualized basis - of course on the quarterly basis that can go even higher.

Now addressing our first question now concerning the tax effect and nonrecurring effects you are correct in your observation. So the first thing that happened in the year - I will talk about 1Q first - and we have the reversal of provision concerning ICMS as a basis for PIS COFINS. The company received the provision of R\$110 million we had made at Guararapes.

In this 4Q we have three different topics essentially: one of them the PIS COFINS over some operating expenses, which up until then was being credited, we had to reverse that provision so we will now see the effect of the credit only for PIS COFINS.

The other important effect has to do with Manaus free trade zone. That is a topic that has been judged in court, it has been ruled. The company won this suit, that is also relevant. And another important topic is the PIS COFINS over other expenses, especially financial expenses.

So those three topics have led to that additional number that you mentioned and then when we think how much of that is recurring, of course we have been through a court decision and of course when that happens we have to go back

five years in time, sometimes even further back. So I would say that around 1/5 to 1/6 of that amount is recurrent, in other words are topics that the company will have in its everyday activities.

Guilherme Assis:

Okay Tulio and just to be sure so when you say 1/5 you are estimating that... Can I conclude I can take 1/5 out of those R\$190 million, R\$188 million? Am I correct in my math here?

Tulio Queiroz:

Exactly, you are correct that would be recurring.

Guilherme Assis:

Okay, thank you, thank you very much.

Operator:

Our next question comes from Mr. Ruben Couto, from Itaú BBA.

Ruben Couto:

Good morning everyone. Tulio could you give us some more color on the sales performance for 4Q even if you exclude ICMS? What is your evaluation of the results for 4Q? Maybe you also could comment on sales for this beginning of the year, I would appreciate it thank you.

Tulio Queiroz:

Good morning Ruben thank you for your question. Sales performance in 4Q was quite interesting, actually we have been discussing that throughout the previous quarters of 2017. 2017 was a year which was quite atypical, uncommon in terms of sales trends and even if you look within the quarters it was very uncommon what we saw.

Even throughout 1Q, 2Q, 3Q we had months which were extremely strong in terms of sales, there were quarters that started quite intense with two digits for same-store sales and then suddenly with no apparent explanation performance levels fell by half in the next month.

So the performance curve was observed throughout the year, it was quite curious if you will, uncommon. Everybody here I see around this table is quite experienced in retail, but the sales curve in 2017 was really, really quite unusual. I would say that 4Q as a whole when we look at it and when we look at our field teams and when we look at results which have been posted by other companies

the trend seems to have prevailed in the industry. 3Q as a whole was stronger than 4Q.

In our case specifically we have to remember that 4Q16 had already shown relevant operating improvements. As I mentioned we expanded our gross margin, so before last year we already had elements which were present and helping us expand our margin especially coming from the opening of our new distribution center in August of 2016.

So though other major news happened to the main categories as I mentioned, women's apparel, when you look at it from a regional standpoint that difference between a great performance into South and an average or difficult performance in the Northwest I was talking about different levels of intensity, but we saw expansion throughout the quarter. So I would say that those were the main elements that we could identify concerning sales performance.

In terms of the beginning of this year 2018 what we can already see is that we had a higher sales pace as is. We started the year as we see it quite strongly and that makes us all very optimistic for the rest of the year. When we look at the macroeconomic items all variables are favorable, especially when we look ahead to 2018, 2019, things are looking good. So the beginning of the year already shows a stronger pace for same-store sales, which is of course a good sign, a positive sign going forward.

Ruben Couto:

Thank you Tulio. I have one more question as concerns SG&A. We saw a leap in terms of year over year. Was there something specific for 4Q which we will not see for the coming quarters or is that a new level we should be expecting especially driven by the rollout of other categories, e-commerce? Can you give us some more color on that SG&A number for 4Q?

Tulio Queiroz:

Yes. Those effects coming from new businesses they will remain throughout 2018, but of course we have built a base throughout 2017 and of course revenues will mature. So the contributions coming from those categories will also increase, especially for perfumes and e-commerce. So that is reality, is there, is present.

But something that is very specific for 4Q is this new design for the provision for premiums, awards. It is much more linked with sales and that is quite different from what we had in 2016. For this specific case we see a higher... Expect higher impact.

For the other items they are more strategic and we should see balance, but those impacts coming from new businesses fall 100% within our budget, within our expectations. When we start a new front like mobile, perfumes, cosmetics, when we start developing a channel which has a very good and promising future such as e-commerce, of course you have to put some money ahead to make it happen.

Ruben Couto:

Yes Tulio, of course. Thank you for your answers.

Operator:

Our next question comes from Mrs. Mariana Vergueiro, from Bradesco BBI.

Mariana Vergueiro:

Good morning. Two questions, the first one is a follow-up on Guilherme's question about gross margin for products. As Tulio said it is a very positive surprise in in the quarter, especially taking into account that the comparison basis is more challenging.

I would like to understand where the gain is coming from. Is it coming from clothing where we already had a good margin close to 55% in 4Q 16 or is there something coming from the fact that you are centralizing the mobile operation at the new DC? Or is it also coming from perfumes? I know it is small, but I see it as an important element. How can we see that gross margin going forward in the next quarters?

The second question could you please comment a little bit on the e-commerce performance, what have you learned and what are the challenges you have in the e-commerce front? Those two questions thank you very much.

Tulio Queiroz:

Mariana thank you for your questions. As for the gross margin for products all the gain that we saw comes from clothing, apparel, especially the fashion front. Of course when we centralized operations at the new DC we were expecting an important gross gain because of better negotiation with suppliers.

And the reasons for that without a doubt have to do with the capacity to respond that the company showed, and of course also the capacity the company showed to launch new collections throughout the last years. Just to make it clear today our logistics operation 100% of the mix is sent, is shipped based on SKUs. So we go as soon as possible when we ship our products, so the company responds in other words... The company responds to real data.

Of course it is a big challenge, but once it is implemented this system brings the performance level to a different dimension. So the gross margin element is but one of the positive elements. But the company will also now be able to capture more in terms of sales conversion because we are now able to get the mix right more often.

Of course when we have the whole chain connected, 100%, things will be even better. Today operations work really well between the DC and the stores, but there is an additional value universe which lies in the fact that when we connect the DC, the factory and the stores it will be even better. So today the risk, which is concentrated on the DC, will then be concentrated in the raw material. The idea is... For the fashion front the idea is to respond fast and concentrating all the risks on the raw material and then we will benefit even more from our lead time, which is now 15 days for response.

As we see it we are halfway there. So when we look in the long run you asked specifically about margins for the coming quarter, but I say we talk about the combination: part comes from the margins, part comes from the sales.

In the year of 2017 we have expanded quite considerably considering gross margin for products. We are now at a level which is say historical peak for the company. So the idea now is to capture more for our top line. It could be coming from margins or from sales conversion.

Now as for your second question for the e-commerce operation the e-commerce operation is quite young within the company and it is quite impressive that in such a short period of time we have managed to learn so much - and I am sure there is a lot to be learned as we move ahead of course.

It is only natural to try to draw a comparison: "Today it is already the company's second store", but what we see there we go beyond looking at it as simply a store - it is a whole new universe. What we can do with e-commerce is really, really impressive when you go deep into it and when you learn with the operation it is as I said. Impressive how much value there is to be extracted.

And of course challenges are just as big from defining the mix to logistics, our operation emerged, it was born if you will as a multi-channel operation, so lots of challenges there too, and of course advertising, communication, the purchase of media channels. It is a whole new universe, a very specific type of dynamics that we have to deal with and the way you work with promotion and sales that is also very new, too. So as I said many interesting things for us to be learned... For us to learn and also a lot of fun going forward.

Mariana Vergueiro:

Okay thank you.

Operator:

Our next question comes from Mr. Felipe Casemiro, from HSBC.

Felipe Casemiro:

Good morning everyone, good morning Tulio thank you for taking my questions. I have a first question about the growth of stores going forward. Should we expect a stronger pace or is the company going to focus on revamping existing stores? And what kind CAPEX are we talking about here?

And my second question about the old distribution center. What are you going to do with that space? Are you going to sell it, are you going to lease it? That is it thank you.

Tulio Queiroz:

Felipe good morning thank you for your questions. As for our new stores or the pace of opening of stores I would say that the company today is much more confident in its business model. So of course when you are more confident new opportunities emerge to open new stores.

But when we look at the company's leverage level today as we saw it is quite conservative and so there is room to increase investments. But for 2018 I would say we are talking about gradual growth, gradual expansion. In 2017 we opened 12 stores, we will be slightly above that number in 2018 and without a doubt we will intensify our refurbishing and renovation efforts to the existing stores.

We are quite happy with the performance presented by stores after they were renovated. We have learned to renovate. Today our intervention level is quite low. It takes us a shorter period now to renovate stores. Of course we have a way now of interfering as little as possible in the stores operations, thus impacting very little in the stores performance.

And once the store has been renovated we can then count on equipment and elements which are far more favorable to our strategy. Today we have a variety of items which is much larger and we have to take or to benefit from that diversity, from that variety and of course this will help us increase our sales conversion levels, hence the focus on renovation for 2018 rather than the opening of stores.

As for your second question about the old distribution center - DC we are still analyzing the different possibilities, what to do with this piece of real estate. It

does have a very specific characteristic for the fashion industry because it has a very modern design in terms that the entry and exit docks are at the same level, so we could study how to increase the property's commercial potential.

And then we will decide what to do, if we are going to sell it or lease it. That is something we have not decided yet. What I can tell you is that we are studying or analyzing how specialized players might be attracted to that property.

Felipe Casemiro:

Okay thank you.

Operator:

Our next question comes from Mr. Wagner Salaverri, from Quantitas.

Wagner Salaverri:

Good morning everyone congratulations on the results. Tulio my question for you or Nilton concerning the variable compensation for executives. Historically you have used a percentage which is slightly lower than your peers.

Can you give us a breakdown for 2017? Has that number gone up or not? And what are the metrics for 2018 in that respect, executives' variable compensation? Of course that is very important when we analyze cost reductions, gains increases and so on and so forth.

Tulio Queiroz:

Good morning Wagner thank you for your question. As for the variable compensation for executives for the company the company does not have a stock option plan, so the metric is based on an annual performance and how does that work? Executives as a whole have a target, which varies depending on the positions. Some positions have a target - target I mean the amount of salaries. You have higher targets and other positions for which we have a lower target.

From that we have two indicators: one which is the most important one, which is the macro indicator we internally call corporate rating, and that is a function of the metric defined by the company and that metric is coming from expected levels of return.

That target speeds up our speeds down, downwards. If results are better than expected there is a multiplying factor that will speed up that level of gain and consequently that corporate rating will affect the amount, the number of wages that the executive receives.

And we also have individual targets. Depending on the characteristics of the position there are individual targets for those executives and it works with the same rationale, but now with a combination of the corporate rating and individual rating.

What can I tell you about 2017? Of course as the company overcame targets, the company presented very consistent results throughout the year, the corporate rating of course was higher than historical levels and as a consequence the level of awards will be higher, but the mechanics or the rationale of the variable compensation works like that: we have annual targets based mainly on corporate targets and from those corporate targets and depending on the position we also add individual targets.

Wagner Salaverri:

When you talk about corporate ratings, are you talking about return on capital? What is it exactly? Can you break that down for us or give us some more color on that corporate rating?

Tulio Queiroz:

Okay Wagner. That has to do with return on investments of course; and of course then we translate that into a simpler target, EBITDA and profit, to make it easier for us to follow that on a daily basis, EBITDA and profit of course. It is also based on an internal communication that transforms that into a rating. But in essence it is a result forecast that will bring an expected return, which will be translated into an EBITDA and profit term, which will then lead to that corporate rating.

Wagner Salaverri:

As to store expansion it was not clear to me: do you have a number for 2018? If you consider a more promising macro scenario can we expect some numbers for 2019, for example 2020 considering the company's low leveraging level now what can we expect?

Tulio Queiroz:

Yes Wagner. As I said the company now is more confident in its business model, is more optimistic and of course that... That leads us to look for interesting opportunities.

Of course 2018 as I said will be more intense than last year, but still it a gradual pace. We do not have a closed, final number for new stores, but it will be slightly higher than what we had in 2017. For 2019 there is a tendency, trend in 20 that

we will grow a step higher as I said. We are looking at a gradual expansion pace for the coming years.

Wagner Salaverri:

Okay, thank you.

Operator:

Ladies and gentlemen once again if you have a question please press *1.

Our next question comes from Guilherme Assis, from Brasil Plural.

Guilherme Assis:

Hi Tulio, thank you for taking my follow-up question. I just wanted to have some more color when you talk about a design for the provision for premiums, awards what exactly is that?

Tulio Queiroz:

Okay Guilherme. When we make a provision for premiums or awards throughout the year of course we forecast results, and based on that result forecast we will be able to predict how much we are going to pay in terms of variable compensation. And there is different ways to provision that: you can do it on a monthly basis, in a more linear base, or you can base that on EBITDA or base that on sales.

What we did coming from 2016 to 2017 is we started to make that provision for compensation on a monthly basis based on the company's sales impact. Of course there is some level of oscillation, you cannot always get the predictions right, but it helps to build a system for the whole year. That is what changed for 2016 to 2017.

Guilherme Assis:

So you are talking about bonuses for executives and wages for employees right?

Tulio Queiroz:

Yes exactly.

Guilherm Assis:

Okay, now it is clear, thank you Tulio.

Operator:

Our next question comes from Mr. Fernando Fanchin, from Teorema.

Fernando Fanchin:

Good morning everyone good morning Tulio. I would like to go back on the question of other operating expenses. It is not clear to me. I am looking at the chart item 32 where we have a chart. There are two important entries or lines: tax recovery and others, which of course have to do with what you just explained, reversal of provisions for ICMS and so on and so forth, the other item relative to the Manaus trade free zone and other revenues.

Still we saw expressive number for the year, R\$207 million in terms of tax recovery and R\$113 for others. It was not clear to me when you explained what of that is recurring and what is not. You mentioned the 1/5 of R\$180 million, is that is recurring for the year, for the quarter? Which of those two lines... Or which lines should we base ourselves on to make our predictions? So thank you for could address that.

And the second question has to do with what Flavio said. I understand he is not present today but I will ask the question anyway and you can answer as best as you can. We realized for the last months that Flavio has been very active in the country's political arena, he launched a website flaviorocha.com.br, which of course from the citizenship point of view is quite healthy, but from the company's point of view he remains less time involved as a CEO of the company.

So I am trying to understand what is the plan going forward? Is he going to invest in his political arm if you will? What can you talk about that, about Flavio's political desires if you will?

Tulio Queiroz:

Thank you for your question. I will start with the second question about Flavio and his political endeavors and I will let Nilton answer that for you.

Newton Rocha:

Hello good morning. As you just mentioned Flavio along with some friends in New York last month we launched the movement called Brasil 200, which is a movement which is nonpartisan and they defend liberal ideals for the Brazilian economy - and of course it is very laudable that he should do that. As we all know Brazil needs this new ideology if you will in terms of economics, in terms of the economy.

He has been absent from the company at least part-time, I would not say he is away full-time, he has been away part time to dedicate himself to this movement; he needs to travel around Brazil. Today he is not here, he is in Fortaleza, he is taking part in an event which is going to address issues relative to the Brazilian economy, politics.

But he remains as much as possible as an active participant of the company's main decisions. This has been arranged and discussed with the board of course. The board is aware of his political participation, but from this company's point of view strategies remain as they were, no change whatsoever and all the main decisions, decisions which require his participation he is in, here is on board for those.

So he is not here now, he is not here full-time as a whole, but he remains as I said as a very active participant when it comes to major decisions. We have to wait and see a little longer to see how this will play out. Of course they are beginning and of course his participation, his dedication is more needed now in the beginning. Perhaps as we move ahead this will change, but what I can assure you is that the company continues with its everyday activities with no change whatsoever.

Fernando Fanchin:

Okay, thank you.

Tulio Queiroz:

Fernando moving out for your first question we have on that chart that you mentioned, explanatory note number 32, we have two amounts: the R\$207 million refer to ICMS over PIS and COFINS, that is reversal I mentioned, and then the Manaus free trade zone and then other revenues.

The provision reversal entry, those R\$110 million, that is a one-off item. When we see that benefit between net and gross revenue that is one-off, it only happened in 1Q as I mentioned.

As for the other topics Manaus and other revenues as I mentioned we are talking about 1/5 of the amount is recurring on an annual basis just to be sure, recurring on an annual basis.

The other topic, which is the provision of PIS and COFINS over operating expenses or some expenses in the chart you mentioned, it shows in the line that totals R\$112 million entry for others the total amount, which is involved and here once again there was a reversal of provisions in the amount of R\$81 million, but

annually recurring it is approximately 1... Sorry 10 he corrected himself, 10% of those R\$81 million would be recurring.

Fernando Fanchin:

So just to be clear Tulio, this is Fernando again, so we can consider 1/5 of 180, in other words 45 relative to tax recovery plus 11 million broadly speaking for the 'others' entry, am I correct? 45 plus 11, 56. Okay thank you very much.

Operator:

The questions and answers session is now over. I would like to give the conference back over to Mr. Queiroz, the company's CFO, for his final remarks.

Tulio Queiroz:

Once again, everyone thank you for your active participation and we remain available for other questions and comments. Thank you again, have a nice day.

Operator: Guararapes Riachuelo earnings call conference is now over. We would like to thank you all for participating, have a nice day, thank you.