Operator:

Good morning, ladies and gentlemen, and thanks for standing by. Welcome to Guararapes Riachuelo's conference call to discuss the results concerning the 4Q13 and also the year of 2013.

This conference call is being simultaneously broadcast over the Internet and may be accessed at www.riachuelo.com.br/ir. The presentation will also be made available for download at the same URL.

At this moment, participants will be connected only in listen-only mode. After the presentation, we will start the Q&A session, when further instructions will be given. Should you need assistance during the call, please require the assistance of an operator by pressing *0.

Before moving on, we would like to say that forward-looking statements made during this conference call concerning the Company's business outlook, financial and operating targets, are based on beliefs and assumptions of Guararapes Board of Directors. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward looking statements.

Now I will turn the floor to Mr. Flávio Rocha, CEO. Mr. Rocha please go ahead.

Flávio Rocha:

Good morning everyone. Before giving the floor to Tulio, who will make the presentation of the numbers, I would like to make some considerations. Firstly, thank you for the interest and audience. Including the record quorum, which greatly rejoice in.

The first consideration is about the importance of the year 2013 for the Company history. 2013 was without a doubt the year in which flourished this important, relevant and bold project, which we have undertaken for the last five or six years. This is a project that intended to turn a successful verticalized company into a company that we are today, a fully integrated company, with a model, an architecture of business which is unique in the world.

We have very good examples around the world of retail industry integration, but we have managed to explore all the synergies. We have integrated manufacturing, and we have moved a step ahead, integrating and exploring other synergies, with the financial side of the business. Credit, for example, which is a fundamental asset of our company, and our mission of making fashion more democratic in Brazil.

Up until 2012, despite the great enthusiasm of our team, we notice that the climate was like what I think that was the last week of Colombo's shipment. Everybody believed that Earth was round, that they will reach somewhere, like India. But always uncomfortable of doing something unusual. "Are we trying to reinvent the wheel? Will we going to reap the fruit of those projects?". We were only worried with increasing costs, increasing burden costs throughout the whole chain, cost involved in inventory.

The importance of 2012 is that, starting 2012, as we moved throughout the quarters we saw this project really flourish, and became clear that all the synergies would be able to be well explored, and that we would be able to grow an interesting and consequential supply. I have been saying that we are really building a true competitive advantage, which will be long lasting and difficult to replicate elsewhere.

We started the Year of 2013 with 40% of our physical flow of pieces with items totally integrated under this new complex. And I am not talking from the distribution center to the store, I am talking about the very first step from the raw material, the very beginning of the chain, which is where we really manage to add value.

So is the ability to convert a pound of raw material into several types of fabrics in an infinite color chart and several different models, and take them to the store that you want, that has huge value, cause it means you can attract the maximum from that demand, and I am talking that of 35,000 models we offer 15.000 from this is made internally. We never know which one of those is going to be the champion.

So, with margins even more robust, we can start from an initial gamble, which is small, and then we can, within the season, orient our productive capacity to those champions' items. That makes a difference, that is what distinguishes us from the competition, and that is what makes us more efficient.

Which is even more enthusiastic is that in the beginning of 2014 we have achieved a dozen of our physical volume, and the remaining 50% are to where we have the bigger opportunities which are the most fashionable ones, which are more unpredictable. That is where it is more difficult to change your position within the season, and the mix in the stores, when we talk about highly fashionable items.

Both in Natal and in Fortaleza, we have managed to achieve something unique. We have a lead-time of six days, and that is really valuable for us in that it gives us the ability to provide our stores with the right items at the right time.

Another very important point was the expansion record that we achieved physically. We built 45 stores, we opened 43 new stores in 16 states in Brazil, totaling almost 80,000 m² of gross leasable area, that is equivalent to three or four mid-size shopping malls. For 2014, we have the same expectations of maintaining that same level, that same pace of expansion

And the good news is that the new stores, even though we have a challenging macroeconomic scenario, those stores have proven to be successful, having achieved performances even higher than we expected before. The worst harvest return was an internal rate of 23%, and the best was over 40%. So, virtually there are no stores to complete a year and still be a nonprofit one d, and that is an incentive for us to continue expanding our physical chain, as, of course, our possibilities and our cash flow.

The year 2013 was a ramp-up in terms of performance. The worst moment was the 1Q, the 2Q was significantly better, we posted the best indicators in the sector, store by store, and margins; the 3Q was also very good, we achieved very two-digit levels; and the upwards ramp continued through October, when we broke a new record of growth, both stone-on-store where we exceeded 11.5%, and 24.4% company-on-company. In

November we had our best moment, when we reached 14.5% of growth on store-on-store, and came close to 30% company-on-company. With that, in December there was a slightly decline, and that is nothing new.

One of the drivers for that was the maturing of the Black Friday event. The Black Friday was really surprising, and it also lead to some cannibalization. It is an event where electronics are stronger, and, of course, money that consumers had for December was spent in November. But up until then, we were at a very comfortable position; we were comfortable and it could not be any different.

We had, as I said, 14.5% growth, and we were kind of conservative in some decisions, which could have brought some percentage points more. For example: when we decided the payment plan, we altered, and it was the right decision I think, we opted for not renewing the interest-free installment plan. But that is nothing that 2013 gave to 2014 as a gift, if you will. Financial revenue, of course, was impacted by that, and in the 1Q14 this will be felt.

We were a little shy in terms of communication. We have a great image action, which was the Fashion Five, a big hit in terms of image, visibility, but it was a small gap in terms of volume. When we talk about December, it is a season where we need to be a little more aggressive commercially in terms of pricing.

Also in terms of competition they were extremely aggressive in terms of pricing, so December was something, an outlier. It brought our same-stores sales levels to 2%, a high-lower level, and took us perhaps the dream of double digit in same-store sales. As I said, it was an outlier period; and the year 2014 is taking off in an environment which reminds us of 2013, and we are very optimistic about it.

2013 was also an important year in terms of strengthening our brand, especially in urban centers. Interbrand, the British company, picked us as the most valuable fashion brand in Brazil, and this was confirmed by Exame Magazine last week. They published a list of majors brand builders in terms of value, and we ranked ninth overall.

And also something I would like to emphasize, because this shows not only the strength of the brand, but also a very important attribute, which is the agility of the brand, which was the opening of our flagship store on Oscar Freire street.

In the second Friday of November last year we opened a store with over 3,000 m^2, at a very important address in Brazil, which is the *Rua Nova*, in Recife which is a really crowded place, like the *Rua Direita* in São Paulo, but with one third of the per capita income. Out of more than 30 openings we had by then in 2013, it was the biggest opening in terms of volume.

Four days later we opened, at the other extreme of the social pyramid, Veja Magazine, covered the opening and classified that corner as 'the most fashionable corner' in Brazil, between the streets Oscar Freire and Haddock Lobo it is not that big store, it is almost 1,000 m^2. And this new store broke the record we have established four days before, so a big success.

Rua Nova and Oscar Freire plays on both extremes of the social pyramid. That shows a very important thing, which is the incredible agility of our brand, and emphasizes our mission and our perception that there are very little differences between classes of consumers. We can achieve both ends of the social pyramid.

For those of you who are listening and who have not had the chance to know those stores, I recommend that you look at our Oscar Freire flagship store, even though it was presented as a premium store, it is a standard store, has the same prices, the same product mix that we have in other stores, and it also functions as our lab for the coming openings we expect to have in the 2H14.

The new logo, the new visual merchandising, the new furniture, the new uniform, the new LED panels, all those things are being tested in our lab, by the most demanding client to be replicate in other openings we have ahead.

This week also we have closed a deal, to replicate the same concept in Rio de Janeiro's most fashionable address. We expect to open that new store in 2014.

Basically, those were my first considerations. And before closing, I would like to share with you another piece of good news. Yesterday, Exame Magazine published a list of main valuation of Bovespa in the last 20 years, and to our honor and happiness Guararapes ranks number one in that list. Bovespa grew 72% in the last 20 years, minus inflation, and our stock grew 1,806%. So, first place, and the number two comes at 1,400% of evolution, so that is the crowning of our efforts and work, we are always trying to have a long-term vision and that really makes us all very happy, and rewarded for the efforts.

Just one more thing: maybe our main investment this year, will be fundamental to continue our strategy, our logistics, will be a new distribution center near to our current distribution center located on Via Dutra.

It is realty leased with a logistics company, but it is up to us invest in equipment. We will invest about R$70 million, and I can say for sure it is state-of-the-art in terms of textile logistics in Brazil; perhaps the first one in Brazil to be fully automated, both on the picking side, with a mini-load technology, to the sorters, where we have the whole chain automatized.

It is an investment plan to attend all the needs of supply of South and Southeast, and the future demands up until 2020.

I would now like to give the floor to Tulio, who will talk about the numbers. Thank you.

Tulio Queiroz:

Good morning, everyone. I will briefly go through the main result and the numbers of the quarter and in the year 2013, so we can move quickly to the questions and answer session.

On slide number four we have an overview of the consolidated net revenue from products Riachuelo. In the quarter the growth was 18.9%, totaling R$1.165 million. In the year, growth was 17.6%, totaling R$3.293 billion. In terms of same-store growth, we had a 7% growth in the quarter, in line with the growth pace of the year, which was 7.3%.

Concerning that 7% growth in same-store sales, beyond the monthly breakdown as Flávio mentioned, I would like to highlight as a positive point the performance in the quarter of the home fashion, male and children's department growth.

When we look at different geographical regions, there is a highlight in the Southeast and South, and a negative highlight in the Mid-Western region. That breakdown in geographical regions also was replicated throughout the year, with a positive number focused on the South and Southeast regions. It also is related with the growth and strengthening of the brand that Flavio mentioned.

I would like to highlight our inventory level which had a significant improve in the period.The inventory as a whole totaled R$558 million, a growth of just 4% over 2012, against a sales growth of 17.6%. When you look at the inventory, our industrial operation where we did specific work towards generating value, towards generating budgeting, and a rereading of the mix, our inventory dropped 13% year over year. There was a significant improvement in that respect.

Moving on to our slide number five, we have average ticket of the Riachuelo card. The average ticket totaled R$158 in the 4Q, a growth of 6.4%, and in the year a similar growth, 6.7%, totaling R$145, which shows that this year same-store sales was guided by average ticket and also by a growth in prices. So, we had a series of 2010 and 2011 growth in prices and then 2012, prices kind of flat. And 2013 we recovered price levels guiding same-store sales growth. The total cards, stood at 23 million units, a growth of 6.1%.

Next slide, number six, broken down into Riachuelo card, the trend in the quarter was very similar to other quarters, closing the quarter at 42% as compared to 46.7% in the 4Q12. When we look at the participation of interest-bearing sales there are an increase of 9% over 7.5% in 4Q12, mainly due to the end of plans of 10x without interest, which occurred in 2012 and this year we did not adopt this strategy more. In the year the participation of the Riachuelo card was 44.3% as opposed to 49% in 2012.

Slide number seven, we have an overview of the financial operation and performance. On the upper part of the slide we have the Loss levels over 180 days, the blue line is the principal volume including Riachuelo card that totaled 6.5% in December. 2013 was an improvement year for this number, we had a decline at that level of loss and we closed the year at 6.5% in December, a considerable improvement. Personal loans also improved, we went from 11.2% in 2012 closing the year of 2013 at 10.7%.

In the bottom part of the slide you can see the portfolio of the receivables, and the provision for period of overdue. So, provisions are following the same strategy; in other words, we closed the year with 6.5% of provisions for up to 180 days, which reflects the level of rates expected for the coming six months. When we look at the coverage of over 90 days we are at 101%, 15% above the minimum required by the Central Bank.

On the next slide, number eight, we have the performance of financial operation as a whole. EBITDA for financial operations totaled R$52 million in the 4Q, a growth of 52%, and in the year it totaled R$169.5 million, which represents 21.7% of the consolidated EBITDA of the Group.

Concerning the quarter there was an important improvement at the growth level, in other words, a recovery of the growth in revenue. We have grown by March, as we said before, in the 1Q, 2Q, and 3Q, and in the final quarter you can see a recovery of those numbers, especially coming from the interest-bearing sale. On top of that, personal loans operation were also recovered and stood at 28%.

Concerning expenses and costs, I would like to emphasize that the better performance in terms of discounts for credit, which involves the renegotiation of late payments, discounts, a positive improvement there, and also an improvement in default levels, as we said in the previous slide.

On the point of view of operating expenses, they grew 14.6%. Our highlight here would be the growth in expenses concerning IT, because of the automation of the new operation which also involves the new call center.

In the next slide, number nine, we have an outlook at Riachuelo sales scenario. We closed the year with sales of 490 thousand m² in operation. It is worth mentioning that out of all the growth of all new 43 stores in 2013, the Company opened stores in 16 states plus Federal District, which shows our growth strategy at a national level, where the main decision-making component is still the generation of value for the shareholder rather than specific focus on specific geographic regions.

On slide number ten we have images from the concept flagship store in Oscar Freire, as it was said by Flávio, which shows the ability of the Company to create and sell and offer a more democratic fashion to consumers. We have a mix that is very popular, where we can address low incomes up to the most fashionable corner in Brazil.

On the next slide we can see the performance for Midway Mall, the EBITDA in the quarter totaled R$14.792 million, and for the year R$48.105 million, a growth of 7.6% in the year. Also about the Midway result, I would like to emphasize that in 2013 its operations were taxed on real profit basis (*Lucro Real*), whereas in 2012 there was a different tax regime. In 2014 the regime changed again, so we are now going back to the tax regime in we used in 2012.

On the next slide, number 12, we have consolidated net revenue for the Group, of R$1.374 billion in the quarter, a growth of 17%, and R$4.059 billion in the year, a growth of 14.8%. Net revenue was made up by, of course, Riachuelo's revenue, but also Midway Financials and Midway Mall.

On the next slide, number 13, we have numbers for the consolidated gross profit that reached R$817 million on the 4Q, up 20.3%, and R$2.417 billion in the year, up 16.7% in the year. Still in this slide I would like to emphasize the growth in the gross margin for products . We had 54.4% in the 4Q12 and we reached 55.7% in the 4Q13. In the year, also a significant growth, moving from 53.4% in 2012 to 54.9% gross margin for products at the end of 2013.

Slide number 14, we have an outlook of operating expenses, which totaled R$465 million in the 4Q13, a growth of 24.9%, and R$1.503 billion in the year as a whole, a growth of 18.4%. Pressure for operating expenses in the 4Q was very much impacted by the opening of new stores, we opened many stores in the 4Q, and that, of course, pressured our operating expenses.

As you all know, before opening a store we start with pre-operating expenses and we have started the expenses taking time to mature. A number that better expresses that is what we spend per m², which is shown at the bottom part of the slide, where we can see a growth of 5.6% in the quarter and of just 1.9% in the year as a whole.

Slide number 15, we have the breakdown of the adjusted EBITDA, totaling R$325.8 million in the 4Q13, a growth of 14.4%, and R$802 million in the year as a whole, a growth of 14.6% year on year.

Next slide, this quarter we made adjustments excluding interest on equity, and the effect is that when we distribute interest on equity, we have a gain on the income tax line, which is close to R$40 million, and on the other hand we have a reduction in the tax credit for income tax.

As our adjusted EBITDA considers tax benefits, we created this table at the bottom side of the slide that excludes that effect, just to show and emphasize the focus on the Company's financial performance. Adjusted margin over net revenue was flat, 19.7% in 2013 and 19.8% in 2012, which shows an improvement of the operation as a whole, reaffirming what we said in the beginning of last year, when we said the Company was looking to a flatter EBITDA, and even though we were looking to open 43 new stores throughout the year generating a pressure on short-term operating expenses.

We had grown our same-store sales, combined with strong expansion of gross margin from products, as Flávio said, we had a very good integration, a brand very strong, very grown, and we have very strict control of operating expenses to support the opening of 40 new stores a year. And at the same time, we also recovered our better financial performance, especially on the 3T and 4Q last year.

Moving now to slide 16, we have an overview of the consolidated net income. Net income totaled R$208 million in the 4Q, a growth of 21.7%. In the year, net income totaled R$420.6 million, a growth of 15.1%. Net margin was stable, totaling 10.3% vis-à-vis consolidated net revenue.

On slide 17 we have the numbers for our net debt. We are at a very reasonable level, with 40% of EBITDA LTM, in line with the level we had at the end of 2012. That number made us very happy because the Company invested something like R$400 million in 2013, when we opened 43 new stores, and the net debt is still balanced, at R$295 million.

On the next slide, number 18, we have an overview of our CAPEX. As I said, R$391 million in the year, of course most of it is Riachuelo, allocating resources to the opening of new stores and also remodeling of older stores.

In the next slide, number 19, we have the total number of employees in the Group. We closed the year with 40,351 people. You can see the blue part that has to do with retail, which is, of course, connected to the opening of new stores, where it grew 26%, totaling 24,160 people, and then 16,185 people in the manufacturing side.

And the graph on the manufacturing side reflects the Company's strategy to generate more value for the Group and focusing on more fashionable items, and trying to link the Company's real demand. So, those were our initial comments and remarks, and we are all now available for questions you might have. Thank you.

Guilherme Assis, Brasil Plural:

Good morning, everyone. I have two questions. Flavio, I would like to understand the same-store sales and the drop in December. What was the base of comparison so that we can understand, because 2012 in Christmas, as you said before, you had that campaign where you were more aggressive tax-free and this year not.

Do you have the number for same-store sales for December last year, so that we could try to understand and make a comparison for the numbers of this last year? Maybe the numbers of the previous year have been inflated because of that campaign.

And also I would like to understand how things are going after Christmas. What can you tell us about January, if we can expect same-store sales to recover in the beginning of the year?

Another question is concerning operating expenses. As you mentioned in the call, the expenses of course was impacted by the opening of new stores, that is clear, but we also saw that there was a significant increase in SG&A, and my question is: is this something isolated, or should we expect this level to grow from now ahead, or if we can expect a comeback to a R$80-R$90 million level, which is what we had in the previous quarter in terms of SG&A?

Flávio Rocha:

Thank you, Guilherme, for your brilliant report, actually. As I said, December was an outlier, out of the curve, not just for us. We hear competitors talking the same. There was a combination of factors that decreased our numbers for December. And the main driver was the Black Friday phenomenon. It was really, really surprising. It has really established as an important date, and people anticipated their expenses in November.

And there was a swap of wallet share in the different segments, and that would include e-commerce and electronics, and so on. But the main driver for the slowdown in December, in other words, people anticipated their expenses in November.

In terms of internal drivers, I think the first one was the financing policy, which was more conservative, and a right decision not to spend on a tax-free final plan. That was the very, as I understand it, quite appealing plan, but we could not repeat that.

But then, in 2013 we had a very good success in terms of image with Daslu collection which is comparable to the Fashin Five event. In terms of volume, Daslu was 2.5x to 3x higher. than Fashin Five, which, again was also fantastic in terms of image but just 1/3 of volume an revenues that Daslu collection added to December result..

The fact that in October and November we had a 11.5% and a 14.3% growth, respectively, where we had projected a 10% growth. I would say that this also reflects people anticipating their expenses, and that of course drained our stocks and the numbers for December. That would be the third driver. But the good news is we have recovered the normal, as we consider normal levels, and it was something isolated for that past December.

Our expectations for this quarter and for the year are very optimistic, much similar to what happened in 2013 as a whole than what happened in December, without a doubt

Guilherme Assis:

If I can make a follow-up, still talking about Black Friday. Black Friday also helped you guys in November, did it not?

Flávio Rocha:

Even though we did not have a communication plan specifically for Black Friday, we had for the last two or three days a very strong increase in sales. You are right. We did not have any special offer, we had no TV ads, no communication specifically related to that, but we of course rode that wave of enthusiasm that was spread in the market and, of course, we benefitted from it as well.

Guilherme Assis:

So, you had increase in sales, but you did not promote the Black Friday event, right?

Flávio Rocha:

Exactly, yes. For 2014 our marketing department will be working to decide if it is a convenient effort to do or not. The truth of the matter is that it is an important day.

Tulio Queiroz:

And concerning SG&A, just to complement Flavio's answer, when we compare same-store sales, November base for 2012 and December 2012 were very similar, the same level. In October it was a little below, but in November and December it was exactly the same. The difference in performance from October and November to December 2013 did not have to do with the base of comparison.

Concerning SG&A, as you mentioned, there are some pressures. It is easy to understand the pressure in stores, especially in the 4Q when we opened many new stores, of course, sales pressures, because we opened and then we do not have the working revenue.

Guilherme Assis:

And in terms of administrative expenses, how did they grow?

Tulio Queiroz:

The behavior of those expenses happened in terms of steps. We need to fit the size of the step with the pace of our growth. By 2009 we opened five to nine stores a year, then we moved up to 18 stores a year, then we are at a level of over 40 new stores a year. That of course pressures internal areas and we need to review some areas. This year, for example, we reinforced with substantial investments all the IT area, and that of course impacted administrative expenses.

This will not only be present in 2013, but also in 2014 and also through 2015. I am talking about four years of strong investments in IT, and I am talking about all of the internal structure of the Company, which has been changed. We also have investments in engineering, and of course concerning expansion, it is one of the most pressured areas of course in the past few years.

And another important element for the 4Q was the award plan for the executives. So, I would say most of the pressure from G&A stems from those three drivers.

Guilherme Assis:

So, from what you said we should be reaching a new level in terms of SG&A, with investments have been made to support the expansion. So, the new IT team that will support all these investment will be there, will remain, right? And when you talk about compensation, I am assuming this will go on? Is that it?

Tulio Queiroz:

Yes. Of course the variable remuneration part will depend on metrics for the year 2014, so we need to wait. But this seems to be close to what we had in 2013, we have a better picture throughout the year. But you are right, we are creating new structures and they need to be supported.

Guilherme Assis:

OK. Thank you.

Victor Pascoal, Itaú BBA:

Good morning, everyone. Congratulations on the results. My first question would be based in what Flávio said earlier, you closed the year with 40% of physical volume stocked by push-pull and a lead time in Fortaleza and Natal, of six days; very impressive. We see improvement happening in same-store sales, gross margin, inventory. My question is, how do you think that the speed of capture of these improvements will continue into 2014? If you expect these improvements being faster or slower than in 2013.

And if you could perhaps give us a breakdown of same-store sales of stores that have already benefitted from the push-and-pull plan.

Flávio Rocha:

Well, Victor, that 40% is flat in all stores. Of course we have different mixes, so 40% in average; might be 45 here, 40 there. But that hard example is the flat for all stores.

We are doing this change by group of products, and we have maybe 800 group of products.. We started the basic items, even though the impact was lower because the predictability of the basic items is higher, but at this year we implement as well.

What we need to do now is to focus on the fashion items. With our know-how or learning curve that we covered last year, and this is places us in a position to face the challenge, which is a more complex challenge, and we need to see fashionable products in more efficient way this year.

And the gains of course are higher, because the fashionable products we have lack of predictability but we have a higher return, and we know we need to be able to react more quickly this market demand. The six-day lead time is really to be celebrated. Not long ago I would like to remind you that factories had a three- to four-month period of turnover. So that figure is a pretty impressive, significant change in both numbers. That is an impressive gain, of course, it also implies a decline in inventories and a faster reaction to the market.

By the end of the year, I think we could be at 100% of the Company migrated to the SKUs, if I am going to be optimistic. If I am going to be pessimistic, I would say we would close the year at 70%. So, we are looking good and, of course, there is room for more efficiency in terms of inventory management. We see, of course, a different decline on what we call “old merchandise index” because we have a better and more efficient initial allocation, initial distribution and reset as the store sells, not a higher dose of life to spend all season inside the store, which always leads to errors.

So, in order for us to achieve 100% and to really acquire a competitive advantage comparing to the competition, that is what we have to do.

Victor Pascoal:

And concerning the factor in gross margin, there was some important improvement in the past two years. My question is: do you still see room in terms of gains for gross margin?

Tulio Queiroz:

Victor, gross margin for a Guararapes product as a whole has just started to show the results in the last two years. This was an effort to analyze the whole process and we are now focused on the areas that are performing well, and that of course includes the participation of the production of fashion products.

Today Guararapes works almost exclusively with fashion. Along with this we have also implemented a budget control for costs, so of course the whole structure is fit to the new reality. A factory setup was redesigned, the way we buy and purchase raw materials also changed, so all actions to extract more productivity from the industrial core of the group.

Of course leaving the factory 100% ready to react through the fast movers that we detect in our retail operation. So, that improvement in gross margin reflected all this behavior. When we started to do the math in terms of performance differences, when we compare third-party projects with imported products the difference was huge. Guararapes had the lowest margin by far; . Today the margin is significantly higher than the third-party products and we are getting very close to the margins obtained from imported products, which also leave us very excited and we see good things happening and we see a promise in migrating all our products to SKUs.

For 2014 I would say there is still possibilities to expand margins, coming from that core. Our objective is to neutralize the negative impact that will come from imported products. It is still early to predict the behavior of all of that, the impact of the foreign exchange rate, the next step in terms of productivity for Guararapes in this quarter.

But I would say that we can see there is in our budget work again, there is our effort to analyze what has happened now in the first two months. We can see good potential to keep on with this improvement and we will hopefully be able to continue to deliver those good gross margin.

Victor Pascoal:

Thank you. I understand when you talk about the gross margin for the year, I understand it depends on foreign exchange rates. But if we take the current foreign exchange rate, would you say the scenario is for maintenance or for an expansion of gross margins in retail?

Tulio Queiroz:

If we maintain the current scenario as the basis and if we continue to have what we are having now in the first two months, I would say we would be expanding our gross margin for products, yes. I would say it is just a little bit early for us to really commit to that. We need to wait for the closing of the 1Q so we can understand some peak trends in terms of costs. But I would say the Company is very happy to work with them in terms of industrial costs and that, of course, will reflect in the cost structure for the 1Q and then, of course, for the coming quarters. Of course there are other industrial investments on our radar, and without a doubt it will contribute to the process as a whole. For example, we are bringing new insurance, digital printing, and this will allow us to bring more raw material, basic products, and try to implement our design, and then we can explore the prints which are fast movers in the store, that would be made in house. That would be better sales per m^2, better margins, so there are a few new elements happening in 2014 that, combined, will help us boost and drive this process.

Victor Pascoal:

Thank you, Tulio.

José Giordano, JPMorgan:

Good morning. Congratulations. My question is in line with the new concept of store. Flávio talked about flagship on Oscar Freire. I would like to understand a little bit more what the behavior of that store is vis-à-vis the older models of Riachuelo store in terms of CAPEX per m^2. We do believe that that new store is a bit more sophisticated than the other one.

Tulio Queiroz:

That concept store is, without a doubt, as Flávio mentioned on his opening remarks, brought in, is bringing in several good moments and good surprises for the Group. When it was open, it truly really surprises us in terms of sales, we are not expecting that level of sales per m^2, as it shows. On top of the concept store, which, of course, reflects our strategy, all the other stores, the concept of visual merchandising, the concept of buy experience has changed, and we want to go further changes.

We know that there is a lot of value on the table. We have better products, more sophisticated products, more fashionable products, and that has lead us to start a new project in terms of visual merchandising. This will be happening in the end of the year, beginning of 2015. We are working with different equipment textile, equipment that add value to products. So, the focus will be on the products now. The Company now has a product which can be placed on a different level in terms of design and fashion value.

In terms of sales per m^2, if we are talking about the Oscar Freire store, the CAPEX per m^2, of course, is higher. The idea is that that store is a bit of a laboratory where we will be able to take away whatever works, to a different dimension, a different scale. So, the machinery used in Oscar Freire, when we are trying to negotiate with suppliers a different level of volumes, of course, those numbers will be different. The idea is not to press the CAPEX per m^2 in this way. Even this figure has stayed fairly controlled. We continue with an average level of around R$ 3,000 per m^2.

Occasionally, as in the case of the Oscar Freire store, as is the case, probably, of the Rio de Janeiro store, this average rises because they are much more conceptual stores. But whatever works with a compact store and is replicate to large scales, will enable us to work with competitive costs. And without a doubt when we look at it of how much that is affecting our maturing sales, how that is impacting our sales per m^2. It is difficult to quantify all of those impacts isolated, but I think that since 2007 we had very positive performances, as Flávio mentioned in the beginning of the call, our worst season was a 23% annual return, and our best was over 40%. When we look at the numbers, we have what we have better sales per m^2, then of course better gross margin. And all those gross margins that we conquered in the past few years have impacted even higher levels of return for those stores. When we start with a differentiated gross margin, the breath you have is much greater. This is the planned pace.

And we think that the Company in terms of gross margin have achieved an important level in 2013, we are coming close to 55%. We cannot forget that the main international players are at 60% gross margin, and without a doubt that is where we are going to get to in the long term. All of the efforts in terms of brand, in terms of integrating, operations, in terms of looking at the industry in adifferent point of view, adding value to products, investing on logistic centers, bringing talented team for the style area or product, targets a different gross margin, without forgetting to democratize fashion, always.

I would say that these concept stores will at that level. So I would not worry about this issue of CAPEX per m^2, since on scales and larger volumes, it will undoubtedly diluted.

José Giordano:

Thank you.

Richard Cathcart, Banco Espírito Santo:

Hi, good afternoon. I just wanted to ask about the use of third-party suppliers. Do you offset some of the impact of the weaker currency, or will you be using some more third-party suppliers here in Brazil?

And just a follow-on question about, are you seeing much pressure on costs from these third-party suppliers, perhaps some constraints and possibly higher labor cost structure? Thank you.

Tulio Queiroz:

Thank you. The other cost pressure coming from foreign exchange rates and from cotton in production is still really present throughout 2014.In 2013, raw material was of course an important cost. We cannot forget that the textile business is a labor-intensive business, so whenever we have cost pressure in terms of labor, that was the case in the past few years, we feel immediately in terms of cost pressure. And for the last two years, of course, the Company started in terms of raw material to look for alternatives for imported raw materials, and then we had, of course, once again the foreign exchange rate pressuring our numbers.

At the same time, we had an increase in cotton prices, so I would say we had cost pressure from imported components, raw materials and labor. How do we get out of the cost pressure? There is only one way to do that: making more sales per m^2, having a more attractive product, and specially reducing the level of markdown and trying to capture their margin. That is what we did. We had that cost pressure coming from third parties as well, when we look at local suppliers they all suffered that same type of pressure.

So, the way out of that is to have, again, a product at a higher value-added, be able to identify fast movers quickly, and being able to deliver to the stores efficiently, thus reducing markdown and capturing more margin. That is the way out we found, so this year we expect similar pressures coming in, concerning, again, labor and raw material. Solution, again, is the same as last year. I would say there is an opportunity at our own factories to plan in terms of productivity.

Richard Cathcart:

Thank you.

Operator:

The Q&A session is now over. I would like to give the floor back to Mr. Tulio Queiroz for his final remarks. Please, Mr. Queiroz, have the floor.

Tulio Queiroz:

I would just like to thank you all for participating, and we are all available through our emails for doubts and comments. Thank you, and have a nice day.

Operator:

Thank you. The conference call for the results concerning the 4Q13 and 2013 is now over. Please, disconnect your lines, and have a nice day. Thank you.