Ruben Couto, Itaú BBA:

Good morning all of you. Thanks for the question. First of all, expenses on sales, according to our interpretation, was the big highlight of earnings. Can you give more details on what has been changed, if this item has more room for gains, and what we can expect to happen in 2016.

And based on those changes, for which we believe a bit of outside consulting was required, we ask if there is room for any change in other areas of the company, like the one we saw relating to sales expenses. If it is possible to let us know a few more details, maybe a review of the logistics strategy, always considering expenses, it would be great. Thank you.

Tulio Queiroz:

This operating expense effort is actually quite focused on productivity gains. The work done, which had actually begun in 2014, was not supported by any external consulting advice. They were in the 1H14, focusing on the search for means to identify internal benchmarks, within the Group itself. In practice, all you do is to sort all stores according to similar characteristics, i.e., into clusters for each type of position.

To find the type of position and job role inside the store, stores are analyzed and compared in a specific and suitable manner so that the said position can be analyzed. Then, clusters are naturally analyzed, and within each cluster there is always a productivity benchmark.

The first question to rise is: why does a particular store, fitting exactly into the same operating characteristics for a particular role, have a far greater productivity than others? In fact, we start analyzing this benchmark, understanding what kind of process, what kind of function it performs that is different from that of the others, which generates this productivity gain.

Once assessed and validated, a discussion group was formed and this process becomes a benchmark and it is standardized for the other businesses and stores of the Group. So, this enables us to do a knowledge-generating work and this knowledge starts to be discussed in a much more broad, corporate-wide manner, because sometimes there is a very good manner to operate a particular store, but a manager of another store, from another region, does not necessarily have this knowledge.

I would say this is a work in which allows us to disseminate this knowledge, and it starts to generate a higher level of productivity. This work has been done since 2014. As I said, this entire knowledge-generating process, the discussions arisen of it and its replication make this work have no end.

Of course, major steps have been taken, but it's an ongoing work. Discussions are a matter of course, and there will always be means for us to seek additional productivity gains.

In relation to other areas of the Company — and all areas certainly begin to run under the same logic —, the head office, for example, has already been adjusted under this same reasoning, since 2016: focused on productivity, everything is possible to do quantitatively. If not, also looking at what actually needs to be done, a very significant simplification effort towards what really needs to be made and what does not add value, add cost not value.

But this is another discussion. I would also say that the DCs may contribute, perhaps not in 2016, but looking a little more ahead, to a reduction in operating expenses, because of the location where the Company will operate, have and possess the biggest operating expense on logistics in the industry; it represents more than 5 percent of its net revenue, as the entire part of picking is still done manually, by means of SKU. This causes logistics to be costly.

I have no doubt that after the investments in the new DC, we will also achieve higher levels of productivity.

Ruben Couto:

That's great. I would like to change the topic and talk a little about consumer finance. I understood that the coverage ratio is higher because you expect a worse scenario throughout 2016, but can you share with us what level of loss you are expecting for in relation to both Riachuelo's card and personal loan portfolio for 2016?

Still about the personal loan portfolio, which size should we expect for the portfolio this year? We saw there was a slowdown over the last quarter, but in terms of size, portfolio's monthly generation and quality, average term, I would please ask you to give more details on what expectations you have from now on about the portfolio. Thank you.

Tulio Queiroz:

Perfect. First, I will talk about the personal loan portfolio and loss level expectation. If we take a look at the personal loan portfolio's figures for the last two years, we see that it has been growing sharply. In 2013, our portfolio was undersized in relation to the Group.

At a certain point, a decision must be made on whether to work in terms of product, and of course, this is always based on a level of risk, or to stop working in terms of product. There was a work towards reviewing the volume by portfolio, indeed, and its growth was significant. However, we also know that the spread of this operation is very wide.

We took the increase in the level of loss into consideration indeed, because the amount of revenue is more than considered. But, of course, from June onwards, even because of all the macroeconomic scenario we have read about in recent months, and even in the early 2015, the Company decided, not only in terms of personal loan, but also in terms of the operation as a whole, to review the volume of credit granted.

Of course that the personal loan was one of the key actions, as it poses the highest risk. I would say that the volume of personal loans granted has dropped by half since then, which caused a reduction in the revenue growth that we could see as early as 4Q2015, as compared to its recent quarter-over-quarter growth.

Our intent for 2016 as a whole, not only in terms of personal loan, but in terms of all the other elements, is the pursuit for quality. It is not a pursuit for volume, but a pursuit for quality in loan operations.

Of course that the 2014 and 2015's growth in the volume of all operations will still cause default rate levels to increase over the 1H16. We are considering the personal loan segment, which is around 17-18%, and Riachuelo's card, 8-9%.

Ruben Couto:

Perfect. Perfectly clear, thank you.

Felipe Cassimiro, Brasil Plural:

Good morning all of you. Good morning, thanks for taking my question. My question refers to the gross margin level. You made it clear that the inventory level is not optimal but appropriate, and the Company's inventory level is now far more adequate. My question is: What expectations should we have in relation to the 1Q gross margin level from now on? Should we expect for a recovery as early as 1Q or a more gradual recovery over 1H? That's my question. Thank you!

Tulio Queiroz:

Felipe, thanks for your question. Regarding the gross margin, as you properly put it, we worked hard throughout 2015. Of course, the goal of the group is to return to pre-2015 levels , as it was an unusual year in this matter due to the very high volume of inventory, which had to be put back to a proper level.

I agree with you: a not optimal but appropriate inventory level. Not optimal yet. The Company, with all its processes and the whole concept that it has been building, based on the fast fashion concepts, certainly seeks a major essence for the inventory level. That's why we are working towards achieving an optimal inventory level as well as returning to the margin levels.

In fact, margin is primarily dependent on the 1Q. I would say it's still early, because January and February are sales months. As Flavio put it earlier, our new collection hits the stores today. So now it is time for us to expect a new moment for the square meter sales, a new moment for gross margin.

But perhaps not fully stated for this 1Q, due to the characteristics of January and part of February. I would say that 2Q will be a good reference for margin performance within these new collection development concepts, not a full fast fashion concept, but collection development.

Of course there is a full fast fashion concept in the completion of the DC project, which should be ready and working in the second half, and all of its interconnections with the factory.

Felipe Cassimiro:

Ok. Thank you.

Richard Cathcart, HSBC:

Good morning all of you. I have only two quick questions. Can you give us an idea of the growth in the stores that were renovated, as you highlighted this event as a key strategy for the coming year. My second question is just a little complement to Ruben's question about the productivity gain. I understood what you explained, but can you give us an idea of what exactly changed in the 4Q that could cause such a significant change in momentum. Thank you.

Tulio Queiroz:

With regard to store renovations, which are part of your first question, as Flavio said, we are working today with more successful store formats, a monochromatic facade, much more business-friendly and fashion. So we have noticed the growth of around 10 percent, or even higher, after renovation works.

Of course there are extremely successful cases, but I prefer not to disclose them to avoid creating expectations that may not be met. But we have had a great performance after renovation works. That's why it makes all the sense for us to resume the renovation level, especially because we always have to seek optimization between store growth and number of renovations, otherwise our textile facilities start getting very outdated.

In relation to our productivity effort, as I put it earlier, the process involves ongoing and regular steps that enable productivity to be improved little by little. One of the elements that contributed a lot, particularly in the 4Q, was a standard staff level much more accurately defined for the stores, according to holidays like Christmas, Black Friday, etc.

When mechanisms for calculation by job role or position are available, given the increase in the number of pieces caused by a promotional date, or a date like Christmas, an extra staff can be built in a much more assertive manner, eliminating a number of excessive errors made in the past, as there used to be no such monitoring or full control of productivity by job role. So that was one of the elements that, I would say, made the difference in 4Q2015.

Richard Cathcart:

Ok. Thank you.

Wagner Salaverry, Quantitas:

Good morning. I would like to know if you feel comfortable with the current Company's leverage level? I ask this question to also have an idea of whether the current DC, which will no longer be used, may be sold in order to cause a little reduction in the Company's leverage level.

Tulio Queiroz:

I think anyone who is familiar with the Group knows that we have a history of a very low leverage level. Over the last two years, our leverage level has risen, due chiefly to the elements related to a very strong investment, particularly to the opening of stores at a pace of over 40 stores per year. Increased financial operations, with a strong increase in the amount of credit granted, and on top of that, a worsening of the cash-to-cash cycle time.

So in the course of 2015, we just concentrated our efforts on all these elements towards a reduction in this leverage level. As a result, we reduced EBITDA from 1.6 percent to 1.2 percent.

Although it is clear that this 1.2 is a very comfortable leverage level, we know that historically we have always worked with figures lower than that. So, in fact, much more than concentrating our efforts on real estate, we have to focus on improving our cash-to-cash cycle time, while allowing the Company to increasingly generate cash, as such actions result in a more qualitative growth.

But specifically in relation to the DCs, the Group is yet to decide what to do with the current Guarulhos' DC, whose operation will cease in this second half. It will play a very important role during production, as we will work with two DCs. This transition will be made gradually. I would say we have the entire year of 2016 to discuss with the Board and obtain its decision on whether to sell or lease the DC, in short, on what to do about this operation.

Wagner Salaverry:

Just taking the chance for one more question: this extension you obtained in the deadline for payment to suppliers, can you give us more details about that, so that we can understand how this improvement was obtained? Was this resulted from some specific negotiation? Is this expected to remain throughout 2016?

And finally, just one more question: Despite this harsh macroeconomic scenario, with an increasing unemployment rate and drop in income, can you feel consumers more interested in promotional products, are they more price-sensitive, or haven't you felt this yet?

Tulio Queiroz:

Regarding suppliers, crisis scenarios have some positive points. Difficult times often force paradigm shifts, which help us to achieve some goals that once were unachievable. So, we managed to break the taboo of seeking longer payment terms from international suppliers. What once was an almost impossible task, has now become possible in the face of more difficult times. The same was true with local suppliers.

So we made an effort on all fronts, and this certainly is an important achievement that has come to stay. This achievement, with no shadow of a doubt, became a huge contribution to 2016 cash generation figures.

As for the macroeconomic scenario in the face of greater difficult times to consumer, in terms of income and employment, all fronts, high inflation, etc., the matter of price always comes into play. But actually I think that 2015 itself was a clear example of this. Our work is focused on price, but even so, it is difficult to work price when a new collection is yet to be organized.

I would say our business consists, by definition, in offering fashion at an affordable price. But when your collection is ready and structured, making perfect sense to the sales area, 10 percent, more or less, will not be the decisive factor for customers to purchase. The decisive factor for customers to purchase is a value-added good, which is in harmony with the stores, with a collection building context and with a well coordinated sales area, for which they are willing to pay 10%, 15% more. This is what makes much more difference than a possible price reduction coupled with a non-organized collection.

Therefore, I would say that one advantage of our industry is that it is very fragmented. So even in times of crisis is perfectly possible to win market share. It depends on us, on the quality of the collection, on how this collection hits the store and remains at the store, on our ability to respond to what is selling well. Anyway, we are in command.

Wagner Salaverry:

Ok. Thank you.

Pedro Fagundes, Goldman Sachs:

Thank you for the opportunity. Just a follow-up on the last question: You mentioned that it is useless to focus on price with a collection yet to be organized. In this regard, did you have to adapt to the current scenario any initiative originally created for the next collection? I mean, in relation to the mix, or even price, or something else that has been shown to require any adaptation to become more suitable to this new demand.

And there's another question I will ask next.

Tulio Queiroz:

What was developed in 2015, and will now be present at the stores, is a new collection-building methodology. We work with an external consultancy firm to help us with this. There is a whole collection-building know-how based on pre-defined processes and on how you want to display the collection at the stores. Much more than sorting the collection according to lifestyle, this entails to see which percentage of elements within the collection are risky, and which percentage of basic wear would be appropriate, etc.

Moreover, another very important point is how the color palettes and collection coordination are displayed at the stores. It is important that each store environment, each component speak the same language. So every color palette must make sense, prints must speak the same language and be based on a predefined color palette, and so must the new replenished goods; sales area's identity must match that of the collection, etc.

Just as difficult as it is to create a cool and harmonious collection, it is equally difficult to keep it throughout its life cycle at the store. From the very moment the stock of the stores begins to be replenished and bestsellers are sold, how replenishment is done, how the harmonious and coordinated display of the items is guaranteed...

All of these collection-building elements have been thoroughly worked in 2015 and will reflect on this new collection that hits our stores today.

Pedro Fagundes:

I got it. That's great. The second question is about expenses on stores. Significant part of your store base is inside malls. According to your analysis, how is rental negotiation behaving in the face of this scenario? In recent months, have you felt any change in the scenario that had been predicted for the beginning of last year? And do you see any upside that allows for an increase in productivity for 2016?

Tulio Queiroz:

In late 2014 and early 2015, this matter was thoroughly discussed with our mall partners. In fact, before that, in mid-2010, 2013, 2014, minimum rental rates rose very sharply. What had once been variable in most of the contracts became virtually fixed because minimum rates were too high.

So there were a number of negotiations on this matter throughout 2015 and some of them were favorable. Of course, you have to negotiate partnerships on all fronts. On a case-by-case, mall-by-mall basis. Some malls make all the sense, but others not so much. In short, we cannot generalize, but this certainly is a discussion that has gained force since 2014.

My answer to whether we'll get something for 2016 is that we established goals towards this achievement. Whether we will meet them or not, that's another question, this is about a case-by-case negotiation process, which involves several steps.

Pedro Fagundes:

Perfect. That's great. Thank you.

Guilherme Mazzilli, Kinea:

Good afternoon. My question is about sales. What measures are you taking in relation to inventory adjustment, store renovation, new collection now hitting the stores? I would like to know your opinion about sales situation so far. How is it? Did same-store sales have any improvement over these first two months? And what do you have in mind for this year with respect to this variable? Thank you.

Tulio Queiroz:

Thanks for your question. In relation to what we have already seen, it is too early. Because what we have seen since January so far, mid-February, were just our annual clearance sales of the previous season's collection. The new collection hits stores today. So it's too early for us to say what we have seen of the performance.

But I can share with you that we are quite optimistic about our collection performance. Of course we know we have a huge macroeconomic challenge ahead: consumers' income, employment, etc. We know all of these problems, just like you. This is not an easy scenario at all, so we will not count on the tailwind.

In contrast, we have been doing a very structured internal work, and we do hope that sales per square meter will improve thanks to everything we have built so far. As our industry is very fragmented, it allows for growth when our collection shows a better performance, even in an unfavorable macro environment, because competitors' market share, or even smaller retailers' market share, is naturally won.

Flavio has just given an example: he talked about the news of the shutdown of 100,000 stores. Just try to imagine the market size based on this information. So I would say that growth and the pace of growth expected for 2016 will depend on the performance of our work. Because we know that we should not count on the macro environment. On the contrary, it will hamper our growth as much as it can. But we believe it is still possible to have a good performance, because there are a lot of fronts being worked on.

The collection-building matter we talked about, a new DC that brings 100 percent of the mix using SKU. Now, let's wait for our performance before trying to guess figures.

Guilherme Mazzilli:

Ok. Thank you.

Operator:

Thank you. Question and answer session is over. Now I would like to turn the conference call over to Mr. Tulio Queiroz for final considerations.

Tulio Queiroz:

I would like to once again thank you for your participation, and say that our entire team now present will be available on our investor relations contact number. Thank you. Everyone have a good day.

Operator:

Thank you. Ladies and gentlemen, this concludes the Guararapes Riachuelo's Earnings Conference Call. You may now disconnect. Have a good afternoon.