*(Convenience Translation into English from the Original Previously Issued in Portuguese)*

# Interim Financial Information

## Magazine Luiza S.A.

June 30, 2014

**Magazine Luiza S.A.**

Interim Financial Information

June 30, 2014

Table of Contents

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**A free translation from Portuguese into English of independent auditor's review report on individual interim financial information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and on consolidated interim financial information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB and specific CVM rules**

# Independent auditor's review report on interim financial information

To the Management and Shareholders of
**Magazine Luiza S.A.**
Franca - SP

## Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Magazine Luiza S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2014, which comprises the balance sheet (statement of financial position) as of June 30, 2014, and the related statement of income and comprehensive income for three and six months ended on that date and the statements of changes in equity, and statements of cash flows for the six-month period then ended, including the notes to financial statements.

The Company´s management is responsible for the preparation of the individual interim financial information in accordance with CPC 21 (R1) - Interim Financial Reporting and the consolidated interim financial information in accordance with CPC 21 (R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM), applicable to the preparation of Quarterly Information Form (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of review

We conducted our review in accordance with Brazilian and International Standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion on the individual interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual interim financial information included in the quarterly financial information referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Quarterly Financial Information (ITR) and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission.

**Conclusion on the consolidated interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information included in the quarterly financial information referred to above is not prepared, in all material respects, in accordance with CPC 21(R1) and IAS 34 applicable to the preparation of the Quarterly Financial Information (ITR), and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission.

**Other matters**

**Statements of value added**

We have also reviewed the individual and consolidated interim statements of value added (SVA) for the six-month period ended June 30, 2014, prepared under the Management's responsibility, the presentation of which in the interim financial information is required by the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Financial Information (ITR), and considered supplementary information by IFRS, which do not require the presentation of an SVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, consistently with the overall individual and consolidated interim financial information taken as a whole.

São Paulo, July 30, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Alexandre Rubio
Accountant CRC -1SP223361/O-2

Patricia Nakano Ferreira
Accountant CRC -1SP234620/O-4

## Magazine Luiza S.A.

Statement of financial position
June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | **Note** | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 4.1 | **270,501** | 278,006 | **287,368** | 280,306 |
| Securities | 4.2 | **283,759** | 477,210 | **283,759** | 491,288 |
| Trade receivables | 5 | **576,942** | 529,922 | **577,419** | 530,620 |
| Inventories | 6 | **1,139,192** | 1,247,205 | **1,144,160** | 1,251,362 |
| Related parties | 7 | **88,659** | 109,474 | **87,810** | 108,895 |
| Taxes recoverable | 8 | **193,275** | 218,554 | **193,428** | 218,554 |
| Other assets | | **55,624** | 39,872 | **57,146** | 40,965 |
| Total current assets | | **2,607,952** | 2,900,243 | **2,631,090** | 2,921,990 |
| | | | | | |
| Noncurrent assets | | | | | |
| Trade receivables | 5 | **3,840** | 4,683 | **3,840** | 4,683 |
| Deferred income tax and social contribution | 9 | **146,216** | 139,253 | **146,907** | 139,427 |
| Taxes recoverable | 8 | **159,765** | 158,761 | **159,765** | 158,761 |
| Escrow deposits | | **187,863** | 170,080 | **187,863** | 170,080 |
| Other assets | | **46,440** | 43,858 | **48,214** | 45,402 |
| | | | | | |
| Investments in subsidiaries | 10 | **39,940** | 37,403 | **-** | - |
| Investments in joint ventures | 11 | **287,050** | 251,747 | **287,050** | 251,747 |
| Property and equipment | 12 | **533,929** | 539,729 | **534,741** | 540,444 |
| Intangible assets | 13 | **445,175** | 438,559 | **487,938** | 481,370 |
| | | | | | |
| Total noncurrent assets | | **1,850,218** | 1,784,073 | **1,856,318** | 1,791,914 |
| | | | | | |
| Total assets | | **4,458,170** | 4,684,316 | **4,487,408** | 4,713,904 |

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Trade payables | 14 | **1,185,648** | 1,646,947 | **1,189,518** | 1,651,543 |
| Borrowings and financing | 15 | **421,965** | 424,989 | **422,422** | 425,227 |
| Payroll, vacation pay and payroll charges | | **151,067** | 164,489 | **153,241** | 166,585 |
| Taxes payable | | **45,921** | 40,971 | **46,454** | 41,664 |
| Related parties | 7 | **66,831** | 73,716 | **66,803** | 73,619 |
| Taxes paid in installments | | **7,098** | 8,286 | **7,098** | 8,286 |
| Deferred revenue | 16 | **37,734** | 36,734 | **37,734** | 36,734 |
| Dividends and interest on equity payable | | **-** | 16,219 | **-** | 16,219 |
| Other payables | | **100,640** | 106,631 | **101,680** | 107,714 |
| Total current liabilities | | **2,016,904** | 2,518,982 | **2,024,950** | 2,527,591 |
| | | | | | |
| Noncurrent liabilities | | | | | |
| Borrowings and financing | 15 | **1,154,031** | 895,053 | **1,154,031** | 895,053 |
| Provision for tax, civil and labor contingencies | 17 | **242,749** | 226,446 | **262,168** | 245,882 |
| Deferred revenue | 16 | **334,600** | 349,224 | **334,600** | 349,224 |
| Other payables | | **-** | - | **1,773** | 1,543 |
| Total noncurrent liabilities | | **1,731,380** | 1,470,723 | **1,752,572** | 1,491,702 |
| | | | | | |
| Total liabilities | | **3,748,284** | 3,989,705 | **3,777,522** | 4,019,293 |
| | | | | | |
| Equity | 18 | | | | |
| Capital stock | | **606,505** | 606,505 | **606,505** | 606,505 |
| Capital reserve | | **7,871** | 5,640 | **7,871** | 5,640 |
| Treasury shares | | **-** | (20,063) | **-** | (20,063) |
| Legal reserve | | **9,715** | 9,715 | **9,715** | 9,715 |
| Profit retention reserve | | **39,364** | 94,458 | **39,364** | 94,458 |
| Other comprehensive income | | **(737)** | (1,644) | **(737)** | (1,644) |
| Net income for the period | | **47,168** | - | **47,168** | - |
| Total equity | | **709,886** | 694,611 | **709,886** | 694,611 |
| | | | | | |
| Total liabilities and equity | | **4,458,170** | 4,684,316 | **4,487,408** | 4,713,904 |

See accompanying notes.

## Magazine Luiza S.A.

Statements of income
For the three and six-month periods ended June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Company | | Consolidated | | Company | | Consolidated | |
| | Note | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Net sales revenue | 19 | **4,572,665** | 3,566,149 | **4,611,626** | 3,588,675 | **2,323,777** | 1,809,522 | **2,342,759** | 1,823,067 |
| Costs of goods resold and services rendered | 20 | **(3,349,180)** | (2,572,986) | **(3,357,906)** | (2,576,235) | **(1,704,428)** | (1,307,199) | **(1,709,040)** | (1,308,848) |
| Gross profit | | **1,223,485** | 993,163 | **1,253,720** | 1,012,440 | **619,349** | 502,323 | **633,719** | 514,219 |
| Operating income (expenses) | | | | | | | | | |
| Selling | 21 | **(831,810)** | (704,574) | **(835,740)** | (704,574) | **(413,016)** | (349,501) | **(415,836)** | (349,501) |
| General and administrative | 21 | **(197,508)** | (170,760) | **(208,454)** | (179,717) | **(100,726)** | (81,293) | **(106,175)** | (85,722) |
| Doubtful accounts losses | | **(11,797)** | (10,004) | **(11,797)** | (10,004) | **(7,072)** | (5,135) | **(7,072)** | (5,135) |
| Depreciation and amortization | | **(54,462)** | (50,055) | **(54,681)** | (50,208) | **(27,540)** | (25,480) | **(27,651)** | (25,557) |
| Equity in the earnings (losses) of subsidiaries | 10 and 11 | **42,845** | 24,052 | **41,907** | 22,842 | **20,465** | 13,525 | **20,271** | 12,806 |
| Other operating income, net | 21 and 22 | **14,138** | 81,789 | **14,141** | 81,828 | **8,068** | 73,381 | **8,070** | 73,405 |
| | | **(1,038,594)** | (829,552) | **(1,054,624)** | (839,833) | **(519,821)** | (374,503) | **(528,393)** | (379,704) |
| Operating profit before financial result | | **184,891** | 163,611 | **199,096** | 172,607 | **99,528** | 127,820 | **105,326** | 134,515 |
| Financial income | | **60,738** | 36,956 | **47,178** | 28,626 | **31,767** | 20,896 | **26,170** | 14,612 |
| Financial expenses | | **(200,856)** | (133,353) | **(201,078)** | (133,418) | **(105,564)** | (74,062) | **(105,705)** | (74,122) |
| Financial result | 23 | **(140,118)** | (96,397) | **(153,900)** | (104,792) | **(73,797)** | (53,166) | **(79,535)** | (59,510) |
| Operating income (loss) before income tax and social contribution | | **44,773** | 67,214 | **45,196** | 67,815 | **25,731** | 74,654 | **25,791** | 75,005 |
| Current and deferred income tax and social contribution | 9 | **2,395** | (11,758) | **1,972** | (12,359) | **902** | (20,000) | **842** | (20,351) |
| Net income for the period | | **47,168** | 55,456 | **47,168** | 55,456 | **26,633** | 54,654 | **26,633** | 54,654 |
| Net income attributable to | | | | | | | | | |
| Owners of the Company | | **47,168** | 55,456 | **47,168** | 55,456 | **26,633** | 54,654 | **26,633** | 54,654 |
| Earnings per share | | | | | | | | | |
| Basic and diluted (R$ per share) | | **0.25** | 0.37 | **0.25** | 0.37 | **0.18** | 0.36 | **0.18** | 0.36 |

See accompanying notes.

**Magazine Luiza S.A.**

Statement of comprehensive income
For the three and six-month periods ended June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | Six-month period ended | | Quarter ended | |
|---|---|---|---|---|
| | Company and Consolidated | | Company and Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Net income for the period | **47,168** | 55,456 | **26,633** | 54,654 |
| Other comprehensive income deriving from previous periods | | | | |
| Available-for-sale financial assets deriving from investments | | | | |
| Available-for-sale financial assets | **(2,740)** | 135 | **(2,511)** | (878) |
| Tax effect | **1,096** | (54) | **1,005** | 351 |
| Total | **(1,644)** | 81 | **(1,506)** | (527) |
| Other comprehensive income: | | | | |
| Available-for-sale financial assets deriving from investments | | | | |
| Available-for-sale financial assets | **1,512** | (2,378) | **1,283** | (1,365) |
| Tax effect | **(605)** | 951 | **(514)** | 546 |
| Total | **907** | (1,427) | **769** | (819) |
| Statement of comprehensive income | **(737)** | (1,346) | **(737)** | (1,346) |
| Total other comprehensive income for the period, net of taxes | **46,431** | 54,110 | **25,896** | 53,308 |

See accompanying notes.

## Magazine Luiza S.A.

Statement of changes in equity
Six-month periods ended June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | Note | Capital stock | Capital reserve | Treasury shares | Legal reserve | Profit retention reserve | Retained earnings/ (accumulated losses) | Other comprehensive income | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances as at December 31, 2012 | | 606,505 | 2,820 | - | 4,025 | 2,561 | - | 81 | 615,992 |
| | | | | | | | | | - |
| Stock option plan | | - | 1,409 | - | - | - | - | - | 1,409 |
| Net income for the period | | - | - | - | - | - | 55,456 | - | 55,456 |
| | | 606,505 | 4,229 | - | 4,025 | 2,561 | 55,456 | 81 | 672,857 |
| Other comprehensive income: | | | | | | | | | |
| Financial instruments adjustment | | - | - | - | - | - | - | (1,427) | (1,427) |
| Balances as at June 30, 2013 | | **606,505** | **4,229** | **-** | **4,025** | **2,561** | **55,456** | **(1,346)** | **671,430** |
| Balances as at December 31, 2013 | | **606,505** | **5,640** | **(20,063)** | **9,715** | **94,458** | **-** | **(1,644)** | **694,611** |
| | | | | | | | | | **-** |
| Stock option plan | | **-** | **2,231** | **-** | **-** | **-** | **-** | **-** | **2,231** |
| Treasury shares | | **-** | **-** | **(19,764)** | **-** | **-** | **-** | **-** | **(19,764)** |
| Cancellation of treasury shares | 18 | **-** | **-** | **39,827** | **-** | **(39,827)** | **-** | **-** | **-** |
| Additional dividends proposed | 18 | **-** | **-** | **-** | **-** | **(15,267)** | **-** | **-** | **(15,267)** |
| Net income for the period | | **-** | **-** | **-** | **-** | **-** | **47,168** | **-** | **47,168** |
| | | **606,505** | **7,871** | **-** | **9,715** | **39,364** | **47,168** | **(1,644)** | **708,979** |
| Other comprehensive income: | | | | | | | | | |
| Financial instrument adjustments | | **-** | **-** | **-** | **-** | **-** | **-** | **907** | **907** |
| Balances as at June 30 , 2014 | | **606,505** | **7,871** | **-** | **9,715** | **39,364** | **47,168** | **(737)** | **709,886** |

See accompanying notes.

# Magazine Luiza S.A.

Statement of cash flows
Six-month periods ended June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Cash flow from operating activities | | | | | |
| Net income for the period | | **47,168** | 55,456 | **47,168** | 55,456 |
| Adjustments to reconcile profit for the period to cash generated from operating activities: | | | | | |
| Income tax and social contribution expenses recognized in P&L | 9 | **(2,395)** | 11,758 | **(1,972)** | 12,359 |
| Depreciation and amortization | | **54,462** | 50,055 | **54,681** | 50,208 |
| Interest on borrowings and financing provisioned | | **72,262** | 50,275 | **72,262** | 50,275 |
| Yield on securities | | **(14,525)** | (8,854) | **(14,848)** | (8,854) |
| Equity in the earnings (losses) of subsidiaries | 10 and 11 | **(42,845)** | (24,052) | **(41,907)** | (22,842) |
| Changes in allowance for asset losses | | **36,237** | 33,339 | **36,237** | 33,339 |
| Provision for tax, civil and labor contingencies | 17 | **21,630** | 54,800 | **21,656** | 54,997 |
| Write-off of property and equipment, net of gains from sale | | **942** | (126,327) | **942** | (126,327) |
| Appropriation of deferred revenue | 22 | **(16,624)** | (16,826) | **(16,624)** | (16,826) |
| Stock option plan expenses | | **2,231** | 1,409 | **2,231** | 1,409 |
| | | **158,543** | 81,033 | **159,826** | 83,194 |
| (Increase) decrease in operating assets: | | | | | |
| Receivables | | **(73,873)** | 2,122 | **(73,652)** | 2,122 |
| Securities | | **-** | 385 | **222,377** | (403,799) |
| Inventories | | **99,472** | 6,612 | **98,661** | 6,612 |
| Related parties | | **4,630** | (16,257) | **4,899** | (16,400) |
| Taxes recoverable | | **24,275** | (29,405) | **24,122** | (29,038) |
| Other assets | | **(34,876)** | (57,757) | **(35,535)** | (58,534) |
| Increase (decrease) in operating liabilities: | | | | | |
| Trade payables | | **(461,299)** | (26,764) | **(462,025)** | (26,638) |
| Payroll, vacation pay and related charges | | **(13,422)** | (11,661) | **(13,344)** | (11,564) |
| Taxes payable | | **382** | (31,150) | **289** | (31,646) |
| Related parties | | **(6,885)** | (417) | **(6,816)** | (417) |
| Tax paid in installments | | **(1,188)** | (1,437) | **(1,188)** | (1,437) |
| Other payables | | **(11,318)** | (16,435) | **(11,174)** | (15,703) |
| Cash provided by (used) in operating activities | | **(315,559)** | (101,131) | **(93,560)** | (503,248) |
| Income tax and social contribution paid | | **-** | (3,450) | **(1,007)** | (3,817) |
| Dividends received from subsidiaries | | **24,797** | 13,404 | **23,697** | 11,404 |
| Net cash provided by (used) in operating activities | | **(290,762)** | (91,177) | **(70,870)** | (495,661) |
| Cash flows from investing activities | | | | | |
| Purchase of property and equipment | 12 | **(32,248)** | (44,706) | **(32,446)** | (44,787) |
| Purchase of intangible assets | 13 | **(25,213)** | (16,266) | **(25,283)** | (16,297) |
| Investments in exclusive investment fund | | **(679,416)** | (1,113,373) | **-** | - |
| Redemptions from exclusive investment fund | | **887,392** | 709,189 | **-** | - |
| Property and equipment sale receivable | | **-** | 205,461 | **-** | 205,461 |
| Sale of exclusive dealing agreement and exploration right | | **3,000** | - | **3,000** | - |
| Advance for future capital increase (AFAC) in subsidiary | | **(2,700)** | - | **-** | - |
| Cash deriving from (used in) investing activities | | **150,815** | (259,695) | **(54,729)** | 144,377 |
| Cash flow from financing activities | | | | | |
| Borrowings and financing | | **411,639** | 202,676 | **412,176** | 202,676 |
| Payment of borrowings and financing | | **(165,086)** | (55,525) | **(165,404)** | (55,525) |
| Repayment of interest on borrowings and financing | | **(62,861)** | (38,172) | **(62,861)** | (38,172) |
| Payment of dividends and interest on equity | | **(31,486)** | - | **(31,486)** | - |
| Treasury shares acquired | | **(19,764)** | - | **(19,764)** | - |
| Cash flows deriving from financing activities | | **132,442** | 108,979 | **132,661** | 108,979 |
| Increase (decrease) in cash and cash equivalents | | **(7,505)** | (241,893) | **7,062** | (242,305) |
| Cash and cash equivalents at beginning of period | | **278,006** | 404,143 | **280,306** | 418,879 |
| Cash and cash equivalents at end of period | | **270,501** | 162,250 | **287,368** | 176,574 |
| Increase (decrease) in cash and cash equivalents | | **(7,505)** | (241,893) | **7,062** | (242,305) |

See accompanying notes.

## Magazine Luiza S.A.

Statement of value added
Six-month periods ended June 30, 2014 and 2013
(Amounts in thousands of Brazilian reais - R$)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2014** | **06/30/2013** | **06/30/2014** | **06/30/2013** |
| Revenue | | | | |
| Goods and products sold and services rendered | **5,142,711** | 4,052,753 | **5,183,643** | 4,076,903 |
| Allowance for doubtful accounts, net of reversals | **(11,797)** | (10,004) | **(11,797)** | (10,004) |
| Other operating revenue | **16,780** | 93,109 | **16,784** | 93,148 |
| | **5,147,694** | 4,135,858 | **5,188,630** | 4,160,047 |
| Inputs acquired from third parties | | | | |
| Cost of products and goods sold and services rendered | **(3,651,377)** | (2,826,552) | **(3,660,134)** | (2,829,801) |
| Material, electricity, outsourced services and other | **(403,525)** | (326,770) | **(412,184)** | (330,160) |
| Impairment of assets | **(8,541)** | (8,535) | **(8,541)** | (8,535) |
| | **(4,063,443)** | (3,161,857) | **(4,080,859)** | (3,168,496) |
| Gross value added | **1,084,251** | 974,001 | **1,107,771** | 991,551 |
| Depreciation and amortization | **(54,462)** | (50,055) | **(54,681)** | (50,208) |
| Net value added generated by the entity | **1,029,789** | 923,946 | **1,053,090** | 941,343 |
| Value added received through transfer | | | | |
| Equity in the earnings of subsidiaries | **42,845** | 24,052 | **41,907** | 22,842 |
| Financial income | **60,738** | 36,956 | **47,178** | 28,626 |
| Total value added to distribute | **1,133,372** | 984,954 | **1,142,175** | 992,811 |
| Distribution of value added | | | | |
| Personnel and charges: | | | | |
| Direct compensation | **369,718** | 315,327 | **373,994** | 319,136 |
| Benefits | **71,083** | 63,306 | **71,486** | 63,657 |
| Government Severance Indemnity Fund for Employees (FGTS) | **33,777** | 30,001 | **34,163** | 30,350 |
| | **474,578** | 408,634 | **479,643** | 413,143 |
| Taxes, fees and contributions: | | | | |
| Federal | **111,343** | 127,521 | **113,897** | 130,117 |
| State | **153,586** | 140,483 | **153,759** | 140,483 |
| Municipal | **17,944** | 13,461 | **18,514** | 14,004 |
| | **282,873** | 281,465 | **286,170** | 284,604 |
| Value distributed to providers of capital: | | | | |
| Interest | **177,387** | 113,102 | **177,563** | 113,102 |
| Rentals | **127,897** | 106,046 | **128,115** | 106,190 |
| Other | **23,469** | 20,251 | **23,516** | 20,316 |
| | **328,753** | 239,399 | **329,194** | 239,608 |
| Value distributed to shareholders: | | | | |
| Retained earnings | **47,168** | 55,456 | **47,168** | 55,456 |
| | **1,133,372** | 984,954 | **1,142,175** | 992,811 |

See accompanying notes.

## 1. Operations

Magazine Luiza S.A. (the “Company”) is primarily engaged in the retail sale of consumer goods (mainly home appliances, personal electronics and furniture), through physical and virtual stores and through e-commerce, with headquarters in the city of Franca, state of São Paulo, Brazil. Its parent and holding company is LTD Administração e Participação S.A.

As at June 30, 2014, the Company and its subsidiaries owned 736 stores (744 stores on December 31, 2013) and eight distribution centers (eight distribution centers on December 31, 2013), located in the South, Southeast, Mid-west and Northeast regions of Brazil.

The above-mentioned information is not included in the scope of work of the independent auditors.

The Company holds ownership interest in other companies, as described below:

(a) Luizacred S.A. - Sociedade de Crédito, Financiamento e Investimento (“Luizacred”) - Subsidiary jointly controlled with Banco Itaúcard S.A., engaged in the offer, distribution and sale of financial products and services to the customers of Magazine Luiza’s store chain;

(b) Luizaseg Seguros S.A. (“Luizaseg”) - Subsidiary jointly controlled with NCVP Participações Societárias S.A., a subsidiary of Cardif do Brasil Seguros e Previdência S.A., engaged in the development, sale and management of extended warranties for any kind of product sold in Brazil, to the customers of Magazine Luiza’s store chain;

(c) Luiza Administradora de Consórcios Ltda. (“LAC”) - Wholly-owned subsidiary engaged in the management of consortium groups created to purchase vehicles, motorcycles, home appliances and furniture.

(d) Campos Floridos Comércio de Cosméticos Ltda. (“Época Cosméticos”) - Wholly-owned subsidiary engaged in selling perfume items, cosmetics, and dermocosmetics and hair care products via the Internet.

Magazine Luiza S.A. and its subsidiaries and joint ventures are hereinafter referred to as “Group” for purposes of this report, unless otherwise stated.

## 2. Basis of presentation and accounting practices

### 2.1. Accounting practices

The interim financial information is presented in Brazilian reais (R$), which is the Company's functional and reporting currency.

The individual interim financial information has been prepared according to the Brazilian Accounting Pronouncement CPC 21 (R1) (Interim Financial Reporting) and the consolidated financial information has been prepared according to CPC 21 (R1) and the international standard IAS 34 and presented in conformity with the standards issued by the Brazilian Securities and Exchange Commission.

The accounting practices adopted in preparing the individual and consolidated interim financial information are consistent with those adopted and disclosed in Note 2 to the financial statements for the year ended December 31, 2013. Accordingly, this interim financial information should be read jointly with the financial statements for the year ended December 31, 2013.

The Statement of Value Added ("DVA") aims at evidencing the wealth created by the Company and its distribution during certain period and is presented by the Company, as required by the Brazilian corporation law, as part of its consolidated financial statements, since it is neither an estimated statement nor mandatory under the IFRS.

### 2.2. New standards, amendments and interpretations

a) Below, the new pronouncements which took effect as of January 1, 2014, but which did not have relevant effects on the Company

(i) IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendment to IAS 32: these amendments clarify the meaning of "currently there is an enforceable legal right to set-off the recognized amounts" and the criterion that would make the non-simultaneous settlement mechanisms of clearing houses to qualify for offset.

(ii) Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): they provide an exception to the consolidation requirements for entities complying with the definition of investment entity pursuant to IFRS10. Such exception requires investment entities to record the investments in subsidiaries by their fair values through profit or loss.

## 2. Basis of presentation and accounting practices (Continued)

### 2.2. New standards, amendments and interpretations (Continued)

a) Below, the new pronouncements which took effect as of January 1, 2014, but which did not have relevant effects on the Company (Continued)

(iii) IAS 39 Novation of Derivatives and Continuation of Hedge Accounting-Amendment to IAS 39: this amendment softens the discontinuation of hedge accounting when the renewal of a derivative designated as hedge reaches certain criteria. As disclosed in Note 25, the Company does not negotiate derivative financial instruments.

b) Below, the new or amended pronouncements not yet effective and that shall be effective as of fiscal year starting on or after January 1, 2015

(i) IFRS 9 Financial Instruments - it reflects the first phase of IASB to replace IAS 39 and shall apply to the classification and measurement of financial assets and liabilities pursuant to IAS 39. The pronouncement would be firstly applied as of the fiscal years starting on or after January 1, 2013, but the pronouncement Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, postponed its effectiveness for January 1, 2015. In subsequent phases, IASB will discuss issues, such as hedge accounting and provision for impairment of assets. The Company does not expect this standard to have relevant effects on its financial statements.

(ii) IFRIC 21 - taxes: it clarifies when an entity must recognize a tax liability when the event triggering the payment occurs. For a tax, which requires its payment from the achievement of certain metrics, the interpretation indicates that no liability must be recognized until the metrics is reached. The Company does not expect the IFRIC 21 to have relevant effects on its financial statements.

There are no other IFRS standards which are not effective yet which could have a relevant effect on the Company.

(Amounts in thousands of Brazilian reais - R$)

## 3. Notes included in the financial statements as at December 31, 2013 not presented in this interim financial information

This interim financial information is presented in conformity with CPC 21 (R1) and IAS 34 Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) and the provisions set forth by CVM Circular Letter SNC/SEP 003/2011, of April 28, 2011. The preparation of this interim financial information requires the Company's Management to make judgments on the relevance of the changes that should be disclosed in explanatory notes. Accordingly, this interim financial information includes selected explanatory information and does not comprise all the explanatory information presented in the financial statements for the fiscal year ended December 31, 2013. As permitted by CVM Circular Letter 03/2011, the following explanatory information is presented:

- Other assets (Note 8);
- Taxes paid in installments (Note 18);
- Employee benefits (Note 25);
- Business combination (Note 28);
- Commitments (Note 29);
- Statement of cash flows (Note 30).

## 4. Cash and cash equivalents and securities

### 4.1. Cash and cash equivalents

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | **Rates** | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Cash | | **33,661** | 33,988 | **33,665** | 33,990 |
| Banks | | **13,025** | 19,263 | **15,287** | 21,561 |
| Financial assets at fair value through profit or loss and held for trading: | | | | | |
| Bank deposit certificates and other short-term investments | From 80.0% to 105% CDI | **223,122** | 143,309 | **234,194** | 143,309 |
| Non-exclusive investment funds | 102.0% CDI | **693** | 81,446 | **4,222** | 81,446 |
| Total cash and cash equivalents | | **270,501** | 278,006 | **287,368** | 280,306 |

(Amounts in thousands of Brazilian reais - R$)

# 4. Cash and cash equivalents and securities (Continued)

## 4.2. Securities

| Financial assets at fair value through profit or loss | Rates | Company 06/30/2014 | Company 12/31/2013 | Consolidated 06/30/2014 | Consolidated 12/31/2013 |
|---|---|---|---|---|---|
| **Held for trading** | | | | | |
| Non-exclusive investment funds | 105% CDI | **5,357** | 4,968 | **5,357** | 19,046 |
| Exclusive investment funds: | | | | | |
| Debentures | (a) | **7,860** | 7,842 | **7,860** | 7,842 |
| Federal government securities | (a) | **48,110** | 145,041 | **48,110** | 145,041 |
| Purchase and sale commitments | (a) | **101,641** | 185,865 | **101,641** | 185,865 |
| Time deposits and other securities | (a) | **120,791** | 133,494 | **120,791** | 133,494 |
| | | **278,402** | 472,242 | **278,402** | 472,242 |
| Total securities | | **283,759** | 477,210 | **283,759** | 491,288 |

(a) Considers the exclusive fixed income investment fund. At June 30, 2014 the portfolio was mainly distributed into the four categories described in the table above, which are linked to financial operations securities, indexed to the monthly variation of CDI rate, to return the average profitability of 103% of the CDI to the Company.

# 5. Trade receivables

| | Company 06/30/2014 | Company 12/31/2013 | Consolidated 06/30/2014 | Consolidated 12/31/2013 |
|---|---|---|---|---|
| Trade receivables: | | | | |
| Debit and credit cards (a) | **220,646** | 196,530 | **221,022** | 197,228 |
| Own installment program (b) | **113,913** | 100,290 | **113,913** | 100,290 |
| Additional warranty agreements (c) | **161,183** | 134,622 | **161,183** | 134,622 |
| Total trade receivables | **495,742** | 431,442 | **496,118** | 432,140 |
| Arising from sales agreements (d) | **159,938** | 167,049 | **160,039** | 167,049 |
| Allowance for doubtful accounts | **(46,668)** | (43,190) | **(46,668)** | (43,190) |
| Present value adjustment | **(28,230)** | (20,696) | **(28,230)** | (20,696) |
| Total receivables | **580,782** | 534,605 | **581,259** | 535,303 |
| Current assets | **576,942** | 529,922 | **577,419** | 530,620 |
| Noncurrent assets | **3,840** | 4,683 | **3,840** | 4,683 |

The aforementioned amounts classified as trade receivables are classified as receivable and measured at amortized cost. The average term to receive trade receivables is 15 days in the Company and Consolidated.

## 5. **Trade receivables** (Continued)

The adjustment to present value is calculated on the reporting dates for all trade receivables. The calculation is based on the term of realization of the asset by using a discount rate based on the average rate of financial charges collected from end customers, less default risk, as stated in Note 2.7.3 of the fiscal year ended December 31, 2013. This rate is taken into consideration by the Company's Management when making market valuations of the time value of money and the specific risks relating to these assets.

Receivables were assigned to secure borrowings in the amount of R$142,578 at June 30, 2014 (R$118,986 at December 31, 2013), represented by credit card receivables.

(a) Refer to credit and debit card receivables, which the Company receives from credit card companies at the amount, term and number of installments, defined when the product is sold.

At June 30, 2014, the Company had credits granted to financial institutions totaling R$1,270,329 (R$1,186,319 at December 31, 2013), where a discount between 105.0% and 108.0% of CDI is applied, which is recognized in profit or loss under "Financial expenses." The Company, through card sales transactions, transfers to the credit card companies and financial institutions all risks of payment by customers and, therefore, does not recognize the receivables referring to these credits. The respective financial charges are recorded in profit or loss for the year upon derecognition.

(b) Refers to receivables from sales financed by the Company.

(c) These sales are intermediated by the Company on behalf of Luizaseg. The Company allocates to Luizaseg the extended warranty amount, in full, in the month following the sale and receives from customers according to the transaction term.

(d) Refers to bonuses on products to be received from suppliers, arising from the fulfillment of the purchase volume and a portion of agreements defining the suppliers' percentage in the disbursements related to advertising and marketing (joint advertising).

(Amounts in thousands of Brazilian reais - R$)

## 5. Trade receivables (Continued)

Changes in the allowance for doubtful accounts are as follows:

| | Company and Consolidated | |
|---|---|---|
| | **06/30/2014** | **12/31/2013** |
| Balance at beginning of year/period | **(43,190)** | (38,496) |
| (+) Additions | **(27,696)** | (50,256) |
| (-) Write-offs | **24,218** | 45,562 |
| Balance at end of year/period | **(46,668)** | (43,190) |

The aging list of trade receivables is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Falling due: | | | | |
| Up to 30 days | **71,214** | 73,614 | **71,452** | 74,009 |
| Between 31 and 60 days | **43,356** | 43,778 | **43,388** | 43,828 |
| Between 61 and 90 days | **38,652** | 40,930 | **38,687** | 40,965 |
| Between 91 and 180 days | **82,481** | 78,979 | **82,521** | 79,197 |
| Between 181 and 360 days | **215,120** | 158,068 | **215,151** | 158,068 |
| Over 361 days | **12,081** | 10,135 | **12,081** | 10,135 |
| | **462,904** | 405,504 | **463,280** | 406,202 |
| Past-due: | | | | |
| Up to 30 days | **8,958** | 6,108 | **8,958** | 6,108 |
| Between 31 and 60 days | **5,628** | 4,299 | **5,628** | 4,299 |
| Between 61 and 90 days | **4,837** | 4,117 | **4,837** | 4,117 |
| Between 91 and 180 days | **13,415** | 11,414 | **13,415** | 11,414 |
| | **32,838** | 25,938 | **32,838** | 25,938 |
| Total | **495,742** | 431,442 | **496,118** | 432,140 |

(Amounts in thousands of Brazilian reais - R$)

## 5. Trade receivables (Continued)

Receivables from sales agreements, by age and maturity, are broken down as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Falling due: | | | | |
| Up to 30 days | **57,483** | 23,295 | **57,584** | 23,295 |
| Between 31 and 60 days | **63,576** | 87,251 | **63,576** | 87,251 |
| Between 61 and 90 days | **19,931** | 31,799 | **19,931** | 31,799 |
| Between 91 and 180 days | **7,482** | 21,284 | **7,482** | 21,284 |
| Between 181 and 360 days | **2,621** | 553 | **2,621** | 553 |
| | **151,093** | 164,182 | **151,194** | 164,182 |
| Past-due: | | | | |
| Up to 30 days | **4,436** | 2,446 | **4,436** | 2,446 |
| Between 31 and 60 days | **504** | 289 | **504** | 289 |
| Between 61 and 90 days | **1,342** | 26 | **1,342** | 26 |
| Between 91 and 180 days | **2,563** | 106 | **2,563** | 106 |
| | **8,845** | 2,867 | **8,845** | 2,867 |
| Total | **159,938** | 167,049 | **160,039** | 167,049 |

## 6. Inventories

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Resale goods | **1,151,125** | 1,260,783 | **1,156,093** | 1,264,940 |
| Consumption material | **12,158** | 14,162 | **12,158** | 14,162 |
| Provision for losses | **(24,091)** | (27,740) | **(24,091)** | (27,740) |
| Total | **1,139,192** | 1,247,205 | **1,144,160** | 1,251,362 |

On June 30, 2014, the Company has revolving inventories assigned as guarantee in lawsuits in progress, totaling approximately R$1,721 (R$1,671 at December 31, 2013).

Changes in the provision for losses and adjustment to net realizable value, which reduced the balance of inventories are as follows:

| | Company and Consolidated | |
|---|---|---|
| | 06/30/2014 | 12/31/2013 |
| Opening balance | **(27,740)** | (21,055) |
| Provision | **(8,541)** | (25,880) |
| Written-off or sold inventories | **12,190** | 19,195 |
| Closing balance | **(24,091)** | (27,740) |

(Amounts in thousands of Brazilian reais - R$)

## 6. Inventories (Continued)

The provision for inventory losses is estimated based on the history of losses on stores' and distribution centers' physical inventory. The provision for inventory realization is recognized based on analysis of current sales prices, less taxes and overhead incurred for the sales effort, plus historical percentage of margin recovery with suppliers, compared to the cost of purchase of the products. In addition, goods transferred to technical assistance were considered in the analysis of obsolete products.

## 7. Related-party transactions

a) Balances from related parties

| | Company | | Consolidated | |
|---|---|---|---|---|
| **Current assets** | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Commissions on services | | | | |
| Joint ventures: | | | | |
| Luizacred (i) | **18,838** | 15,329 | **18,838** | 15,329 |
| Luizaseg (ii) | **44,698** | 38,450 | **44,698** | 38,450 |
| | **63,536** | 53,779 | **63,536** | 53,779 |
| Subsidiaries: | | | | |
| Luiza Administradora de Consórcios("LAC") (iii) | **555** | 579 | - | - |
| Reimbursement of expenses and costs with consortium draws | | | | |
| Subsidiaries: | | | | |
| Consortium Group ("LAC") (iii) | **604** | 994 | **604** | 994 |
| Campos Floridos Comércio de Cosméticos Ltda. (viii) | **294** | - | - | - |
| | **898** | 994 | **604** | 994 |
| Dividends receivable: | | | | |
| Luizacred (i) | **-** | 13,840 | - | 13,840 |
| Luizaseg (ii) | **-** | 2,345 | - | 2,345 |
| | **-** | 16,185 | - | 16,185 |
| Balance receivable from credit card sales and accounts receivable by CDC: | | | | |
| Luizacred (i) | **23,670** | 37,937 | **23,670** | 37,937 |
| Total | **88,659** | 109,474 | **87,810** | 108,895 |
| Securities | | | | |
| Investment Funds (vii) | **278,402** | 472,242 | **278,402** | 472,242 |

(Amounts in thousands of Brazilian reais - R$)

## 7. Related-party transactions (Continued)

a) Balances from related parties (Continued)

| Current liabilities | Company 06/30/2014 | Company 12/31/2013 | Consolidated 06/30/2014 | Consolidated 12/31/2013 |
|---|---|---|---|---|
| Transfers of receivables from services and accounts payable: | | | | |
| Joint ventures: | | | | |
| Luizacred (i) | **22,365** | 23,606 | **22,365** | 23,606 |
| Luizaseg (ii) | **41,661** | 47,668 | **41,661** | 47,668 |
| | **64,026** | 71,274 | **64,026** | 71,274 |
| Subsidiaries: | | | | |
| Consortium Group (“LAC”) (iii) | **753** | 826 | **753** | 826 |
| Campos Floridos Comércio de Cosméticos Ltda. (viii) | **28** | 97 | **-** | - |
| | **781** | 923 | **753** | 826 |
| Rentals payable and other transfers | | | | |
| Controlled by the Company’s controlling shareholders: | | | | |
| MTG Administração, Assessoria e Participações S.A. (iv) | **1,188** | 1,426 | **1,188** | 1,426 |
| PJD Agropastoril Ltda. (vi) | **36** | 34 | **36** | 34 |
| | **1,224** | 1,460 | **1,224** | 1,460 |
| Payables relating to advertising campaigns: | | | | |
| ETCO - special partnership (v) | **800** | 59 | **800** | 59 |
| | **66,831** | 73,716 | **66,803** | 73,619 |

(Amounts in thousands of Brazilian reais - R$)

## 7. Related-party transactions (Continued)

b) Transactions with related parties

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Income from service intermediation commissions | | | | | | | | |
| Joint ventures: | | | | | | | | |
| Luizacred (i) | **73,685** | 79,804 | **73,685** | 79,804 | **36,680** | 33,858 | **36,680** | 33,858 |
| Luizaseg (ii) | **136,523** | 67,312 | **136,523** | 67,312 | **74,985** | 39,581 | **74,985** | 39,581 |
| | **210,208** | 147,116 | **210,208** | 147,116 | **111,665** | 73,439 | **111,665** | 73,439 |
| Subsidiaries: | | | | | | | | |
| Revenue from service intermediation commissions | | | | | | | | |
| Consortium Group (“LAC”) (iii) | **3,497** | 3,421 | - | - | **1,759** | 1,727 | **-** | - |
| Revenue from return on exclusive fund: | | | | | | | | |
| ML Renda Fixa Créd.Privado Fundo de investimento (vii) | **14,272** | 8,705 | **14,272** | 8,705 | **5,961** | 6,490 | **5,961** | 6,490 |
| Reimbursement of shared expenses | | | | | | | | |
| Joint ventures: | | | | | | | | |
| Luizacred (i) | **27,598** | 25,312 | **27,598** | 25,312 | **14,270** | 11,680 | **14,270** | 11,680 |
| Total revenues | **255,575** | 184,554 | **252,078** | 181,133 | **133,655** | 93,336 | **131,896** | 91,609 |

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Costs related to the acquisition of goods | | | | | | | | |
| Campos Flóridos Comércio de Cosméticos Ltda. (viii) | **(1,809)** | - | **-** | - | **(844)** | - | **-** | - |
| Total costs | **(1,809)** | - | **-** | - | **(844)** | - | **-** | - |

(Amounts in thousands of Brazilian reais - R$)

## 7. Related-party transactions (Continued)

b) Transactions with related parties (Continued)

| | Six-month period ended Company and Consolidated | | Quarter ended Company and Consolidated | |
|---|---|---|---|---|
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Office building rental expenses | | | | |
| Controlled by the Company's controlling shareholders: | | | | |
| MTG Administração, Assessoria e Participações S.A. (iv) | **(7,071)** | (5,747) | **(3,421)** | (2,753) |
| PJD Agropastoril Ltda. (vi) | **(174)** | (204) | **(70)** | (101) |
| | **(7,245)** | (5,951) | **(3,491)** | (2,854) |
| Freight expenses | | | | |
| PJD Agropastoril Ltda. (vi) | **(792)** | - | **(422)** | - |
| Credit card anticipation charge expenses: | | | | |
| Luizacred (i) | **(35,605)** | (21,570) | **(19,562)** | (11,508) |
| Advertising campaign expenses | | | | |
| Controlled by the Company's controlling shareholders: | | | | |
| ETCO - special partnership (v) | **(110,774)** | (73,358) | **(59,951)** | (36,343) |
| Total expenses | **(154,416)** | (100,879) | **(83,426)** | (50,705) |

(i) Transactions with Luizacred, subsidiary jointly controlled with Banco Itaúcard S.A., refer to the following activities:

(a) Commissions on the issuance and activation of own branded credit cards ("Cartão Luiza") and financial expenses on the advance of receivables from such cards.

(b) Receivables from sales of products financed to customers by Luizacred, received by the Company on the following day ("D+1").

(c) Commissions on the services monthly provided by the Company, which include the attraction of customers, management and administration of consumer credit transactions, control and collection of financing granted, access to telecommunication systems and network, in addition to storage and availability of physical space in the points-of-sale.

The amounts payable (current liabilities) refer to the receipt of customers' installments by the Company's store cashiers, which are transferred to Luizacred on D+1.

(d) Balance receivable referring to Luizacred's dividend proposal.

(ii) The amounts receivable (current assets) and revenues of Luizaseg, subsidiary jointly controlled with NCVP Participações Societárias S.A., a subsidiary of Cardif do Brasil Seguros e Previdência S.A., arise from commissions on services monthly provided by the Company, relating to the sale of additional warranties and proposed dividends. The amounts payable (current liabilities) refer to the transfers of extended warranties sold to Luizaseg, in full, in the month following the sale.

(Amounts in thousands of Brazilian reais - R$)

# 7. Related-party transactions (Continued)

## b) Transactions with related parties (Continued)

(iii) The amounts receivable (current assets) of LAC, wholly-owned subsidiary, refer to commissions and sales made by the Company as the agent of consortium transactions. The amounts payable (current liabilities) refer to the transfers to be made to LAC relating to the installments of consortiums received by the Company through the cashiers of its points-of-sale.

(iv) Transactions with MTG Administração, Assessoria e Participações S.A. ("MTG"), controlled by the Company's controlling shareholders, refer to expenses with rental of office buildings for the installation of its stores, distribution centers and head office.

(v) Transactions with ETCO, a special partnership which has as partner an entity controlled by the Vice Chairman of the Company's Board of Directors, refer to advertising and marketing service contracts, also including transfers relating to placement, media production and graphic design services.

(vi) Transactions with PJD Agropastoril Ltda., an entity controlled by the Company's indirect controlling shareholders, refer to expenses with rental of commercial buildings for installation of stores and truck rental for freight of goods.

(vii) Transactions with ML Renda Fixa Crédito Privado Fundo de Investimento, ML Renda Fixa Crédito Privado FI and Fundo de Investimento FIC Caixa Aporte Imediato 200 RF LP refer to operations with the exclusive investment fund (see Note 4.2 - Securities).

(viii) Transactions with Campos Floridos Comércio de Cosméticos Ltda., a wholly-owned subsidiary, refer to the sale of products for resale by the Company.

## c) Management compensation

| | 06/30/2014 | | 06/30/2013 | |
|---|---|---|---|---|
| | **Board of Directors** | **Board of Executive Officers** | **Board of Directors** | **Board of Executive Officers** |
| Fixed compensation - including charges | **204** | **3,834** | 167 | 3,141 |
| Stock option plan | **193** | **1,465** | 94 | 1,094 |

The Company does not grant any post-employment benefits, severance benefits, or other long-term benefits. Short-term benefits to the Board of Executive Officers are the same as those extended to other employees, according to Note 25 of the financial statements for the fiscal year ended December 31, 2013. The amounts for these benefits are added to the Board of Executive Officers' fixed compensation. The Company has a Stock Option Plan for the employees elected at the Board of Directors' meeting, and Management, employees or service providers of the Group are eligible to receive stock option, which is detailed in Note 19 as at December 31, 2013. It is worth mentioning that until the end of the second quarter of 2014, no stock option has been exercised. The Company has a policy of paying the Profit Sharing to its employees, amongst them, the Management. These amounts have been accrued monthly by the Company, according to the target achievement estimate.

Additionally, the Company does not offer any benefits to the key Management personnel of its related parties.

(Amounts in thousands of Brazilian reais - R$)

## 7. Related-party transactions (Continued)

c) Management compensation (Continued)

Pursuant to the Brazilian laws and the Company’s Bylaws, it shall be incumbent upon shareholders to define and approve at the Shareholders' Meeting, the Management's annual overall compensation. The Company’s Board of Directors approved on April 17, 2014, the Management’s overall compensation for the fiscal year ending December 31, 2014, where a maximum limit for Management’s overall compensation is estimated at R$19,381.

## 8. Recoverable taxes

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Recoverable ICMS (a) | **336,805** | 363,218 | **336,805** | 363,218 |
| Recoverable income tax and social contribution | **11,050** | 8,928 | **11,050** | 8,928 |
| Recoverable withholding income tax | **5,138** | 3,902 | **5,138** | 3,902 |
| Recoverable PIS and COFINS | **34** | 1,252 | **187** | 1,252 |
| Other | **13** | 15 | **13** | 15 |
| | **353,040** | 377,315 | **353,193** | 377,315 |
| Current assets | **193,275** | 218,554 | **193,428** | 218,554 |
| Noncurrent assets | **159,765** | 158,761 | **159,765** | 158,761 |

(a) These refer to ICMS accumulated credits and credits arising from the ST (“substituição tributária”) taxation regime deriving from the application of different rates in the inflow and outflow of interstate goods. Referred credits will be realized by refund request and offset of debts of same nature with the States of origin of the credit.

(Amounts in thousands of Brazilian reais - R$)

## 9. Income tax and social contribution

a) The table below shows the reconciliation of the tax effect on income before income tax and social contribution by applying the rates in effect for the Company and the consolidated effects in force in respective years

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Income (loss) before income tax and social contribution | **44,773** | 67,214 | **45,196** | 67,815 | **25,731** | 74,654 | **25,791** | 75,005 |
| Statutory rate | **34%** | 34% | **34%** | 34% | **34%** | 34% | **34%** | 34% |
| Expected income tax and social contribution credits at statutory rates | **(15,223)** | (22,853) | **(15,367)** | (23,057) | **(8,749)** | (25,382) | **(8,769)** | (25,502) |
| Reconciliation for effective rate (effects of applying tax rates): | | | | | | | | |
| Exclusion - equity in the earnings (losses) of subsidiaries | **14,567** | 8,178 | **14,248** | 7,766 | **6,958** | 4,599 | **6,892** | 4,354 |
| Other permanent exclusions, net | **3,051** | 2,917 | **3,091** | 2,932 | **2,693** | 783 | **2,719** | 797 |
| Income tax and social contribution credits | **2,395** | (11,758) | **1,972** | (12,359) | **902** | (20,000) | **842** | (20,351) |
| Current | **(4,568)** | (11,773) | **(5,508)** | (12,334) | **(3,539)** | (11,773) | **(4,074)** | (12,147) |
| Differed | **6,963** | 15 | **7,480** | (25) | **4,441** | (8,227) | **4,916** | (8,204) |
| Total | **2,395** | (11,758) | **1,972** | (12,359) | **902** | (20,000) | **842** | (20,351) |
| Effective tax rate | **5.3%** | 17.5% | **4.4%** | 18.2% | **3.5%** | 26.8% | **3.3%** | 27.1% |

(Amounts in thousands of Brazilian reais - R$)

## 9. Income tax and social contribution (Continued)

b) Breakdown of deferred income tax and social contribution assets and liabilities:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Deferred income tax and social contribution assets: | | | | |
| Tax losses and social contribution tax loss carryforwards | **55,771** | 57,769 | **56,268** | 57,769 |
| Allowance for doubtful accounts | **15,867** | 14,685 | **15,867** | 14,685 |
| Provision for inventory losses | **8,191** | 9,432 | **8,255** | 9,432 |
| Provision for tax, civil and labor contingencies | **77,487** | 69,676 | **77,617** | 69,850 |
| Other provisions | **-** | 106 | - | 106 |
| | **157,316** | 151,668 | **158,007** | 151,842 |
| Deferred income tax and social contribution liabilities: | | | | |
| Temporary difference due to adoption of RTT (1) | **(11,100)** | (12,415) | **(11,100)** | (12,415) |
| Deferred income tax and social contribution | **146,216** | 139,253 | **146,907** | 139,427 |

(1) The Company adopted the Transitional Tax System (RTT), as prescribed by Law 11941/09, which from the adoption of new accounting practices, creates temporary differences on taxable bases.

The asset recorded is limited to the amounts whose realization is supported by future taxable base projections, approved by Management. Future taxable income projections include several estimates related to the performance of the Brazilian and global economies, selection of foreign exchange rates, sales volume and price, tax rates, among others, which may differ from actual amounts. As income tax and social contribution income or expenses result not only from taxable income but also from the Group's tax and corporate structure, the expected realization of temporarily nondeductible differences, the existence of nontaxable income, nondeductible expenses, and several other variables, there is no significant correlation between the Company's and its subsidiaries' profit (loss) and the income tax and social contribution income or expenses. Accordingly, the growth in the realization of temporarily nondeductible differences should not be considered as an indication of the Company's and its subsidiaries' future profits.

(Amounts in thousands of Brazilian reais - R$)

## 10. Investment in subsidiaries

Below, a description of the Company's subsidiaries at year end:

| Subsidiary | Main activity | Equity interest - % 06/30/2014 |
|---|---|---|
| Época Cosméticos | E-commerce of perfumes and cosmetics | **100%** |
| LAC | Consortium management company | **100%** |

During 2013, the Company acquired 100% equity interest in Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos", as outlined in detail in Note 28 to the financial statements as at December 31, 2013.

Changes in ownership interest in subsidiaries, stated in the Company's financial statements, are as follows:

| | Época Cosméticos | | LAC | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Units of interest/shares held | **4,155** | 4,155 | **6,500** | 6,500 |
| Current assets | **6,031** | 5,343 | **17,984** | 17,080 |
| Noncurrent assets | **6,237** | 5,664 | **2,976** | 2,754 |
| Current liabilities | **4,587** | 4,971 | **4,336** | 4,314 |
| Noncurrent liabilities | **19,033** | 19,035 | **2,158** | 1,944 |
| Net revenue | **11,679** | 3,790 | **18,316** | 35,090 |
| Capital stock | **6,855** | 4,155 | **6,500** | 6,500 |
| Equity | **(11,352)** | (12,999) | **14,466** | 13,576 |
| Net income (loss) for the year/period | **(1,053)** | (635) | **1,991** | 3,304 |

| Changes in investments | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
|---|---|---|---|---|
| Balances at beginning of year/period | **23,827** | **-** | **13,576** | 12,272 |
| Total assets identified, net | **-** | (12,364) | **-** | - |
| Goodwill generated in acquisition | **-** | 36,826 | **-** | - |
| Dividends distributed | **-** | - | **(1,101)** | (2,000) |
| Advance for future capital increase (AFAC) | **2,700** | - | **-** | - |
| Equity in the earnings (losses) of subsidiaries | **(1,053)** | (635) | **1,991** | 3,304 |
| Balances at end of year/period | **25,474** | 23,827 | **14,466** | 13,576 |

## 10. Investment in subsidiaries (Continued)

Total investments in subsidiaries

| | 06/30/2014 | 12/31/2013 |
|---|---|---|
| Consortium group (“LAC”) | **14,466** | 13,576 |
| Época Cosméticos | **25,474** | 23,827 |
| | **39,940** | 37,403 |

## 11. Investments in joint ventures

| | Luizacred (a) | | Luizaseg (b) | |
|---|---|---|---|---|
| | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Total shares - in thousands | **978** | 978 | **13,883** | 13,883 |
| Direct interest percentage | **50%** | 50% | **50%** | 50% |
| Current assets | **3,771,886** | 3,655,436 | **152,752** | 168,900 |
| Noncurrent assets | **439,268** | 384,972 | **157,306** | 132,388 |
| Current liabilities | **3,645,524** | 3,553,144 | **194,628** | 195,718 |
| Noncurrent liabilities | **64,856** | 62,262 | **42,102** | 27,076 |
| Net revenues | **845,344** | 1,479,584 | **141,624** | 217,790 |
| Capital stock | **274,624** | 274,624 | **13,884** | 13,884 |
| Equity | **500,774** | 425,002 | **73,328** | 78,494 |
| Net income (loss) for the year/period | **75,767** | 89,182 | **8,042** | 19,748 |

| | Luizacred | | Luizaseg | |
|---|---|---|---|---|
| | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Changes in investments | | | | |
| Balance at beginning of year/period | **212,501** | 181,751 | **39,246** | 41,143 |
| Proposed dividends | **-** | (13,840) | **(7,511)** | (10,046) |
| Other comprehensive income | **-** | - | **907** | (1,725) |
| Equity in the earnings (losses) of subsidiaries | **37,885** | 44,590 | **4,022** | 9,874 |
| Balance at end of year/period | **250,386** | 212,501 | **36,664** | 39,246 |

| | 06/30/2014 | 12/31/2013 |
|---|---|---|
| Total investments in joint ventures | | |
| Luizacred | **250,386** | 212,501 |
| Luizaseg | **36,664** | 39,246 |
| | **287,050** | 251,747 |

(a) Direct interest of 50% of voting capital stock representing the contractually agreed sharing, the control of business, requiring the unanimous consent of the parties about relevant decisions, financial and operating activities. Luizacred is jointly controlled by Banco Itaúcard S.A., the purpose of which is the supply, distribution and trade of financial products and services to customers at the Company’s stores chain.

(b) 50% interest in the voting capital stock representing the contractually agreed sharing, the control of business, requiring the unanimous consent of the parties about relevant decisions, guarantees and operating activities. Luizaseg is jointly controlled by NCVP Participações Societárias S.A., subsidiary of Cardif do Brasil Seguros e Previdência S.A., the purpose of which is the development, sale and administration of extended warranties for any type of product sold in Brazil through the Company’s stores chain.

(Amounts in thousands of Brazilian reais - R$)

## 11. Investments in joint ventures (Continued)

Interests in joint ventures are stated in the Company and Consolidated by the equity method, applying the precepts of CPC 19 (R2) - Joint Venture and IFRS 11 - Joint Arrangements.

## 12. Property and equipment

Changes in property and equipment for the period ended June 30, 2014 are as follows:

| | Company | Consolidated |
|---|---|---|
| Net property and equipment at December 31, 2013 | 539,729 | 540,444 |
| Additions | 32,248 | 32,446 |
| Write-offs | (1,401) | (1,401) |
| Depreciation | (36,647) | (36,748) |
| Net property and equipment at June 30, 2014 | **533,929** | **534,741** |
| Breakdown of property and equipment at June 30, 2014: | | |
| Cost of property and equipment | 918,839 | 920,840 |
| Accumulated depreciation | (384,910) | (386,099) |
| Net property and equipment at June 30, 2014 | **533,929** | **534,741** |

During the first half of the year, no indications that property and equipment items might be impaired were identified.

## 13. Intangible assets

Changes in intangible assets for the period ended June 30, 2014 are as follows:

| | Company | Consolidated |
|---|---|---|
| Net intangible assets at December 31, 2013 | 438,559 | 481,370 |
| Additions | 25,213 | 25,283 |
| Write-offs | (782) | (782) |
| Amortization | (17,815) | (17,933) |
| Net intangible assets at June 30, 2014 | **445,175** | **487,938** |
| Breakdown of intangible assets at June 30, 2014 | | |
| Cost of intangible assets | 615,736 | 659,327 |
| Accumulated amortization | (170,561) | (171,389) |
| Net intangible assets at June 30, 2014 | **445,175** | **487,938** |

During the first half, no indications that intangible assets might be impaired were identified.

(Amounts in thousands of Brazilian reais - R$)

## 14. Trade payables

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Resale of goods - domestic market | **1,190,791** | 1,650,884 | **1,194,267** | 1,655,106 |
| Other suppliers | **15,934** | 16,853 | **16,328** | 17,227 |
| Present value adjustment | **(21,077)** | (20,790) | **(21,077)** | (20,790) |
| | **1,185,648** | 1,646,947 | **1,189,518** | 1,651,543 |

(Amounts in thousands of Brazilian reais - R$)

## 15. Borrowings and financing

| | | | | Company | | Consolidated | |
|---|---|---|---|---|---|---|---|
| Type | Charge | Collaterals | Final maturity | 06/30/2014 | 12/31/2013 | 06/30/2014 | 12/31/2013 |
| Working capital (a) | 107.5% to 116% of CDI | Guarantees represented by collateral signatures ("Aval") and credit card receivables | Dec/19 | **593,367** | 692,430 | **593,824** | 692,668 |
| Finance leases (b) | CDI/LIBOR | Fiduciary sale/ escrow deposits | Dec/19 | **27,083** | 18,677 | **27,083** | 18,677 |
| Debentures - Restricted offer (c) | 108.8 % to 114.5% of CDI | - | Nov/19 | **955,546** | 608,935 | **955,546** | 608,935 |
| | | | | **1,575,996** | 1,320,042 | **1,576,453** | 1,320,280 |
| Current liabilities | | | | **421,965** | 424,989 | **422,422** | 425,227 |
| Noncurrent liabilities | | | | **1,154,031** | 895,053 | **1,154,031** | 895,053 |

(a) This financing is collateralized by sureties, commercial lien and a portion of receivables from credit cards, as described in Note 5.

A portion of the funds was contracted in foreign currency, on which fixed interest and exchange rate change are levied. In order to hedge its transactions against exchange rate change risks, the Company entered into swap transactions to replace the charges contracted for DI-indexed fixed interest. This is a perfectly matched transaction that does not expose the Company to currency or foreign interest rate risks. Further details are disclosed in Note 25.

(b) The Company has finance lease contracts relating to: (i) aircraft, whose contract was entered into in 2005 and expires in 2016. For this contract, R$1,342 (equivalent to US$610 thousand) was deposited in escrow, recorded in line item "Other noncurrent assets," which will be redeemed on the final maturity of the contract. This deposit, equivalent to 15% of the total asset amount, is adjusted for inflation, whose corresponding entry is recorded in profit (loss) for the period; (ii) IT equipment and software, whose contracts expire in 2019.

(c) The Company conducted its 1st issue of nonconvertible debentures, in a single series, for public distribution with restricted placement efforts, in accordance with CVM Rule 476/09, on December 26, 2011. A total of 200 debentures were issued, at a par value of R$1,000 each, totaling R$200,000. These debentures will have a thirty-month term as of the date of issue, falling due on June 26, 2014. On June 17, 2014, the 1st General Meeting of 1st issue debenture holders was held, which approved to change the issue effectiveness period from 30 to 66 months, altering the debentures amortization flow; 25% were amortized on June 26, 2014 and 75% will be amortized on June 16, 2017, also altering interest payment date, due to the change of effectiveness period. Interest rates corresponding to each capitalization period shall be due half-yearly as of the issue date and the remuneration rate remains at 113% of the accumulated variation of Interbank Deposits (DI) daily average rates.

On March 7, 2013, the Company conducted the 2nd issue of unsecured and nonconvertible debentures, in two series, for tender offer with restricted placement efforts. 200 Debentures were issued, with unit face value of R$1,000, totaling R$200,000. For legal purposes, the issue date of debentures was March 22, 2013 in two series: (a) 1st series totaling R$100,000 will have a two-year term, unit value will not be adjusted and will accrue 112.00% interest of accumulated variation of DI (Interbank Deposits) average rate; the 2nd series totaling R$100,000 will have a three-year term, its unit value will not be adjusted and will accrue 114.50% interest of DI rate.

On October 21, 2013, the Company conducted its 3rd issue of unsecured and nonconvertible debentures in a single series, for tender offer with restricted placement efforts. 20,000 debentures were issued, with unit face value of R$10, totaling R$200,000. Debentures will have a three-year term and will accrue 108.8% interest of accumulated variation of DI average rates.

On May 30, 2014, the Company conducted its 4th issue of unsecured and nonconvertible debentures in a single series, for tender offer with restricted placement efforts. 40,000 debentures were issued with unit face value of R$10, totaling R$400,000. Debentures will have a five-year term and will accrue 112.0% interest of accumulated variation of DI average rates.

(Amounts in thousands of Brazilian reais - R$)

## 15. Borrowings and financing (Continued)

The Company maintains certain working capital agreements with covenants. The clauses relating to financial indexes refer to:

(i) Banco do Brasil: maintenance of the adjusted net debt/EBITDA ratio below 3 times. Adjusted net debt means the sum of any and all bank loans, including debentures and excluding Compror and Vendor, less cash and cash equivalents added to credit card receivables.

(ii) Brazilian Federal Savings Bank: maintenance of the net debt/EBITDA ratio below 3.5 times until 2013. As of 2014, on a half-yearly basis, the net debt/EBITDA ratio shall not exceed 3.0 times. Additionally, the evidence of use of funds raised through Capex plan and use of funds report are required.

The Company is found in compliance with the above-mentioned covenants at June 30, 2014.

## 16. Deferred revenue

| | Company and Consolidated | |
|---|---|---|
| | **06/30/2014** | **12/31/2013** |
| Deferred revenue with third parties: | | |
| Exclusive dealing agreement with Banco Itaúcard (a) | **165,250** | 171,501 |
| Exploration right agreement - payroll (b) | **5,226** | 5,806 |
| Sales agreement - Cardif (c) | **27,859** | 31,359 |
| Exploration right agreement - technological assistance (e) | **2,250** | - |
| | **200,585** | 208,666 |
| Deferred revenue from related parties: | | |
| Exclusive dealing agreement with Luizacred (d) | **171,749** | 177,292 |
| Total deferred revenue | **372,334** | 385,958 |
| Current liabilities | **37,734** | 36,734 |
| Noncurrent liabilities | **334,600** | 349,224 |

(a) On September 27, 2009, the Company entered into a partnership agreement with financial institutions Itaú Unibanco Holding S.A. ("Itaú") and Banco Itaucard S.A., under which the Company grants to Luizacred the exclusive right to offer, distribute, and sell financial products and services in its store chain for a 20-year period.

As consideration for the aforementioned alliance, Itaú group companies paid in cash R$250,000, of which: (i) R$230,000 relating to the completion of the negotiation, without right of recourse; and (ii) R$20,000 subject to the achievement of profitability targets in Luizacred, subject to refund of a portion or all the amount, to be allocated to profit (loss) over the term of the contract, i.e., 20 years, as targets are achieved.

(Amounts in thousands of Brazilian reais - R$)

## 16. Deferred revenue (Continued)

(b) On June 30, 2008, the Company entered into an exclusive payroll services agreement with a financial institution for a five-year period for the provision of banking services to its employees. This partnership allowed the inflow of R$ 20,250 to the Company's cash. The revenue recognition arising from the funds received is recognized in profit (loss) over the term of the agreement.

On August 30, 2013, the Company entered into an assignment agreement for exclusive exploration right for a 62-month term as of November 1, 2013. This partnership enabled the inflow of R$6,000 into the Company's cash. The revenue recognition deriving from funds received is recognized in profit (loss) over the term of the agreement.

(c) On June 21, 2012, considering the merger of subsidiary Lojas Maia, as well as the intention to renew and extend the Operating and Sales Agreement for distribution of several insurance services in Magazine Luiza's distribution chain up to December 31, 2015, the Company entered into with Cardif do Brasil an amendment to the above-mentioned agreements, which allowed the inflow of R$80,000 to the Company's cash, R$30,000 of which are allocated to the joint venture Luizacred, since it waived the priority in the distribution of credit card loss and theft insurance. The revenue recognition deriving from this agreement is recognized in profit (loss) over the term of the agreement.

(d) On December 29, 2010, subsidiary Lojas Maia entered into a partnership agreement with Luizacred, a joint venture, through which it has granted the exclusive right to offer, distribute and sell financial products and services at its store chain for a 19-year period. As a result of such partnership, Luizacred paid R$160,000 in cash to Lojas Maia (in Consolidated, R$80,000 are eliminated against Luizacred's intangible assets), which are recognized in profit (loss) over the term of the agreement. As part of this partnership agreement, the amount of R$ 20,000, mentioned in item "(a) ii" above was increased to R$55,000.

On December 16, 2011, the Company entered into an amendment to the partnership agreement with the joint venture Luizacred, due to increase in Company's operations resulting from the acquisition of New-Utd. As a result of this amendment, Luizacred paid R$48,000 in cash to the Company, which will be allocated to profit (loss) over the remaining term of the agreement.

(e) The Company entered into an assignment agreement for the technological assistance services exclusive right from extended surety insurance acquired by the Company´s clients for a three-year term. This partnership resulted in the inflow of R$3,000 to the Company´s cash and revenue recognition deriving from funds received is recognized in profit (loss) over the term of the agreement.

## 17. Provision for tax, civil and labor contingencies

The Company and its subsidiaries are parties to labor, civil and tax lawsuits in progress for which it has submitted administrative or judicial defense. For cases on which our legal counsel's opinion is unfavorable, the Company recognized, as of June 30, 2014, in noncurrent liabilities, a provision for tax, civil and labor contingencies, which is the Group's Management best estimate of future disbursement. Changes in the provision for tax, civil and labor contingencies are as follows:

<u>Company</u>

| | 12/31/2013 | Additions | Reversal | Payments | Inflation adjustment | 06/30/2014 |
|---|---|---|---|---|---|---|
| Tax | 186,921 | 16,556 | (6,668) | (402) | 5,866 | **202,273** |
| Civil | 10,405 | 1,976 | - | (2,760) | - | **9,621** |
| Labor | 29,120 | 3,900 | - | (2,165) | - | **30,855** |
| | 226,446 | 22,432 | (6,668) | (5,327) | 5,866 | **242,749** |

(Amounts in thousands of Brazilian reais - R$)

## 17. Provision for tax, civil and labor contingencies (Continued)

Consolidated

| | 12/31/2013 | Additions | Reversal | Payments | Inflation adjustment | 06/30/2014 |
|---|---|---|---|---|---|---|
| Tax | 203,205 | 16,556 | (6,668) | (402) | 5,866 | **218,557** |
| Civil | 10,651 | 2,001 | (9) | (2,775) | - | **9,868** |
| Labor | 32,026 | 3,922 | (12) | (2,193) | - | **33,743** |
| | 245,882 | 22,479 | (6,689) | (5,370) | 5,866 | **262,168** |

As of June 30, 2014, the Company's main lawsuits classified by Management as probable loss based on the opinion of its legal counsel, as well as legal obligations whose amounts are deposited in court, for which the amounts were included in the provision for contingencies, are as follows:

a) Tax lawsuits

(i) The Company is challenging several tax deficiency notices filed by the Departments of Finance in the states where it operates, which claim differences in ICMS (State VAT) payment, supposed errors in the compliance with certain ancillary obligations and few federal tax offset procedures with the Federal Revenue Service. The Company recorded a reserve for risks assessed as probable loss by its legal counsel. These tax deficiency notices amounted to R$34,881 at June 30, 2014 (R$30,447 at December 31, 2013), of which approximately R$1,721 is guaranteed by revolving inventories of the Company's goods.

(ii) The Company is challenging through writ of mandamus the constitutionality of the Contribution to the National Institute of Rural Settlement and Agrarian Reform (INCRA), for which an escrow deposit was made totaling R$7,964 at June 30, 2014 (R$7,045 at December 31, 2013), with a provision for tax risks in the same amount.

(iii) The Company is challenging the increase in the Occupational Accident Risk rate (RAT). Thus, it filed a lawsuit and deposited the amounts corresponding to the increased rate in an escrow account. The amount of the provision totals R$51,089 at June 30, 2014 (R$43,750 as of December 31, 2013).

(iv) The Company discusses at administrative level the FAP (Accident Prevention Factor) index which was imposed to it by MPS/CNPS Resolution 1269/06, whose provision totals R$39,381 at June 30, 2014 (R$33,402 as of December 31, 2013).

## 17. Provision for tax, civil and labor contingencies (Continued)

a) Tax lawsuits (Continued)

(v) Other tax claims assessed by the Management of the Company and their legal counsel as probable loss amount to R$38,393 at June 30, 2014 (R$40,127 as of December 31, 2013), for which a reserve has been recognized. The tax claims are related to tax deficiency notices allegedly due to the incorrect application of ICMS rates, as well as to risks related to PIS/COFINS on debits on interest income, tax incentives received and credits subject to challenge with the tax authorities.

(vi) The merged subsidiary Lojas Maia did not acknowledge the mandatory collection of PIS/COFINS on ICMS tax base, depositing in an escrow account the amount of the related provision, in the total amount of R$44,089 at June 30, 2014 (R$42,500 at December 31, 2013).

(vii) During the business combination process of the merged subsidiary Lojas Maia, other tax risks relating to ICMS, IRPJ, CSLL and ISS were identified by the Company and weighted in the context of calculation of the related fair values, and an additional provision was recognized in the total amount of R$2,760 at June 30, 2014 (R$5,934 at December 31, 2013).

b) Civil lawsuits

Consolidated civil contingencies of R$9,868 at June 30, 2014 (R$10,651 at December 31, 2013) are related to claims filed by customers on possible product defects. Other non-relevant balances are recorded in the Company's subsidiaries.

c) Labor lawsuits

(i) At the labor courts, the Company is a party to various labor lawsuits, mostly claiming overtime pay.

The accrued amount of R$24,670 at June 30, 2014 (R$23,764 at December 31, 2013) in consolidated reflects the risk of probable loss assessed by the Company's Management jointly with its legal counsel.

(ii) The Company is also challenging the payment of social security contribution on paid prior notice, which is being fully deposited in court and totals R$9,073 at June 30, 2014 (R$8,262 as of December 31, 2013).

In order to deal with tax, civil and labor contingencies, the Company has a balance in escrow deposits of R$187,863 at June 30, 2014 (R$170,080 at December 31, 2013).

## 17. Provision for tax, civil and labor contingencies (Continued)

The Company is a party to other lawsuits that were assessed by Management, based on the opinion of its legal counsel, as possible losses and, therefore, no provision was recognized for such lawsuits. The amounts attributed to the main lawsuits where the Company figures as defendant are:

(a) Tax lawsuits: there are tax lawsuits where the Company and its subsidiary and joint parent companies are the defendants. The amount estimated by Management and its legal counsel relating to these lawsuits, which are at the administrative or judicial level, is R$393,017 at June 30, 2014 (R$388,665 at December 31, 2013):

The main lawsuits classified as possible losses are described below:

*PIS/COFINS* - Administrative lawsuits, which are awaiting a decision at the Regional Judgment Authority and CARF, relating to tax deficiency notice issued due to possible differences in tax calculation bases, credits calculated and offset, but not ratified by the Federal Revenue Service, among others involving lower amounts. The lawsuits with possible losses totaled R$214,301.

*ICMS* - Administrative proceedings and lawsuits, relating to tax deficiency notices issued due to: (i) acquisition of goods from suppliers, whose registrations were later declared inefficient by the tax authority, in the estimated amount of R$15,345; and (ii) discussion on rate increase in the state of São Paulo from 17% to 18%, in which the government does not accept reimbursement of a 1% difference; among others involving lower amounts, the estimated amount of lawsuits is R$55,352, (iii) and other different discussions in the estimated amount of R$29,397.

(b) Civil and labor lawsuits

The Company challenges civil and labor administrative lawsuits with likelihood of possible loss, whose amounts are immaterial for disclosure.

## 18. Equity

<u>Capital Stock</u>

On April 24, 2014, the Company's Board of Directors approved:

(a) The conclusion of the Share Buyback Program created by the Company’s Board of Directors on September 18, 2013 (“Program”).

(b) The cancellation of all treasury shares, i.e., 5,000,000 shares, without decreasing capital stock;

(c) The creation of a new share buyback program.

<u>Profit reserve</u>

On April 17, 2014, an Annual and Extraordinary Shareholders’ Meeting was held and approved the payment of dividends in the amount of R$19,486. The Company had already accrued for mandatory dividends in 2013 in the amount of R$4,219. Thus, the provision for additional dividends was recorded in the amount of R$15,267.

(Amounts in thousands of Brazilian reais - R$)

## 19. Net sales revenue

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Gross revenue: | | | | | | | | |
| Retail - resale of goods | **5,184,972** | 4,135,954 | **5,195,191** | 4,135,954 | **2,614,016** | 2,096,877 | **2,619,726** | 2,096,877 |
| Retail - services rendered | **229,621** | 163,578 | **240,396** | 168,862 | **122,473** | 81,186 | **126,675** | 85,949 |
| Consortium management | **-** | - | **20,080** | 18,866 | **-** | - | **10,198** | 9,608 |
| | **5,414,593** | 4,299,532 | **5,455,667** | 4,323,682 | **2,736,489** | 2,178,063 | **2,756,599** | 2,192,434 |
| Taxes and returns: | | | | | | | | |
| **Resale of goods** | **(811,457)** | (711,930) | **(811,806)** | (711,930) | **(396,466)** | (357,600) | **(396,695)** | (357,600) |
| **Services rendered** | **(30,471)** | (21,453) | **(32,235)** | (23,077) | **(16,246)** | (10,941) | **(17,145)** | (11,767) |
| | **(841,928)** | (733,383) | **(844,041)** | (735,007) | **(412,712)** | (368,541) | **(413,840)** | (369,367) |
| **Net sales revenue** | **4,572,665** | 3,566,149 | **4,611,626** | 3,588,675 | **2,323,777** | 1,809,522 | **2,342,759** | 1,823,067 |

## 20. Cost of goods resold and services rendered

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Costs: | | | | | | | | |
| Goods resold | **(3,349,180)** | (2,572,986) | **(3,351,464)** | (2,572,986) | **(1,704,428)** | (1,307,199) | **(1,705,857)** | (1,307,199) |
| Services rendered | **-** | - | **(6,442)** | (3,249) | **-** | - | **(3,183)** | (1,649) |
| | **(3,349,180)** | (2,572,986) | **(3,357,906)** | (2,576,235) | **(1,704,428)** | (1,307,199) | **(1,709,040)** | (1,308,848) |

(Amounts in thousands of Brazilian reais - R$)

## 21. Information on the nature of the expenses recognized in the statement of income

The Group's statement of income is presented based on the classification of the expenses according to their functions. Information on the nature of expenses recognized in the statement of income is as follows:

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Personnel expenses | **(525,101)** | (468,814) | **(525,101)** | (468,814) | **(265,568)** | (227,451) | **(265,568)** | (227,451) |
| Service providers expenses | **(235,581)** | (184,550) | **(235,581)** | (184,550) | **(116,583)** | (85,866) | **(116,583)** | (85,866) |
| Other | **(254,498)** | (140,181) | **(269,371)** | (149,099) | **(123,523)** | (44,096) | **(131,790)** | (48,501) |
| | **(1,015,180)** | (793,545) | **(1,030,053)** | (802,463) | **(505,674)** | (357,413) | **(513,941)** | (361,818) |
| Classified by function as: | | | | | | | | |
| Selling expenses | **(831,810)** | (704,574) | **(835,740)** | (704,574) | **(413,016)** | (349,501) | **(415,836)** | (349,501) |
| General and administrative expenses | **(197,508)** | (170,760) | **(208,454)** | (179,717) | **(100,726)** | (81,293) | **(106,175)** | (85,722) |
| Other operating income, net | **14,138** | 81,789 | **14,141** | 81,828 | **8,068** | 73,381 | **8,070** | 73,405 |
| | **(1,015,180)** | (793,545) | **(1,030,053)** | (802,463) | **(505,674)** | (357,413) | **(513,941)** | (361,818) |

## 22. Other operating income, net

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Gain (loss) on sale of property and equipment (a) | **(942)** | 126,327 | **(942)** | 126,327 | **(832)** | 126,444 | **(832)** | 126,444 |
| Recognition of deferred revenue (b) | **16,624** | 16,826 | **16,624** | 16,826 | **8,687** | 8,259 | **8,687** | 8,259 |
| Provision for tax losses | **851** | (43,872) | **851** | (43,872) | **2,530** | (45,285) | **2,530** | (45,285) |
| Non-recurring expenses (c) | **(2,582)** | (17,239) | **(2,582)** | (17,239) | **(2,582)** | (15,849) | **(2,582)** | (15,849) |
| Other | **187** | (253) | **190** | (214) | **265** | (188) | **267** | (164) |
| Total | **14,138** | 81,789 | **14,141** | 81,828 | **8,068** | 73,381 | **8,070** | 73,405 |

(a) On June 27, 2013, the Company sold 76.7% of the distribution center located in the municipality of Louveira (SP), recording a gain of R$126,554. The remaining balance of R$227 refers to loss on the sale of other property and equipment.

(b) Refers to the allocation of deferred revenue from the assignment of exploration rights, as described in Note 16.

(c) Expenses referring to stores shutting down. In 2013, it substantially referred to provisions and write-offs deriving from chain merger process.

(Amounts in thousands of Brazilian reais - R$)

## 23. Financial expenses, net

| | Six-month period ended | | | | Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 | 06/30/2014 | 06/30/2013 |
| Financial income: | | | | | | | | |
| Interest on extended warranty sales | **30,365** | 21,195 | **30,365** | 21,195 | **15,608** | 10,913 | **15,608** | 10,913 |
| Income from short-term financial investments and securities | **16,629** | 9,786 | **3,061** | 1,456 | **7,399** | 7,338 | **1,795** | 1,054 |
| Interest on sale of goods - interest on delay in receivables | **2,342** | 1,890 | **2,342** | 1,890 | **1,266** | 1,013 | **1,266** | 1,013 |
| Exchange gains | **168** | 33 | **168** | 33 | **73** | - | **73** | - |
| Discount obtained | **9,237** | 3,827 | **9,237** | 3,827 | **5,431** | 1,625 | **5,431** | 1,625 |
| Other | **1,997** | 225 | **2,005** | 225 | **1,990** | 7 | **1,997** | 7 |
| | **60,738** | 36,956 | **47,178** | 28,626 | **31,767** | 20,896 | **26,170** | 14,612 |
| Financial expenses: | | | | | | | | |
| Interest on borrowings and financing | **(81,426)** | (58,306) | **(81,426)** | (58,306) | **(42,470)** | (32,350) | **(42,470)** | (32,350) |
| Charges on credit card advances | **(95,961)** | (54,796) | **(96,137)** | (54,796) | **(50,396)** | (29,015) | **(50,511)** | (29,015) |
| Provision for interest on extended warranty | **(15,899)** | (12,312) | **(15,899)** | (12,312) | **(8,635)** | (8,332) | **(8,635)** | (8,332) |
| Exchange losses | **-** | (281) | **-** | (281) | **-** | (281) | **-** | (281) |
| Other | **(7,570)** | (7,658) | **(7,616)** | (7,723) | **(4,063)** | (4,084) | **(4,089)** | (4,144) |
| | **(200,856)** | (133,353) | **(201,078)** | (133,418) | **(105,564)** | (74,062) | **(105,705)** | (74,122) |
| Net financial result | **(140,118)** | (96,397) | **(153,900)** | (104,792) | **(73,797)** | (53,166) | **(79,535)** | (59,510) |

## 24. Segment reporting

CPC 22 and IFRS 8 - Segment Reporting - require that the operating segments are identified based on internal reports related to the Company's components periodically reviewed by the CEO, the main operating decision maker, so that funds may be allocated to segments and their performance may be assessed.

To manage its business taking into consideration its financial and operating activities, the Company classified its business into Retail, Credit, Insurance and Consortium Management operations. These classifications are considered as the primary segments for disclosure of information. The characteristics of these divisions are described below:

- Retail - mainly resale of goods and provision of services in the Company's stores and e-commerce;
- Financial operations - through the joint venture Luizacred, mainly engaged in granting credit to the Company's customers for acquisition of products;
- Insurance- through the joint venture Luizaseg, mainly engaged in offering extended warranties of products purchased by the Company's customers;
- Consortium management - through the subsidiary LAC, mainly engaged in the management of consortia to the Company's customers for purchase of products.

The Company's sales are fully made in the Brazilian territory and, considering retail operations, there is no concentration of customers, as well as of products and services offered by the Group.

(Amounts in thousands of Brazilian reais - R$)

## 24. Segment reporting (Continued)

Statement of income

| | 06/30/2014 | | | |
|---|---|---|---|---|
| | Retail (*) | Financial operations | Insurance operations | Consortium management |
| Gross revenue | 5,439,084 | 422,672 | 70,812 | 20,080 |
| Revenue deductions | (842,277) | - | - | (1,764) |
| Segment net revenue | 4,596,807 | 422,672 | 70,812 | 18,316 |
| Costs | (3,354,961) | (54,022) | (7,438) | (6,442) |
| Gross profit | 1,241,846 | 368,650 | 63,374 | 11,874 |
| | | | | |
| Selling expenses | (835,740) | (139,392) | (51,532) | - |
| General and administrative expenses | (199,030) | (1,039) | (10,763) | (9,424) |
| Result from allowance for doubtful accounts | (11,797) | (169,066) | - | - |
| Depreciation and amortization | (54,521) | (3,255) | (2) | (160) |
| Equity in earnings (losses) of subsidiaries | 43,898 | - | - | - |
| Other operating income | 14,138 | 7,222 | 93 | 3 |
| Financial income (expenses), net | (154,582) | - | 5,506 | 682 |
| Income tax and social contribution | 2,956 | (25,235) | (2,654) | (984) |
| Net income for the period | 47,168 | 37,885 | 4,022 | 1,991 |
| | | | | |
| **Equity accounting reconciliation** | | | | |
| Equity in the earnings of LAC (Note 10) | 1,991 | | | |
| Equity in the earnings of Luizacred (Note 11) | 37,885 | | | |
| Equity in the earnings of Luizaseg (Note 11) | 4,022 | | | |
| (=) Equity accounting of retail segment | 43,898 | | | |
| (-) Elimination effect - LAC | (1,991) | | | |
| (=) Consolidated equity in the earnings of subsidiaries | 41,907 | | | |

(*) Consolidated balances including the results of Magazine Luiza S.A. and Época Cosméticos.

(Amounts in thousands of Brazilian reais - R$)

## 24. Segment reporting (Continued)

Statement of income (Continued)

| | 06/30/2013 | | | |
|---|---|---|---|---|
| | **Retail (*)** | **Financial operations** | **Insurance operations** | **Consortium management** |
| Gross revenue | 4,308,237 | 352,512 | 45,306 | 18,866 |
| Revenue deductions | (733,383) | - | - | (1,624) |
| Segment net revenues | 3,574,854 | 352,512 | 45,306 | 17,242 |
| Costs | (2,572,986) | (33,542) | (4,644) | (6,670) |
| Gross profit | 1,001,868 | 318,970 | 40,662 | 10,572 |
| Selling expenses | (704,574) | (124,861) | (29,896) | - |
| General and administrative expenses | (170,760) | (714) | (6,118) | (8,957) |
| Result from allowance for doubtful accounts | (10,004) | (164,191) | - | - |
| Depreciation and amortization | (50,055) | (3,284) | (9) | (153) |
| Equity in the earnings (losses) of subsidiaries | 24,052 | - | - | - |
| Other operating income | 81,789 | 3,805 | 5 | 39 |
| Financial income (expenses), net | (105,102) | - | 3,678 | 310 |
| Income tax and social contribution | (11,758) | (11,894) | (3,311) | (601) |
| Net income (loss) for the period | 55,456 | 17,831 | 5,011 | 1,210 |
| **Equity accounting reconciliation** | | | | |
| Equity in the earnings of LAC | 1,210 | | | |
| Equity in the earnings of Luizacred | 17,831 | | | |
| Equity in the earnings of Luizaseg | 5,011 | | | |
| (=) Equity accounting of retail segment | 24,052 | | | |
| (-) Elimination effect - LAC | (1,210) | | | |
| (=) Consolidated equity in the earnings (losses) of subsidiaries | 22,842 | | | |

(*) Consolidated balances including results of Magazine Luiza S.A.

(Amounts in thousands of Brazilian reais - R$)

## 24. Segment reporting (Continued)

Statement of financial position

| | 06/30/2014 | | | |
|---|---|---|---|---|
| | Retail (*) | Financial operations | Insurance operations | Consortium management |
| **Assets** | | | | |
| Cash and cash equivalents | 270,778 | 3,336 | 123 | 16,590 |
| Securities | 283,759 | 4,751 | 130,431 | - |
| Trade receivables | 581,257 | 1,873,665 | - | - |
| Inventories of goods for resale | 1,144,160 | - | - | - |
| Investments | 301,516 | - | - | - |
| Property and equipment and intangible assets | 1,021,607 | 91,234 | 3 | 1,072 |
| Other | 878,392 | 132,591 | 24,472 | 3,298 |
| | 4,481,469 | 2,105,577 | 155,029 | 20,960 |
| **Liabilities** | | | | |
| Trade payables | 1,189,124 | - | 2,124 | 394 |
| Borrowings and financing | 1,576,453 | - | - | - |
| Interbank deposits | - | 1,133,983 | - | - |
| Credit card operations | - | 630,298 | - | - |
| Insurance reserves | - | - | 90,418 | - |
| Provision for contingencies | 261,784 | 24,833 | 186 | 384 |
| Deferred revenue | 372,334 | 7,500 | - | - |
| Other | 371,888 | 58,577 | 25,637 | 5,716 |
| | 3,771,583 | 1,855,191 | 118,365 | 6,494 |
| Equity | 709,886 | 250,386 | 36,664 | 14,466 |

| | |
|---|---|
| **Investment reconciliation** | |
| **Investment in subsidiaries** | |
| Investment in LAC (Note 10) | 14,466 |
| **Investment in joint ventures** | |
| Investment in Luizacred (Note 11) | 250,386 |
| Investment in Luizaseg (Note 11) | 36,664 |
| | 287,050 |
| Total investments | 301,516 |
| (-) Elimination effect - LAC | (14,466) |
| (=) Consolidated investment balance in joint ventures | 287,050 |

(*) Consolidated balance including results of Magazine Luiza S.A. and Época Cosméticos.

(Amounts in thousands of Brazilian reais - R$)

## 24. **Segment reporting** (Continued)

Statement of financial position (Continued)

| | 12/31/2013 | | | |
|---|---|---|---|---|
| | **Retail (*)** | **Financial operations** | **Insurance operations** | **Consortium management** |
| **Assets** | | | | |
| Cash and cash equivalents | 278,397 | 5,453 | 42 | 1,909 |
| Securities | 477,210 | 5,410 | 119,229 | 14,078 |
| Trade receivables | 535,303 | 1,803,071 | - | - |
| Inventories of goods for resale | 1,251,362 | - | - | - |
| Investments | 265,324 | - | - | - |
| Property and equipment and intangible assets | 1,020,778 | 94,436 | 3 | - |
| Other | 879,948 | 111,834 | 31,370 | 3,847 |
| | 4,708,322 | 2,020,204 | 150,644 | 19,834 |
| **Liabilities** | | | | |
| Trade payables | 1,651,169 | - | 1,909 | 374 |
| Borrowings and financing | 1,320,280 | - | - | - |
| Interbank deposits | - | 1,077,961 | - | - |
| Credit card operations | - | 632,854 | - | - |
| Insurance reserves | - | - | 81,436 | - |
| Provision for contingencies | 245,481 | 23,538 | 94 | 401 |
| Deferred revenue | 385,958 | 7,500 | - | - |
| Other | 410,823 | 65,850 | 27,959 | 5,483 |
| | 4,013,711 | 1,807,703 | 111,398 | 6,258 |
| Equity | 694,611 | 212,501 | 39,246 | 13,576 |

| | |
|---|---|
| **Investment reconciliation** | |
| **Investment in subsidiaries** | |
| Investment in LAC (Note 10) | 13,576 |
| **Investment in joint ventures** | |
| Investment in Luizacred (Note 11) | 212,501 |
| Investment in Luizaseg (Note 11) | 39,246 |
| | 251,747 |
| Total investments | 265,323 |
| (-) Elimination effect - LAC | (13,576) |
| (=)Consolidated investment balance in joint ventures | 251,747 |

(*) Consolidated balance including results of Magazine Luiza S.A. and Época Cosméticos.

(Amounts in thousands of Brazilian reais - R$)

## 25. Financial instruments

Capital risk management

The objectives of capital management are to safeguard the continuous return to the Company's shareholders and benefits to other related parties, and maintain an ideal capital structure to reduce this cost and maximize its funds to allow for investments in new stores, refurbishment and remodeling of existing stores.

The Company's capital structure comprises financial liabilities, cash and cash equivalents, securities and equity.

Periodically, Management reviews the capital structure and its ability to settle its liabilities, as well as monitors, on a timely basis, the average term of suppliers in relation to the average term of inventory turnover. Actions are promptly taken when the assets resulting from this ratio are higher than the liabilities.

The Company also uses the net debt/EBITDA ratio, which in its opinion, represents the most adequate manner to measure its indebtedness, since it reflects the net consolidated financial obligations of immediate funds available for payment, considering its operating cash generation. Net debt means the sum of all borrowings and financing in current and noncurrent liabilities, less cash and cash equivalents and securities in current assets. EBITDA means profit before income tax and social contribution, financial income and expenses, depreciation and amortization.

The Company's capital structure is broken down as under:

| | **Company** | | **Consolidated** | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Borrowings and financing | **1,575,996** | 1,320,042 | **1,576,453** | 1,320,280 |
| (-) Cash and cash equivalents | **(270,501)** | (278,006) | **(287,368)** | (280,306) |
| (-) Securities | **(283,759)** | (477,210) | **(283,759)** | (491,288) |
| Net debt | **1,021,736** | 564,826 | **1,005,326** | 548,686 |
| Equity | **709,886** | 694,611 | **709,886** | 694,611 |

(Amounts in thousands of Brazilian reais - R$)

## 25. Financial instruments (Continued)

Categories of financial instruments

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2014** | **12/31/2013** | **06/30/2014** | **12/31/2013** |
| Financial assets | | | | |
| Loans and receivables (including cash and banks): | | | | |
| Cash and banks | **46,686** | 53,251 | **48,952** | 55,551 |
| Escrow deposits | **187,863** | 170,080 | **187,863** | 170,080 |
| Trade receivables | **580,782** | 534,605 | **581,259** | 535,303 |
| Related parties | **88,659** | 109,474 | **87,810** | 108,895 |
| Held for trading: | | | | |
| Cash equivalents and securities | **507,574** | 701,965 | **522,175** | 716,043 |
| Financial liabilities: | | | | |
| Amortized cost: | | | | |
| Borrowings and financing | **1,575,996** | 1,320,042 | **1,576,453** | 1,320,280 |
| Trade payables | **1,185,648** | 1,646,947 | **1,189,518** | 1,651,543 |
| Related parties | **66,831** | 73,716 | **66,803** | 73,619 |
| Taxes paid in installments | **7,098** | 8,286 | **7,098** | 8,286 |

Fair value measurement

Consolidated assets and liabilities at fair value are summarized as follows:

Cash and cash equivalents are classified in Level 2 and the fair value is estimated based on reports from brokerage firms making use of market prices quoted for similar instruments.

The fair value of other financial instruments described above allows to approximate their carrying amounts based on the existing payment conditions. The Company has no outstanding assets or liabilities where the fair value could be measured by using non-observable relevant information (Level 3) as at June 30, 2014 and December 31, 2013.

Liquidity risk management

The Company's Management has ultimate responsibility for the management of the liquidity risk and has prepared an appropriate liquidity risk management model to manage funding requirements and short-, medium- and long-term liquidity management. The Group manages the liquidity risk through the continuous monitoring of estimated and actual cash flows, the combination of the maturity profiles of financial assets and liabilities and the maintenance of a close relationship with financial institutions, with regular disclosure of information to support credit decisions when external funds are necessary.

(Amounts in thousands of Brazilian reais - R$)

## 25. Financial instruments (Continued)

Liquidity risk management (Continued)

The table below details the remaining contractual maturity of the Group's financial liabilities and the contractual repayment periods. This table was prepared using the undiscounted cash flows of financial liabilities, based on the closest date when the Group should settle the related obligations. The tables include interest and principal cash flows. As interest flows are based on floating rates, the undiscounted amount was based on the interest curves at year-end.

Contractual maturity is based on the most recent date when the Company should settle the related obligations:

| | Less than one year | From one to three years | Over three years | Total consolidated |
|---|---|---|---|---|
| Trade payables | 1,189,518 | - | - | 1,189,518 |
| Borrowings and financing | 422,422 | 809,568 | 344,463 | 1,576,453 |
| Related parties | 66,803 | - | - | 66,803 |
| Other payables (former members of Época Cosméticos) | 12,000 | - | - | 12,000 |
| Taxes paid in installments | 7,098 | - | - | 7,098 |

Considerations on risks

The Company's and its subsidiaries' businesses mainly comprise the retail sale of consumer goods, mainly home appliances, personal electronics, furniture and financial services, consumer financing for purchase of these assets and consortium-related activities, created to purchase vehicles, motorcycles, home appliances and real properties. The main market risk factors affecting the Company's business are as follows:

*Credit risk:* arises from the possibility that the Group may incur losses due to non-receipt of amounts billed to their customers, whose consolidated balance amounts to R$496,118 as at June 30, 2014 (R$432,140 as at December 31, 2013). This risk is assessed by the Company as low due to the normally widespread sales as a result of the large number of customers; however, there are no guarantees of actual receipt of the total balance of trade receivables due to the nature of the Group's activities. In cases in which the concentration of billed amounts is greater, the risk is managed by means of periodic analysis of default rate and adoption of more efficient collection measures. As at June 30, 2014, the Group recorded past-due or uncollectible balances under "trade receivables," whose terms were renegotiated, in the amount of R$11,557 (R$11,652 as at December 31, 2013), which are included in the Group's analysis on the need to recognize an allowance for doubtful accounts.

## 25. Financial instruments (Continued)

Considerations on risks (Continued)

*Market risk:* arises from the slowdown of retail sales in the Brazilian economic environment. The risks involved in these transactions are managed by establishing operational and commercial policies, determining limits for derivative transactions, and constantly monitoring assumed positions.

*Interest rate risk:* the Group is exposed to floating interest rates tied to the "Interbank Deposit Certificate (CDI)", relating to financial investments and borrowings and financing in Brazilian reais, for which it performed a sensitivity analysis, as described in the following item below.

*Foreign exchange rate risk management:* the Company uses derivatives, recorded in its statement of financial position and statement of income accounts to meet its market risk management requirements, arising from mismatching between currencies and indices. Derivative transactions are carried out through the Finance Department, pursuant to the strategies previously approved by the Group's Board of Directors. In this scenario, the Company raised interest-bearing, foreign-currency-denominated loans, for which it entered into swap transactions to hedge against exchange rate variation, swapping contracted interest rate and foreign currency exchange rate for CDI plus fixed rate. This is a matched transaction, which consists formally of a loan agreement, and a swap transaction entered into on the same date, with the same maturity and counterparty and that should be settled by its net value. Thus, Management believes that, in substance, this is a loan transaction denominated in local currency, subject to a certain interest rate; accordingly, the accounting treatment and related disclosures reflect the substance of the transaction.

The Company does not adopt the hedge accounting under CPC 38.

Below, a description of agreements that affected profit or loss for the year ended June 30, 2014:

| Bank | Notional value | Fair value through gain (loss) on swap | Bank index | | Company index | |
|---|---|---|---|---|---|---|
| | | | Index | Interest | Index | Interest |
| | | (a) | | | | |
| Banco do Brasil | 44,475 | 34,342 | US$ | 4.79% p.a. | CDI | 116.0% p.a. |

(a) The fair value of derivatives is determined by using a methodology normally used by market players; the present value of payments is estimated by using market curves disclosed by BM&FBOVESPA.

There were no transactions in the reporting period which are no longer classified as hedging transactions, and no future commitments subject to cash flow hedge.

(Amounts in thousands of Brazilian reais - R$)

## 25. Financial instruments (Continued)

Sensitivity analysis of financial instruments

As of June 30, 2014, Management carried out a sensitivity analysis, taking into account a 25 and 50 percent increase in the expected interest rates (probable scenario), based on future exchange rates disclosed by BM&FBOVESPA and/or BACEN. The expected effects of interest expenses net of financial income of financial investments for the next reporting period (December 31, 2014) are as follows:

| | Probable rate | Probable Scenario I | Scenario II (+ 25%) | Scenario III (+ 50%) |
|---|---|---|---|---|
| Interest to be incurred exposed to: | | | | |
| CDI | 11.00% | **(46,564)** | **(58,206)** | **(69,847)** |
| Impact on financial result, net of taxes | | **(30,733)** | **(38,416)** | **(46,099)** |

As discussed above, the Group's Management understands that there is no market risk arising from foreign exchange fluctuations since all significant financial liabilities recorded in foreign currency are tied to swap transactions, so that these loans are recorded in domestic currency. Accordingly, changes in swap instruments and borrowings and financing are offset.

## 26. Insurance

The Company has insurance contracts with coverage determined following the advice of experts, taking into account the nature and degree of risk, in amounts considered sufficient to cover any losses on its assets and/or liabilities.

As of June 30, 2014 and December 31, 2013, insurance coverage is as follows:

| | 06/30/2014 | 12/31/2013 |
|---|---|---|
| Civil liability and D&O | **40,000** | 40,000 |
| Sundry risks - inventories and property and equipment | **1,553,304** | 1,489,041 |
| Vehicles | **17,738** | 18,369 |
| | **1,611,042** | 1,547,410 |

## 27. Approval of the financial statements

The disclosure of the financial statements was approved and authorized by the Board of Directors on July 30, 2014.