Financial Statements

Magazine Luiza S.A.

December 31, 2015 and 2014
with Independent Auditor's Report

Magazine Luiza S.A.

Financial statements

December 31, 2015 and 2014

Contents

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A free translation from Portuguese into English of Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board - IASB and accounting practices adopted in Brazil

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
Magazine Luiza S.A.
São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Magazine Luiza S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2015 and the income statement, of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Magazine Luiza S.A. as at December 31, 2015, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of matter

On February 26, 2016, we issued an unmodified auditor's report on the individual and consolidated financial statements of Magazine Luiza S.A., which are now being restated. As described in Note 3.10, these financial statements have been amended and are being restated to reflect the matters related to the reclassification of the changes in marketable securities in the individual statements of cash flows for the years ended December 31, 2015 and 2014 and the unrealized profits of intermediation transactions concerning sale of extended warranty insurance to the jointly-owned subsidiary Luizaseg, described in the aforementioned note. Our opinion remains unmodified, since the financial statements and their amounts corresponding to the previous period have been reclassified retrospectively.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2015, prepared under the responsibility of Company's management, the presentation of which is required by Brazilian corporation law for publicly held companies, and as supplementary information under the IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

São Paulo, May 30, 2017.

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

Waldyr Passetto Junior
Accountant CRC-1SP173518/O-8

Magazine Luiza S.A.

Statement of financial
December 31, 2015 and 2014
(Amounts in thousands of Brazilian reais - R$)

		Company			Consolidated		
	Note	**2015**	**2014**	**January 1, 2014**	**2015**	**2014**	**January 1, 2014**
Assets		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Current assets							
Cash and cash equivalents	6	**590,400**	391,763	278,006	**617,465**	412,170	280,306
Securities and other financial assets	7 e 28	**497,623**	450,979	477,210	**497,623**	450,979	491,288
Trade receivables	8	**430,549**	616,585	529,922	**435,225**	618,276	530,620
Inventories	9	**1,343,741**	1,465,553	1,247,205	**1,353,092**	1,472,738	1,251,362
Related parties	10	**88,140**	93,895	109,474	**86,152**	93,220	108,895
Taxes recoverable	11	**333,475**	295,205	218,554	**334,344**	295,595	218,554
Other assets		**35,531**	51,389	39,872	**36,614**	52,944	40,965
Total current assets		**3,319,459**	3,365,369	2,900,243	**3,360,515**	3,395,922	2,921,990
Noncurrent assets							
Securities	7 e 28	**46,728**	-	-	**46,728**	-	-
Trade receivables	8	**2,595**	5,020	4,683	**2,595**	5,020	4,683
Taxes recoverable	11	**177,295**	106,477	158,761	**177,295**	106,477	158,761
Deferred income tax and social contribution	12	**228,602**	145,436	139,253	**229,347**	146,447	139,427
Escrow deposits	20	**248,450**	209,648	170,080	**248,450**	209,648	170,080
Other assets		**51,977**	49,587	43,858	**54,291**	51,973	45,402
Investments in subsidiaries	13	**56,905**	44,793	37,403	**-**	-	-
Investments in joint ventures	14	**297,469**	**280,566**	**212,501**	**297,469**	**280,566**	**212,501**
Property and equipment	15	**577,811**	565,358	539,729	**578,571**	566,193	540,444
Intangible assets	16	**463,726**	446,080	438,559	**506,720**	488,753	481,370
Total noncurrent assets		**2,151,558**	**1,852,965**	**1,744,827**	**2,141,466**	**1,855,077**	**1,752,668**
Total assets		**5,471,017**	5,218,334	4,645,070	**5,501,981**	5,250,999	4,674,658

See accompanying notes.

		Company			Consolidated		
	Note	2015	2014	January 1, 2014	2015	2014	January 1, 2014
Liabilities and equity		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Current liabilities							
Trade payables	17	**1,885,251**	1,784,902	1,646,947	**1,894,157**	1,789,898	1,651,543
Borrowings and financing	18	**568,220**	591,051	424,989	**568,350**	591,443	425,227
Payroll, vacation pay and payroll charges		**150,419**	164,739	164,489	**153,903**	167,423	166,585
Taxes payable		**29,497**	44,008	40,971	**30,605**	44,595	41,664
Related parties	10	**68,787**	80,525	73,716	**68,404**	80,305	73,619
Taxes paid in installments		**-**	6,504	8,286	**-**	6,504	8,286
Deferred revenue	19	**41,399**	37,734	36,734	**41,399**	37,734	36,734
Dividends and interest on equity payable		**-**	18,319	16,219	**-**	18,319	16,219
Other payables		**116,038**	92,848	106,631	**117,964**	95,227	107,714
Total current liabilities		**2,859,611**	2,820,630	2,518,982	**2,874,782**	2,831,448	2,527,591
Noncurrent liabilities							
Borrowings and financing	18	**1,254,830**	1,120,184	895,053	**1,254,960**	1,120,184	895,053
Provision for tax, civil and labor contingencies	20	**230,010**	246,225	226,446	**243,412**	265,691	245,882
Deferred revenue	19	**550,910**	315,866	349,224	**550,910**	315,866	349,224
Other provision		**-**	47,518	47,310	**2,261**	49,899	48,853
Total noncurrent liabilities		**2,035,750**	1,729,793	1,518,033	**2,051,543**	1,751,640	1,539,012
Total liabilities		**4,895,361**	4,550,423	4,037,015	**4,926,325**	4,583,088	4,066,603
Equity	21						
Capital stock		**606,505**	606,505	606,505	**606,505**	606,505	606,505
Capital reserve		**14,567**	10,103	5,640	**14,567**	10,103	5,640
Treasury shares		**(9,574)**	(20,195)	(20,063)	**(9,574)**	(20,195)	(20,063)
Legal reserve		**16,143**	16,143	9,715	**16,143**	16,143	9,715
Profit reserve		**-**	56,617	7,902	**-**	56,617	7,902
Accumulated losses		**(50,357)**	-		**(50,357)**	-	-
Other comprehensive income		**(1,628)**	(1,262)	(1,644)	**(1,628)**	(1,262)	(1,644)
Total equity		**575,656**	667,911	608,055	**575,656**	667,911	608,055
Total liabilities and equity		**5,471,017**	5,218,334	4,645,070	**5,501,981**	5,250,999	4,674,658

See accompanying notes.

Magazine Luiza S.A.

Statements of income
Years ended December 31, 2015 and 2014
(Amounts in thousands of reais - R$)

		Company		Consolidated	
	Note	2015	2014	2015	2014
Net sales revenue	22	**8,872,845**	9,692,286	**8,978,259**	9,779,385
Costs of goods resold and services rendered	23	**(6,369,372)**	(7,066,328)	**(6,399,630)**	(7,086,909)
Gross profit		**2,503,473**	2,625,958	**2,578,629**	2,692,476
Operating income (expenses)					
Selling	24	**(1,711,504)**	(1,737,443)	**(1,720,799)**	(1,746,258)
General and administrative expenses	24	**(431,100)**	(417,997)	**(458,479)**	(442,550)
Allowance for doubtful accounts		**(30,462)**	(22,547)	**(30,462)**	(22,547)
Depreciation and amortization	15 e 16	**(125,333)**	(113,896)	**(125,801)**	(114,332)
Equity in the earnings (losses) of subsidiaries	13 e 14	**88,948**	102,010	**75,605**	99,620
Other operating income, net	24 e 25	**15,187**	24,514	**20,233**	24,519
		(2,194,264)	(2,165,359)	**(2,239,703)**	(2,201,548)
Operating profit before financial result		**309,209**	460,599	**338,926**	490,928
Finance income		**155,359**	124,982	**130,297**	96,469
Finance expenses		**(615,264)**	(456,548)	**(616,352)**	(457,211)
Financial result	26	**(459,905)**	(331,566)	**(486,055)**	(360,742)
Operating profit (loss) before income tax and social contribution		**(150,696)**	129,033	**(147,129)**	130,186
Current and deferred income tax and social contribution	12	**85,091**	(477)	**81,524**	(1,630)
Profit (loss) for the year		**(65,605)**	128,556	**(65,605)**	128,556
Profit (loss) attributable to:					
Owners of the company		**(65,605)**	128,556	**(65,605)**	128,556
Earnings (loss) per share					
Basic and diluted earnings (R$ per share)	21	**(2.94)**	5.60	**(2.94)**	5.60

See accompanying notes.

Magazine Luiza S.A.

Statement of comprehensive income
Years ended December 31, 2015 and 2014
(Amounts in thousands of reais - R$)

	Note	Company and Consolidated	
		2015	**2014**
Profit (loss) for the year		**(65,605)**	128,556
Available-for-sale financial assets		**(856)**	637
Tax effect		**490**	(255)
Total		**(366)**	382
Total other comprehensive income for the period, net of taxes		**(65,971)**	128,938
Attributable to:			
Controlling shareholders:		**(65,971)**	128,938

See accompanying notes.

Magazine Luiza S.A.

Statement of changes in equity - Company and Consolidated
For the years ended December 31, 2015 and 2014
(Amounts in thousands of Brazilian reais - R$)

	Note	Capital stock	Capital reserve	Treasury shares	Legal reserve	Profit Reserve	Profit (loss)	Other comprehensive Income	Total (Restated)
Balances at January 01, 2014 (restated)		606,505	5,640	(20,063)	9,715	7,902	-	(1,644)	608,055
Stock option plan		-	4,463	-	-	-	-	-	4,463
Treasury shares		-	-	(39,959)	-	-	-	-	(39,959)
Cancelation of treasury shares		-	-	39,827	-	(39,827)	-	-	-
Additional dividends proposed		-	-	-	-	(15,267)	-	-	(15,267)
Net income for the year		-	-	-	-	-	128,556	-	128,556
Allocations:		-	-	-	-	-	-	-	-
Legal reserve		-	-	-	6,428	-	(6,428)	-	-
Profit retention reserve		-	-	-	-	103,809	(103,809)	-	-
Interest on equity		-	-	-	-	-	(14,000)	-	(14,000)
Mandatory dividends		-	-	-	-	-	(4,319)	-	(4,319)
		606,505	10,103	(20,195)	16,143	56,617	-	(1,644)	667,529
Other comprehensive income:									
Financial instruments adjustment	14	-	-	-	-	-	-	382	382
Balances at December 31, 2014 (restated)		**606,505**	**10,103**	**(20,195)**	**16,143**	**56,617**	**-**	**(1,262)**	**667,911**
Stock option plan		**-**	**4,464**	**-**	**-**	**-**	**-**	**-**	**4,464**
Treasury shares		**-**	**-**	**(15,582)**	**-**	**-**	**-**	**-**	**(15,582)**
Cancelation of treasury shares		**-**	**-**	**26,203**	**-**	**(26,203)**	**-**	**-**	**-**
Additional dividends proposed		**-**	**-**	**-**	**-**	**(15,166)**	**-**	**-**	**(15,166)**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**(65,605)**	**-**	**(65,605)**
Transfer to retained profit retention reserve absorption		**-**	**-**	**-**	**-**	**(15,248)**	**15,248**	**-**	**-**
		606,505	**14,567**	**(9,574)**	**16,143**	**-**	**(50,537)**	**(1,262)**	**576,022**
Other comprehensive income:									
Financial instruments adjustment	14	**-**	**-**	**-**	**-**	**-**	**-**	**(366)**	(366)
Balances at December 31, 2015 (restated)		**606,505**	**14,567**	**(9,574)**	**16,143**	**-**	**(50,537)**	**(1,628)**	**575,656**

See accompanying notes.

Magazine Luiza S.A.

Statement of cash flows
Years ended December 31, 2015 and 2014
(Amounts in thousands of Brazilian reais - R$)

		Company		Consolidated	
	Note	2015	2014	2015	2014
		Restated	Restated		
Cash flow from operating activities					
Net income for the year		**(65,605)**	128,556	**(65,605)**	128,556
Adjustments to reconcile profit for the year to cash generated from operating activities:					
Income tax and social contribution expenses recognized in P&L	12	**(85,091)**	477	**(81,524)**	1,630
Depreciation and amortization	15 e 16	**125,333**	113,896	**125,801**	114,332
Interest rate accrued over borrowings and financing		**252,910**	166,545	**252,958**	166,545
Yield on securities		**(28,361)**	(30,692)	**(28,361)**	(31,015)
Equity in the earnings (losses) of subsidiaries	13 e 14	**(88,948)**	(102,010)	**(75,605)**	(99,620)
Changes in allowance for asset losses		**137,072**	80,217	**137,072**	80,217
Provision for tax, civil and labor contingencies	20	**(860)**	52,355	**(6,920)**	52,537
Write-off of property and equipment, net of gains from sale		**710**	1,229	**710**	1,229
Appropriation of deferred revenue	25	**(47,749)**	(35,358)	**(47,749)**	(35,358)
Stock option plan expenses		**4,464**	4,463	**4,464**	4,463
Other	12	**1,925**	-	**1,925**	-
Adjusted net income for the year		**205,800**	379,678	**217,166**	383,516
(Increase) decrease in operating assets:					
Receivables		**116,196**	(148,247)	**113,211**	(149,240)
Securities and other financial assets		**62,991**	56,923	**62,991**	71,324
Inventories and other financial assets		**57,005**	(237,318)	**54,839**	(240,346)
Related parties		**6,906**	4,027	**6,988**	4,123
Taxes recoverable		**(109,088)**	(22,809)	**(109,567)**	(23,199)
Other assets		**(24,632)**	(53,842)	**(24,040)**	(55,146)
Changes in operating assets		**109,378**	(401,266)	**104,422**	(392,484)
Increase (decrease) in operating liabilities:					
Trade payables		**100,349**	137,955	**104,259**	138,355
Payroll, vacation pay and related charges		**(14,320)**	250	**(13,520)**	838
Taxes payable		**(21,015)**	(3,623)	**(21,239)**	(3,734)
Related parties		**(11,738)**	6,809	**(11,901)**	6,686
Tax paid in installments		**-**	(1,782)	**-**	(1,782)
Other payables		**15,838**	(42,094)	**15,261**	(40,112)
Changes in operating liabilities		**69,114**	97,515	**72,860**	100,251
Income tax and social contribution paid		**-**	(1,558)	**(2,556)**	(3,543)
Dividends received from subsidiaries		**70,898**	45,797	**70,898**	43,697
Cash flow deriving from operating activities		**455,190**	120,166	**462,790**	131,437
Cash flows from investing activities					
Purchase of property and equipment	15	**(98,259)**	(106,255)	**(98,472)**	(106,590)
Purchase of intangible assets	16	**(58,585)**	(44,992)	**(59,134)**	(45,075)
Sale of exclusive dealing agreement and exploration right		**288,000**	3,000	**288,000**	3,000
Capital increase in subsidiaries and jointly controlled		**(60,000)**	(7,100)	**(60,000)**	-
Investment in subsidiary		**(9,545)**	(4,265)	**(9,545)**	(4,265)
Cash flow deriving from (used in) investing activities		**61,611**	(159,612)	**60,849**	(152,930)

Magazine Luiza S.A.

Statement of cash flows (Continued)
Years ended December 31, 2015 and 2014
(Amounts in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2015	2014	2015	2014
		Restated	Restated		
Cash flow from financing activities					
Borrowings and financing		**690,809**	641,187	**690,809**	641,724
Payment of borrowings and financing		**(738,264)**	(258,953)	**(738,396)**	(259,336)
Repayment of interest on borrowings and financing		**(221,642)**	(157,586)	**(221,690)**	(157,586)
Payment of dividends		**(33,484)**	(31,486)	**(33,484)**	(31,486)
Treasury shares acquired		**(15,583)**	(39,959)	**(15,583)**	(39,959)
Cash flow (used in) deriving from financing activities		**(318,164)**	153,203	**(318,344)**	153,357
Increase in cash and cash equivalents		**198,637**	113,757	**205,295**	131,864
Cash and cash equivalents at the beginning of the year		**391,763**	278,006	**412,170**	280,306
Cash and cash equivalents at the end of the year		**590,400**	391,763	**617,465**	412,170

See accompanying notes.

Magazine Luiza S.A.

Statement of value added
Years ended December 31, 2015 and 2014
(Amounts in thousands of Brazilian reais - R$)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Revenue				
Goods and products sold and services rendered	**9,910,096**	10,870,422	**10,022,062**	10,962,734
Allowance for doubtful accounts, net of reversals	**(30,462)**	(22,547)	**(30,462)**	(22,547)
Other operating revenue	**93,702**	29,709	**98,767**	29,698
	9,973,336	10,877,584	**10,090,367**	10,969,885
Inputs acquired from third parties				
Cost of products and goods sold and services rendered	**(6,941,230)**	(7,795,715)	**(6,971,641)**	(7,816,392)
Material, electricity, outsourced services and other	**(997,223)**	(837,912)	**(1,017,285)**	(857,507)
Impairment of assets	**(59,107)**	(21,070)	**(59,107)**	(21,070)
	(7,997,560)	(8,654,697)	**(8,048,033)**	(8,694,969)
Gross value added	**1,975,776**	2,222,887	**2,042,334**	2,274,916
Depreciation and amortization	**(125,333)**	(113,896)	**(125,801)**	(114,332)
Net value added generated by the entity	**1,850,443**	2,108,991	**1,916,533**	2,160,584
Value added received through transfer				
Equity in the earnings of subsidiaries	**88,948**	102,010	**75,605**	99,620
Finance income	**155,359**	124,982	**130,297**	96,469
Total value added to distribute	**2,094,750**	2,335,983	**2,122,435**	2,356,673
Distribution of value added				
Personnel and charges:				
Direct compensation	**716,681**	776,480	**728,383**	786,038
Benefits	**128,979**	159,234	**130,276**	160,152
Government Severance Indemnity Fund for Employees (FGTS)	**71,180**	70,268	**72,132**	71,107
	916,840	1,005,982	**930,791**	1,017,297
Taxes, fees and contributions::				
Federal	**41,220**	127,162	**50,036**	132,874
State	**265,032**	315,141	**267,049**	316,489
Municipal	**37,366**	37,496	**38,798**	38,713
	343,618	479,799	**355,883**	488,076
Value distributed to providers of capital:				
Interest	**537,271**	404,012	**538,134**	404,562
Rentals	**287,954**	265,098	**288,407**	265,533
Other	**74,672**	52,536	**74,825**	52,649
	899,897	721,646	**901,366**	722,744
Value distributed to shareholders:				
Interest on equity	**-**	14,000	**-**	14,000
Dividends	**-**	4,319	**-**	4,319
Retained earnings	**(65,605)**	110,237	**(65,605)**	110,237
	2,094,750	2,335,983	**2,122,435**	2,356,673

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 or through e-commerce. Its headquarters is in the city of Franca, state of São Paulo, Brazil and its parent and holding company is LTD Administração e Participação S.A.

At December 31, 2015, the Company and its subsidiaries owned 786 stores (756 stores in 2014) and nine distribution centers (eight distribution centers in 2014), located in the South, Southeast, Mid-west and Northeast regions of Brazil.

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

On May 30, 2017, the Board of Directors authorized the issue of these financial statements.

2. Presentation and preparation of the financial statements

2.1. Basis of preparation and presentation

The Company's parent company and consolidated financial statements were prepared based on the accounting practices adopted in Brazil, which include the provisions of the Brazilian Corporation Law provided for in Law No. 6404/76, with amendments to Law No. 11638/07, Law No. 11941/09 and Law No. 12973/14, and the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), implemented in Brazil through the Brazilian Accounting Pronouncements Committee ("CPC") and its technical interpretations ("ICPC") and guidance ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

All important information contained herein refers to the financial statements alone and corresponds to that used by management in the execution of its activities.

2. Presentation and preparation of the financial statements (Continued)

2.1. Basis of preparation and presentation (Continued)

The financial statements were prepared based on the historical cost, except for certain financial instruments measured by their fair values. The non-financial information included in these financial statements, such as the number of stores and distribution centers, amongst others, were not purpose of an audit by our independent auditors.

2.2. Basis of consolidation and investments in subsidiaries

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries. The control is obtained when the Group is exposed or is entitled to variable returns based on its involvement with the investee and has the capacity to affect these returns through its power over the investee.

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

Subsidiary	Main activity	Interest % 2015 and 2014
Época Cosméticos	E-commerce of perfumes and cosmetics	**100%**
Luiza Administradora de Consórcios (LAC)	Consortium management company	**100%**

The process of consolidating equity and income statement accounts observe their nature, eliminating the following:

- The Parent company's interest in the capital, reserves and retained earnings from consolidated entities;
- Balances of assets and liabilities maintained between consolidated entities; and
- Balances of revenues and expenses deriving from transactions between consolidated entities.

In the parent company's financial statements, the financial information about the subsidiaries and joint ventures will be recognized by the equity accounting method.

2.3. Functional and reporting currency of the financial statements

The Group's functional currency is the Brazilian Real. The financial statements of each subsidiary, as well as the financial statements adopted as basis to measure the investments by the equity accounting method, are prepared in Brazilian reais.

3. Summary of significant accounting practices

The summary of significant accounting practices described have been consistently applied to the reported years and to the parent company and consolidated financial statements:

3.1. Foreign currency-denominated transactions

If any, the monetary assets and liabilities denominated in foreign currency are translated into Brazilian Reais by adopting the foreign exchange rate effective on the closing date of the related statements of financial position. The differences resulting from the currency translation are recognized as finance income or expenses in the statement of income.

3.2. Financial Instruments

(i) <u>Financial assets</u>

The Company classifies the financial instruments according to the purpose to which they were acquired and establishes the classification upon initial recognition as per the following categories:

Measured at fair value through profit or loss - the financial instruments held for trading are recorded in this category to be sold in the short term. These instruments are measured at fair value and have their gains and losses recorded directly in the statement of income. Securities and other financial assets are classified into this category.

Loans and receivables - these are non-derivative financial assets with fixed or determinable payments not quoted in an active market. Loans and receivables are measured at the amortized cost by adopting the effective interest rate method, less any impairment loss. Escrow deposits, related parties and trade receivables are classified into this category.

Financial assets impairment

As of the reporting dates, the Company analyzes if there is any objective evidence determining the impairment of the financial asset, or group of financial assets. An impairment only exists if, and only if, there is an objective evidence of non-recoverability due to one or more events occurred after the asset’s initial recognition with an impact on the estimated future cash flow of the financial asset, which may be reasonably estimated.

3. Summary of significant accounting practices (Continued)

3.2. Financial Instruments (Continued)

(i) Financial assets (Continued)

Derecognition (write-off) of financial assets

The derecognition of a financial asset only occurs when the contractual rights over the asset's cash flow are realized or when the Company transfers the financial asset and substantially all its risks and returns to third parties. In transactions where these financial assets are transferred to third parties, but without effective transfer of related risks and returns, the asset is not derecognized.

(ii) Financial liabilities

The Group's financial liabilities were classified upon initial recognition in the following category:

Other financial liabilities - these are initially measured at fair value, net of transaction costs and, subsequently, they are measured by the amortized cost adopting the effective interest rate method to calculate the interest expense. The effective interest rate method calculates the amortized cost of a liability and allocates interest expenses during the significant period. The following is classified herein: balances of trade payables, borrowings and financing, related parties and taxes paid in installments.

Measured at fair value through profit or loss - financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments held by the Group that do not meet hedge accounting criteria defined by CPC 38 - Derivatives, including embedded derivatives that are not closely related to the host contract and must be separated, and are also classified as held for trading unless they are designated as effective hedging instruments. Gains and losses on liabilities held for trading are recognized in the income statement.

Derecognition (write-off) of financial liabilities

A financial liability is written off when the obligation is revoked, canceled or expired. When a current financial liability is replaced with another one from same lender under substantially different terms, or the terms of a current liability are substantially modified, such replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in corresponding carrying amounts is recognized in profit or loss.

3. Summary of significant accounting practices (Continued)

3.3. Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to manage its market risks, deriving from mismatch between currencies and indices. Derivatives are initially recognized at fair value on the date of the agreement, and subsequently, measured at their fair value at the end of each year or period as can be seen in greater detail in Note 28

3.4. Allocation of goodwill balances

Goodwill allocated to each cash-generating unit is annually tested for impairment or more frequently, when there is any indication that the cash-generating unit shows lower than expected performance. If the recoverable value of the cash-generating unit is lower than its carrying amount plus goodwill allocated thereto, the impairment loss is firstly allocated to reduce the goodwill allocated to the unit, and subsequently, to other assets of the unit, proportionally to the carrying amount of each of these assets. Any goodwill impairment is directly recognized in profit or loss when it was identified, which is not reversed in subsequent periods, even if the factors which resulted in its recording no longer exist.

3.5. Investment in joint ventures

Based on the equity accounting method, the investment in a joint venture is initially recognized at cost. The carrying amount of investment is adjusted to recognize changes in the Company's share in the joint venture's equity as of the acquisition date.

The statement of income reflects the Company's share in the joint venture's operating results. Any change in other comprehensive income of these investees is reported as part of the Company's other comprehensive income. In addition, when there is a variation directly recognized in the joint venture's equity, the Company will recognize its share in any variations, where applicable, in the statement of changes in equity. Unrealized gains and losses arising from transactions between the Company and the joint venture are removed to the extent of interest in the joint venture.

The joint venture's financial statements are prepared for the same reporting period as the Company's financial statements. Adjustments are made when necessary to align the accounting policies with those adopted by the Company.

After applying the equity accounting method, the Company determines whether it is necessary to recognize any additional impairment on the Company's investment in its joint venture. The Company determines, on each reporting date, if there is an objective evidence that the investment in joint venture is impaired. If so, the Company calculates the impairment amount as the difference between the joint venture's recoverable value and its carrying amount, and recognizes the loss in the statement of income. The Company did not identify any objective evidence to recognize impairment in 2014 and 2015.

3. Summary of significant accounting practices (Continued)

3.6. Present value adjustment

Retail operations

Main transactions that result in adjustments to present value are related to the purchase of goods for resale in installments, as well as goods resale operations, whose balances the clients pay by installments at fixed interest rates. Purchases and sales are discounted to determine the present value on the transaction date considering the installment terms.

The discount rate adopted considers the finance charges effects on the end consumer, weighted at the default risk percentage assessed and already included in the allowance for doubtful accounts.

The present value adjustment of liabilities referring to the purchase of goods for resale is recorded under “Trade payables” (having “Inventories” as the corresponding entry). Its reversal is recorded under “Costs of goods resold and services rendered”, according to the related maturity term.

The corresponding entry of present value adjustment of resale of goods in installments is the “Trade receivables”. Their realization is recorded under “Revenue from resale of goods”, according to the related maturity term.

3.7. Monetary restatement of rights and obligations

The monetary assets and liabilities subject to contractual adjustments or foreign exchange and monetary variations are restated up to the end of the reporting period, and these variations are recorded in the statement of income for the year to which they refer.

3.8. Provisions

Provisions are recognized for current liabilities or risks resulting from past events, where it is possible to reliably estimate the amounts and whose settlement is probable. The amount recognized as provision is the best estimate of the considerations required to settle the liability at the end of each year or period, taking into account the risks and uncertainties related to the liability.

3.9. Statement of Value Added (“DVA”)

The Statement of Value Added (“DVA”) aims at evidencing the wealth created by the Group and its distribution during certain period. It is presented as part of its parent company financial statements pursuant to the Brazilian corporation law and as supplementary information to the consolidated financial statements, since it is neither an estimated statement nor mandatory under the IFRS.

(Amounts in thousands of Brazilian reais - R$)

3. Summary of significant accounting practices (Continued)

3.10 Restatement of previously presented information replacing previously disclosed financial statements

Some information of Financial Statements before presentation was restated in compliance with CPC 23 – Accounting policies, changes in accounting estimates and errors (IAS 8) and CPC 26 (R1) – Presentation of Financial Statements (IAS 1).

The corresponding figures of the individual statements of cash flows, for the year ended December 31, 2015 and 2014, are being restated due to the reclassification of the investments and redemption of exclusive investment funds, classified as financial instruments held for trading, originally reported as cash flows from investing activities, and restated to be presented as cash flows from operating activities in the individual statement of cash flows of the Company, in the amount of R$62,991 for the year ended 2015 and R$56,923 for the year ended 2014. Thus, this was reported consistently with the consolidated statements of cash flows and in line with the essence of the transaction for the Company.

The corresponding figures of the balance sheet, statements of changes in shareholder equity, Notes 14 (Investments in joint ventures), Note 21 (Shareholder equity) and Note 27 (Segment information) are being restated due to the adjustment of accounting practice of the intermediation transactions regarding sales of extended warranty insurance to our joint venture Luizaseg. Management has concluded that the profits from this transaction will be appropriated to the income statement in accordance with the term of warranties sold, as performed by the joint venture, and not when the service is provided by the parent company.

The table below summarizes the impacts on the financial statements:

i) Balance sheet

January 1, 2014	Company			Consolidated		
	Presented before	Adjustments	Restated	Presented before	Adjustments	Restated
Investments in joint ventures	251,747	(39,246)	212,501	251,747	(39,246)	212,501
Total assets	4,684,316	(39,246)	4,645,070	4,713,904	(39,246)	4,674,658
Other provision		47,310	47,310	1,543	47,310	48,853
Total liabilities	3,989,705	47,310	4,037,015	4,019,293	47,310	4,066,603
Profit reserve	94,458	(86,556)	7,902	94,458	(86,556)	7,902
Total equity	694,611	(86,556)	608,055	694,611	(86,556)	608,055

(Amounts in thousands of Brazilian reais - R$)

3. Summary of significant accounting practices (Continued)

3.10 Restatement of previously presented information replacing of previously disclosed financial statements (Continued)

i) Balance sheet (continued)

December 31, 2014	Company			Consolidated		
	Presented before	Adjustments	Restated	Presented before	Adjustments	Restated
Investments in joint ventures	319,604	(39,038)	280,566	319,604	(39,038)	280,566
Total assets	5,257,372	(39,038)	5,218,334	5,290,037	(39,038)	5,250,999
Other provision		47,518	47,518	2,381	47,518	49,899
Total liabilities	4,502,905	47,518	4,550,423	4,535,570	47,518	4,583,088
Profit reserve	143,173	(86,556)	56,617	143,173	(86,556)	56,617
Total equity	754,467	(86,556)	667,911	754,467	(86,556)	667,911

December 31, 2015	Company			Consolidated		
	Presented before	Adjustments	Restated	Presented before	Adjustments	Restated
Investments in joint ventures	384,025	(86,556)	297,469	384,025	(86,556)	297,469
Total assets	5,557,573	(86,556)	5,471,017	5,538,537	(86,556)	5,501,981
Total liabilities	4,895,361	-	4,895,361	4,926,325	-	4,926,325
Profit reserve	36,199	(36,199)	-	36,199	(36,199)	-
Accumulated losses	-	(50,357)	(50,357)	-	(50,357)	(50,357)
Total equity	662,212	(86,556)	575,656	662,212	(86,556)	575,656

ii) Cash flow statement

December 31, 2014	Company		
	Presented before	Adjustments	Restated
Cash flow deriving from operating activities	63,243	56,923	120,166
Cash flow used in investing activities	(102,689)	(56,923)	(159,612)
Cash flow deriving from financing activities	153,203	-	153,203
Increase in cash and cash equivalents	113,757	-	113,757

December 31, 2015	Company		
	Presented before	Adjustments	Restated
Cash flow deriving from operating activities	392,199	62,991	455,190
Cash flow deriving from investing activities	124,602	(62,991)	61,611
Cash flow used in financing activities	(318,164)	-	(318,164)
Increase in cash and cash equivalents	198,637	-	198,637

4. Significant accounting judgments and sources of uncertainties about estimates

When applying the Group's accounting policies, the management is required to make judgments and prepare estimates on the carrying amounts of assets and liabilities to which objective information is not easily obtained from other sources. Estimates and related assumptions are based on the historical experience and other significant factors. Actual results of these carrying amounts may differ from those estimates.

Below, the key assumptions concerning the future and other main sources of uncertainty in the estimates at the end of the reporting year, which may result in significant adjustments to the carrying amounts of assets and liabilities in the next year.

a) Deferred income tax and social contribution

The management's judgment is required in order to determine the deferred income tax and social contribution assets that may be recognized, based on a probable term and level of future taxable income, along with future tax planning strategies.

b) Useful life of long-lived assets

The Group recognizes the depreciation of its long-lived assets based on their estimated useful lives, which are based on the Group's practices and past experience and reflect the economic life of these assets. However, the actual useful lives may vary due to several factors. The useful lives of long-lived assets also affect tests to recover its cost.

c) Impairment of non financial assets

At the end of each year, the Group reviews the balances of intangible assets and property and equipment to check whether there are indications that these assets may have been impaired (the highest amount between the value in use and the fair value, less sales costs). If yes, management conducts a detailed analysis of each asset's recoverable value by calculating the individual future cash flow, discounted at present value, adjusting the balance of related asset and its market value, if necessary.

d) Provision for inventory losses

The provision for inventory losses is estimated based on the history of losses identified in the physical inventory of stores and distribution centers, and management considers it sufficient to cover probable losses at the end of the reporting period.

4. Significant accounting judgments and sources of uncertainties about estimates (Continued)

e) Provision for inventory realization

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.

f) Allowance for doubtful accounts

This allowance is recorded in amount management deems sufficient to cover potential risks on the loan portfolio and other receivables existing at the end of the reporting period. The criterion to record this allowance, takes into account, in retail operations, the percentage of historical recovery of past-due receivables and the default rate for the amounts falling due.

g) Provision for tax, civil and labor contingencies

The Group is a party to several lawsuits and administrative proceedings, as described in Note 20. Provisions are recorded for all the risks referring to lawsuits and administrative proceedings representing probable and estimated losses with certain degree of safety. The chances of losses include an evaluation on available evidence, the hierarchy of laws, available former court decisions, most recent court decisions and their relevance in the system of laws, as well as the external legal counsel's opinion. Management believes that these provisions for tax, civil, and labor contingencies are fairly reported in the financial statements.

(Amounts in thousands of Brazilian reais - R$)

5. New standards, amendments and interpretations

The standards and interpretations issued but not yet adopted until the date of publication of the Group's financial statements are presented below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments (Effective as of 01/01/2018)	It aims ultimately to replace IAS 39. The main amendments are: (i) all the financial assets must be initially recognized at their fair value; (ii) the standard divides all the financial assets into: amortized cost and fair value; and (iii) the concept of embedded derivatives was extinguished.
IFRS 15 Revenue from Contracts with Customers (Effective as of 01/01/2017)	It primarily aims at providing clear principles to recognize revenue and streamlining the process of preparing the financial statements.
Amendment to IFRS 11 Business Combination (Effective as of 01/01/2016)	The entity participating in a joint venture must apply the significant principles related to business combination, including referring to required disclosures.
Amendment to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortization (Effective as of 01/01/2016)	Method of depreciation and amortization must be based on the economic benefits consumed by means of the use of asset.
Amendment to IAS 27 Equity accounting in separate financial statements (effective as of 01/01/2016)	This review opens the possibility of adopting the equity accounting method in investments held in subsidiaries in separate financial statements.
Amendment to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective as of 01/01/2016)	These amendments clarify that any gain or loss resulting from the sale or contribution of assets that constitute a business, as set forth in IFRS 3, between an investor and its associate or joint-venture, is recognized in full.
IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations	This amendment clarifies that changing from one of these methods of disposal to the other is not considered a new sale plan, but a continuation of the original plan.
IFRS 7 Financial Instruments: Disclosures	Servicing contracts: This amendment clarifies that a service contract including a fee may constitute continuing involvement in a financial asset. Condensed interim financial information: This amendment clarifies that offsetting disclosure requirements do not apply to condensed interim financial information, unless said disclosures significantly update the information in the most recent annual report.

(Amounts in thousands of Brazilian reais - R$)

5. New standards, amendments and interpretations (Continued)

IAS 19 Employee Benefits	This amendment clarifies that the market depth of high-quality private securities is evaluated based on the currency in which the obligation is denominated and not on the country where the obligation is located.
IAS 34 Interim Financial Reporting	This amendment clarifies that the required interim information disclosures should be presented in the interim financial information or incorporated via cross-reference between the interim financial information and the section in which it is going to be included.
Amendment to IAS 1 Disclosure Initiative (Effective as of 01/01/2016)	It aims at emphasizing that accounting and financial information should be objective and easily understood.
Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entity - exceptions to the consolidation rule (Effective as of 01/01/2016.)	Among other clarifications, it is set forth that an entity that is not an investment entity may maintain, when applying the equity accounting method, the measurement at fair value through profit and loss adopted by its investments.
IFRS 16 Leases (Effective as of 01/01/2019)	The new standard establishes the principles, for both client (the lessee) and supplier (the lessor), for the disclosure of material information regarding leases so that the financial statements clearly demonstrate commercial lease operations. In order to achieve this objective, the lessee is required to recognize the assets and liabilities resulting from a lease agreement.

6. Cash and cash equivalents

Accounting policy

The Company's management defines as "Cash and cash equivalents" the amounts held for the purpose of meeting short-term commitments rather than for investment or other purposes. The financial investments can be immediately converted into a known cash amount with the issuer and are not subject to a significant risk of change in value, recorded at cost plus income earned until the end of the reporting period, which does not exceed their market or realization value.

		Company		Consolidated	
	Rates	2015	2014	2015	2014
Cash		**31,646**	30,550	**31,651**	30,558
Banks		**30,857**	35,996	**31,500**	36,262
Bank deposit certificates	From 80.0% to 105% CDI	**527,316**	324,500	**542,893**	339,459
Non-exclusive investment funds	102.0% CDI	**581**	717	**11,421**	5,891
Total cash and cash equivalents		**590,400**	391,763	**617,465**	412,170

(Amounts in thousands of Brazilian reais - R$)

7. Securities and other financial assets

Financial assets at fair value through profit or loss	Rates	Company and Consolidated 2015	2014
Held for trading			
Non-exclusive investment funds	105% CDI	**6,319**	5,597
Exclusive investment funds:	(a)		
Investment fund quotas		**1,375**	4,190
Federal government securities and repo operations		**387,394**	339,568
Time deposits and other securities		**21,261**	101,624
	Note 10.a	**410,030**	445,382
At fair value through profit or loss			
Swap receivable - Fair value hedge	(b)	**128,002**	-
Total securities		**544,351**	450,979
Current assets		**497,623**	450,979
Noncurrent assets		**46,728**	-

(a) Considers the exclusive fixed income investment funds. At December 31, 2015, the portfolio was distributed into the types of investment described in the table above, which are linked to financial operations and securities, indexed to the monthly variation of CDI rate, to return the average profitability of 103% of the CDI to the Company.

(b) Fair value hedge accounting, as detailed in Note 28.

8. Trade receivables

Accounting policy

Trade receivables are recorded and maintained in the statement of financial position for the securities amount, adjusted to present value, where applicable, mainly represented by credits from installment resales and credit card and the allowance for doubtful accounts (Note 4-f).

	Company		Consolidated	
	2015	2014	2015	2014
Trade receivables:				
Credit cards (a)	**155,017**	183,696	**158,749**	185,075
Debit cards (a)	**8,061**	6,717	**8,061**	6,717
Own installment plan (b)	**106,252**	107,275	**106,305**	107,275
Additional warranty agreements (c)	**104,274**	162,148	**104,274**	162,148
Total trade receivables	**373,604**	459,836	**377,389**	461,215
Arising from sales agreements (d)	**126,974**	237,512	**127,904**	237,879
Allowance for doubtful accounts	**(46,640)**	(49,511)	**(46,640)**	(49,511)
Present value adjustment	**(20,794)**	(26,232)	**(20,833)**	(26,287)
Total receivables	**433,144**	621,605	**437,820**	623,296
Current assets	**430,549**	616,585	**435,225**	618,276
Noncurrent assets	**2,595**	5,020	**2,595**	5,020

(Amounts in thousands of Brazilian reais - R$)

8. **Trade receivables** (Continued)

Accounting policy (Continued)

The average term to receive trade receivables is 15 days (14 days at December 31, 2014) in the Parant company and consolidated. Receivables were assigned to secure borrowings for R$109,588 on December 31, 2015 (R$120,802 at December 31, 2014), represented by credit card receivables.

(a) Refers 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 December 31, 2015, the Company had credits granted to financial institutions totaling R$1,417,827 (R$1,515,648 in December 2014), where a discount between 105.0% and 108.0% of CDI is applied, which is recognized in profit or loss under "Finance 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).

Changes in the allowance for doubtful accounts are as follows:

	Company and Consolidated	
	2015	**2014**
Balance at the beginning of the year	**(49,511)**	(43,190)
(+) Additions	**(72,265)**	(61,247)
(-) Write-offs	**75,136**	54,926
Balance at the end of the year	**(46,640)**	(49,511)

(Amounts in thousands of Brazilian reais - R$)

8. Trade receivables (Continued)

Accounting policy (Continued)

The aging list of trade receivables and receivables from sales agreements is as follows:

	Trade receivables:				Receivables from Sales Agreements			
	Company		Consolidated		Company		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014
Falling due:								
Up to 30 days	**81,197**	70,121	**83,487**	70,550	**29,395**	50,532	**30,325**	50,899
Between 31 and 60 days	**54,729**	45,723	**55,689**	45,912	**64,818**	139,089	**64,818**	139,089
Between 61 and 90 days	**44,619**	43,599	**45,096**	43,816	**30,609**	36,467	**30,609**	36,467
Between 91 and 180 days	**86,177**	79,382	**86,235**	79,718	**181**	9,025	**181**	9,025
Between 181 and 360 days	**67,184**	179,275	**67,184**	179,483	**18**	780	**18**	780
Over 361 days	**4,319**	7,832	**4,319**	7,832	**-**	-	**-**	-
	338,225	425,932	**342,010**	427,311	**125,021**	235,893	**125,951**	236,260
Past-due:								
Up to 30 days	**7,223**	7,636	**7,223**	7,636	**714**	587	**714**	587
Between 31 and 60 days	**6,192**	5,726	**6,192**	5,726	**68**	300	**68**	300
Between 61 and 90 days	**5,991**	5,210	**5,991**	5,210	**310**	101	**310**	101
Between 91 and 180 days	**15,973**	15,332	**15,973**	15,332	**861**	631	**861**	631
	35,379	33,904	**35,379**	33,904	**1,953**	1,619	**1,953**	1,619
Total	**373,604**	459,836	**377,389**	461,215	**126,974**	237,512	**127,904**	237,879

(Amounts in thousands of Brazilian reais - R$)

9. Inventories

Accounting policy

Inventories are stated at the smallest amount between the average acquisition cost and the net realization amount. The average acquisition cost includes the purchase price, taxes and non-recoverable taxes, such as the ICMS ST (State VAT Substitution taxation regime), and other costs directly attributable to the acquisition, and trade discounts and rebates. The net realization amount corresponds to the estimated sales price of inventories, less all costs necessary for the sale.

.	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Resale goods	**1,362,818**	1,475,198	**1,372,169**	1,482,383
Consumption material	**11,314**	11,183	**11,314**	11,183
Provision for losses	**(30,391)**	(20,828)	**(30,391)**	(20,828)
Total	**1,343,741**	1,465,553	**1,353,092**	1,472,738

(Amounts in thousands of Brazilian reais - R$)

9. **Inventories** (Continued)

Accounting policy (Continued)

At December 31, 2015, the Company has revolving inventories assigned as guarantee in legal lawsuits in progress, totaling approximately R$2,353 (R$1,817 at December 31, 2014).

Changes in the provision for losses and adjustment to net realizable value are as follows:

	Company and Consolidated	
	2015	**2014**
Opening balance	**(20,828)**	(27,740)
Provision	**(64,807)**	(18,970)
Written-off or sold inventories	**55,244**	25,882
Closing balance	**(30,391)**	(20,828)

10. Related parties

a) Balances from related parties

Current assets	Company 2015	Company 2014	Consolidated 2015	Consolidated 2014
Commissions on services				
Joint ventures:				
Luizacred (i)	**14,742**	24,127	**14,742**	24,127
Luizaseg (ii)	**34,233**	41,292	**34,233**	41,292
	48,975	65,419	**48,975**	65,419
Subsidiaries:				
Luiza Administradora de Consórcios (“LAC”) (iii)	**757**	675	**-**	-
Reimbursement of expenses and costs with consortium draws				
Consortium Group (“LAC”) (iii)	**249**	647	**249**	647
Dividends receivable:				
Luizacred (i)	**1,235**	2,325	**1,235**	2,325
Luizaseg (ii)	**3,317**	2,307	**3,317**	2,307
Luiza Administradora de Consórcios (“LAC”) (iii)	**1,231**	-	**-**	-
	5,783	4,632	**4,552**	4,632
Balance receivable from credit card sales and accounts receivable by CDC:				
Luizacred - CDC (i)	**3,492**	9,620	**3,492**	9,620
Luizacred - Credit cards (i)	**13,884**	12,902	**13,884**	12,902
	17,376	22,522	**17,376**	22,522
Other receivables:				
Luizacred (i)	**15,000**	-	**15,000**	-
Total	**88,140**	93,895	**86,152**	93,220
Securities				
Investment Funds (vii)	**410,030**	445,382	**410,030**	445,382

(Amounts in thousands of Brazilian reais - R$)

10. Related parties (Continued)

a) Balances from related parties (Continued)

	Company		Consolidated	
Current Liabilities	**2015**	**2014**	**2015**	**2014**
Transfers of receivables from services and accounts payable:				
Joint ventures:				
Luizacred (i)	**22,374**	24,234	**22,374**	24,234
Luizaseg (ii)	**43,432**	51,374	**43,432**	51,374
	65,806	75,608	**65,806**	75,608
Subsidiaries:				
Consortium Group (“LAC”) (iii)	**806**	622	**806**	622
Campos Floridos Comércio de Cosméticos Ltda. (viii)	**383**	220	**-**	-
	1,189	842	**806**	622
Rentals payable and other transfers				
Controlled by the Company’s controlling shareholders:				
MTG Administração, Assessoria e Participações S.A. (iv)	**1,752**	1,651	**1,752**	1,651
PJD Agropastoril Ltda. (vi)	**40**	37	**40**	37
	1,792	1,688	**1,792**	1,688
Payables relating to advertising campaigns:				
ETCO - Special Partnership (v)	**-**	2,387	**-**	2,387
Total	**68,787**	80,525	**68,404**	80,305

Profit or loss				
Income from service intermediation commissions				
Joint ventures:				
Luizacred (i)	**130,820**	145,171	**130,820**	145,171
Luizaseg (ii)	**289,314**	295,253	**289,314**	295,253
	420,134	440,424	**420,134**	440,424
Subsidiaries:				
Luiza Administradora de Consórcios (“LAC”) (iii)	**8,525**	7,419	**-**	-
Revenue from return on exclusive fund:				
Investment Funds (vii)	**27,639**	30,144	**27,639**	30,144
Reimbursement of shared expenses				
Joint venture:				
Luizacred (i)	**66,837**	56,317	**66,837**	56,317
Total revenues	**523,135**	534,304	**514,610**	526,885

(Amounts in thousands of Brazilian reais - R$)

10. Related parties (Continued)

b) Transactions with related parties

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Costs related to the acquisition of goods				
Campos Floridos Comércio de Cosméticos Ltda. (viii)	**(6,608)**	(3,280)	**-**	-
Total costs	**(6,608)**	(3,280)	**-**	-
Office building rental expenses				
Controlled by the Company's controlling shareholders:				
MTG Administração, Assessoria e Participações S.A. (iv)	**(16,210)**	(14,370)	**(16,210)**	(14,370)
PJD Agropastoril Ltda. (vi)	**(445)**	(384)	**(445)**	(384)
	(16,655)	(14,754)	**(16,655)**	(14,754)
Freight expenses				
PJD Agropastoril Ltda. (vi)	**(2,333)**	(2,363)	**(2,333)**	(2,363)
Credit card anticipation charge expenses:				
Luizacred (i)	**(108,056)**	(82,221)	**(108,056)**	(82,221)
Advertising campaign expenses				
Controlled by the Company's controlling shareholders:				
ETCO - Special Partnership (v)	**(269,375)**	(242,942)	**(269,375)**	(242,942)
	(396,419)	(342,280)	**(396,419)**	(342,280)

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

(a) 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, indication of insurance linked to financial services and products, 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.

(e) Balance receivable referring to targets not met in the sale of certain financial insurance plans.

(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 extended 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.

(iii) The amounts receivable (current assets) of LAC, wholly-owned subsidiary, refers to proposed dividends, 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.

(Amounts in thousands of Brazilian reais - R$)

10. Related parties (Continued)

b) Transactions with related parties (Continued)

(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) Refers to investments and redemptions, and income from exclusive investment funds (ML Renda Fixa Crédito Privado FI and FI Caixa ML RF Longo Prazo - see Note 6 - 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

	2015		**2014**	
	Board of Directors	**Board of Executive Officers**	**Board of Directors**	**Board of Executive Officers**
Fixed and variable compensation	**419**	**8,787**	408	14,371
Stock option plan	**386**	**2,930**	386	2,930

The Company does not grant 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 of the Company. The Company's Board of Directors approved on April 27, 2015, the management's overall compensation for the year ended at December 31, 2015, where a maximum limit for management's overall compensation was estimated at R$18,938.

11. Recoverable taxes

	Company		**Consolidated**	
	2015	**2014**	**2015**	**2014**
Recoverable ICMS (a)	**450,115**	347,762	**450,115**	347,762
Recoverable income tax and social contribution	**2,461**	5,511	**2,463**	5,511
Recoverable withholding income tax	**23,853**	13,866	**23,878**	13,876
Recoverable PIS and COFINS	**32,859**	33,062	**33,701**	33,442
Other	**1,482**	1,481	**1,482**	1,481
	510,770	401,682	**511,639**	402,072
Current assets	**333,475**	295,205	**334,344**	295,595
Noncurrent assets	**177,295**	106,477	**177,295**	106,477

(a) These refer to ICMS accumulated credits and credits arising from the ST ("tax substitution") 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 credit.

12. Income tax and social contribution

Accounting policy

Current Tax

Income taxes are recognized in profit or loss for the year. The provisions for income tax and social contribution are calculated individually by company member of the Group based on the rates effective at the year's end.

Deferred Tax

Deferred income tax and social contribution ("deferred taxes") are recognized on temporary differences between the balances of assets and liabilities recognized in the financial statements and related tax bases adopted to calculate the taxable income, including the tax loss and social contribution tax loss carryforwards, not subject to statute of limitations. Deferred tax liabilities are usually recognized for all taxable temporary differences and deferred tax assets are recognized over all deductible temporary differences only when it is probable that the future taxable basis will be in an amount sufficient to absorb the deductible temporary differences.

The probability of recovering the balance of deferred tax assets is reviewed at the end of each year and, when future taxable bases are probably no longer available and allowing the full or partial recovery of these taxes, the balance of the assets is reduced to the amount expected to be recovered.

Deferred tax assets and liabilities are mutually offset only when there is a legal right to set off, when they are related to taxes managed by the same tax authority and the Group intends to settle the net amount of its current tax assets and liabilities.

(Amounts in thousands of Brazilian reais - R$)

12. Income tax and social contribution (Continued)

a) Reconciliation of the tax effect on income before income tax and social contribution

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Income (loss) before income tax and social contribution	**(150,696)**	129,033	**(147,129)**	130,186
Statutory rate	**34%**	34%	**34%**	34%
Expected income tax and social contribution credit (debit) at statutory rates	**51,237**	(43,871)	**50,024**	(44,263)
Reconciliation for effective rate (effects of applying tax rates):				
Effect on the distribution of interest on equity	**-**	4,760	**-**	4,760
Effect of tax benefit referring to the technology innovation, pursuant to Law No. 11195/2005	**-**	2,981	**-**	2,981
Exclusion - equity in the earnings of subsidiaries	**30,242**	34,683	**25,706**	33,871
Other permanent exclusions, net	**3,612**	970	**5,794**	1,021
Credit (debit) from income tax and social contribution	**85,091**	(477)	**81,524**	(1,630)
Current	**-**	(6,660)	**(3,301)**	(8,650)
Deferred	**85,091**	6,183	**84,825**	7,020
Total	**85,091**	(477)	**81,524**	(1,630)
Effective tax rate	**56.5%**	0.4%	**55.4%**	1.3%

(Amounts in thousands of Brazilian reais - R$)

12. Income tax and social contribution (Continued)

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

Company	Balance at 01/01/2014	Recognized in profit or loss	Transfer from the adoption of Law No. 12973/14 (3)	Balance at 12/31/2014	Recognized in profit or loss	Offsetting of tax loss carryforwards with PRORELIT(2)	Balance at 12/31/2015
Deferred income tax and social contribution assets:							
Tax losses and social contribution tax loss carryforwards	57,769	(2,916)	-	54,853	**93,756**	**(1,925)**	**146,684**
Allowance for doubtful accounts	14,685	2,149	-	16,834	**(977)**	**-**	**15,857**
Provision for inventory losses	9,432	(2,351)	-	7,081	**3,252**	**-**	**10,333**
Provision for present value adjustment	-	-	8,793	8,793	**(1,599)**	**-**	**7,194**
Provision for tax, civil and labor contingencies	69,676	10,423	-	80,099	**(1,896)**	**-**	**78,203**
Other provisions	106	5,218	-	5,324	**(503)**	**-**	**4,821**
	151,668	12,523	8,793	172,984	**92,033**	**(1,925)**	**263,092**
Deferred income tax and social contribution liabilities:							
Amortization of intangible assets	-	-	(27,548)	(27,548)	**(6,942)**	**-**	**(34,490)**
Temporary difference due to adoption of RTT (1) and amortization of intangible assets in business combination	(12,415)	(6,340)	18,755	-	**-**	**-**	**-**
	(12,415)	(6,340)	(8,793)	(27,548)	**(6,942)**	**-**	**(34,490)**
	139,253	6,183	-	145,436	**85,091**	**(1,925)**	**228,602**

(Amounts in thousands of Brazilian reais - R$)

12. Income tax and social contribution (Continued)

b) Breakdown and changes of deferred income tax and social contribution assets and liabilities (Continued)

Consolidated	Balance at 01/01/2014	Recognized in profit or loss	Transfer from the adoption of Law No. 12973/14 (3)	Balance at 12/31/2014	Recognized in profit or loss	Offsetting of tax loss carryforwards with PRORELIT(2)	Balance at 12/31/2015
Deferred income tax and social contribution assets:							
Tax losses and social contribution tax loss carryforwards	57,769	(2,112)	-	55,657	**93,438**	**(1,925)**	**147,170**
Allowance for doubtful accounts	14,685	2,149	-	16,834	**(977)**	**-**	**15,857**
Provision for inventory losses	9,432	(2,291)	-	7,141	**3,252**	**-**	**10,393**
Provision for present value adjustment	-	-	8,793	8,793	**(1,599)**	**-**	**7,194**
Provision for tax, civil and labor contingencies	69,850	10,396	-	80,246	**(1,844)**	**-**	**78,402**
Other provisions	106	5,218	-	5,324	**(503)**	**-**	**4,821**
	151,842	13,360	8,793	173,995	**91,767**	**(1,925)**	**263,837**
Deferred income tax and social contribution liabilities:							
Amortization of intangible assets	-	-	(27,548)	(27,548)	**(6,942)**	**-**	**(34,490)**
Temporary difference due to adoption of RTT (1) and amortization of intangible assets in business combination	(12,415)	(6,340)	18,755	-	**-**	**-**	**-**
	(12,415)	(6,340)	(8,793)	(27,548)	**(6,942)**	**-**	**(34,490)**
	139,427	7,020	-	146,447	**84,825**	**(1,925)**	**229,347**

(1) The Company adopted the Transitional Tax System (RTT), as prescribed by Law No. 11,941/09, which from the adoption of new accounting practices, creates temporary differences on taxable bases.

(2) Offsetting of tax loss carryforwards, referring to the adhesion to the Program to Reduce Tax Litigation (PRORELIT), pursuant to Law No. 13,202/15.

(3) In October 2014, the Company adopted Law No. 12.973/14, which revokes the Transitional Tax Regime (RTT), enacted by Law No. 11,941/09.

(Amounts in thousands of Brazilian reais - R$)

12. Income tax and social contribution (Continued)

b) Breakdown and changes of deferred income tax and social contribution assets and liabilities (Continued)

The asset recorded is limited to the amounts whose realization is supported by future taxable base projections, approved by management. The expected realization of the deferred income tax and social contribution at December 31, 2015 is as follows:

	Company	Consolidated
Year of realization		
2016	**(51,550)**	**(51,550)**
2017	**(23,211)**	**(23,271)**
2018	**(28,946)**	**(28,946)**
2019	**(42,073)**	**(42,877)**
2020 onwards	**(82,822)**	**(82,703)**
	(228,602)	**(229,347)**

13. Investments in subsidiaries

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

	Época		LAC	
	2015	**2014**	**2015**	**2014**
Units of interest held	**4,155**	4,155	**6,500**	6,500
Current assets	**16,083**	10,136	**27,344**	21,312
Noncurrent assets	**6,618**	6,551	**3,368**	3,527
Current liabilities	**9,012**	5,185	**8,530**	6,528
Noncurrent liabilities	**13,062**	19,035	**2,731**	2,812
Capital stock	**11,255**	11,255	**6,500**	6,500
Equity	**627**	(7,533)	**19,451**	15,499
Net revenues	**45,674**	28,095	**47,234**	39,559
Net income (loss) for the year	**8,160**	(1,633)	**5,183**	4,023

	2015	2014	2015	2014
Changes in investments				
Balances at the beginning of the year	**29,294**	23,827	**15,499**	13,576
Advance for Future Capital Increase "AFAC"	**-**	7,100	**-**	-
Dividends proposed	**-**	-	**(1,231)**	(2,100)
Equity in the earnings (losses) of subsidiaries	**8,160**	(1,633)	**5,183**	4,023
Balances at the end of the year	**37,454**	29,294	**19,451**	15,499

13. Investments in subsidiaries (Continued)

Total investments in subsidiaries

	2015	2014
Época Cosméticos	**627**	(7,533)
Época Cosmeticos - goodwill	**36,827**	36,827
Consortium group ("LAC")	**19,451**	15,499
	56,905	44,793

14. Investment in joint ventures

	Luizacred (a)		Luizaseg (b)	
	2015	2014	2015	2014
Total shares - in thousands	**978**	978	**133,883**	13,883
Direct interest percentage	**50%**	50%	**50%**	50%
Current assets	**3,845,850**	4,120,696	**188,934**	190,268
Noncurrent assets	**484,162**	451,520	**272,202**	154,572
Current liabilities	**3,660,700**	3,943,110	**178,714**	187,354
Noncurrent liabilities	**106,052**	67,974	**77,632**	79,410
Capital stock	**274,624**	274,624	**133,884**	13,884
Equity	**563,260**	561,132	**204,790**	78,076
Net revenues	**1,834,284**	1,746,280	**383,592**	330,620
Profit for the year	**123,278**	180,782	**27,932**	18,456

	Luizacred (a)		Luizaseg (b)	
	2015	2014	2015	2014
			(restated)	(restated)
Changes in investments (Unsecured liabilities)				
Balances at the beginning of the year	**280,566**	212,501	**(47.518)**	(47.310)
Capital increase	**-**	-	**60.000**	-
Dividends proposed	**(60,575)**	(22,327)	**(10.243)**	(9.818)
Other comprehensive income	**-**	-	**(366)**	382
Equity in the earnings of subsidiaries	**61,639**	90,392	**13.966**	9.228
Balances at the end of the year (i)	**281,630**	280,566	**15.839**	(47.518)

i) transfer of equity balances of unrecognized liabilities to the jointly-owned subsidiary ("non-current liabilities"). In the year 2015 the balance was transferred to a joint investment account, in view of the debtor nature of the balance in the financial year

(Amounts in thousands of Brazilian reais - R$)

14. Investment in joint ventures (Continued)

Total investments in joint ventures

	2015 (restated)	2014 (restated)
Luizacred (a)	**281,630**	280,566
Luizaseg (b)	**15,839**	-
	297,469	280,566

(a) Interest of 50% of voting capital stock representing the contractually agreed sharing, the control of business, requiring the unanimous consent of the parties about significant 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 significant 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.

15. Property and equipment

Accounting policy

Property and equipment are stated at the acquisition or construction cost, less related accumulated depreciation, except for land and construction in progress, plus interest rates incurred and capitalized during the properties construction phase, where applicable.

Depreciation is recognized based on the estimated useful lives of each asset or family of assets by the straight-line method, so that its residual value after its useful life is fully written off. The estimated useful life, the residual values and depreciation methods are yearly reviewed and the effect of any change in estimates is accounted for prospectively.

An item of the property and equipment is written off after being sold or when there is no future economic benefits resulting from its continued use. Gains or losses on sale or write-off are recognized in profit or loss when incurred.

The accounting policy related to the impairment of property and equipment is described in Note 4-c.

(Amounts in thousands of Brazilian reais - R$)

15. Property and equipment (Continued)

Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows:

a) Parent Company

	Balance at 12/31/2014	Additions	Depreciation	Write-offs	Transfer	Balance at 12/31/2015
Furniture and fixtures	93,689	**15,410**	**(15,068)**	**(659)**	**756**	**94,128**
Machinery and equipment	58,704	**10,799**	**(4,087)**	**(282)**	**(1,077)**	**64,057**
Vehicles	24,870	**826**	**(8,202)**	**(100)**	**(45)**	**17,349**
Computers and peripherals	35,987	**13,500**	**(15,411)**	**(117)**	**530**	**34,489**
Leasehold improvements	288,951	**-**	**(40,246)**	**-**	**74,025**	**322,730**
Work in progress	56,929	**52,850**	**-**	**(89)**	**(73,920)**	**35,770**
Other	6,228	**4,874**	**(1,429)**	**(116)**	**(269)**	**9,288**
	565,358	**98,259**	**(84,443)**	**(1,363)**	**-**	**577,811**

	Balance at 01/01/2014	Additions	Depreciation	Write-offs	Transfer	Balance at 12/31/2014
Furniture and fixtures	92,369	10,966	(15,836)	(856)	7,046	93,689
Machinery and equipment	51,792	12,589	(3,689)	(393)	(1,595)	58,704
Vehicles	28,702	275	(4,015)	(225)	133	24,870
Computers and peripherals	37,349	11,084	(17,421)	(306)	5,281	35,987
Leasehold improvements	285,474	-	(35,276)	(283)	39,036	288,951
Work in progress	36,195	62,059	-	(87)	(41,238)	56,929
Other	7,848	9,282	(1,314)	(925)	(8,663)	6,228
	539,729	106,255	(77,551)	(3,075)	-	565,358

		2015			**2014**	
	Cost	**Accumulated depreciation**	**Net**	**Cost**	**Accumulated depreciation**	**Net**
Furniture and fixtures	**169,399**	**(75,271)**	**94,128**	154,927	(61,238)	93,689
Machinery and equipment	**89,904**	**(25,847)**	**64,057**	80,559	(21,855)	58,704
Vehicles	**43,102**	**(25,753)**	**17,349**	43,219	(18,349)	24,870
Computers and peripherals	**148,058**	**(113,569)**	**34,489**	136,361	(100,374)	35,987
Leasehold improvements	**569,418**	**(246,688)**	**322,730**	495,393	(206,442)	288,951
Work in progress	**35,770**	**-**	**35,770**	56,929	-	56,929
Other	**19,061**	**(9,773)**	**9,288**	14,650	(8,422)	6,228
	1,074,712	**(496,901)**	**577,811**	982,038	(416,680)	565,358

(Amounts in thousands of Brazilian reais - R$)

15. Property and equipment (Continued)

b) Consolidated

	Balance at 12/31/2014	Additions (1)	Depreciation	Write-offs	Transfer	Balance at 12/31/2015
Furniture and fixtures	93,689	**15,410**	**(15,068)**	**(659)**	**756**	**94,128**
Machinery and equipment	58,704	**10,799**	**(4,087)**	**(282)**	**(1,077)**	**64,057**
Vehicles	24,870	**826**	**(8,202)**	**(100)**	**(45)**	**17,349**
Computers and peripherals	35,987	**13,500**	**(15,411)**	**(117)**	**530**	**34,489**
Leasehold improvements	288,951	**-**	**(40,246)**	**-**	**74,025**	**322,730**
Work in progress	56,929	**52,850**	**-**	**(89)**	**(73,920)**	**35,770**
Other	7,063	**5,087**	**(1,669)**	**(164)**	**(269)**	**10,048**
	566,193	**98,472**	**(84,683)**	**(1,411)**	**-**	**578,571**

	Balance at 01/01/2014	Additions (1)	Depreciation	Write-offs	Transfer	Balance at 12/31/2014
Furniture and fixtures	92,369	10,966	(15,836)	(856)	7,046	93,689
Machinery and equipment	51,792	12,589	(3,689)	(393)	(1,595)	58,704
Vehicles	28,702	275	(4,015)	(225)	133	24,870
Computers and peripherals	37,349	11,084	(17,421)	(306)	5,281	35,987
Leasehold improvements	285,474	-	(35,276)	(283)	39,036	288,951
Work in progress	36,195	62,059	-	(87)	(41,238)	56,929
Other	8,563	9,617	(1,529)	(925)	(8,663)	7,063
	540,444	106,590	(77,766)	(3,075)	-	566,193

	2015			2014		
	Cost	**Accumulated depreciation**	**Net**	**Cost**	**Accumulated depreciation**	**Net**
Furniture and fixtures	**169,399**	**(75,271)**	**94,128**	154,927	(61,238)	93,689
Machinery and equipment	**89,904**	**(25,847)**	**64,057**	80,559	(21,855)	58,704
Vehicles	**43,102**	**(25,753)**	**17,349**	43,219	(18,349)	24,870
Computers and peripherals	**148,058**	**(113,569)**	**34,489**	136,361	(100,374)	35,987
Leasehold improvements	**569,418**	**(246,688)**	**322,730**	495,393	(206,442)	288,951
Work in progress	**35,770**	**-**	**35,770**	56,929	-	56,929
Other	**21,317**	**(11,269)**	**10,048**	16,789	(9,726)	7,063
	1,076,968	**(498,397)**	**578,571**	984,177	(417,984)	566,193

(1) Investments in renovation and adaptation of store facilities were substantially financed by the Brazilian Federal Savings Bank, as detailed in Note 18.

At December 31, 2015, the Company recorded R$6,549 (R$4,325 at December 31, 2014) referring to the borrowing costs capitalized to open new stores and acquire facilities and equipment. The average borrowing rate was adopted to calculate the borrowing costs that can be capitalized.

(Amounts in thousands of Brazilian reais - R$)

15. Property and equipment (Continued)

c) Depreciation rates

Annual depreciation rates are stated as follows:

	2015	2014
Furniture and fixtures	**10%**	10%
Machinery and equipment	**5%**	5%
Light vehicles	**20%**	20%
Heavy vehicles	**14.3%**	14.3%
Computers and peripherals	**20%**	20%
Leasehold improvements	**7.1%**	7.1%

At December 31, 2015, the Group had property and equipment fully depreciated in operation at the amount of R$130,064 (R$151,592 at December 31, 2014.) The Group has no idle items of the property and equipment or held for sale.

d) Asset impairment test

In the reporting years, we did not identify any event indicating the need of making calculations to assess any impairment of the property and equipment.

16. Intangible assets

Accounting policy

The intangible assets with finite useful lives, represented by the amounts paid in the acquisition of new points-of-sale (goodwill), have been amortized on a straight-line basis for 10 years, a period which reflects the management's best estimate of the minimum period of occupancy in the leased property.

Software refers to the corporate management system's acquisition cost, which has been amortized via the straight-line method for five years.

Research expenditures are recorded as expenses when incurred, and development expenses related to the technological innovation of existing products are capitalized, if they are technologically and economically feasible, and amortized in operating expenses during the expected period of benefits. While these developments are not concluded, the balances are recorded in the "Projects in progress" line.

(Amounts in thousands of Brazilian reais - R$)

16. Intangible assets (Continued)

Accounting policy (Continued)

The intangible assets acquired in a business combination mainly refer to the goodwill verified in investment acquisition represented by store chains. In the consolidated financial statements, the intangible assets acquired in a business combination and recognized separately from goodwill are recorded at fair value on the acquisition date, which corresponds to its cost.

An intangible asset is written off upon sale or when there is no future economic benefits related thereto, being recognized in profit & loss when the asset is written off.

The accounting policies related to the impairment of intangible assets are described in Notes 3.4 (goodwill) and 4-c (other intangible assets).

Changes for the years ended December 31, 2015 and 2014 are as follows:

a) *Company*

	Balance at 12/31/2014	Additions	Amortization	Write-offs	Transfer	Balance at 12/31/2015
Goodwill from the acquisition of new chains	313,856	**-**	**-**	**-**	**-**	**313,856**
Goodwill	37,295	**-**	**(14,609)**	**(9)**	**11,128**	**33,805**
Software and internal development	62,020	**11,264**	**(26,237)**	**(8)**	**36,227**	**83,266**
Projects in progress	32,703	**47,321**	**-**	**(32)**	**(47,355)**	**32,637**
Trademarks and patents	102	**-**	**(44)**	**-**	**-**	**58**
Other	104	**-**	**-**	**-**	**-**	**104**
	446,080	**58,585**	**(40,890)**	**(49)**	**-**	**463,726**

	Balance at 01/01/2014	Additions	Amortization	Write-offs	Transfer	Balance at 12/31/2014
Goodwill from the acquisition of new chains	313,856	-	-	-	-	313,856
Goodwill	57,178	-	(19,101)	(782)	-	37,295
Software and internal development	41,907	15,794	(17,200)	-	21,519	62,020
Projects in progress	25,368	29,198	-	(344)	(21,519)	32,703
Trademarks and patents	146	-	(44)	-	-	102
Other	104	-	-	-	-	104
	438,559	44,992	(36,345)	(1,126)	-	446,080

	2015			2014		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Goodwill from the acquisition of new chains	**325,451**	**(11,595)**	**313,856**	325,451	(11,595)	313,856
Goodwill	**137,904**	**(104,099)**	**33,805**	126,776	(89,481)	37,295
Software and internal development	**187,923**	**(104,657)**	**83,266**	143,600	(81,580)	62,020
Projects in progress	**32,637**	**-**	**32,637**	32,703	-	32,703
Trademarks and patents	**212**	**(154)**	**58**	212	(110)	102
Other	**9,596**	**(9,492)**	**104**	6,428	(6,324)	104
	693,723	**(229,997)**	**463,726**	635,170	(189,090)	446,080

(Amounts in thousands of Brazilian reais - R$)

16. Intangible assets (Continued)

b) *Consolidated*

	Balance at 12/31/2014	Additions	Amortization	Write-offs	Transfer	Balance at 12/31/2015
Goodwill from the acquisition of new chains	350,683	**-**	**-**	**-**	**-**	**350,683**
Goodwill	39,035	**-**	**(14,610)**	**(9)**	**11,128**	**35,544**
Software and internal development	62,740	**11,812**	**(26,464)**	**(8)**	**36,227**	**84,307**
Projects in progress	32,703	**47,321**	**-**	**(32)**	**(47,355)**	**32,637**
Trademarks and patents	3,489	**-**	**(44)**	**-**	**-**	**3,445**
Other	103	**1**	**-**	**-**	**-**	**104**
	488,753	**59,134**	**(41,118)**	**(49)**	**-**	**506,720**

	Balance at 01/01/2014	Additions	Amortization	Write-offs	Transfer	Balance at 12/31/2014
Goodwill from the acquisition of new chains	350,683	-	-	-	-	350,683
Goodwill	58,918	-	(19,101)	(782)	-	39,035
Software and internal development	42,765	15,877	(17,421)	-	21,519	62,740
Projects in progress	25,368	29,198	-	(344)	(21,519)	32,703
Trademarks and patents	3,533	-	(44)	-	-	3,489
Other	103	-	-	-	-	103
	481,370	45,075	(36,566)	(1,126)	-	488,753

	2015			2014		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Goodwill from the acquisition of new chains	**362,278**	**(11,595)**	**350,683**	362,278	(11,595)	350,683
Goodwill	**139,643**	**(104,099)**	**35,544**	128,516	(89,481)	39,035
Software and internal development	**190,123**	**(105,816)**	**84,307**	145,251	(82,511)	62,740
Projects in progress	**32,637**	**-**	**32,637**	32,703	-	32,703
Trademarks and patents	**3,599**	**(154)**	**3,445**	3,599	(110)	3,489
Other	**9,596**	**(9,492)**	**104**	6,427	(6,324)	103
	737,876	**(231,156)**	**506,720**	678,774	(190,021)	488,753

Expenses related to the amortization of intangible assets are recorded under “Depreciation and amortization” in the profit or loss for the year.

Impairment tests on goodwill and intangible assets

Goodwill and other intangible assets underwent impairment tests at December 31, 2015 and 2014. Management prepared an estimate of recoverable values or amounts in use of all assets.

(Amounts in thousands of Brazilian reais - R$)

16. Intangible assets (Continued)

Accounting policy (Continued)

b) *Consolidated* (Continued)

Impairment tests on goodwill and intangible assets (Continued)

The impairment tests comprise the calculation of recoverable values of the Cash-Generating Units (CGUs), which correspond to the group of stores of the acquired chains to which the goodwill and the intangible assets have been allocated, as follows:

	2015 and 2014
Goodwill related to the acquisition of chains in the South region	**25,327**
Goodwill related to the acquisition of Lojas Maia	**230,579**
Goodwill related to the acquisition of New-Utd	**57,951**
Goodwill related to the acquisition of Época Cosméticos	**36,826**
Total	**350,683**

The value in use of each CGU is calculated according to the discounted cash flow method, before taxes, applying the following rates:

	Discount rate (p.a.)
Discounted cash flow, before tax	18.9% (1)
Weighted average growth rate in the first 10 years	5.2%
Perpetuity	3.5%

(1) CAPM rate (weighted average cost of capital).

The assumptions about the future cash flows and growth prospects for the geographical regions where each CGU is located is based on the Company's annual budget and business plans for the next 10 years approved by the Board of Directors, as well as comparable market data, representing the management's best estimate as to current economic conditions during the useful economic lives of the group of assets generating cash flows. From the tests performed, the Company did not identify any impairment of the goodwill recorded.

(Amounts in thousands of Brazilian reais - R$)

17. Trade payables

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Resale of goods - domestic market	**1,907,626**	1,799,113	**1,915,222**	1,803,367
Other trade payables	**15,092**	17,939	**16,683**	18,803
Present value adjustment	**(37,467)**	(32,150)	**(37,748)**	(32,272)
	1,885,251	1,784,902	**1,894,157**	1,789,898

The Company maintains agreements entered into with partner banks to structure with its main suppliers the operation of factoring of receivables. In this operation, suppliers transfer the right to receive the instruments to the Bank in exchange for the early payment of the instrument. The Bank, in turn, becomes the creditor of the operation, and the Company settles the instrument on the same date originally agreed with its supplier and receives a commission from the Bank for this intermediation and confirmation of the instruments payable. This commission is recorded as finance income.

The abovementioned operation is carried out by the Company and does not change the terms, prices and conditions previously established with suppliers and, therefore, the Company records it under Suppliers.

As of December 31, 2015, the balance payable negotiated by suppliers and accepted by Magazine Luiza totaled R$452,092 (R$235,835 as of December 31, 2014).

(Amounts in thousands of Brazilian reais - R$)

18. Borrowings and financing

Type	Charge	Collaterals	Final maturity	Company 2015	Company 2014	Consolidated 2015	Consolidated 2014
Working capital in local currency	1.43% p.a to 3.40% p.a + exchange rate	Not applicable	Mar/18	**590,491**	221,403	**590,491**	221,403
Working capital in foreign currency(a)	108.8% to 116% of CDI	Aval guarantees	Dec /19	**163,606**	483,031	**163,866**	483,423
Finance leases (b)	CDI/LIBOR	Fiduciary sale/ escrow deposits	Dec /19	**30,264**	26,713	**30,264**	26,713
Debentures - Restricted offer (d)	108.8 % to 114.5% of CDI	Credit card receivables	Mar/20	**1,016,166**	957,549	**1,016,166**	957,549
Innovation financing -FINEP (c)	4% p.a.	Bank guarantee	Dec /22	**22,523**	22,539	**22,523**	22,539
				1,823,050	1,711,235	**1,823,310**	1,711,627
Current Liabilities				**568,220**	591,051	**568,350**	591,443
Noncurrent liabilities				**1,254,830**	1,120,184	**1,254,960**	1,120,184

(a) A portion of the funds was contracted in foreign currency, over 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. Due to the increased number of funding with these characteristics, this year the Company started the hedge accounting of said operations. Further details are disclosed in Note 28.

(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$2,382 (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 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 entered into a credit facility agreement with Study and Projects Financing Agency - FINEP, with the purpose of investing in technological innovation research and development projects, in the amount of R$44,968, to be released in four installments. Until December 31, 2015, the first two installments were released, totaling R$22,484.

(d) The Company issued the following debentures not convertible into shares:

Issues	Guarantee	Principal Amount R$	Issue date	Final maturity	Outstanding securities	Financial charges	Company and Consolidated 2015	Company and Consolidated 2014
1st issue - single series	Clean	200,000	12/26/2011	6/16/2017	200	113.0% of DI	**149,175**	148,915
2nd issue - 1st series	Clean	100,000	3/22/2013	3/22/2015	-	112.0% of DI	**-**	102,475
2nd issue - 2nd series	Clean	100,000	3/22/2013	3/22/2016	-	114.5% of DI	**-**	102,552
3rd issue - single series	Clean	200,000	10/21/2013	10/21/2016	20,000	108.8% of DI	**102,090**	202,858
4th issue - single series	Clean	400,000	5/30/2014	5/30/2019	40,000	112.0% of DI	**402,262**	400,749
5th issue - single series	(i)	350,000	3/17/2015	3/17/2020	35,000	113.2% of DI	**362,639**	-
							1,016,166	957,549

(i) The 5th issue of nonconvertible debentures has a credit card receivables guarantee, where, until the maturity date of debentures, should account for 30% of the issue's outstanding balance.

(Amounts in thousands of Brazilian reais - R$)

18. Borrowings and financing (Continued)

Amortization schedule

The amortization schedule for borrowings and financing is presented below:

	Company			**Consolidated**		
Year of maturity	**Debt including hedge accounting**	**Fair value hedge Note 7**	**Debt excluding hedge accounting**	**Debt including hedge accounting**	**Fair value hedge Note 7**	**Debt excluding hedge accounting**
2016	**568,220**	**(81,274)**	**486,946**	**568,350**	**(81,274)**	**487,076**
2017	**601,213**	**(36,850)**	**564,363**	**601,343**	**(36,850)**	**564,493**
2018	**328,500**	**(9,878)**	**318,622**	**328,500**	**(9,878)**	**318,622**
2019	**265,071**	**-**	**265,071**	**265,071**	**-**	**265,071**
2020	**53,419**	**-**	**53,419**	**53,419**	**-**	**53,419**
2021 onwards	**6,627**	**-**	**6,627**	**6,627**	**-**	**6,627**
Total	**1,823,050**	**(128,002)**	**1,695,048**	**1,823,310**	**(128,002)**	**1,695,308**

The Company entered into credit facility agreements with Banco do Nordeste do Brasil S.A. (“BNB”), aiming at renovating the stores in the Northeast region and build a new Distribution Center in the city of Candeias (BA). The agreements totaled R$68,013, at the cost of 7% p.a., scheduled to be released during 2016. Until December 31, 2015, no amount has been released.

(Amounts in thousands of Brazilian reais - R$)

18. Borrowings and financing (Continued)

Amortization schedule (Continued)

The Company maintains some loan agreements with covenants. The clauses relating to financial ratios refer to:

i. *Brazilian Federal Savings Bank:* maintenance of the adjusted net debt/adjusted EBITDA ratio below 3.0 times. The adjusted net debt is understood as the sum of all loans and borrowings, including debentures, excluding cash and cash equivalents, financial investments, marketable securities, credit card receivables not anticipated. The adjusted EBITDA is calculated in accordance with CVM Rule No. 527 of October 4, 2012, excluding non-recurring operational events (revenue/expenses).

ii. *5th Issue of Debentures:* maintenance of the adjusted net debt/adjusted EBITDA ratio below 3.0 times. The adjusted net debt is understood as the sum of all loans and borrowings, including debentures, excluding cash and cash equivalents, financial investments, marketable securities, credit card receivables not anticipated. The adjusted EBITDA is calculated in accordance with CVM Rule No. 527 of October 4, 2012, excluding non-recurring operational events (revenue/expenses).

The Company is found in compliance with the above-mentioned covenants at December 31, 2015.

19. Deferred revenue

	Company and Consolidated	
	2015	**2014**
Deferred revenue with third parties:		
Exclusive dealing agreement with Cardif (a)	**176,458**	22,000
Exclusive dealing agreement with Banco Itaúcard (b)	**146,500**	159,000
Other agreements	**4,234**	6,395
	327,192	187,395
Deferred revenue from related parties:		
Exclusive dealing agreement with Luizacred (b)	**155,117**	166,205
Exclusive dealing agreement with Luizaseg (a)	**110,000**	-
	265,117	166,205
Total deferred revenue	**592,309**	353,600
Current Liabilities	**41,399**	37,734
Noncurrent liabilities	**550,910**	315,866

19. Deferred revenue (Continued)

(a) On December 14, 2015, Luizaseg entered into a new Strategic Partnership Agreement with the Cardif group's companies, aiming to extend the rights and obligations set forth in the agreements between the parties that expired on December 31, 2015, for an additional 10-year period, effective from January 1, 2016 to December 31, 2025. This agreement enabled a cash inflow of R$330,000 into the Company. Of this amount, R$42,000 were allocated to the joint venture Luizacred, since it had exclusive rights over credit card insurance. The Company's revenue recognition deriving from this agreement will be recognized in profit (loss) over the term of the agreement, part of which is subject to the achievement of certain targets.

(b) On September 27, 2009, the Company entered into a partnership agreement with 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. In 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. Said targets had been fully achieved at the end of 2014.

At December 29, 2010, the parties entered into a partnership agreement with Luizacred, extending the exclusive right to offer, distribute and sell financial products and services at the chain of stores then acquired in the Northeast of Brazil (Lojas Maia) for a 19-year period. As consideration, Luizacred paid R$160,000 to the Company, which is recognized in profit (loss) over the term of the agreement. As part of this partnership agreement, the amount of R$20,000, mentioned in the paragraph above was increased to R$55,000.

At December 16, 2011, the Company entered into a second amendment to the partnership agreement with Luizacred, due to acquisition of New-Utd ("Lojas do Baú"). As consideration, Luizacred paid R$48,000 to the Company, which will be allocated to profit (loss) over the remaining term of the agreement.

20. Provision for tax, civil and labor contingencies

Accounting policy

The provision for tax, civil and labor contingencies is recorded based on legal opinions and the management's assessment on the lawsuits known at the end of the reporting period, for the risks deemed as probable loss. **See Note 4.g**

For labor, civil and tax lawsuits in progress, on which our legal counsel's opinion is unfavorable, the Company recognized a provision, which is the Group's management best estimate of future disbursement. Changes in the provision for tax, civil and labor contingencies are as follows:

(Amounts in thousands of Brazilian reais - R$)

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

Company

	Tax	Civil	Labor	Total
Balance at January 01, 2014	186,921	10,405	29,120	226,446
Additions	36,269	16,316	6,501	59,086
Reversals	(10,875)	-	(8,315)	(19,190)
Payments	(18,563)	(9,599)	(4,414)	(32,576)
Inflation Adjustments	12,459	-	-	12,459
Balance at December 31, 2014	206,211	17,122	22,892	246,225
Additions	**22,821**	**7,857**	**13,245**	**43,923**
Reversals	**(60,930)**	**-**		**(60,930)**
Payments	**(501)**	**(9,629)**	**(5,225)**	**(15,355)**
Inflation Adjustments	**16,147**	**-**	**-**	**16,147**
Balance at December 31, 2015	**183,748**	**15,350**	**30,912**	**230,010**

Consolidated

	Tax	Civil	Labor	Total
Balance at January 01, 2014	203,205	10,651	32,026	245,882
Additions	36,887	16,402	6,641	59,930
Reversals	(10,875)	(9)	(8,968)	(19,852)
Payments	(18,563)	(9,715)	(4,450)	(32,728)
Inflation Adjustments	12,459	-	-	12,459
Balance at December 31, 2014	223,113	17,329	25,249	265,691
Additions	**22,821**	**7,959**	**13,315**	**44,095**
Reversals	**(66,555)**	**(8)**	**(599)**	**(67,162)**
Payments	**(501)**	**(9,633)**	**(5,225)**	**(15,359)**
Inflation Adjustments	**16,147**	**-**	**-**	**16,147**
Balance at December 31, 2015	**195,025**	**15,647**	**32,740**	**243,412**

As of December 31, 2015, 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

The Company discusses on an administrative and legal basis several tax claims classified as probable loss, therefore, these are accrued. They involve federal taxes, totaling R$8,950 at December 31, 2015 (R$3,570 at December 31, 2014), state taxes, totaling R$25,262 at December 31, 2015 (R$20,043 at December 31, 2014, and municipal taxes totaling R$60 (R$79 at December 31, 2014).

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

a) Tax lawsuits (Continued)

The Company also has other lawsuits to which escrow deposits are made, as well as other provisions related to business combinations, which involve federal taxes, totaling R$149.580 at December 31, 2015 (R$182,662 at December 31, 2014) and state taxes, totaling R$11,173 at December 31, 2015 (R$16,745 at December 31, 2014). No provision of this type was recorded for municipal taxes this year (R$14 at December, 2014).

b) Civil lawsuits

Consolidated civil contingencies of R$15,647 at December 31, 2015 (R$17,329 at December 31, 2014) are related to claims filed by customers on possible product defects.

c) Labor lawsuits

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

The accrued amount of R$32,740 at December 31, 2015 (R$25,249 at December 31, 2014) in consolidated reflects the risk of probable loss assessed by the Company's management jointly with its legal counsel.

In August 2015, the Superior Labor Court (TST) issued a decision changing its position on the inflation adjustment index of labor lawsuits. As a result, labor liabilities related to lawsuits in progress since June 30, 2009 were no longer adjusted by the Reference Rate (TR), but by the Special Extended Consumer Price Index (IPCA-E). However, this decision was suspended by the Federal Supreme Court (STF) in October 2015. The Company's management, supported by its legal counsel's opinion that the obligation to settle said liabilities adjusted by the IPCA-E is not final and is, therefore, classified as a contingent liability with a risk of possible loss, decided not to record the impact of the adjustment by the IPCA-E, estimated at R$3,493, and maintain the TR as the adjustment index of labor liabilities. The Company will monitor any developments on this issue in order to reassess its conclusion at the end of each reporting period.

(Amounts in thousands of Brazilian reais - R$)

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

In order to deal with tax, civil and labor contingencies, the Company has a balance in escrow deposits of R$248,450 at December 31, 2015 (R$209,648 at December 31, 2014).

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 related to lawsuits involving federal taxes sum up R$320,062 at December 31, 2015 (R$296,062 at December 31, 2014), in relation to state taxes these amounts sum up R$168,142 at December 31, 2015 (R$117,546 at December 31, 2014) and as to municipal taxes these amounts sum up R$690 at December 31, 2015 (R$564 at December 31, 2014).

The risks of lawsuits are continuously assessed and reviewed by management. Additionally, the Company also challenges civil and labor administrative lawsuits, with chances of possible loss, whose amounts are immaterial for disclosure.

Due to uncertainties regarding the outflow of resources for said provisions, management believes it is not possible to reliably plan a settlement schedule.

21. Equity

a) Capital stock

At September 30, 2015, the Extraordinary Shareholders' Meeting (ESM) approved the reverse split of shares proposed by the Company's management, in the ratio of eight common shares to one common share. As a result, the capital stock went from 177,991,467 to 22,248,933 common shares.

At December 31, 2015, the Company's ownership structure is reported as follows:

	Number of shares	Interest %
Controlling shareholders	**15,610,501**	**70.16**
Outstanding shares	**6,263,656**	**28.16**
Treasury shares	**374,776**	**1.68**
Total	**22,248,933**	**100.00**

Shares held by controlling shareholders who are members of the Board of Directors and/or Board of Executive Officers are included under outstanding shares item.

21. Equity (Continued)

a) Capital stock (Continued)

According to Article 7 of the Bylaws, the Company may increase its capital stock, pursuant to Article 168 of Law 6,404/76, by means of the issue of up to six million, two hundred and fifity thousand (6,250,000) new common shares.

b) Treasury shares

On May 27, 2015, the Company's Board of Directors approved:

(i) The expiration of the Share Buyback Program created by the Company's Board of Directors on April 24, 2014 ("Program").
(ii) The cancellation of all treasury shares, i.e. 3,503,000 shares (437,875 shares after the reverse split), without decreasing the capital stock;
(iii) The creation of the Company's new share buyback program, maturing on May 26, 2016. The Company has already acquired 2,998,208 shares (374,776 shares after the reverse split) of this new program, at an average cost of R$3.19 (R$25.55 after the reverse split).

c) Stock option plan

1st Granting of the Stock Option Plan

For this Stock Option Plan ("Plan"), the Group's management, employees or service providers are eligible to receive stock options. In the first granting of the Plan, at January 5, 2012, 2,250,000 call options (281,250 options after the reverse split) were granted for the strike price of R$10.32 (R$82.56 after the reverse split) - "Plan 1" and 1,274,732 call options (159,342 options after the reverse split) for the strike price of R$13.60 (R$108.80 after the reverse split) - "Plan 2".

Both types of plans will have eight-year duration as of their grant date. The options may be exercised, fully or partially, provided that the beneficiary remains continuously binding as manager or employee of the Company, between the grant date and the dates specified as follows. For Plan 1, 20% of the options may be exercised upon granting and, from this date, other 20% of the options may be exercised every year the beneficiary is bound to the Company. For Plan 2, 20% of the options may be exercised as of March 1, 2012 and, as of this date, other 20% may be exercised every year the beneficiary is bound to the Company. These options when exercised will be settled through the delivery of the Company's equity instruments.

(Amounts in thousands of Brazilian reais - R$)

21. Equity (Continued)

c) Stock option plan (Continued)

2nd Granting of the Stock Option Plan

The second granting of the Stock Option Plan was approved on October 25, 2013. At that occasion, 1,213,476 options (151,685 options after the reverse split) were granted and the strike price was defined at R$9.45 (R$75.60 after the reverse split). This plan will have a maximum exercise term of 12 years, as of the date of its signature, but the following grace period shall be observed: 25% of the options may be exercised as of October 29, 2014; 25% of the options may be exercised as of October 29, 2015; 25% of the options may be exercised as of October 29, 2016 and 25% of the options may be exercised as of October 29, 2017.

Fair value

Until December 31, 2015, no stock option of the first and second granting was exercised. The fair value of each option granted is estimated on the granting date by adopting the Black & Scholes pricing model, considering the following assumptions:

Assumption	1st Granting	2nd Granting
Expected average life of the options (a)	5.5 years	5.5 years
Average annualized volatility	43.5%	37.98%
Risk-free interest rate	10%	5.92%
Weighted average of fair value of options granted	R$6.65	R$6.06
Weighted average of fair value of options granted after the reverse split of shares	R$53.20	R$48.48

(a) Represents the period when the options will be exercised and takes into account the average turnover of plan's beneficiaries.

The effects of transactions with share-based payments were recorded in the profit or loss for the year, considering the fair value of stock options, resulting in an expense of R$4,664 for the year ended December 31, 2015 (R$4,663 at December 31, 2014). The following table shows the changes in the number of stock options and the strike price weighted average (MPPE):

(Amounts in thousands of Brazilian reais - R$)

21. Equity (Continued)

c) Stock option plan (Continued)

	Before the reverse split		After the reverse split	
	Amount	**MPPE**	**Amount**	**MPPE**
Outstanding at January 1, 2014	4,738,208	10.98	592,276	87.84
With right barred by law in the year	(384,088)	12.14	(48,011)	97.12
Outstanding at December 31, 2014	**4,354,120**	**10.88**	**544,265**	**87.02**
With right barred by law in the year	**(73,193)**	**11.83**	**(9,149)**	**94.63**
Outstanding at December 31, 2015	**4,280,927**	**10.86**	**535,116**	**86.89**

The remaining weighted average contractual effectiveness for the remaining stock options at December 31, 2015 was 5.45 years (6.45 years at December 31, 2014). The weighted average fair value of the remaining stock options at December 31, 2015 and 2014 was R$6.50 (R$52.01 after the reverse split).

d) Legal reserve

At December 31, 2015 and 2014, the Company has recorded under this item the amount of R$16,143.

e) Dividends and interest on equity

The Company's Bylaws provides for the minimum mandatory dividend of 15% of adjusted net income pursuant to the Brazilian corporation law. In the year ended December 31, 2014, management accrued R$4,319 referring to the mandatory minimum dividend. In addition, the Company's Board of Directors approved the distribution of Interest
on Equity, to be attributed to the mandatory dividend, in the amount of R$14,000.

The Annual and Extraordinary Shareholders' Meeting of April 27, 2015 approved the distribution of additional dividends of R$15,166, totaling R$19,485 referring to the year 2014.

f) Earnings/ loss per share

The single financial instrument the Company has that may dilute profit/loss is the stock option plan. Considering that the average market price of outstanding shares is lower than the strike price of the stock options granted, in the period between the stock option plan grants and December 31, 2015, the dilution effect of the earnings per share is not affected:

(Amounts in thousands of Brazilian reais - R$)

21. **Equity** (Continued)

f) Earnings/ loss per share (Continued)

	2015	2014
Profit (loss) for the years attributable to the Company's owners	**(65,605)**	128,556
Weighted average of common shares	**22,290**	184,553
Basic and diluted earnings per share (in Brazilian reais)	**(2.94)**	0.70 (1)

(1) After the reverse split of shares, earnings per share would have been R$5.60 per share in 2014.

22. Net sales revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable, less returns, discounts and rebates and sales taxes, as follows:

Products Resale - Revenue is recognized when products are delivered and their legal ownership is transferred, also considering that the following conditions have been met:

- Transfer to the buyer of significant risks and benefits related to the ownership of products;
- No continued involvement in the management of products resold at level usually associated with the ownership, nor effective control over these products;
- Revenue can be reliably measured;
- It is likely that the economic benefits associated with the transaction may flow to the Company or to the Group; and
- Costs incurred or to be incurred related to the transaction can be reliably measured.

Service revenue - is determined by the intermediation of financial services to its joint ventures and other related companies of the Company and is recognized when it is likely that significant benefits to the service rendered will flow to the Company.

Consortium management - In the subsidiary Luiza Administradora de Consórcios, revenue from management fees of the consortium groups is monthly recognized upon effective receipt of installments from the consortium members, which, for the consortium management activities, represent the effective period of service rendered.

(Amounts in thousands of Brazilian reais - R$)

22. Net sales revenue (Continued)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Gross revenue:				
Retail - resale of goods	**9,916,571**	10,928,547	**9,958,361**	10,955,162
Retail - services rendered	**469,261**	483,438	**488,375**	506,163
Consortium management	**-**	-	**51,578**	43,334
	10,385,832	11,411,985	**10,498,314**	11,504,659
Taxes and returns:				
Retail - resale of goods	**(1,450,198)**	(1,655,185)	**(1,452,922)**	(1,656,985)
Retail - services rendered	**(62,789)**	(64,514)	**(62,789)**	(64,514)
Consortium management	**-**	-	**(4,344)**	(3,775)
	(1,512,987)	(1,719,699)	**(1,520,055)**	(1,725,274)
Net sales revenue	**8,872,845**	9,692,286	**8,978,259**	9,779,385

23. Cost of goods resold and services rendered

<u>Accounting policy</u>

Costs of resold goods and services rendered include costs related to the acquisition of goods and services rendered, less costs recovered from suppliers and recoverable ICMS tax substitution. Freight expenses related to transportation of suppliers' goods to the distribution centers ("DCs") are incorporated into the cost of goods to be resold.

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Costs:				
Goods resold	**(6,369,372)**	(7,066,328)	**(6,381,571)**	(7,072,698)
Services rendered	**-**	-	**(18,059)**	(14,211)
	(6,369,372)	(7,066,328)	**(6,399,630)**	(7,086,909)

(Amounts in thousands of Brazilian reais - R$)

24. Information on the nature of expenses and other operating 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:

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Personnel expenses (a)	**(979,084)**	(1,105,306)	**(982,829)**	(1,105,306)
Service providers expenses	**(637,860)**	(481,566)	**(646,589)**	(481,566)
Other	**(510,473)**	(544,054)	**(529,627)**	(577,417)
Total	**(2,127,417)**	(2,130,926)	**(2,159,045)**	(2,164,289)

(a) The Group provides its employees with benefits, such as health care insurance, dental care refund, life insurance, food ticket, transportation ticket, scholarships, in addition to the Stock Option Plan for the eligible employees, as described in Note 21. Expenses arising from these benefits recorded in 2015 was R$125,188 for the Parent company (R$126,040 in 2014) and R$126,883 in consolidated (R$127,507 in 2014). Additionally, the Group offers supplementary pension plan for all its employees. This supplementary pension plan is included in the defined contribution category, not generating any actuarial responsibility for the Group. The Group's contribution corresponds to 0.20% of the salary of participating employees and may be suspended at any time, as long as with prior notice to the participants. In 2015 and 2014, the contributions totaled R$450 and R$536, respectively. Participants can make voluntary and payroll-deductible contributions, without any consideration for the Group.

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Classified by function as:				
Selling expenses	**(1,711,504)**	(1,737,443)	**(1,720,799)**	(1,746,258)
General and administrative expenses	**(431,100)**	(417,997)	**(458,479)**	(442,550)
Other operating income, net (Note 25)	**15,187**	24,514	**20,233**	24,519
	(2,127,417)	(2,130,926)	**(2,159,045)**	(2,164,289)

Freight expenses related to the transportation of goods from DCs to physical stores and the delivery of products resold to customers are classified as selling expenses.

25. Other operating income, net

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Loss on sale of property and equipment	**(710)**	(1,229)	**(710)**	(1,229)
Recognition of deferred revenue (a)	**47,749**	35,358	**47,749**	35,358
Provision for tax losses	**(5,845)**	(5,302)	**(838)**	(5,302)
Non-recurring expenses (b)	**(27,886)**	(5,051)	**(27,886)**	(5,051)
Other	**1,879**	738	**1,918**	743
Total	**15,187**	24,514	**20,233**	24,519

(a) Refers to the allocation of deferred revenue from the assignment of exploration rights, as described in Note 18.

(b) Refers to pre-operating stores and provisions for social charges of previous periods due to payroll reencumbrance.

(Amounts in thousands of Brazilian reais - R$)

26. Financial income (expenses), net

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Finance income:				
Interest on extended warranty sales	**54,878**	63,232	**54,878**	63,232
Income from short-term financial investments and securities	**37,692**	35,310	**12,617**	6,797
Interest on sale of goods - interest on delay in receivables	**5,724**	5,292	**5,724**	5,292
Exchange gains	**95**	168	**95**	168
Discount obtained and inflation adjustments	**45,656**	18,958	**45,669**	18,958
Other	**11,314**	2,022	**11,314**	2,022
	155,359	124,982	**130,297**	96,469
Finance expenses:				
Interest on borrowings and financing	**(262,762)**	(184,765)	**(262,803)**	(184,788)
Charges on credit card advances	**(274,509)**	(219,247)	**(275,331)**	(219,774)
Provision for interest on extended warranty	**(41,803)**	(36,600)	**(41,803)**	(36,600)
Exchange losses	**(1,073)**	(463)	**(1,073)**	(463)
Other	**(35,117)**	(15,473)	**(35,342)**	(15,586)
	(615,264)	(456,548)	**(616,352)**	(457,211)
Net financial result	**(459,905)**	(331,566)	**(486,055)**	(360,742)

27. Segment reporting

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 the granting of credit to the Company's customers for acquisition of products;

Insurance - through the joint venture Luizaseg, mainly engaged in the offer of 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$)

27. Segment reporting (Continued)

Statement of income

	2015					
	Retail (a)	**Financial operations**	**Insurance operations**	**Consortium management**	**Eliminations (b)**	**Consolidated**
Gross revenue	**10,455,261**	**917,142**	**191,796**	**51,578**	**(1,117,463)**	**10,498,314**
Revenue deductions	**(1,515,711)**	**-**	**-**	**(4,344)**	**-**	**(1,520,055)**
Segment net revenue	**8,939,550**	**917,142**	**191,796**	**47,234**	**(1,117,463)**	**8,978,259**
Costs	**(6,390,096)**	**(134,730)**	**(27,975)**	**(18,059)**	**171,230**	**(6,399,630)**
Gross profit	**2,549,454**	**782,412**	**163,821**	**29,175**	**(946,233)**	**2,578,629**
Selling expenses	**(1,720,799)**	**(319,740)**	**(132,914)**	**-**	**452,654**	**(1,720,799)**
General and administrative expenses	**(434,951)**	**(3,267)**	**(24,102)**	**(23,528)**	**27,369**	**(458,479)**
Allowance for doubtful accounts	**(30,462)**	**(371,934)**	**-**	**-**	**371,934**	**(30,462)**
Depreciation and amortization	**(125,485)**	**(6,227)**	**(3)**	**(316)**	**6,230**	**(125,801)**
Equity in earnings of subsidiaries	**80,788**	**-**	**-**	**-**	**(5,183)**	**75,605**
Other operating income	**20,175**	**(992)**	**166**	**58**	**826**	**20,233**
Finance income	**127,769**	**-**	**17,759**	**2,528**	**(17,759)**	**130,297**
Finance expenses	**(616,187)**	**-**	**(1,005)**	**(165)**	**1,005**	**(616,352)**
Income tax and social contribution	**84,093**	**(18,613)**	**(9,756)**	**(2,569)**	**28,369**	**81,524**
Net income (loss) for the year	**(65,605)**	**61,639**	**13,966**	**5,183**	**(80,788)**	**(65,605)**

Equity accounting reconciliation	
Equity in the earnings of LAC (Note 13)	**5,183**
Equity in the earnings of Luizacred (Note 14)	**61,639**
Equity in the earnings of Luizaseg (Note 14)	**13,966**
(=)Equity accounting of retail segment	**80,788**
(-) Elimination effect - LAC	**(5,183)**
(=)Consolidated equity in the earnings of subsidiaries	**75,605**

(a) The retail segment is represented by consolidated amounts contemplating the results of Magazine Luiza S.A. and Época Cosméticos. In the retail segment, the equity in investments line contemplates the net income from financial operations, insurance and consortium management, once this amount is contained in the profit or loss amounts of the segment used by the main management of the operations.

(b) Eliminations are represented mainly by the effects of the segments of financial operations and insurance operations, which are presented in a proportional manner above, nevertheless are included only in one line of equity in investments in the consolidated financial statements of the Company.

(Amounts in thousands of Brazilian reais - R$)

27. Segment reporting (Continued)

Statement of income (Continued)

	2014					
	Retail (a)	**Financial operations**	**Insurance operations**	**Consortium management**	**Eliminations (b)**	**Consolidated**
Gross revenue	11,468,744	873,140	165,310	43,334	(1,045,869)	11,504,659
Revenue deductions	(1,721,499)	-	-	(3,775)	-	(1,725,274)
Segment net revenue	9,747,245	873,140	165,310	39,559	(1,045,869)	9,779,385
Costs	(7,080,117)	(113,633)	(17,791)	(14,211)	138,843	(7,086,909)
Gross profit	2,667,128	759,507	147,519	25,348	(907,026)	2,692,476
					-	
Selling expenses	(1,746,258)	(288,400)	(122,747)	-	411,147	(1,746,258)
General and administrative expenses	(421,993)	(2,333)	(22,112)	(20,557)	24,445	(442,550)
Allowance for doubtful accounts	(22,547)	(325,521)	-	-	325,521	(22,547)
Depreciation and amortization	(114,017)	(6,515)	(3)	(315)	6,518	(114,332)
Equity in earnings of subsidiaries	103,643	-	-	-	(4,023)	99,620
Other operating income	24,514	11,976	149	5	(12,125)	24,519
Finance income	94,850	-	12,748	1,619	(12,748)	96,469
Finance expenses	(457,151)	-	(300)	(60)	300	(457,211)
Income tax and social contribution	387	(58,322)	(6,026)	(2,017)	64,348	(1,630)
Profit for the year	128,556	90,392	9,228	4,023	(103,643)	128,556

Equity accounting reconciliation	
Equity in the earnings of LAC (Note 13)	4,023
Equity in the earnings of Luizaseg (Note 14)	9,228
Equity in the earnings of Luizacred (Note 14)	90,392
(=)Equity accounting of retail segment	103,643
(-) Elimination effect - LAC	(4,023)
(=)Consolidated equity in the earnings of subsidiaries	99,620

(a) The retail segment is represented by consolidated amounts contemplating the results of Magazine Luiza S.A. and Época Cosméticos. In the retail segment, the equity in investments line contemplates the net income from financial operations, insurance and consortium management, once this amount is contained in the profit or loss amounts of the segment used by the main management of the operations.

(b) Eliminations are represented mainly by the effects of the segments of financial operations and insurance operations, which are presented in a proportional manner above, nevertheless are included only in one line of equity in investments in the consolidated financial statements of the Company.

(Amounts in thousands of Brazilian reais - R$)

27. Segment reporting (Continued)

As they are jointly-controlled operations, the “Financial operations” and “Insurance operations” segments are accounted for by the equity accounting method.

Statements of financial position

	2015			
	Retail (*)	Financial operations	Insurance operations	Consortium management
Assets				
Cash and cash equivalents	591,223	3,810	231	26,242
Securities and other financial assets	544,351	8,708	148,243	-
Trade receivables	437,820	1,900,907	-	-
Inventories of goods for resale	1,353,092	-	-	-
Investments	316,920	-	-	-
Property and equipment and intangible assets	1,084,393	81,942	55,005	898
Other	1,165,675	169,639	27,089	3,572
	5,493,474	2,165,006	230,568	30,712
Liabilities				
Trade payables	1,893,119	-	1,837	1,038
Borrowings and financing	1,823,310	-	-	-
Interbank deposits	-	971,644	-	-
Credit card operations	-	807,641	-	-
Insurance reserves	-	-	103,763	-
Provision for contingencies	242,942	31,921	428	470
Deferred revenue	592,309	21,000	-	-
Other	366,138	51,170	22,145	9,753
	4,917,818	1,883,376	128,173	11,261
Equity	575,656	281,630	102,395	19,451
Investment reconciliation				
Investments in subsidiaries				
Investment in LAC (Note 13)	19,451			
Investment in joint ventures				
Investment in Luizacred (Note 14)	281,630			
Investment in Luizaseg (Note 14)	15,839			
	297,469			
Total investments	316,920			
(-)Elimination effect - LAC	(19,451)			
(=) Total consolidated investment	297,469			

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

(Amounts in thousands of Brazilian reais - R$)

27. Segment reporting (Continued)

Statements of financial position (Continued)

	2014			
	Retail (*)	**Financial operations**	**Insurance operations**	**Consortium management**
Assets				
Cash and cash equivalents	392,366	4,107	406	19,804
Securities and other financial assets	450,979	5,361	139,668	-
Trade receivables	623,296	2,042,635	-	-
Inventories of goods for resale	1,472,738	-	-	-
Investments	296,065	-	-	-
Property and equipment and intangible assets	1,053,948	88,086	6	998
Other	952,942	145,919	32,340	4,037
	5,242,334	2,286,108	172,420	24,839
Liabilities				
Trade payables	1,789,251	-	1,896	647
Borrowings and financing	1,711,627	-	-	-
Interbank deposits	-	1,097,614	-	-
Credit card operations	-	790,014	-	-
Insurance reserves	-	-	101,926	-
Provision for contingencies	265,260	26,389	235	431
Deferred revenue	353,600	7,500	-	-
Other payables	454,685	84,025	29,325	8,262
	4.574,423	2,005,542	133,382	9,340
Equity	667,911	280,566	39,038	15,499

Investment reconciliation	
Investments in subsidiaries	
Investment in LAC (Note 13)	15,499
Investment in joint ventures	
Investment in Luizacred (Note 14)	280,566
Total investments	296,065
(-) Elimination effect in consolidated	(15,499)
(=) Result from consolidated investment	280,566

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

(Amounts in thousands of Brazilian reais - R$)

28. 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 the opening and remodeling of stores, new technologies, process improvement and advanced management methods.

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 these balances ratio pose significant imbalance.

The Company also adopts the adjusted net debt/adjusted EBITDA ratio, which in its opinion, represents the most adequate manner to measure its indebtedness, since it reflects the net consolidated financial obligations of funds available for payment, considering its operating cash generation. Adjusted EBITDA means profit before income tax and social contribution, finance income and expenses, depreciation and amortization and non-recurring operating events.

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

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Borrowings and financing	**1,823,050**	1,711,235	**1,823,310**	1,711,627
(-) Cash and cash equivalents	**(590,400)**	(391,763)	**(617,465)**	(412,170)
(-) Securities and other financial assets	**(544,351)**	(450,979)	**(544,351)**	(450,979)
(-) Third-party credit cards (*)	**(155,017)**	(183,696)	**(158,749)**	(185,075)
(-) Related-party credit cards (*)	**(13,884)**	(12,902)	**(13,884)**	(12,902)
Adjusted net debt (*)	**519,398**	671,895	**488,861**	650,501
Equity	**575,656**	667,911	**575,656**	667,911

(*) Includes credit cards pursuant to the amendment to covenants in 2015. The adjusted net debt balance was changed for comparison purposes in 2014.

(Amounts in thousands of Brazilian reais - R$)

28. Financial Instruments (Continued)

Categories of financial instruments

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Financial assets				
Loans and receivables:				
Cash and banks	**62,503**	66,546	**63,151**	66,820
Escrow deposits	**248,450**	209,648	**248,450**	209,648
Trade receivables	**433,144**	621,605	**437,820**	623,296
Related parties	**88,140**	93,895	**86,152**	93,220
At fair value through profit or loss:				
Cash equivalents, marketable securities and other financial assets	**1,072,248**	776,196	**1,098,665**	796,329
Financial liabilities				
Amortized cost:				
Trade payables	**1,885,251**	1,784,902	**1,894,157**	1,789,898
Borrowings and financing	**1,232,559**	1,711,235	**1,232,819**	1,711,627
Related parties	**68,787**	80,525	**68,404**	80,305
Taxes paid in installments	**-**	6,504	**-**	6,504
At fair value through profit or loss:				
Borrowings and financing	**590,491**	-	**590,491**	-

Fair value measurement

All assets and liabilities for which the fair value is measured or disclosed in the financial statements are classified within the fair value hierarchy described below, based on the lowest level of information that is significant to the fair value measurement as a whole:

- Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest and significant level of information to measure the fair value directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest and significant level of information to measure the fair value is unobservable.

(Amounts in thousands of Brazilian reais - R$)

28. Financial Instruments (Continued)

Fair value measurement (Continued)

The measurement of assets and liabilities of the Company at fair value is as follows:

	Company		Consolidated		Fair value measurement
	2015	2014	2015	2014	Level
Financial assets					
Fair value through profit or loss					
Cash equivalents and marketable ecurities	**944,246**	776,196	**970,663**	796,329	**Level 1**
	128,002	-	**128,002**	-	**Level 2**
Financial liabilities					
Fair value through profit or loss					
Borrowings and financing	**590,491**	-	**590,491**	-	**Level 2**

Liquidity risk management

The Company's management has ultimate responsibility for the management of the liquidity risk and prepares 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.

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.

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

	Less than one year	From one to three years	Over three years	Total
Trade payables	1,894,157	-	-	**1,894,157**
Borrowings and financing	568,350	929,843	325,117	**1,823,310**
Related parties	68,404	-	-	**68,404**

28. Financial Instruments (Continued)

Considerations on risks

The Group's 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$377,389 as at December 31, 2015 (R$461,215 as at December 31, 2014). This risk is assessed by the Company as low due to the normal 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. Even so, the risk is managed by means of periodic analysis of default rate and the adoption of more efficient collection measures. As at December 31, 2015, the Group recorded past-due or uncollectible balances under "trade receivables," whose terms were renegotiated, in the amount of R$11,844 (R$15,182 as at December 31, 2014), which are included in the Group's analysis on the need to recognize an allowance for doubtful accounts.

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. Main related risks are variations in the interest and foreign exchange rates.

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 item below.

Foreign exchange rate risk management: the Company uses derivatives 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 Company's Board of Directors. Upon initial recognition of hedge, the Company formally classifies and reports the hedge ratio to which the Company intends to apply the hedge accounting, as well as the objective and the management's risk management strategy to materialize the hedge. Documentation includes to identify the hedge instrument, the hedged item or transaction, the nature of the hedged risk, the nature of risks excluded from the hedge ratio, the prospective statement of effective hedge ratio and how the Company will assess the hedge instrument's efficacy for the purposes of offsetting the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk.

(Amounts in thousands of Brazilian reais - R$)

28. Financial Instruments (Continued)

Considerations on risks (Continued)

In this scenario, the Company raised foreign currency-denominated loans bearing interest, 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. For the purposes of hedge accounting, these instruments are classified as fair value hedge and initially are recognized at fair value on the date the derivative agreement is contracted, and subsequently revalued also at fair value. Any gains or losses resulting from changes in fair value, both of the hedging derivative (*swap*) and the hedge purpose (borrowings) during the year are recorded directly in the statement of income, as finance income (expense).

Below, a description of agreements that affected profit or loss for the year ended December 31, 2015:

Fair Value Hedge

Hedging derivative

	Swaps			**Average indexes**
	Amortized cost	**Adjustment MTM**	**Fair Value (a)**	
Assets	595,224	(4,733)	590,491	**US$ + 2.90%**
Liabilities	462,489	-	462,489	**108.81% CDI**
Total	**132,735**	**(4,733)**	**128,002**	

Hedge purpose

	Working Capital in USD			**Average indexes**
	Amortized cost	**Adjustment MTM**	**Fair Value (a)**	
Liabilities(a)	**595,224**	**(4,733)**	**590,491**	**US$ + 2.90%**

(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, no longer classified as hedging transactions and no future commitments subject to cash flow hedge.

Sensitivity analysis of financial instruments

At December 31, 2015, management carried out a sensitivity analysis, considering a probable increase and scenarios of 25% and 50% increases in the expected interest rates. The probable increase scenario was measured using the future interest rates disclosed by BM&FBOVESPA and/or BACEN. The expected effects of interest expenses net of finance income of financial investments for the next three months are as follows:

	Probable Rate	**Probable Scenario I**	**Scenario II (+ 25%)**	**Scenario III (+ 50%)**
Interest to be incurred exposed to:				
CDI	**14.75%**	**(52,640)**	**(65,800)**	**(78,960)**
Impact on financial result, net of taxes		**(34,742)**	**(43,428)**	**(52,114)**

28. Financial Instruments (Continued)

Sensitivity analysis of financial instruments (Continued)

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 pegged to swap transactions, so that the accounting and financial treatment of these loans is denominated in domestic currency. Accordingly, changes in swap derivative financial instruments and loans and borrowings are offset.

29. Leasing commitments

Accounting policy

Assets acquired through finance lease are initially recognized as property and equipment at their fair value when lease starts or, if lower, by the present value of the minimum lease payment. The corresponding liability to the lessor is stated in the financial statements as an obligation with finance lease.

Assets held through finance lease are depreciated by their estimated useful lives likewise own assets or for a shorter period, where applicable, pursuant to the terms of the lease agreement under consideration.

Payments referring to finance lease are distributed between financial charges and liability reduction, so that to achieve a constant interest rate in relation to the liability's remaining balance.

Payments referring to operating lease are recognized as expenses by the straight-line method during the effectiveness period of the agreement, except when another system is more representative to reflect when the economic benefits from leased assets are earned. Contingent payments arising from operating lease are recognized as expenses in the year or period in which they are incurred.

Operating lease - lease agreements

The Company has several property lease agreements with related parties (MTG Administração e Participações S.A. and PJD Agropastoril Ltda.) and with third parties, whose average term is five years, renewable for another five years. Management analyzed these agreements and concluded that they are classified as operating lease.

These agreements establish fixed or variable lease amounts, based on a percentage over net sales, in accordance with the contractual forms. At December 31, 2015, the Company had 786 stores (756 stores in 2014) and eight leased Distribution Centers. For these lease agreements, expenses of R$287,953 were recorded in the year ended December 31, 2015 (R$262,696 at December 31, 2014).

(Amounts in thousands of Brazilian reais - R$)

29. Leasing Commitments (Continued)

Operating lease - lease agreements (Continued)

Future commitments deriving from these adjusted agreements amount to in the following five years:

Year	Amount
2016	**312,538**
2017	**329,955**
2018	**347,150**
2019	**365,250**
2020	**381,236**
Total	**1,736,129**

Finance lease agreements

	Minimum payments	
	Company and Consolidated	
	2015	2014
Within one year	**16,501**	13,541
Between two and five years	**16,305**	17,426
Over five years	**862**	-
	33,668	30,967
Less: financial income not incurred	**(3,404)**	(4,254)
Present value of minimum payments	**30,264**	26,713

In 2005, the Company acquired an aircraft unit through a finance lease contract with final maturity in 2016, subject to foreign exchange variation and bearing the LIBOR rate (see further information in Note 18b). No financial instruments were contracted to hedge against the risk related to foreign exchange variations set out in such agreement.

Below, the amount of assets, net of accumulated depreciation, acquired through finance lease:

Type of assets	2015	2014
Computers and peripherals	**4,263**	7,229
Vehicles	**4,285**	10,594
Software	**16,862**	17,339
Machinery and equipment	**7,908**	3,686
Other	**316**	362
Total	**33,634**	39,210

In the reported periods, we did not identify any event that could indicate the need for making calculations in order to assess any impairment of these assets.

(Amounts in thousands of Brazilian reais - R$)

30. Statement of cash flows

Below are the changes in equity that did not affect the Company's cash flows:

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Dividends proposed by subsidiaries and joint ventures and not received	**5,783**	4,632	**4,552**	4,632
Dividends declared and Interest on equity unpaid in the year	**-**	18,319	**-**	18,319
Other comprehensive income	**366**	382	**366**	382

31. 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 2015 and 2014, insurance coverage is as follows:

	2015	**2014**
Civil liability and D&O	**41,000**	41,000
Sundry risks - inventories and property and equipment	**1,905,145**	1,740,372
Vehicles	**16,696**	17,832
	1,962,841	1,799,204