Financial Statements

Magazine Luiza S.A.

December 31, 2013 and 2012 and the
Independent Auditor's Report

Magazine Luiza S.A.

Financial Statements

December 31, 2013 and 2012

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A free translation from Portuguese into English of Independent Auditor's Report on individual financial statements in accordance with accounting practices adopted in Brazil and on consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

Independent auditor’s report on the financial statements

Management and Shareholders
Magazine Luiza S.A.
São Paulo - SP

We have audited the individual and consolidated financial statements of Magazine Luiza S.A. (“Company”), identified as Controlling Company and Consolidated, comprising the balance sheet as of December 31, 2013 and the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, as well as the summary of significant accounting policies and other notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and appropriate presentation of the individual financial statements in accordance with the accounting practices adopted in Brazil and of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in conformity with the accounting practices adopted in Brazil, as well as for the internal controls management determined as necessary to allow the preparation of these financial statements free of material misstatements, regardless of whether or not caused by fraud or error.

Independent auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with the Brazilian and International auditing standards. These standards require that auditors comply with ethical requirements and that audit be planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatements.

An audit includes procedures selected to obtain evidence of the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we considered internal controls relevant to the Company’s preparation and presentation of the 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 the evaluation of 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 have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Magazine Luiza S.A. at December 31, 2013, the results of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magazine Luiza S.A. at December 31, 2013, its consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the *International Accounting Standards Board* (IASB) and the accounting practices adopted in Brazil.

Emphasis of matter

As mentioned in note 2.1, the individual financial statements were prepared in accordance with the accounting practices adopted in Brazil. In the case of Magazine Luiza S.A., these practices differ from the IFRS applicable to the separate financial statements – solely with respect to the measurement of investments in subsidiaries under the equity method, while such investments would be measured at cost or fair value in accordance with IFRS. Our opinion is not qualified due to this matter.

As mentioned in Note 2.26, due to changes in the accounting practices adopted by the Company in 2013, the related amounts referring to the previous year, presented for comparison purposes, have been adjusted and restated, as provided by CPC 23, (Accounting Practices, Changes in Estimates and Error Rectification). Our opinion on this issue remains unchanged.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2013, prepared under the management's responsibility, which presentation is required by the Brazilian Corporate 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 subjected 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.

Financial statements of previous periods analyzed by another independent auditor

The amounts corresponding to the opening balances as of January 1, 2012, presented for comparison purposes and restated herein due to a change in the accounting practices described in Note 2.26, were audited by other independent auditors who issued a report on February 21, 2014, which did not contain any modification.

São Paulo, February 21, 2014.

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

Alexandre Rubio
Accountant CRC-1SP223361/O-2

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

A free translation from Portuguese into English of individual financial statements in accordance with accounting practices adopted in Brazil and of consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

Magazine Luiza S.A.

Statement of financial positionDecember 31, 2013 and 2012
(Amounts in thousands of Brazilian reais - R$)

	Note	Company			Consolidated		
		2013	2012	01/01/2012	2013	2012	01/01/2012
						(restated)	(restated)
Assets							
Current assets							
Cash and cash equivalents	3.1	**278,006**	404,143	150,980	**280,306**	418,879	169,282
Securities	3.2	**477,210**	126,385	26,876	**491,288**	126,385	26,876
Trade accounts receivable	4	**529,922**	486,474	436,326	**530,620**	486,474	498,978
Inventories	5	**1,247,205**	1,068,762	1,092,081	**1,251,362**	1,068,762	1,264,657
Related parties	6	**109,474**	74,342	130,165	**108,895**	73,625	97,368
Taxes recoverable	7	**218,554**	208,490	18,749	**218,554**	208,503	21,365
Other assets	8	**39,872**	37,130	21,819	**40,965**	37,950	35,038
Total current assets		**2,900,243**	2,405,726	1,876,996	**2,921,990**	2,420,578	2,113,564
Non-current assets							
Trade accounts receivable	4	**4,683**	398	5,858	**4,683**	398	5,858
Deferred income tax and social contribution	9	**139,253**	147,758	122,333	**139,427**	148,301	126,988
Taxes recoverable	7	**158,761**	137,365	15,182	**158,761**	137,365	31,042
Escrow deposits	17	**170,080**	129,348	53,534	**170,080**	129,348	88,988
Other assets	8	**43,858**	38,943	15,782	**45,402**	39,565	16,662
Investments in subsidiaries	10	**37,403**	12,272	72,877	**-**	-	-
Investments in joint ventures	11	**251,747**	222,894	161,256	**251,747**	222,894	189,888
Property and equipment	12	**539,729**	573,223	417,295	**540,444**	573,957	488,371
Intangible assets	13	**438,559**	435,049	175,716	**481,370**	435,338	442,863
Total non-current assets		**1,784,073**	1,697,250	1,039,833	**1,791,914**	1,687,166	1,390,660
Total assets		**4,684,316**	4,102,976	2,916,829	**4,713,904**	4,107,744	3,504,224

Magazine Luiza S.A.

Statement of financial position (Continued))
December 31, 2013 and 2012
(Amounts in thousands of Brazilian reais - R$)

	Note	Company			Consolidated		
		2013	2012	01/01/2012	2013	2012 (restated)	01/01/2012 (restated)
Liabilities and equity							
Current liabilities							
Trade payables	14	**1,646,947**	1,325,992	1,091,013	**1,651,543**	1,326,310	1,266,708
Loans and financing	15	**424,989**	317,198	94,979	**425,227**	317,198	129,671
Payroll, vacation pay and payroll charges		**164,489**	136,586	109,726	**166,585**	138,255	121,211
Taxes payable		**40,971**	47,401	33,289	**41,664**	47,800	34,631
Related parties	6	**73,716**	51,291	45,737	**73,619**	51,291	45,770
Taxes paid in installments	18	**8,286**	9,128	2,854	**8,286**	9,128	2,854
Deferred revenue	16	**36,734**	37,104	19,217	**36,734**	37,104	29,623
Dividends and interest on equity payable		**16,219**	-	1,662	**16,219**	-	1,662
Other accounts payable		**106,631**	80,541	78,715	**107,714**	80,775	91,824
Total current liabilities		**2,518,982**	2,005,241	1,477,192	**2,527,591**	2,007,861	1,723,954
Non-current liabilities							
Loans and financing	15	**895,053**	918,766	496,278	**895,053**	918,766	581,664
Taxes installment payment	18	**-**	1,783	4,398	**-**	1,783	4,398
Provision for tax, civil and labor contingencies	17	**226,446**	186,027	84,176	**245,882**	187,553	167,176
Deferred revenue	16	**349,224**	375,167	230,490	**349,224**	375,167	388,465
Deferred income tax and social contribution	9	**-**	-	-	**-**	-	10,693
Other accounts payable		**-**	-	3,350	**1,543**	622	6,929
Total non-current liabilities		**1,470,723**	1,481,743	818,692	**1,491,702**	1,483,891	1,159,325
Total liabilities		**3,989,705**	3,486,984	2,295,884	**4,019,293**	3,491,752	2,883,279
Equity							
Capital	19	**606,505**	606,505	606,505	**606,505**	606,505	606,505
Capital reserve		**5,640**	2,820	-	**5,640**	2,820	-
Treasury shares		**(20,063)**	-	-	**(20,063)**	-	-
Legal reserve		**9,715**	4,025	4,025	**9,715**	4,025	4,025
Retained earnings reserve		**94,458**	2,561	10,415	**94,458**	2,561	10,415
Other comprehensive income		**(1,644)**	81	-	**(1,644)**	81	-
Profit for the period		**-**	-		**-**	-	-
Total equity		**694,611**	615,992	620,945	**694,611**	615,992	620,945
Total liabilities and equity		**4,684,316**	4,102,976	2,916,829	**4,713,904**	4,107,744	3,504,224

See accompanying notes.

Magazine Luiza S.A.

Statements of income
Years ended December 31, 2013 and 2012
(Amounts in thousands of reais - R$)

	Note	Company		Consolidated	
		2013	**2012**	**2013**	**2012**
					(restated)
Net sales revenue	20	**8,034,985**	6,719,425	**8,088,439**	7,066,770
Costs of goods resold and services rendered	21	**(5,817,669)**	(4,810,471)	**(5,825,444)**	(5,057,804)
Gross profit		**2,217,316**	1,908,954	**2,262,995**	2,008,966
Operating income (expenses)					
Selling	22	**(1,512,685)**	(1,344,320)	**(1,513,769)**	(1,404,099)
General and administrative expenses	22	**(385,391)**	(330,723)	**(403,722)**	(372,221)
Allowance for doubtful accounts		**(21,212)**	(21,774)	**(21,212)**	(23,471)
Depreciation and amortization		**(101,634)**	(86,442)	**(101,958)**	(92,447)
Equity in the earnings (losses) of subsidiaries	10 and 11	**57,133**	(7,031)	**54,464**	18,012
Other operating income, net	22 and 23	**98,051**	29,900	**98,168**	31,731
		(1,865,738)	(1,760,390)	**(1,888,029)**	(1,842,495)
Operating profitbefore financial result		**351,578**	148,564	**374,966**	166,471
Finance income		**90,797**	57,081	**69,398**	47,777
Finance expenses		**(313,173)**	(242,318)	**(313,360)**	(251,583)
Financial result	24	**(222,376)**	(185,237)	**(243,962)**	(203,806)
Operating profit (loss) before income tax and social contribution		**129,202**	(36,673)	**131,004**	(37,335)
Current and deferred income tax and social contribution	9	**(15,396)**	29,928	**(17,198)**	30,590
Profit (loss) for the year		**113,806**	(6,745)	**113,806**	(6,745)
Profit (loss) attributable to:					
Owners of the company		**113,806**	(6,745)	**113,806**	(6,745)
Earnings (loss) per share					
Basic and diluted earnings (R$ per share)		**0.61**	(0.04)	**0.61**	(0.04)

See accompanying notes.

Magazine Luiza S.A.

Statement of comprehensive income
Years ended December 31, 2013 and 2012
(Amounts in thousands of reais – R$)

		Company		Consolidated	
		2013	2012	2013	2012
Profit (loss) for the year	Note	**113,806**	(6,745)	**113,806**	(6,745)
Other comprehensive income deriving from previous periods					
Available-for-sale financial assets deriving from investments		**135**	-	**135**	-
Tax effect		**(54)**	-	**(54)**	-
Total	11	**81**	-	**81**	-
Other comprehensive income					
Available-for-sale financial assets deriving from investments		**(2,875)**	135	**(2,875)**	135
Tax effect		**1,150**	(54)	**1,150**	(54)
Total	11	**(1,725)**	81	**(1,725)**	81
Balance of other comprehensive income		**(1,644)**	81	**(1,644)**	81
Total other comprehensive income for the year , net of taxes		**112,162**	(6,664)	**112,162**	(6,664)
Attributed to :					
Controlling shareholders:		**112,162**	(6,664)	**112,162**	(6,664)

See accompanying notes.

Magazine Luiza S.A.

Statement of changes in equity – Company and Consolidated
For the years ended December 31, 2013 and 2012
(Amounts in thousands of Brazilian reais - R$)

	Note	Capital stock	Capital reserve	Treasury shares	Legal reserve	Profit retention reserve	Retained earnings/ (accumulated losses)	Other comprehensive income	Total
Balances as at December 31, 2011		606,505	-	-	4,025	10,415	-	-	620,945
									-
Stock option plan		-	2,820	-	-	-	-	-	2,820
Loss for the year		-	-	-	-	-	(6,745)	-	(6,745)
Dividend distribution		-	-	-	-	(1,109)	-	-	(1,109)
Absorption of accumulated losses		-	-	-	-	(6,745)	6,745	-	-
		606,505	2,820	-	4,025	2,561	-	-	615,911
Other comprehensive income:									
Financial instruments adjustment		-	-	-	-	-	-	81	81
Balances as at December 31, 2012		**606,505**	**2,820**	**-**	**4,025**	**2,561**	**-**	**81**	**615,992**
									-
Stock option plan	19	**-**	**2,820**	**-**	**-**	**-**	**-**	**-**	**2,820**
Treasury shares	19	**-**	**-**	**(20,063)**	**-**	**-**	**-**	**-**	**(20,063)**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**113,806**	**-**	**113,806**
Allocations:									
Legal reserve	19	**-**	**-**	**-**	**5,690**	**-**	**(5,690)**	**-**	**-**
Profit retention reserve	19	**-**	**-**	**-**	**-**	**91,897**	**(91,897)**	**-**	**-**
Interest on equity	19	**-**	**-**	**-**	**-**	**-**	**(12,000)**	**-**	**(12,000)**
Mandatory dividends	19	**-**	**-**	**-**	**-**	**-**	**(4,219)**	**-**	**(4,219)**
		606,505	**5,640**	**(20,063)**	**9,715**	**94,458**	**-**	**81**	**696,336**
Other comprehensive income									
Financial instrument adjustments		**-**	**-**	**-**	**-**	**-**	**-**	**(1,725)**	**(1,725)**
Balances as at December 31, 2013		**606,505**	**5,640**	**(20,063)**	**9,715**	**94,458**	**-**	**(1,644)**	**694,611**

See accompanying notes.

Magazine Luiza S.A.

Statement of cash flows
For the years ended December 31, 2013 and 2012
(Amounts in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2013	2012	2013	2012
					(restated)
Cash flow from operating activities					
Profit (loss) for the year		**113,806**	(6,745)	**113,806**	(6,745)
Adjustments to reconcile profit for the year to cash generated from operating activities:					
Income tax and social contribution expenses recognized in the result	9	**15,396**	(29,928)	**17,198**	(30,590)
Depreciation and amortization		**101,634**	86,442	**101,958**	92,447
Interest on borrowings and financing provisioned		**118,642**	93,445	**118,686**	97,889
Yield on securities		**(24,525)**	(10,884)	**(25,454)**	(10,884)
Equity in the earnings (losses) of subsidiaries	10 and 11	**(57,133)**	7,031	**(54,464)**	(18,012)
Changes in allowance for inventory losses		**76,136**	43,399	**76,136**	58,750
Provision for contingencies	17	**60,278**	30,624	**59,861**	33,263
Gain (loss) on disposal, net of property &equipment written-off		**(125,424)**	3,801	**(125,424)**	4,269
Appropriation of deferred revenue	16	**(32,314)**	(39,388)	**(32,314)**	(42,994)
Stock option plan expenses	19	**2,820**	2,820	**2,820**	2,820
Interest of taxes offset with tax losses		**10,132**	-	**10,132**	-
(Increase) decrease in operating assets:					
Receivables		**(97,989)**	10,700	**(96,448)**	(19,161)
Securities		**-**	-	**(339,449)**	(88,625)
Inventories		**(204,323)**	158,936	**(205,872)**	174,270
Related parties		**(22,650)**	67,975	**(22,788)**	22,658
Taxes recoverable		**(18,721)**	(291,114)	**(17,775)**	(293,115)
Other assets		**(47,842)**	(61,724)	**(49,038)**	(66,175)
Increase (decrease) in operating liabilities:					
Trade accounts payable		**320,955**	54,803	**322,644**	59,602
Payroll, vacation pay and related charges		**27,903**	14,283	**27,968**	17,044
Taxes payable		**(23,453)**	13,764	**(24,698)**	12,145
Related parties		**22,425**	(47,178)	**22,328**	5,521
Tax installment payment		**(2,625)**	3,659	**(2,625)**	3,659
Other payables		**(12,199)**	(46,336)	**(11,157)**	(43,065)
Cash used in operating activities		**200,929**	58,385	**(133,969)**	(35,029)
Income tax and social contribution paid		**(12,739)**	(346)	**(13,672)**	(738)
Dividends received from subsidiaries		**13,404**	10,172	**11,404**	10,172
Net cash provided by (used in) operating activities		**201,594**	68,211	**(136,237)**	(25,595)
Cash flows from investing activities					
Purchase of property and equipment	12	**(111,399)**	(136,638)	**(111,546)**	(150,620)
Purchase of intangible assets	13	**(34,404)**	(19,775)	**(34,584)**	(24,157)
Investments in exclusive investment fund		**(2,246,759)**	(869,995)	**-**	-
Redemptions from exclusive investment fund		**1,920,459**	781,370	**-**	-
Receivables from property and equipment disposal		**205,461**	-	**205,461**	-
Sale of exclusive dealing and exploration rights agreement		**6,000**	50,000	**6,000**	50,000
Investment in subsidiary		**(12,462)**	(49,465)	**(12,172)**	(24,000)
Cash provided by merger		**-**	5,459	**-**	-
Cash deriving from (used in) investing activities		**(273,104)**	(239,044)	**53,159**	(148,777)

Magazine Luiza S.A.

Statement of cash flows (Continued)
For the years ended December 31, 2013 and 2012
(Amounts in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2013	**2012**	**2013**	**2012**
					(restated)
Cash flow from financing activities					
Borrowings and financing		**411,585**	745,717	**411,585**	745,717
Payment of borrowings and financing		**(345,566)**	(227,690)	**(346,434)**	(227,717)
Payment of interest on borrowings and financing		**(100,583)**	(91,260)	**(100,583)**	(91,260)
Dividend payment		**-**	(2,771)	**-**	(2,771)
Treasury shares acquired		**(20,063)**	-	**(20,063)**	-
Cash flows deriving from (used in) financing activities		**(54,627)**	423,996	**(55,495)**	423,969
(Decrease) increase in cash and cash equivalents		**(126,137)**	253,163	**(138,573)**	249,597
Cash and cash equivalents at the beginning of the year		**404,143**	150,980	**418,879**	169,282
Cash and cash equivalents at the end of the year		**278,006**	404,143	**280,306**	418,879
(Decrease) increase in cash and cash equivalents		**(126,137)**	253,163	**(138,573)**	249,597

See accompanying notes

Magazine Luiza S.A.

Statement of value added
Years ended December 31, 2013 and 2012
(Amounts in thousands ofreais - R$)

	Company		Consolidated	
	2013	**2012**	**2013**	**2012 (restated)**
Revenue				
Goods and products sold and services rendered	**9,100,323**	7,602,221	**9,157,276**	8,018,476
Allowance for doubtful accounts, net of reversals	**(21,212)**	(21,774)	**(21,212)**	(23,471)
Other operating revenue	**111,576**	62,112	**111,623**	71,539
	9,190,687	7,642,559	**9,247,687**	8,066,544
Inputs acquired from third parties				
Cost of products and goods sold and services rendered	**(6,401,247)**	(5,287,085)	**(6,409,093)**	(5,502,341)
Materials, electricity, outsourced services and other	**(688,062)**	(597,512)	**(695,961)**	(643,244)
Impairment of assets	**(18,516)**	(17,988)	**(18,516)**	(17,988)
	(7,107,825)	(5,902,585)	**(7,123,570)**	(6,163,573)
Gross value added	**2,082,862**	1,739,974	**2,124,117**	1,902,971
Depreciation and amortization	**(101,634)**	(86,442)	**(101,958)**	(92,447)
Net value added generated by the entity	**1,981,228**	1,653,532	**2,022,159**	1,810,524
Value added received through transfer				
Equity in the earnings (losses) of subsidiaries	**57,133**	(7,031)	**54,464**	18,012
Finance income	**90,797**	57,081	**69,398**	47,777
Total value added to distribute	**2,129,158**	1,703,582	**2,146,021**	1,876,313
Distribution of value added				
Personnel and charges:				
Direct compensation	**700,886**	592,354	**708,813**	622,488
Benefits	**150,520**	110,452	**151,265**	117,373
Government Severance Indemnity Fund for Employees (FGTS)	**63,997**	54,091	**64,663**	56,986
	915,403	756,897	**924,741**	796,847
Taxes, fees and contributions:				
Federal	**223,715**	252,034	**229,609**	325,157
State	**302,413**	249,302	**302,470**	286,550
Municipal	**29,748**	23,350	**30,843**	25,140
	555,876	524,686	**562,922**	636,847
Value distributed to providers of capital:				
Interest	**267,761**	211,144	**267,737**	219,907
Rentals	**230,899**	186,425	**231,210**	197,779
Other	**45,413**	31,175	**45,605**	31,678
	544,073	428,744	**544,552**	449,364
Value distributed to shareholders:				
Interest on equity	**12,000**	-	**12,000**	-
Dividends	**4,219**	-	**4,219**	-
Retained earnings	**97,587**	(6,745)	**97,587**	(6,745)
	2,129,158	1,703,582	**2,146,021**	1,876,313

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

On December 31, 2013, the Company and its subsidiaries owned 744 stores (743 stores in 2012) and eight distribution centers (eight distribution centers in 2012), located in the South, Southeast, Mid-west and Northeast regions of Brazil.

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

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

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

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

(d) Campos Floridos Comércio de Cosméticos Ltda. ("Época Cosméticos") - Wholly-owned subsidiary engaged in selling perfume items, cosmetics, and dermocosmetics and hair care products by Internet. See Note 28 – Business combination.

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

On April 30, 2012, the Company merged F.S. Vasconcelos & Cia. Ltda. ("Lojas Maia"), its wholly-owned subsidiary, represented by a store chain, operating in the same business segment as Magazine Luiza S.A. in the Northeast region of Brazil, acquired in July 2010. Referred merger was conducted by the value of the subsidiary's net assets.

2. Basis of presentation and accounting policies

2.1. Statement of compliance

The Group's financial statements comprise:

- The consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and the accounting practices adopted in Brazil, identified as "Consolidated - IFRS and BR GAAP;" and

- The individual financial statements prepared in accordance with accounting practices adopted in Brazil, identified as "Company - BR GAAP."

The accounting practices adopted in Brazil comprise those established in the Brazil's Corporation Law as well as the pronouncements, guidelines and interpretations issued by the Brazilian FASB (CPC), approved by the Brazilian Securities and Exchange Commission (CVM).

The individual financial statements present the valuation of investments in subsidiaries and joint ventures under the equity method. Therefore, these individual financial statements are not considered fully compliant with IFRS, which require these investments to be stated at fair value or cost in the individual financial statements.

As there is no difference between the consolidated equity and the consolidated profit or loss attributable to the shareholders of the Company, disclosed in the consolidated financial statements prepared in accordance with IFRS and accounting practices adopted in Brazil, and the Company's equity and profit or loss, disclosed in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company opted to state these individual and consolidated financial statements in a single document.

2. Basis of presentation and accounting policies (Continued)

2.2. Basis of preparation

The financial statements have been prepared based on the historical cost, except for certain financial instruments measured at their fair values and by business combination, as described in the following accounting practices. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

Non-financial data included in these financial statements, such as number of stores and distribution centers, were not audited by our independent auditors.

A summary of significant accounting practices applied to the financial statements for the years ended December 31, 2013 and 2012 is as follows:

2.3. Basis of consolidation and investments in subsidiaries and joint ventures

The Company fully consolidated its financial statements into all subsidiaries' financial statements. The Company controls an entity when it exercisessignificant influence on operational policies of investees.

The amendment of CPC 19 (R2) - Joint Ventures e IFRS 11 - Joint Arrangements was applied to the consolidated financial statements, which refers to the transition from proportional consolidation to the equity method for joint ventures, the effects of which are disclosed in Note 2.26 below.

In the individual financial statements, the financial information of subsidiaries and joint ventures are recognized under the equity method.

In order to assist reader’s understandingand to better present segmentreporting, the main accounting policies of our joint ventures will be stated in these financial statements.

2. Basis of presentation and accounting policies (Continued)

2.3. Basis of consolidation and investments in subsidiaries and joint ventures (Continued)

The result from operations of the subsidiary F.S. Vasconcelos & Cia. Ltda. ("Lojas Maia"), merged on April 30, 2012, was included, after the merger, in the Company's statement of income, statement of cash flows and statement of value added; therefore, the 2012 financial statements report 12 months of the Company's results from operations and eight months of result provided by merged F.S. Vasconcelos & Cia. Ltda.'s ("Lojas Maia") net assets.

Whenever necessary, the subsidiaries' financial statements are adjusted to conforming their accounting policies to those of the Group. All transactions, balances, revenue and expenses with subsidiaries are fully eliminated in consolidation.

2.4. Business combination

In the consolidated financial statements, business acquisitions are accounted for under the acquisition method, consisting of the sum of the fair values of assets transferred and liabilities assumed when the control of the acquiree is transferred (acquisition date). Acquisition-related costs (due diligence and attorneys' fees, etc.) are recognized in profit or loss for the year, when incurred.

Goodwill on acquisitions is stated as the cost of business combinations exceeding the buyer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill and other intangible assets with indefinite useful lives are not amortized. Goodwill on acquisitions of companies is based on expected future profitability. Up to December 2008, goodwill was amortized at aterm, extent and proportion of projected results, no higher than ten years. As of January 2009, goodwill was no longer amortized, but was submitted to annual impairment testing considering the corresponding cash generating unit, as described in Note 2.5. Any goodwill impairment loss is immediately recognized in profit or loss for the year and is not subject to future reversal.

2. Basis of presentation and accounting policies (Continued)

2.4. Business combination (Continued)

When a subsidiary or joint venture is sold, the goodwill is included in the calculation of the gains or losses from the sale.

If the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is higher than the acquisition cost, the excess amount (previously known as negative goodwill) is recorded as an immediate gain in the statement of income in the year of acquisition.

Goodwill on acquisition will be adjusted during the measurement period (within 12 months after the acquisition date), if adjustments attributable to the acquisition date are identified during such period. After the measurement period, the acquirer must revise the business combinations accounting records solely to correct errors, in compliance with technical pronouncement CPC 23 – Accounting Policies, Changes in Estimates and Rectification of Errors.

In the individual financial statements, the Company complies with technical interpretation ICPC – 09 (R1), according to which the amounts exceeding the acquisition cost on the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on the acquisition date are recognized as goodwill, which is added to the carrying amount of the investment. The fair value of the identifiable assets, liabilities and contingent liabilities which exceeds the acquisition cost must be immediately recognized in profit or loss. Consideration transferred and the net fair value of assets and liabilities are measured using the same criteria applicable to the consolidated financial statements described above.

2.5. Allocation of goodwill balances

The goodwill arising from a business combination is stated at cost on the date of the business combination (see item 2.4 above), net of the accumulated impairment loss, if any.

To determine the recoverable amount of assets, they are grouped at their lowest levels for which there are separately identifiable cash flows (Cash-Generating Units - CGUs), as described in Note 13.

2. Basis of presentation and accounting policies (Continued)

2.5. Allocation of goodwill balances (Continued)

The cash-generating units to which goodwill was allocated are annually tested for impairment or more frequently when there are indications that the CGU will show a below-expected performance. If the recoverable amount of a cash-generating unit is lower that its carrying amount plus the goodwill attributable to such cash-generating unit, impairment losses are firstly allocated to reduce the goodwill allocated to the CGU and subsequently to the other assets of the CGU, in proportion to the carrying amount of each of its assets. Impairment losses on goodwill are directly recorded in the statement of income for the year in which these were identified, which is not reversed in subsequent periods, even if the factors requiring its recording no longer exist.

2.6. Interests in joint ventures

Joint venture is a type of agreement through which the parties have rights over joint venture's net assets. Joint control is the contractually agreed sharing of a control, and only exists when decisions on significant issues require unanimous consent from the parties sharing the control.

The considerations made when verifying significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in joint ventures are accounted for based on the equity method.

Based on the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted for the purposes of recognizing changes in the Company's share in joint venture's equity, as of the date of acquisition. The goodwill related to the joint venture, if any, is included in the carrying amount of investment, but not amortized.

2. Basis of presentation and accounting policies (Continued)

2.6. Interests in joint ventures (Continued)

The statement of income reflects the Company's equity in joint venture's operating income. Any change in other comprehensive income of these investees is presented as part of other comprehensive income. Additionally, in case of change directly recognized in joint venture's equity, the Company will recognize its equity in any variation, where applicable, in the statement of changes in equity. Unrealized gains and losses due to transactions between the Company and the joint venture are eliminated proportionally to the interest in the joint venture.

The sum of the Company's equity in the earnings of a joint venture is stated in the statement of income, representing the earnings after tax and non-controlling interest in joint venture's subsidiaries.

The joint venture's financial statements are prepared for the same reporting period of the Company. If necessary, adjustments are made so that the accounting policies are in line with the Company's policies. After applying the equity method, the Company determines if it is necessary to recognize additional impairment over the Company's investment in its joint venture. At the end each reporting period, the Company determines if there is objective evidence that investment in joint venture suffered impairment. If positive, the Company calculates the impairment as the difference between the joint venture's recoverable value and the carrying amount and recognizes the loss under the item "Equity in joint venture's earnings" under the statement of income.

When relevant influence in the joint control over the joint venture is lost, any difference between the joint venture's carrying amount, upon loss of relevant influence and the fair value of retained investment and sale results will be recognized in profit or loss.

2. Basis of presentation and accounting policies (Continued)

2.7. Revenue calculation

2.7.1. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, less any expected returns, discounts and taxes on sales:

a) *Resale of products*

Revenues from resale are recognized when products are delivered and their legal ownership is transferred, also taking into account the fulfillment of the following conditions:

- Transfer to the buyer of significant risks and benefits related to product ownership;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the resold products;
- Revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the Company or the Group; and
- Incurred or non-incurred costs related to the transaction can be reliably measured.

b) S*ervices revenue*

Services revenue is calculated through the intermediation of financial services for its joint ventures, as well as other Company's business partners and is recognized when it is probable that significant benefits to the service rendered are transferred to the Company.

c) Loans

In the joint venture, Luizacred, loans are recorded over the duration of the agreements on a *pro rata die* basis, in accordance with the corresponding agreed interest rates.

2. Basis of presentation and accounting policies (Continued)

2.7. Revenue calculation (Continued)

2.7.1. Revenue recognition (Continued)

d) *Insurance*

In the joint venture, Luizaseg, insurance premiums and their acquisition costs are recorded in income (loss) when the policies or invoices are issued, adjusted using the variation in unearned premiums reserves and deferred acquisition costs, in accordance with the term elapsed of policies and invoices.

e) *Management of consortium groups*

In subsidiary, Luiza Administradora de Consórcios, revenue from consortium groupmanagement feesare recorded on a monthly basis after the installments from consortium members are effectively received which, for consortium management activities, represents the effective service rendering period.

2.7.2. Costs of resale and services

Include costs with the acquisition of goods and services rendered, less adjustments of costs received from suppliers and recoverable ICMS tax substitution. Freight expenses related to the transportation of goods from suppliers to the distribution centers are included in cost of resale of goods.

2.7.3. Adjustment to present value

Significant long and short-term assets and liabilities are adjusted to present value based on the discount rate that better reflects market valuations of the time value of money and liability risks and asset expectations on their original dates.

2. Basis of presentation and accounting policies (Continued)

2.7. Revenue calculation (Continued)

2.7.1. Revenue recognition (Continued)

Retail activities

The main transactions resulting in adjustments to present value refer to the purchase of goods for resale in installments and resale of goods, whose balances are paid in installments by customers, at fixed interest rates, and discounted to present value on transaction dates, due to their installment terms.

The discount rate is based on financing rates paid by the final consumer, weighted at the default risk percentage evaluated and already considered in the allowance for doubtful accounts.

The adjustment to present value relating to the purchase of goods for resale is recorded under line item “Trade accounts payable” (with a corresponding entry to line item “Inventories”). Its reversal is recorded under line item “Cost of resales and services,” according to maturity.

The adjustment to present value of installment resale of goods is recorded under “Receivables.” Its realization is recorded under “Revenue from resale of goods,” according to maturity.

Loans

Loans in the joint venture, Luizacred, are stated at present value, based on agreed interest rates and variations in operation indices.

2. Basis of presentation and accounting policies (Continued)

2.7. Revenue calculation (Continued)

2.7.4. Advertising expenses are recognized in profit (loss) in the period advertisements are placed, less suppliers' interest, which is reimbursable to the Company.

2.7.5. Freight expenses related to the transportation of goods between distribution centers and physical stores and delivery of products resold to consumers are recognized as selling expenses.

2.8. Functional currency and translation of foreign currency-denominated balances

a) Functional and reporting currency of financial statements

The Group's functional currency is the Brazilian real. The subsidiaries' financial statements consolidated by the Company and those used as basis for accounting for investments under the equity method are also prepared in Brazilian reais (R$).

b) Transactions denominated in foreign currency

Monetary assets and liabilities indexed to foreign currencies, if any, are translated into Brazilian reais at the exchange rate in effect at the reporting dates. Currency translation differences are recorded as finance income or expenses in profit or loss.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments

Financial assets and financial liabilities are recognized when a Group entity is a party to the contractual provisions of the instrument.

Financial assets and liabilities are originally measured at fair value. The fair value of financial assets and financial liabilities is added to, or deducted from, the transaction costs directly attributable to the purchase or issue of such financial assets and financial liabilities (except for financial assets and financial liabilities recognized at fair value through profit or loss) after initial recognition, when applicable. The transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

<u>Financial assets</u>

Financial assets are classified in the following specific categories: financial assets measured at fair value through profit or loss; held-to-maturity financial assets; available-for-sale financial assets; and loans and receivables. Such classification depends on the nature and purpose of the financial assets and is determined upon initial recognition. All regular way purchases or sales of financial assets are recognized or derecognized on the trade date. Regular way purchases or sales of financial assets correspond to those requiring the delivery of assets within a period established by standard or market practices.

<u>Effective interest method</u>

The effective interest method is a method for calculating the amortized cost of a financial asset and allocating interest income over the period such asset is held by the Group. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected financial asset life, or, when appropriate, for a shorter period.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Financial assets at fair value through profit or loss

Gains or losses on financial assets at fair value through profit or loss are directly recognized in income (loss). Net gains or losses recognized in income (loss) include dividends or interest income on the financial asset. Fair value is determined as described in Note 27.

Financial assets are classified at fair value through profit or loss when they are held for trading, based on the following assumptions:

- Purchased principally for the purpose of selling in the near term;
- Part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent or actual pattern of short-term profit-taking; or
- A derivative not designated and maintained as an effective hedge instrument.

A financial asset that is not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition;
- The financial asset is part of a group of financial assets or liabilities, or both, whose performance is evaluated based on its fair value in accordance with the risk management policy and investment strategies set by the Group's management; or
- If the financial asset is part of a contract containing one or more embedded derivatives and IFRS permits that the combined contract as a whole (assets or liabilities) be designated at fair value through profit or loss.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has a positive intention or ability to hold to maturity. Held-to-maturity investments are stated at amortized cost using the effective interest method, less the provision for impairment, when applicable, whose revenues are recognized based on the effective return rate.

Available-for-sale financial instruments

Listed redeemable securities, when held by the Group, traded on an active market, to be classified as available for sale and measured at fair value. Fair value is determined as described in Note 27. Gains and losses on changes in the fair value are directly recognized in “other comprehensive income” under equity, when applicable, except for impairment losses, interest calculated using the effective interest method and gains and losses on the exchange rate change of monetary assets, which are directly recognized in profit (loss). Other changes in the carrying amount of available-for-sale financial assets are recognized as “other comprehensive income (loss).” When the investment is sold or impaired, cumulative gains or losses, previously recognized under “other comprehensive income (loss),” are included in profit (loss) for the respective year or period.

Loans and receivables

Loans and receivables are represented by non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and banks, trade accounts receivable and other) are measured at amortized cost using the effective interest method, less impairment losses.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Impairment of financial assets

Financial assets, except those designated at fair value through profit or loss, are valued using impairment indicators at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with an impact on the estimated future cash flows.

For all other financial assets objective evidence can include:

- Significant financial difficulty of the issuer or obligor; or
- Breach of contract, in the form of default or delinquency in interest or principal payments; or
- It is probable that the borrower will enter bankruptcy or financial reorganization; or
- Dissolution of the active market for that financial asset due to financial problems.

Certain categories of financial assets, e.g. trade accounts receivable, which in the individual assessment are not impaired, can subsequently present impairment loss when considered together. Objective evidence of impairment of a loan portfolio may include the Group's past experience in the collection of receivables, the increase in the number of past-due receivables and observable changes in economic conditions related to the non-payment of receivables.

For financial assets recognized at amortizable cost, impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset.

For financial assets recognized at cost, impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows, anddiscounted at the current return rate of a similar financial asset.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced directly by any impairment loss, except for receivables, whose carrying amount is reduced through use of an allowance account. Subsequent recoveries of previously provisioned amounts are added to the allowance. Changes in the carrying amount of the allowance account are recognized in profit (loss).

When a financial asset classified as available for sale is considered uncollectible, the accumulated balance recognized in “other comprehensive income (loss)” (separate line item under equity) must be reclassified to profit or loss, jointly with the write-off of the amount recorded in asset accounts.

For financial assets recognized at amortized cost, if impairment is reduced in a subsequent period and such decrease can be objectively related to an event occurred after its recognition, such impairment should be reversed and recorded in profit (loss) for the year the reversal was made, limited to the net carrying amount of the accumulated amortization.

Derecognition of financial assets

A financial asset is only derecognized when the contractual rights on the asset cash flow are realized or when the Group transfers the financial asset and substantially all its risks and rewards to third-parties. In transactions in which these financial assets are transferred to third-parties, but without the effective transfer of respective risks and returns, the asset is recognized. In these cases, derecognition will occur only upon the extinction or transfer of respective risks and returns, or when said financial asset is realized.

Financial liabilities

Financial liabilities are classified at fair value through profit or loss or as other financial liabilities.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss.

A financial liability is classified as held for trading if it is:

- Incurred principally for the purpose of repurchasing in the short term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- A derivative that is not designated as an effective hedging instrument.

Financial liabilities that are not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition;
- Comprise part of a group of financial assets or liabilities, or both, managed and stated at fair value, in accordance with the risk management policy and investment strategies documented by the Group; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39 (CPC 38) - Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) be designated at fair value through profit or loss.

The recognition of gains or losses on financial liabilities at fair value through profit or loss includes any interest paid on the financial liability. Fair value is determined as described in Note 27.

2. Basis of presentation and accounting policies (Continued)

2.9. Financial Instruments (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and, subsequently, at amortized cost using the effective interest method to calculate interest expense.

The effective interest method is a method for calculating the amortized cost of a liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Liabilities on contractual financial guarantees

Liabilities on contractual financial guarantees are measured and initially recognized as liability at fair value, adjusted at transaction costs directly related to the pledge of guarantee. Subsequently, the liability is measured based on the best expense estimate required to settle the obligation on the reporting date or at the amount recognized less amortization, whichever is higher.

Derecognition of financial liabilities

A financial liability is written off when the obligation is revoked, cancelled, or when it expires.

When an existing financial liability is replaced for another of the same lender, with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is addressed as write-off of the original liability and recognition of a new liability. The difference in the corresponding carrying amounts is recognized in the statement of income.

2. Basis of presentation and accounting policies (Continued)

2.10. Derivative financial instruments

The Group contracts derivative transactions, recorded in statement of financial position and statement of income accounts, to meet its market risk management requirements, arising from mismatching between currencies and indices.

Derivative transactions are carried out through the Finance Department, pursuant to the strategies previously approved by the Board of Directors. In this scenario, the Company raised interest-bearing foreign currency-denominated loans, for which it entered into swap transactions to hedge against exchange rate changes, swapping contracted interest rate and foreign currency exchange rate change for CDI plus fixed rate. This is a matched transaction which consists formally of a loan agreement and a swap transaction entered into on the same date, with the same maturity and counterpart and that should be settled by its net value. Thus, Management believes that, in essence, this is a loan transaction denominated in foreign currency, subject to a certain interest rate; accordingly, the accounting treatment and related disclosures reflect the substance of the transaction.

Note 27 includes more detailed information on derivatives.

Derivatives are initially recognized at fair value on the date they are contracted and subsequently stated at their fair value at the end of each year or period. Possible gains or losses are recognized in profit (loss) when incurred, as they are not designated as hedging instruments.

2.11. Cash and cash equivalents

Comprise cash, banks and short-term investments. Short-term investments are highly-liquid investments, subject to an immaterial risk of change in value, redeemable with the issuer of the financial instrument. Short-term investments can be immediately converted into a known cash amount. The fair value of short-term investments, when applicable, is measured based on quotes or publicly-disclosed information. Short-term investments included in cash equivalents are classified as “financial assets measured at fair value through profit or loss.”

2. Basis of presentation and accounting policies (Continued)

2.12. Securities

Securities are classified in the following categories: held-to-maturity securities, available-for-sale securities and trading securities at fair value through profit or loss (trading securities). The classification depends on the purpose for which the investment was acquired.

- When the purpose is to invest funds for short-term gains, they are classified as trading securities; when the funds are invested to be held to maturity, they are classified as held-to-maturity securities, provided that the Management has the intention and financial conditions to hold these investments until their maturity dates.
- When the funds are not invested for the purposes mentioned above, the financial investments are classified as available-for-sale securities.
- When applicable, incremental costs directly attributable to the acquisition of a financial asset are added to the originally recognized amount, except for trading securities, which are recorded at fair value through profit or loss.

Held-to-maturity securities are measured at amortized cost plus interest and adjustment for inflation or exchange rate variation, less impairment losses, when applicable, incurred up to the reporting date.

Trading securities are measured at fair value. Interest and adjustment for inflation or exchange rate variation, when applicable, as well as variations arising from valuation at fair value, are recognized in profit (loss), when incurred.

Available-for-sale securities are measured at fair value. Interest and adjustment for inflation or exchange rate variation, when applicable, are recognized in profit (loss), when incurred. Variations arising from valuation at fair value, except for impairment losses, are recognized in other comprehensive income (loss) when incurred. Accumulated gains and losses recorded in equity are reclassified to income (loss) for the year at the moment these investments are realized in cash or cannot be recovered.

2. Basis of presentation and accounting policies (Continued)

2.13. Trade accounts receivable and allowance for doubtful accounts

a) These are recorded and maintained in the statement of financial position by the amount of bills, adjusted to present value, where applicable, mainly represented by trade accounts receivable from resale in installments and through credit card, as disclosed in Note 2.7.3; and by the allowance for doubtful accounts defined based on the guidelines stated in Note 2.9 - Financial Assets, in item “Impairment of financial assets.”

The advances of credit card receivables are settled against trade accounts receivable since the Group substantially transfers all risks and rewards on the ownership of such receivables to the bank and/or credit card companies. Financial charges incurred by the Group are recognized in profit (loss) as financial expenses, upon derecognition of the asset.

Receivables from joint advertising, bonuses and other transactions with suppliers, arising from sales contracts and other agreements, are only recognized if there are documents supporting such agreement and are mainly calculated on the volume of purchases and specific advertising activities.

Loans are recorded at present value, calculated on a *pro rata die* basis, considering the variation of index and agreed interest rate, adjusted up to the sixtieth day the loan is overdue. After this period, charges are recognized in profit (loss) when the installments are effectively received. The funds relating to these amounts are included in credit card operations under current liabilities.

2.14. Inventories

Stated at the lower of average acquisition cost and net realizable value. Average acquisition cost includes the purchase price, taxes and duties not recoverable, such as tax substitution ICMS, and other costs directly attributable to acquisition and sales discounts and deductions. Net realizable value is the estimated selling price of inventories less the estimated costs necessary to make the sale.

2. Basis of presentation and accounting policies (Continued)

2.15. Property and equipment

Stated at acquisition or construction cost, less accumulated depreciation, except for land and construction in progress, plus interest incurred and capitalized during the construction of assets, when applicable.

Depreciation is recognized based on the estimated useful life of each asset or group of assets under the straight-line method so that its residual value after its useful life is fully written off. The estimated useful lives, the residual values, and the depreciation methods are reviewed on an annual basis, and the effects from any change in estimates are recorded prospectively.

Subsequent costs are added to the residual value of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. The residual balance of the replaced item is written off. Other repairs and maintenance are recognized directly in profit or loss for the year when incurred.

The carrying amount of an item of property and equipment is written off when no future economic benefits are expected from its continued use. The gain or loss arising from the sale or write-off of a property and equipment item corresponds to the difference between the amounts received and the carrying amount of the asset, and is recognized in profit or loss for the year or period of sale or write-off.

2.16. Leases

Leased assets are initially recognized as property and equipment at fair values at the commencement of the lease or, if lower, the present value of the minimum lease payments. The liability corresponding to the lessor is presented in the financial statements as a lease obligation.

Assets acquired through finance leases are depreciated over their estimated useful lives as own assets or over a shorter period, when applicable, according to the terms of the underlying lease agreements.

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability, so it produces a constant periodic rate of interest on the remaining balance of the liability.

2. Basis of presentation and accounting policies (Continued)

2.16. Leases (Continued)

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are determined. Contingent operating lease payments are recognized as an expense in the year or period in which they are incurred.

2.17. Intangible assets

2.17.1. Intangible assets acquired separately

Intangible assets with definite useful lives, represented by amounts paid on the acquisition of new points of sale (goodwill), are amortized over 10 years, a period that reflects Management's best estimate on the minimum occupancy in the leased property and are subject to impairment tests, if there is indication of impairment.

Software refers to the cost of licenses on the corporate management system and is amortized over five years. Some modules of such system are not yet in operation and, therefore, are recorded under "Projects in progress."

Indefinite-lived intangibles are not amortized and are annually tested for impairment.

2.17.2. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination mainly refer to goodwill on the acquisition of investments represented by store chains. Through December 31, 2008, goodwill based on expected future profitability was amortized on a straight-line basis over a period from five to ten years. Beginning January 1, 2009 (transition date), the balances of goodwill are not amortized in the accounting records and are annually subject to impairment tests.

In the consolidated financial statements, the intangible assets acquired in a business combination and recognized separately from the goodwill are recorded at fair value, which corresponds to its cost on the acquisition date.

2. Basis of presentation and accounting policies (Continued)

2.17. Intangible assets (Continued)

2.17.3. Write-off of intangible assets

An intangible asset is written off upon sale or when no future economic benefits may arise from its continued use. Gains or losses on the write-off of an intangible asset are represented by the difference between the net revenue from sale and its carrying amount and are recognized in profit or loss when the asset is written off.

2.18. Impairment of tangible and intangible assets, excluding goodwill

The Group's management reviews the carrying amount of its tangible and intangible assets at the end of each year to determine if there is any indication that these assets might be impaired based on transactions or when they are sold. If there is any indication that an asset may be impaired, the recoverable amount of the asset is estimated to measure the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset, the Group calculates the recoverable amount of the cash-generating unit of the asset. When a reasonable and consistent allocation basis can be identified, corporate assets are also allocated to the individual cash-generating unit or the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives or not yet ready for use are tested for impairment at least annually or when there is any indication that such assets may be impaired.

The recoverable amount of an asset is the highest amount between its fair value less costs to sell and its value in use. Estimated future cash flows are discounted to present value to determine the value-in-use at the pretax discount rate that reflects a current market assessment rate of the time value of money and the specific risks for the asset.

If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount. Impairment losses are immediately recognized in profit (loss).

2. Basis of presentation and accounting policies (Continued)

2.18. Impairment of tangible and intangible assets, excluding goodwill (Continued)

A subsequent reversal of an impairment loss reflects an increase in the carrying amount of an asset (or cash-generating unit) to the revised estimate of its recoverable amount, provided it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. The reversal of an impairment loss is immediately recognized in profit (loss).

2.19. Other assets and liabilities

A liability is recognized when the Group has a legal obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognized based on the best estimates of the risk involved. An asset is recognized in the statement of financial position when it is probable that its future economic benefits will benefit the Group and its cost or amount can be reliably measured. Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next twelve months, otherwise, they are classified as non-current assets and liabilities.

2.20. Inflation adjustment of receivables and payables

Monetary assets and liabilities subject to contractual adjustments or inflation adjustment and exchange rate changes are adjusted through the reporting dates. These adjustments and changes are recorded in profit or loss for the year to which they refer.

2.21. Provisions

Provisions are recognized based on present obligations or risks as a result of past events, when the amount of the obligation can be reliably estimated, and its settlement is probable.

The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the end of the year or period, considering the risks and uncertainties inherent to such obligation. When a provision is measured based on the cash flows estimated to settle an obligation, its carrying amount corresponds to the present value of such cash flows.

2. Basis of presentation and accounting policies (Continued)

2.21. Provisions (Continued)

When some or all the economic benefits required for the settlement of a provision are expected to be recovered from a third party, an asset is recognized if, and only if, reimbursement is certain and the amount may be reliably measured.

2.21.1. Provision for tax, civil and labor contingencies

The provision for contingencies is recorded based on legal opinions and Management's assessment on lawsuits known at the reporting dates for probable losses.

2.21.2. Reserves for contingent liabilities acquired in a business combination

Known contingent liabilities acquired in a business combination are initially measured at fair value on the acquisition date.

2.21.3. Technical insurance reserves (applicable to Luizaseg)

a) *Unearned premium reserve (PPNG)*

Represents the portion of premiums to be recognized in profit (loss) over the term of policies or invoices, calculated on a *pro rata temporis* basis.

b) *Current but not issued risk reserve (PPNG-RVNE)*

Represents the PPNG adjustment due to the existence of current risks whose policy was not yet issued; calculated based on specific actuarial assumptions of insurance companies.

2. Basis of presentation and accounting policies (Continued)

2.21. Provisions (Continued)

2.21.3. Technical insurance reserves (applicable to Luizaseg) (Continued)

c) *Premium deficiency reserve (PIP)*

Recognized if the PPNG should be supplemented to cover estimated losses and administrative expenses incurred until the end of the term of the insured risk. There was no premium deficiency reserve in any of the reporting years.

d) *Reserve for unsettled claims (PSL)*

Represents the reserve for payment of probable indemnities, whether judicial or not, determined based on the claim notices received through the reporting date.

e) *Reserve for incurred but not reported losses (IBNR)*

Recognized to secure the payment of losses incurred but not reported to the Group through the reporting date.

2.22. Taxation

a) Current taxes

Provisions for income tax and social contribution are based on the taxable base. Taxable income differs from profit recorded in the statement of income because it excludes income or expenses taxable or deductible in other years, as well as the permanently nontaxable or nondeductible items. The provisions for income tax and social contribution are calculated individually (per Group company) based on the statutory rates prevailing at year-end.

2. Basis of presentation and accounting policies (Continued)

2.22. Taxation (Continued)

a) Current taxes (Continued)

Revenue ProcedureRFB No. 1397 was published on September 17, 2013 (IN 1397) and the Provisional Executive Order No. 627 (MP 627) was published on November 12, 2013 which: (i) revokes the Transition Tax System (RTT) as of 2015, with the introduction of a new tax system; (ii) it amends Decree LawNo. 1598/77 relating to the calculation of corporate income tax andlaws on social contribution tax. The new tax system provided for in MP No. 627 takes effect as of 2014, if an entity exercises such option. Among the provisions of MP 627, we highlight that some examplescover distribution of profit and dividends, the calculation basefor interest on equity and equity accounting calculation criterion during the term the RTT was effective.

The Company prepared a study of potential effects of applying MP No. 627 and IN No. 1397 and concluded that these would not have significant impacts on its operations and financial statements for the fiscal year ended December 31, 2013, based on our best interpretation of Provisional Executive Order wording. Any conversion of MP 627 into Law may result in changing our conclusion. The Company awaits a definition on the amendments to MP 627, so that it may decide whether or not to adopt it in the 2014 fiscal year.

b) Deferred taxes

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 at the end of each year or period and the related tax bases adopted to calculate taxable income, including tax losses, when applicable, and are calculated per each Group company based on the rates prevailing at the end of the years.

Deferred tax liabilities are usually recognized on all the temporary taxable differences and deferred tax assets are recognized on all the temporary deductible differences only when it is probable that the future taxable income will be at a sufficient amount to absorb temporary deductible differences. Deferred tax assets or liabilities are not recognized on temporary differences arising from goodwill or initial recognition (except for business combinations) of other assets and liabilities in a transaction that does not affect taxable or book income.

2. Basis of presentation and accounting policies (Continued)

2.22. Taxation (Continued)

b) Deferred taxes (Continued)

The likelihood of recovery of deferred tax assets is reviewed at the end of each year or period and, when it is no longer probable that future taxable bases are available and allow the total or partial recovery of these taxes, the asset balance is reduced to the expected recoverable amount.

Deferred tax assets and liabilities are measured using the tax rates applicable for the year or period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each year or period, or when new legislation has been substantially approved. The measurement of deferred tax assets and liabilities reflects the tax consequences that would occuras the Group has projected, at the end of the year or period, to recover or settle the carrying amount of these assets and liabilities.

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

c) Current and deferred income tax

Current and deferred income tax is recognized in profit (loss) for the year or period, except when they are related to items directly recorded in other comprehensive income (loss) or equity or arise from the initial recognition of a business combination, when they are accounted for in line with the accounting for these transactions.

2.23. Employee benefits

The Group offers benefit plans to employees, including private pension plan, health care and profit sharing. The main benefit plans offered to employees are described in Note 25.

The private pension plan is a defined contribution plan over which the Group has no legal obligation if the plan has no sufficient assets to pay benefits to employees as a result of past services.

2. Basis of presentation and accounting policies (Continued)

2.24. Statement of Value Added

The purpose of this statement is to present the wealth produced by the Group and its distribution during a given period. It is presented, as required by the Brazilian Corporate Law, as part of the individual financial statements and as supplemental information to the consolidated financial statements, since it is not required by the IFRS.

The statement of value added was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 - Statement of Value Added. In its first part, the statement of value added presents the wealth produced by the Group, represented by the revenues (gross revenue from sales, including taxes levied thereon, other revenues and the effects of the allowance for doubtful accounts), the inputs acquired from third parties (cost of sales and purchase of materials, electric power and outsourced services, including taxes levied at the time of purchase, the effects of losses, recovery of assets amounts, and depreciation and amortization) and the value added received from third parties (equity in the earnings (losses) of subsidiaries, finance income and other similar revenues). The second part of the statement of value added presents the distribution of wealth among personnel, taxes, fees and contributions, value distributed to providers of capital, and value distributed to shareholders.

2.25. Main accounting judgments and sources of uncertainties on estimates

In applying the Group's accounting policies, Management makes judgments and estimates regarding the reported amounts of assets and liabilities for which objective information is not easily obtained from other sources. Estimates and respective assumptions are based on past experience and other factors deemed relevant. Actual results may differ from those estimates.

Underlying estimates and assumptions are constantly reviewed. The effects from the review of accounting estimates are recognized in the year or period in which estimates are reviewed, if the review affects only that year or period, or also in subsequent years or periods, if the review affects future period.

2. Basis of presentation and accounting policies (Continued)

2.25. Main accounting judgments and sources of uncertainties on estimates (Continued)

In order to understand how the Group makes judgments on future events, including variables and assumptions used to make estimates, below are the comments on some issues:

a) Deferred income tax and social contribution

Future earnings projections containing several assumptions and judgments, prepared by Management and approved by the Board of Directors are usedto measure the potential generation of future taxable income that supports the realization of taxable bases generating deferred income tax and social contribution to be recorded in the financial statements. Actual future taxable income can be higher or lower than estimates when the need to account for deferred income tax and social contribution is defined.

b) Useful lives 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 lives of these assets. However, the actual useful lives can vary as a result of several factors. The useful lives of long-lived assets also affect impairment tests.

c) Impairment of assets

At each year-end, the Group reviews the intangible assets and property and equipment balances to check whether there are indications that these assets may be impaired (value in use). If so, Management conducts a detailed test for impairment on each asset through the individual future cash flow calculation discounted at present value and, when necessary, adjusts the asset balance and its market value.

d) Provision for inventory losses

The provision for inventory losses is estimated based on the history of losses identified in the physical inventory taking of stores and distribution centers, and is considered sufficient by Management to cover probable related losses.

2. Basis of presentation and accounting policies (Continued)

2.25. Main accounting judgments and sources of uncertainties on estimates—Continued

e) Allowance for inventory realization

The allowance for inventory realization is 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. This analysis also weights the list of obsolete items and also the realization of goods sent to technical support.

f) Allowance for doubtful accounts

Recorded in an amount considered sufficient by Management to cover potential losses on the loan portfolio and other receivables. The criterion for recording the allowance, for retail activities, takes into account the historical recovery percentage for past-due receivables and the default rate for amounts not yet overdue.

g) Provision for tax, civil and labor contingencies

The Group is a party to several lawsuits and administrative proceedings, as described in Note 17. Provisions are recognized for all risks arising from lawsuits that represent probable losses that can be reliably estimated. The likelihood of loss is assessed based on available evidences, the hierarchy of laws, available court precedents, most recent court decisions, and their relevance within the legal system, and the assessment made by our external legal counsel. Management believes that these provisions for tax, civil, and labor contingent liabilities are accurately presented in the financial statements.

(In thousands of Brazilian reais)

2. Basis of presentation and accounting policies (Continued)

2.26. Application of IFRS 11 and CPC 19 (R2) – Joint Arrangements, the Company's interest in joint ventures

Under CPC 19 (R1) – Investment in Joint Arrangements (prior to the transition to IFRS 11 and CPC 19 (R2)), the Company's interest in assets, liabilities, revenues and expenses of Luizacred and Luizaseg, both classified as joint ventures, was stated using the proportional consolidation in the consolidated financial statements. With the adoption of IFRS 11 and CPC 19 (R2), the Company was required to report the interest in joint ventures by the equity method, retrospectively with the restatement of information for the immediately preceding period (2012). Below, the effect of such application:

Impact on the statement of financial position	Consolidated 2012	Consolidated 01/01/2012
Decrease in cash and cash equivalents	(4,249)	(3,835)
Decrease in securities	(48,842)	(48,081)
Decrease in trade accounts receivable	(1,618,005)	(1,428,850)
Increase in related parties	38,084	54,767
Decrease in recoverable taxes	(6,268)	(3,243)
Decrease in other assets	(10,112)	(24,321)
Decrease in current assets	(1,649,392)	(1,453,563)
Decrease in securities	(59,255)	(43,267)
Decrease in trade accounts receivable	(1,373)	(3,549)
Decrease in deferred income tax and social contribution	(53,429)	(51,919)
Decrease in recoverable taxes	(1,044)	-
Decrease (increase) in escrow deposits	(8,444)	19
Decrease in other assets	(340)	(3,127)
Increase in investments in joint ventures	222,894	189,888
Decrease in property and equipment	(1,228)	(1,567)
Decrease in intangible assets	(5,400)	(6,045)
Increase in noncurrent assets	92,381	80,433
Decrease in trade accounts payable	(1,845)	(1,066)
Decrease in interbank deposits	(990,021)	(981,478)
Decrease in credit card operations	(566,664)	(436,130)
Decrease in payroll, vacation pay and related charges	(1,282)	(385)
Decrease in taxes payable	(32,374)	(14,693)
Increase in related parties	25,302	20,278
Increase in deferred revenue	5,544	5,531
Decrease in insurance technical reserves	(34,140)	(32,464)
Decrease in other payables	(3,673)	(2,774)
Decrease in current liabilities	(1,599,153)	(1,443,181)
Decrease in provision for contingencies	(11,649)	(6,228)
Decrease in insurance technical reserves	(27,353)	(17,853)
Increase in deferred revenue	81,144	94,204
Decrease in deferred income tax and social contribution	-	(72)
Increase in noncurrent liabilities	42,142	70,051
Effect on equity	-	-

(In thousands of Brazilian reais)

2. Basis of presentation and accounting policies (Continued)

2.26. Application of IFRS 11 and CPC 19 (R2) – Joint Arrangements, the Company's interest in joint ventures (Continued)

	Consolidated
Impact on the statement of income	**2012**
Decrease in net sales revenue	(598,342)
Decrease in the cost of goods sold, services rendered and funding for financial operations	88,793
Decrease in gross profit	(509,549)
Decrease in selling, general and administrative expenses	193,158
Decrease in losses on doubtful accounts	315,048
Decrease in depreciation and amortization	1,089
Increase in equity in the earnings (losses) of subsidiaries	18,012
Increase in other operating revenue, net	448
Decrease in operating expenses	527,755
Decrease in financial result (costs)	(31,509)
Increase in current and deferred income tax and social contribution	13,303
Net effects on statement of income	-

	Consolidated
Impact on the statement of cash flows	**2012**
Decrease in income tax and social contribution expense recognized in profit or loss	(13,303)
Decrease in depreciation and amortization	(1,089)
Decrease in equity in the earnings (losses) of subsidiaries	(18,012)
Decrease in provision for asset losses	(301,394)
Decrease in provision for contingencies	(14,558)
Increase in the appropriation of deferred revenue	1,953
Increase in the cash flow of operating assets	510,458
Decrease in the cash flow of operating liabilities	(149,500)
Increase in the variation of income tax and social contribution paid	13,755
Increase in the variation – dividends from subsidiaries receivable	10,172
Increase in the cash flow of operating activities	38,482
Increase in the cash flow of fixed asset acquisition	79
Increase in the cash flow of intangible asset acquisition	25
Decrease in the cash flow of investment in subsidiary	(24,000)
Decrease in the cash flow of exclusiveness agreement sale	(15,000)
Decrease in the cash flow of investment activities	(38,896)
Decrease in total cash flow	(414)

(In thousands of Brazilian reais)

2. Basis of presentation and accounting policies (Continued)

2.26. Application of IFRS 11 and CPC 19 (R2) – Joint Arrangements, the Company's interest in joint ventures (Continued)

Impact on the statement of value added	Consolidated 2012
Decrease in the sale of goods, products and services	(598,343)
Decrease in the allowance for doubtful accounts, net of reversals	315,048
Decrease in other operating revenue	(36,277)
Decrease in revenue	(319,572)
Decrease in costs of products, goods sold and services rendered	88,809
Decrease in supplies, electricity, outsourced services and other	176,555
Decrease in inputs acquired from third parties	265,364
Increase in depreciation and amortization	1,089
Increase in equity in the earnings (losses) of subsidiaries	18,012
Decrease in finance income	(7,918)
Net effect on the statement of value added	(43,025)
Decrease in direct compensation	(4,013)
Decrease in benefits	(1,226)
Decrease in FGTS	(179)
Decrease in personnel and charges	(5,418)
Decrease in federal taxes	(54,771)
Decrease in municipal taxes	(5,284)
Decrease in taxes, fees and contributions	(60,055)
Increase of interest rates	23,590
Decrease in rentals	(999)
Decrease in others	(143)
Increase in value distributed to providers of capital	22,448
Net effect on the statement of value added	(43,025)

(In thousands of Brazilian reais)

2. Basis of presentation and accounting policies (Continued)

2.27. New standards, amendments and standard interpretation

a) Standards, interpretations and amendments to current standards effective as at December 31, 2013 and without relevant effects on the Company's financial statements

The amendments to the current standards below were published and effective as at December 31, 2013; however, they do not pose relevant effects on the Company's interim and/or financial statements:

Pronouncement or interpretation	Principal requirements	Applicable to annual periods at the beginning or after:
Amendments to IAS 27 (R) (CPC 35 R2 and 36 R3)	Consolidated and Separate Financial Statements	January 1, 2013
Amendments to IAS 28 (R) (CPC 18 R2)	Investments in associated company and subsidiary	January 1, 2013
IAS 39 (CPC 38)	Financial instruments (Classification and Measurement)	January 1, 2013
Amendments to IFRS 10 (CPC 36 R3)	Consolidated Financial Statements	January 1, 2013
Amendments to IFRS 11 (CPC 19 R2)	Joint Ventures	January 1, 2013
Amendments to IFRS 12 (CPC 45)	Disclosure of Interest in Other Entities	January 1, 2013
Amendments to IFRS 13 (CPC 46)	Fair Value Measurements	January 1, 2013

b) New or revised pronouncements not yet effective

Below, the standard to be effective as of the fiscal year initiated as at January 1, 2014:

- IAS 32/CPC 39 – Financial Instruments: Disclosures – Offset of Assets and Liabilities – it provides additional guidance clarifications on the application contained in IAS 32, referring to the requirements to offset financial assets and liabilities in the statement of financial position.

2. Basis of presentation and accounting policies (Continued)

2.27. New standards, amendments and standard interpretation (Continued)

b) New or revised pronouncements not yet effective (Continued)

Below, the standard to be effective for the fiscal year starting as of January 1, 2015:

- IFRS 9 Financial Instruments - IFRS 9 Financial Instruments concludes the first part of the project to replace “IAS 39 Financial Instruments: Recognition and Measurement”. IFRS 9 adopts a simple approach in order to determine if a financial asset is measured at the amortized cost or fair value. This new approach is based on how an entity manages its financial instruments (its business model) and the characteristic contractual cash flow of financial assets. The standard also required the adoption of only one method in order to calculate the asset impairment losses.

IFRIC 21 - Taxes – it provides guidance on when we should recognize a liability of tax imposed by the government, taking effect as of January 1, 2014 and the Company does not foresee any relevant effect as a result of its adoption.

IASB issued clarifications for the standards and amendments to IFRS. Below, main amendments:

- IAS 16 – Property, plant and equipment (CPC 27) – this improvement explains main replacement part and equipment to render services that meet the definition of property, plant and equipment do not compose the inventories.

- IAS 32 – Financial instruments -Reporting (CPC 39): it adds guidance on the offset of financial assets and liabilities, the amendment of which is effective for the fiscal years starting on or as of January 1, 2014, and the Company does not foresee any relevant effect as a result of its adoption.

- IAS 36 - Asset impairment (CPC 01): it adds guidance on the disclosure of the recoverable value of non-financial assets, the amendment of which shall take effect for the fiscal years starting on or as of January 1, 2014, and the Company is assessing the disclosure impacts upon its adoption.

2. Basis of presentation and accounting policies (Continued)

2.27. New standards, amendments and standard interpretation (Continued)

b) New or revised pronouncements not yet effective (Continued)

- IAS 39 - Asset Impairment (CPC 01): it adds guidance clarifying that it is not necessary to discontinue hedge accounting if the derivative instrument is renewed, provided that certain criteria are achieved. This amendment takes effects for the fiscal years starting on or as of January 1, 2014, and the Company does not foresee any significant effect as a result of its adoption.

The Company’s Management does not expect these standards and interpretations to have a significant effect on disclosures, the financial condition or performance due to their application in a future date.

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

(In thousands of Brazilian reais)

3. Cash and cash equivalents and securities

3.1. Cash and cash equivalents

	Rates	Parent Company			Consolidated		
		2013	2012	01/01/2012	2013	2012 (restated)	01/01/2012 (restated)
Cash		**33,988**	16,973	10,751	**33,990**	16,977	13,260
Banks		**19,263**	86,819	32,820	**21,561**	88,445	37,593
Financial assets at fair value through profit or loss and held for trading:							
Bank deposit certificates	From 80.0% to 105% CDI	**143,309**	237,828	106,876	**143,309**	238,244	113,025
Non-exclusive investment funds	102.0% CDI	**81,446**	62,523	533	**81,446**	75,213	5,404
Total cash and cash equivalents		**278,006**	404,143	150,980	**280,306**	418,879	169,282

3.2. Securities

Financial assets at fair value through profit or loss	Rates	Parent Company			Consolidated		
		2013	2012	01/01/2012	2013	2012 (restated)	01/01/2012 (restated)
Held for trading							
Non-exclusive investment funds	105% CDI	**4,968**	4,333	-	**19,046**	4,333	-
Exclusive investment funds:							
Investment fund quotas	(a)	**7,842**	7,210	-	**7,842**	7,210	-
Federal government securities	(a)	**145,041**	2,898	22,476	**145,041**	2,898	22,476
Purchase and sale commitments	(a)	**185,865**	33,339	2,803	**185,865**	33,339	2,803
Time deposits and other securities	(a)	**133,494**	78,605	1,597	**133,494**	78,605	1,597
		472,242	122,052	26,876	**472,242**	122,052	26,876
Total securities		**477,210**	126,385	26,876	**491,288**	126,385	26,876

(a) Considers the exclusive fixed income investment fund. On December 31, 2013 the portfolio was mainly distributed into the four categories described in the table above, which are linked to financial operations securities, indexed to the monthly variation of CDI rate, to return the average profitability of 103% of the CDI to the Company.

(In thousands of Brazilian reais)

4. Trade accounts receivable

	Parent Company			Consolidated		
	2013	2012	01/01/2012	2013	2012 (restated)	01/01/2012 (restated)
Trade accounts receivable:						
Debit and credit cards (a)	**196,530**	230,151	262,117	**197,228**	230,151	293,739
Own installment program (b)	**100,290**	81,623	59,824	**100,290**	81,623	73,492
Extendedwarranty agreements (c)	**134,622**	84,691	31,434	**134,622**	84,691	31,434
Total trade accounts receivable	**431,442**	396,465	353,375	**432,140**	396,465	398,665
Sales agreements (d)	**167,049**	155,610	128,265	**167,049**	155,610	146,738
Allowance for doubtful accounts	**(43,190)**	(38,496)	(24,456)	**(43,190)**	(38,496)	(24,456)
Present value adjustment	**(20,696)**	(26,707)	(15,000)	**(20,696)**	(26,707)	(16,111)
Total receivables	**534,605**	486,872	442,184	**535,303**	486,872	504,836
Current assets	**529,922**	486,474	436,326	**530,620**	486,474	498,978
Non-current assets	**4,683**	398	5,858	**4,683**	398	5,858

Receivables are measured at amortized cost. The Company's days sale outstanding is 15 days in the parent company and consolidated.

The adjustment to present value is calculated on the reporting dates for all trade accounts receivable. The calculation is based on the term of realization of the asset by using a discount rate based on the average rate of financial charges collected from final clients, deducted from its default risk, as stated in Note 2.7.3. This rate is taken into consideration by the Company's Management when making market valuations of the time value of money and the specific risks relating to these assets. Loans are recorded at present value, calculated on a *pro rata die* basis based on agreed interest rate.

(In thousands of Brazilian reais)

4. Trade accounts receivable (Continued)

Trade accounts receivable were collateralized as loans in the amount of R$118,986 on December 31, 2013 (R$144,802 as of December 31, 2012), represented by credit card receivables.

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

As at December 31, 2013, the Company had credits granted to financial institutions totaling R$1,186,319 (R$791,361as at December 31, 2012), where a discount between 105.0% and 108.0% of CDI is applied, which is recognized in profit or loss under “Financial expenses.” The Company, through card sales transactions, transfers to the credit card companies and financial institutions all risks of payment by customers and, therefore, does not recognize the receivables referring to these credits. The respective financial charges are recorded in profit or loss for the year upon derecognition.

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

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

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

Changes in the allowance for doubtful accounts are as follows:

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Balance at the beginning of the year	**(38,496)**	(24,456)	**(38,496)**	(24,456)
(+) Additions	**(50,256)**	(37,125)	**(50,256)**	(37,125)
(-) Write-offs	**45,562**	23,085	**45,562**	23,085
Balance at the end of the year	**(43,190)**	(38,496)	**(43,190)**	(38,496)

(In thousands of Brazilian reais)

4. Trade accounts receivable (Continued)

The aging list of trade accounts receivable is as follows:

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
					(restated)	(restated)
Falling due:						
Up to 30 days	**73,614**	54,932	29,895	**74,009**	54,932	40,812
Between 31 and 60 days	**43,778**	34,545	39,248	**43,828**	34,545	44,307
Between 61 and 90 days	**40,930**	29,765	48,713	**40,965**	29,765	53,187
Between 91 and 180 days	**78,979**	107,162	101,132	**79,197**	107,162	112,839
Between 181 and 360 days	**158,068**	143,024	109,075	**158,068**	143,024	121,590
Over 361 days	**10,135**	6,051	8,440	**10,135**	6,051	8,842
	405,504	375,479	336,503	**406,202**	375,479	381,577
Past-due:						
Up to 30 days	**6,108**	6,091	4,573	**6,108**	6,091	4,789
Between 31 and 60 days	**4,299**	3,839	2,882	**4,299**	3,839	2,882
Between 61 and 90 days	**4,117**	3,246	2,468	**4,117**	3,246	2,468
Between 91 and 180 days	**11,414**	7,810	6,949	**11,414**	7,810	6,949
Between 181 and 360 days	**-**	-	-	**-**	-	
Over 361 days	**-**	-	-	**-**	-	-
	25,938	20,986	16,872	**25,938**	20,986	17,088
Total	**431,442**	396,465	353,375	**432,140**	396,465	398,665

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

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
					(restated)	(restated)
Falling due:						
Up to 30 days	**23,295**	26,458	32,270	**23,295**	26,458	35,281
Between 31 and 60 days	**87,251**	46,379	55,221	**87,251**	46,379	63,650
Between 61 and 90 days	**31,799**	57,681	16,195	**31,799**	57,681	17,609
Between 91 and 180 days	**21,284**	16,284	15,637	**21,284**	16,284	17,276
Between 181 and 360 days	**553**	188	850	**553**	188	944
	164,182	146,990	120,173	**164,182**	146,990	134,760
Past-due:						
Up to 30 days	**2,446**	1,376	2,056	**2,446**	1,376	3,106
Between 31 and 60 days	**289**	456	1,145	**289**	456	1,926
Between 61 and 90 days	**26**	896	387	**26**	896	658
Between 91 and 180 days	**106**	1,010	1,429	**106**	1,010	2,577
Between 181 and 360 days	**-**	2,072	1,661	**-**	2,072	2,297
Over 361 days	**-**	2,810	1,414	-	2,810	1,414
	2,867	8,620	8,092	**2,867**	8,620	11,978
Total	**167,049**	155,610	128,265	**167,049**	155,610	146,738

(In thousands of Brazilian reais)

5. Inventories

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
Goods for resale	**1,260,783**	1,079,285	1,101,316	**1,264,940**	1,079,285	1,274,953
Consumables	**14,162**	9,706	5,171	**14,162**	9,706	7,891
Advances to suppliers	**-**	826	628	**-**	826	628
Provision for losses	**(27,740)**	(21,055)	(15,034)	**(27,740)**	(21,055)	(18,815)
Total	**1,247,205**	1,068,762	1,092,081	**1,251,362**	1,068,762	1,264,657

On December 31, 2013, the Company has cycle counting inventories assigned as guarantee in legal lawsuits in progress, totaling approximately R$1,671(R$17,163as at December 31, 2012).

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

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Opening balance	**(21,055)**	(15,034)	**(21,055)**	(18,815)
Provision	**(25,880)**	(21,625)	**(25,880)**	(21,625)
Addition due to merger	**-**	(3,781)	**-**	-
Written-off or sold inventories	**19,195**	19,385	**19,195**	19,385
Closing balance	**(27,740)**	(21,055)	**(27,740)**	(21,055)

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

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Notes to the financial statements--Continued
December 31, 2013
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6. Related-party transactions

a) Balances from related parties

	Parent Company			Consolidated		
Current assets	**2013**	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
					(restated)	**(restated)**
Commissions on services						
Joint ventures:						
Luizacred (i)	**15,329**	31,520	30,415	**15,329**	31,520	39,230
Luizaseg (ii)	**38,450**	18,985	10,788	**38,450**	18,985	10,788
	53,779	50,505	41,203	**53,779**	50,505	50,018
Subsidiaries:						
Luiza Administradora de Consórcios ("LAC") (iii)	**579**	717	498	**-**	-	-
Reimbursement of expenses and costs with consortium draws						
Subsidiaries:						
Consortium Group ("LAC") (iii)	**994**	1,154	169	**994**	1,154	746
Lojas Maia (iv)	**-**	-	24,498	**-**	-	-
	994	1,154	24,667	**994**	1,154	746
Dividends receivable:						
Luizacred (i)	**13,840**	1,130	2,451	**13,840**	1,130	3,022
Luizaseg (ii)	**2,345**	2,573	1,774	**2,345**	2,573	1,774
	16,185	**3,703**	**4,225**	**16,185**	3,703	4,796
Balance receivable from credit card sales and accounts receivable by CDC:						
Luizacred (i)	**37,937**	18,263	39,008	**37,937**	18,263	41,808
Loans with subsidiary:						
Lojas Maia (iv)	**-**	-	20,564	**-**	-	
Total current assets	**109,474**	74,342	130,165	**108,895**	73,625	97,368
Securities						
ML Renda Fixa Créd.Privado Fundo de investimento (viii)	**472,242**	122,052	26,876	**472,242**	122,052	26,876

(In thousands of Brazilian reais)

6. Related-party transactions (Continued)

a) Balances from related parties (Continued)

Current liabilities	Parent Company 2013	Parent Company 2012	Parent Company 01/01/2012	Consolidated 2013	Consolidated 2012 (restated)	Consolidated 01/01/2012 (restated)
Transfers of receivables from servicesand accounts payable:						
Joint ventures:						
Luizacred (i)	**23,606**	23,623	15,656	**23,606**	23,623	15,689
Luizaseg (ii)	**47,668**	25,551	16,785	**47,668**	25,551	16,785
	71,274	49,174	32,441	**71,274**	49,174	32,474
Subsidiaries:						
Grupo de Consórcios (“LAC”) (iii)	**826**	698	574	826	698	574
Campos Floridos Comércio de Cosméticos Ltda. (ix)	**97**	-	-	**-**	-	-
	923	698	574	**826**	698	574
Rentals payable and other transfers						
Controlled by the Company’s controlling shareholders:						
MTG Administração, Assessoria e Participações S.A. (v)	**1,426**	1,258	1,103	**1,426**	1,258	1,103
PJD Agropastoril Ltda. (vii)	**34**	137	31	**34**	137	31
	1,460	1,395	1,134	**1,460**	1,395	1,134
Payables relating to advertising campaigns:						
ETCO - Empresa Técnica de Comunicação Ltda. (vi)	**59**	24	11,588	**59**	24	11,588
	73,716	51,291	45,737	**73,619**	51,291	45,770

(In thousands of Brazilian reais)

6. Related-party transactions (Continued)

a) Balances from related parties (Continued)

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
				(restated)
Income from service brokerage commissions				
Joint ventures:				
Luizacred (i)	**156,998**	136,052	**156,998**	136,052
Luizaseg (ii)	**179,877**	120,659	**179,877**	120,659
	336,875	256,711	**336,875**	256,711
Subsidiaries:				
Luiza Administradora de Consórcio (“LAC”) (iii)	**6,907**	5,903	**-**	-
Income from exclusive fund:				
ML Renda Fixa Créd.Privado Fundo de investimento(viii)	**22,328**	10,542	**22,328**	10,542
Reimbursement of shared expenses				
Joint ventures:				
Luizacred (i)	**49,516**	36,141	**49,516**	36,141
Total revenues	**415,626**	309,297	**408,719**	303,394

(In thousands of Brazilian reais)

6. Related-party transactions (Continued)

a) Balances from related parties (Continued)

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Costs related to the acquisition of goods				
Campos Floridos Comércio de Cosméticos Ltda. (ix)	**(847)**	-	-	-
Total costs	**(847)**	-	-	-

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
				(restated)
Expenses with rental of commercial buildings				
Controlled by the Company's controlling shareholders:				
MTG Administração, Assessoria e Participações S.A. (v)	**(11,679)**	(5,362)	**(11,679)**	(5,362)
PJD Agropastoril Ltda. (vii)	**(384)**	(417)	**(384)**	(417)
	(12,063)	(5,779)	**(12,063)**	(5,779)
Expenses with charges on credit card prepayments				
Luizacred (i)	**(52,866)**	(47,181)	**(52,866)**	(47,181)
Advertising expenses				
Controlled by the Company's controlling shareholders:				
ETCO - Empresa Técnica de Comunicação Ltda. (vi)	**(146,009)**	(139,007)	**(146,009)**	(139,007)
	(210,938)	(191,967)	**(210,938)**	(191,967)

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

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

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

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

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

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

(In thousands of Brazilian reais)

6. Related-party transactions (Continued)

a) Balances from related parties (Continued)

(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 provided by the Company on a monthly basis, relating to the sale of additional warranties and proposed dividends. The amounts payable (current liabilities) refer to the transfers of extended warranties sold to Luizaseg, in full, in the month following the sale.

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

(iv) All transactions relating to Lojas Maia, wholly-owned subsidiary, are stated up to its merger on April 30, 2013 and refer to: (i) the agreement for reimbursement of advertising expenses assumed by the Company, based on a formal agreement among the parties; and (ii) loans between the parties due on April 30, 2012 yielding 100% of CDI.

(v) 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.

(vi) Transactions with ETCO - Empresa Técnica de Comunicação Ltda., an entity indirectly 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.

(vii) 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.

(viii) Transactions with ML Renda Fixa Crédito Privado Fundo de Investimento, ML Renda Fixa Crédito Privado FI and Fundo de Investimento FIC Caixa Aporte Imediato 200 RF LP refer to operations with the exclusive investment fund (see Note 3.2 - Securities).

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

b) Management compensation

	2013		**2012**	
	Board of Directors	**Board of Executive Officers**	**Board of Directors**	**Board of Executive Officers**
			(restated)	**(restated)**
Fixed compensation–including charges	**336**	**7,897**	319	10,436
Variable compensation	**-**	**5,468**	-	-
Stock option plan	**236**	**2,388**	186	2,188

6. Related-party transactions (Continued)

b) Balances from related parties (Continued)

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 to other employees, according to Note 25. The amounts for these benefits are added to the Board of Executive Officers’fixed compensation. The Company has a Stock Option Plan for the employees elected at the Board of Directors’ meeting, and Management, employees or service providers of the Group are eligible to receive stock option, which is detailed in Note 19. It is worth mentioning that until the end of the 2013 fiscal year, no stock option has been exercised.

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

The benefits to the Company’s, its subsidiaries’ and joint ventures’ employees are described in Note 25.

Pursuant to the Brazilian laws and the Company’s Articles of Incorporation, it shall be incumbent upon shareholders to define and approve at the Shareholders' Meeting, the Management's annual overall compensation. The Company’s Board of Directors approved on February 10, 2014, the rectification, subject to the approval at the Shareholders’ Meeting, of the Management’s overall compensation approved at the Annual and Extraordinary Shareholders’ Meeting held in 2013, so that related amounts now are reconciled with those mentioned in Section 13, version 4 of the Company’s Reference Form for the 2013 fiscal year, where a maximum limit for Management’s overall compensation is estimated atR$16,986.

(In thousands of Brazilian reais)

7. Recoverable taxes

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012** (restated)	**01/01/2012** (restated)
Recoverable ICMS (a)	**363,218**	320,594	20,605	**363,218**	320,594	37,212
Recoverable income tax and social contribution	**8,928**	7,849	2,282	**8,928**	7,849	3,939
Recoverable withholding income tax	**3,902**	10,365	7,123	**3,902**	10,378	7,135
Recoverable PIS and COFINS	**1,252**	7,037	3,921	**1,252**	7,037	3,921
Other	**15**	10	-	**15**	10	200
	377,315	345,855	33,931	**377,315**	345,868	52,407
Current assets	**218,554**	208,490	18,749	**218,554**	208,503	21,365
Non-current assets	**158,761**	137,365	15,182	**158,761**	137,365	31,042

(a) These refer to ICMS accumulated credits and tax replacement deriving from the application of different rates in the inflow and outflow of interstate goods. Referred credits will be realized through an application for reimbursement and offset of debts of same nature with the State of origin of the tax credit. On June 1, 2013, the Company adhered to the special taxation system in the State of São Paulo assigning the condition as tax replacement to the establishment operating as a distribution center. This mode virtually alters how the ICMS-ST tax is collected and from this new system, the Company started paying ICMS upon shipment of the goods from its establishment.

8. Other assets

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012** (restated)	**01/01/2012** (restated)
Credits of certificates of judgment debt of the government (a)	**35,473**	32,796	8,838	**35,473**	32,796	8,838
Prepaid expenses (b)	**8,102**	12,006	4,131	**8,102**	12,006	9,357
Federal VAT (IPI) tax benefits (IPI) (c)	**1,592**	5,337	5,493	**1,592**	5,337	6,044
Prepayments of personnel expenses	**12,382**	6,593	6,881	**12,445**	6,593	7,227
Receivables from brokerage of services	**9,593**	7,998	4,594	**9,593**	7,998	4,594
Escrow deposits	**8,385**	4,950	6,944	**8,385**	4,950	6,944
Receivables from termination of consortium group	**-**	-	-	**2,238**	-	-
Other	**8,203**	6,393	720	**8,539**	7,835	8,696
Total	**83,730**	76,073	37,601	**86,367**	77,515	51,700
Current assets	**39,872**	37,130	21,819	**40,965**	37,950	35,038
Non–current assets	**43,858**	38,943	15,782	**45,402**	39,565	16,662

(a) Refer to credits of judgment debt of Paraná and São Paulo state governments. The variation of balance is due to the return of these credits previously used, as described in Note 18.

(b) Refer to prepaid expenses, deriving from advertising agreements, insurance contracts, taxes, amongst others, which will be appropriated to profit or loss according to the terms covered by agreements.

(c) Amounts receivable from suppliers arising from IPI benefit, granted to household appliances and furniture line.

(In thousands of Brazilian reais)

9. Income tax and social contribution

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

	Parent Company		Consolidated	
	2013	**2012**	**2013 (restated)**	**2012 (restated)**
Profit (loss) before income tax and social contribution	**129,202**	(36,673)	**131,004**	(37,335)
Effective rate	**34%**	34%	**34%**	34%
Expected income tax and social contribution credits (debits) at statutory rates	**(43,929)**	12,469	**(44,541)**	12,694
Reconciliation for effective rate (effects of applying tax rates):				
Effect of tax losses not recorded as deferred tax assets of the subsidiaries Lojas Maia (1)	**-**	-	**-**	(8,149)
Recording of deferred taxes over temporary differences arising from Lojas Maia, after merger	**-**	20,741	-	20,741
Effect on the distribution of interest on equity	**4,080**	-	**4,080**	-
Tax benefit effect referring to technological innovation, as per Law No. 11195/2005	**1,468**	-	**1,468**	-
Exclusion – equity in the earnings (losses) of subsidiaries	**19,425**	(2,391)	**18,518**	6,124
Other permanent (additions) exclusions, net	**3,560**	(891)	**3,277**	(820)
Income tax and social contribution credits (debits)	**(15,396)**	29,928	**(17,198)**	30,590
Current	**(17,023)**	-	**(18,456)**	(1,416)
Deferred	**1,627**	29,928	**1,258**	32,006
Total	**(15,396)**	29,928	**(17,198)**	30,590
Effective tax rate	**11.9%**	81.6%	**13.1%**	**81.9%**

(1) The Company's reconciliation balance refers to F.S. Vasconcelos' tax loss, which cannot be used for tax purposes.

Under the prevailing tax legislation, the accounting and tax records of the income tax and social contribution for the past five years are open to review by tax authorities. Other taxes and contributions are open to review and approval by tax authorities for varying statutory periods.

(In thousands of Brazilian reais)

9. Income tax and social contribution (Continued)

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

Below, the breakdown of deferred taxes in each of the reported years:

Parent Company	Balance on 01/01/2012	Recognized in profit or loss	Deriving from merger	Balance on12/31/2012	Recognized in profit or loss	Tax loss carryforward - installment payment (2)	Balance on 12/31/2013
Deferred income tax and social contribution assets:							
Tax losses and social contribution tax loss carryforwards	58,235	17,102	-	75,337	(7,436)	(10,132)	**57,769**
Temporary difference due to adoption of RTT (1)	13,731	(13,731)	-	-	-	-	**-**
Allowance for doubtful accounts	9,512	8,947	-	18,459	(3,774)	-	**14,685**
Allowance for inventory losses	5,112	2,047	-	7,159	2,273	-	**9,432**
Provision for contingencies	28,620	21,229	-	49,849	19,827	-	**69,676**
Other provisions	7,123	(5,475)	-	1,648	(1,542)	-	**106**
	122,333	30,119	-	152,452	9,348	(10,132)	**151,668**
Deferred income tax and social contribution liabilities:							
Temporary difference due to adoption of RTT (1) andamortization of intangible assets in business combination	-	(191)	(4,503)	(4,694)	(7,721)	-	**(12,415)**
	122,333	29,928	(4,503)	147,758	1,627	(10,132)	**139,253**

(In thousands of Brazilian reais)

9. Income tax and social contribution (Continued)

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

Consolidated	Balance on 01/01/2012 (Restated)	Recognized in profit or loss	Deriving from merger	Balance on 12/31/2012 (Restated)	Recognized in profit or loss	Tax loss carryforward - installment payment (2)	Balance on 12/31/2013
Deferred income tax and social contribution asset:							
Tax losses and social contribution tax loss carryforwards	61,958	13,379	-	75,337	(7,436)	(10,132)	**57,769**
Temporary difference due to adoption of RTT (1)	13,731	(13,731)	-	-	-	-	
Allowance for doubtful accounts	9,512	8,947	-	18,459	(3,774)	-	**14,685**
Allowance for inventory losses	5,112	2,047	-	7,159	2,273	-	**9,432**
Provision for contingencies	33,171	17,221	-	50,392	19,458	-	**69,850**
Other provisions	3,504	(1,856)	-	1,648	(1,542)	-	**106**
	126,988	26,007	-	152,995	8,979	(10,132)	**151,842**
Deferred income tax and social contribution liabilities:							
Temporary difference due to adoption of RTT (1) and amortization of intangible assets in business combination	(10,693)	5,999	-	(4,694)	(7,721)	-	**(12,415)**
	116,295	32,006	-	148,301	1,258	(10,132)	**139,427**

(1) The Company adopted the Transitional Tax System (RTT), as prescribed by Law No. 11941/09 which, beginning the adoption of new accounting practices, creates temporary differences for tax bases.

(2) Tax loss carryforwards referring to the adhesion to the debt installment payment with the Attorney's Office of the National Treasury, pursuant to LawNo.12685/13.

(In thousands of Brazilian reais)

9. Income tax and social contribution (Continued)

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

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

The expectation of realization of deferred income tax and social contribution on December 31, 2013 is the following:

	Parent Company	Consolidated
Year of realization		
2014	21,863	21,863
2015	25,263	25,263
2016	28,142	28,142
2017	33,018	33,018
2018 onwards	30,967	31,141
	139,253	139,427

(In thousands of Brazilian reais)

10. Investments in subsidiaries

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

Subsidiary	Main activity	Equity interest - % 2013
Época Cosméticos	E-commerce of perfumes and cosmetics	**100%**
LAC	Consortium management company	**100%**

During 2013, the Company acquired 100% equity interest in Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos", as outlined in detail in Note28.

Changes in ownership interest in subsidiaries, stated in the individual financial statements, are as follows:

	Época	LAC		Lojas Maia
	2013	**2013**	**2012**	**04/30/2012 Date of merger**
Quotas/shares held	**4,155**	**6,500**	6,500	5,000
Current assets	**5,343**	**17,080**	15,569	269,761
Non-current assets	**937**	**2,754**	2,188	210,580
Current liabilities	**4,971**	**4,314**	3,337	311,663
Non-current liabilities	**19,035**	**1,944**	2,148	336,331
Net revenue	**3,790**	**35,090**	30,755	311,951
Capital stock	**4,155**	**6,500**	6,500	47,000
Equity (net capital deficiency)	**(17,726)**	**13,576**	12,272	(167,653)
Profit (loss) for the year	**(635)**	**3,304**	2,501	(30,177)
Changes in investments	**2013**	**2013**	**2012**	**30/04/2012**
Balances at the beginning of the year	**-**	**12,272**	9,771	63,106
Total assets identified, net (Note 28)	**(12,364)**			
Goodwill generated in acquisition (Note 28)	**36,826**	**-**	-	-
Advance for future capital increase	**-**	**-**	-	30,000
Net assets merged	**-**	**-**	-	(62,929)
Proposed dividends	**-**	**(2,000)**	-	-
Equity in the earnings (losses) of subsidiaries	**(635)**	**3,304**	2,501	(30,177)
Balances at the end of the year	**23,827**	**13,576**	12,272	-

Total investments in subsidiaries

	2013	2012	01/01/2012
Consortium Group ("LAC")	**13,576**	12,272	9,771
Lojas Maia	**-**	-	63,106
Época Cosméticos	**23,827**	-	-
	37,403	12,272	72,877

11. Investments in joint ventures

Parent Company

	Luizacred			Luizaseg		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
Total shares – in thousands	**978**	978	847	**13.883**	13,883	13,883
Direct interest percentage	**50%**	50%	40.55%	**50%**	50%	50%
Current assets	**3,655,436**	3,299,478	2,944,752	**168,900**	124,647	104,350
Non-current assets	**384,972**	326,972	326,468	**132,388**	122,432	91,910
Current liabilities	**3,553,144**	3,224,852	2,955,772	**195,718**	109,885	83,626
Non-current liabilities	**62,262**	38,096	12,468	**27,076**	54,907	35,838
Net revenues	**1,479,584**	1,334,394	1,057,740	**217,790**	172,670	137,508
Capital stock	**274,624**	274,624	226,624	**13,884**	13,884	13,884
Equity	**425,002**	363,502	302,980	**78,494**	82,286	76,796
Profit (loss) for the year	**89,182**	14,782	45,494	**19,748**	21,240	14,942

Changes in investments	Luizacred		Luizaseg	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**181,751**	122,858	**41,143**	38,398
Capital increase	**-**	19,465	**-**	-
Addition through merger of subsidiary	**-**	30,532	**-**	-
Proposed dividends	**(13,840)**	(1,131)	**(10,046)**	(7,955)
Other comprehensive income	**-**	-	**(1,725)**	81
Equity in the earnings (losses) of subsidiaries	**44,590**	10,027	**9,874**	10,619
Balance at the end of the year	**212,501**	181,751	**39,246**	41,143

Total investments in joint ventures

	2013	**2012**	**01/01/2012**
Luizacred	**212,501**	181,751	122,858
Luizaseg	**39,246**	41,143	38,398
	251,747	222,894	161,256

11. Investments in joint ventures – Continued

Consolidated

	Luizacred (a)			Luizaseg (b)		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
Total shares – in thousands	**978**	978	847	**13,883**	13,883	13,883
Direct interest percentage	**50%**	**50%**	50%	**50%**	50%	50%
Current assets	**3,655,436**	3,299,478	2,944,752	**168,900**	124,647	104,350
Non-current assets	**384,972**	326,972	326,468	**132,388**	122,432	91,910
Current liabilities	**3,553,144**	3,224,852	2,955,772	**195,718**	109,885	83,626
Non-current liabilities	**62,262**	38,096	12,468	**27,076**	54,907	35,838
Net revenues	**1,479,584**	1,334,394	1,057,740	**217,790**	172,670	137,508
Capital stock	**274,624**	274,623	226,624	**13,884**	13,884	13,884
Equity	**425,002**	363,502	302,980	**78,494**	82,286	76,796
Profit (loss) for the year	**89,182**	14,782	45,494	**19,748**	21,240	14,942

Changes in investments	Luizacred		Luizaseg	
	2013	**2012**	**2013**	**2012**
Balance at the beginning of the year	**181,751**	151,490	**41,143**	38,398
Capital increase	**-**	24,000	**-**	-
Addition through merger of subsidiary	**-**		**-**	-
Proposed dividends	**(13,840)**	(1,132)	**(7,700)**	(7,955)
Other comprehensive income	**-**	-	**(1,725)**	81
Equity in the earnings (losses) of subsidiaries	**44,590**	7,393	**9,874**	10,619
Balance at the end of the year	**212,501**	181,751	**41,592**	41,143

Total investments in joint ventures

	2013	**2012**	**01/01/2012**
Luizacred	**212,501**	181,751	151,490
Luizaseg	**39,246**	41,143	38,398
	251,747	222,894	189,888

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

In 2011, the direct interest was 40.55%. Indirectly through subsidiary Lojas Maia, the Company held 9.45% additional interest, 50% direct and indirect interest. On April 30, 2012, after the merger of Lojas Maia, the Company obtained direct interest of 50% of capital.

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

Interest in joint ventures are stated in the parent company and consolidated by the equity method, applying the precepts of CPC 19 (R2) –Joint Venture and IFRS 11 - Joint Arrangements

(In thousands of Brazilian reais)

12. Property and equipment

Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

a) Parent Company

	Balance on31/12/2012	Additions	Addition due to merger of subsidiary	Depreciation	Write-offs	Transfers	Balance on31/12/2013
Furniture and fixtures	79,600	352	-	(13,520)	(548)	26,485	**92,369**
Machinery and equipment	44,991	-	-	(3,272)	(281)	10,354	**51,792**
Vehicles	27,508	4,502	-	(3,949)	(643)	1,284	**28,702**
Computers and peripherals	43,372	5,228	-	(17,174)	(713)	6,636	**37,349**
Leasehold improvements	302,399	-	-	(31,483)	(29,995)	44,553	**285,474**
Construction in progress	66,935	58,951	-	-	(41,401)	(48,290)	**36,195**
Other	8,418	42,366	-	(1,365)	(549)	(41,022)	**7,848**
	573,223	111,399	-	(70,763)	(74,130)	-	**539,729**

	Balance on 01/01/2012	Additions	Addition due to merger of subsidiary	Depreciation	Write-offs	Transfers	Balance on 12/31/2012
Furniture and fixtures	58,378	-	7,331	(10,664)	(2,242)	26,797	79,600
Machinery and equipment	29,959	4	4,503	(2,349)	-	12,874	44,991
Vehicles	22,651	783	4,418	(3,054)	-	2,710	27,508
Computers and peripherals	38,796	-	13,601	(16,041)	-	7,016	43,372
Leasehold improvements	205,008	869	51,016	(23,977)	-	69,483	302,399
Construction in progress	52,563	85,768	-	-	(3)	(71,393)	66,935
Other	9,940	49,214	956	(3,020)	(1,185)	(47,487)	8,418
	417,295	136,638	81,825	(59,105)	(3,430)	-	573,223

	2013			2012		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Furniture and fixtures	**149,168**	**(56,799)**	**92,369**	124,130	(44,530)	79,600
Machinery and equipment	**70,023**	**(18,231)**	**51,792**	60,109	(15,118)	44,991
Vehicles	**43,545**	**(14,843)**	**28,702**	39,505	(11,997)	27,508
Computers and peripherals	**127,700**	**(90,351)**	**37,349**	124,582	(81,210)	43,372
Leasehold improvements	**453,712**	**(168,238)**	**285,474**	474,040	(171,641)	302,399
Construction in progress	**36,195**	**-**	**36,195**	66,935	-	66,935
Other	**15,375**	**(7,527)**	**7,848**	14,726	(6,308)	8,418
	895,718	**(355,989)**	**539,729**	904,027	(330,804)	573,223

(In thousands of Brazilian reais)

12. Property and equipment (Continued)

b) Consolidated

	Balance on 12/31/2012	Additions (1)	Depreciation	Write-offs	Transfers	Balance on 12/31/2013
Furniture and fixtures	79,600	352	(13,520)	(548)	26,485	**92,369**
Machinery and equipment	44,991	-	(3,272)	(281)	10,354	**51,792**
Vehicles	27,508	4,502	(3,949)	(643)	1,284	**28,702**
Computers and peripherals	43,372	5,228	(17,174)	(713)	6,636	**37,349**
Leasehold improvements	302,399	-	(31,483)	(29,995)	44,553	**285,474**
Construction in progress	66,935	58,951	-	(41,401)	(48,290)	**36,195**
Other	9,152	42,513	(1,531)	(549)	(41,022)	**8,563**
	573,957	111,546	(70,929)	(74,130)	-	**540,444**

	Balance on 01/01/2012	Additions (1)	Depreciation	Write-offs	Transfers	Balance on 12/31/2012
Furniture and fixtures	72,172	-	(10,664)	(2,242)	20,334	79,600
Machinery and equipment	35,915	4	(2,349)	-	11,421	44,991
Vehicles	26,798	783	(3,054)	-	2,981	27,508
Computers and peripherals	42,284	-	(16,041)	-	17,129	43,372
Leasehold improvements	247,898	869	(23,977)	-	77,609	302,399
Construction in progress	52,563	85,768	-	(3)	(71,393)	66,935
Other	10,741	63,196	(5,331)	(1,373)	(58,081)	9,152
	488,371	150,620	(61,416)	(3,618)	-	573,957

(1) Most of investments in modernization and adequacy of store facilities were financed by Caixa Econômica Federal, as detailed in Note 15.

	2013			2012		
	Cost	**Accumulated depreciation**	**Net**	**Cost**	**Accumulated depreciation**	**Net**
Furniture and fixtures	**149,168**	**(56,799)**	**92,369**	124,130	(44,530)	79,600
Machinery and equipment	**70,023**	**(18,231)**	**51,792**	60,109	(15,118)	44,991
Vehicles	**43,545**	**(14,843)**	**28,702**	39,505	(11,997)	27,508
Computers and peripherals	**127,700**	**(90,351)**	**37,349**	124,582	(81,210)	43,372
Leasehold improvements	**453,712**	**(168,238)**	**285,474**	474,040	(171,641)	302,399
Construction in progress	**36,195**	**-**	**36,195**	66,935	-	66,935
Other	**17,177**	**(8,614)**	**8,563**	16,426	(7,274)	9,152
	897,520	**(357,076)**	**540,444**	905,727	(331,770)	573,957

In the quarter ended June 30, 2013, the Company concluded the sale of its 76.7% interest in the distribution center located in Louveira (SP) for R$205,461, and the net cost of property and other transaction costs totaled R$78,907. Total gain from this operation is recorded under “Other net operating income”.

The Company will continue using this distribution center, by means of 10-year lease agreement, with operating lease characteristics, renewable for other periods, pursuant to applicable laws. This transaction was materialized by means of Federal Savings Bank’s consent, whose loan agreement had restrictive covenants involving the sale of relevant assets.

On December 31, 2013, the Company recorded an amount of R$2,822, referring to the capitalized borrowing costs for the opening of new stores and the acquisition of facilities and equipment. The average rate of loans was used to calculate the borrowing costs liable to capitalization.

(In thousands of Brazilian reais)

12. Property and equipment (Continued)

c) Depreciation rates

As described in Note 2.15, the Group reviews the estimated useful lives of property and equipment items and the corresponding residual value at the end of each year.

The annual depreciation rates are the following:

	2013	2012
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	**6.7%**	6.7%

As at December 31, 2013, the Group's operational property and equipment was fully depreciated at the amount of R$140,059 (R$81,641 as at December 31, 2012). The Group does not have idle or held-for-sale property and equipment items.

d) Impairment testing

All property and equipment items whose carrying amounts are higher than their recoverable values were tested to determine the need to record an allowance to write down their carrying amounts to their realizable values.

The smallest cash-generating unit determined by the Company to test the impairment of tangible and intangible assets corresponds to each one of its stores. Management tested each asset for impairment under the individual future cash flows method (by store) discounted to present value and compared to the assets' carrying amounts for stores that reported negative indicators based on existing operating and financial performance indicators. Based on calculations made, no assets requiring impairment allowance were identified.

As of the reporting years, there were no events indicating the need for calculations to assess whether property and equipment items were impaired.

(In thousands of Brazilian reais)

13. Intangible assets

Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

a) Parent Company

	Balance on 12/31/2012	Additions	Addition due to merger of subsidiary	Amortization	Write-offs	Transfers	Balance on 12/31/2013
Goodwill on acquisition of new store chains	313,856	-	-	-	-	-	**313,856**
Goodwill	69,191	452	-	(18,938)	-	6,473	**57,178**
Software	34,013	115	-	(11,881)	-	19,660	**41,907**
Projects in progress	17,687	33,837	-	-	(23)	(26,133)	**25,368**
Trademarks and patents	-	-	-	-	-	146	**146**
Other	302	-	-	(52)	-	(146)	**104**
	435,049	34,404	-	(30,871)	(23)	-	**438,559**

	Balance on 01/01/2012	Additions	Addition due to merger of subsidiary	Amortization	Write-offs	Transfers	Balance on 12/31/2012
Goodwill on acquisition of new store chains	83,278	-	230,578	-	-	-	313,856
Goodwill	46,095	-	36,013	(14,996)	-	2,079	69,191
Software	32,837	284	397	(12,124)	-	12,619	34,013
Projects in progress	13,301	19,491	-	-	(371)	(14,734)	17,687
Other	205	-	278	(217)	-	36	302
	175,716	19,775	267,266	(27,337)	(371)	-	435,049

	2013			2012		
	Cost	**Accumulated amortization**	**Net**	**Cost**	**Accumulated amortization**	**Net**
Goodwill on acquisition of new store chains	**325,451**	**(11,595)**	**313,856**	325,451	(11,595)	313,856
Goodwill	**127,807**	**(70,629)**	**57,178**	120,882	(51,691)	69,191
Software	**103,120**	**(61,213)**	**41,907**	86,511	(52,498)	34,013
Projects in progress	**25,368**	**-**	**25,368**	17,687	-	17,687
Trademarks and patents	**212**	**(66)**	**146**	-	-	-
Other	**9,595**	**(9,491)**	**104**	6,642	(6,340)	302
	591,553	**(152,994)**	**438,559**	557,173	(122,124)	435,049

(In thousands of Brazilian reais)

13. Intangible assets (Continued)

b) Consolidated

	Balance on 12/31/2012	Additions	Deriving from acquisition of subsidiary	Amortization	Write-offs	Transfers	Balance on 12/31/2013
Goodwill on acquisition of new store chains	313,857	-	36,826	-	-	-	**350,683**
Goodwill	69,191	452	1,740	(18,938)	-	6,473	**58,918**
Software	34,302	295	546	(12,038)	-	19,660	**42,765**
Projects in progress	17,687	33,837	-	-	(23)	(26,133)	**25,368**
Trademarks and patents	-	-	3,387	-	-	146	**3,533**
Other	301	-	-	(52)	-	(146)	**103**
	435,338	34,584	42,499	(31,028)	(23)	-	**481,370**

	Balance on 01/01/2012	Additions	Deriving from acquisition of subsidiary	Depreciation	Write-offs	Transfers	Balance on 12/31/2012
Goodwill on acquisition of new store chains	313,857	-	-	-	-	-	313,857
Goodwill	80,452	-	-	(14,996)	-	3,735	69,191
Software	32,692	284	-	(12,124)	-	13,450	34,302
Projects in progress	13,301	19,491	-	-	(371)	(14,734)	17,687
Other	2,561	4,382	-	(3,911)	(280)	(2,451)	301
	442,863	24,157	-	(31,031)	(651)	-	435,338

The balance of goodwill arising from the acquisition of new stores chains derives from the process of merger of companies acquired by the Company. Goodwill amounts were amortized on a straight-line basis through 2007. Beginning January 1, 2008, transition date of the financial statements to the new accounting practices, goodwill was no longer recorded, since it refers to intangible assets with indefinite useful lives. Accordingly, goodwill was evaluated as to its future recovery based on projected income, by store, prepared by Management and approved by the Board of Directors.

(In thousands of Brazilian reais)

13. Intangible assets (Continued)

b) Consolidated (Continued)

Other assets are classified as intangible assets with definite useful lives, represented mainly by amounts paid on the acquisition of new points of sale (goodwill), amortized over ten years on a straight-line basis, a period that reflects contractual rights on the time of stay in the leased property, as well as software, which was amortized over the average term of the licenses obtained.

Software refers to the cost of licenses on the corporate management system and is amortized over five years on a straight-line basis. Some modules of such system are not yet in operation and, therefore, are recorded under “Projects in progress.”

Expenses on amortization of intangible assets with definite useful lives are recorded under line item “depreciation and amortization,” in the statement of income. The Group does not have intangible assets generated internally.

Impairment testing of goodwill and intangible assets

Goodwill and intangible assets were tested for impairment as of December 31, 2013 and 2012, according to the method described in Note 2.5.

Management prepared an estimate of the recoverable amounts or values in use for all assets. The assumptions adopted are described below.

Impairment tests comprise the calculation of the recoverable amounts of cash-generating units (CGUs), which correspond to the group of stores of acquired store chains, to which goodwill and intangible assets were allocated, as follows:

	2013	2012
Goodwill on acquisition of store chains in the South region	**25,327**	25,327
Goodwill on acquisition of Lojas Maia	**230,579**	230,579
Goodwill on acquisition of New-Utd	**57,951**	57,951
Goodwill on acquisition of Época Cosméticos	**36,826**	-
Total	**350,683**	313,857

13. Intangible assets (Continued)

b) Consolidated (Continued)

For purposes of internal evaluation, impairment tests comprise the calculation of the value in use of each CGU, in accordance with the principles described in Note 2.5. The value in use is calculated according to the discounted cash flow method, by applying the following rates:

	Discount Rate (p.a.)
Discounted cash flow	12.0% (1)
Average weighted growth rate for the first ten years	7.3%
Perpetuity	5.3%

(1) CAPM rate (Average Cost of Equity)

The assumptions of future cash flows and growth prospects for regions of Brazil where each CGU is located are based on the Company’s annual budget and business plan for the following ten years approved by the Board of Directors, as well as on comparable market data, representing the Management's best estimate on the economic conditions in effect during the economic useful lives of the group of cash flow generating assets.

The Company did not identify impairment losses during the tests.

(In thousands of Brazilian reais)

14. Trade accounts payable

	Parent Company			Consolidated		
	2013	2012	01/01/2012	2013	2012 (restated)	01/01/2012 (restated)
Goods for resale - domestic market	**1,650,884**	1,323,817	1,077,806	**1,655,106**	1,323,817	1,256,233
Other suppliers	**16,853**	14,369	26,690	**17,227**	14,687	26,690
Adjustment to present value	**(20,790)**	(12,194)	(13,483)	**(20,790)**	(12,194)	(16,215)
	1,646,947	1,325,992	1,091,013	**1,651,543**	1,326,310	1,266,708

Purchases in installments, basically from suppliers of goods for resale, are adjusted to their present value on the transaction date, according to their maturities, using the average rate of financial charges on funding incurred by the Company, as stated in Note 2.7.3. Such rate is taken into consideration by the Company's Management when making market valuations of the time value of money and the specific risks relating to its assets and liabilities.

The adjustment to present value of purchases is recorded under line item "Trade accounts payable" (with a corresponding entry to line item "Inventories") and its reversal is recorded under line item "Cost of goods sold", according to maturity.

(In thousands of Brazilian reais)

15. Loans and financing

Type	Charge	Collaterals	Final maturity	Parent Company 2013	Parent Company 2012	Parent Company 01/01/2012	Consolidated 2013	Consolidated 2012 (restated)	Consolidated 01/01/2012 (restated)
BNDES (a)	IPCA + 8.91% p.a.	Bank pledge	-	**-**	13,579	32,297	**-**	13,579	32,297
Working capital (b)	107.5% to 116% of CDI p.a. (equal to 2012)	(b)	Dec/19	**692,430**	801,494	538,594	**692,668**	801,494	658,646
Finance leases (c)	CDI//LIBOR	Fiduciary sale/ escrow deposits	Dec/19	**18,677**	18,032	20,366	**18,677**	18,032	20,392
Debentures – Restrict offer (d)	108,8% to 114.5% of CDI	-	Mar/16	**608,935**	200,180	-	**608,935**	200,180	-
Promissory notes (e)	105% of CDI	-	-	**-**	202,679	-	**-**	202,679	-
				1,320,042	1,235,964	591,257	**1,320,280**	1,235,964	711,335
Current liabilities				**424,989**	317,198	94,979	**425,227**	317,198	129,671
Non-current liabilities				**895,053**	918,766	496,278	**895,053**	918,766	581,664

(a) Loans contracted with BNDES comprise: (i) financing for the opening of new stores and (ii) purchase of facilities and equipment. This agreement has maturity of principal and interest paid yearly.

(b) This financing is collateralized by sureties, commercial lien and a portion of receivables from credit cards, as described in Note 4.

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 to substitute the charges contracted for DI-indexed fixed interest. This is a perfectly matched transaction that does not expose the Company to currency or foreign interest rate risks. Further details are disclosed in Note 27.

(c) The Company has finance lease contracts relating to: (i) aircraft, whose contract was entered into in 2005 and expires in 2016. For this contract, R$1,429 (equivalent to US$610 thousand) was deposited in escrow, recorded in line item “Other non-current assets,” which will be redeemed on the final maturity of the contract. This deposit, equivalent to 15% of the total asset amount, is adjusted for inflation, whose corresponding entry is recorded in profit (loss) for the period; (ii) IT equipment and software, whose contracts expire in 2019

15. Loans and financing (Continued)

(d) The Company conducted its first issue of non-convertible debentures, in a single series, for public distribution with restricted placement efforts, in accordance with CVM Rule 476/09, on December 26, 2011. A total of 200 debentures were issued, at par value of R$1,000 each, totaling R$200,000.These debentures will have a thirty-month term as of the date of issue, falling due on June 26, 2014. Debentures will not have their par value adjusted for inflation and will render compensatory interest corresponding to 113% of accumulated variation of daily average DI (Interbank Deposits) rates, which will be paid semiannually, the first payment of which made on June 26, 2012. For this operation, the Company incurred transaction costs of R$1,722, which will be appropriated to profit (loss) during the same term. Considering the operation costs, the estimated effective interest rate (TIR) is approximately 116.38% of CDI, per year.The debentures were paid on January 6, 2012, after registration and compliance with CETIP settlement rules, at their par value plus the corresponding remuneration calculated on a *pro rata temporis* basis from the date of issue to the date of effective payment

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

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

(e) On October 4, 2012, the Company's Board of Directors approved the second issue of promissory notes, in a single series, for public distribution with restricted placement efforts. A total of 20 promissory notes were issued, with par value of R$10,000, totaling R$200,000. Promissory notes will have a 360-day term as of the date of issueand were settled in the year. Promissory notes will not have their unit face value adjusted for inflation and will render compensatory interest, calculated as of the date of issue, corresponding to 105.00% of accumulated variation of daily average DI rates. The funds raised were allocated to reinforce the Company's cash position.

(In thousands of Brazilian reais)

15. Loans and financing (Continued)

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

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

ii. Brazilian Federal Savings Bank:maintenance of the adjusted net debt/EBITDA ratio below 3.5 times. Additionally, the evidence of use of funds raised through investment plan and use of funds report is required.

The Company is found in compliance with the above-mentioned covenants on December 31, 2013.

16. Deferred revenue

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012** (restated)	**01/01/2012** (restated)
Deferred revenue from third parties:						
Exclusive dealing agreement with Banco Itaúcard (a)	**171,501**	184,000	196,500	**171,501**	184,000	196,500
Exploration right agreement - payroll (b)	**5,806**	1,531	5,207	**5,806**	1,531	5,207
Sales agreement - Cardif (c)	**31,359**	38,360	-	**31,359**	38,360	16,802
	208,666	223,891	201,707	**208,666**	223,891	218,509
Deferred revenue from related parties:						
Exclusive dealing agreement with Luizacred (d)	**177,292**	188,380	48,000	**177,292**	188,380	199,579
Total deferred revenue	**385,958**	412,271	249,707	**385,958**	412,271	418,088
Current liabilities	**36,734**	37,104	19,217	**36,734**	37,104	29,623
Non-current liabilities	**349,224**	375,167	230,490	**349,224**	375,167	388,465

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

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

(In thousands of Brazilian reais)

16. Deferred revenue (Continued)

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

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

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

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

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

On February 22, 2013, the Company entered into a new amendment to the alliance agreement, aiming at transferring Luizacred's credit card issuance activities ("Luiza Card"), as well as its corresponding assets and liabilities, to Itaú or Itaú's affiliate ("Transfer"). After the transfer, Magazine Luiza would continue to receive 50% of Luiza Card's results through profit sharing, maintaining its economic interest. This transfer was suspended in a new amendment signed on July 5, 2013, in view of new understandings between the parties referring to the implementation of new structure alternative to that one previously maintained. This amendment also maintains its exclusiveness right until 2029.

17. Provision for tax, civil and labor contingencies

The Company and its subsidiaries and joint ventures are parties to labor, civil and tax lawsuits in progress for which it has submitted administrative or legal defense. For cases on which our legal counsel's opinion is unfavorable, the Company recognized, as of December 31, 2013, in non-current liabilities, a provision for tax, civil and labor contingencies, which is the Group's Management best estimate of future disbursement. Changes in the provision for tax, civil and labor contingencies are as follows:

Parent Company

	2012	Additions	Reversal	Write-offs	Inflation adjustment	2013
Tax	151,485	55,346	(17,896)	(14,964)	12,950	**186,921**
Civil	10,098	3,378	-	(3,071)	-	**10,405**
Labor	24,444	6,500	-	(1,824)	-	**29,120**
	186,027	65,224	(17,896)	(19,859)	12,950	**226,446**

(In thousands of Brazilian reais)

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

Parent Company (Continued)

	01/01/2012	Additions	Addition due to merger	Reversal	Write-offs	Inflation adjustment	2012
Tax	50,424	23,573	81,127	(1,086)	(9,671)	7,118	151,485
Civil	8,521	3,601	-	-	(2,024)	-	10,098
Labor	25,231	2,729	2,873	(5,311)	(1,078)	-	24,444
	84,176	29,903	84,000	(6,397)	(12,773)	7,118	186,027

Consolidated

	2012 (restated)	Additions	Addition due toacquisition of subsidiary	Reversal	Write-offs	Inflation adjustment	2013
Tax	151,485	55,346	16,284	(17,896)	(14,964)	12,950	**203,205**
Civil	11,292	3,778	-	(848)	(3,571)	-	**10,651**
Labor	24,776	6,540	2,751	(9)	(2,032)	-	**32,026**
	187,553	65,664	19,035	(18,753)	(20,567)	12,950	**245,882**

	01/01/2012 (restated)	Additions	Reversal	Write-offs	Inflation adjustment	2012
Tax	123,588	25,180	(1,086)	(3,315)	7,118	151,485
Civil	14,410	4,585	(14)	(7,689)	-	11,292
Labor	29,178	2,972	(5,492)	(1,882)	-	24,776
	167,176	32,737	(6,592)	(12,886)	7,118	187,553

As of December 31, 2013, 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 reserve for contingencies, are as follows:

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

a) Tax lawsuits

i. The Company is challenging several tax-deficiency notices filed by the Departments of Finance in the states where it operates, which claimdifferences in ICMS (State VAT) payment, supposed errors in the compliance with certain ancillary obligations and federal tax offset procedures with the Federal Revenue Service. The Company recorded a reserve for risks assessed as probable loss by its legal counsel. These tax-deficiency notices amounted to R$30,447 as at December 31, 2013 (R$18,687 on December 31, 2012), of which approximately R$1,671 is guaranteed by cycle-counting inventories of the Company's goods.

In 2013, the Company adhered to the ICMS debt installment payment special program which may or may not be recorded in the outstanding debt of the State of São Paulo (PEP-SP) and also the federal debt installment payment registered at the federal enforceable debt, with the Office of Attorney-General of the National Treasury and Federal Revenue Service, pursuant to Law 11,941/09.These debts have been discussed in the administrative or court levels by the Company's legal counsel.

Total debits included in the installment payment, after detailed analysis of the Company's Management about the cost of maintaining these debts under court discussion, totaled R$73,834, balance of which is monetarily restated until the date of adhesion and received amnesty in the amount of R$33,264, which were fully settled in a lump sum of R$35,570, divided into R$14,138 into principal and R$18,432 in interest rates and fine. Approximately R$10,646 were registered as provision for tax risks, since the probability of success was considered remote.

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

b) a) Tax lawsuits (Continued)

ii. The Company is challenging through writ of mandamus the constitutionality of the Contribution to the National Institute of Rural Settlement and Agrarian Reform (INCRA), for which an escrow deposit was made totaling R$7,045 on December 31, 2013 (R$5,353 on December 31, 2012), with a provision for tax risks at the same amount.

iii. The Company is challenging the increase in the Occupational Accident Risk rate (RAT). Thus, it filed a lawsuit and deposited the amounts corresponding to the increased rate in an escrow account. The amount of the provision totals R$43,750 on December 31, 2013 (R$29,652 as of December 31, 2012).

iv. The Company is challenging in court at the administrative level the FAP (Accident Prevention Factor) index which was imposed to it by MPS/CNPS Resolution 1269/06, whose provision totals R$33,402 on December 31, 2013 (R$22,123 as of December 31, 2012).

v. Other tax claims assessed by the Management of the Company and their legal counsel as probable loss amount to R$23,843 on December 31, 2013 (R$31,227 as of December 31, 2012), for which a reserve has been recognized. The tax claims are related to tax-deficiency notices allegedly due to the incorrect application of ICMS rates, as well as to risks related to PIS/COFINS on debits on interest income, tax incentives received and credits subject to challenge with the tax authorities.

vi. The merged subsidiary Lojas Maia did not acknowledge the mandatory collection of PIS/COFINS on ICMS tax base, depositing in an escrow account the amount of the related provision, in the total amount of R$42,500 on December 31, 2013 (R$36,554 on December 31, 2012).

vii. During the business combination process of the merged subsidiary Lojas Maia, other tax risks relating to ICMS, IRPJ, CSSL and ISS were identified by the Company and weighted in the context of calculation of the related fair values, and an additional provision was recognized in the total amount of R$5,934 on December 31, 2013 (R$7,889 on December 31, 2012).

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

c) Civil lawsuits

Consolidated civil contingencies of R$10,651 on December 31, 2013 (R$11,292 as of December 31, 2012) are related to claims filed by customers on possible product defects. Other non-relevant balances are recorded in the Company's joint ventures.

d) Labor lawsuits

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

The accrued amount of R$32,026 on December 31, 2013 (R$24,776 as of December 31, 2012) in consolidated reflects the likelihood of probable loss assessed by the Company's Management and its legal counsel.

ii. The Company is also challenging the payment of social security contribution on paid prior notice, which is being fully deposited in escrow and totals R$8,262 on December 31, 2013 (R$6,383 as of December 31, 2012).

In order to cover tax, civil and labor contingencies, the Company has a balance in escrow deposits of R$170,080 on December 31, 2013 (R$129,348 on December 31,2012).

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

a) Tax lawsuits: there are tax lawsuits where the Company and its subsidiary and joint parent companies are the defendants. The amount estimated by Management and its legal counsel relating to these lawsuits, which are at the administrative or court level, is R$388,665 on December 31, 2013 (R$339,161 as of December 31, 2012).

The main lawsuits classified as possible losses are described below:

PIS/COFINS – Administrative lawsuits, which are pending in the Regional Judgment Authority and Administrative Board of Tax Appeals (CARF), relating to tax-deficiency notice issued due to possible differences in tax calculation bases, credits calculated and offset, but not ratified by the Federal Revenue Service, among others involving lower amounts. The amount involved in these proceedings totals R$194,483.

(In thousands of Brazilian reais)

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

a) Tax lawsuits (Continued)

ICMS – Administrative and court proceedings, relating to tax-deficiency notices issued due to: (i) possible differences in ICMS rates; (ii) non-compliance with some accessory obligations, (iii) acquisition of goods from suppliers, whose registrations were later declared inapt by the tax authority; and (iv) discussion on rate increase in the state of São Paulo, from 17% to 18%, in which the government does not accept reimbursement of a 1% difference. Among others involving lower amounts, the estimated value of these lawsuits is R$63,583.

b) Civil and labor lawsuits

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

18. Taxes payable in installments

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
ICMS – Installments - Law 17082 (a)	**6,504**	6,504	-	**6,504**	6,504	-
REFIS IV	**1,782**	4,407	6,536	**1,782**	4,407	6,536
PAES	**-**	-	716	**-**	-	716
	8,286	10,911	7,252	**8,286**	10,911	7,252
Current liabilities	**8,286**	9,128	2,854	**8,286**	9,128	2,854
Non-current liabilities	**-**	1,783	4,398	**-**	1,783	4,398

(a) Refers to installment payment system of debtswhich were granted amnesty by Law 17.082/2012, credits of certificate of judgment debt of the government were offered, in accordance with regulatory law, which are under the Paraná State Office’s analysis.

(In thousands of Brazilian reais)

19. Equity

Capital stock

Below is the Company's shareholding structure as at December 31, 2013, all common, registered, book-entry shares, with no par value:

	Number of Shares	Interest %
Controlling shareholders	**127,011,533**	**68.10**
Outstanding shares	**56,982,934**	**30.60**
Treasury shares	**2,500,000**	**1.30**
Total	**186,494,467**	**100.00**

In accordance with the Company's Bylaws, the capital stock may be increased, pursuant to Article 168 of Law No. 6404/76, through the issue of up to 50,000,000 new common shares.

Treasury shares

In 2013, the Company repurchased 2,500,000 of its shares to be held in treasury, with an average cost of R$8.36.

Stock option plan

1st Granting of the Stock Option Plan

At the Board of Directors' meeting held on January 5, 2012, the Company decided on the election of Stock Option Plan beneficiaries of the first granting approved on April 1, 2011, the provisions of which set forth that the Group's managers, employees and outsourced employees are eligible to receive the stock options. Also, the exercise price of options to be granted was determined at R$13.60 for Plan 2 and R$10.32 for Plan 1. The private instruments for granting the stock options to the beneficiaries were signed, totaling 2,250,000 stock options for R$10.32 (Plan 1) and 1,274,732 stock options for R$13.60 (Plan 2).

19. Equity (Continued)

Stock option plan (Continued)

1st Granting of the Stock Option Plan (Continued)

Both types of plans will be effective for eight years as of their grant date. The options may be totally or partially exercised, provided that the beneficiaries continuously maintain their relationship with the Company, as managers or employees from the grant date to the dates mentioned below. For Plan 1, 20% of the options can be exercised upon grant, and as of this date, additional 20% of the options can be exercised in each year the beneficiary has relationship with the Company. For Plan 2, 20% of the options can be exercised as of March 1, 2012 and, as of this date, additional 20% can be exercised in each year the beneficiary has relationship with the Company. These options, when exercised, will be settled upon the submission of the Company's equity instruments.

Up to December 31, 2013, no stock option of this granting was exercised. The fair value of each option granted is estimated on the grant date through the Black & Scholes pricing model, considering the following assumptions: (a) average life expectation of options of 5.5 years, representing the period in which the options are expected to be exercised and taking into account the average turnover of the plan's beneficiaries; (b) annualized average volatility considered for companies of the same sector of 43.5%; (c) risk-free interest rate of 10%. The weighted average fair value of the options granted on December 31, 2012 was R$6.63.

2nd Granting of the Stock Option Plan

The second granting of the Stock Option Plan was approved on October 25, 2013 and 1,213,476 options were granted with a strike price of R$9.45. The plan will have the maximum term of 12 months as of the date of signature and shall have the following grace period: 25% of options may be exercised as of October 29, 2014; 25% of options may be exercised as of October 29, 2015; 25% of options may be exercised as of October 29, 2016; 25% of options may be exercised as of October 29, 2017.

Until December 31, 2013 no stock option has been exercised. The fair value of each option granted is estimated on the grant date applying the Black & Scholes pricing model, taking into account the following assumptions: (a) average life expectation of 5.5 year-option, which represents the period when optionsshould be exercised, taking into account the average turnover of plan's beneficiaries; (b) annualized average volatility considered for same sector's companies of 37.98%; (c) risk-free interest rate of 5.92%. The weighted average of options fair value granted on December 31, 2013 was R$6.06.

(In thousands of Brazilian reais)

19. **Equity** (Continued)

Stock option plan (Continued)

2nd Granting of the Stock Option Plan (Continued)

According to CPC 10 R1 and IFRS 2, the effects of the share-based payment transactions were recorded in the profit (loss) for the year, considering the fair value of stock options, resulting in an expense of R$2,820 in the year ended December 31, 2013 and 2012. The table below shows the interest dilution limit percentage, which would be submitted to the current shareholders, in case of exercise of all granted options up to December 31:

	12/31/2013
Number of current shares	186,494,467
Balance of stock options in effect	4,738,208
Dilution limit percentage	2.54%

The weighted average contractual effectiveness for the remaining stock options on December 31, 2013 was 7.54 years (seven years on December 31, 2012).

The weighted average fair value of shares granted was R$6.49 on December 31, 2013 (R$6.63 on December 31, 2012).

The strike price for remaining options as at December 31, 2013 ranged from R$4.67 to R$13.38 (R$8.78 to R$13.05 on December 31, 2012)

Legal reserve

Legal Reserve, as provided for in Article 193 of Law 6404/76, refers to the allocation of 5% of profit for the year, limited to 20% of capital stock. On December 31, 2013, the Company’s legal reserve totaled R$9,715 (R$4,025 on December 31, 2012).

(In thousands of Brazilian reais)

19. Equity (Continued)

Dividends and interest on equity

The Company's Articles of Incorporation set forth the distribution of minimum mandatory dividend of 15% of profit adjusted according to Brazilian Corporate Law. In the year ended December 31, 2013, the Management recorded provision of R$4,219 for the minimum mandatory dividend. Additionally, the Company's Board of Directors approved, as authorized in its Articles of Incorporation, the distribution of interest on equity to be imputed to mandatory dividend, in the amount of R$12,000.

	2013	
Number of shares	**186,494,467**	**186,494,467**
Treasury shares	**(2,500,000)**	**(2,500,000)**
Number of controlling shareholders and outstanding shares	**183,994,467**	**183,994,467**
Proposed dividends and interests on equity	**4,218,837**	**12,000,000**
Proposed dividends and interests on equity per share	0.0229	0.0652

Retained earnings reserve

After legal retentions and distribution of dividends, the remaining balance of profits is transferred to the retained earnings reserve,which shall be allocated at the Annual Shareholders' Meeting.

Earnings per share

Pursuant to CPC 41 and IAS 33, "Earnings per Share", the basic earnings per share is calculated by dividing the profit for the year, attributed to the Company's common shareholders by the weighted average number of common shares available during the year (except for treasury shares).

Diluted earnings per share is calculated by dividing the profit attributable to the Company's common shareholders, after adjusting convertible securities by the weighted average number of common shares available during the year (except for treasury shares) plus the weighted average number of common shares which would be issued when converting all diluted potential common shares into common shares.

The single financial instrument the Company has that may dilute profit is the stock option plan offered to employees.

(In thousands of Brazilian reais)

19. Equity (Continued)

Earnings per share-- Continued

Considering that the market average price of outstanding shares is lower than the exercise price of granted stock options, in the period between the grants of the stock option plan and December 31, 2013, the diluting effect of the earnings per share is not affected.

	12/31/2013	12/31/2012
Profit (loss) for the years attributable to the owners of the Company	**113,806**	(6,745)
Weighted average of common shares	**186,239**	186,494
Basic and diluted earnings per share (in reais)	**0.61**	(0.04)

20. Net sales revenue

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Gross revenue:				
Retail – resale of goods	**9,261,713**	7,733,619	**9,265,629**	8,114,022
Retail – services rendered	**373,750**	294,204	**388,324**	342,082
Consortium management	**-**	-	**38,463**	-
	9,635,463	8,027,823	**9,692,416**	8,456,104
Taxes and returns:				
Resale of goods	**(1,550,372)**	(1,269,143)	**(1,550,498)**	(1,345,951)
Services rendered	**(50,106)**	(39,255)	**(53,479)**	(43,383)
	(1,600,478)	(1,308,398)	**(1,603,977)**	(1,389,334)
Net sales revenue	**8,034,985**	6,719,425	**8,088,439**	7,066,770

(In thousands of Brazilian reais)

21. Cost of goodsresold and services rendered

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Costs:				
Goods resold	**(5,817,669)**	(4,810,471)	**(5,820,346)**	(5,046,065)
Services rendered	**-**	-	**(5,098)**	(11,739)
	(5,817,669)	(4,810,471)	**(5,825,444)**	(5,057,804)

22. Information on the nature of the expenses recognized in the statement of income

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

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Personnel expenses	**(1,003,500)**	(938,112)	**(1,003,500)**	(976,015)
Service provider expenses	**(378,998)**	(349,177)	**(378,998)**	(377,990)
Profit sharing	**(22,700)**	-	**(22,700)**	-
Other	**(394,827)**	(357,854)	**(414,125)**	(390,584)
Total	**(1,800,025)**	(1,645,143)	**(1,819,323)**	(1,744,589)

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Classified by function as:				
Selling expenses	**(1,512,685)**	(1,344,320)	**(1,513,769)**	(1,404,099)
General and administrative expenses	**(385,391)**	(330,723)	**(403,722)**	(372,221)
Other operating income, net (Note 23)	**98,051**	29,900	**98,168**	31,731
	(1,800,025)	(1,645,143)	**(1,819,323)**	(1,744,589)

(In thousands of Brazilian reais)

23. Other operating income, net

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Gain (loss) on sale of property and equipment (a)	**125,424**	(833)	**125,424**	(833)
Recognition of deferred revenue (b)	**32,314**	39,388	**32,314**	42,994
Provision for tax losses (c)	**(40,574)**	12,910	**(40,574)**	12,910
Non-recurring expenses (d)	**(19,410)**	(23,009)	**(19,410)**	(25,645)
Other	**297**	1,444	**414**	2,305
Total	**98,051**	29,900	**98,168**	31,731

(a) On June 27, 2013, the Company sold 76.7% of the distribution center located in the municipality of Louveira (SP), recording a gain of R$126,554 as described in detail in Note 12. The remaining balance of R$1,130 refers to the loss from the sale of other property and equipment.

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

(c) The Company adhered to the tax debt installment payment of the State of São Paulo and the Office of the Attorney-General of the National Treasury, as detailed in Note 17. Concurrently, the Company, together with its legal counsel, revised the lawsuits as to their probability of success or loss, which affected the provision for tax risks.

(d) Refers basically to provisions and accounting write-offs deriving from the merger process of acquired chains.

24. Financial result

	Parent Company		Consolidated	
	2013	2012	2013	2012 (restated)
Finance income:				
Interest on extended warranty sales	**48,766**	27,656	**48,766**	27,656
Income from short-term financial investments and securities	**28,402**	15,441	**7,003**	5,985
Interest on sale of goods - interest on delay in collection	**3,725**	2,285	**3,725**	2,423
Exchange gains	**33**	-	**33**	-
Discount obtained	**9,285**	5,781	**9,285**	5,795
Other	**586**	5,918	**586**	5,918
	90,797	57,081	**69,398**	47,777
Financial expenses:				
Interest on loans and financing	**(133,160)**	(107,936)	**(133,160)**	(114,274)
Charges on credit card advances	**(134,577)**	(103,208)	**(134,577)**	(105,633)
Provision of interest on extended warranty	**(29,044)**	(14,284)	**(29,044)**	(14,284)
Exchange loss	**(439)**	(278)	**(439)**	(278)
Other	**(15,953)**	(16,612)	**(16,140)**	(17,114)
	(313,173)	(242,318)	**(313,360)**	(251,583)
Net financial result	**(222,376)**	(185,237)	**(243,962)**	(203,806)

25. Employee benefits

The Group offers a pension plan for all its employees. This pension plan is a defined contribution pension plan with no actuarial liability for the Group. The Group's contribution is equivalent to 0.20 percent of the salary of the participating employees and can be suspended at any time, at the Group's discretion, provided that participants receive a prior notice. In 2013 and 2012, contributions amounted to R$537 and R$648, respectively. Participants can make voluntary contributions, deducted from payroll, with no corresponding contribution by the Group.

The Group offers to its employees' health care benefits, dental reimbursement, life insurance, meal ticket, transportation voucher, scholarship, besides Stock Option Plan for eligible employees, as stated in Note 19. The expense on such benefits, recorded in 2013, was R$120,665 for the parent company (R$110,251 in 2012) and R$121,410 for consolidated (R$111,461 in 2012). Additionally, the Group does not offer any benefits to the key Management personnel of its related parties.

26. Segment reporting

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

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

Retail - mainly resale of goods and provision of services in the Company's stores and e-commerce;

Financial operations - through the joint venture Luizacred, mainly engaged in 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 consortiums 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, orof products and services offered by the Group

(In thousands of Brazilian reais)

26. Segment reporting (Continued)

Statement of income

	2013			
	Retail *	Financial operations	Insurance operations	Consortium management
Gross revenue	9,661,707	739,792	108,895	38,463
Revenue deductions	(1,600,604)	-	-	(3,373)
Segment net revenues	8,061,103	739,792	108,895	35,090
Costs	(5,820,346)	(77,907)	(10,026)	(12,852)
Gross profit	2,240,757	661,885	98,869	22,238
Selling expenses	(1,513,769)	(253,421)	(76,166)	-
General and administrative expenses	(385,851)	(2,161)	(14,710)	(17,871)
Result from allowance for doubtful accounts	(21,212)	(332,180)	-	-
Depreciation and amortization	(101,652)	(6,551)	(16)	(306)
Equity in the earnings (losses) of subsidiaries	57,768	-	-	-
Other operating income	98,116	5,797	6	52
Financial result	(244,794)	-	8,304	832
Income tax and social contribution	(15,557)	(28,779)	(6,413)	(1,641)
Profit for the year	113,806	44,590	9,874	3,304

Equity accounting conciliation	
Equity in the earnings of LAC (Note 10)	3,304
Equity in the earnings of Luizacred (Note 11)	44,590
Equity in the earnings of Luizaseg (Note 11)	9,874
(=) equity accounting of retail segment	57,768
(-) Elimination effect – LAC	(3,304)
(=) Consolidated equity in the earnings (losses) of subsidiaries	54,464

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

(In thousands of Brazilian reais)

26. Segment reporting (Continued)

Statement of income

	2012			
	Retail *	**Financial operations**	**Insurance operations**	**Consortium management**
Gross revenue	8,428,293	667,198	86,335	33,713
Revenue deductions	(1,386,376)	-	-	(2,958)
Segment net revenues	7,041,917	667,198	86,335	30,755
Costs	(5,051,968)	(82,445)	(6,348)	(11,739)
Gross profit	1,989,949	584,753	79,987	19,016
Selling expenses	(1,404,098)	(251,042)	(57,509)	-
General and administrative expenses	(355,518)	(3,051)	(13,157)	(16,703)
Result from allowance for doubtful accounts	(23,471)	(315,048)	-	-
Depreciation and amortization	(92,156)	(6,621)	(12)	(291)
Equity accounting	20,512	-	-	-
Other operating income	30,989	4,839	257	742
Financial result	(204,720)	-	7,918	915
Income tax and social contribution	31,768	(6,438)	(6,865)	(1,178)
Profit (loss) for the period	(6,745)	7,392	10,619	2,501

Equity reconciliation	
Equity in the earnings of LAC (Note 10)	2,501
Equity in the earnings of Luizaseg (Note 11)	10,619
Equity in the earnings of Luizacred (Note 11)	7,392
(=) equity account of retail segment	20,512
(-) Elimination effect – LAC	(2,501)
(=) consolidated equity in the earnings of subsidiaries	18,011

(*) consolidated balances including results of Magazine Luiza S.A. and Lojas Maia.

The financial and insurance segments are accounted for by the equity method.

(In thousands of Brazilian reais)

26. Segment reporting (Continued)

Statement of financial position

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

Investment reconciliation

Investment in subsidiaries	
Investment in LAC (Note 10)	13,576
Investment in joint ventures	
Investment in Luizacred (Note 11)	212,501
Investment in Luizaseg (Note 11)	39,246
	251,747
Total investments	265,323
(-) Elimination effect – LAC	(13,576)
(=) consolidated investment result	251,747

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

Magazine Luiza S.A.

Notes to the financial statements--Continued
December 31, 2013
(In thousands of Brazilian reais)

26. Segment reporting (Continued)

Statement of financial position

	2012			
	Retail *	**Financial operations**	**Insurance operations**	**Consortium management**
Assets				
Cash and cash equivalents	404,143	4,244	5	14,736
Securities	126,385	5,024	103,073	-
Trade accounts receivable	486,872	1,619,378	-	-
Inventory of goods for resale	1,068,762	-	-	-
Investments	235,166	-	-	-
Property and equipment and intangible assets	1,008,272	100,802	16	1,023
Other	773,376	83,777	20,448	1,998
	4,102,976	1,813,225	123,542	17,757
Liabilities				
Trade accounts payable	1,325,992	-	1,845	318
Loans and financing	1,235,964	-	-	-
Interbank deposits	-	990,021	-	-
Credit card operations	-	566,664	-	-
Technical insurance reserves	-	-	61,493	-
Provision for contingencies	186,027	11,548	101	1,526
Deferred revenue	412,271	7,500	-	-
Other payables	326,730	55,741	18,960	3,641
	3,486,984	1,631,474	82,399	5,485
Equity	615,992	181,751	41,143	12,272

Investment reconciliation

Investment in subsidiaries	
Investment in LAC(Note 10)	12,272
Investment in joint ventures	
Investment in Luizacred (Note 11)	181,751
Investment in Luizaseg (Note 11)	41,143
	222,894
Total investments	235,166
(-) elimination effect on consolidated	(13,576)
(=) consolidated investment result	254,093

(*) consolidated balances include results of Magazine Luiza S.A. and Lojas Maia

(In thousands of Brazilian reais)

26. Segment reporting (Continued)

Statement of financial position (Continued)

	01/01/2012			
	Retail	Financial operations	Insurance operations	Consortium management
Assets				
Cash and cash equivalents	158,171	3,817	18	11,111
Securities	26,876	5,315	86,033	-
Trade accounts receivable	504,836	1,432,399	-	-
Inventory of goods for resale	1,264,657	-	-	-
Investments	199,659	-	-	-
Property and equipment and intangible assets	930,254	107,342	4	980
Other	461,118	86,737	12,075	1,894
	3,545,571	1,635,610	98,130	13,985
Liabilities				
Trade payables	1,266,046	-	1,066	662
Loans and financing	711,335	-	50,317	-
Interbank deposits	-	981,478	-	-
Credit card operations	-	436,130	-	-
Technical insurance reserves	-	-	-	-
Provision for contingencies	166,569	6,167	61	607
Deferred revenue	418,088	-	-	-
Other	362,588	60,345	8,288	2,945
	2,924,626	1,484,120	59,732	4,214
Equity	620,945	151,490	38,398	9,771

27. Financial instruments

Capital risk management

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

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

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

(In thousands of Brazilian reais)

27. Financial instruments (Continued)

Capital risk management (Continued)

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

The Company's capital structure is broken down below:

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
					(restated)	**(restated)**
Loans and financing	**1,320,042**	1,235,964	591,257	**1,320,280**	1,235,964	711,335
(-) Cash and cash equivalents	**(278,006)**	(404,143)	(150,980)	**(280,306)**	(418,879)	(169,282)
(-) Securities	**(477,210)**	(126,385)	(26,876)	**(491,288)**	(126,385)	(26,876)
Net debt	**564,826**	705,436	413,401	**548,686**	690,700	515,177
Equity	**694,611**	615,992	620,945	**694,611**	615,992	620,945

Categories of financial instruments

	Parent Company			Consolidated		
	2013	**2012**	**01/01/2012**	**2013**	**2012**	**01/01/2012**
Financial assets					**(restated)**	**(restated)**
Loans and receivables (including cash and banks):						
Cash and banks	**53,251**	103,792	43,571	**55,551**	105,422	50,853
Escrow deposits	**170,080**	129,348	53,534	**170,080**	129,348	88,988
Trade accounts receivable	**534,605**	486,872	442,184	**535,303**	486,872	504,836
Related parties	**109,474**	74,342	130,165	**108,895**	73,625	97,368
Held for trading:						
Cash equivalents and securities	**701,965**	426,736	134,285	**716,043**	439,842	145,305
Financial liabilities:						
Amortized cost:						
Loans, financing	**1,320,042**	1,235,964	591,527	**1,320,280**	1,235,964	711,335
Trade payables	**1,646,947**	1,325,992	1,091,013	**1,651,543**	1,326,310	1,266,708
Related parties	**73,716**	51,291	45,737	**73,619**	51,291	45,770
Taxes paid in installments	**8,286**	10,911	7,252	**8,286**	10,911	7,252

(In thousands of Brazilian reais)

27. Financial instruments (Continued)

Fair value measurement

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

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

The fair value of other financial instruments described above allows toapproximate their carrying amounts based on the existing payment conditions. The Company has no outstanding assets or liabilities where the fair value could be measured by using non-observable significant information (Level 3) as at December 31, 2013 and 2012.

Liquidity risk management

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

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

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

	Less than one year	**From one to three years**	**Over three years**	**Total**
Trade accounts payable	1,651,543	-	-	1,651,543
Loans and financing	424,989	786,568	108,485	1,320,042
Related parties	73,619	-	-	73,619
Other payables (ex-quotaholders of Época Cosméticos)	4,000	8,000	-	12,000
Taxes paid in installments	8,286	-	-	8,286

27. Financial instruments (Continued)

Considerations on risks

The Company's and its subsidiaries' business mainly comprises 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 furniture. 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 default of amounts billed to their customers, whose consolidated balance amounts to R$432,140 as at December 31, 2013 (R$396,465 as at December 31, 2012). This risk is assessed by the Company as low due to the normal dispersion of sales as a result of the large number of customers; however, there are no guarantees of actual receipt of the total balance of trade accounts receivable due to the nature of the Group's activities. In cases in which the concentration of billed amounts is greater, the risk is managed by means of periodic analysis of default rate and adoption of more efficient collection measures. As at December 31, 2013, the Group recorded past-due or uncollectible balances under "trade accounts receivable," whose terms were renegotiated, in the amount of R$11,652 (R$11,196 as at December 31, 2012), 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 scenario. The risks involved in these transactions are managed by establishing operational and sales policies, determining limits for derivative transactions, and constantly monitoring assumed positions.

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

27. Financial instruments (Continued)

Considerations on risks (Continued)

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

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

Below is the description of agreements that affected profit or loss for the year ended December 31, 2013:

Bank	Notional value	Fair value through gain (loss) of swap (a)	Bank index		Company index	
			Index	Interest	Index	Interest
Banco do Brasil	71,127	51,512	US$	4.79% p.a.	CDI	116.0% p.a.

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

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

(In thousands of Brazilian reais)

27. Financial instruments (Continued)

Sensitivity analysis of financial instruments

As of December 31, 2013, Management carried out a sensitivity analysis, taking into account a 25 and 50 percent increase in the expected interest rates (probable scenario), based on future exchange rates disclosed by BM&FBOVESPA and/or BACEN. The expected effects of interest expenses net of financial revenues of financial investments for the next reporting period (December 31, 2013) are as follows:

	Probable rate	Probable Scenario I	Scenario II (+ 25%)	Scenario III (+ 50%)
Interest to be incurred exposed to:				
CDI	**10.75%**	**(27,763)**	**(34,704)**	**(41,645)**
Impact on financial result, net of taxes		**(18,324)**	**(22,905)**	**(27,486)**

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

28. Business combination

Acquisitions in 2013

Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos"

On October 2, 2013, the Group acquired 100% of Campos Floridos Comércio de Cosméticos Ltda., a closely-held company,headquartered in Brazil, specialized in the e-commerce of perfume and cosmetics. The purchase and sale agreement was signed on August 15, 2013, according to the material fact disclosed.

The Company acquired Campos Floridos Comércio de Cosméticos Ltda. in order to reinforce the expansion and consolidation strategy of e-commerce in a segment with attractive margins that is showing significant growth in Brazil and bringingin a flow of customers to the website, given a lower average ticket and higher repurchase rate. Moreover, it also represents an opportunity of increasing the number of products that may be sold in other channels, such as Magazinevocê.

(In thousands of Brazilian reais)

28. Business combination (Continued)

Acquisitions in 2013 (Continued)

Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos" (Continued)

Below, the fair value of assets and liabilities identifiable from Campos Floridos Comércio de Cosméticos Ltda. on the acquisition date:

Assets	**Fair value recognized upon acquisition (temporary)**
Current assets	
Cash and cash equivalents	290
Trade accounts receivable	2,239
Inventories	2,608
	5,137
Non-current	
Intangible assets	5,673
	5,673
Total assets	**10,810**

Liabilities	**Fair value recognized upon acquisition (temporary)**
Current	
Trade accounts payable	2,589
Payroll and charges	362
Recoverable taxes	105
Other payables	21
	3,077
Non-current liabilities	
Loans	1,062
Provision for contingencies	19,035
	20,097
Total liabilities	**23,174**
Total net identifiable assets	**(12,364)**
Goodwill on acquisition	36,826
Total consideration	**24,462**

(In thousands of Brazilian reais)

28. Business combination (Continued)

Acquisitions in 2013 (Continued)

Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos" (Continued)

Cash Flows upon acquisition

Cash paid – former member	(13,600)
Cash paid – capital increase	(400)
Price adjustment	1,538
Cash outflow	**(12,462)**
Net cash acquired with subsidiary	290
Cash outflow, net	**(12,172)**

Acquired assets and liabilities assumed

The fair value of intangible assets is R$5,673: R$3,387 referring to the trademark, R$1,740 to the goodwill and R$546 to the software. The intangible assets identified by means of an independent valuation were: (i) trademark in the amount of R$2,987; (ii) goodwill in the amount of R$1,740.

Campos Floridos Comércio de Cosméticos Ltda.recorded a provision for tax and labor risks (Note 17) in the amount of R$19,035, prior to business combination, thus, covering future disbursement risk.

The goodwill paid in the amount of R$36,826 consists of the future economic benefits deriving from synergies of acquisition and the value of the list of clients of acquired company that cannot be recognized separately.

As of the date of acquisition, Campos Floridos Comércio de Cosméticos Ltda. contributed for the Group with revenues of R$3,790 and losses of R$635. If business combination had occurred early in the year, the Group's revenues would have totaled R$16,997 and loss for the year would be R$1,277.

(In thousands of Brazilian reais)

28. Business combination (Continued)

Acquisitions in 2013 (Continued)

Campos Floridos Comércio de Cosméticos Ltda. - "Época Cosméticos" (Continued)

Purchase consideration

Cash (a)	13,600
Capital increase(b)	400
Price adjustment	(1,538)
Balances payable– other payables(a)	12,000
Total	24,462

(a) According to the purchase agreement signed on August 15, 2013, the purchase price was estimated at R$25,600 to be paid with the fixed first installment R$13,600 on the same closing date and the remaining balance of up to R$12,000 to be paid in two installments, namely: (i) the first installment in the amount of R$4,000 to be paid in the first anniversary of the closing date and (ii) the second installment in the amount of up to R$8,000 to be paid in the second anniversary of the closing date, and both installments are subject to the compliance with certain conditions envisaged in the contract.

(b) In accordance with the purchase agreement, the Company increased the capital of Campos Floridos upon closing, so that it could deal with the acquisition of "Época Cosmésticos" brand.

Pursuant to CPC 15 (R1), the Company may adjust the goodwill amount in 12-month period as of October 12, 2013.

29. Commitments

Operating lease - lease agreements

The Company has several property lease agreements with related parties (MTG Administração e Participações S.A.) and third parties, whose average terms are five years, renewable for an additional period of five years, which Management analyzed and concluded to be classified as operating lease.

These contracts provide for fixed or variable rental amounts, based on the percentage on net sales, according to contractual clauses. As of December 31, 2013, the Company had 744 leased stores. For these lease agreements, including eight distribution centers, lease expenses totaled R$227,256 for the year ended December 31, 2013 (R$172,046 in 2012).

(In thousands of Brazilian reais)

29. Commitments (Continued)

Operating lease - lease agreements (Continued)

Future commitments arising from these contracts, over the next five years, amount to:

Year	Amount
2014	272,694
2015	286,803
2016	301,282
2017	316,492
2018	332,470
Total	1,509,741

Finance lease agreements

	Minimum payments			
	Company		Consolidated	
	2013	2012	2013	2012
Up to one year	**8,032**	9,834	**8,032**	9,834
Two to five years	**13,196**	10,072	**13,196**	10,072
More than five years	**103**	250	**103**	250
	21,331	20,156	**21,331**	20,156
Less: non-incurred financial result	**(2,654)**	(2,124)	**(2,654)**	(2,124)
Present value of minimum payments	**18,677**	18,032	**18,677**	18,032

In the year ended December 31, 2006, the Company purchased an aircraft using a finance lease maturing in 2016, subject to foreign exchange fluctuation and LIBOR. (See note 15-c for further information.) No financial instruments were contracted to hedge against the risk of fluctuations of the foreign exchange rate agreed under said agreements.

(In thousands of Brazilian reais)

29. Commitments (Continued)

Finance lease agreements (Continued)

The amounts of assets, less accumulated depreciation, acquired through finance lease are shown below:

Assets category	2013	2012
Computers and peripherals	**10,817**	9,147
Vehicles	**12,801**	9,684
Software	**5,725**	8,595
Machinery and equipment	**3,839**	-
Total	**33,182**	27,426

Additionally, there were no contingent payments recognized as expenses and subleases during the reporting periods. As of the reporting years, there were no events indicating the need for calculations to assess whether these assets were impaired.

30. Statements of cash flows

30.1. Transactions not affecting cash

The Company's management defines as "cash and cash equivalents" amounts maintained for the purpose of meeting short-term commitments and not for investment or any other purposes. Short-term investments can be immediately converted into a known cash amount and are not subject to significant changes in value. As of December 31, 2013 and 2012, this line account is broken down as described in Note 3. Changes in equity not impacting the Company's cash flows are as follows:

	Parent Company		Consolidated	
	2013	2012	2013	2012
Dividends paid by subsidiaries and joint ventures and not received	**25,886**	3,702	**23,886**	3,702
Dividends declared and unpaid interest on equity in the year	**16,219**	-	**16,219**	-
Balance payable to third parties due to acquisition of investment in subsidiary	**12,000**	-	**12,000**	-
Other comprehensive income	**1,725**	81	**1,725**	81

(In thousands of Brazilian reais)

30. Statements of cash flows (Continued)

30.2. Additional information to the statements of cash flows whose disclosures are supported by CPC 03 (R2) - statements of cash flows

	2013			
	Retail	Financial operations	Insurance operations	Consortium management
Net cash provided by (used in) operating activities	**(137,807)**	**2,524**	**7,738**	**3,570**
Net cash provided by (used in) investing activities	**53,478**	**(184)**	**(7,701)**	**(319)**
Net cash used in financing activities	**(55,495)**	**(1,130)**	**-**	**(2,000)**
Increase (decrease) in cash and cash equivalents	**(139,824)**	**1,210**	**37**	**1,251**
	2012			
	Retail	**Financial operations**	**Insurance operations**	**Consortium management**
Net cash provided by (used in) operating activities	54,040	(20,472)	27	3,958
Net cash used in investing activities	(256,597)	(80)	(22)	(333)
Net cash provided by financing activities	453,970	20,979	-	-
Increase in cash and cash equivalents	251,413	427	5	3,625

31. Insurance

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

As of December 31, 2013 and 2012, insurance coverage is as follows:

	2013	2012
Civil liability and D&O	**40,000**	500
Sundry risks - inventories and property and equipment	**1,489,041**	723,533
Vehicles	**18,369**	12,759
	1,547,410	736,792

32. Approval of the financial statements

The disclosure of the financial statements was approved and authorized by the Board of Directors on February 21, 2014.