Operator:

Good morning and thank you for waiting. Welcome to Magazine Luiza's conference call on the earnings result for the 2Q12.

We would like to inform that this event is being recorded and all participants will be in listen only mode during the Company's presentation. Next we will start our Q&A session, when further instructions will be provided. In case the participants need any assistance during this call, please press *0 to reach the operator. The replay of this event will be available right after it is concluded, for a period of one week.

Let me mention as well that forward-looking statements that may be done during this call related to the business outlook of Magazine Luiza, projections and operating and financial targets are beliefs and assumptions of the Company's management, as well as information currently available. Future considerations are no guarantee of performance. They involve risks, uncertainties, and assumptions because they refer to future events and as such depend on circumstances that may or may not occur. Investors must understand that general economic conditions, conditions of the industry, and other operating factors can affect the future performance of Magazine Luiza and as such can lead to results that differ materially than those expressed in forward-looking statements.

To start our conference call, I would like to give the floor to Mr. Marcelo Silva, CEO, for the presentation. You may proceed.

Marcelo Silva:

Good morning, ladies and gentlemen, and thank you very much for joining us today. I would to begin with the highlights of the 2Q12. First of all, I would like to mention the significant sales growth that we experienced because we had 21.6% sales growth vis-à-vis the 2Q11. In terms of same-store sales, we experienced a growth of 13%, and the highlight was e-commerce that grew 45% and physical stores 9%, so certainly this was a very high growth above the Brazilian average.

It is a sustainable growth because we were able to have better consolidated EBITDA margin, reaching 33.5% over net revenue, 0.7 p.p. when compared to the same quarter of the year before, and 1.7 p.p. over the previous quarter.

And still maintaining our financial discipline of restricting the number of sale with no interest, also maintaining the approval process of Luiza credit cards in a very conservative level, due to the slowdown in the Brazilian economy in 2012.

At the end of the last year, and early this year, in the 1Q, we mentioned that we had two main objectives for this year, 2012. First, is to conclude the integration of the Baú stores, which we acquired in February 29th, and also the discontinuity of the Maia process, which will be concluded. The Company was incorporated in April 25th, now it is Magazine Luiza S/A. And so we are continuing with our systemic integration process. And in the 2H12, this will be concluded by the end of October. And certainly after that we will experience many gains in synergies, once we integrate the entire Northeast stores.

The other thing that we mentioned is the reduction and rationalization of cost and expenses. This was initiated at the end of last year and this is the Company's main focus for this year. We were able to reduce SG&A expenses vis-à-vis net revenue in 0.6 p.p. and retail in 0.5 p.p. in the consolidated figures. This quarter, operating expenses accounted for 24.7% versus 25.3% in the 2Q11.

We continue to focus in our expansion plan, investing in infrastructure. In this quarter our investments totaled R$35 million, we opened another conventional store in the Northeast, we remodeled a certain number of other stores, and we continue to invest in technology and logistics as we anticipated in our budget.

Now, in the 2Q, at the end of June, we concluded the expansion of our main distribution center in Louveira, and unlike in the 1Q, when we had extraordinary expenses with the integration process, in this quarter the total expense was R$3.3 million, in keeping with what we anticipated.

I would like also to mention LuizaCred results, we improved our overdue indicators, we maintained a conservative approach in terms of credit approval, and provision for loan losses are still in keeping with what Itaú has mentioned in their recent communications. And LuizaCred is also participating in our rationalization of costs and expenses project, and in this 2Q we were able to experience gains in terms of our cost reduction project.

With all of that, Magazine Luiza's results in the 2Q12 were positive, as we had previously projected. Despite the slowdown in the economic activity, sales were slightly reduced, but we were able to maintain sustainable growth, we were able to rationalize all of our operating costs and the results, both on the retail and consolidated sides, were very positive as expected.

Now I would like to give the floor to Roberto, our CFO and IR Director, and he will refer to the main financial and operating figures of the Company.

Roberto Bellissimo:

Good morning. On page five we give you more details about our gross revenue development. First, referring to retail, in the 2Q it was R$2 billion, that was 19.7% growth, which was equivalent to 20% growth when compared to the same quarter of last year, and that growth came from a 13% growth in same-store sales due to store maturity, increase in productivity, and the renovated stores. That was also due to accelerated growth in the Northeast, which surpassed R$300 million in earnings, and that is the equivalent to 15% of total retail sales.

In the consolidated figure, the growth was 22.3%. Earnings, we grew 21.6% in the consolidated gross revenue, more than in the retail area as a whole, mainly due to higher growth in the consumer financing segment. LuizaCred, we grew more than 44% in the quarter, mainly finance is influenced by increases in service revenues, changes in our DC, and also personal loans in LuizaCred. In total, we were able to increase store count from 613 to 731 stores in this quarter.

Next slide, we talk about Internet gross revenue. We experienced 45% growth, which was way above the market average. Here we also refer to increases in our product mix, innovations in content in our multi-channel approach because we share all expenses of the web with the rest of the Company in the other channels, and that is why our operating expenses in this channel are way below the market average. I would also like to highlight that in June we were given an award and we were elected the best home appliance store and the store that is more dear to consumers in the entire Country.

Next page, page seven, we talk about net revenue consolidated, which grew 22.3% even above the growth of gross revenue, mainly due to increases of products which were subject to tax replacement. In terms of consolidated gross profit, the chart down below, we highlight a 25% growth vis-à-vis the previous quarter, increases in gross margin from 32.8% to 33.5%, as we expected. We are also to increase our growth margin in the financial line and we had a slight reduction in the retail segment, but this was also in keeping what we expected due to our Internet expansion, because it increased from 11% to 13% in terms of sales.

The integration process of the Maia stores is still going on, in the Northeast stores our gross margin was 25%, lower when compared to last year, but much higher than the margins of the 1Q12. There is still a difference of approximately 4 p.p. of the margins in the South and Southeast and Midwest stores, and after the integration of the network that should be recovered. And we also changed some accounting practices, 50 b.p. was the gross margin, which was a non-recurring effect.

On page eight, we refer to the dilution of operating expenses. In this quarter, we were able to reduce SG&A expenses, from 26% to 25.5%. In the consolidated numbers, we were able to reduce expenses with sales, SG&A, both for retail and consolidated. Both in terms of last year and also the previous quarter, so that was an expense reduction, which was in keeping with what we had anticipated. But that does not capture yet all the benefits from synergies after the integration of the stores.

We also experienced increases in our provision level, which affected our consolidated results from 3.6% to 4.9% and we will talk about that a little bit further on. And we also had a decrease in other operating expenses of 1.7% to 0.9%, and this will be detailed further on.

Slide nine, we now have here a breakdown of other operating expenses, when we had R$24 million, in this quarter that was R$16 million. There was an increase in deferred revenues mainly due to the new insurance agreement with Cardif, we received R$80 million from Cardif, R$50 million for retail, and R$30 million was then transferred to LuizaCred. And in the consolidated figures, the impact was R$65 million for retail of Luiza as a whole, Magazine posted R$10.5 million in the quarter, and LuizaCred R$7.5 million, 50% of LuizaCred, and Magazine believes that R$8.8 million refer to previous credits because the contact that has been enforced started at the beginning of last year and will last until 2015. So, the contract has been enforced for about one and a half year.

We had R$3.3 million of integration expenses only, we had lower credit revenues for personal loan. We had R$5.4 million of non-recurring expenses in our base of active credit cards at LuizaCred, and there were other variations that lead us to a total of R$16 million, and the in the 2Q.

On slide ten, we show EBITDA stable at R$71.9 million, influenced by growth in sales, growth in gross margin, decreases in operating expenses and also increases in the provision for loan losses. The adjusted EBITDA also increased, in the same quarter of last year it went from R$71.9 million to R$66.5 million due to adjustments in deferred expenses. This year it goes from R$71.9 million to R$74 million, and the adjustment here refers to extraordinary expenses and gross profit of R$7.5 million, extraordinary expenses with customer integration of R$3.3 million, and adjustments in deferred expenses of R$8.8 million, amounting to R$74 million of EBITDA.

On page 11 we refer to dilution in financial expenses down from 2.9% to 2.5% of net revenue. It could have been 1.9%, maintaining the same accounting rules, but as we made some changes in the accounting procedures for non-cash adjustment to present value plus cost of prepaid receivables, total expenses amounted to 2.5% of net revenue.

Now on page 12, here we show net income figures, in the 2Q11 was R$4.6 million, this quarter, R$21.9 million. The reconciliation is below non-recurring impact. Last year, recurring net income was R$1 million, adjusted according to the deferred revenue. This quarter adjusting according to extraordinary results, both in the operating line as well as financial line and also tax credit of R$20 million that we had related to provisions at Lojas Maia that affected our income tax rate in the past. Now we were able to account for deferred income tax at Lojas Maia, which was made possible after the merger, and so excluding non-recurring revenues, the recurring net income amounted to R$9.5 million.

On page 13, we refer to our investments. In the half-year period, we invested R$78 million, R$35 million in the 2Q, our investment plan was maintained, of R$140 million for the year, and the main highlights go to logistics, the expansion of our DC in Louveira, where we should invest R$40 million. Also, that amount will be spent in the store retrofit for R$50 million, R$30 million will be spent to expand the new stores, and R$20 million will be invested in IT and other investments.

On page 15 we show the development of stores, R$130 million in June, we have other forecasted openings for the 3Q and 4Q. We also show same-store sales growth, 9% of physical stores and 13% including e-commerce growth. We also show the opening of our stores per unit. There are still almost 300 stores that are less than three-years old, so they are still in the maturity process, accounting for almost 40% of our total number of stores.

On page 16, I show the mix of finance sales due to increases in our conservative approach, in terms of issuing new cards, there was a reduction from 37% to 22%. We also compensated part of that decrease with increases in direct credit to consumer, increasing from 11% to 18%, credit cards from 30% to 32%, and mix sales from 23% to 28%. On the right-hand side we have the growth in total revenue for LuizaCred, R$1.7 to 2.1 billion, still with a big highlight to the growth of direct credit to consumer, from R$150 million to almost R$300 million.

On page 17, I show you the growth of our credit base. We still adopted the same conservative approach in terms of granting loans, the base is stable. And we experienced a slight growth from 4.2 million credit cards in our portfolio throughout the year, also experienced figures between R$3.3 billion to R$3.4 billion. From this portfolio, R$126 million was for personal loans, R$661 million CDC, and R$2.655 million was for credit cards.

On page 18, we have the overdue indicators of that portfolio, which have improved significantly, both in terms of 15 to 90 days overdue, there was a drop of 4.3%, and also overdue above 90 days that went down to 11.6%, and total overdue was 15.9%, and with increases in provisions we were able to increase our coverage ratio for overdue above 90 days.

Having said that, I will give the floor back to Marcelo Silva, who will talk about our expectations.

Marcelo Silva:

The other expectations for quarters to come are positive. We continue to grow in a consistent fashion, be it through the maturity of new stores, which was almost 40% with new stores, and the growth of the stores in the Northeast, and the stores that were renovated last year and this year are presenting a very significant growth rate.

E-commerce is growing about 40%, and despite everything else, we do understand that there may be an improvement in the economic landscape, because after the two initial quarters, we experienced a significant slowdown in the economic activity, but we see with good eyes that in the next quarter things will be better.

We continue with our integration process of Lojas Maia, the integration will be concluded in October, we already have 50 stores, which are totally integrated to Magazine Luiza's system, the other stores will be integrated in the next coming months and due October.

With that we will have a totally integrated management system, and throughout next year we will experience decreases in our SG&A expenses, back office, and logistics, and we will certainly reap benefits in terms of the entire management of the Company, because we will use the same tools and our management, and we will also experience improvements in the gross margins.

In the Northeast, we are aligned with our budget, and in this next half-year we will conclude improvements in the IT. We are proceeding with changes of Lojas Maia into Magazine Luiza, we did that already in three states, and in the next year we will certainly conclude that integration. It will be a single brand, so systemically, everything should be concluded by this October. We have 17 stores in the 2H12. Out of the 17 stores that we will open in the 2H12, ten of them are located in the Northeast region of the Country.

With all of that, we just reinstate our commitment towards improving the Company's results, be it through giving continuity to our rationalization process of costs and expenses, we are fully committed to that project throughout the Company. And in the next quarter we will continue with the synergies and the integration, we will be able to experience better synergies after the integration of Lojas Maia and Baú, we will have better productivity KPI, and with that we certainly expect more positive results.

At the end of the year, our results will be higher than what we experienced during 2011. The results for 2012 will be significantly more positive when compared to the results of the previous year.

With that, I would like to thank you all for participating in the call, and I will open the floor for questions from the participants.

Fabio Monteiro, BTG Pactual:

Good morning. In terms of the gross margin, you said that there is a disadvantage in the Northeast stores by some basis points, and I would like to know whether you believe that you can close part of that gap after the integration is concluded.

Also, I would like to know whether you felt that there was any impact of sales in that gross margin. I know that there are cash sales, and I think that cash sales might have a discount.

Marcelo Silva:

With the system integration, we will have a better control over our inventories, and this will improve the commercial management of the stores in the Northeast as a whole. This has already been taking place, and in the 4Q12 we hope to have a more favorable gross margin in the Northeast.

Next year, once we identify all the tax differences that we have in the Northeast and other states of the Country, we will see that the gross margin of Lojas Maia will come to more normal levels, and this will be experienced mainly after the 4Q.

Roberto Bellissimo:

The gross margin is similar in almost all the regions, therefore we do not believe that there is reason after the integration to decrease the gap.

Now, referring to the second part of your question, referring to cash sales, that did not impact the gross margin. This was expected and this reduction in the gross margin was not due to increases in cash sales.

If you exclude Lojas Maia effect, and if you also exclude the adjustments in the accounting practices, the gross margin for Magazine would be very similar to that of a year ago, despite the increases in e-commerce. Therefore, the Company's performance vis-à-vis the gross margin was very much in keeping with what we had previously projected, and it was just a bit lower due to the reasons I already explained and the current transition of the stores.

Fabio Monteiro:

Thank you. I have another question about SG&A, also considering the conclusion of the integration, which is very close to happening, we are close to its conclusion. So, how many basis points would be necessary to allow me to have gains in the expense line in the next eighteen months? How much could we save due to the integration, or maybe cut, what could be diluted after the integration? I would just like to have an order of magnitude.

Roberto Belissimo:

The answer is, Fabio, first of all, the synergy concerning the gross margin will be much more important than if you look at expenses, given the 4 p.p. But we cannot yet quantify what other synergies we will be able to have referring to expenses, logistics, but we think that the Company's management, once it is fully integrated, will be much better, in all expects.

Management will be much easier in the Northeast, and our commercial policy in terms of managing the stores and managing incentives to the sales force will be facilitated, but the system is not yet a single system, so we still have to make more improvements. We certainly improved the legacy system from Lojas Maia, but not all the benefits are yet in place, and things are not really in line with what we do in terms of compensation for store managers, etc., but it will happen soon.

There has been some significant changes, but unfortunately I cannot quantify things for you now. So, certainly when we look at the 4Q, we will have a much better base to make the calculation, including next year, 2013. We will be able to have more savings from the synergies, and a great part of the back office will be transferred to Franca, in the Northeast, so we will only have a smaller base just to give sustainability to our warehouse in Franca.

So, in the last quarter of the year, when we will be able to experience the end of the project. And after we do the budget for 2013 we will be able to have more things to tell you.

Fabio Monteiro:

OK. Thank you. But now talking about provisions, and just assuming that provisions will go back to normal levels, they would have an important effect in the consolidated EBTIDA numbers of the Company, and as a consequence in your earnings. And I would like to know whether you believe that the provision level could go back to R$50 million to R$60 million in the 3Q12 and the 4Q12.

Marcelo Silva:

In terms of the past, I think we have to make a distinction because there was a portfolio increase vis-à-vis last year. We reduced the number of approvals, it is also expected a proportional reduction in the provision levels, given the size of the portfolio. But we cannot compare it precisely with the same nominal value of last year in terms of the growth of the portfolio, and we could not promote a level of provisions for future portfolio, but what we know is that the portfolio is improving, so we will be able to reduce the provision level over the portfolio.

And I think that apparently interest rates are lower, LuizaCred is improving, and in an economy that delinquency levels showed an improvement, and we believe that the economy of the Country as a whole will improve, so delinquency levels will go down. Household debt/income ratio will be better, so LuizaCred may benefit from the reduction in delinquency levels even further.

Fabio Monteiro:

Thank you.

Daniela Bretthauer, Raymond James:

Good morning. Congratulations on your results. You changed the disclosure. Now, it is a little bit more difficult to see what happened to Baú and Maia separately. So, the first question is whether you could comment on Baú, whether you are able to integrate it fully into Magazine, and if the performance of these stores are better. So, I would just like to get more details about the performance of Lojas Baú.

Marcelo Silva:

OK. Baú stores, as we said initially, they were 100% integrated into Magazine Luiza on February 29th, and also there was a systemic integration. We moved from the Silvio Santos DC to ours, so the stores are totally integrated into Magazine Luiza.

In the Northeast, 50 stores are integrated, but we still have some others to integrate, and this will take place by September and October. Baú, 105 stores, 35 of these 105 are converted into virtual stores, and they are performing quite well. There are 69 conventional stores, traditional stores. It is the first maturity here, and as you know, a network like that of Baú as to those 50 stores from the City of São Paulo, when we started in São Paulo, I think we inaugurated 50 stores in 2008 all at once in the first year.

The earnings were below the average of the Company. In 2010 they were approaching the average, and in 2011 the metropolitan stores in São Paulo are already in the same level of the more mature stores that we have in the countryside of São Paulo and other locations.

And this is the expectation that we have for the Baú stores. Some stores are experiencing a very good pace of growth, and there are some stores that we are already evaluating whether we will keep them in the future or not. This is what usually happens when you acquire many stores. There are some stores that we closed. One in the countryside, we are considering maybe closing one from Magazine and keeping one from Baú. So, we are still in our learning curve in terms of the maturation process. We feel very comfortable about that.

Those stores that are not performing well will certainly be closed. In every new acquisition we always have those stores that do not perform well, but there are very few of those, so we will continue to invest. This is just the first year, then we still have two or three years ahead of us, 2013 and 2014, until we arrive at a final decision. In terms of the Northeast we acquired Maia, which was a new market, and that is a region that is growing above the Brazilian average.

Changes in the brand name had a very high impact, we are still renovating the stores gradually, but by the end of the year the renovation processes will be over. Therefore we are evaluating all the stores, and we are in a very comfortable position. Maybe, especially when it comes to Baú stores, they are very close to our Magazine stores, so we may close some of the Baú stores.

But we will still wait a little, because closing is the last thing we do. We first invest, we work hard, and we do all we can until we arrive at the decision to maintain or discontinue the store. We are working with the different regions, trying to improve the stores and boost the revenues.

Daniela Bretthauer:

Thank you. My second question is that you had a very good performance of e-commerce or Internet sales, you posted an increase of 45%. So, the question is whether you could tell us what you see in the web environment, whether it is still very positive for you. What is the profitability of that? Because other players did not have such good performance in the quarter, so I am only interested in knowing what would justify your good performance.

Marcelo Silva:

Despite the fact that we have our specific financial statement for our e-commerce store, we treat it as a store, as part of Magazine Luiza S/A. Operating costs are much lower when compared to physical stores. We are very happy to see that this e-commerce is performing very well, with positive results, we are growing a lot. We expect to continue to grow for a long period of time, and I think that this is a reality in Brazil, because online sales are increasing more than offline sales.

We are very pleased, this is part of our multichannel approach so much so that this is a model that is very different when compared to the model of other companies. Everything is within Magazine Luiza. We are very excited with our website. We are constantly launching innovative initiatives. You are certainly aware of what is happening, the press is communicating that a lot, so we are happy with the operating results of our website.

Daniela Bretthauer:

And to what can you attribute this high growth?

Marcelo Barp:

I think maybe we have a single management, a single DC, the operating area is the only thing separate but everything else is shared. We share common products, online and offline, so this is a model that really pleases us. We have always experienced growth in our online channel, but again our approach is multichannel. You can order on the website and pick it up at the store and vice-versa. The client dictates what he wants. So, we believe that this multichannel approach is very successful, and this is a very successful approach.

Daniela Bretthauer:

Thank you. Congratulations once again.

Tobias Stingelin, Santander:

Good morning. Now that the credit operation is more conservative, the numbers are better, and with the conversations you had with Itaú, considering the current landscape, do you believe that you will change your policy for credit approval and then go back to what you had last year?

Marcelo Silva:

We did not feel that with Itaú. Itaú is still pursuing a very conservative approach. July, August, the approach was the same, so I am sure that with reductions in delinquency levels, and this level of indebtedness of Brazilian families, that may be resumed. They could go back to previous levels, but for the moment the banks did not signal that they would change their conservative pace.

Marcelo Barp:

In fact, we think using a conservative approach for some time, the fact that our portfolio is performing better vis-à-vis the market just reflects the fact that we have been conservative.

I would like to remind you that provision is like savings, so the fact that our provision is conservative and our credit policy is also conservative, that translates into these figures, so this is an approach that has been built for some time.

Of course that once the macroeconomic scenario improves, the economy begins to grow again, as we experienced in 2010, of course we will be able to grow with a more solid base.

Tobias Stingelin:

Thank you. Are you already thinking about any specific products that will allow you to capture more improvements?

Marcelo Silva:

We try to operate with lower interest rates. Itaú just launched a credit card that charges different interest rates, so we are also adopting that approach for our operations for non-clean loans. We are using the relationship of the customer with the credit card company and their behavior so that we can offer lower interest rates than what the market is offering. So, we are moving towards working, making money, taking lower risks, and charging lower interest rates.

Tobias Stingelin:

Fine. I just have a follow-up question vis-à-vis the e-commerce. Launch players have been saying that they had to step on the breaks because the top line growth is high and this has impacted the margins. You just said that you are not feeling that. But if you were to compare your budget with the margins that you targeted, have you not experienced any pressure, or everything is in line with what you envisioned? I mean, it is a big business but maybe it is not at the same level of other competitors. So, I just want to understand the difference that there is.

Marcelo Silva:

We are in line with the budget. We are growing a little bit more on the sales line. We have experienced a considerable growth in Internet sales, but the costs are absolutely under control. The margins on web sales are balanced, so in 2011 or 2012 we have not noticed any significant deviation in our e-commerce business. We are very comfortable in that regard, there is nothing exceptional.

Tobias Stingelin:

Did you measure the operating margin or the net margin?

Marcelo Silva:

We even put the overhead of the Company in the financial statement. So, in terms of trends, if you were to compare the net margin of this year vis-à-vis last year, you will see an evolution on expansion, it is line with last year.

Tobias Stingelin:

Thank you very much.

Raquel Rodrigues, Goldman Sachs:

Good morning. I have two questions. My first question refers to the gross margin of LuizaCred, you had a significant growth. But how sustainable you believe you can maintain a higher spread, or do you feel any pressure in terms of transferring lower interest rates to consumers? This is my first question.

My second question refers to growth. You said that you are very optimistic in terms of the economic activity in the 4Q. Could you please elaborate more about your expectations, specially when the IPI incentive is terminated?

Marcelo Silva:

So, I will start by answering the second question, then Roberto and Barp will refer to your first question on LuizaCred.

We always look at the glass half full, so the last quarter due to Government measures and improvements in the market, we will be able to experience a better 4Q. This is already projected. We are not exaggerating our expectations for the 4Q. Maybe it is feasible that Brazil's GDP will be better.

In 2011 we thought that 2012 would be better than 2011 because of GDP growth was 2.7%, we expected 3.5%, 4%, but now what we will have is 2% or less than 2%. But the Government, as the main agent of this macro economy, will certainly adopt measures structural or maybe some specific measures, but Brazil will have to continue the growth, because with this size of population, Brazil will have to continue to grow. So, instead of thinking that the glass will be half empty, we better think that the glass will be half full.

There are improvement for 2013, but maybe by the end of this year the environment, the economic environment, which affects the market, may be positive. So if this materializes, if the landscape is more positive, you know that business can change. I mean, if the environment is negative, certainly this will have an impact in the retail market, especially in 2013, so we are anticipating improvements in the 4Q in terms of the economic activity, when compared to the last eight months. I am still also including August and September. So, we will see some reactions in the last quarter of 2012.

But it will certainly depend on individual evaluations, Company' and individual, but we would rather adopt a more positive posture. If you are in Brazil you have to think positive. The Country may go through ups and downs, but we know that we will continue to grow 4% or 5%, at least that is what we believe in.

I am referring to the 4Q12. Our expectation for 2013 should certainly be better. We cannot afford to grow only 2%. Brazilian economy does not allow that to happen in the external, and internal market will not allow that to happen. The internal market is what really affects us more precisely. This is an answer to your second question.

The first question, referring to LuizaCred, I will give the floor to my colleague.

Marcelo Barp:

You said that our gross margin increased, and how can we sustain that margin. Is that the question?

Raquel Rodrigues:

Yes. Precisely.

Marcelo Barp:

It increased for two major reasons. One, a decline in our major costs, funding costs, and the other reason refers to the migration of our sales process focus on direct credit to consumer that has better margin, so it was the combined effect of these elements that gave us better gross margins.

How can we sustain the margin? I mean, the pressure for lower interest rates was something that affected the entire economy. Of course, then we rationalized costs, we focused on products that had lower rates, lower risks, and certainly this is something that will also happen to the market as a whole, and we are well prepared to face these situations.

Credit cards with revolving credit that can reach almost 20%, when you compare that with financing of purchases that have different rates, there is a major pressure, I would say, in terms of store financing, it is no-interest payment. This pressure in my view has already reached a peak, so I cannot see any further sustainability. I do not think we can afford to sell at this level with no interest rates. So, the pressure in terms of in-store sales comes not from lower rates practiced by the competition, but with sales with no-interest payments.

Raquel Rodrigues:

OK. Thank you.

Tobias Stingelin, Santander:

Thank you for that follow-up. Now, still talking about no-interest payments, companies used to sell 12 installments with no interests or with credit cards from third parties. So, why do you believe that now, with the current landscape of drop in interest rates, companies would change their no-interest payment policy? I do not know what would the impact be in consumption, but what leads you to believe that things will change?

Marcelo Silva:

I have a philosophical explanation. This no-interest payment in Brazil is like a bomb that has to be disarmed. I have never seen anyone selling in ten installments with no interest. This is something that was created by the retail industry, and I think it will be up to retail to discontinue that. And I believe that with the gradual reduction in interest rates in Brazil, we will go back to having a more reasonable level of sales interest bearing and no-interest bearing.

So, in the supermarket that also happened. I worked with supermarkets for many years, selling food with no interest, but only in Brazil that happens, non-interest bearing sales. This is something that has to be solved. Retail industry and the financial industry will have to find a way to solve this issue. When will that happen? I do not know. But once we start adopting more normal interest rates, we will be able to go back to previous levels.

Tobias Stingelin:

Thank you.

Marcelo Silva:

I thought that may be now that interest rates are down, things would not change so soon, but I hope things will change. Just to give you an idea, we limited non-interest bearing sales of Magazine because ends will have to meet somewhere, and you cannot put everything in the margin because of competition.

So, the Brazilian retail market created that, and also hypermarkets and supermarkets also adopted this sale approach, so for many years we were limited to 0+4, 0+5 with no interest bearing. So, I think this is a trap, and this trap has to be dismantled.

Tobias Stingelin:

Thank you.

Irma Sgarz, Goldman Sachs:

Thank you. Still talking about the same issue mentioned by Raquel and Tobias, if I understood it correctly, you believe that lower interest rates will make more feasible interest-bearing plans, and this will help us get away from that sales offerings of non-interest bearing, but do you believe that the industry is already trying out with new products with lower interest, if they already offer lower spreads? Are you experiencing or do you see any movement in that direction? Could you tell me more about what you intend to do in that regard to be able to migrate out of the non-interest bearing plan?

Marcelo Silva:

I think we will see here two situations: with the gradual reduction of interest rates to the end consumer, and also the acceleration of the economy, then the environment will be much more favorable to that.

Currently the banks initiated a move towards reducing interest rates from credit cards and loans, so this is just the beginning, but it is an ongoing process; it will not happen overnight, it will take months or even years until we have something more civilized in Brazil in terms of interest rates.

And the growth of the economy will also be favorable, but as the way things are now with the slowdown in the economic activity, it is difficult for companies to get out of that trap because this is a big appeal to consumers. So, consumers have been used to buying with no interest, so that is what they will insist on doing, but we, in Magazine, are trying to limit non-interest sales to a certain level.

Itaú has many joint ventures. But it is still not in keeping with what we really wanted it to have. We sell at the most in ten installments, but in most instances in less installments that are non-interest bearing.

Irma Sgarz:

OK. Thank you. You think that the banks are now reducing the rates to consumers, do you not think that this will be also followed by the retail industry?

Marcelo Silva:

Yes. LuizaCred will follow that move. We are already looking at what Itaú is doing. We are working aligned with Itaú, and LuizaCred is already studying ways of using the same line adopted by Itaú and other banks because this is a process that will take place in the market as a whole.

Irma Sgarz:

Yes. I understand. And this would also apply to direct credit to consumer, which is called CDC?

Marcelo Silva:

Yes.

Irma Sgarz:

Thank you.

Operator:

As there are no further questions, I would like to give the floor back to Mr. Marcelo Silva for his final remarks.

Marcelo Silva:

I would like to thank all of the participants, and again I want to reinstate our commitment to further improve the productivity KPIs of Magazine Luiza so that the quarterly results are constantly positive and consistent. Thank you very much.

Operator:

Thank you. This conference call on the 2Q12 is now concluded. Thank you very much, and I wish you all a very good day.