**Operator:**

Good morning and thanks for waiting. Welcome to Magazine Luiza's second quarter 2015 earnings conference call.

Please be advised that this conference call is being recorded and that all participants' lines will be in the listen-only mode during the Company's presentation. Then, there will be a question-and-answer session and instructions will be given then. If you would like to ask a question during this conference call, simply press star then the number “0” on your telephone keypad.

A replay of the call will be available shortly after its conclusion, for a period of one week.

Please be also advised that any forward-looking statements that may be made during this conference call regarding Magazine Luiza’s business outlook, projections and operating and financial goals are based upon current expectations and assumptions of the Company’s Board, as well as on currently available information. Forward-looking statements are not guarantee of performance. Such statements involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that macroeconomic and industry conditions and other operating factors could affect Magazine Luiza’s future results and cause results to differ materially from those stated in such forward-looking statements.

Now we turn over to Mr. Marcelo Silva, the Company's CEO, who will make the presentation. Please Mr. Marcelo Silva, you may go ahead.

**Marcelo Silva:**

Good morning all of you. Thank you for participating in the disclosure of Magazine Luiza's second quarter 2015 earnings. I would like to start, as we always do, with the 2Q15 highlights.

When we take a look at sales, we can see that Magazine continues gaining a consistent market share. When we consider the *Pesquisa Mensal do Comércio* (Monthly Trade Survey) data up to May, published by IBGE, we observe that even with a decline, we keep on gaining market share.

Net sales were reduced by 10%. Our total net sales were R$ 2.1 billion in the 2Q, and the impact caused by this decline is particularly strong when compared with the 2Q14 results, when the World Cup triggered a sales boom of TV sets. This effect of around 52 percent increase in the sales of TV sets is one of the major factors that made the year-on-year comparison with 2Q14 more noticeable. And the very challenging macroeconomic scenario is certainly a major factor in the decline in our sales.

Yet, e-commerce continues to grow, with an increase in the market share from approximately 15.7% in the same period last year to 17.6% so far this year, taking into consideration only our website, without the online stores.

Another point to be considered is our operating costs, which were reduced by 0.9%, certainly due to the decreased sales; we have some variable expenses. But if we look at 2Q, they are lower, in nominal terms, than those of the previous year. We are working hard to reduce our selling and administrative expenses.

Our EBITDA grew 0.3 percentage points. We achieved 6% in the 2Q2015, mainly due to the gain in gross margin – about which Roberto Bellissimo will talk later – and also to the improvement in equity accounting results. Our affiliates, in which we have joint ventures – LuizaCred, with Itaú Unibanco, and Luizaseg, with Cardif –, had again an outstanding performance, with an equity of R$ 20 million in this 2Q.

Finally, net income is still developing, but still, it was a positive income of R$ 3 million.

These were the main 2Q highlights. Now I will turn over to Roberto Bellissimo, our CFO, who will detail the main statements that we are presenting today at this call.

**Roberto Bellissimo:**

Good morning all of you. First, on page three, we show the evolution of our stores. Over the last 12 months, we opened 26 stores; six of them were opened this year, and we have already started our investments in a number of stores to be opened soon, in the third and fourth quarters.

When we look at the investment chart, we can see that we invested R$ 37 million in the 2Q; R$ 70 million in the first half as a whole, and when we make an year-on-year comparison with last year, we can see that we invested more in new stores and less in renovations. Last year, our store inaugurations schedule showed to be more intense in the 2H, whereas it is more evenly distributed over mid-year-to-third quarter 2015. With less stores being renovated, our expenses on renovation were lower; we have already renovated almost all our stores in the Northeast region, for instance. Therefore, our investments are now focused on new stores and less in renovation. And we continue investing heavily in technology and logistics.

When we look at the average age of the stores, over 40% of our stores are still in the process of development, and in terms of same-store sales, our growth is above our average as well.

On page four, we show the evolution of our consolidated gross revenue. In 2Q, we had a decline of 11.3% in gross revenue; excluding the World Cup effect, we grew 0.6%. The image category had a decisive influence.

When we look at same-store sales, with -12.8% compared to last year's 24.5%, we can see that the base was very high. The same was true for the Internet, where we had an almost steady performance, but on a base that rose 44%, an extremely high growth as a result of the World Cup advertising effort and our "Prédio Para Você" (A Building for You) campaign launched last year.

In short, we gained market share and grew, despite the World Cup effect, and all of this was possible even on an extremely high base.

On page five, we show our gross profit growth. The gross margin is the highlight here, as we managed to increase it a lot over this quarter compared to last year. The main factor of this growth is the mix effect. The image category represents one of the Company's lowest gross margins: it dropped more than 50%. This effect alone could justify a reasonable increase in gross margin, and the computer category also has a low margin and its sales are also experiencing decline.

The bright side is that the smartphone category continues to grow substantially, with an increasing market share, as well as the furniture segment, whose market share was higher throughout last year. Therefore, this year's mix is much better than that of last year, which explains most of this gain in gross margin.

In addition to the mix effect, another reason for this gain is that our South, Southeast and Midwest stores started to charge for shipping and assembly services, as we always did in the Northeast region. We increased the share of service sales, mainly of insurance and extended warranties, and we also entered into good negotiations with our suppliers.

In the first quarter, we even informed that we had kept a small inventory surplus in the 1Q, aiming at taking advantage of opportunities to purchase goods before the USD' rise and the cost pass-through occurred. We certainly took advantage of it and this decision algo helped us improve our 2Q's gross margins.

Below, the equity line remains positive for both LuizaCred and Luizaseg; LuizaCred with a return above 25% and Luizaseg, growing a lot, with a return above 40%.

We show our EBITDA evolution on the next page. The gross margin of 6% was virtually stable compared to 1Q and to last year, mainly due to the gain in gross margin.

I skipped expenses, but Marcelo had already talked about it; we managed to reduce expenses in nominal terms, and expenses, of course, influenced a little, but we could offset this increase basically with an increase in gross margin and this helped us increase the EBITDA margin from 5.7% to 6%.

On the next page, we will talk about the financial results. Financial expenses increased from R$ 74 million to R$ 98 million, due mainly to credit card prepayment interests, and also to a CDI (Brazilian interbank deposit rate) 20% higher than that of last year.

Net debt is above last year's as well, due mainly to working capital. We had this effect in the 1Q, and we still have a working capital above our target in the 2Q, above last year's, focused primarily on the inventories-to-suppliers ratio. We managed to reduce inventories again – we had already reduced inventories in March and in June as well –, but we have not yet achieved the intended inventory turnover.

In the 2H, inventory turnover tends to be better, given the retail seasonality, as sales are higher in the 2H than those in the 1H. So we should be able to improve inventory turnover and inventories-suppliers ratio. We have already managed to increase the average purchase lead time, and this has not yet had a significant impact on the balance of accounts payable because we are buying less than we did last year, to the extent that inventory levels are dropping. When inventory levels rise again, this should be reversed and working capital should normalize to its historic levels.

Net debt/EBITDA had a 12-month increase of 0.3x, from 2x to 2.3x, due mainly to the net debt and working capital.

On the next page, we show our net income. Despite the EBITDA, it was affected by higher financial expenses, then the result is lower than last year's.

On the next page, we will comment a little on the performance of LuizaCred, which has once again been the highlight of our operations. We are managing to make LuizaCred operations grow in our sales, mainly in terms of credit card operations; a lower share in CDC (Consumer Direct Credit), but a much higher share in the credit card, which is very positive in the long run. Credit card makes our customers much more loyal.

We increased our base, our customer portfolio and LuizaCred's sales revenue, keeping default levels virtually stable, as well as our portfolio loss provision and revenue loss provision, even in a challenging macroeconomic scenario, which is a good example of the LuizaCred's conservatism adopted for years, which has helped it increase its revenues while maintaining provision, and increase its result, too, even with the increase in CDI, which affected a little its result.

Now I turn back over to Marcelo.

**Marcelo Silva:**

I would like to conclude our presentation and then answer the questions you may have. Now, we will comment on our expectations for 2015.

We are still foreseeing a very challenging scenario. No event occurred capable of changing what happened in the 1H in relation to 2H. Thus, we will work on strengthening our multichannel strategy, about which I will talk a little more later, and continuing to grow above the market average.

Our Northeast stores are in the final phase of renovation, it is about to be finished. We can assume that the Northeast stores will be totally consolidated as of next year, very much in line with what we have here, in the Southeast region.

We will continue working very hard in terms of competition. Media visibility: we have just awarded the 'Esse Condomínio é Meu' ('This Condo is Mine') prize, and we will keep on running our campaigns even more intensely.

We are still working hard to achieve our aim of streamlining and diluting costs. This is not an immediately achieved result, but we can already see that the month-to-month expenses become lower, in nominal terms, than those of last year; we could not reduce them more due to the negative growth of sales. We will continue focusing on the profitability of our operations.

Talking about multi-channel strategy, if we look back in time, we will see that we had developed a strategic planning for five years in 2010, in which the growth in regions such as the Northeast was determined to be the intended aim. We purchased store chains, consolidated them and their integration process was very successfully conducted.

This year, our strategic planning defines what we call 'abrace o novo' (something like "accept new ideas"), an internally used motto, whereby our company could become a business seen as a traditional retailer, even with a digital area; in 1992, we created the first online retail store. Our website is already 14 years old and accounts for 18% of our sales, with these operations showing a significant growth.

But this transition from a traditional retail business with a digital area to a digital company that has 764 physical points and a lot of human warmth, is characterized by a number of initiatives, such as making our multi-channel approach grow more intense. We can clearly realize that an increased number of our customers become multi-channel customers, who contact our Company both via our website and physical stores.

We realize that multi-channel customers are more loyal, buy more products and more frequently. We, therefore, increase this type of approach, including it in our marketing campaigns and advertising efforts.

We are making a very hard work in our physical stores, integrating the entire online business into physical stores. We have hust implemented the "Mobile Vendas" application in our stores, a successful pilot-experience, and the "Mobile Montador" app, whose customer service includes a fully automated assembly. This integration between our website and stores is happening at full steam ahead, as it is our core strategy.

Our core strategy for the coming years is transformation, which has been widely adopted by the Company, leaving the traditional retail market to become a digital, multi-channel company, but with physical points of sale in 16 Brazilian states, but continuing to be a company where the human warmth is totally essential.

Now, we will conclude this presentation and be at your disposal for further information. Here with me, besides our CFO, Roberto Bellissimo, is Isabel, our Administration and Control Manager; Eduardo Galanternick, our E-Commerce Manager; Marcelo Ferreira, LuizaCred Director; our Comptroller... in short, almost all the members of the Company's Executive Board – some are still on vacation – are here, at your disposal, to answer any question. Thank you.

**Fábio Monteiro, BTG Pactual:**

Good morning. I would like two things to be more explained. One is e-commerce. I know you do not disclose the e-commerce margin separately, but I would like to understand whether the margin deteriorated when compared to what has been reported. I understand that you have been practicing a more reasonable pricing strategy since Christmas, and that the Company's growth was slightly below that of the market in terms of e-commerce – base was very high, too – but I would like to get more information on the margin.

**Marcelo Silva:**

Fabio, it is always a pleasure to have you in our conference calls. Thank you, your question is very interesting. You're right. We tried to do a more reasonable work this semester. We realized there is a high degree of competitiveness among the websites in Brazil, and growth was really lower for two reasons: first, the challenging environment, which caused a huge competitiveness among websites.

Still, despite our almost 20%, we did not cut the website margin very much and this prevented Magazine's margin, as a whole, from being pulled down.

This is how we are working. We pursue competitiveness, at all times, but, of course, every company has its own marketing policy, and ours is moderation by means of competitive prices.

If we had been aggressive in terms of prices, this would have caused some decrease in our margin, which in fact did not happen.

**Fábio Monteiro:**

Thank you, Marcelo. A second question: this question is about retail margin. As last year there was the image segment effect, and, conversely, the furniture and telephone segments had a higher demand this year, I would like to know which gross margin we should consider for the coming years. What do you consider to be a normalized margin level, with a normalized mix?

In other words, if somehow the current margin level is sustainable, I imagine that at some point, not in the short term, but in the long run, the image segment will be able to have some recovery, so I would like to know what this margin is expected to be at this point. Thank you.

**Marcelo Silva:**

I do not believe that the same effect will happen, but if the Brazilians decide, for example, to buy a great number of TV sets as a result of the Olympics, we will be seeing another effect happening. It is the market that dictates this, and we must try to balance this sales x margin point. This is the crux of the matter in the retail market.

But speaking about figures, I would like to ask Beto to present what our forecasts are in terms of margin sustainability.

**Roberto Bellissimo:**

Good morning, Fábio. I would like to reiterate that we cannot provide guidance on gross margin for the coming years, under any circumstances. All information we can provide is that we have always given a sharper focus on the increase in our gross margin. The maturation of the Northeast stores, for instance; their gross margin was lower but gradually evolved.

Last year, this could not be clearly seen in the results, due mainly to the boom in sales of TV sets, but this year, an opposite effect is occurring, and the gross margin has been benefited with this.

What I mean is that much will depend on the mix, of course, as Marcelo put it, and on the channels as well. In e-commerce, for example, we managed to work with gross margins slightly lower than our average because we have e-commerce-related expenses, and also because we are a fully integrated Company, much smaller in the e-commerce channel. So, as e-commerce grows, there is a trend for gross margin to be affected, but expenses are affected, too; thus one thing offsets the other.

Furthermore, we always work towards increasing the gross margin in physical stores; we have a business policy that encourages the aggressive marketing by region, allowing sellers to offer discounts when necessary, but preventing them from offering discounts when possible. Their reward is tied not only to sales performance, but to margin as well. All of this helps us reduce the discount level, which is always a critical issue in retail.

We began to identify opportunities, such as freight and assembly, and they can grow over the years; in the coming year, too. Service sales are our permanent focus, as it is always important.

As for this quarter's margin, the most specific factor was the USD rise. In the 1Q, the industry held prices to the extent possible, and we took advantage of this to increase our inventories exactly at the end of March; but this has already happened.

Most of that gross margin increase relates to the mix, and the remaining is distributed among these other factors.

**Fábio Monteiro:**

Great. Thank you.

**Guilherme Assis, Brasil Plural:**

Good morning. Good morning, thanks for taking my question. I would like to understand a little bit more the margin issue, too. In your earnings release, you referred to, as you are commenting now, all the factors that led to the margin gains. I would like to understand how the present-day situation is and what the expectations are in relation to negotiations with the industry.

I understand that the industry is suffering; even in terms of smartphones, one of the categories that really helped the last year's growth, and even helped hold the margin a little bit, offseting the impact of TV sets, etc. We have seen that growth slowed down a lot; Anatel's data on net disconnection, and even GFK and Nielsen's data stating that growth is lower.

Have you been successful in negotiating more promotions, or better conditions with suppliers, increasing partnership with them, both in terms of mobile phones and white line – which is also suffering – in order to increase consumer traffic, as consumer is quite reluctant to shop? Have you been successful in doing this? And how does this impact on your margin? Do you think that, from now on, for example, there may be a margin pressure because the macro scenario will remain difficult? This is my first question.

My second question, if I'm allowed to ask it now: there are rumors about the renewal of the extended warranty contract. You have talked about it; that it would be one of the forms used this year to maximize your cash generation. I would like to know about the progress of this process: whether you are already effectively in the process of renewing this contract, or extending the contract, or entering into a new one, and whether we should expect for this to happen in this very quarter or this is a long-term thing. These are my questions. Thank you.

**Marcelo Silva:**

Guilherme, thanks for your questions. First, let's talk about suppliers. In this Brazil we live in today, the entire supply chain, from production, industry, retailers to consumers, suffers from this recession issue. Retailers are suffering, and this can be seen in most companies, whose results are not very satisfactory.

In 2014, for example, Magazine Luiza had its best result in recent years, and so did other companies. So, everybody suffers. As a result, suppliers face problems, too, as you just put it, regarding white line, phone sets, smartphones, etc.

So, negotiation is difficult. When a supplier needs to offer us better prices, etc., in order to increase consumer traffic, this will generate a cost to them. What we have done is to sit at the table and discuss the best deal with our suppliers, either agreed on a 'win-win' basis or based on trade-offs from both sides.

We do not consider it reasonable to take advantage over suppliers; accordingly, suppliers should not take advantage over us; dealing in such terms is doomed to fail. So the right thing to do is to sit at the table and negotiate. That's what we do with all our suppliers, sometimes more, sometimes less.

It's a very difficult task. When the supplier offers more promotions, this will affect their margin, or this will cause them to be more present on the media. This is the retail's game. And that's the thing. The biggest secret of the retail activity lies in the suppiers x inventory. So we do the best we can with our suppliers. This is a point.

In our 1Q earnings release, we announced that the agreement with Cardif will be actually terminated on December 31. It is too early. We can wait until August-December before thinking about it. We are very satisfied with our partner, as well as with Itaú Unibanco, in the case of LuizaCred.

Again, it's a win-win partnership. There is no partnership when only one of the parties wins. Cardif is satisfied with us, we are satisfied with Cardif; we are satisfied with Itaú Unibanco, and so are they with us.

But this is a fact: we have an agreement that expires on December 31, and at some point we will have to talk about it. We have already added this information in the accompanying note, but now we do not have any material fact about it to be commented. But, by the end of the year, we will have to attend to this.

We still have some time, and when something more substantial arises, we will certainly inform the entire market.

**Guilherme Assis:**

Thank you, Marcelo. If I can go back to the margin issue – I think Beto has already put it –, the significant margin gain that has just happened in the 2Q, as far as I could understand, the only related significant factor was the 1Q's exchange rate pass-through negotiation. Is there anything else related to tax, for example, which may have helped improve the margin? Tax recoverable, or something? Is there any other impact? We saw that this happened to a competitor of yours last year. Was your margin somehow affected by something like this or not?

**Roberto Bellissimo:**

No, Guilherme. Regarding the gross margin, the main impacts were the ones we mentioned.

**Guilherme Assis:**

OK. Thank you.

**Alencar Costa, Goldman Sachs:**

Good morning. Good morning, thanks for taking my question. I have three questions, I will start with the first, which is more strategic. When you mention that, from now on, the model to be followed is that of an online company with human warmth, can you envisage yourselves, in the long run, as a Company with an online sales share potentially higher than that of your physical stores? If so, how do you intend to achieve this, given the size and aggressiveness of your competitors? This is my first question. Thank you.

**Marcelo Silva:**

Thank you, Alencar. After all, consumers dictate everything. Whether the consumer would rather buy more frequently via website than via physical stores, or vice versa, or via website for delivery at the nearest store, or at the store for home delivery, such decision is up to the consumer. And the consumer is doing it gradually. And we are accompanying this growth. Online sales increase on a quarter-over-quarter basis more than offline sales.

However, this year, the United States' NRF emphasized the importance of company's physical points, brand and credibility. Consumer, no matter whether via website or anywhere else, considers Magazine Luiza as a whole. And they know there is a Magazine Luiza store here, there and everywhere. Today, we have 764 points of sale, located in 16 states, and our physical stores' growth will also be maintained.

But if online market share will exceed, in the case of Magazine, and looking at our plan in the long run, this will become more or less evident. Nowadays, the customer comes to our store and will make this increase by using the mobile apps – we have two stores in full operation, and we will quickly implement this in the other stores. Our salesmen will work directly with it. Today, in our multimedia system, our customer can see all the products that Magazine Luiza make available to them but that are not showcased at the store.

This is something that will naturally happen and will be demanded by the consumer. The consumer chooses which purchase channel to use. So, our responsibility is to be prepared to serve them in the best possible manner.

Because being online, on the website, does not necessarily means absence of human warmth, and having a very close relationship with our customers is essential. Just imagine when we dial a phone number and hear someone saying: “please dial 1, dial 2, dial 3”, this is a very automatic thing. We will continue preserving this aspect of Magazine Luiza's culture, which is focused on the relationship with our customers.

Today, when they have a complaint about Magazine, we got in touch with them, we help solve their problems, in case of technical failure, delay in delivery, etc.

That's what we want to be more and more: a multi-channel company that meets consumer needs in the manner he wishes. In my country there is a saying: “the customer is always right." The customer is the boss. The consumer will determine the way he wants to buy, and companies will have to be prepared to serve them in the best possible manner.

But e-commerce will grow. I do not know whether our e-commerce growth will be higher than that of physical stores someday, or five years from now. I have no idea of how high the e-commerce share will be five years from now, compared to physical stores. It will be certainly higher, increasingly important, and then the time will come when both will balance.

We understand the fact that we are a fully integrated company with a single corporate name; nowadays, for instance, we make deliveries to the Northeast region via our Distribution Centers (DC) located in the Northeast. This is about being multi-channel. We have a DC in Caxias and make deliveries to Rio Grande do Sul; we have another DC in Paraná; another one in Santa Catarina. Anyway, it's multi-channel.

Currently, our media is multi-channel. When we refer to Magazine Luiza, we mean Magazineluiza.com, both under the same corporate name. Anyway, that's what is outlined in our strategic planning for years to come. This is our main strategy: to be a multi-channel Company that serves a multi-channel consumer.

**Alencar Costa:**

Great. Thank you, Marcelo. Just a follow-up: in spite of this, do your physical store expansion plans remain unchanged?

**Marcelo Silva:**

No. Last year we opened 24 stores, and 30 will be opened this year. Why are we opening 30 stores this year? Because we closed these points of sale last year. We made a survey and considered to open 30, 40 stores. We will open 30. And in September, October, when we calculate our next year's CAPEX, we will analyze the behavior of the economy, the outlooks, etc., before defining where we want to open other stores.

Because Brazil is a continental country, where there still is a lot of room for retailers' growth. We understand that this is just a phase, like so many other critical phases we have weathered in the Brazilian economy.

Those that have been in retail market for years know that this is a come and go situation, and it will happen again sooner or later. This will not be the last, others will come, and companies must be prepared for them. This is how we face the present-day moment, which may be a bit longer or not, we will never know.

2008 was also a terrible year, we thought it was going to be a global financial catastrophe. But the storm calmed down and then came 2010, an exceptional year; 2011 and 2012 were regular; the 1H13 was not satisfactory; the 2H13 was very good; 2014 was a big surprise to everybody, and now 2015, also a completely unexpected year.

We are going through a difficult phase in the Brazilian economy, but we strongly believe that better days will come. We must be prepared for times of plenty and lean.

**Alencar Costa:**

Thank you, Marcelo. I would like to ask just two more questions and I intend to be brief; the first one is about the level of inventories, whose year-on-year high continues. If I'm not mistaken, it is 13% higher than that of last year and for almost 20 additional days. I understood, after your strategic purchase in the 1Q, that this inventory level would be lower in this 2Q, or that you would otherwise have at least a good quantity of more favorably priced stocked items in the 2Q. I would like to understand this current inventory level a little bit more.

And the second question is about the theft occurred in your distribution center. I would like to know, for the purpose of an update, if some kind of write-off is planned. Thank you.

**Marcelo Silva:**

We do not disclose write-offs, because we have already recovered part of the goods. Just yesterday the news broke about Samsung business. This is a countrywide problem, and even the IDV is focused on this issue. Well, today we cope with banking points, tomorrow with cell phones, etc; When there is a better definition, we will decide on the matter.

With respect to inventories, if you take a look at the December 2014 inventory, R$ 1.5 billion; March, R$ 1.388 billion; June, R$ 1.293 billion. The September 30 inventory will certainly be even lower, because it is well known that lower sales means over-stock or out-of-stock situations. This situation is frequent in the retail market.

But as of March 31, a very specific event occurred, and we made a disclosure about it during inventory purchase. Despite the sales decline, we were able to reduce almost R$ 100 million; we will reduce far more this 3Q, and, by December, we will certainly have a totally balanced inventory.

This is typical of retail, when there is a decline in sales of around 10%, 12%, or something like that. But we go ahead, gradually balancing our inventory. This is the crux of the matter in retail: the purchase of inventory. But we are taking care and gradually reducing it.

You can look at the quarterly figures of December, when the inventory level was a little higher; then look at March, June. So the trend is for a lower inventory level in September.

**Alencar Costa:**

I understand that the inventory level is gradually falling, but under a year-on-year analysis, it is higher. And the sales scenario is no longer favorable.

**Marcelo Silva:**

Perfect. Note that in June 2014, we had an amount of R$ 1.1 billion, just during sales peak time, and now we have R$ 1.293 billion at a low-sales period. That's what I mean. To reduce inventory, items have to naturally leave from inventory and be burnt. And we sought to do this in a balanced way, in order not to excessively lower our margins.

That is why I say that, by September, our inventory levels will be even lower, before becoming balanced in December.

**Alencar Costa:**

Great. Thank you.

**Roberto Bellissimo:**

Alencar, let me tell you something else and try to complement Guilherme's question: we increased our allowance for inventories, and also had some tax gain and one off set the other, and it explains why gross margin increased mainly on account of the factors I mentioned earlier
The tax recoverable account, for example, increased due to Tax Substitution which is normal (tax transfers between states), and a little due to ICMS (State Value Added Tax) credit which is normal in retail. So we had a bit of tax increase, but that did not justify the gross margin because we had an increase in the allowance for inventories, which is also more than enough to the loss that you mentioned. That was just to complement the point.

**Thiago Macruz, Itaú BBA:**

Good morning. I do not know if my question has already been asked. If so, I apologize, but I would like to talk a little about competition. We are experiencing a very challenging environment for your segment. As a result, does it make sense to imagine an acceleration in the concentration of this market for the coming years, or even in the short term, from which you could benefit? Does this future scenario make sense, since the 'boom years' until 2014 have made smaller players a little more resilient, given a not so bad scenario? This is my question. Thank you.

**Marcelo Silva:**

Thiago, history has shown that, in such hard times some companies, unfortunately, do not survive. That is why the number of surviving companies is not high, because for some reason these difficult periods prevent them from going ahead. This can be noticed in the field of supermarkets there have been several acquisitions, several mergers; this also happened in our segment of household electrical appliances.

We expect this to happen as little as possible, because when something is bad to many, it is bad to everyone. We would like companies to remain in a regular, healthy competition environment.

When we seek to open a store, for example, we try to open a store only where there are competitors. This does not aim at luring away consumers from competitors, but at enhancing consumer traffic. A site without enough competitors is not a good spot to place a store.

When you have multiple stores in one place, the consumer traffic increases, and everybody benefits from it; when the economy is healthy, everybody benefits from it. The government increases tax collection – and you can see what's going on with the taxes within federal and state spheres; unemployment, production, industry, retail, every sphere suffers.

So we prefer to think that this crisis will cease as quickly as possible, and that most companies will be able to go through this crisis.

But we are not thinking of merger of the Company by means of acquisitions. This can even eventually happen, as it did in the past, but acquisitions are out of the question for the short and medium term.

I think there is not a great merger, but there are not three companies we consider to be larger, namely: Via Varejo, Magazine Luiza and Máquina de Vendas; following are other medium and large companies as well, and we hope that in the end of the day all of us, or almost all of us, can go through this phase in order to go ahead.

It is not good to anyone when a number of retailers have problems. We do not want to think about it now.

**Thiago Macruz:**

Great. Thank you for the answer.

**Operator:**

If there are no further questions, I would like to turn the call over to Mr. Marcelo Silva for final considerations.

**Marcelo Silva:**

I would like to thank everyone again for attending and participating in our conference call. And also reaffirm our trust, primarily in our country, a country with 203 million inhabitants. This trust no one can take away from us. We keep standing, working on all our business drivers: sales, margins, expenses, turnover; our physical growth continues.

Our main strategy for the coming years is our company truly being as it is now. We are beginning to reap the fruits of the multi-channeling work within the company, as well as of the automation of our activities, integration between physical points and online service.

We are confident that this crisis, like many others we have seen before, will cease and we will be able to present our growth again, in the near future; we will present the so called double-digit growth, as we have shown over a number of years, with improved profitability, increased productivity in all our stores, in all our sales channels; I hope all of us can see better days coming.

Thank you. See you at the next third quarter 2015 earnings conference call.

**Operator:**

Thank you. Ladies and gentlemen, this concludes the Magazine Luiza's 2Q15 Earnings Conference Call. You may now disconnect. Have a nice day!