Magazine Luiza S.A.

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

Financial Statements as at December 31, 2017 and 2016

KPDS 214794

Contents

KPMG Auditores Independentes
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Independent Auditor's Report on the Individual and Consolidated Financial Statements

To the Shareholders, Counselors and Board of Directors of
Magazine Luiza S.A.
Franca – SP

Opinion

We have audited the accompanying individual and consolidated financial statements of Magazine Luiza S.A. ("Company"), respectively referred to as Company and Consolidated, which comprise the balance sheet as at December 31, 2017, and the related statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Magazine Luiza S.A. as at December 31, 2017, and of its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Tax discussions – Company and Consolidated

See Notes 11 and 20 to the individual and consolidated financial statements

Key audit matters	Audit approach
The Company is an active and passive part in legal and administrative processes in course in courts and governmental agencies, involving legal issues of a tax nature. This matter requires the Company and its legal advisors to make significant judgment in determining estimates related to the recognition of assets and liabilities, amounts involved, probability of a successful outcome of these discussions and disclosure of contingent liabilities, tax assets and contingent assets. Due to the complexity of these matters and of the tax environment in Brazil, changes in judgments made by the Company or in external conditions, including the position of tax authorities, could cause an impact to the amounts recognized and disclosed in the individual and consolidated financial statements.	We evaluated the accounting policies applied by the Company for recognition and measurement of the provisions, contingent liabilities, tax assets and contingent tax assets, including the evaluation of the judgment exercised by the Company. We involved tax specialists in the analysis of the legal reports and/or opinions prepared by the internal and external legal advisors of the Company. We assessed the sufficiency of the recognized provisions, measurement of recognized tax assets and disclosures of contingent assets and liabilities through the analysis of the criteria used for measurement and disclosure. Our procedures also included an evaluation on whether the disclosures in the individual and consolidated financial statements are in accordance with the applicable rules and supply information on the nature, exposure and amounts recognized or disclosed. During our audit we identified adjustments that would affect the measurement of tax assets, and disclosure, which adjustments were not disclosed by Management once they were considered immaterial. Based on the evidences obtained through the above mentioned procedures, we considered that the recognition and disclosure of the provisions, contingent liabilities, tax assets and contingent assets are acceptable in the context f the individual and consolidated financial statements taken as a whole.

Revenue recognition at the end of the year – Company and Consolidated

See Note 22 to the individual and consolidated financial statements

Key audit matters	Audit approach
Revenue of the Company derives essentially from the sale of merchandise, which is generally recognized after billing and outgoing	Our audit procedures included, among others, the understanding of the revenue recognition process and design of relevant internal controls

merchandise from the establishments which involves operations in relevant amounts, pulverized, decentralized and which occur in large volumes. The measurement process of Sales billed and not delivered at the end of the year prepared by the Company involves judgment in the determination of estimates of average terms of delivery, as well as requiring the need for maintaining routines and internal controls for identifying and measuring Sales billed and not delivered at the end of the year. Eventual flaws in these controls could cause impact to the measurement of Sales billed and not delivered at the end of the year and, consequently, the amount recognized in the individual and consolidated financial statements.	related to the measurement process of sales billed and not delivered at the end of the year. We analyzed the average terms of delivery used in the estimate of the calculation of sales billed and not delivered, prepared by the Company at the closing of the year and compared these to the effective average terms of sales made at the end of the year. We also assessed the adequacy of the disclosure in the individual and consolidated financial statements. As a result of the understanding of the design of relevant internal controls related to the measurement process of sales billed and not delivered, we identified the need for improvement in the internal controls which altered our evaluation as to the nature of our work and increased the extension of our initially planned substantive audit procedures in order to obtain sufficient and appropriate audit evidence. During our audit we identified adjustment that would affect the measurement and disclosure of recognized revenue, which were not registered by Management once they were considered as immaterial. Based on the evidences obtained through the above mentioned audit procedures, we consider the revenue recognition as at the closing of the year as acceptable in the context of the individual and consolidated financial statements taken as a whole.

Other matters

Statement of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Corresponding values

The audit of the individual and consolidated financial statements as at December 31, 2016, was conducted under the responsibility of other independent auditors who issued an unqualified audit report dated May 30, 2017.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for the other information comprising the management report.

Our opinion on the individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements

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

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and subsidiaries financial reporting process.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 and its subsidiaries internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 22, 2018

KPMG Auditores Independentes

CRC 2SP014428/O-6

Fernando Rogério Liani

Accountant CRC 1SP229193/O-2

Magazine Luiza S.A.

Balance sheets as at December 31, 2017 and 2016

(In thousands of Brazilian reais - R$)

	Notes	Company		Consolidated	
		2017	2016	2017	2016
Assets					
Current					
Cash and cash equivalents	6	**370,926**	562,728	**412,707**	599,141
Securities and other financial assets	7 and 28	**1,259,553**	818,984	**1,259,553**	818,984
Accounts receivable	8	**1,233,983**	575,334	**1,241,290**	581,001
Inventory	9	**1,953,963**	1,587,299	**1,969,333**	1,596,743
Receivables from related parties	10	**99,985**	66,296	**96,766**	64,021
Recoverable taxes	11	**198,894**	210,657	**200,678**	212,151
Other assets		**75,754**	47,013	**77,290**	47,802
Total current assets		**5,193,058**	3,868,311	**5,257,617**	3,919,843
Non-current					
Securities and other financial assets	7 and 28	**-**	171	**-**	171
Accounts receivable	8	**4,741**	3,570	**4,741**	3,570
Recoverable taxes	11	**166,033**	223,604	**166,033**	223,604
Deferred income tax and social contribution	12	**219,321**	241,089	**223,100**	242,010
Escrow deposits	20	**310,899**	292,187	**310,901**	292,189
Other assets		**42,464**	49,671	**44,387**	52,273
Investments in subsidiaries	13	**78,530**	67,022	**-**	-
Investments in jointly-owned subsidiaries	14	**311,347**	293,830	**311,347**	293,830
Property and equipment	15	**567,085**	559,320	**569,027**	560,067
Intangible assets	16	**486,111**	469,724	**532,360**	513,049
Total non-current assets		**2,186,531**	2,200,188	**2,161,896**	2,180,763
Total assets		**7,379,589**	6,068,499	**7,419,513**	6,100,606

The accompanying notes are an integral part of these financial statements.

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Magazine Luiza S.A.

Balance sheets as at December 31, 2017 and 2016

(In thousands of Brazilian reais - R$)

	Notes	Company		Consolidated	
		2017	**2016**	**2017**	**2016**
Liabilities					
Current					
Suppliers	17	**2,898,025**	2,353,473	**2,919,541**	2,364,959
Loans, financing and other financial liabilities	18	**434,294**	837,878	**434,294**	838,016
Payroll, vacation pay and related charges		**231,820**	184,789	**236,584**	188,390
Taxes payable		**81,196**	38,613	**84,451**	40,132
Accounts payable to related parties	10	**89,486**	72,923	**89,521**	72,955
Deferred income	19	**41,566**	40,318	**41,566**	40,318
Dividends payable		**64,273**	12,335	**64,273**	12,335
Other accounts payable		**261,773**	111,615	**265,806**	115,321
Total current liabilities		**4,102,433**	3,651,944	**4,136,036**	3,672,426
Non-current					
Loans, financing and other financial liabilities	18	**437,204**	1,010,760	**437,204**	1,010,760
Provision for tax, civil and labor risks	20	**297,138**	275,054	**301,534**	284,126
Deferred income	19	**468,837**	509,155	**468,837**	509,155
Other accounts payable		**-**	-	**1,925**	2,553
Total non-current liabilities		**1,203,179**	1,794,969	**1,209,500**	1,806,594
Total liabilities		**5,305,612**	5,446,913	**5,345,536**	5,479,020
Net equity	21				
Capital		**1,719,886**	606,505	**1,719,886**	606,505
Capital reserve		**37,094**	19,030	**37,094**	19,030
Treasury shares		**(13,955)**	(28,729)	**(13,955)**	(28,729)
Legal reserve		**39,922**	20,471	**39,922**	20,471
Retained earnings		**288,371**	3,107	**288,371**	3,107
Equity valuation adjustment		**2,659**	1,202	**2,659**	1,202
Total net equity		**2,073,977**	621,586	**2,073,977**	621,586
Total liability and net equity		**7,379,589**	6,068,499	**7,419,513**	6,100,606

The accompanying notes are an integral part of these financial statements.

Magazine Luiza S.A.

Statements of Income
For the years ended December 31, 2017 and 2016

(In thousands of Brazilian reais - R$)

	Notes	Company		Consolidated	
		2017	**2016**	**2017**	**2016**
Net revenue from sales	22	**11,799,027**	9,371,169	**11,984,250**	9,508,745
Cost of goods resold and services rendered	23	**(8,305,003)**	(6,538,942)	**(8,378,239)**	(6,586,130)
Gross profit		**3,494,024**	2,832,227	**3,606,011**	2,922,615
Operating income (loss)					
From sales	24	**(2,095,278)**	(1,761,438)	**(2,119,953)**	(1,776,258)
General and administrative	24	**(503,352)**	(452,735)	**(536,026)**	(481,933)
Allowance for doubtful accounts		**(41,914)**	(25,987)	**(41,921)**	(26,074)
Depreciation and amortization	15 and 16	**(142,099)**	(132,941)	**(143,059)**	(133,612)
Equity in investments	13 and 14	**92,022**	73,266	**86,156**	62,702
Other operating income, net	24 and 25	**32,224**	9,740	**36,486**	13,505
		(2,658,397)	(2,290,095)	**(2,718,317)**	(2,341,670)
Operating income before financial income		**835,627**	542,132	**887,694**	580,945
Financial income		**159,363**	150,706	**110,107**	116,655
Financial expenses		**(518,881)**	(618,760)	**(520,928)**	(620,504)
Net financial income (loss)	26	**(359,518)**	(468,054)	**(410,821)**	(503,849)
Operating income before income tax and social contribution		**476,109**	74,078	**476,873**	77,096
Current and deferred income tax and social contribution	12	**(87,087)**	12,487	**(87,851)**	9,469
Net income for the year		**389,022**	86,565	**389,022**	86,565
Allocated to:					
Controlling shareholders		**389,022**	86,565	**389,022**	86,565
Earnings per share					
Basic (R$ per share)	21	**2.203**	0.4977	**2.203**	0.4977
Diluted (R$ per share)	21	**2.186**	0.4977	**2.186**	0.4977

The accompanying notes are an integral part of these financial statements.

Magazine Luiza S.A.

Statements of comprehensive income
For the years ended December 31, 2017 and 2016

(In thousands of Brazilian reais - R$)

	Notes	Company and Consolidated	
		2017	**2016**
Net income		**389,022**	86,565
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets held-for-sale, from investments			
Fair value adjustment		**2,649**	5,145
Tax effects		**(1,192)**	(2,315)
Total	14	**1,457**	2,830
Total comprehensive income, net of taxes		**390,479**	89,395
Allocated to:			
Controlling shareholders		**390,479**	89,395

The accompanying notes are an integral part of these financial statements

Magazine Luiza S.A.

Statements of changes in equity
For the years ended December 31, 2017 and 2016
(In thousands of Brazilian reais - R$)

	Notes	Capital	Capital Reserve	Treasury Shares	Legal Reserve	Retained earnings	Accumulated profit or loss	Equity valuation adjustment	Total
Balance as at January 1, 2016		606,505	14,567	(9,574)	16,143	-	(50,357)	(1,628)	575,656
Share purchase option plan		-	4,463	-	-	-	-	-	4,463
Treasury shares		-	-	(35,593)	-	-	-	-	(35,593)
Cancelation of Treasury shares		-	-	16,438	-	(16,438)	-	-	-
Net income for the year		-	-	-	-	-	86,565	-	86,565
Allocations::									
Legal reserve		-	-	-	4,328	-	(4,328)	-	-
Mandatory dividends		-	-	-	-	-	(12,335)	-	(12,335)
Retained earnings		-	-	-	-	19,545	(19,545)	-	-
		606,505	19,030	(28,729)	20,471	3,107	-	(1,628)	618,756
Other comprehensive income:									
Equity valuation adjustment	14	-	-	-	-	-	-	2,830	2,830
Balance as at December 31, 2016		606,505	19,030	(28,729)	20,471	3,107	-	1,202	621,586
Issue of common shares	21a	**1,144,000**	**-**	**-**	**-**	**-**	**-**	**-**	**1,144,000**
Expenses with the issue of shares, net of taxes	21a	**(30,619)**	-	**-**	**-**	**-**	**-**	**-**	**(30,619)**
Share option plan		**-**	**9,836**	**-**	**-**	**-**	**-**	**-**	**9,836**
Sale of treasury shares for payment of share option plan		**-**	**8,228**	**14,774**	**-**	**-**	**-**	**-**	**23,002**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**389,022**	**-**	**389,022**
Allocations:									
Legal reserve	21c	**-**	**-**	**-**	**19,451**	**-**	**(19,451)**	**-**	**-**
Dividends paid	21d	**-**	**-**	**-**	**-**	**(3,107)**	**(6,200)**	**-**	**(9,307)**
Interest on own capital	21d	**-**	**-**	**-**	**-**	**-**	**(75,000)**	**-**	**(75,000)**
Retained earnings		**-**	**-**	**-**	**-**	**288,371**	**(288,371)**	**-**	**-**
		1,719,886	**37,094**	**(13,955)**	**39,922**	**288,371**	**-**	**1,202**	**2,072,520**
Other comprehensive income:									
Equity valuation adjustment	14							**1,457**	**1,457**
Balance as at December 31, 2017		**1,719,886**	**37,094**	**(13,955)**	**39,922**	**288,371**	**-**	**2,659**	**2,073,977**

The accompanying notes are an integral part of these financial statements.

Magazine Luiza S.A.

Statements of cash flows
For the years ended December 31, 2017 and 2016
(In thousands of Brazilian reais - R$)

	Notes	Company		Consolidated	
		2017	**2016**	**2017**	**2016**
Cash flows from operating activities					
Net income		**389,022**	86,565	**389,022**	86,565
Adjustments to reconcile net income to net cash generated by (applied to) operating activities:					
Income tax and social contribution recognized under profit or loss	12	**87,087**	(12,487)	**87,851**	(9,469)
Depreciation and amortization	15 and 16	**142,099**	132,941	**143,059**	133,612
Interest on provisioned loans and financing	18	**180,742**	254,466	**180,759**	254,514
Earnings from securities		**(53,244)**	(38,610)	**(53,244)**	(38,610)
Equity in investments	13 and 14	**(92,022)**	(73,266)	**(86,156)**	(62,702)
Changes in provisions for loss in assets		**88,692**	98,489	**88,582**	99,209
Provision for tax, civil and labor risks	20	**49,832**	62,949	**45,279**	59,111
Income (loss) from disposal of property and equipment	25	**(2,875)**	476	**(2,875)**	476
Appropriation of deferred income	25	**(42,820)**	(40,646)	**(42,820)**	(40,646)
Expenses with the share purchase option plan		**5,594**	4,463	**5,594**	4,463
Adjusted net income		**752,107**	475,340	**755,051**	486,523
(Increase) decrease in operating assets					
Accounts receivable		**(712,268)**	(188,960)	**(713,915)**	(190,038)
Securities and other financial assets		**(399,682)**	(350,290)	**(399,682)**	(350,290)
Inventory		**(402,908)**	(298,847)	**(408,717)**	(299,573)
Receivables from related parties		**(26,315)**	5,338	**(25,707)**	5,409
Recoverable taxes		**73,465**	76,509	**73,175**	76,104
Other assets		**(39,017)**	(50,478)	**(39,084)**	(50,474)
Variation in operating assets		**(1,506,725)**	(806,728)	**(1,513,930)**	(808,862)
Increase (decrease) in operating liabilities					
Suppliers		**544,552**	468,222	**554,581**	470,802
Payroll, vacation pay and social charges		**47,031**	34,370	**48,174**	34,487
Recoverable taxes		**6,304**	9,116	**7,171**	8,843
Accounts payable to related parties		**16,563**	4,136	**16,566**	4,551
Other accounts payable		**125,160**	1,665	**124,736**	3,245
Variation in operating liabilities		**739,610**	517,509	**751,228**	521,928
Income tax and social contribution paid		**(29,040)**	-	**(31,799)**	(2,730)
Dividends received		**60,374**	72,123	**58,927**	70,892
Cash flow generated by operating activities		**16,326**	258,244	**19,477**	267,751
Cash flow from investment activities					
Acquisition of property and equipment	15	**(100,529)**	(77,062)	**(101,995)**	(77,302)
Acquisition of intangible assets	16	**(67,228)**	(46,297)	**(68,819)**	(47,046)
Sale of property and equipment		**3,152**	-	**3,152**	-
Payment for renegotiation of exclusive agreements		**-**	(11,182)	**-**	(11,182)
Capital increase in subsidiary and jointly-owned subsidiary		**(5,425)**	(1,000)	**-**	-
Investment in subsidiary		**(1,000)**	-	**(996)**	-
Cash flow used in investment activities		**(171,030)**	(135,541)	**(168,658)**	(135,530)
Cash flow from financing activity					
Loans and financing	18	**502,617**	578,540	**502,617**	578,540
Payment of loans and financing	18	**(1,433,953)**	(477,188)	**(1,434,097)**	(477,325)
Payment of interest on loans and financing	18	**(214,018)**	(216,134)	**(214,029)**	(216,167)
Payment of dividends		**(32,369)**	-	**(32,369)**	-
Divestment (acquisition) of treasury shares		**27,244**	(35,593)	**27,244**	(35,593)
Funds from the issue of shares	21	**1,144,000**	-	**1,144,000**	-
Payment of expenses with the issue of shares, net of taxes	21	**(30,619)**	-	**(30,619)**	-
Cash flow used in financing activities		**(37,098)**	(150,375)	**(37,253)**	(150,545)
Decrease in cash and cash equivalents		**(191,802)**	(27,672)	**(186,434)**	(18,324)
Cash and cash equivalents at the beginning of the year		**562,728**	590,400	**599,141**	617,465
Cash and cash equivalents at the end of the year		**370,926**	562,728	**412,707**	599,141
Decrease in cash and cash equivalents		**(191,802)**	(27,672)	**(186,434)**	(18,324)

The accompanying notes are an integral part of these financial statements.

Magazine Luiza S.A.

Statements of added value
For the years ended December 31, 2017 and 2016

(In thousands of Brazilian reais - R$)

	Company		Consolidates	
	2017	**2016**	**2017**	**2016**
Revenue				
Goods, products and services sold	**13,525,956**	10,735,506	**13,729,413**	10,885,587
Allowance for doubtful accounts, net of reversals	**(41,914)**	(25,987)	**(41,921)**	(26,074)
Other operating income	**36,240**	44,557	**40,505**	48,324
	13,520,282	10,754,076	**13,727,997**	10,907,837
Inputs acquired from third parties				
Cost of goods resold and services rendered	**(9,062,145)**	(7,138,511)	**(9,135,777)**	(7,185,406)
Materials, energy, outsourced services and other	**(1,046,521)**	(902,118)	**(1,082,723)**	(928,413)
Loss and recovery of asset values	**(36,244)**	(55,289)	**(36,127)**	(55,740)
	(10,144,910)	(8,095,918)	**(10,254,627)**	(8,169,559)
Gross added value	**3,375,372**	2,658,158	**3,473,370**	2,738,278
Depreciation and amortization	**(142,099)**	(132,941)	**(143,059)**	(133,612)
Net added value produced by the entity	**3,233,273**	2,525,217	**3,330,311**	2,604,666
Added value received in transfer				
Equity in investments	**92,022**	73,266	**86,156**	62,702
Financial income	**159,363**	150,706	**110,107**	116,655
Total added value for distribution	**3,484,658**	2,749,189	**3,526,574**	2,784,023
Distribution of added value				
Personnel and charges:				
Direct remuneration	**811,069**	705,982	**825,353**	718,272
Benefits	**185,325**	149,031	**188,064**	150,447
FGTS (severance funds)	**74,235**	71,732	**75,376**	72,843
	1,070,629	926,745	**1,088,793**	941,562
Taxes, duties and contributions:				
Federal	**277,573**	146,244	**284,548**	154,977
State	**857,949**	625,664	**870,253**	633,239
Municipal	**45,127**	37,880	**47,073**	39,484
	1,180,649	809,788	**1,201,874**	827,700
Remuneration of third party capital				
Interest	**472,137**	581,024	**473,853**	582,440
Rent	**335,511**	313,958	**336,198**	314,486
Other	**36,710**	31,109	**36,834**	31,270
	844,358	926,091	**846,885**	928,196
Remuneration of own capital:				
Dividends or interest on own capital	**75,000**	12,335	**75,000**	12,335
Retained earnings	**314,022**	74,230	**314,022**	74,230
	3,484,658	2,749,189	**3,526,574**	2,784,023

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. General information

Magazine Luiza S.A. ("Company") is a publicly traded corporation listed under the special segment called "Novo Mercado da B3 S.A. – Brasil, Bolsa, Balcão" under the code "MGLU3" and is primarily engaged in the retail sale of consumer goods, mainly home appliances, personal electronics and furniture, through physical and virtual stores or through e-commerce. Its headquarters is in the city of Franca, state of São Paulo, Brazil and its parent and holding company is LTD Administração e Participação S.A.

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

As at December 31, 2017, the Company owned 858 stores (800 stores as at December 31, 2016) and 10 distribution centers (9 distribution centers as at December 31, 2016), located in the South, Southeast, Mid-west and Northeast regions of Brazil and with e-commerce sites www.magazineluiza.com.br and www.epocacosmeticos.com.br.

On February 20, 2018 the Board of Directors authorized the issue of these financial statements.

2. Presentation and preparation of the financial statements

2.1. Basis for preparation, presentation and declaration of conformity

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

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

The financial statements were prepared based on historical cost, except for certain financial instruments measured at fair value.

2.2. Functional and reporting currency of the financial statements

The Company's functional currency is the Brazilian Real. The financial statements of each subsidiary, as well as the financial statements adopted as basis to measure the investments by the equity accounting method, are prepared in Brazilian reais. All the balances were rounded off to the closest thousand, unless otherwise indicated.

2.3. Basis of consolidation and investments in subsidiaries

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

Below is a description of the subsidiaries of the Company at the closing dates:

Subsidiary	Main activities	Interest - % 2017	Interest - % 2016
Época Cosméticos	E-commerce of perfumes and cosmetics	**100%**	**100%**
Integra Commerce	Integration and relation management between store owners and marketplaces	**100%**	**-**
Luiza Administradora de Consórcios (LAC)	Consortium management	**100%**	**100%**

The consolidated financial statements also contemplate exclusive investment funds, where the Company maintains part of its financial investments, as demonstrated under Note 7.

In the consolidation process of the financial statements the following eliminations are contemplated:

- The Company's interest in the capital, reserves and accumulated earnings of the consolidated companies;
- Balances of the asset and liability accounts maintained between the consolidated companies; and
- Balances of revenues and expenses from transactions between consolidated companies.

In the individual financial statements the financial information of the subsidiaries and jointly owned subsidiaries will be recognized through the equity accounting method.

3. Summary of significant accounting policies and practices

The main accounting policies and practices are described under each corresponding Note to the financial statements, except those below which are related to more than one Note. Accounting policies and practices have been consistently applied for the years presented and for the individual and consolidated financial statements of the Company:

3.1. Transactions and monetary correction of rights and obligations

Monetary assets and liabilities subject to contractual readjustments or exchange and monetary correction are updated to the balance sheet date, and the variation recognized as financial income or expense under profit or loss.

When existing, monetary assets and liabilities indexed in foreign currencies are converted to Brazilian reais using the exchange rate on the closing date of the balance sheet. Differences resulting from the currency translation are recognized as financial income or expenses under profit or loss.

3.2. Impairment of assets

i) Non-derivative financial assets

Financial assets not classified as financial assets at fair value through profit or loss, including investments registered using the equity accounting method, are valued at each balance sheet date to determine whether there is objective evidence of impairment.

Objective evidence of impairment in financial assets includes:

- Default or delay of the debtor;
- Indication that the debtor or issuer will file for bankruptcy/judicial reorganization;
- Negative changes in the payment situation of debtors or issuers;
- Observable data indicating a decline in the measurement of expected cash flows of a group of financial assets.

Financial assets measured at amortized cost

Impairment loss is calculated as a difference between the carrying value and the present value of future estimated cash flows, discounted at the original effective interest rate of the asset. Losses are recognized under profit or loss and reflected in a provision account. When the Company considers that there is no reasonable expectation of recovery, the amounts are written-off. When a subsequent event indicates a reduction in the loss, a provision is reversed through profit or loss.

Investees registered using the equity accounting method

Impairment related to an investee evaluated using the equity accounting method is measured through comparison of the recoverable value of the investment with its carrying value. Impairment loss is recognized under profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable value.

ii) Non-financial assets

The carrying values of non-financial assets of the Company are reviewed at each balance sheet date to verify whether there is any indication of impairment. Should there be indication of impairment, the recoverable vale of the asset is estimated. In the case of goodwill, the recoverable value is tested annually.

iii) Allocation of goodwill balances

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

3.3. Adjustment to present value

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

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

The present value adjustment of resale of goods in installments has as its counterentry the “accounts receivable”. Realization is recorded under “revenue from resale of goods”, according to the related maturity term.

The present value adjustment of liabilities related to the purchase of goods for resale is registered under “suppliers” with the counterentry in the “inventory” account. Reversal is registered under “cost of goods resold and services rendered” according to the related maturity term.

3.4. Monetary restatement of rights and obligations

Monetary assets and liabilities subject to contractual adjustments or foreign exchange and monetary variations are restated up to the balance sheet date, and these variations are registered under profit or loss for the year to which they refer.

3.5. Provisions

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

3.6. Employee benefits

Short-term benefits to employees

Obligations related to short-term benefits to employees are recognized as personnel expenses as the corresponding service is rendered. The liability is recognized in the amount of the expected payment should the Company have the present legal or constructive obligation to pay the amount due to past service rendered by the employee and the obligation can be reliably estimated.

Share based payment agreements

The fair value on the date of the share-based payment agreements granted to employees is recognized as personnel expenses, with a corresponding increase in net equity, during the period in which the employees acquire unconditionally the right to the premium. The amount recognized as expense is adjusted to reflect the number of premiums that effectively attend to the service condition and of performance on the date of acquisition (vesting date). For the share-based payments that do not contain acquisition conditions (non-vesting conditions), the fair value on the date of granting the share-based payments is measured to reflect such conditions and posterior adjustments for the differences between the expected results and the actual results are not made.

3.7. Statement of value added ("DVA")

This statement aims at evidencing the wealth created by the Company and its distribution during certain periods. It is presented as part of its individual financial statements pursuant to the Brazilian Corporate Law and as supplementary information to the consolidated financial statements since it is neither an estimated statement nor mandatory under IFRS.

3.8. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the main market or, in its absence, in the most advantageous market to which the Company has access on such date. The fair value of a liability reflects its risk of non-performance. The risk of non-performance includes, among other, the own credit risk of the Company.

A series of accounting policies and disclosures of the Company require fair value measurement, both for financial and non-financial assets and liabilities.

When available, the Company measured the fair value of an instrument using the quoted price in an active market for this instrument. A market is considered as an asset if transactions for the asset or liability occur frequently and in sufficient volume to supply pricing information in a continuous manner.

When there is no quoted price in the active market, the Company uses evaluation techniques that maximize the use of relevant observable data and minimize the use of non-observable data. The chosen evaluation technique incorporates all the factors that the market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – in other words, the fair value of the consideration given or received.

4. Significant accounting judgments and sources of uncertainties about estimates

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

The estimates and assumptions are continuously reviewed. The reviews of the estimates are recognized prospectively.

a) Judgments

Information on judgments performed on the application of the accounting policies which have significant effect on recognized amounts in the individual and consolidated financial statements are included under the following Notes to the financial statements:

- Note 2.3 – Basis for consolidation and investments in subsidiaries: determination of whether the Company in fact holds control over the investee;
- Note 22 – Net sales revenue: determination of whether the Company acts as agent in the transaction or as principal; and
- Note 29 – Committed leases: determination of whether a contract contains a lease and classification of commercial leasing.

b) Uncertainties on estimates

Information on uncertainties related to assumptions and estimates with significant risk of resulting in adjustments to accounting balances of assets and liabilities for the year ended December 31, 2018 are included under the following Notes to the financial statements:

- Note 3.2 – Impairment of assets: determination of fair value based on significant unobservable data;
- Note 8 – Accounts receivable: criteria and amounts of allowance for doubtful accounts.
- Note 9 - Inventory: criteria and amounts for provision for inventory loss.
- Note 12 – Income tax and social contribution: availability of future taxable income against which tax losses may be used;
- Note 13 – Investments in subsidiaries: acquisition of subsidiary at the fair value of the compensation transferred (including contingent compensation) and the fair value of assets acquired and liabilities assumed, measured on a temporary basis.
- Notes 15 and 16 – Property and Equipment and Intangible Assets – estimated useful lives of long-lasting assets.
- Note 16 – Intangible assets: main assumptions in relation to recoverable values, including the recoverability of development costs. Determination of goodwill on acquisition of chains of retail companies is a complex process and involves a high degree of subjectivity, as well as being based on various assumptions, such as the determination of the cash generating units, discount rates, inflation projections, growth percentage, perpetuity and profitability of the businesses of the Company for the following years, among others. These assumptions are affected by market conditions or future economic scenarios of Brazil, all of which cannot be estimated with precision;
- Note 20 – Provision for tax, civil and labor risks: main assumptions on probability and magnitude of the output of funds.

5. New standards, amendments and interpretations of standards

Certain accounting standards will become effective and applied by the Company for the year beginning January 1, 2018. The Company did not apply the early adoption of these amendments in the preparation of these individual and consolidated financial statements. The Company will adopt the applicable standards as of the date in which they come into effect.

a) Estimated impact upon adoption of CPC 48 / IFRS 9 e CPC 47 / IFRS 15

The Company is obliged to adopt CPC 48 / IFRS 9 Financial Instruments and CPC 47 / IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. The Company has evaluated the estimated impact of initial application of CPC 48 / IFRS 9 (see (b)) and of CPC 47 / IFRS 15 (see (c)) on its individual and consolidated financial statements, as described below:

b) CPC 48/ IFRS 09 – Financial Instruments

CPC 48 / IFRS 9 Financial Instruments, establishes requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the acquisition and sale of non-financial items. This standard substitutes CPC 38 / IAS 39 Financial Instruments: Recognition and Measurement.

(i) Classification – Financial Assets

CPC 48 / IFRS 9 contains a new approach for classification and measurement of financial assets which reflects the business model in which the assets are management and their cash flow characteristics. CPC 48 / IFRS 9 contains three main categories for classification of financial assets measured at amortized cost, at fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the categories existing in IAS 39 of held-to-maturity, loans and receivables and available for sale.

The Company does not expect a significant impact to its individual and consolidated financial statements upon application of the classification and measurement requirements of IFRS 9, once it will continue measuring at fair value all its financial assets presently measured using this criteria, which assets are the most financially representative. Financial assets classified previously as loan and receivables will be classified as amortized cost, except for commercial receivables in credit cards and some cash equivalent financial investments, which will be measured at fair value, in view of the frequency and significant amounts of use of its cash flows in an anticipated manner.

(ii) Impairment – Financial Assets and Contractual Assets

IFRS 9 substitutes the model of "incurred losses" of CPC 38 (IAS 39) for a prospective model of "expected credit losses". This will require relevant judgment on how changes in economic factors affect expected credit losses, which will be determined based on weighted probabilities. The new model of expected losses will apply to financial assets measured at amortized cost or fair value through other comprehensive income, with exception to investments in equity instruments and contractual assets.

The Company will adopt the simplified approach of the standard for commercial financial assets, where provision for loss will be analyzed throughout the remaining life of the asset.

The Company expects that impairment loss for commercial receivables should have an increase of between R$ 10,000 and R$ 15,000 in the provision previously recognized in accordance with CPC 38. The Company is in the phase of preparation of the methodology for defining impairment loss, in compliance to CPC 48.

(iii) Transition

The Company intends to take advantage of the exemption which permits it not to restate comparative information from prior periods due to alterations in the classification and measurement of financial instruments (including expected credit losses). The difference in the accounting balances of financial assets and liabilities resulting from the adoption of CPC 48 / IFRS 09, will be recognized under retained earnings and reserves on January 1, 2018.

c) CPC 47 / IFRS 15 – Revenue from Contracts with Customers

IFRS 15 (CPC 47 – Revenue from Contracts with Customers) establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard for revenue will substitute all the present requirements for revenue recognition according to the IFRS.

The Company performed a diagnosis of the new approach introduced by the standard and identified the following impacts:

(i) Return of products and cancelation of services

According to CPC 48/IFRS 15, in certain cases, the Company may transfer the control of a product to the client and also grant the right of return for various reasons. Revenue recognition for these contracts will be realized in the measure in which it is probable that a significant reversal of the value of accumulated revenue will not occur. Accordingly, the Company must estimate the variable amount related to possible return of products at the beginning of the contract and recognize this amount up until the expiration of the period susceptible to returns.

In a similar manner, analyses of possible cancelations of services are performed for recognition of the variable compensation in commissions for the sale of services recognized by the Company.

The Company estimated that a provision in the amount of R$ 3,200 and an asset of returns in the amount of R$ 2,500 should be recognized as at December 31, 2017, should this standard have been prevailing. The effect of the provision for canceled services would have been insignificant as at December 31, 2017.

(ii) Revenue recognition for freight and assembly

According to CPC 48/ IFRS 15, for each identified performance obligation, the Company must determine, at the beginning of the contract, whether the performance obligation is to be fulfilled throughout time or whether it should be fulfilled within a specific period of time. In a sales contract of products, in which assembly is a separately identified performance obligation, the Company must identify the moment in which this performance obligation is performed and recognize revenue related to this performance obligation in a segregated manner from the revenue of the products.

The Company estimated that approximately R$ 64,000 should be reclassified from revenue from sale of goods to revenue from services in 2017, should this standard be prevailing.

(iii) Services offered free-of-charge

Standard CPC 48/ IFRS 15 requires that the Company allocate the transaction price for the performance obligation based on the individual sales price. If the individual sales price for the option of the client to acquire additional goods or services is not directly observable, the Company must estimate the respective value and when relevant, must be registered in the books.

(iv) Discount coupons

Discount coupons granted to clients on acquisition of a good will result in a distinct performance obligation in the contract, once it provides a material right to the client who would not receive it without signing the sales contract. Thus, the Company must allocate the transaction price (discount coupon) to the performance obligations based on the individual sales price. The Company must recognize revenue when (or in the measure in which) it fulfills the performance obligation by transferring the promised good or service to the customer. If the Company expects to have the right to the amount for breakage in contract liability, it must recognize as revenue proportionally to the standard of rights exercised by the customers.

This standard would not cause significant impacts to the financial statements of the Company should it have been prevailing in 2017.

(v) Transition

The Company plans to adopt CPC 47 / IFRS 15 using the cumulative effect method, with initial application of the standard at initial date (January 1, 2018). As a result, the Company will not apply the requirements of CPC 47 / IFRS 15 to the comparative period presented.

The Company plans to use practical expedients for concluded contracts. This means that concluded contracts that begin and end in the same period of the comparative presentation, as well as contracts concluded in the beginning of the prior periods presented, will not be restated.

d) CPC 06(R2)/IFRS 16 Leases

IFRS 16 substitutes existing lease standards, including CPC 06 (IAS 17) Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Lease Operations. The standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single on-balance sheet model for lessees. A lessee recognizes an asset of right of use which represents its right of using the leased asset and a lease liability which represents its obligations of making payments for the lease.

The Company will assess the potential effect from the adoption of IFRS 16 on its individual and consolidated financial statements for 2018.

e) Other amendments

The following amended standards and interpretations should not have any significant impact to the individual and consolidated financial statements of the Company
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- Annual improvements cycle for IFRS 2014-2016 – Amendments to IFRS 1 and to IAS 28;
- Amendments to CPC 10 (IFRS 2) Share-based payment in relation to classification and measurement of certain transactions with share-based payments;
- Amendments to CPC 36 Consolidated Statements (IFRS 10) and to CPC 18 Investments in Associates (IAS 28) in relation to sales or contributions of assets between an investor and its associate or its jointly-owned subsidiary.
- IFRIC 23 Uncertainly over Income Tax Treatment.

The Accounting Pronouncements Committee has not yet issued accounting pronouncement or amendment to the prevailing pronouncements corresponding to the new IFRS. Therefore, early adoption of these IFRS is not permitted for entities disclosing their financial statements in accordance with the accounting practices adopted in Brazil.

6. Cash and cash equivalents

Accounting policy

Company Management defines as “Cash and cash equivalents” the amounts held for the purpose of meeting short-term commitments rather than for investments or other purposes. Financial investments have characteristics of being immediately converted into known cash amounts with the issuer and are not subject to a significant risk of change in value, recorded at cost plus income earned until the end of the reporting period, not exceeding market or realization values. Note 28 describes the credit risk practice and policy.

		Company		**Consolidated**	
	Rates	**2017**	**2016**	**2017**	**2016**
Cash		**38,614**	36,063	**38,621**	36,069
Banks		**51,946**	37,933	**53,307**	41,039
Bank deposit certificates	From 70% to 101% CDI	**280,173**	488,084	**293,150**	499,493
Non-exclusive investment funds	102% CDI	**193**	648	**27,629**	22,540
Total cash and cash equivalents		**370,926**	562,728	**412,707**	599,141

7. Securities and other financial assets

Financial assets	Rates	Company and Consolidated 2017	2016
Securities			
Non-exclusive investment funds	98% CDI	**10,995**	10,069
Exclusive investment funds	(a)		
Debentures		**-**	773
Federal government securities and repo operations		**1,242,828**	789,366
Time deposits and other securities		**4,352**	5,041
	Note 10.a	**1,247,180**	795,180
Total securities		**1,258,175**	805,249
Other financial assets – registered at fair value through profit or loss			
Swap receivable – Fair value Hedge	(b)	**1,378**	13,906
Total securities and other financial assets		**1,259,553**	819,155
Current		**1,259,553**	818,984
Non-current		**-**	171

(a) Considers the exclusive fixed income investment funds. As at December 31, 2017 and 2016, the portfolio was distributed into the types of investment described in the table above, which are linked to financial operations and securities, indexed to the monthly variation of CDI rate, to return the average profitability of 103% of the CDI to the Company.

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

Credit risk analysis and sensitivity analysis are presented under Note 28.

8. Accounts receivable

Accounting policy

Accounts receivable are recorded and maintained in the balance sheet at the amount of the securities, adjusted to present value, when applicable, represented, mainly, by credits from resale installments and credit cards and for allowance for doubtful accounts, which is registered in amounts considered as sufficient by Management to cover eventual risks over the financing portfolio and other amounts receivable existing on the reporting date. The criteria for registering provision considers, for retail activities, the index of historical loss by aging list of the portfolio.

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Trade receivables:				
Credit cards (a)	**818,154**	272,502	**820,267**	276,206
Debit cards (a)	**16,934**	11,474	**16,934**	11,474
Own installment plan (b)	**164,725**	118,171	**165,373**	118,226
Additional warranty agreements and other insurance (c)	**63,517**	60,155	**63,517**	60,155
Total trade receivables	**1,063,330**	462,302	**1,066,091**	466,061
Receivables from commercial agreements (d)	**252,146**	170,010	**256,697**	171,984
Allowance for doubtful accounts	**(42,672)**	(29,535)	**(42,672)**	(29,535)
Adjustment to present value	**(34,080)**	(23,873)	**(34,085)**	(23,939)
Total receivables	**1,238,724**	578,904	**1,246,031**	584,571
Current	**1,233,983**	575,334	**1,241,290**	581,001
Non-current	**4,741**	3,570	**4,741**	3,570

The average term to receive trade receivables is of 20 days (14 days as at December 31, 2016), Company and Consolidated. As at December 31, 2017 the Company did not have receivables assigned to secure borrowings (December 31, 2016 the amount was of R$109,445, represented by credit card receivables).

(a) Refers to credit and debit card receivables, which the Company receives from credit card operators in amounts, term and number of installments defined at the moment the product is sold.. As at December 31, 2017 the Company had credits granted to financial institutions in the amount of R$ 1,506,129 (R$ 1,587,544 as at December 31, 2016) and Consolidated R$ 1,528,700 (R$ 1,587,544 as at December 31. 2016),where a discount between 105.0% and 109.0% of the CDI is applied, which is recognized in profit or loss under "financial expenses". The Company, through card sale transactions, transfers to the credit card operators and financial institutions all risks of receiving from customers and, therefore, settles receivables related to these credits, and the respective financial charges are registered under profit or loss at the time of settlement.

(b) Refers to receivables from sales financed by the Company and by other financial institutions

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

(d) Refers to bonuses on production to be received from suppliers, arising from the fulfillment of the purchase volume, as well as from agreements that define the participation of suppliers in disbursements related to advertising and marketing (joint advertising).

Changes in allowance for doubtful accounts are demonstrated below:

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Balance at the beginning of the year	**(29,535)**	(46,640)	**(29,535)**	(46,640)
(+) Additions	**(52,448)**	(43,200)	**(52,455)**	(43,287)
(-) Write-offs	**39,311**	60,305	**39,318**	60,392
Balance at the end of the year	**(42,672)**	(29,535)	**(42,672)**	(29,535)

The aging list of trade receivables and receivables from commercial agreements is demonstrated below:

	Trade receivables				Receivables from commercial agreements			
	Company		Consolidated		Company		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Amounts due:								
Within 30 days	**151,232**	76,846	**153,993**	77,492	**92,319**	56,032	**96,870**	58,006
From 31 to 60 days	**99,316**	45,242	**99,316**	45,407	**106,629**	88,776	**106,629**	88,776
From 61 to 90 days	**66,499**	26,308	**66,499**	27,117	**23,797**	11,740	**23,797**	11,740
From 91 to 180 days	**284,648**	51,629	**284,648**	52,910	**17,186**	9,173	**17,186**	9,173
From 181to 360 days	**430,941**	233,649	**430,941**	234,507	**1,837**	3	**1,837**	3
Over 361 days	**10,202**	7,424	**10,202**	7,424	**1,103**	-	**1,103**	-
	1,042,838	441,098	**1,045,599**	444,857	**242,871**	165,724	**247,422**	167,698
Amounts past due:								
Up to 30 days	**6,105**	5,979	**6,105**	5,979	**5,499**	3,138	**5,499**	3,138
From 31 to 60 days	**3,599**	4,814	**3,599**	4,814	**284**	509	**284**	509
From 61 to 90 days	**3,065**	2,650	**3,065**	2,650	**148**	29	**148**	29
From 91 to 180 days	**7,723**	7,761	**7,723**	7,761	**3,344**	610	**3,344**	610
	20,492	21,204	**20,492**	21,204	**9,275**	4,286	**9,275**	4,286
Total	**1,063,330**	462,302	**1,066,091**	466,061	**252,146**	170,010	**256,697**	171,984

See Note 28 for a description of the credit risk practice and policy.

9. Inventories

Accounting policy

Inventories are stated at the smallest amount between the average acquisition cost and the net realization amount. The average acquisition cost includes the purchase price, taxes and non-recoverable taxes, such as the ICMS (state VAT substitution taxation regime), and other costs directly attributable to the acquisition and to commercial discounts. Provisions for inventory loss are composed of a provision for realization of inventory which corresponds to the estimated sales price of inventory, less all necessary costs for performing the sale and provision for obsolescence which considers goods sent to technical assistance and provision for loss in physical inventories of stores and distribution centers.

	Company		Consolidated	
	2017	2016	2017	2016
Goods for resale	**2,000,926**	1,616,710	**2,016,812**	1,626,787
Consumption material	**9,073**	11,483	**9,073**	11,483
Provision for inventory loss	**(56,036)**	(40,894)	**(56,552)**	(41,527)
Total	**1,953,963**	1,587,299	**1,969,333**	1,596,743

As at December 31, 2017 the Company had inventories of goods for resale assigned as guarantee in legal lawsuits in progress, in the amount of approximately R$ 24,364 (R$ 2,353 as at December 31, 2016).

Changes in provision for inventory loss are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Initial balance	**(40,894)**	(30,391)	**(41,527)**	(30,391)
Provision	**(36,244)**	(55,289)	**(36,127)**	(55,922)
Inventories written-off or sold	**21,102**	44,786	**21,102**	44,786
Final balance	**(56,036)**	(40,894)	**(56,552)**	(41,527)

10. Relates parties

a) Related parties balance

	Assets (Liabilities)				Result			
	Company		Consolidated		Company		Consolidated	
Company	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Luizacred (i)								
Commissions for services rendered	**10,919**	10,843	**10,919**	10,843	**130,004**	118,979	**130,004**	118,979
Direct credit to consumer	**2,533**	2,834	**2,533**	2,834	-	-	-	-
Transfer of receivables	**(43,631)**	(27,853)	**(43,631)**	(27,853)	-	-	-	-
Credit card	**42,338**	18,646	**42,338**	18,646	**(169,955)**	(153,244)	**(169,955)**	(153,244)
Reimbursement of shared expenses	-	-	-	-	**63,703**	50,630	**63,703**	50,630
	12,159	4,470	**12,159**	4,470	**23,752**	16,365	**23,752**	16,365
Luizaseg (ii)								
Commissions for services rendered	**30,435**	28,722	**30,435**	28,722	**272,089**	240,112	**272,089**	240,112
Dividends receivable	**9,869**	2,830	**9,869**	2,830	-	-	-	-
Transfer of receivables	**(43,373)**	(38,605)	**(43,373)**	(38,605)	-	-	-	-
	(3,069)	(7,053)	**(3,069)**	(7,053)	**272,089**	240,112	**272,089**	240,112
Luiza Administradora de Consórcio ("LAC") (iii)								
Commissions for services rendered	**1,087**	828	-	-	**12,035**	9,966	-	-
Consortium group	**(590)**	(941)	**(590)**	(941)	-	-	-	-
Dividends receivable	**1,782**	1,447	-	-	-	-	-	-
	2,279	1,334	**(590)**	(941)	**12,035**	**9,966**	-	-
Campos Floridos - "Época Cosméticos" (iv)								
Commission for services rendered	**22**	-	-	-	**127**	-	-	-
Costs from acquisition of goods	-	-	-	-	-	(3,752)	-	-
	22	-	-	-	**127**	(3,752)	-	-
Donatelo - "Integra Commerce" (v)	-	-	-	-				
Reimbursement of shared expenses	**328**	-	-	-	**328**	-	-	-
	328	-	-	-	**328**	-	-	-
MTG Adm, Assessoria e Participações S.A. (vi)	-	-	-	-				
Rent	**(1,176)**	(1,979)	**(1,179)**	(1,981)	**(22,107)**	(20,056)	**(22,149)**	(20,080)
	(1,176)	(1,979)	**(1,179)**	(1,981)	**(22,107)**	(20,056)	**(22,149)**	**(20,080)**
PJD Agropastoril Ltda. (vii)								
Rent, freight and other transfers	**(44)**	(43)	**(76)**	(73)	**(2,610)**	(2,667)	**(2,989)**	(3,026)
	(44)	(43)	**(76)**	(73)	**(2,610)**	(2,667)	**(2,989)**	(3,026)
ETCO - Sociedade em Conta de Participação (viii)								
Agencing commission -"Fee"	-	-	-	-	**(8,770)**	(10,001)	**(8,770)**	(10,001)
Propaganda expenses	-	(3,356)	-	(3,356)	**(176,261)**	(148,960)	**(176,261)**	(148,960)
	-	(3,356)	-	(3,356)	**(185,031)**	(158,961)	**(185,031)**	(158,961)
Total related parties	**10,499**	(6,627)	**7,245**	(8,934)	**98,583**	81,007	**85,672**	74,410

	Assets (liabilities)			
	Company		Consolidated	
Reconciliation	**2017**	**2016**	**2017**	**2016**
Receivables from related parties	**99,985**	66,296	**96,766**	64,021
Payables to related parties	**(89,486)**	(72,923)	**(89,521)**	(72,955)
Total	**10,499**	(6,627)	**7,245**	(8,934)

	Assets (liabilities)				Result			
Other related parties:	Company		Consolidated		Company		Consolidated	
Securities	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Investment funds (ix)	**1,247,180**	795,180	**1,247,180**	795,180	**52,268**	37,587	**52,268**	37,587

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

(a) Receivables in *private label* credit cards and financial expenses with advance of such receivables;

(b) Balance receivable from the sale of financed products to customers through Luizacred, received by the Company;

(c) Commissions on the services provided monthly by the Company, which include the attraction of customers, management and administration of consumer credit transactions, control and collection of financing granted, indication of insurance linked to financial services and products, access to telecommunication systems and network, in addition to storage and availability of physical space in the points-of-sale. The amounts payable (current liabilities) refer to the receipt of customers' installments by the Company's store cashiers, which are transferred to Luizacred;

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

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

(iv) Transactions with Campos Floridos - "Época Cosméticos", a wholly-owned subsidiary, refers to the cost of acquisition of goods for resale and also sales commissions via the *Marketplace* platform of Magazine Luiza.

(v) Transactions with Donatelo - "Integra Commerce", a wholly-owned subsidiary, refer to reimbursement of shared expenses.

(vi) 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

(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 and truck rental for freight of goods.

(viii) Transactions with ETCO, a special partnership which has as partner an entity controlled by the president 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

(ix) Refers to investments and redemptions, and income from exclusive investment funds (ML Renda Fixa Crédito Privado FI and FI Caixa ML RF Longo Prazo - see Note 7 - Securities).

b) Management compensation

	2017		**2016**	
	Board of Directors	**Executive Officers**	**Board of Directors**	**Executive Officers**
Fixed and variable compensation	**2,968**	**11,274**	2,913	9,364
Share-option plan	**188**	**1,400**	2,454	863

The Company does not grant post-employment benefits, severance benefits, or other long-term benefits. Short-term benefits to the Executive Officers are the same as those extended to other employees of the Company. It is an internal public policy of the Company to pay Profit Sharing to its collaborators. These amounts are provisioned on a monthly basis by the Company, according to estimates for meeting targets. The Company's Board of Directors approved on April 20, 2017, the management's overall compensation for the year ended at December 31, 2017, where a maximum limit for management's overall compensation was estimated at R$19,447.

11. Recoverable taxes

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
ICMS recoverable (a)	**341,473**	406,068	**341,495**	406,068
Recoverable income tax (IRPJ) and social contribution (CSLL)	**-**	1,160	**142**	1,380
Recoverable withholding income tax (IRRF)	**7,793**	21,388	**7,794**	21,405
PIS and COFINS recoverable	**13,148**	4,163	**14,767**	5,420
Other	**2,513**	1,482	**2,513**	1,482
	364,927	434,261	**366,711**	435,755
Current assets	**198,894**	210,657	**200,678**	212,151
Non-current assets	**166,033**	223,604	**166,033**	223,604

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

12. Income tax and social contribution

Accounting policy

Current and deferred income tax and social contribution are calculated based on the rates of 15%, plus a surtax of 10% over taxable income of over R$ 240 thousand for income tax and 9% over taxable income for social contribution on net income, and consider a compensation of tax losses and social contribution carryforward, limited to 30% of the taxable income for the year.

Current tax

Income taxes are recognized under profit or loss for the year. The provisions for income tax and social contribution are calculated individually by component company of the Company based on rates effective at the year end.

Deferred tax

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

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

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

Government subventions for Investment

Government subventions for investment are recognized when there is reasonable assurance that the benefit will be received and that all the corresponding conditions are fulfilled. When the benefit refers to an item of expense, it is recognized as income throughout the period of the benefit, in a systematic manner in relation to the costs that the benefit intends to offset.

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

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Income before income tax and social contribution	**476,109**	74,078	**476,873**	77,096
Prevailing statutory rate	**34%**	34%	**34%**	34%
Expected income tax and social contribution debit at the statutory rate	**(161,877)**	(25,187)	**(162,137)**	(26,213)
Reconciliation for effective rate (effect of applying tax rates):				
Exclusion – equity in investments	**31,287**	24,910	**29,293**	21,319
Effect of interest on own capital payable	**25,500**	-	**25,500**	-
Effect of government subvention (1)	**23,222**	20,588	**23,222**	20,588
Effect of technological innovation	**4,892**	-	**4,892**	-
Effect of interest on own capital receivable	**(9,363)**	-	**(9,363)**	-
Other permanent exclusions, net	**(748)**	(7,824)	**742**	(6,225)
(Debit)/credit from income tax and social contribution	**(87,087)**	12,487	**(87,851)**	9,469
Current	**(73,201)**	-	**(76,823)**	(3,194)
Deferred	**(13,886)**	12,487	**(11,028)**	12,663
Total	**(87,087)**	12,487	**(87,851)**	9,469
Effective tax rate	**18.3%**	16.9%	**18.4%**	12.3%

(1) The Company has subventions for investments, granted by some governmental agencies where it has operations, in the form of deemed ICMS credits. The government subventions are registered in the statement of income of the year under net revenue from sales. Up until the closing dates of 2017 and 2016, the Company fulfilled all of the requirements under the subvention terms, such as tax obligations, maintenance of the agreed employments, minimum billing and maintenance of a logistics structure with an adequate physical space for storage of goods at the granting governmental entity.

12. Income tax and social contribution

Deferred tax

b) <u>Breakdown and changes in the balance of deferred income tax and social contribution assets and liabilities</u>

Company	Balance 01/01/2016	Recognized under profit or loss	Balance 12/31/2016	Recognized under profit or loss	Tax loss compensation with PERT(1)	Balance 12/31/2017
Deferred income tax and social contribution assets						
Tax loss and negative social contribution tax base	146,684	795	**147,479**	**(25,680)**	**(7,882)**	**113,917**
Allowance for doubtful accounts	15,857	(5,815)	**10,042**	**4,466**	**-**	**14,508**
Provision for inventory loss	10,333	3,571	**13,904**	**5,148**	**-**	**19,052**
Provision for adjustment to present value	7,194	(1,304)	**5,890**	**2,758**	**-**	**8,648**
Provision for tax, civil and labor risks	78,203	15,315	**93,518**	**7,509**	**-**	**101,027**
Exchange variations	-	14,895	**14,895**	**(10,212)**	**-**	**4,683**
Other provisions	4,821	(268)	**4,553**	**6,603**	**-**	**11,156**
	263,092	27,189	**290,281**	**(9,408)**	**(7,882)**	**272,991**
Deferred income tax and social contribution liability						
Amortization of intangible assets	(34,490)	(6,298)	**(40,788)**	**(891)**	**-**	**(41,679)**
Update of escrow deposits	-	(6,203)	**(6,203)**	**(2,793)**	**-**	**(8,996)**
Other	-	(2,201)	**(2,201)**	**(794)**	**-**	**(2,995)**
	(34,490)	(14,702)	**(49,192)**	**(4,478)**	**-**	**(53,670)**
	228,602	12,487	**241,089**	**(13,886)**	**(7,882)**	**219,321**

(1) Tax loss compensation, related to adhesion to the Special Tax Regularization Program (PERT)", as per IN 1752/2017.

Consolidated	**Balance 01/01/2016**	**Recognized under profit or loss**	**Balance 12/31/2016**	**Recognized under profit or loss**	**Tax loss compensation with PERT(1)**	**Balance 12/31/2017**
Deferred income tax and social contribution assets						
Tax loss and negative social contribution tax base	147,170	737	**147,907**	**(22,772)**	**(7,882)**	**117,253**
Allowance for doubtful accounts	15,857	(5,815)	**10,042**	**4,466**	**-**	**14,508**
Provision for inventory loss	10,393	3,727	**14,120**	**5,109**	**-**	**19,229**
Provision for adjustment to present value	7,194	(1,281)	**5,913**	**2,758**	**-**	**8,671**
Provision for tax, civil and labor risks	78,402	15,320	**93,722**	**7,513**	**-**	**101,235**
Exchange variations	-	14,895	**14,895**	**(10,212)**	**-**	**4,683**
Other provisions	4,821	(218)	**4,603**	**6,588**	**-**	**11,191**
	263,837	27,365	**291,202**	**(6,550)**	**(7,882)**	**276,770**
Deferred income tax and social contribution liability						
Amortization of intangible assets	(34,490)	(6,298)	**(40,788)**	**(891)**	**-**	**(41,679)**
Update of escrow deposits	-	(6,203)	**(6,203)**	**(2,793)**	**-**	**(8,996)**
Other	-	(2,201)	**(2,201)**	**(794)**	**-**	**(2,995)**
	(34,490)	(14,702)	**(49,192)**	**(4,478)**	**-**	**(53,670)**
	229,347	12,663	**242,010**	**(11,028)**	**(7,882)**	**223,100**

(1) Tax loss compensation, related to adhesion to the Special Tax Regularization Program (PERT)", as per IN 1752/2017

The asset recorded is limited to the amounts whose realization is supported by future taxable base projections, approved by Management. The expected realization of deferred income tax and social contribution as at December 31, 2017 is as follows:

	Company	**Consolidated**
Year of realization		
2018	**114,025**	**114,292**
2019	**87,632**	**91,177**
2020	**16,873**	**17,259**
2021	**15,522**	**15,731**
2022 onwards	**38,939**	**38,311**
	272,991	**276,770**

13. Investments in subsidiaries

Donatelo Desenvolvimento de Software e Marketing Digital Ltda - "Integra Commerce"

On April 3, 2017 the Company obtained 100% control of the voting capital shares of "Integra Commerce", a privately held technological startup with head office in Itajubá, Minas Gerais-Brazil, specialized in the integration and management of relations between store owners and marketplaces.

The acquisition of Integra Commerce accelerates the execution of the main business strategy of the Company in 2017: the development of an open digital platform - the marketplace – profitable, with the lowest costs in the market for store owners wishing to participate.

The fair value of the intangible asset identified in the business combination is of R$ 2,020. No other relevant assets or liabilities were identified in the transaction.

Changes in investments in subsidiaries, presented in the individual financial statements, are demonstrated below:

	Época		**LAC**		**Integra Commerce**
	2017	**2016**	**2017**	**2016**	**2017**
Shares (quotas) held – in thousands	**12,855**	12,855	**6,500**	6,500	**100**
Current assets	**26,101**	19,235	**41,436**	34,572	**241**
Non-current assets	**10,666**	6,803	**3,904**	3,967	**2,498**
Current liabilities	**23,233**	11,469	**12,982**	11,288	**607**
Non-current liabilities	**3,784**	8,473	**2,537**	3,152	**-**
Capital	**16,755**	12,255	**6,500**	6,500	**1,025**
Net equity	**9,750**	6,096	**29,821**	24,099	**2,132**
Net revenue	**79,007**	60,177	**65,352**	53,530	**758**
Net income (loss)	**(846)**	4,469	**7,505**	6,095	**(793)**

Changes in investments	**Época**		**LAC**		**Integra Commerce**
	2017	**2016**	**2017**	**2016**	**2017**
Balance at the beginning of the year	**42,923**	37,454	**24,099**	19,451	**-**
Advance for future capital increase "AFAC"	**4,500**	1,000	**-**	-	**925**
Assets identified in business combination	**-**	-	**-**	-	**2,020**
Unsecured liabilities on date of acquisition of subsidiary	**-**	-	**-**	-	**(20)**
Proposed dividends	**-**	-	**(1,783)**	(1,447)	**-**
Equity in investments	**(846)**	4,469	**7,505**	6,095	**(793)**
Balance at the end of the year	**46,577**	42,923	**29,821**	24,099	**2,132**

Total investments in subsidiaries	**2017**	**2016**
Época Cosméticos	**9,750**	6,096
Época Cosméticos – goodwill	**36,827**	36,827
Consortium group ("LAC")	**29,821**	24,099
Integra Commerce	**2,132**	-
	78,530	67,022

14. Investments in jointly-owned subsidiaries

Accounting policy

Investment in a joint-venture is initially recognized at cost. As of the date of acquisition, the carrying value of the investment is adjusted for the purpose of recognition of the variations in the equity interest of the Company in the net equity of the joint-venture.

The statement of income reflects the participation of the Company in the operational results of the joint-venture. Eventual variations in other comprehensive income of these investees are recognized directly under net equity of the joint-venture, the Company will recognize its participation in any variations, when applicable, in the statement of changes in equity. Unrealized gains and losses due to transactions between the Company and the joint-venture are eliminated in the proportion of the participation in the joint-venture.

The financial statements of the joint-venture are prepared for the same period of disclosure of the Company. When necessary adjustments are made in order for the accounting policies to be aligned to those of the Company.

After applying the equity method of accounting, the Company determines whether it is necessary to recognize additional impairment loss on the investments in the joint-venture. The Company determines, at each balance sheet closing date, whether there is objective evidence that the investment in the joint-venture suffered impairment. If impairment is confirmed, the Company calculates the amount of the impairment loss as the difference between the recoverable value of the joint-venture and the carrying value and recognizes the loss in the statement of income. The Company did not identify objective evidence for recognition of impairment in 2017 and 2016.

	Luizacred (a)		Luizaseg (b)	
	2017	**2016**	**2017**	**2016**
Total shares – in thousands	**978**	**978**	**133,883**	**133,883**
Direct equity interest percentage	**50%**	**50%**	**50%**	**50%**
Current assets	**5,108,440**	4,006,492	**174,120**	142,886
Non-current assets	**550,506**	441,504	**320,376**	320,370
Current liabilities	**4,903,194**	3,769,476	**194,592**	177,788
Non-current liabilities	**168,604**	127,566	**91,246**	75,650
Capital	**291,700**	274,624	**133,883**	133,884
Net equity	**587,148**	550,954	**208,658**	209,818
Net revenue	**1,688,512**	1,669,580	**395,602**	364,902
Net income	**137,524**	101,572	**34,788**	23,832

	Luizacred (a)		Luizaseg (b)	
	2017	**2016**	**2017**	**2016**
Changes in investments				
Balance at the beginning of the year	**275,477**	281,630	**18,353**	15,839
Proposed dividends	**(50,665)**	(56,939)	**(19,431)**	(12,232)
Other comprehensive income	**-**	-	**1,457**	2,830
Equity in investments	**68,762**	50,786	**17,394**	11,916
Balance at the end of the year	**293,574**	275,477	**17,773**	18,353

Total investments in jointly-owned subsidiaries

	2017	2016
Luizacred (a)	**293,574**	275,477
Luizaseg (b)	**104,329**	104,909
Luizaseg – Unrealized profits (c)	**(86,556)**	(86,556)
Total investments in jointly-owned subsidiaries	**311,347**	293,830

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

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

(c) Unrealized profits from transactions for intermediation of extended warranty insurance for the jointly-owned subsidiary Luizaseg.

15. Property and Equipment

Accounting policy

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

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

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

The accounting policy related to the impairment of property and equipment are described under Note 3.2.

Changes in property and equipment, during the years ended December 31, 2017 and 2016 are as follows:

a) *Company*

	Balance 12/31/2016	Additions	Depreciation	Write-off	Transfer	Balance 12/31/2017
Furniture and fixtures	**91,039**	**18,733**	**(16,684)**	**(401)**	**1,426**	**94,113**
Machinery and equipment	**64,761**	**9,271**	**(5,066)**	**(242)**	**(804)**	**67,920**
Vehicles	**13,796**	**403**	**(3,452)**	**326**	**-**	**11,073**
Computers and peripherals	**35,699**	**16,385**	**(13,417)**	**(130)**	**69**	**38,606**
Improvements	**331,004**	**-**	**(50,657)**	**(128)**	**53,092**	**333,311**
Works in progress	**11,831**	**49,744**	**-**	**(232)**	**(53,092)**	**8,251**
Other	**11,190**	**5,993**	**(2,532)**	**(149)**	**(691)**	**13,811**
	559,320	**100,529**	**(91,808)**	**(956)**	**-**	**567,085**

	Balance 01/01/2016	Additions	Depreciation	Write-off	Transfer	Balance 12/31/2016
Furniture and fixtures	94,128	12,500	(15,173)	(806)	390	**91,039**
Machinery and equipment	64,057	5,868	(4,584)	(377)	(203)	**64,761**
Vehicles	17,349	444	(3,968)	(29)	-	**13,796**
Computers and peripherals	34,489	12,902	(12,962)	(110)	1,380	**35,699**
Improvements	322,730	-	(54,347)	(946)	63,567	**331,004**
Works in progress	35,770	40,851	-	(159)	(64,631)	**11,831**
Other	9,288	4,497	(1,890)	(202)	(503)	**11,190**
	577,811	77,062	(92,924)	(2,629)	-	**559,320**

	2017			2016		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Furniture and fixtures	**196,822**	**(102,709)**	**94,113**	179,215	(88,176)	91,039
Machinery and equipment	**102,761**	**(34,841)**	**67,920**	95,023	(30,262)	64,761
Vehicles	**32,410**	**(21,337)**	**11,073**	43,344	(29,548)	13,796
Computers and peripherals	**169,584**	**(130,978)**	**38,606**	158,887	(123,188)	35,699
Improvements	**673,263**	**(339,952)**	**333,311**	630,649	(299,645)	331,004
Works in progress	**8,251**	**-**	**8,251**	11,831	-	11,831
Other	**27,178**	**(13,367)**	**13,811**	22,722	(11,532)	11,190
	1,210,269	**(643,184)**	**567,085**	1,141,671	(582,351)	559,320

b) *Consolidated*

	Balance 12/31/2016	Additions	Addition for acquisition of subsidiary	Depreciation	Write-off	Transfer	Balance 12/31/2017
Furniture and fixtures	**91,039**	**18,750**	**-**	**(16,685)**	**(401)**	**1,426**	**94,129**
Machinery and equipment	**64,761**	**9,273**	**-**	**(5,066)**	**(242)**	**(804)**	**67,922**
Vehicles	**13,796**	**403**	**-**	**(3,452)**	**326**	**-**	**11,073**
Computers and peripherals	**35,699**	**16,437**	**3**	**(13,419)**	**(130)**	**69**	**38,659**
Improvements	**331,004**	**-**	**-**	**(50,657)**	**(128)**	**53,092**	**333,311**
Works in progress	**11,831**	**49,744**	**-**	**-**	**(232)**	**(53,092)**	**8,251**
Other	**11,937**	**7,388**	**-**	**(2,802)**	**(150)**	**(691)**	**15,682**
	560,067	**101,995**	**3**	**(92,081)**	**(957)**	**-**	**569,027**

	Balance 01/01/2016	Additions	Depreciation	Write-off	Transfer	Balance 12/31/2016
Furniture and fixtures	94,128	12,500	(15,173)	(806)	390	**91,039**
Machinery and equipment	64,057	5,868	(4,584)	(377)	(203)	**64,761**
Vehicles	17,349	444	(3,968)	(29)	-	**13,796**
Computers and peripherals	34,489	12,902	(12,962)	(110)	1,380	**35,699**
Improvements	322,730	-	(54,347)	(946)	63,567	**331,004**
Works in progress	35,770	40,851	-	(159)	(64,631)	**11,831**
Other	10,048	4,737	(2,143)	(202)	(503)	**11,937**
	578,571	77,302	(93,177)	(2,629)	-	**560,067**

	2017			2016		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Furniture and fixtures	**196,839**	**(102,710)**	**94,129**	179,215	(88,176)	91,039
Machinery and equipment	**102,763**	**(34,841)**	**67,922**	95,023	(30,262)	64,761
Vehicles	**32,410**	**(21,337)**	**11,073**	43,344	(29,548)	13,796
Computers and peripherals	**169,639**	**(130,980)**	**38,659**	158,887	(123,188)	35,699
Improvements	**673,263**	**(339,952)**	**333,311**	630,649	(299,645)	331,004
Works in progress	**8,251**	**-**	**8,251**	11,831	-	11,831
Other	**31,071**	**(15,389)**	**15,682**	25,218	(13,281)	11,937
	1,214,236	**(645,209)**	**569,027**	1,144,167	(584,100)	560,067

As at December 31, 2017 the Company registered R$1,569 (R$ 2,979 as at December 31, 2016), related to costs with loans capitalized for opening new stores and acquisition of facilities and equipment. The average rate of the loans was used to calculate the costs of the loans to be capitalized.

c) *Depreciation rates*

Annual depreciation rates are demonstrated below:

	2017	2016
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%
Improvements	**7.8%**	9.1%

At December 31, 2017, the Company had property and equipment fully depreciated in operation at the amount of R$ 175,460 (R$ 170,586 as at December 31, 2016). The Company has no idle items of the property and equipment or held for sale.

d) *Asset impairment text*

In the reporting years, no events were identified indicating the need of making calculations to assess any impairment of the property and equipment.

16. Intangible assets

Accounting policy

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

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

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

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

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

The accounting policies related to the impairment of intangible assets are described in Note 3.2.

Changes for the years ended December 31, 2017 and 2016 are as follows:

a) Company

	Balance 12/31/2016	Additions	Amortization	Write-off	Transfer	Balance 12/31/2017
Goodwill in the acquisition of new chains	**313,856**	**-**	**-**	**-**	**-**	**313,856**
Commercial fund	**33,303**	**150**	**(6,098)**	**(452)**	**431**	**27,334**
Software and internal development	**119,880**	**11,844**	**(44,179)**	**-**	**56,190**	**143,735**
Projects in progress	**2,567**	**55,219**	**-**	**(98)**	**(56,621)**	**1,067**
Trademark and patents	**14**	**-**	**(14)**	**-**	**-**	**-**
Other	**104**	**15**	**-**	**-**	**-**	**119**
	469,724	**67,228**	**(50,291)**	**(550)**	**-**	**486,111**

	Balance 01/01/2016	Additions	Amortization	Write-off	Transfer	Balance 12/31/2016
Goodwill in the acquisition of new chains	313,856	-	-	-	-	**313,856**
Commercial fund	33,805	45	(5,581)	(227)	5,261	**33,303**
Software and internal development	83,266	472	(34,392)	(26)	70,560	**119,880**
Projects in progress	32,637	45,780	-	(29)	(75,821)	**2,567**
Trademark and patents	58	-	(44)	-	-	**14**
Other	104	-	-	-	-	**104**
	463,726	46,297	(40,017)	(282)	-	**469,724**

	2017			2016		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Goodwill in the acquisition of new chains	325,451	(11,595)	313,856	325,451	(11,595)	313,856
Commercial fund	139,719	(112,385)	27,334	142,735	(109,432)	33,303
Software and internal development	330,157	(186,422)	143,735	262,123	(142,243)	119,880
Projects in progress	1,067	-	1,067	2,567	-	2,567
Trademark and patents	211	(211)	-	211	(197)	14
Other	6,444	(6,325)	119	9,596	(9,492)	104
	803,049	(316,938)	486,111	742,683	(272,959)	469,724

b) <u>Consolidated</u>

	Balance 12/31/2016	Addition	Addition for acquisition of controlling company	Amortization	Write-off	Transfer	Balance 12/31/2017
Goodwill in the acquisition of new chains	**350,683**	**-**	**2,020**	**-**	**-**	**-**	**352,703**
Commercial fund	**35,042**	**150**	**-**	**(6,098)**	**(452)**	**431**	**29,073**
Software and internal development	**121,252**	**13,435**	**-**	**(44,866)**	**-**	**56,190**	**146,011**
Projects in progress	**2,567**	**55,219**	**-**	**-**	**(98)**	**(56,621)**	**1,067**
Trademark and patents	**3,401**	**-**	**-**	**(14)**	**-**	**-**	**3,387**
Other	**104**	**15**	**-**	**-**	**-**	**-**	**119**
	513,049	**68,819**	**2,020**	**(50,978)**	**(550)**	**-**	**532,360**

	Balance 01/01/2016	Additions	Addition for acquisition of controlling company	Amortization	Write-off	Transfer	Balance 12/31/2016
Goodwill in the acquisition of new chains	350,683	-	-	-	-	-	**350,683**
Commercial fund	35,544	45	-	(5,581)	(227)	5,261	**35,042**
Software and internal development	84,307	1,221	-	(34,810)	(26)	70,560	**121,252**
Projects in progress	32,637	45,780	-	-	(29)	(75,821)	**2,567**
Trademark and patents	3,445	-	-	(44)	-	-	**3,401**
Other	104	-	-	-	-	-	**104**
	506,720	47,046	-	(40,435)	(282)	-	**513,049**

	2017			2016		
	Cost	**Accumulated amortization**	**Net**	**Cost**	**Accumulated amortization**	**Net**
Goodwill in the acquisition of new chains	**364,298**	**(11,595)**	**352,703**	362,278	(11,595)	350,683
Commercial fund	**141,458**	**(112,385)**	**29,073**	144,474	(109,432)	35,042
Software and internal development	**334,696**	**(188,685)**	**146,011**	265,071	(143,819)	121,252
Projects in progress	**1,067**	**-**	**1,067**	2,567	-	2,567
Trademark and patents	**3,598**	**(211)**	**3,387**	3,598	(197)	3,401
Other	**6,444**	**(6,325)**	**119**	9,596	(9,492)	104
	851,561	**(319,201)**	**532,360**	787,584	(274,535)	513,049

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

Impairment tests on goodwill and intangible assets

Goodwill and other intangible assets underwent impairment tests at December 31, 2017 and 2016. Management prepared an estimate of recoverable values or amounts in use of all assets.

The impairment tests comprise the calculation of recoverable values of the Cash-Generating Units (CGUs), which correspond to the group of stores of the acquired chains, totaling R$ 350,683 in 2017 and 2016 and have already been incorporated.

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

	Rate (per year)
Discounted cash flow – discount rate, before taxes	12.5% (1)
Weighted average growth rate in the first 5 years	5.1%
Perpetuity	3.5%

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

The assumptions about the future cash flows and growth prospects for the CGU is based on the Company’s annual budget and business plans for the next 5 years approved by the Board of Directors, as well as comparable market data, representing the Management’s best estimate as to current economic conditions during the useful economic lives of the group of assets generating cash flows. From the tests performed, the Company did not identify any impairment of the goodwill recorded.

17. Suppliers

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Resale of goods - domestic market	**2,897,609**	2,375,873	**2,914,743**	2,383,961
Other suppliers	**34,332**	21,764	**38,945**	25,380
Adjustment to present value	**(33,916)**	(44,164)	**(34,147)**	(44,382)
Total suppliers	**2,898,025**	2,353,473	**2,919,541**	2,364,959

The Company has agreements signed with partner banks to structure with its main suppliers the operation of anticipation of receivables. In this operation, the suppliers transfer the right to receiving the notes to the Bank in exchange for anticipated receipt of the notes. The Bank, in turn, becomes the creditor of the operation, and the Company settles the note on the same date originally agreed-to with its supplier and receives, subsequently, a commission from the Bank for this intermediation and confirmation of the notes payable. This commission is registered as financial income.

The above operation performed by the Company does not alter the terms, prices and conditions previously established with the suppliers and, therefore, the Company classifies it under Suppliers.

As at December 31, 2017 the balance payable negotiated by suppliers, and with the acceptance of Magazine Luiza, totaled R$ 294,905 (R$ 505,114 as at December 31, 2016).

Accounts payable to suppliers are initially recorded at present value with the counterentry in "Inventory". The reversal of the adjustment to present value is registered under "Cost of resold goods and services rendered" for the benefit of the term.

18. Loans, financing and other financial liabilities

Loans and financing

Modality	Charges	Guarantee	Final maturity	Company 2017	Company 2016	Consolidated 2017	Consolidated 2016
Working capital in foreign currency (a)	1.43% p.a. to 6.41% p.a + Exch. Var.	N/A	Mar/18	**52,519**	333,503	**52,519**	333,503
Working capital in local currency	110.7% to 125.3% of the CDI	Aval guarantee	Nov/18	**251,600**	362,558	**251,600**	362,696
Debentures –restricted offer (e)	112.0% to 125.9% of the CDI	Clean	Jul/20	**305,116**	1,069,633	**305,116**	1,069,633
Promissory notes (f)	109.0% to 112.0% of the CDI	Clean	May/19	**212,343**	-	**212,343**	-
Financial lease (b)	2.5% p.a. to CDI + 2.88%	Statutory lien	Dec/19	**9,226**	17,676	**9,226**	17,676
Innovation financing - FINEP (c)	4% p.a.	Bank guarantee	Dec/22	**37,024**	44,429	**37,024**	44,429
Expansion financing - BNB (d)	7% p.a.	Bank guarantee	Dec/22	**3,670**	4,404	**3,670**	4,404
				871,498	1,832,203	**871,498**	1,832,341
Other financial liabilities							
Swap payable – fair value hedge (a)				**-**	16,435	**-**	16,435
Total loans, financing and other financial liabilities				**871,498**	1,848,638	**871,498**	1,848,776
Current liabilities				**434,294**	837,878	**434,294**	838,016
Non-current liabilities				**437,204**	1,010,760	**437,204**	1,010,760

(a) A portion of the funds was contracted in foreign currency, over which fixed interest and exchange rate change are levied. In order to hedge its transactions against exchange rate change risks, the Company entered into swap transactions. Due to the increased number of funding with these characteristics, this year the Company started the hedge accounting of said operations. Further details are disclosed in Note 28.

(b) Refers to financial lease contracts related to computer hardware and software, and the contracts have final maturities in 2019.

(c) The Company entered into a credit facility agreement with Study and Projects Financing Agency - FINEP, with the purpose of investing in technological innovation research and development projects.

(d) The Company signed a financing contract with Banco do Nordeste do Brasil - BNB, with the purpose of modernizing, refurbishing the stores in the northeastern region and build a new Distribution Center in the municipality of Candeias (BA), in the amount of R$ 68,103. As at December 31, 2017 the first installment was released in the amount of R$ 4,383.

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

Issue	Principal R$	Date of Issue	Final maturity	Outstanding securities	Financial charges	Company and consolidated 2017	Company and consolidated 2016
1st issue – single series	200,000	12/26/2011	06/16/2017	-	113.0% do CDI	-	149,383
3rd issue – single series	200,000	10/21/2013	07/21/2018	20,000	125.9% do CDI	-	55,439
4th issue – single series	400,000	05/30/2014	05/30/2019	40,000	112.0% do CDI	-	402,451
5th issue – single series	350,000	03/17/2015	03/17/2020	35,000	113.2% do CDI	-	362,492
6th issue – single series	100,000	06/20/2016	06/20/2018	10,000	125.2% do CDI	-	99,868
7th issue – single series	300,000	07/31/2017	07/31/2020	300,000	113.5% do CDI	**305,116**	-
						305,116	1,069,633

(f) The Company issued the following promissory notes:

Issues	Principal R$	Date of Issue	Final maturity	Outstanding securities	Financial charges	Company and consolidated 2017	Company and consolidated 2016
3rd issue – 1st series	100,000	05/10/2017	05/10/2018	20	109.0% do CDI	**106,085**	-
3rd issue – 2nd series	100,000	05/10/2017	05/10/2019	20	112.0% do CDI	**106,258**	-
						212,343	-

Cash flow consolidation of operational and financing activities

	Company 2017	Company 2016	Consolidated 2017	Consolidated 2016
Initial balance	**1,848,638**	1,823,050	**1,848,776**	1,823,310
Raising of capital	**502,617**	578,540	**502,617**	578,540
Payment of principal	**(1,433,953)**	(477,188)	**(1,434,097)**	(477,325)
Payment of interest	**(214,018)**	(216,134)	**(214,029)**	(216,167)
Provisioned interest	**180,742**	254,466	**180,759**	254,514
Fair value hedge	**(12,528)**	(114,096)	**(12,528)**	(114,096)
Final balance	**871,498**	1,848,638	**871,498**	1,848,776

Amortization schedule

The amortization schedule for the payment of loans and financing is demonstrated below:

Year of maturity	Company and Consolidated Debt including hedge accounting "	Fair value hedge Note 8	Debt excluding hedge accounting
2018	**434,294**	**(1,378)**	**432,916**
2019	**113,903**	**-**	**113,903**
2020	**307,487**	**-**	**307,487**
2021	**7,907**	**-**	**7,907**
2022	**7,907**	**-**	**7,907**
Total	**871,498**	**(1,378)**	**870,120**

Covenants

The Company has restrictive clauses (covenants) for the 7th issue of debentures, being the maintenance of the "adjusted net debt/Adjusted EBITDA" not superior to 3.0 times.

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

As at December 31, 2017 the Company is compliant with the convenant described above.

19. Deferred income

	Company and Consolidated	
	2017	**2016**
Deferred income with third parties:		
Exclusive agreement with Cardif (a)	**157,552**	166,121
Exclusive agreement with Banco Itaúcard S.A. (b)	**121,500**	134,000
Other contracts	**2,409**	2,323
	281,461	302,444
Deferred income with related parties		
Exclusive agreement with Luizacred (b)	**132,942**	144,029
Exclusive agreement with Luizaseg (a)	**96,000**	103,000
	228,942	247,029
Total deferred income	**510,403**	549,473
Current liabilities	**41,566**	40,318
Non-current liabilities	**468,837**	509,155

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

(b) On September 27, 2009, the Company entered into a partnership agreement with Itaú Unibanco Holding S.A. ("Itaú") and Banco Itaucard S.A., under which the Company grants to Luizacred the exclusive right to offer, distribute, and sell financial products and services in its store chain for a 20-year period. In consideration for the aforementioned alliance, Itaú group companies paid in cash R$ 250,000, of which: (i) R$ 230,000 relating to the completion of the negotiation, without right of recourse; and (ii) R$ 20,000 subject to the achievement of profitability targets in Luizacred. Said targets had been fully achieved at the end of 2014.

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

On December 16, 2011, the Company entered into a second amendment to the partnership agreement with Luizacred, due to acquisition of New-Utd ("Lojas do Baú"). As consideration, Luizacred paid

R$48,000 to the Company, which will be allocated to profit (loss) over the remaining term of the agreement.

20. Provision for tax, civil and labor risks

Accounting policy

The provision for tax, civil and labor contingencies is recorded based on legal opinions and the Management's assessment on the lawsuits known at the end of the reporting period, for the risks deemed as probable loss, with the best estimate for future disbursement by the Company. The assessment of probability of loss includes the evaluation of available evidence, hierarchy of the laws, available jurisprudence, most recent court decisions and relevance in the legal framework, as well as the evaluation of external and internal legal advisors. Management believes that the provisions for tax, civil and labor risks are correctly presented in the financial statements.

Changes in the provisions for tax, civil and labor risks are demonstrated below:

Company

	Tax	Civil	Labor	Total
Balance as at January 1, 2016	183,748	15,350	30,912	230,010
Additions	17,070	10,031	17,087	44,188
Reversal	(500)	-	(477)	(977)
Payments	-	(8,276)	(9,629)	(17,905)
Adjustments	19,738	-	-	19,738
Balance as at December 31, 2016	220,056	17,105	37,893	275,054
Additions	**74,146**	**10,121**	**8,993**	**93,260**
Reversal	**(55,042)**	**(1,994)**	**-**	**(57,036)**
Payments	**(6,646)**	**(9,059)**	**(12,043)**	**(27,748)**
Adjustments	**13,608**	**-**	**-**	**13,608**
Balance as at December 31, 2017	**246,122**	**16,173**	**34,843**	**297,138**

Consolidated

	Tax	Civil	Labor	Total
Balance as at January 1, 2016	195,025	15,647	32,740	243,412
Additions	17,070	10,523	17,343	44,936
Reversal	(4,232)	(57)	(1,274)	(5,563)
Payments	-	(8,716)	(9,681)	(18,397)
Adjustments	19,738	-	-	19,738
Balance as at December 31, 2016	227,601	17,397	39,128	284,126
Additions	**74,146**	**10,434**	**9,161**	**93,741**
Reversal	**(58,803)**	**(2,329)**	**(938)**	**(62,070)**
Payments	**(6,646)**	**(9,163)**	**(12,062)**	**(27,871)**
Adjustments	**13,608**	**-**	**-**	**13,608**
Balance as at December 31, 2017	**249,906**	**16,339**	**35,289**	**301,534**

As at December 31, 2017, the Company's main lawsuits classified by Management as probable loss based on the opinion of its legal advisors, as well as legal obligations which amounts are deposited in court, for which the amounts were included in the provision for contingencies, are as follows:

a) Tax claims

The Company discusses on an administrative and legal basis several tax claims classified as probable loss, therefore, these are provisioned. They involve federal taxes, as at December 31, 2017 totaling R$ 42,969 (R$14,669 as at December 31, 2016), state taxes, as at December 31, 2017 totaling R$ 62,085 (R$ 30,273 as at December 31, 2016), and municipal taxes totaling R$ 59 (R$ 60 as at December 31, 2016).

The Company also has provision for other legal discussions to which escrow deposits are made, as well as other provisions related to business combinations, which involve federal taxes, totaling R$ 141,009 as at December 31, 2017 (R$175,054 at December 31, 2016) and state taxes, totaling R$ 3,784 as at December 31, 2017 (R$ 7,545 as at December 31, 2016). No provision of this type was recorded for municipal taxes in this period.

b) Civil claims

Consolidated civil contingencies of R$ 16,339 as at December 31, 2017 (R$17,397 as at December 31, 2016) are related to claims filed by customers on possible product defects.

c) Labor claims

At the labor courts, the Company is a party to various labor claims, mostly in relation to overtime.

The amount provisioned of R$ 35,289 as at December 31, 2017 (R$ 39,128 as at December 31, 2016), consolidated, reflects the risk of probable loss assessed by the Company's Management jointly with its legal advisors.

In order to address the tax, civil and labor contingencies, the Company has a balance in escrow deposits of R$ 310,901 as at December 31, 2017 (R$ 292,189 at December 31, 2016).

d) Contingent liabilities – possible loss

The Company is a party to other claims that were assessed by Management, based on the opinion of its legal advisors, as possible losses and, therefore, no provision was recognized for such claims. The amounts related to claims involving federal taxes sum up R$ 963,786 as at December 31, 2017 (R$ 603,615 as at December 31, 2016), in relation to state taxes these amounts sum up R$ 423,877 as at December 31, 2017 (R$186,278 as at December 31, 2016) and as to municipal taxes these amounts sum up R$ 1,309 as at December 31, 2017 (R$ 821 at December 31, 2016).

Among the main claims of a tax nature, classified as of possible loss, we highlight: (i) Administrative Process in which the Company discusses with the tax authorities the nature/concept of the bonuses/reimbursements of its suppliers for the purpose of PIS/COFINS taxation, as well as the characterization of some expenses related to its core activity as inputs for the purpose of PIS/COFINS credits; (ii) Legal process in which the Company discusses the violation of various legal principles of Law 13241/2015, which extinguished the exemption of PIS and COFINS contribution over income from the sale of eligible products to the Basic Production Process. According to the analysis of the Company's internal and external legal advisors the chances of loss are possible maybe remote; (iii) Administrative Process in which the Company discusses with the state tax authorities supposed ICMS credit or divergences; (iv) Administrative Process in which the Company discusses with the state tax authorities assessments for ICMS tax credits appropriated on the purchase of goods from suppliers subsequently declared as inapt; (v) Administrative Process in which the Company discusses with the tax authorities the increase in the RAT rate; (vi) Sundry tax assessments in which the Company discusses the collection of ICMS credits appropriated on the acquisition of goods from some of its suppliers, once these were granted tax benefits by other States of the Federation. The Company accompanies the evolution of all the discussions at each quarter and when there are alterations to the scenario, the risk evaluations and eventual loss are also re-evaluated.

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

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

e) Processes in favor of the Company

The Company is an author (as plaintiff) in other tax claims of various natures, in other words, filled lawsuits against various taxing entities in order to recover taxes paid and/or collected unduly by such entities. Among the main lawsuits, emphasis is given to: i) the legal discussion on the exclusion of ICMS from the calculation base of the PIS and COFINS contribution, which for the Company reaches the amount of R$ 620,289, including monetary correction (R$ 567,706 as at December 31, 2016) of taxes already paid and other discussions involving PIS and COFINS credits in amounts of approximately R$ 304,188. On March 15, 2017 the Supreme Federal Court concluded judgment, in the systematic of general repercussion, declaring unconstitutional the inclusion of ICMS in the calculation base of these contributions. Thus the Company is evaluating with its legal advisors the amount and monetary correction of the credits covered by its lawsuits; (ii) legal discussion on the recognized right by decision of the Supreme Federal Court of taxpayers to recover the ICMS overpaid in the systematic of tax substitution corresponding to the difference of the margin practiced in comparison with the deemed margin of the states (MVA – Value Added Margin). The Company is evaluating with its legal advisors the mapping and monetary correction of the credits covered by its lawsuits.

21. Net equity

a) <u>Capital</u>

The Company approved during a Extraordinary General Assembly, held on September 4, 2017, a proposal for share split, in the proportion of 01 (one) common share to 08 (eight) common shares, without any alteration to the value of the social capital of the Company. Thus, the quantity of shares went from 21,623,933 to 172,991,464, all common, nominative, book-entry shares without par value.

<u>Public Share Offering - "Follow-On"</u>

On September 12, 2017 the Company began a public share offer with restricted efforts for placement, under the terms of CVM Instruction 476, comprising the primary distribution of 17,600,000 new common shares issued by the Company, approved by the Board of Directors on September 27, 2017 and secondary distribution of 6,400,000 common shares owned by the selling shareholders. The price per share was fixed at R$ 65.00, after conclusion of the process of collection of intentions of investment with professional investors.

In this manner, the total amount of the Restricted Offer, based on the price per share was of R$ 1,560,000 thousand, of which R$ 1,144,000 thousand refer to primary distribution of and R$ 416,000 thousand refers to secondary distribution. The table below indicates the composition of the capital of the Company, fully subscribed and paid-in, prior to the Restricted Offer and after the conclusion of the Restricted Offer, not considering the expenses of the Offer:

Shareholders	Quantity	Amount (in R$)
Before the Restricted Offer	172,991,464	626,911,472
Restricted Offer	17,600,000	1,144,000,000
After the Restricted Offer	190,591,464	1,770,911,472

The Restricted Offer was closed on October 3, 2017. Net funds deriving from the Primary Offer will be used for: (i) investments in long-term assets, including: (a) improvement and expansion of the logistics network, (b) technology and development of the digital platform, (c) transformation of existing stores into shoppable distribution centers, (d) inauguration of new stores, and (e) acquisition of technological companies with performance in the digital segment; and (ii) optimization of the capital structure of the Company, including payment of short-term debts.

The Offer was concluded as follows:

	Quantity of shares
Restricted Offer – Uptake	**1,144,000**
Expenses with the Offer, net of tax effects	**(30,619)**
Total	**1,113,381**

In this manner, as at December 31, 2017 the shareholder composition of the Company is as follows:

	Quantity of shares	Equity interest %
Controlling shareholders	**121,385,260**	**63.69**
Outstanding shares	**67,846,144**	**35.60**
Treasury shares	**1,360,060**	**0.71**
Total	**190,591,464**	**100.00**

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

According to Article 7 of the Bylaws, the Company may increase its capital, pursuant to Article 168 of Law 6,404/76, by means of the issue of up to 50,000,000 common shares.

b) Capital reserve

As at December 31, 2017 the Company has the amount of R$ 37,094 (R$ 19,030 as at December 31, 2016) registered under Capital Reserve.

Share option plan

1st Granting of the Share Option Plan

For this Share Option Plan ("Plan") Company's Management, employees or services providers are eligible to receive share options. In the first granting of the Plan, on January 5, 2012, 1,274,732 call options were granted for the strike price of R$13.60.

The Plan will have an eight year duration as of the grant date. The options may be exercised, fully or partially, provided that the beneficiary remains continuously bonded, as manager or employee of the Company, between the grant date and the dates specified, as follows: 20% of the options may be exercised as of March 1, 2012 and, after such date, additional 20% may be exercised every year the beneficiary is bound to the Company. These options when exercised will be settled through the delivery of Company equity instruments.

2nd Granting of Share Option Plan

The second granting of the Share Option Plan was approved on October 25, 2013. At that occasion, 1,213,476 options were granted and the strike price was defined at R$9.45. This plan will have a maximum exercise term of 12 years, as of the date of its signature, but the following grace period shall be observed: 25% of the options may be exercised as of October 29, 2015; 25% of the options may be exercised as of October 29, 2016; 25% of the options may be exercised as of October 29, 2017 always when the beneficiary remains bound to the Company.

Fair value

The fair value of each option granted is estimated on the grant date applying the pricing model of the Black & Scholes options, considering the following assumptions
:

Assumption	1st Granting	2nd Granting
Expected average life of the options (a)	5.5 years	5.5 years
Average annual volatility	43.5%	37.98%
Risk free interest rata	10%	5.92%
Weighted average of fair value of options granted	R$6.65	R$6.06

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

The table below demonstrate changes in the quantity of share options and strike price weighted average (MPPE):

Share option plan – reconciliation of granted options

	Quantity	MPPE[1]
Outstanding as at January 1, 2016	4,419,585	R$10.88
with right barred by law in the year	(2,280,725)	R$10.31
Outstanding as at December 31, 2016	2,138,860	R$11.48
exercised during the period	(1,439,940)	R$11.77
Outstanding as at December 31, 2017	698,920	R$10.88

[1]Strike price weighted average of the share option: calculated based on contractual terms, without considering monetary correction of the price.

[2]The strike price weighted average of the shares on the date of exercising the share option was of R$ 50.50.

Share based incentive plan - "share matching"

The Extraordinary General Assembly approved on April 20, 2017 a new incentive plan linked to the shares of the Company, The plan has the aim of regulating the concession of incentives linked to common shares issued by the Company through programs to be implemented by the Executive Officers, whereby Management, employees or service providers of the Company or of its subsidiaries or jointly-owned subsidiaries.

The main objectives of the plan are: (a) to increase the capacity of attracting and retaining talents by the Company; (b) reinforce the culture of sustainable development and search for the development of our Managers, employees and service providers, aligned to the interests of our shareholders to those of the eligible parties; and (c) stimulate the expansion of the Company and the scope and surpassing our business targets and achievement of our social objectives, aligned to the interests of our shareholders, through the long-term commitment of the beneficiaries.

The plan will be in accordance with the "share matching" model, whereby for each common share acquired by the beneficiary adhering to the program, the Company will grant the right of receiving, free of charge, 3 common shares of the Company. The transfer of ownership of the shares will occur in accordance with the maximum grace period of four years and ten months as of June 30, 2017.

A total of 551,448 shares were granted as "matching shares" to the beneficiaries, through adhesion to the program. The fair value of the granted shares was estimated on the date of granting the right to the beneficiaries, based on the market price of the common shares of the Company negotiated in BMF&BOVESPA (B3), in other words, R$ 31.06. The effects of the transaction with the share based payment are being registered under profit or loss for the period/year considering the terms and grace periods described in the program.

The effects of the transactions with share based payments were registered under profit or loss, considering the fair value of the share option, resulting in an expense of R$5,594 for the year ended December 31, 2017 (R$ 4,463 as at December 31, 2016).

c) <u>Legal reserve</u>

As at December 31, 2017 the Company has the amount of R$ 39,922 (R$ 20,471 as at December 31, 2016) registered under Legal Reserve.

d) <u>Dividends and interest on own capital</u>

On April 24, 2017 the Board of Directors approved additional dividends in the amount of R$ 9,307, related to the year 2016.

On December 13, 2017 the Board of Directors approved the distribution of interest on own capital in the gross amount of R$ 75,000, related to the year 2017.

e) <u>Retained earnings</u>

As at December 31, 2017 the Company registered under retained earnings the amount of R$ 288,371 (R$ 3,107 as at December 31, 2016). The tax incentive reserve is presented under this item.

f) <u>Earnings per share</u>

The calculation of earnings per basic and diluted shares are disclosed below:

	Basic earnings		Diluted earnings	
	2017	**2016**	**2017**	**2016**
Average common shares	**178,858,131**	176,717,353	**178,858,131**	176,717,353
Effect of treasury shares	**(2,279,966)**	(2,800,000)	**(2,279,966)**	(2,800,000)
Diluting effect of shares (a)	**-**	-	**1,407,480**	-
Weighted average outstanding common shares	**176,578,165**	173,917,353	**177,985,645**	173,917,353
Net income in thousands	**389,022**	86,565	**389,022**	86,565
Earnings per share in Brazilian reais	**2.203**	0.4977	**2.186**	0.4977

a) Considers the effect of exercisable shares according to the incentive plan linked to shares, disclosed above. For the year ended December 31, 2016 there was no diluting effect on earnings per share and the amounts presented already have the effect of the share split.

22. Net sales revenue

Accounting policy

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

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

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

Service revenue:
a) is determined by the intermediation of financial services to its joint ventures, as well as to other related companies of the Company;

b) it is calculated by services provided related to integration and management between store owners and marketplaces.

Revenue from services is recognized when it is probable that significant benefits to the service rendered will flow to the Company.

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

	Company		Consolidated	
	2017	2016	2017	2016
Gross revenue				
Retail–resale of goods	**13,528,956**	10,763,497	**13,621,626**	10,828,782
Retail – services rendered	**587,878**	457,179	**628,840**	484,800
Consortium management	**-**	-	**70,638**	58,062
	14,116,834	11,220,676	**14,321,104**	11,371,644
Taxes and returns:				
Retail–resale of goods	**(2,242,903)**	(1,788,583)	**(2,256,566)**	(1,797,443)
Retail – services rendered	**(74,904)**	(60,924)	**(75,002)**	(60,924)
Consortium management	**-**	-	**(5,286)**	(4,532)
	(2,317,807)	(1,849,507)	**(2,336,854)**	(1,862,899)
Net sales revenue	**11,799,027**	9,371,169	**11,984,250**	9,508,745

23. Cost of goods resold and services rendered

Accounting policy

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

	Company		Consolidated	
	2017	2016	2017	2016
Costs:				
Goods resold	**(8,305,003)**	(6,538,942)	**(8,346,305)**	(6,562,328)
Services rendered	**-**	-	**(31,934)**	(23,802)
	(8,305,003)	(6,538,942)	**(8,378,239)**	(6,586,130)

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

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

	Company		Consolidated	
	2017	2016	2017	2016
Personnel expenses (a)	**(1,300,414)**	(1,111,997)	**(1,306,747)**	(1,130,088)
Expenses with services rendered	**(582,760)**	(511,050)	**(603,788)**	(531,083)
Other	**(683,232)**	(581,386)	**(708,958)**	(583,515)
Total	**(2,566,406)**	(2,204,433)	**(2,619,493)**	(2,244,686)

(a) The Company provides its employees with benefits, such as health care insurance, dental care refund, life insurance, food ticket, transportation ticket, scholarships, in addition to the Share Option Plan for the eligible employees, as described in Note 21. Expenses arising from these benefits recorded in 2017 were of R$ 133,742 for the Company (R$116,326 in 2016) and R$ 134,275 Consolidated (R$117,732 in 2016). Additionally, the Company offers supplementary pension plan for all its employees. This supplementary pension plan is included in the defined contribution category, not generating any actuarial responsibility for the Company. The Company's contribution corresponds to 0.20% of the salary of participating employees and may be suspended at any time, as long as with prior notice to the participants. In 2017 and 2016, the contributions totaled R$366 and R$397, respectively. Participants can make voluntary and payroll-deductible contributions, without any consideration for the Company.

	Company		Consolidated	
	2017	2016	2017	2016
Classification by function as:				
Sales expenses	**(2,095,278)**	(1,761,438)	**(2,119,953)**	(1,776,258)
General and administrative expenses	**(503,352)**	(452,735)	**(536,026)**	(481,933)
Other operating income, net (Note 25)	**32,224**	9,740	**36,486**	13,505
	(2,566,406)	(2,204,433)	**(2,619,493)**	(2,244,686)

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

25. Other operating income, net

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gain (loss) on sale of property and equipment	**2,875**	(476)	**2,875**	(476)
Recognition of deferred revenue (a)	**42,820**	40,646	**42,820**	40,646
Provision for tax losses	**(9,790)**	(4,761)	**(6,096)**	(1,043)
Non-recurring expenses (b)	**(3,331)**	(27,164)	**(3,331)**	(27,164)
Other	**(350)**	1,495	**218**	1,542
Total	**32,224**	9,740	**36,486**	13,505

(a) Refers to the allocation of deferred revenue from the assignment of exploration rights, as described in Note 19.

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

26. Financial income

Accounting policy

Interest income and expenses are recognized under profit or loss using the effective interest method. Additionally, the Company classifies interest received, dividends and interest on own capital received as cash flows from investment activities.

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Financial income:				
Interest on extended warranty sales	**51,410**	41,232	**51,410**	41,232
Income from short-term financial investments and securities	**62,193**	47,456	**12,937**	13,405
Interest on sale of goods – interest on delay in receivables	**4,206**	4,366	**4,206**	4,366
Discounts obtained and monetary adjustments	**40,219**	56,105	**40,219**	56,105
Other	**1,335**	1,547	**1,335**	1,547
	159,363	150,706	**110,107**	116,655
Financial expenses:				
Interest on loans and financing	**(198,851)**	(272,733)	**(198,868)**	(272,777)
Charges on credit card advances	**(273,286)**	(308,291)	**(274,970)**	(309,663)
Provision for loss on interest on extended warranties	**(10,534)**	(17,213)	**(10,534)**	(17,213)
Other	**(36,210)**	(20,523)	**(36,556)**	(20,851)
	(518,881)	(618,760)	**(520,928)**	(620,504)
Net financial income	**(359,518)**	(468,054)	**(410,821)**	(503,849)

27. Segment reporting

To manage its business taking into consideration its financial and operating activities, the Company classified its business into Retail, Financial Operations, Insurance Operations 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 – basically the resale of goods and provision of services in the Company's stores and e-commerce (*traditional e-commerce and marketplace)*;
Financial operations - through the jointly-owned subsidiary Luizacred, mainly engaged in the offer of credit to customers of the Company for the acquisition of products;
Insurance operations - - through the jointly-owned subsidiary Luizaseg, mainly engaged in the offer of extended warranties of products purchased by the Company's customers;
Consortium management - through the subsidiary LAC, mainly engaged in the management of consortia to the Company's customers for purchase of products.

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

Statement of income

	2017					
	Retail (a)	**Financial operations**	**Insurance operations**	**Consortium management**	**Eliminations (b)**	**Consolidated**
Gross revenue	**14,262,501**	**844,256**	**197,801**	**70,638**	**(1,054,092)**	**14,321,104**
Deductions from revenue	**(2,331,568)**	**-**	**-**	**(5,286)**	**-**	**(2,336,854)**
Segment net revenue	**11,930,933**	**844,256**	**197,801**	**65,352**	**(1,054,092)**	**11,984,250**
Costs	**(8,358,340)**	**(91,812)**	**(21,793)**	**(31,934)**	**125,640**	**(8,378,239)**
Gross profit	**3,572,593**	**752,444**	**176,008**	**33,418**	**(928,452)**	**3,606,011**
Sales expenses	**(2,119,953)**	**(350,592)**	**(135,006)**	**-**	**485,598**	**(2,119,953)**
General and administrative expenses	**(510,753)**	**(2,482)**	**(20,119)**	**(25,273)**	**22,601**	**(536,026)**
Allowance for doubtful accounts	**(41,921)**	**(273,321)**	**-**	**-**	**273,321**	**(41,921)**
Depreciation and amortization	**(142,687)**	**(5,963)**	**(4,654)**	**(372)**	**10,617**	**(143,059)**
Equity in investments	**93,661**	**-**	**-**	**-**	**(7,505)**	**86,156**
Other operating income	**35,940**	**(12,023)**	**(5,948)**	**546**	**17,971**	**36,486**
Financial expenses	**(520,720)**	**-**	**17,208**	**3,006**	**(20,422)**	**(520,928)**
Financial income	**107,101**	**-**	**(40)**	**(208)**	**3,254**	**110,107**
Income tax and social contribution	**(84,239)**	**(39,301)**	**(10,055)**	**(3,612)**	**49,356**	**(87,851)**
Net income (loss) for the year	**389,022**	**68,762**	**17,394**	**7,505**	**(93,661)**	**389,022**

Equity accounting reconciliation	
Equity in earnings of LAC (Note 13)	**7.505**
Equity in earnings of Luizacred (Note 14)	**68.762**
Equity in earnings of Luizaseg (Note 14)	**17.394**
(=) Equity accounting of retail segment	**93.661**
(-) Elimination effect LAC	**(7.505)**
(=) Consolidated equity in subsidiaries	**86.156**

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

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

Statement of income

	2016					
	Retail (a)	**Financial operations**	**Insurance operations**	**Consortium management**	**Eliminations (b)**	**Consolidated**
Gross revenue	**11,323,548**	**834,790**	**182,451**	**58,062**	**(1,027,207)**	**11,371,644**
Revenue deductions	**(1,858,367)**	**-**	**-**	**(4,532)**	**-**	**(1,862,899)**
Segment net revenue	**9,465,181**	**834,790**	**182,451**	**53,530**	**(1,027,207)**	**9,508,745**
Costs	**(6,572,294)**	**(117,136)**	**(28,303)**	**(23,802)**	**155,405**	**(6,586,130)**
Gross profit	**2,892,887**	**717,654**	**154,148**	**29,728**	**(871,802)**	**2,922,615**
Sales expenses	**(1,776,258)**	**(303,256)**	**(123,815)**	**-**	**427,071**	**(1,776,258)**
General and administrative expenses	**(458,418)**	**(3,050)**	**(24,519)**	**(23,515)**	**27,569**	**(481,933)**
Allowance for doubtful accounts	**(26,074)**	**(303,189)**	**-**	**-**	**303,189**	**(26,074)**
Depreciation and amortization	**(133,248)**	**(6,025)**	**(4,738)**	**(364)**	**10,763**	**(133,612)**
Equity in investments	**68,797**	**-**	**-**	**-**	**(6,095)**	**62,702**
Other operating income	**13,498**	**(7,935)**	**176**	**7**	**7,759**	**13,505**
Financial income	**(507,107)**	**-**	**19,825**	**3,258**	**(19,825)**	**(503,849)**
Income tax and social contribution	**12,488**	**(43,413)**	**(9,161)**	**(3,019)**	**52,574**	**9,469**
Net income (loss) for the year	**86,565**	**50,786**	**11,916**	**6,095**	**(68,797)**	**86,565**

Equity accounting reconciliation	
Equity in earnings of LAC (Note 13)	**6,095**
Equity in earnings of Luizacred (Note 14)	**50,786**
Equity in earnings of Luizaseg (Note 14)	**11,916**
(=) Equity accounting of retail segment	**68,797**
(-) Elimination effect LAC	**(6,095)**
(=) Consolidated equity in subsidiaries	**62,702**

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

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

Balance sheets

	2017			
	Retail (*)	**Financial Operations**	**Insurance operations**	**Consortium management**
Assets				
Cash and cash equivalents	**373,167**	**5,648**	**211**	**39,540**
Securities and other financial assets	**1,259,553**	**6,251**	**182,343**	**-**
Accounts receivable	**1,245,672**	**2,591,429**	**-**	**359**
Inventories	**1,969,333**	**-**	**-**	**-**
Investments	**341,168**	**-**	**-**	**-**
Property and equipment and intangible assets	**1,099,670**	**69,988**	**42,855**	**1,717**
Other	**1,118,628**	**156,157**	**21,839**	**3,724**
	7,407,191	**2,829,473**	**247,248**	**45,340**
Liabilities				
Suppliers	**2,917,836**	**-**	**1,595**	**1,740**
Loans and financing and other financial liabilities	**871,498**	**-**	**-**	**-**
Interbank deposits	**-**	**1,196,675**	**-**	**-**
Credit card operations	**-**	**1,217,662**	**-**	**-**
Insurance reserves	**-**	**-**	**203,841**	**-**
Provision for tax, civil and labor risks	**300,922**	**65,091**	**1,593**	**612**
Deferred revenue	**510,403**	**19,092**	**-**	**-**
Other	**732,555**	**37,379**	**22,446**	**13,167**
	5,333,214	**2,535,899**	**229,475**	**15,519**
Net equity	**2,073,977**	**293,574**	**17,773**	**29,821**

Investment reconciliation	
Investments in subsidiaries	
Investment LAC (Note 13)	**29,821**
Investments in jointly-owned subsidiaries	
Investment Luizacred (Note 14)	**293,574**
Investment Luizaseg (Note 14)	**17,773**
	311,347
Total investments	**341,168**
(-) Elimination effect LAC	**(29,821)**
(=) Total consolidated investment	**311,347**

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

Balance sheets

	2016			
	Retail (*)	**Financial Operations**	**Insurance operations**	**Consortium management**
Assets				
Cash and cash equivalents	**565,327**	**2,999**	**107**	**33,814**
Securities and other financial assets	**819,155**	**6,020**	**162,017**	**-**
Accounts receivable	**584,571**	**2,001,796**	**-**	**-**
Inventories	**1,596,743**	**-**	**-**	**-**
Investments	**317,930**	**-**	**-**	**-**
Property and equipment and intangible assets	**1,072,005**	**75,944**	**50,101**	**1,111**
Other	**1,132,712**	**137,239**	**19,403**	**3,614**
	6,088,443	**2,223,998**	**231,628**	**38,539**
Liabilities				
Suppliers	**2,363,164**	**-**	**1,361**	**1,795**
Loans and financing and other financial liabilities	**1,848,776**	**-**	**-**	**-**
Interbank deposits	**-**	**900,241**	**-**	**-**
Credit card operations	**-**	**948,340**	**-**	**-**
Insurance reserves	**-**	**-**	**105,036**	**-**
Provision for tax, civil and labor risks	**283,527**	**43,549**	**709**	**599**
Deferred revenue	**549,473**	**20,122**	**-**	**-**
Other	**421,917**	**36,269**	**19,613**	**12,046**
	5,466,857	**1,948,521**	**126,719**	**14,440**
Net equity	**621,586**	**275,477**	**104,909**	**24,099**

Investment reconciliation	
Investments in subsidiaries	
Investment LAC (Note 13)	**24,099**
Investments in jointly-owned subsidiaries	
Investment Luizacred (Note 14)	**275,477**
Investment Luizaseg (Note 14)	**18,353**
	293,830
Total investments	**317,929**
(-) Elimination effect LAC	**(24,099)**
(=) Total consolidated investment	**293,830**

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

28. Financial instruments

Accounting policy

Financial assets

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

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

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

Derecognition (write-off) of financial assets

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

Financial liabilities

The Company's financial liabilities were classified upon initial recognition as:

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

Derecognition (write-off) of financial liabilities

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

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to manage its market risks, deriving from mismatch between currencies and indexes. Derivatives are initially recognized at fair value on the date of the agreement, and subsequently, measured at their fair value at the end of each year or period. Derivative financial instruments contracted by the Company are for protection of loans and financing.

Capital risk management

The objectives of capital management are to safeguard the continuous return to the Company's shareholders and benefits to other related parties, and maintain an ideal capital structure to reduce this cost and maximize its funds to allow for the opening and remodeling of stores, new technologies, process improvement and advanced management methods.

The Company's capital structure comprises financial liabilities, cash and cash equivalents, securities and equity. Periodically, Management reviews the capital structure and its ability to settle its liabilities, as well as monitors, on a timely basis, the average term of suppliers in relation to the average term of inventory turnover. Actions are promptly taken when these balances ratio pose significant imbalance.

The Company also adopts the adjusted net debt/adjusted EBITDA ratio, which in its opinion, represents the most adequate manner to measure its indebtedness, since it reflects the net consolidated financial obligations of funds available for payment, considering its operating cash generation. The Company defines adjusted EBITDA as profit before income tax and social contribution, financial income and expenses, depreciation and amortization and non-recurring operating events. Adjusted EBITDA is not a performance measurement adopted by IFRS. The definition of adjusted EBITDA of the Company may not be comparable to measurements of similar notes supplied by other companies.

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

	Company		**Consolidated**	
	2017	**2016**	**2017**	**2016**
Loans and financing and other financial liabilities	**871,498**	1,848,638	**871,498**	1,848,776
(-) Cash and cash equivalents	**(370,926)**	(562,728)	**(412,707)**	(599,141)
(-) Securities and other financial assets	**(1,259,553)**	(819,155)	**(1,259,553)**	(819,155)
(-) Third-party credit cards	**(818,154)**	(272,502)	**(820,267)**	(276,206)
(-) Related party credit cards	**(42,338)**	(18,646)	**(42,338)**	(18,646)
(Cash)/adjusted net debt	**(1,619,473)**	175,607	**(1,663,367)**	135,628
Net equity	**2,073,977**	621,586	**2,073,977**	621,586

Categories of financial instruments

	Company				Consolidated			
	2017		2016		2017		2016	
	Accounting	Fair value	Accounting	Fair value	Accounting	Fair value	Accounting	Fair value
Financial assets								
Loans and receivables								
Cash and banks	**90,560**	**90,560**	73,996	73,996	**91,928**	**91,928**	77,108	77,108
Escrow deposits	**310,899**	**310,899**	292,187	292,187	**310,901**	**310,901**	292,189	292,189
Accounts receivable	**1,238,724**	**1,238,724**	578,904	578,904	**1,246,031**	**1,246,031**	584,571	584,571
Accounts receivable from related parties	**99,985**	**99,985**	66,296	66,296	**96,766**	**96,766**	64,021	64,021
At fair value through profit or loss								
Held for trading – Cash and cash equivalents, securities	**1,538,541**	**1,538,541**	1,293,981	1,293,981	**1,578,954**	**1,578,954**	1,327,282	1,327,282
Derivative instrument assets	**1,378**	**1,378**	13,906	13,906	**1,378**	**1,378**	13,906	13,906
Financial liabilities								
Amortized cost								
Suppliers	**2,898,025**	**2,898,025**	2,353,473	2,353,473	**2,919,541**	**2,919,541**	2,364,959	2,364,959
Loans and financing	**818,979**	**818,979**	1,498,700	1,498,700	**818,979**	**818,979**	1,498,838	1,498,838
Accounts payable to related parties	**89,486**	**89,486**	72,923	72,923	**89,521**	**89,521**	72,955	72,955
Other accounts payable - Ex-Quotaholders (Integra)	**1,000**	**1,000**	-	-	**1,000**	**1,000**	-	-
At fair value through profit or loss								
Held for trading – Loans and financing	**52,519**	**52,519**	333,503	333,503	**52,519**	**52,519**	333,503	333,503
Derivative instrument liabilities	**-**	**-**	16,435	16,435	**-**	**-**	16,435	16,435

Fair value measurement

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

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

The measurement of assets and liabilities of the Company at fair value is demonstrated below:

	Company		**Consolidated**		**Fair value measurement**
	2017	**2016**	**2017**	**2016**	**Level**
Financial assets					
At fair value through profit or loss					
Cash equivalents and securities	**1,538,541**	1,293,981	**1,578,954**	1,327,282	**Level 2**
Derivative instrument assets	**1,378**	13,906	**1,378**	13,906	**Level 2**
Financial liabilities					
At fair value through profit or loss					
Loans and financing	**52,519**	333,503	**52,519**	333,503	**Level 2**
Derivative instrument liabilities	**-**	16,435	**-**	16,435	**Level 2**

Evaluation techniques and significant unobservable inputs

Detailed below are the valuation techniques used in the measurement of Level 2 fair value, as well as significant unobservable inputs used.

Loans and financing: This category includes loans and financing linked to the CDI. The fair value was determined based on the present value of future cash flows, discounted at the average future CDI rate, plus the credit risk, corresponding to all the loans with maturities between 2018 and 2022, calculated on the reporting date of the financial statements.

Financial instruments assigned to Hedge Accounting: the category includes loans and financing related to the risk object of the hedge, in other words, swaps contracted by the Company that satisfy the hedge accounting category defined under CPC 38 – Financial Instruments: Recognition and Measurement.

The fair value of these liabilities is based on the quotations of brokers. These quotations are tested as to the reasonability through the discount of future estimated cash flows based on the conditions and maturity of each contract and using the exchange coupon plus a spread which reflects the change in the risk scenario of the Company in the discounted period.

Loans at fair value: This category included loans and financing assigned from its initial contracting at fair value satisfying the classification criteria defined by CPC 38 – Financial Instruments: Recognition and Measurement.

The fair value of these liabilities is based on estimated future cash flows based on conditions and maturities of each contract and using the exchange coupon plus a spread which is obtained in quotation with financial institutions to reflect the credit risk of the Company in the contracted period.

Liquidity risk management

The Company's Management has the ultimate responsibility for the management of the liquidity risk and prepares an appropriate liquidity risk management model to manage funding requirements and short, medium and long-term liquidity management. The Company 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 Company's financial liabilities and the contractual amortization terms. This table was prepared using the undiscounted cash flows of financial liabilities.

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

	Book balance	Under one year	One to three years	Over three years	Total
Suppliers	2,919,541	2,919,541	-	-	2,919,541
Loans, financing and other financial liabilities	871,478	481,067	465,940	20,371	967,378
Related parties	89,521	89,521	-	-	89,521
Other accounts payable - Ex-Quotaholders (Integra)	1,000	1,000	-	-	1,000

Considerations on risks

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

Credit risk: the risk arises from the possibility that the Group may incur losses due to non-receipt of amounts billed to their customers, the consolidated balance of which amounts R$ 1,066,091 as at December 31, 2017 (R$466,061 as at December 31, 2016). A large part of the sales of the Company are made using the credit card as a form of payment, which is substantially securitized with the credit card administrators. For other receivables the Company evaluates also the risk as being low, due to the widespread sales, as a result of the large number of customers; however, there are no guarantees of actual receipt of the total balance of trade receivables due to the nature of the Company's activities. Even so, the risk is managed by means of periodic analysis of default rate and the adoption of more efficient collection measures. As at December 31, 2017, the Company recorded past-due or uncollectible balances under "trade receivables," which terms were renegotiated, in the amount of R$ 5,346 (R$ 4,672 as at December 31, 2016), which are included in the Company's analysis on the need to recognize an allowance for doubtful accounts. See note 8 for more information over accounts receivables.

The policy of the Company for investments in debt securities (financial investments) is to invest in securities that have ratings attributed by the main credit risk agencies, of at least AAA. As at December 31, 2017, 100% (one hundred percent) of investments held by the Company have such rating level, reaching the amount of R$ 1,539,919 (R$ 1,307,887 in 2016) Company, and R$ 1,580,332 (R$ 1,341,188 in 2016) Consolidated.. It is also important to observe that the great majority of these securities are securities with sovereign risk (Brazilian public securities).

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

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

As at December 31, 2017, Management carried out a sensitivity analysis, considering a probable scenario and scenarios of 25% and 50% increases in the expected interest rates. The probable scenario was measured using the future interest rates disclosed by BM&FBOVESPA and/or BACEN. The expected effects of interest expenses net of financial income from financial investments for the next three months are as follows:

	Company	Consolidated
	2017	2017
Bank deposit certificates (note 6)	280,173	293,150
Non-exclusive investment funds (note 6)	193	27,629
Cash equivalents	**280,366**	**320,779**
Securities and other financial assets (note 7)	**1,259,553**	**1,259,553**
Total cash equivalents, securities and other financial assets	**1,539,919**	**1,580,332**
Loans, financing and other financial liabilities (note 18)	**(871,498)**	**(871,498)**
Exposed balance, net	**668,421**	**708,834**
Interest to incur exposed to the CDI	**6.89%**	**6.89%**
Impact on financial income, net of taxes		
Scenario I Probable	**5,379**	**6,012**
Scenario II 25% drop	**4,034**	**4,509**
Scenario III 50% drop	**2,690**	**3,006**

Foreign exchange rate risk management: the Company uses derivatives to meet its market risk management requirements, arising from mismatching between currencies and indexes. Derivative transactions are carried out through the Finance Department, pursuant to the strategies previously approved by the Company's Board of Directors.

Upon initial recognition of hedge, the Company formally classifies and reports the hedge ratio to which the Company intends to apply the hedge accounting, as well as the objective and the Management's risk management strategy to materialize the hedge.

Documentation includes the identification of the hedge instrument, the hedged item or transaction, the nature of the hedged risk, the nature of risks excluded from the hedge ratio, the prospective statement of effective hedge ratio and how the Company will assess the hedge instrument's efficacy for the purposes of offsetting the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk.

In this scenario, the Company raised foreign currency-denominated loans bearing interest, for which it entered into swap transactions to hedge against exchange rate variation, swapping contracted interest rate and foreign currency exchange rate for CDI plus fixed rate. For the purposes of hedge accounting, these instruments are classified as fair value hedge and initially are recognized at fair value on the date the derivative agreement is contracted, and subsequently revalued also at fair value. Any gains or losses resulting from changes in fair value, both of the hedging derivatives (*swap*) and the hedge purpose (loans) during the year are recorded directly in the statement of income, as financial income (expense).

Below, a description of agreements that affected profit or loss as at December 31, 2017:

Fair value hedge

Hedge instruments

	Swaps			Average indexer
	Financial position	**MTM Adjustment**	**Fair value(a)**	
Assets (long leg)	52,463	56	52,519	**US$+3.11%**
Liabilities (short leg)	51,143	(2)	51,141	**115.14%CDI**
Total	**1,320**	**58**	**1,378**	

Hedge purpose

	Working capital in USD			Average indexers
	Financial position	**MTM Adjustment**	**Fair value (a)**	
Liabilities	52,463	56	52,519	**US$+3.11%**

Reconciliation	
Other financial assets (Note 7)	1,378
(=) Fair value of the derivative financial instrument	**1,378**

As discussed above, the Company Management understands that there is no market risk arising from foreign exchange fluctuations since all significant financial liabilities recorded in foreign currency are pegged to swap transactions, so that the accounting and financial treatment of these loans is denominated in domestic currency. Accordingly, changes in swap derivative financial instruments and loans and borrowings are offset.

In the periods presented there were no operations that were not qualified as equity protection operations, and there are no future commitments object of equity protection of cash flows.

29. Leasing commitments

Accounting policy

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

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

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

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

Operating lease – lease agreements

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

These agreements establish fixed or variable lease amounts, based on a percentage over net sales, in accordance with the contractual forms. At December 31, 2017, the Company had 858 stores (800 stores in 2016) and 10 leased Distribution Centers (9 Distribution Centers in 2016) . For these lease agreements, expenses of R$302,458 were recorded in the year ended December 31, 2017 (R$313,380 at December 31, 2016).

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

Year	Amount
2018	**334,399**
2019	**350,156**
2020	**366,303**
2021	**384,062**
2022	**403,429**
Total	**1,838,349**

Financial lease agreements

	Minimum payment	
	Company and Consolidated	
	2017	2016
Within one year	**8,900**	11,529
Between two and five years	**770**	8,321
	9,670	19,850
Less: financial income not incurred	**(444)**	(2,174)
Present value of minimum payments	**9,226**	17,676

Below, the amount of assets, net of accumulated depreciation, acquired through financial leases:

Category of assets	2017	2016
Software	**8,192**	11,736
Machinery and equipment	**7,034**	7,471
Computers and peripherals	**1,394**	2,404
Vehicles	**1,194**	2,271
Other	**223**	267
Total	**18,037**	24,149

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

30. Statement of cash flows

Changes to equity that do not affect the cash flows of the Company are as follows:

	Company		Consolidate	
	2017	2016	2017	2016
Dividends proposed by subsidiaries and joint ventures and not received	**11,651**	4,277	**9,869**	2,830
Dividends declared and Interest on own capital unpaid in the year	**(64,273)**	(12,335)	**(64,273)**	(12,335)
Other accounts payable - Ex-Quotaholders “Integra Commerce”	**(1,000)**	-	**(1,000)**	-
Fair value variation of financial instruments held for sale	**1,457**	2,830	**1,457**	2,830

31. Insurance

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

The insurance coverage, in values as at December 31, 2017 and 2016 are as follows:

	2017	**2016**
Civil liability and D&O	**65,000**	42,000
Sundry risks – inventory and property and equipment	**2,402,335**	2,014,174
Vehicles	**14,162**	17,285
	2,481,497	2,073,459