

LOJAS COLOMBO S.A. - Comércio de Utilidades Domésticas and controlled companies.
Financial Statements ended as of December 31, 2006 and 2005, along with the Independent Auditor's Opinion.

MANAGEMENT REPORT

Dear Shareholders,

In compliance with legal and statutory dispositions, Lojas Colombo S/A – Comércio de Utilidades Domésticas, submits to the appreciation of its shareholders the accounting statements relative to the business period ending December 31, 2006, accompanied by the Independent Auditors' Opinion.

RELEVANT FACTS

- Operating Agreement with Banco Bradesco S.A.

On March 1st, 2006, Colombo signed with Banco Bradesco S/A., the largest private national bank, an operating agreement establishing an association with our finance company *Credifar S/A.- Crédito, Financiamento e Investimento*. This partnership allowed us to obtain the funding we needed for credit sales operations, thus solving Colombo's demand for working capital, which is extremely necessary in the retailing segment.

- Issuance of Eurobonus in the international financial market

The Company performed an important financial foreign funding operation in December 2005 (due December 2007) by issuing Eurobonus in the amount of US\$ 50 million, which was rapidly used by international agents.

- Family Succession

The 2006 business period also marked the succession process, when the Board of Directors decided to refer to the General Meeting a statutory alteration establishing the creation of the Vice-President position, to be filled by Mr. Olivar Antônio Berlaver. This consolidates the process initiated with the acquisition, by its founder-partner, of almost the majority of shares, and ensures the continuity of the managing and organizational culture built up by its founder Adelino Colombo.

ECONOMIC SCENARIO AND PERFORMANCE OF THE NATIONAL RETAILING SECTOR

2006 was marked by favorable macroeconomic results. Inflation under control, a positive trade balance (despite exchange rates), elimination of the exchange net indebtedness (internal and external) from the public sector, a consistently reduced interest rate (SELIC), and continuous reduction of the Brazil Risk by international agents marked the period, creating opportunities for important investments in the country for the near future.

The retailing sector in general delivered positive performance: except for the south and south-east regions of the country, the other regions showed growth levels. Factors such as the increase

of salary volumes mainly in the North and Northeast regions of the country, and to the maintenance of credit availability contributed to the reached growth level. Important events such as the World Cup had a favorable effect on the increase of demand for products sold in the retailing sector. Default levels did not increase and this was very important for the market in general. On the other hand, there was an increase in the demand levels at the end of the business period.

The segments that achieved some growth levels were office equipment and supplies, followed by hardware and communication-related material, personal and home articles, furniture and home appliances. Another segment that usually benefits the retailing sector is the sector of construction materials which, following a slump period, showed this year an increase as compared to last year, with signs of recovery.

Continuing our sector evaluation, the home appliances sector was positively driven by the computer hardware sector. Specifically in the VCR line, the market needs were overestimated, triggering pressure on the retailing sector and generating a “contention” in the margins throughout the country..

The southern region continued to be influenced by last year`s adverse results, which included an extended drought and a manufacturing crisis in the exporting footwear industry, mainly in the State of Rio Grande do Sul. On the other hand, there are signs signaling a recovery for next year, as a result of improvement in the farming sector as compared to the previous period.

COMPANY`S PERFORMANCE

a) COMMERCIAL AND OPERATING PERFORMANCE

Concentrated in the southern region – with a lower participation in the south-east region – 2006 was a year of modest growth for Colombo, reflecting the small expansion occurred in the regions. Even so, and despite the fierce competition of national store networks that established themselves in the southern portion of the country, net sales rose by 0.41%. Irrespective of factors beyond the company`s control, the business period was marked by deep changes resulting from our decision to give priority to better operating performance of the company. We have conducted an analysis of each store`s competitiveness through factors such as location, competition, facilities, fixed costs and profitability. As a result, a bold plan of store renovation has been implemented, while other stores that did not present the necessary conditions to operate profitably were closed.

This whole process was accompanied by a commercial strategic plan that included distinct actions such as the consolidation of the new store layout, called “Premium”, that started in November 2005 with the opening of a store in Porto Alegre, and continued with the re-opening of the store located in Campinas. Other actions were implemented, out of which we include the new visual communication standard for the stores, targeting to adapt them to current market trends.

During the year, the company has intensified the implementation and identification of new sale channels. Actuation strategies were developed in alternative channels focused on tenders, corporate sales, complementary sales and intensification of sales over the Internet. The alternative channels targeted specific audiences and feature an attractive profitability, with great potential to grow.

As it happens with other activity sectors of Lojas Colombo, credit management achieved positive results. Important actions in the re-evaluation of our credit policy along with the strengthening of our collection structure were responsible for a reduced level of default in sales made during the period, resulting in a smaller value launched in the provision account as compared to the previous year. On the other hand, this same provision received a complementary amount to face defaults from previous years.

Among the actions aimed at improving the operating result of the company, we highlight significant reduction of selling, general and administrative expenses at the controlling company compared to the previous period. This result was partly due to the efforts made by management to reduce costs.

In acknowledgment of Lojas Colombo's operation, once more the company received diverse awards in 2006 within the retailing sector. Among these, it is worth mentioning the *ADVB Top of Marketing Award* and the *Top Consumer Award*.

The main figures and their comparison with those of the last business period are shown in the chart below:

Physical and Performance Data:

Items	2006	2005
Number of Stores	343	355
Selling Area (m ²)	159.119	165.210
Active Clients (in millions)	1,78	1,77
Number of employees	6.726	7.710
Net sale per employee (Consolidated)	138,63	120,44

b) ECONOMIC-FINANCIAL PERFORMANCE

The economic and financial results of the period, considering the aforementioned adverse conditions, show that the actions taken by the company's management produced positive results that can be demonstrated by comparing the 2006 figures with those achieved in 2005.

Highlights	Controlling Company			Consolidated		
	2006	2005	Variação	2006	2005	Variação
Net Income	816.707	824.691	-0,97%	932.450	928.616	0,41%
Adjusted Operating Result (*)	-17.118	-21.735	21,24%	21.446	219	9.692,69%
Net Profit (loss) of the Period	2.156	-20.447	110,54%.	2.156	-20.447	110,54%
Net Indebtedness	134.605	212.088	-36,53%	274.282	192.906	42,18%
EBITDA	15.829	6.469	144,69%	30.428	8.425	261,18%
Net Financial Result	-17.202	-38.375	55,17%	-17.282	-31.827	45,70%

(*) Operating Result excluding the financial result (financial expenses and earnings).

Financial Highlights – Consolidated	Controlling Company			Consolidated		
	2006	2005	Variação	2006	2005	Variação
Total Indebtedness	301.161	296.342	1,6%	441.4842	294.803	49,8%

Net Indebtedness	134.605	212.088	-36,5%	274.282	192.906	4,2%
Financial Expenses	13.446	9.123	47,4%	32.455	23.051	40,8%
Indebtedness Service	46.132	58.712	-21,4%	45.904	58.025	-20,9%
Net financial Result	(17.202)	(38.375)	-55,2%	(17.000)	(31.827)	-46,6%

CREDIFAR S.A. - CFI – Crédito, Financiamento e Investimento

The CREDIFAR`s operations – the financial arm of the company focused on financing credit sales - considerably increased its activities in 2006. Almost the majority of the credit granted to Lojas Colombo`s clients has been channeled through this financial institution. As a result, the volume of its transactions and results expressively rose during the period.

The chart below shows the main figures of CREDIFAR as compared to last year`s:

Highlights	2006	2005	Variação
Income from financial intermediation	114.550	74.494	53,77%
Operating profit	38.444	26.459	45,30%
Net profit during the period	25.335	18.646	35,87%
CDC (Direct Credit to Consumer) Operations in Units	1.109.442	758.412	46,28%
CDC operations in R\$	400.154	295.287	35,51%
Assets portfolio in R\$ - Net credit operations	234.031	173.359	35,00%
Total Indebtedness	168.915	131.086	28,86%

INVESTMENTS

In 2006, investments totaled R\$ 12,9 million, compared to 9,5 million in 2005. These investments were mainly made in the update of the stores layouts, modernization of vehicle fleet, and Information Technology. All investments were aimed to improve the operation, maintenance and expansion of the company in the markets where it operates. .

The below summarized chart shows the areas where investments were made and their participation rate. We highlight the Porto Alegre Distribution Center, the update of the stores layout, and the modernization of its vehicles fleet, in addition to investments made in hardware, where Colombo has continually improved its performance by developing new management tools.

Investments	2006	% Participation
Store renovation and expansion	6.146	49,39%
Acquisition of vehicles	2.370	19,04%
Hardware	1.872	15,04%
Commerce Fund	619	4,97%
Others	1.438	11,56%
Total	12.445	100,00%

ADDED VALUE

The company generated an added value of R\$ 428,0 million, contributing to the growth of the national economy. Said values were distributed to the interested parties, government, employees, financial agents and shareholders, according to the chart below:

		Consolidated	
Wealth Creation		2005	2006
A	Adjusted Gross Revenue (Gross Sales – devolutions – provision for losses + result from fixed assets sales)	1.161.322	1.151.784
B	Goods and services purchased from third parties	779.247	757.931
C	Gross added value (A – B)	382.075	393.853
D	Retentions (depreciation and amortization)	8.206	7.868
E	Net added value (C – D)	373.869	385.985
F	Transfers: Financial Earnings	35.423	41.966
G	Added value to distribute (E +F)	409.292	427.951
Distribution by related parties:			
	GOVERNMENT – Taxes with expurgated subsidies	196.883	202.638
	% Government's participation	48,10%	47,35%
	EMPLOYEES – Salaries, charges and benefits	116.451	109.681
	% Employees` participation	28,46%	25,63%
	FINANCING AGENTS –Third Parties` capital remuneration	116.405	113.476
	% Financing Agents` participation	28,44%	26,52%
SHAREHOLDERS			
	Profits (losses) in the period	-20.447	2.156
	% Participation	-5,0%	0,5%

ADMINISTRATIVE MANAGEMENT

The main actions carried out or in progress in the administrative area seek to increase the company's productivity, of which we highlight:

- People's Productivity Management Project: Productivity indicators were established for each store aiming to evaluate, monitor and define strategies for its evolution;
- Costs Management Project: Aims to manage Selling, General and Administrative Expenses within the parameters established by the company's Strategic Planning. This tool enabled us to reduce fixed expenses by 4,5% when compared to the previous period.
- Credit Management Project: The Company's Credit Management takes place through controls and follow-ups in real time. Related to technology, the credit area counts on qualified teams who constantly evaluate the credit granted by the store aiming to keep track of frauds and irregularities. This process guarantees a rapid and accurate evaluation, thus increasing the effectiveness of our decisions;
- Total Sale Project: The whole selling process takes place in one location only, that is, clients do not need to go to the back office to receive their trade note or the booklet for installment payments. This process seeks to increase productivity and achieve customer satisfaction.

HUMAN RESOURCES

The Human Resources Area focused its efforts on the development and training of employees by providing them with conditions to reach higher productivity levels, resulting in an increase of net sales by employee in 2006 as compared to 2005;

29,8 hours of training and development were given to each employee, compared to 18,21 hours in 2005, representing a 64,04% increase. Investments in training reached R\$ 1,73 million, 21,58% higher than in 2005.

We ended 2006 with 6,726 employees compared to 7,710 employees in 2005. This represents a reduction of 14,63% as a result of the aforementioned projects.

It is worth mentioning the opportunity given to our employees to climb up the career ladder. 74% of the vacancies were recruited from within the company, strengthening the policy of professional appreciation of our employees.

EXPECTATIONS

The outlook for 2007 is promising. The external scenarios are favorable, the exchange rate shall remain steady influenced by high foreign reserves and by the decline of the Brazil Risk. Expectations of even lower interest rates and steady price levels allied to the idle capacity still present in our economy, investment and restructuring plans, and expenditure cuts by the government (structural reforms) allow us to plan for promising growth levels during the current period.

Although we did not achieve significant financial results, 2006 was a rather important year for the company, as processes that will allow us to reach a consistent growth rate for the near future were consolidated during the year. The company's management is aware that the retailing sector will continue to be very competitive all over the country and bold expansion projects will pose higher risk rates than in the past in case the structural conditions reached by the company in the ended period do not continue throughout this current period.

The history of our company has shown that Lojas Colombo has been able to kept pace with the economy growth in a more accelerated way. 2007 and the years to come will not be different. The adjustments carried out in 2006 and the operating agreement established with Banco Bradesco allow Colombo to continue to plan for expansion with renewed optimism.

THANKS

Lojas Colombo thanks its shareholders for their confidence in the company's management; its clients, suppliers, financial institutions and the community for their participation in our results and for their respectful and transparent relationship; its employees for their dedication and talent, which are incremental in the strengthening and growth of Lojas Colombo.

Farroupilha, February 27, 2007.

THE MANAGEMENT