2016 MANAGEMENT REPORT

MESSAGE FROM THE EXECUTIVE MANAGEMENT TEAM

Magazine Luiza will celebrate its 60th anniversary in 2017. We began small – a true startup – with a single store in Franca, in São Paulo state. We have come a long way thanks to the entrepreneurial spirit of our founders, Luiza Trajano and Pelegrino Donato, the commitment of our team, our willingness to take risks, the close relationship we have with our customers and our permanent sense of urgency to respond to their demands.

Now, after six decades of existence and constant growth, Magazine Luiza has taken upon itself one of the most challenging missions in the business world: to transition from a traditional company with a digital area into a digital company with physical stores and the human touch.

Maybe we have made the most difficult of choices. In the whole world, there is not a single case of a successful transition from an analogical to a truly digital model among business organizations. Many great companies have tried. So far, they have all failed. But we, at Magazine Luiza – with our feet firmly in the present and our head in the future –, believe we can come out winners in this process. We want to make history.

The success of our digital enterprise depends on belief, consistency and persistence, among several other factors. But we are certain that none of them is as critical as the ability to develop a digital corporate culture. This culture, part of the DNA of internet-age companies, requires speed for the necessary changes, courage to take risks and willingness to make mistakes, own them and rapidly correct them. It also involves the tranquility to always operate in beta and thus avoid the ghost of obsolesce. The ability to develop, inside the company, technologies that will be the backbone of the operation is fundamental. In a digital soul company, technology moves from the background to center stage – and is seen as the brain of the business.

This is usually scary for large companies. Hierarchical structures, paralyzed by excessive bureaucracy, the fear of change and attachment to past successes, usually strongly reject the digital culture. However, without its incorporation and the general and true belief in its importance, the process of change tends to waste resources and lead to frustration.

Startups do not need to go through this painful process. They carry this DNA. They are fast, lean and focused, and have very clear goals. Their leaders and teams are certain they can change the world with their ideas. And they are aware that, without this way of being and behaving, they are destined for an early death.

We have a lot of the digital culture in our genetic code. We believe in simplicity and innovation and we are obsessed about our customers. Our mission is to put these characteristics at the service of this new cycle, which has already begun. In the process of change, we have some advantages that the valuable and flexible emerging companies lack: relevance and reach. We have 800 stores and millions active customers, and operate in regions that concentrate approximately 75% of Brazil's GDP. Our nine distribution centers and our consolidated logistics system help us reach the country's most remote homes. Our infrastructure promotes something vital for a connected society – access.

The combination of this power with a digital culture – that is ours and respects our core values and beliefs – will take us forward in the process of change. The dissemination of culture is one of the five strategic pillars, on which Magazine Luiza's new growth cycle is based. The other four are:

- Multichannel approach – We are the only retail company in Brazil to operate our channels in an integrated manner, with the use of the same infrastructure. For almost 20 years, Magazine Luiza has been defending this model. We have maintained this position despite the skepticism that dominated the sector for a long time. The market dynamics has shown that we have always been on the right path.

One of the most recent examples of the multichannel approach is Click and Collect, which allows customers who buy through the digital platforms to pick up the purchased items at any of our physical stores. In recent months, customers have picked up more than 25,000 products/month at the stores, with faster delivery and savings for customers. We are confident in the great growth potential of this type of service.

- Digital inclusion – We have a clear goal: to turn Brazil into a digital country. Brazilians are among the most enthusiastic about new technologies. Half of our population is somehow inserted in the social media dynamics. Access to connected products, however, is still low, which is a problem – and an excellent opportunity for Magazine Luiza. Currently, around 50% of the products sold in our physical and digital channels are connected. We believe that we can help improve our customers' daily lives when we encourage them to get the most benefit from the current technology and that we will be able to do even more in the future.

- Digitalization of physical stores – They are vital for our strategy and are being transformed in order to make the shopping experience increasingly pleasant. Currently, all our shop assistants use the "Mobile Sales" smartphone app, which significantly reduces service time and provides the salesforce with all product and customer information. In around 150 stores, it is already possible to pay using the Mobile Pinpad system, which eliminates the need to go to the cashier. Magazine Luiza's physical stores already offer services including the sale of content and Lu Conects (installation of apps and configuration of smartphones acquired by customers). The introduction of free wi-fi and the new furniture facilitate and encourage product testing.

- Digital platform – In mid-2016, we launched our Marketplace operation and began selling products of around 50 partners, adding more than 80,000 SKUs to our portfolio. At the same time, we began using our infrastructure in a more efficient manner and are helping producers become sellers. Since its creation, Magazine Luiza's Marketplace has attracted partners such as Multi-Ar, Whirlpool, Empório da Cerveja, Toymania, Multilaser and Polishop. As a result, we have introduced the sale of new categories, such as pet products, jewelry, books, food and beverages.

The disciplined execution of these strategies, our long-term vision and the belief that we can be a benchmark in digital transformation have produced results that make us proud. In 2016, Magazine Luiza was an exception in an economic scenario still dominated by the crisis. The improvement of our financial indicators – quarter after quarter, with no hiccups – shows the consistency of our strategy and management.

Although all the indicators are positive – with an increase in revenue, gross margin, EBITDA and net income and a significant reduction in debt –, the performance of our digital sales stands out. Sales through the mobile website and the app already represent a significant part of the Company's total revenue. In the last quarter of 2016, the growth of digital sales exceeded 40%. This performance is substantially superior to the average of the Brazilian e-commerce. According to Ebit, the sector's sales increased 7.4% in 2016 – while Magazine Luiza's digital operations grew 32.2% in the period. Our sales app, launched in September 2015, was very well accepted by customers, having reached 4.5 million downloads.

These results would not have been possible if we did not firmly believe in the importance of in-house technology development. We are developing technology applied to the business – increasing efficiency, reducing costs and creating new possibilities – and designed to improve the customer experience. This is what 100 engineers and other specialists are working on every day at Luiza Labs, our innovation laboratory.

We are happy with our journey so far. But we know that this journey has no finish line. As all other companies, we will be constantly called to reinvent ourselves and to be faster, more efficient, more innovative and closer to the market. We are living at a time when change seems to be the only permanent thing.

This moment can be extremely positive – for Magazine Luiza and its partners – if we win the challenge of incorporating a digital culture, in which change is the rule. We will also be more successful if we are adamant about preserving our values, which is why we make a point of saying that, for Magazine Luiza, it is not enough to be a digital company with physical stores. Magazine Luiza does not and will not exist without the human touch. People and the relationships of trust established with them are still our main strength.

We have a lot to do in this special year of 2017 – our 60th anniversary. We are ready to scale up our Marketplace platform, attracting more partners and increasing the range of products we offer. We are working to be recognized as leaders of the best platform – for partners, who will share their customer base, technology structure, service and brand reputation with us, and for consumers. It is yet another change – one of the many in our history.

The only thing that has never changed in these 60 years is the fact that Magazine Luiza always changes. We have a startup soul with a body of more than 20,000 employees. This is a great privilege that makes us confident that the Company will continue young and relevant for many years to come.

Ready for the new year, we thank our customers, employees, shareholders, suppliers, partners and the community in general for their trust and partnership throughout 2016.

EXECUTIVE MANAGEMENT TEAM

HIGHLIGHTS

Increase of the sales by 8%, with growth in all channels
E-commerce reached 24% of the total sales, with growth of 32% in the 2016
Increase of the EBITDA by 54%, to R$715 million (margin of 7.5%)
Increase in operating cash flow from R$428 million in 2015 to R$657 million in 2016
Adjusted net debt of R$489 million in YE2015 to R$136 million in YE2016

- **Consistent gain of market share.** In 2016, the gross sales increased by 8.3% to R$11.4 billion, as a result of a growth of 6.6% in same-store-sales (+32.2% in e-commerce and +0.3% in brick and mortar stores). In 2016, Magazine Luiza gained market share in all channels and the main categories. According to the IBGE (PMC), the nominal sales of furniture and domestic appliances had a decrease of -7.5% in the year, against the Company's accumulated growth of +8.3%.

- **Growth in the e-commerce.** The sales of the e-commerce reached a record 24.1% in the Company's total sales, growing 32.2% in the 12M16, against the market growth of 7.4% in the same period, according to E-bit's data. This gain in the market share resulted from: (i) the growth of traffic and sales in mobile channels (mainly the app), (ii) the increase of sales in markets served by the 9 regional DCs, fully integrated since 2014, (iii) the increase of the conversion reflecting the expansion of the use of the proprietary system of recommendation and (iv) the growth of sales in new channels (Época Cosméticos, Magazine Você, Clube da Lu and Quero de Casamento).

- **Increase in the gross margin.** In 12M16, gross margin increased by 1.3 percentage points, to 30.7%. This expansion was achieved due to: (i) the greater rationality of prices in the e-commerce and the physical store's market, (ii) collection of shipping costs and assembly costs and (ii) improvement of the mix with the increase in the share of more profitable categories.

- **Significant dilution of operating expenses.** Selling, general and administrative expenses were diluted by 1.3 percentage points, to 23.7% of the net revenue in the 12M16. This dilution reflects the maturation of the strict control of expenses adopted by the Company, including the Zero Base Budget (ZBB) and Expenses Management Matrix (EMM).

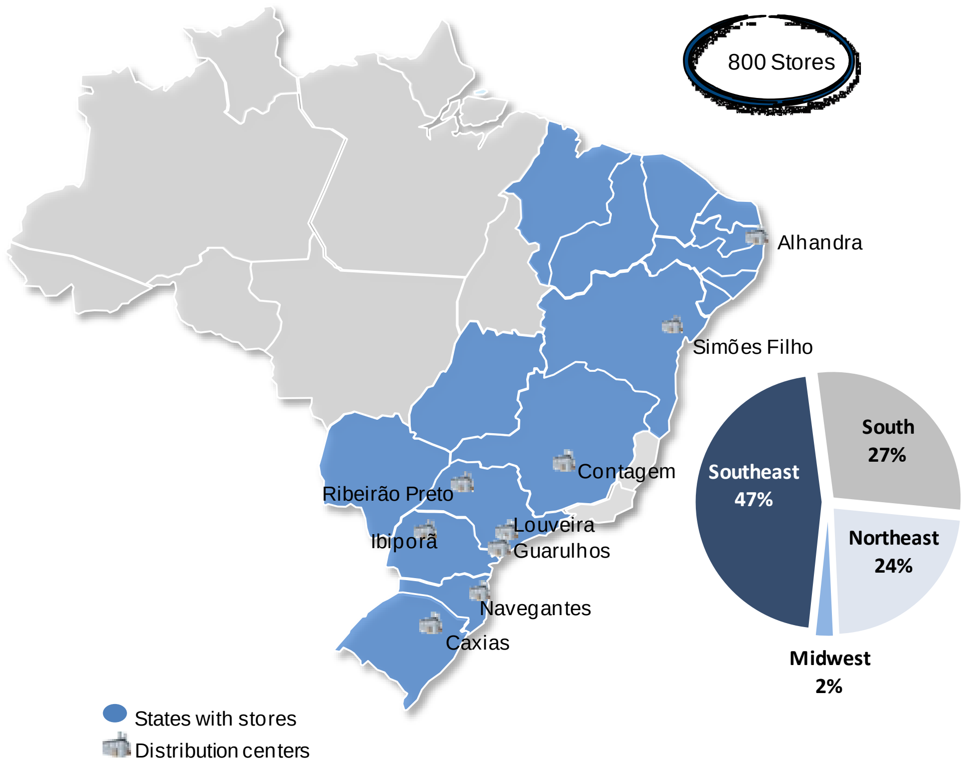
- **Strong growth of the EBITDA and of the net profit.** In 12M16, the growth of total sales, the increased gross margin, the dilution of the operating expenses and the positive contribution of e-commerce contributed to an increase in EBITDA of 53.8% to R$714.6 million (+2.4 percentage points to margin of 7.5%) and the net profit to R$86.6 million.

- **Improvement in the working capital and operating cash generation.** In 12M16, the Company registered an improvement in its operating cash generation with a positive result of R$656.7 million. Due to the better relationship between the balance of inventories and suppliers, the Company achieved a significant improvement in the working capital, with a reduction of R$260.4 million.

- **Reduction of the net debt.** Over the past 12 months, the Company reduced its net debt by R$353.2 million. The adjusted net debt went from R$488.9 million in Dec/15 to R$135.6 million in Dec/16, with a decrease of the adjusted net debt/adjusted EBITDA from 1.0x to 0.2x, respectively, one of the lowest rates in the history.

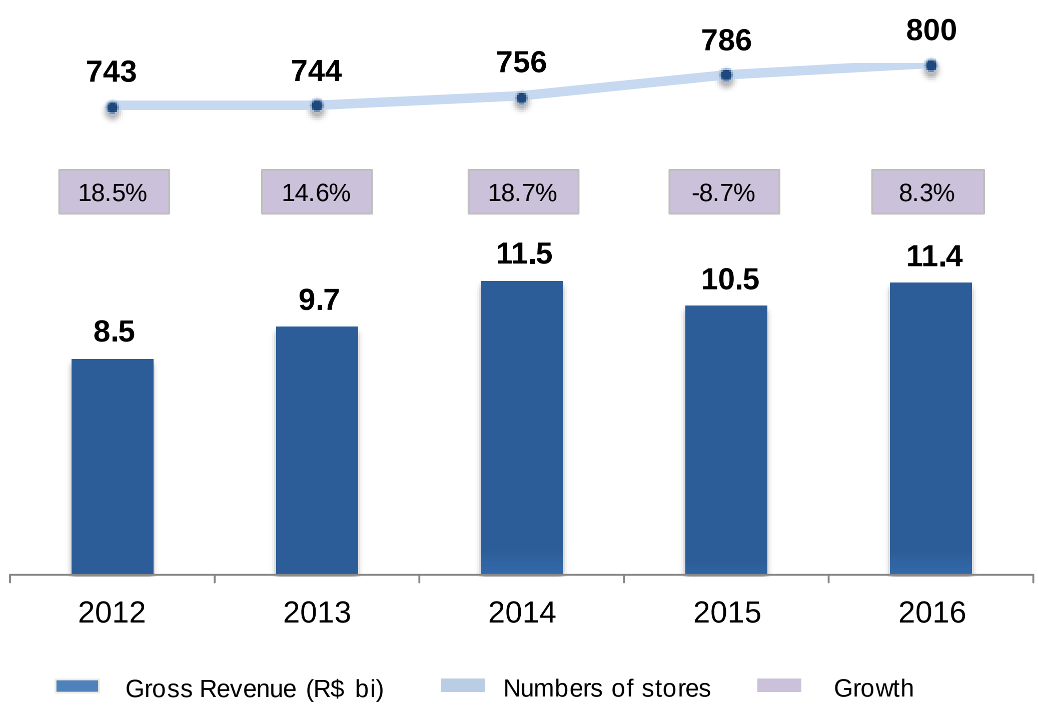
- **Improved results of Luizacred.** The portfolio overdue for more than 90 days (NPL 90) decreased by 3.2 percentage points from Dec/15 to Dec/16, representing 9.5% of the total portfolio. Due to this improvement in non-performing loan, the operating profit of Luizacred grew by 17.4%, from R$160.5 million in the 12M15 to R$188.4 million in the 12M16. Net profit reached R$101.6 million with ROE of 19%.

Magazine Luiza is one of Brazil's largest retail chains focused on durable goods, with strong appeal to Brazil's mid and low income classes. On December 31, 2016, the Company operated 800 stores and nine distribution centers strategically located in 16 Brazilian states, responsible for 75% of the country's GDP. On the same date, the Company had more than 20,000 employees and a base of 49 million clients.



In the last five years, the compound annual growth rate of the Company's gross revenues was 10%, as shown in the chart below. During this period, the Company presented strong growth in practically every year.

CAGR of Gross Revenues 2011-2016: 10 %



2016 HIGHLIGHTS

The table below shows a summary of the Company's main financial indicators related to the fiscal years ended on December 31, 2015 and 2016. As a result of recent changes in the accounting of payroll taxes, to make the figures more comparable, we opted to reclassify 2015 results as follows: expenses with payroll taxes, which were previously accounted for as a reduction in gross sales, were reclassified as part of selling expenses and G&A expenses.

CONSOLIDATED INCOME STATEMENT (R$ million)	12M16	V.A.	12M15	V.A.	% Chg
Gross Revenue	11,371.6	119.6%	10,498.3	115.8%	8.3%
Taxes and Deductions	(1,862.9)	-19.6%	(1,431.5)	-15.8%	30.1%
Net Revenue	9,508.7	100.0%	9,066.8	100.0%	4.9%
Total Costs	(6,586.1)	-69.3%	(6,399.6)	-70.6%	2.9%
Gross Income	2,922.6	30.7%	2,667.2	29.4%	9.6%
Selling Expenses	(1,776.3)	-18.7%	(1,784.6)	-19.7%	-0.5%
General and Administrative Expenses	(481.9)	-5.1%	(483.2)	-5.3%	-0.3%
Provisions for Loan Losses	(26.1)	-0.3%	(30.5)	-0.3%	-14.4%
Other Operating Revenues, Net	13.5	0.1%	20.2	0.2%	-33.3%
Equity in Subsidiaries	62.7	0.7%	75.6	0.8%	-17.1%
Total Operating Expenses	(2,208.1)	-23.2%	(2,202.4)	-24.3%	0.3%
EBITDA	714.6	7.5%	464.7	5.1%	53.8%
Depreciation and Amortization	(133.6)	-1.4%	(125.8)	-1.4%	6.2%
EBIT	580.9	6.1%	338.9	3.7%	71.4%
Financial Results	(503.8)	-5.3%	(486.1)	-5.4%	3.7%
Operating Income	77.1	0.8%	(147.1)	-1.6%	-
Income Tax and Social Contribution	9.5	0.1%	81.5	0.9%	-88.4%
Net Income	86.6	0.9%	(65.6)	-0.7%	-
Same Store Sales Growth	6.6%		-10.9%		-
Same Physical Store Sales Growth	0.3%		-15.0%		-
Internet Sales Growth	32.2%		9.8%		-
Number of Stores - End of Period	800		786		14 stores
Sales Area - End of Period (M2)	501,319		498,570		0.6%

In 2016, the Company opened 20 new stores and closed six any, ending the year with 800 stores, of which 679 were conventional stores, 120 virtual stores and one website. Of our store bases, 19% are not yet mature.

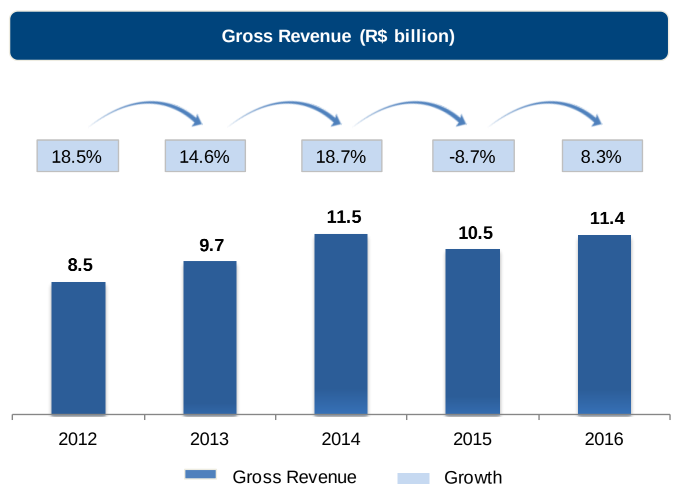
Total gross sales increased by 8.3% to R$11.4 billion. SSS were 6.6% higher, as a result of an increase in e-commerce of 32.2% and as a result of brick and mortar that were stable in 0.3%. Additionally, the e-commerce sales reached 24.1% of total sales in 2016 (versus 19.8% in 2015).

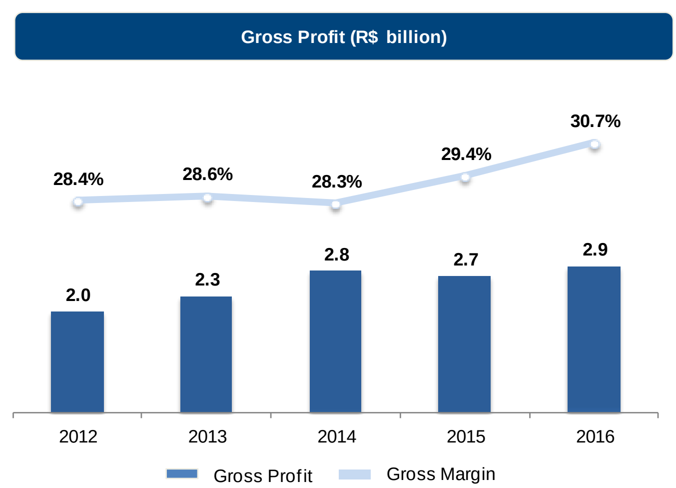
Gross margin reached 30.7% (130bps higher than 2015) at R$2.9 billion. Gross margin improvement was due to: (i) sales mix, (ii) charging for shipping and assembly in all stores, and (iii) increase in services revenue participation.

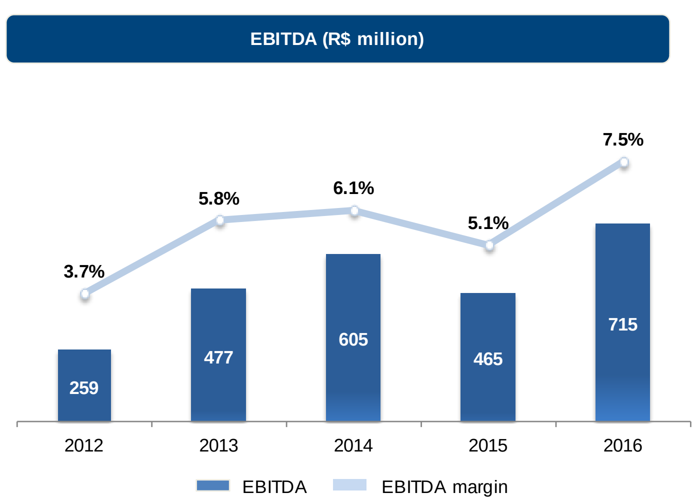
Selling expenses reached 18.7% of net revenues, 100 bps lower than 2015, while general and administrative expenses (G&A) participation reached 5.1%, equivalent to a decrease of 20bps over 2015. As a result, SG&A represented 23.9% of net sales, 120bps lower than 2015. This dilution reflects the maturation of the strict control of expenses adopted by the Company, including the Zero Base Budget (ZBB) and Expenses Management Matrix (EMM).

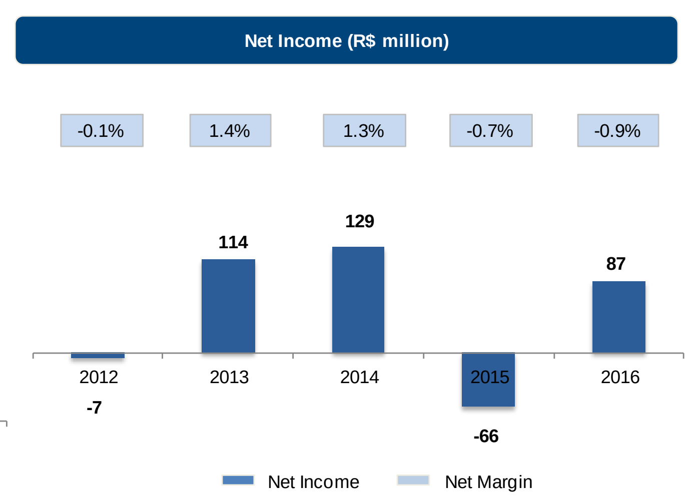
EBITDA reached R$714.6 million, for 7.5% margin, 240 bps higher when compared with 2015. The growth of total sales, the increased gross margin, the dilution of the operating expenses and the positive contribution of e-commerce contributed to this improvement.

In 2016, net income totaled R$86.6 million with ROE of 13%.









STATEMENT FROM EXECUTIVE OFFICERS

In compliance with the provisions in Article 25 of CVM Rule 480, the Company's Executive Officers hereby state that they have discussed, reviewed and agreed with the audit report of ERNST & YOUNG Auditores Independentes S.S, issued on February 17, 2017, as well as with the financial statements for the years ended December 31, 2016 and 2015.

RELATIONSHIP WITH INDEPENDENT AUDITORS

In compliance with CVM Rule 381/03, we hereby state that the Company, its subsidiaries and jointly-owned subsidiaries have adopted a formal procedure, whereby they consult the independent auditors ERNST & YOUNG Auditores Independentes S.S. (EY), so as to ensure that the provision of other services will not affect the independence and objectivity required to perform their duties as independent auditors. The Company's policy regarding hiring independent auditors guarantees that there is no conflict of interests, nor is there any loss of independence or objectivity.

In the fiscal year ended December 31, 2016, EY didn't provide additional services which exceeded 5% of the fees to audit the consolidated financial statements of Magazine Luiza S.A.

When hiring these services, the policies adopted by the Company are based on principles that preserve the auditors' independence. In accordance with the internationally accepted standards, these principles determine that: (a) auditors must not audit their own work; (b) auditors must not exercise any managing position in their clients, and (c) auditors must not legally represent the interests of their clients.

Ernst & Young Auditores Independentes declared that the services rendered were done strictly in compliance with the accounting standards that regulate the independence of the independent auditors in audit procedures and did not create a situation that could have affected the independence and the objectivity of the external audit services.

ACKNOWLEDGMENTS

At this time, the Company would like to thank its shareholders, customers, employees, suppliers, service providers, lenders, and the communities with which it operates for their support and partnership during 2016.

São Paulo, February 20, 2017.
The Management team