2017 MANAGEMENT REPORT

MESSAGE FROM THE EXECUTIVE OFFICERS

2017 was an exceptional year for us. We completed six decades of existence celebrating our principal characteristics: the constant search for innovation and the capacity for reinvention. Our motto for the year was, “The only thing that never changes is that we are always changing.” In the context of a digital revolution which has overwhelmed those companies unequipped to change, these characteristics have been essential to our success.

By investing in innovation and our digital platforms, we have been able to improve our financial results quarter after quarter. In spite of the persistent political and economic uncertainties , we have been able to expand market share, boost profits, drastically reduce leverage and become even more digital. Our e-commerce platform now accounts for approximately one-third of total sales, maintaining a level of profitability that is the exception in Brazil.

Innovations are ultimately measured by the concrete benefits that they bring to users. We do not believe in technology as window dressing or to complete checklists. We aren’t interested in technology used only for slides — designed solely to impress people — or to create factoids to be used in press releases. We use technology as a means and not as an end.

We will be relevant every time that we help our clients to better spend their money, and above all, their time — the most valuable asset that we have. We will be relevant every time that we transform a complex process into one that is simple. One that is slow, into one that is fast. We will make the difficult easy. “Simplicity is the ultimate sophistication,” wrote Leonardo da Vinci, the Renaissance genius who changed how we see the world by uniting art and science. The search for the simple will bring us, as a business model, closer to the ultimate sophistication.

We have an organizational culture that conspires in our favor. We are genuinely simple — as we were when our founders opened the doors of Store Number One in Franca, in the countryside of São Paulo. We decide things rapidly. We do things rapidly. We move on rapidly when something does not work. We take risks. We try to combine rationality and intuition. We are not afraid of failing because we know that we are capable of getting up and trying again — this time, correctly. We are a company that experiments and, because of this we never stop learning. We are not afraid of the future — whatever form it may take. And we try to resist the urge to be guided by the competition — whatever it is named.

This way of being, combined with execution ability and discipline, have transformed us into a technology company dedicated to uniting, in the most efficient and scalable form, production and consumption — the essence of retail.

Every day, more than 450 engineers and product development specialists work at LuizaLabs, our development and innovation center, seeking to maximize fluidity and eliminate any possible friction from the retail process. They (and we should note that an ever-increasing percentage of our engineers are women) already represent around 30% of the company’s administrative payroll. They are professionals that understand the business and are in direct contact with our other departments, seeking solutions to concrete problems.

Organized in small teams dedicated to specific missions, the LuizaLabs staff created solutions such as Mobile Sales, present in all of our 858 stores, which reduced the average sale time from 40 minutes to 4 minutes. Or Mobile Delivery – which enables the 1,500 microtransport companies that work for us to track deliveries. Or Mobile Inventory, which reduced inventory-checking time from 90 minutes to 10. Or Digital DCC, which reduced credit approval time. Not to mention Magazine Você, our direct sales system through social networks, with more than 200,000 online agents that use this platform to supplement their income.

All these digital solutions reduce friction, making relations between the physical and the digital worlds more fluid. They are all proprietary technology, developed by us in accordance with our business strategy and values. Truly Brazilian technology.

In a historic period for Magalu, it is likely that this has been our main achievement: to prove, amidst skepticism and preconceptions, that a 60 year old company founded in the countryside of Brazil can be a protagonist of the Digital Era.

This achievement extrapolates Magazine Luiza. This is the evidence that the constraint—which many want to impose upon us—is wrong: the ability to develop technology is not a monopoly of Silicon Valley or the region of Seattle. And it is not written in stone that only a handful of corporations will win the battle for the hearts and minds of global consumers.

Tom Jobim wisely said that Brazil is not for beginners. We have, at the same time, one of the largest consumer markets and one of the most complex tax systems in the world, perversely tied to a poor distribution infrastructure. Business models, processes, and systems adopted by the most successful multinational corporations have great difficulty adapting to such an inhospitable business environment. No one knows how to overcome these challenges better than Brazilian professionals.

By believing in our ability to play today's retail game, we have taken important steps in the last fiscal year. In April, we announced the acquisition of Integra Commerce, a startup based in the State of Minas Gerais specialized in the integration and management of sellers and marketplaces. The acquisition of Integra and the integration of its team with LuizaLabs' professionals were both crucial to the growth of our marketplace. Created in 2016, the Magalu marketplace currently has more than 750 sellers, offering 1.5 million items. Through the marketplace, we have expanded the company's product offering by 40 times and taken advantage of the long tail in a way that only the Internet allows.

We accomplished this growth all while implementing the market's most selective approval process for new sellers. We rejected more than 30% of seller applications. We only accept sellers who have the same service level required in our own operations. Magalu's marketplace exists to offer—from purchase to post-sale—the same experience we offered before the platform was open to third parties. Ultimately, everything sold in our marketplace is also our responsibility. We don't pass the buck. We chose to manage this reality in a unique way, dealing with all events entered on Reclame Aqui, a website that scores customer satisfaction and that is a benchmark in Brazil. We were the only retail company to keep the consumer-feedback-derived RA1000 seal of highest-quality customer service.

The creation of, and investment in, the marketplace platform was not just a business decision. They were manifestations of Magazine Luiza's purpose: to deliver the opportunities and benefits of digitalization to as many Brazilians as possible. And that involves all companies—especially the small ones. We are talking about inclusion, a word that defined our company long before it became a fad. We want to provide the sellers integrated in the marketplace with all the features developed by LuizaLabs, acting as a powerful link to digitalization for those businesses.

Marketplace sellers will soon be able to use our distribution centers' services. Their products will also be sold by Magazine Luiza sellers within our stores and by our Magazine Você promoters. The products offered by sellers within the e-commerce platform will also be picked up by buyers in any of our physical stores and distributed nationwide.

That is what multichannel e-commerce is all about.

As we have been adopting it—without pause—for the last twenty years, we are now ready to transform our physical stores into shoppable distribution centers—advanced hubs of distribution and expertise. This change has already begun and should intensify over the coming months.

Given Brazil's size and logistical problems, having 858 alternative distribution centers (in addition to the traditional DCs) is a considerable competitive advantage. Already, more than 20% of Magalu's total e-commerce sales are delivered via in-store pickup. Most of them within 48 hours.

It is an irony of fate that physical stores, whose very viability was strongly questioned in the recent past, are proving the keys to combining growth and profitability of the digital operations. The world's largest e-commerce retailers are now directing investments into opening physical stores or acquiring traditional retailers.

By turning our stores into shoppable distribution centers, we are one step ahead in this movement. Our investments in our physical stores include increasing storage area, the installation of new storage equipment, the implementation of new technologies for local inventory management, the introduction of tools to improve sales processes, and the launch of digital services, such as LuConecta, released in 2017, which offers installation and technological assistance to consumers for products sold.

With that, Magazine Luiza stores are much more than points of sale. They are customer service centers, offering information, delivery services for our own and third-party goods, and the sale of products and services. All with a human touch.

Such a sound history of innovation and digitalization—always focused on the customer—is reflected in the results achieved by the company and has been well received by investors who show a growing faith in our business model.

In September, we performed a successful follow-on transaction which injected R$1.1 billion into the Company and Magalu's shares are now included in the Ibovespa Index, the index of the most traded shares of B3, the Brazilian Stock Exchange. The follow-on transaction, added to the R$1.0 billion in operating cash generated during the year, helped the company end 2017 with a net cash position of R$1.7 billion. With those funds in place, we have built the financial foundation upon which to thrive in what we believe to be a new cycle of the Brazilian economy.

In recent years, in the midst of the worst recession our country has ever faced, we successfully attained good results despite the wind blowing against the retail market. In defiance of this adversity, Magazine Luiza's performance was consistently improving. We increased our sales by 28%, our EBITDA by 44%, and our net profit by 350% year-over-year. In 2018, as growth, employment rates, and income gradually increase, while interest rates drop to levels never seen before, retail can now sail with the wind at its back.

We, therefore, have ample reason to be optimistic. We arrive at this moment of optimism with a World Cup on the horizon, with the lowest bank indebtedness levels in our history, and having available funds to speed up our digital transformation. Still, there is much to be done. And there always will be. Constant change is the new normal. We are prepared, confident, and excited about embracing this change.

We thank our shareholders, suppliers, and business partners for trusting us. We also appreciate the passionate dedication of our employees, who make Magalu the best company to work for in Brazil's retail market. And, of course, thanks to our customers, the ultimate reason for our striving.

EXECUTIVE MANAGEMENT TEAM

HIGHLIGHTS

Sales up by 28%, with growth in all channels
E-commerce up by 61% in 2017, reaching 30% of total sales
44% EBITDA Increase to R$1,031 million (8.6% margin)
Adjusted operating cash generation of R$1,040.2 million in the year
Reduction of net debt of R$136 million in 4Q16 to net cash position of R$1,663 million in 4Q17

- **Greatest expansion in the last 5 years.** In 2017, total sales, including that of physical stores, traditional e-commerce (1P), and marketplace (3P), rose 27.9% to R$14.4 billion, mainly due to the 60.9% increase in total e-commerce and 17.4% rise in physical store sales. For the second year in a row, Magalu gained market share in all channels and in the main product categories. According to IBGE (PMC) data, in 2017, nominal sales of furniture and household appliances went up by only 7.7% compared to a 27.9% growth in our total sales.

- **Accelerated growth in e-commerce.** E-commerce sales at 30.4% of total sales was a record, a 60.9% increase in 2017 compared to a 7.5% growth in the same period last year, according to information from E-bit. This market share gain was a result of: (i) growth in traffic and in mobile channel sales (mainly from the app), (ii) increase in sales in markets served by the 10 regional DCs, fully integrated since 2014, (iii) increase in conversion related to the expansion in the use of the proprietary recommendation system, and (iv) boost in sales through new channels (Época Cosméticos, Magazine Você, Clube da Lu and Quero de Casamento).

- **Gross Profit evolution.** In 2017, gross profit was up 23.4% and reached R$3,606.0 million. Gross margin dropped by 0.6 p.p. to 30.1% as a result of: (i) a significant increase in e-commerce share and (ii) preservation of gross margin in all channels, as a result of better commercial assertiveness, inventory management, and greater price rationality in the physical stores and e-commerce markets.

- **Significant dilution in operating expenses.** In 2017, sales, general and administrative expenses decreased by 1.5 p.p. to 22.1% of net revenue. This dilution reflects the maturity of the strict expense control adopted by the Company, including the Zero Base Budget (ZBB) and the Matrix Expense Management.

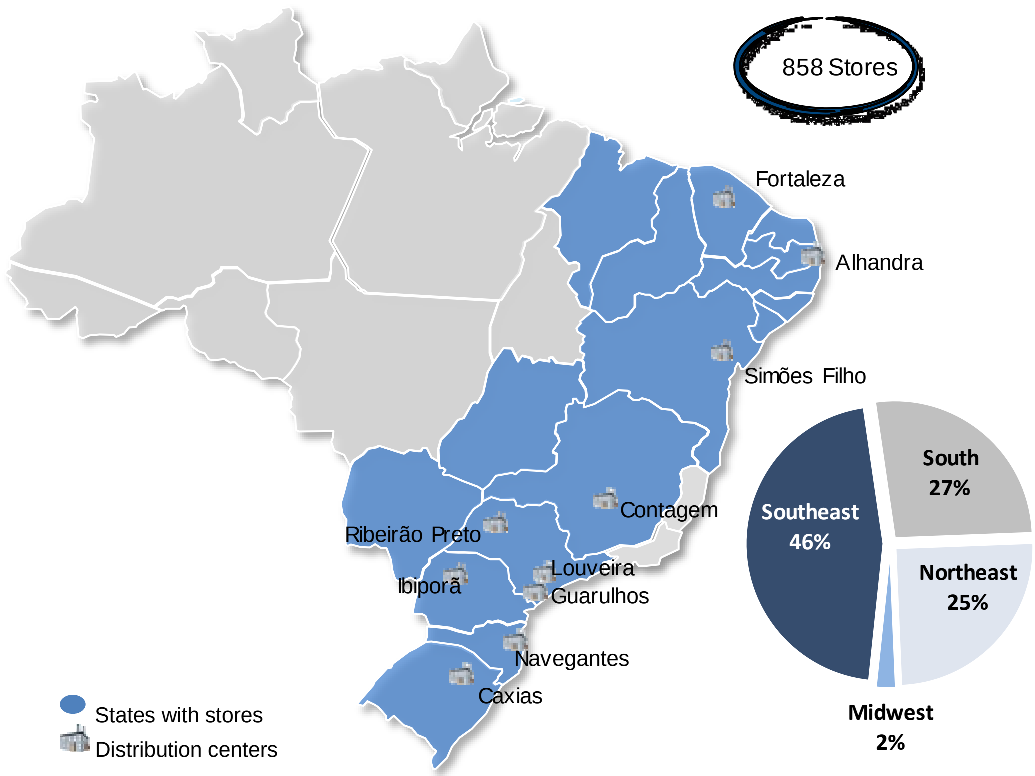
- **Strong EBITDA growth, reduction in financial expenses and evolution of net income.** In 2017, sales growth, dilution of operating expenses, and the positive contribution of e-commerce contributed to a significant evolution of 44.3% in EBITDA that reached R$1,030.8 million (+1.1 p.p. to 8.6% margin). In addition, financial expenses went down by 1.9 p.p. to 3.0% of net revenue due to the significant reduction in net debt and a drop in interest rates. Net income reached R$389.0 million for the year.

- **Solid operating cash flow generation.** Operating cash flow adjusted by receivables went up from R$778.9 million in 2016 to R$1.0 billion in 2017 due to the improvement in results and working capital management. In the last 12 months, working capital variation contributed R$299.5 million to operating cash generation.

- **Reduction in net debt and optimization of capital structure.** In the last 12 months, our Company reduced its adjusted net debt by R$1.8 billion, from R$135.6 million in net debt in 4Q16 to a net cash position of R$1,663.4 million in 4Q17, taking into consideration the funds received from the follow-on transaction held in 4Q17 of R$1.1 billion. It is the first time since our IPO that we maintain a positive net cash position.

- **Improvement in Luizacred results.** Portfolio overdue for more than 90 days (NPL 90) dropped 2.1 p.p. from 4Q16 to 4Q17, representing 7.4% of the total portfolio. Due to improvement in the default levels, Luizacred operating profit boomed by 14.7% and outpaced the R$188.4 million result in 2016, growing to R$216.1 million in 2017. Net income reached R$137.5 million with an ROE of 24%.

Magazine Luiza is one of Brazil's leading retailers, providing a wide array of products to Brazilians of all classes through a multichannel retail platform capable of reaching customers via mobile, web and physical stores. As of December 31, 2017, our Company operated 858 stores and ten distribution centers (DCs) strategically located in 16 states in Brazil, whose economy corresponds to 80% of Brazil's GDP. Our Company also had over 23,000 employees and a customer base of over 50 million by the end of 2017.



CONSOLIDATED FINANCIAL PERFORMANCE

The table below presents the amounts related to the consolidated income statements for the fiscal years ended December 31, 2017 and December 31, 2016.

CONSOLIDATED INCOME STATEMENT (in R$ million)	12M17	V.A.	12M16	V.A.	Var(%)
Gross Revenue	14,321.1	119.5%	11,371.6	119.6%	25.9%
Taxes and Deductions	(2,336.9)	-19.5%	(1,862.9)	-19.6%	25.4%
Net Revenue	11,984.3	100.0%	9,508.7	100.0%	26.0%
Total Costs	(8,378.2)	-69.9%	(6,586.1)	-69.3%	27.2%
Gross Income	3,606.0	30.1%	2,922.6	30.7%	23.4%
Sales Expenses	(2,120.0)	-17.7%	(1,776.3)	-18.7%	19.3%
General and Administrative Expenses	(536.0)	-4.5%	(481.9)	-5.1%	11.2%
Provisions for Loan Losses	(41.9)	-0.3%	(26.1)	-0.3%	60.8%
Other Operating Revenues, Net	36.5	0.3%	13.5	0.1%	170.2%
Equity in Subsidiaries	86.2	0.7%	62.7	0.7%	37.4%
Total Operating Expenses	(2,575.3)	-21.5%	(2,208.1)	-23.2%	16.6%
EBITDA	1,030.8	8.6%	714.6	7.5%	44.3%
Depreciation and Amortization	(143.1)	-1.2%	(133.6)	-1.4%	7.1%
EBIT	887.7	7.4%	580.9	6.1%	52.8%
Financial Results	(410.8)	-3.4%	(503.8)	-5.3%	-18.5%
Operating Income	476.9	4.0%	77.1	0.8%	518.5%
Income Tax and Social Contribution	(87.9)	-0.7%	9.5	0.1%	-
Net Income	389.0	3.2%	86.6	0.9%	349.4%
Total Retail Sales [1]	14,440.3	-	11,290.2	-	27.9%
Same Physical Store Sales Growth	14.3%	-	0.4%	-	-
Total Physical Store Sales Growth	17.4%	-	2.4%	-	-
E-commerce (1P) Sales Growth	52.7%	-	32.0%	-	-
Total E-commerce Sales Growth	60.9%	-	32.0%	-	-
E-commerce Share in Total Sales	30.4%	-	24.2%	-	6.2 pp
Number of Stores - End of the Period	858	-	800	-	58
Sales Area - End of the Period (M^2)	525,981	-	501,319	-	4.9%

(1) Total sales include physical store sales, traditional e-commerce (1P) and marketplace (3P).

In 2017, the Company opened 60 new stores and closed two, ending the year with 858 stores, 718 of which were conventional and 141 were virtual, in addition to our website. Of the total base, 17% of stores are in the process of maturation.

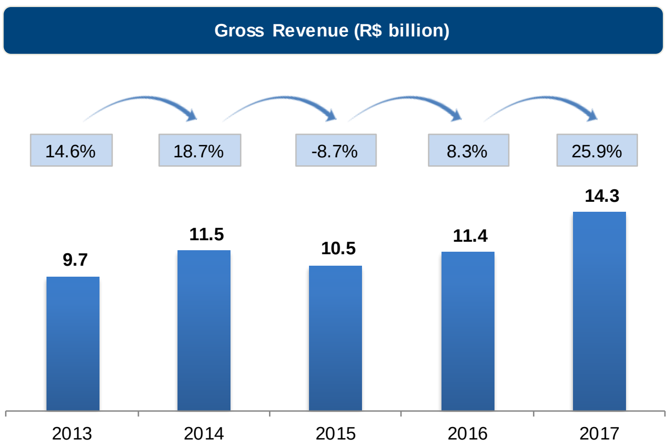
Gross revenue increased 25.9% to R$14.3 billion, due to accelerated growth in e-commerce, increase in same physical store sales plus the contribution of 60 new stores.

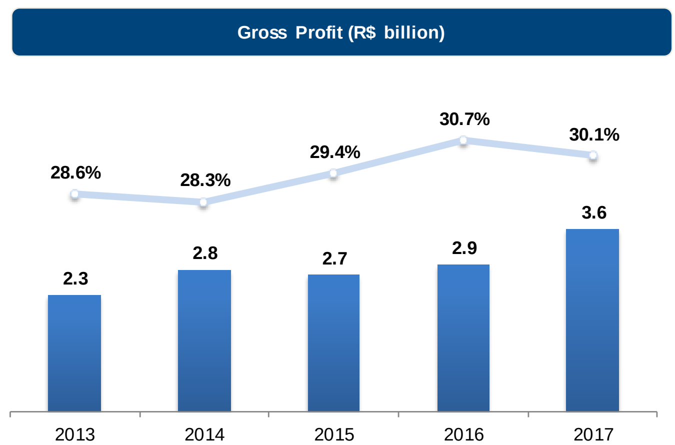
Gross profit reached R$3.6 billion with a decrease of 0.6 p.p. in gross margin to 30.1%. The gross margin drop is explained by (i) a significant increase in the share of e-commerce and (ii) preservation of gross margin in all channels as a result of better commercial assertiveness, inventory management, and greater price rationality both in the physical stores and in e-commerce markets.

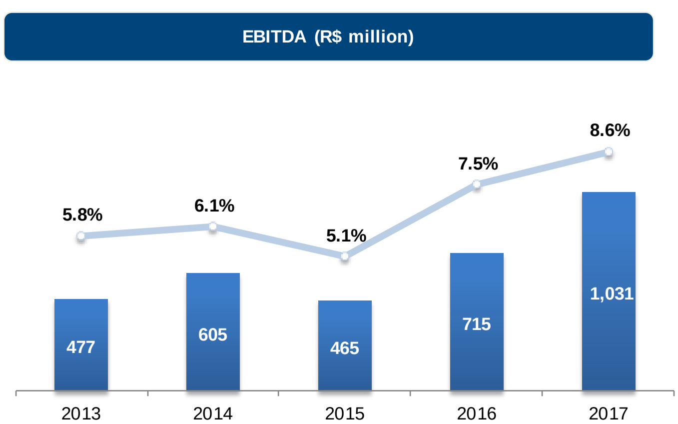
Sales expenses represented 17.7% of net sales, a decrease of 1.0 p.p. in relation to 2016. The share of general and administrative expenses was 4.5% of net revenue, equivalent to a decrease of 0.6 pp compared to 2016. As a result, operating expenses decreased by 1.7 p.p. to 22.2% of net revenue. This dilution reflects the maturity of the strict expense control procedures adopted by the Company, including the Zero Base Budget (ZBB) and the Matrix Expense Management.

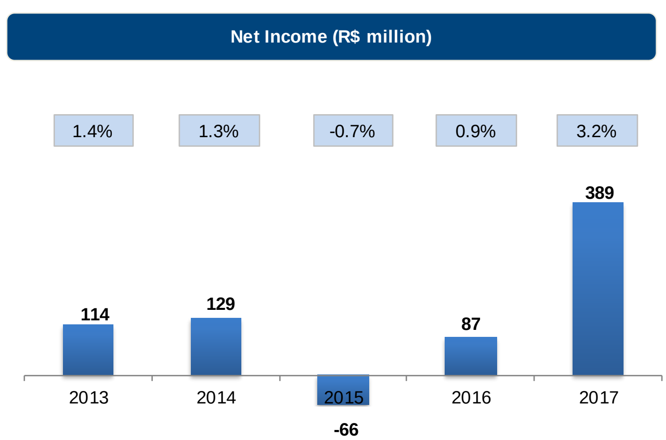
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) reached R$1,030.8 million, equivalent to an EBITDA margin of 8.6% (+1.1 p.p in relation to 2016). The growth in sales, the dilution of operating expenses, and the positive contribution of e-commerce contributed to the significant evolution of EBITDA.

In 2017, the accumulated net income amounted to R$389.0 million, with an ROE of 39%.









MANAGEMENT STATEMENT

In compliance with the provisions under article 25 of the Brazilian Securities and Exchange Commission (CVM) Instruction 480, the Board of Executive Officers declares that it has reviewed, discussed and agreed with the opinion rendered in the Independent Auditor's Report issued by KPMG Auditores Independentes S/S on February 21, 2018, along with the Financial Statements for the fiscal year ended on December 31, 2017 and 2016.

RELATIONSHIP WITH EXTERNAL AUDITORS

Pursuant to CVM Instruction No.381/03, we inform that the Company and its subsidiaries and jointly-owned subsidiaries adopt as formal procedure to consult the independent auditors KPMG Auditores Independentes S/S (KPMG), in order to assure that the rendering of other services do not affect their Independence and the objectivity required to perform independent audit services. The Company's policy when engaging independent auditor's services assures there is no conflict of interests, loss of independence or objectivity.

In the fiscal year ended December 31, 2017, KPMG did not render other additional services to exceed 5% of the audit fees of Magazine Luiza S.A.'s consolidated financial statements.

When contracting these services, the policies adopted by the Company are based on the principles which preserve auditor's independence. These principles, pursuant to the accepted international standards, consist of: (a) auditor shall not audit his own work; (b) auditor shall not perform managerial duties at his client, and (c) auditor shall not legally represent its clients' interests.

KPMG Auditores Independentes S/S (KPMG) declared that services were rendered in strict compliance with the accounting standards referring to auditors' independence and they do not represent situation which could affect independence and the objective performance of their external audit services.

ACKNOWLEDGEMENTS

We would like to take this opportunity to thank all our clients, employees, shareholders, suppliers, partners, and the community in general for the trust and partnership throughout 2017.

São Paulo, February 22, 2018

The Management