
# ANNUAL SUSTAINABILITY REPORT

# 2013


magazineluiza
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# A1/ about this report, scope and limit

For the very first time, we have integrated our Annual Report and Sustainability Report in an effort to increase transparency, provide greater ease in exchange of information and help our stakeholders to better understand what Magazine Luiza seeks to achieve in Brazil as it relates to the government, corporate, social and environmental areas. We have a fascinating story to tell, and if you would like to learn more about it, our door is always open.

This report, published annually, covers the Company's operations in Brazil, focusing on its main businesses, which includes physical stores, virtual stores, e-commerce, Luizacred, Luizaseg and Consórcio Luiza, and their economic, corporate and environmental impacts. This document is targeted at stakeholders, including investors, employees and their unions, clients, communities, society, suppliers and the Government. Information from 2013 covers the period from January 1 to December 31. G3 3.1, G3 3.3, G3 3.5, G3 3.6, G3 3.7, G3 3.8, G3 3.10, G3 3.11, G3 4.14, G3 4.15

This document is the result of a joint effort between several areas within the Company. On both occasions, the parties involved presented methodology to define the scope of work, in order to identify availability and consistency of information. The following step included the collection of data through interviews with the Board of Executive Officers and division managers, who identified strategic themes within the Company, pointing out major challenges and validating indicators. G3 3.5

**In 2012, Annual and Sustainability Reports were published separately, based on GRI guidelines. In 2013, we opted to consolidate both reports (covering sustainability and economic-financial information) into a single document. For 2014, we are considering the option of the Integrated Report format (page 115). The Company's independent auditors are Ernst & Young (accounting changes, pp. 124), headquartered at Avenida Presidente Juscelino Kubitschek, 1830, São Paulo, CEP 0453-000 (55 11 3078 4712).** G3 3.2

*"First, do what you deem necessary, then, what you think is possible and all of a sudden, you will realize that you can do the impossible."*

\- Saint Francis of Assis

**For more information:** G3 3.4
http://ri.magazineluiza.com.br

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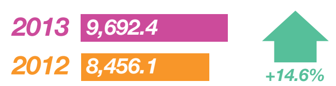
(55 11) 3504 2301

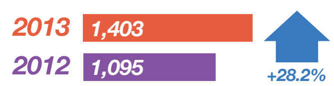
**Shareholder Services** G3 4.4
Shareholders are served by any branch of Banco Itaú, which is headquartered at:
Praça Alfredo Egydio de Souza Aranha, 100 – Torre Itaúsa, São Paulo
Other Channels: investfone@itau.com.br or (55 11) 3003 9285 (capitals and metropolitan regions) and 0800 7209285 (other locations)

## A2/ our universe G3. 2.8

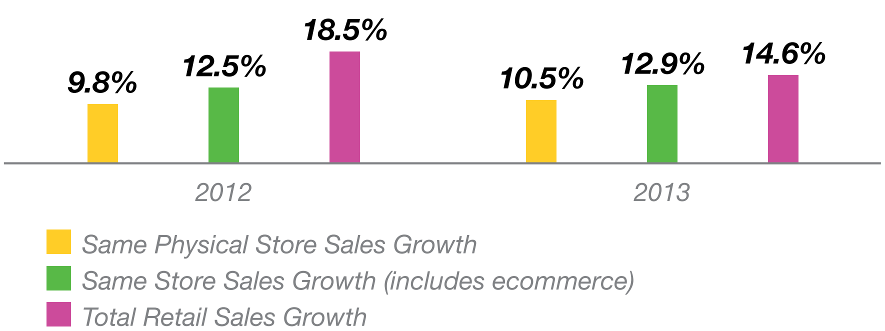
**Consolidated Gross Revenue** *(R$ million)*



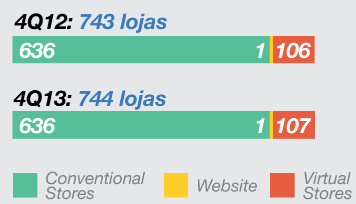

**Gross Internet Revenue** *(R$ million)*



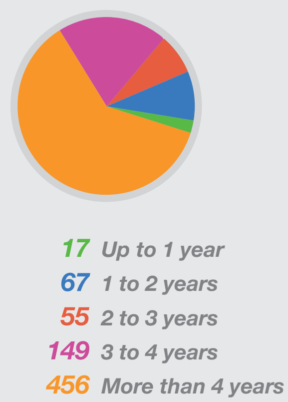

**Same Store Sales Growth (%)**




**Evolution of Number of Stores**




**Average Age of Stores**




## A3/ our commitment

### STRENGTHENING OUR COMMITMENT TO INVESTORS, CONSUMERS AND EMPLOYEES

Dear reader:

For Magazine Luiza, 2013 was a year marked by achievements and challenges that were overcome, marked by significant advances in our execution, growth and profitability. At the same time, we maintained our commitment to the quality of service to our clients, strengthening the culture among employees and contributing in an assertive manner to society and, particularly, the sustainability of our business model. G3 2.1

Financially, we followed through with our promise to post consistently better results each quarter, after a period dedicated to the integration of the recently acquired Baú da Felicidade and Lojas Maia networks, in an effort to prove Magazine Luiza's potential for profitability.

We have strengthened our commitment to generating value for shareholders through improved performance by Magazine Luiza, from greater adjusted EBITDA, increased gross margin, reduced sales, general and administrative expenses to a significant improvement in the result of Luizacred.

We have once again shown our pioneering spirit, opening our first virtual store in an underprivileged community, in the Heliópolis neighborhood, in the city of São Paulo. As an important local partner, Magazine Luiza offers courses to the residents of Heliópolis and participates on the community's committee on relevant questions such as aid to youth to continue improving education in a quest for further professional challenges and even improvements to the quality of life of the community, in addition to stimulus for sports and cultural activities.

Strategically, we saw an evolution of our multi-channel platform, and are currently considered one of the only retailers in the world to display a truly integrated and profitable *Omnichannel* platform. We also expanded our online retail offer with the launch of new products and services, such as the "Wedding Wish List," and supplemented our marketplace strategy with the acquisition of Época Cosméticos, a website that was already a partner on the specialized marketplace for the online sale of beauty products. These new features enhanced our our service portfolio and online platform, which includes the e-commerce website, social and mobile commerce initiatives and virtual stores.

To lead in the retail sector, we must innovate and "think outside the box" from time to time. Many times, the Company has taken the lead and acted as a catalyst for positive changes, as was the case with the launch of the virtual store model, in 1992, as well as our strategic partnership with a financial institution and many other achievements in our history. We will continue to carry and develop our business in the most ethical and transparent style possible, in an effort to achieve true alignment between the mind, heart and pocketbook when it comes to our beliefs.

In terms of sustainability, people are the main focus of Magazine Luiza's social and environmental actions. All sustainability initiatives and practices seek to add to the value of its relations, through a permanent dialogue with suppliers, shareholders, employees, clients, partners, communities, unions, governmental entities, social institutions, academics, competitors and opinion-makers. The exercise of listening is vital to buildings a Company that believes in continuity, shared gains and social and spiritual evolution. G3 4.14, G3 4.15

Because we believe that the success of our business depends on valuing diversity and life, the Company chose to publish its non-financial information in its Annual Sustainability report. This information was updated based on the same indicators used in the previous year, in the GRI C+ Sustainability Report, which was subject to an audit by Ernst & Young. For 2014, the Company is currently evaluating the best format to disclose its integrated sustainability practices to the public. G3 3.5 G3 3.13

## A4/ main Indicators

| *Indicators* | *2011* | *2012* | *2013* |
|---|---|---|---|
| Number of Customers (milhões) | 22.7 | 29.9 | 36.5 |
| Number of Stores | 728 | 743 | 744 |
| Number of States | 16 | 16 | 16 |
| Presence in Municipalities | 488 | 488 | 490 |
| Sales Area - End of Period (m²) | 454,045 | 469,061 | 473,884 |
| Number of Employees (thousand) | 23.4 | 23.8 | 24.2 |
| Number of Cardholders (million) | 4.4 | 3.9 | 3.4 |

| *R$ million* | *2011* | *2012* | *2013* |
|---|---|---|---|
| Gross Revenue | 7,136 | 8,456 | 9,692 |
| Gross Revenue Growth | 33.6% | 18.5% | 14.6% |
| Adjusted EBITDA | 356 | 299 | 412 |
| Adjusted EBITDA Margin | 6.0% | 4.2% | 5.1% |
| Adjusted Net Profit | 55 | 14 | 71 |
| Adjusted Net Margin | 0.9% | 0.2% | 0.9% |

| *Indicator* | *2011* | *2012* | *2013* |
|---|---|---|---|
| Market Value (R$ million) | 1.8 | 2.3 | 1.4 |
| Price per share (R$ end of period) | 9.54 | 12.15 | 7.55 |
| Amount of shares | 186,494,467 | 186,494,467 | 186,494,467 |

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## SOCIAL IMPACT

| | 2012 | 2013 |
|---|---|---|
| Young Learner | 539 | 665 |
| % of 360° Evaluation on Absolute Number | 5.21% | 6.36% |
| % Managers and Supervisors - Female | 8.94% | 10.80% |

## ENVIRONMENTAL IMPACT

Throughout 2013, supported by external consultants, the Company executed actions aimed at significantly reducing energy consumption, including training, powerpoint presentations to all of its managers in the Northeast region and disclosure efforts to inform employees of the importance of reducing consumption through e-mails and on-site training.

| Soures of energy consumption | | Sum of direct energy consumed per source | | Change 2012 to 2013 in % | Unit of measure |
|---|---|---|---|---|---|
| | | 2012 | 2013 | | |
| Electricity | Electric power Authorized provider | 73,733,851* | 83,888,432* | 13.8% | kWh |

*Data estimated in accordance with values, paid in R$, to  energy suppliers. 2012 values were adjusted according to the calculation methodology used in 2013.

**Calculation Methodology:** The Company analyzed the accounting amount of electric energy in 2013, obtaining the total amount consumed in Reais. The total value, divided by the price per KW (from bills from September 2013) per store, thereby coming up with the amount of KWs used per year and per store.

Expenses with energy consumption are factored into stores' results, thereby leading managers to prevent waste and reduce consumption. In 2013, this calculation considered 771 of the Company's stores, while in the previous year there were  690 stores the management system based on bills from each store were included Thus, there was an 81store growth in 2013. This calculation did not result in a significant increase or decrease from one year to the next, with only an absolute increase resulting from the inclusion of new stores.

As for energy purchased, the main point in 2013 was energy from renewable sources, in addition to guaranteed savings per month of 2.50%. EN4

# A5/ awards

## AWARDS RECEIVED IN 2013 G3 2.10

In 2013, Magazine Luiza received a number of awards and recognitions, namely:

- Considered one of the ten most valuable brands in Brazil (tenth place), in a groundbreaking survey by Interbrand – Best Retail Brand 2013
- Considered the marketing company of the year in the retail category by *Marketing* Magazine
- One of the “100 Best Companies to Work for in Latin America” (13th place), in a survey by the Great Place to Work Institute
- Won the 12th edition of the Oi Tela Viva Móvel Award, in the mobile marketing category, by public voting, for the Chip Luiza case
- Took bronze in the 54th edition of the Clio Awards, in the digital/mobile in publicity category, for the Magazinevocê case
- For the tenth consecutive time, Magazine Luiza’s website won the diamond award in the Excellence in B2C (e-bit) Electronic Commerce Quality and was elected the “outstanding innovation store”
- Won the second best reputation in Brazilian retail, in 2013 Corporate Reputation Ranking released by *Exame* Magazine. In the general ranking, the Company came in 26th in Brazil, while in the “most responsible companies with the best corporate governance” category, it ranked 15th
- Won the award for second best company in Retail service, according to the Iberian-Brazilian Institute for Customer Relations (IBRC), released by *Exame* Magazine. In the general ranking, the Company came in 11th in Brazil
- Elected as one of the 150 best companies to work for in Brazil, for the 16th consecutive year, in the 17th edition of *Guia Você S/A* 2013 (Editora Abril)

- 11th place in the "Best places to work in Brazil" survey, for the 16th consecutive year, according to Instituto GreatPlacetoWork and *Época* Magazine (Editora Globo)

In 2013, our CEO, **Luiza Helena Trajano**, received the following recognitions:

- Title of Citizen of São Paulo, granted by the City Council of São Paulo (SP)
- Eighth place in a survey of leaders with the best reputation in Brazil, according to the 2013 Corporate Reputation Ranking, released by *Exame* Magazine
- Latin American Marketing Personality Awards 2013 (Lampa), for her efficiency and creativity in the use of marketing
- For the third consecutive time, elected as one of the ten most admired leaders in Brazil (seventh place), by *Carta Capital* Magazine

## A6/ market share G3 2.7, G3 2.8

- More than 24 thousand employees
- 36 million clients, 1.5 million with "Gold" status
- Present in 16 Brazilian states that together account for 75% of GDP
- 289 new stores opened in the last four years
- 744 stores, 636 conventional, 107 virtual and one website
- Nine acquisitions in the last ten years and recent entry into the in Northeastern Brazil (2010)
- Cartão Luiza: 3.4 million co-branded cards
- Only true multi-channel retailer with a single brand
- Focus on the C income segment through physical stores, the fastest-growing income segment in Brazil
- Focus on A and B income segments (high income bracket) through e-commerce

- First retailer to set up joint ventures with financial institutions and to offer insurance products, with a focus on credit and financial services for consumers
- Diverse product mix and a supply chain composed of more than 700 active suppliers


## Mission G3 4.8

*To be a competitive, innovative and bold company, always seeking the common welfare*

# A7/ executive board

| Members of the Board of Directors | Position |
|---|---|
| Joaquim Francisco de Castro Neto* | Chairman |
| Luiza Helena Trajano Inácio Rodrigues | Vice-Chairman |
| Onofre de Paula Trajano | Member (Sitting) |
| José Antônio Palamoni | Member (Sitting) |
| Carlos Renato Donzelli | Member (Sitting) |
| Inês Corrêa de Souza* | Member (Sitting) |

*Independent Board Member

| Members of the Audit Council | Position |
|---|---|
| Inocêncio Teixeira Baptista Pinheiro | Chairman – elected by controller |
| Fabrício Gomes | Member (Sitting) – elected by controller |
| Rolf Von Paraski | Member (Sitting) – elected by minority shareholders |
| Mauro Marangoni | Member (alternate) – elected by controller |
| Robinson Leonardo Nogueira | Member (alternate) – elected by controller |
| Aldo Ribeiro de Moraes | Member (alternate) – elected by minority shareholders |

| Members of the Audit and Risk Committee | Position |
|---|---|
| Carlos Renato Donzelli | Sitting Member |
| Inês Corrêa de Souza | Sitting Member |
| Roberto Bellissimo Rodrigues | Sitting Member |

| Members of the Audit and Risk Committee | Position |
|---|---|
| Carlos Renato Donzelli | Sitting Member |
| José Antônio Palamoni | Sitting Member |

## EXECUTIVE TEAM G3 4.1, G3 4.2, G3 4.3


Luiza Helena Trajano Inácio Rodrigues


Marcelo José Ferreira e Silva


Roberto Bellissimo Rodrigues


Maria Isabel Bonfim de Oliveira


Frederico Trajano Inácio Rodrigues


Fabrício Bittar Garcia

| *Executive Team Pictures* | *Position* |
|---|---|
| Luiza Helena Trajano Inácio Rodrigues | President |
| Marcelo José Ferreira e Silva | CEO |
| Roberto Bellissimo Rodrigues | CFO and IR Director |
| Maria Isabel Bonfim de Oliveira | Chief Controller Officer (CCO) |
| Frederico Trajano Inácio Rodrigues | Chief Operations Officer (COO) |
| Fabrício Bittar Garcia | Chief Commercial Officer |

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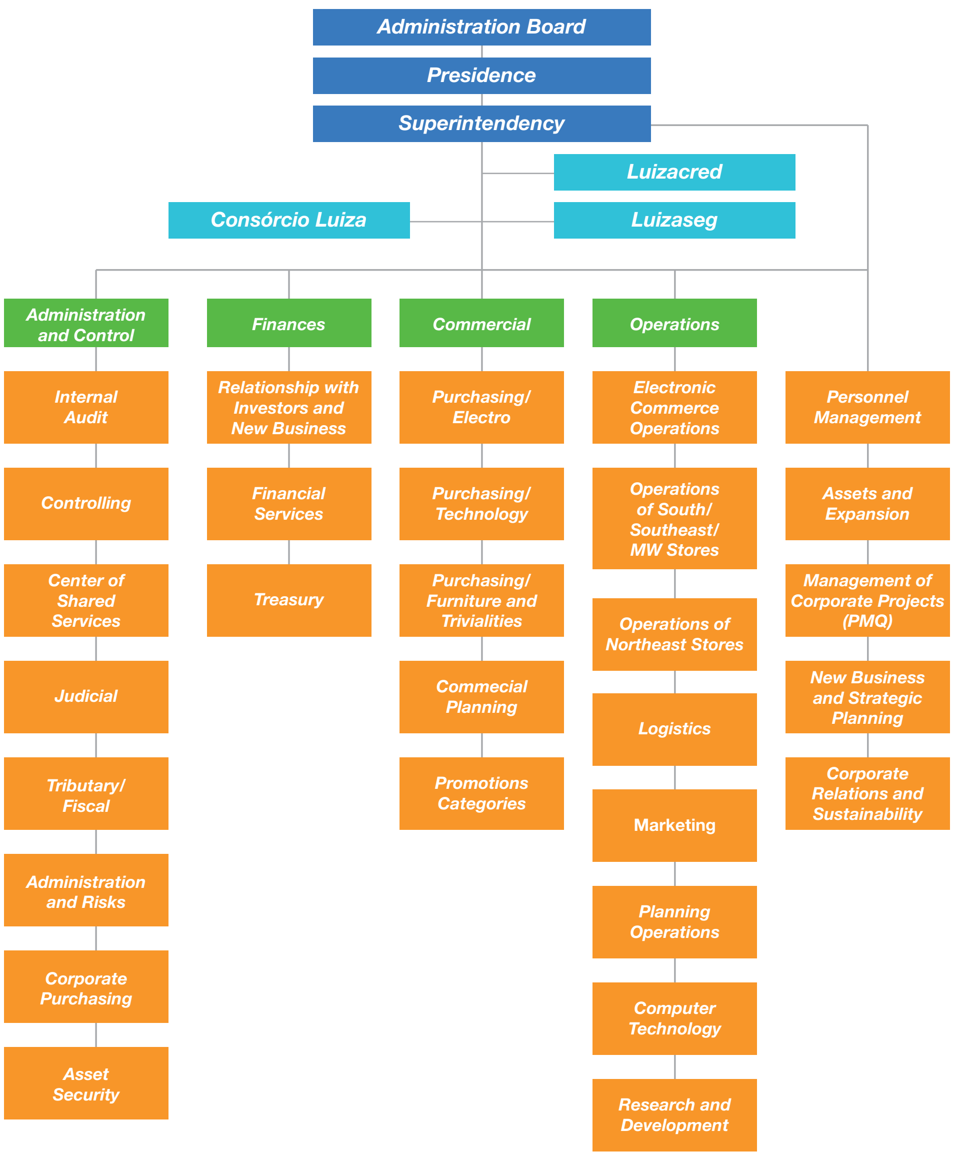
## ORGANIZATIONAL STRUCTURE




Luiza Helena Trajano, CEO of Magazine Luiza, is also Vice-Chair of the Board of Directors. G3 4.2

### Shares

Magazine Luiza is a publicly listed company and its shares are traded in the *Novo Mercado* segment of the Brazilian Securities, Futures and Commodities Exchange - BM&FBovespsa, under the ticker MGLU3. G3 2.6

**Magazine Luiza S.A.** G3 2.1, G3 2.4, G3 2.6
Headquarters
Rua Voluntários da Franca, nº 1.465 - Centro
Franca/SP
CEP 14400660

# A8/ letter from the CEO

## LETTER FROM THE CEO G3 1.1
## Consolidating assets

Dear Shareholders,

Growth and consolidation have always been a part of Magazine Luiza's strategy. It has been our strategy wit more than adozen chains that we have acquired in several Brazilian states. If we had opted for organic growth instead, it would have taken us much longer to reach the outstanding position that we currently hold in each market. The chains acquired in the states of Paraná, Santa Catarina and Rio Grande do Sul currently post performance in line with that of our more mature stores in terms of productivity per square meter and share in the Company's results. In the last three years, we acquired two more companies we deemed strategic and relevant that have taken Magazine Luiza to a whole new level. We made inroads into Northeastern Brazil with the purchase of nearly 140 strategically located stores in nine states. We strengthened our presence in São Paulo and Paraná with the acquisition of Baú stores, a number of which were converted to our virtual store format, which posts the highest profitability in the Company and is pioneering in many aspects.

Consolidating the last two chains was the Company's main focus over the last two years, while respecting the acquired companies' cultures and way of doing business. At the same time employees absorbed the "Luiza style," our "10 Star Service method ," our "Relationship Ritual" and many other training and methodologies for which the Company is known for, new challenges were posed to these new teams. Our 2013 results reflect the early results of this successful integration. Magazine Luiza's gross consolidated revenue increased by 14.6% in 2013, for a total of R$9.7 billion. The year's significant gains were the result of the assertiveness of our commercial strategy, combined with the excellent sales performance across all channels, increased productivity and improved product mix. In 2013, consolidated net income was R$113.8 million, with a margin of 1.4%, overcoming a R$6.7 million loss in 2012.

Everyone knows the importance of the Northeast within the Brazilian economy. We think that the acquisition of Lojas Maia was perfect strategic fit, given their tradition, culture and, most importantly, the potential that we foresee for this Region. The acquisition of Lojas Maia allowed us to gain a foothold in a region that has posted growth greater than the Brazilian average and where the penetration rate of certain products stands at half that of the Brazilian average for the same items. Currently, 21% of our stores are located in Northeastern Brazil, representing 15% of sales in 2013. We are confident that this move was the right decision, as we now post a solid presence among middle class consumers, which make up most of the population in the Northeast and Magazine Luiza's main target audience As a result of these acquisitions, we now boost a balanced sales coverage between the South, Southeast and Northeast, with a relevant presence in each of the regions.

One of our is to constantly innovate. We pioneered the launch of stores without inventory – the virtual store format (1992), even before the launch of internet in Brazil. We were also a first mover with the launch of our e-commerce website (2000); in partnerships with financial institutions, offering financial products to our consumers – Luizacred (2001), and insurance – Luizaseg (2005). In 2013, we made our first online acquisition, Época Cosméticos, in an effort to increase our offer of products in quickly growing categories with strong potential for consumption through this model. We are "tuned in" with new consumer needs and always seek to be ahead of our competition with regards to developing new trends and ideas. The social network phenomenon led us to once again pioneer the launch of a new platform of sales via websites – *MagazineVocê* – backed by a strong presence on social networks. *MagazineVocê* began in 2012 and currently has more than 170 thousand followers on Facebook. We have more than 1.4 million followers on Facebook and frequently conduct actions on several social media websites, with more than 86 thousand Twitter followers. In 2013, we launched a new service on our "Wedding Wish List" website, through which consumers may prepare a list of presents for their wedding. The website also allows users to prepare exclusive albums telling the story of the couple, while also receiving messages from friends and providing information on the wedding cerimony, thereby making for a simple and entertaining way to interact with guests.

We have always believed in the strength of a solid partnership between retail and banks. We innovated in 2001 by seeking a financial partner to develop and sell financial products and services to our clients. We are very pleased with our partnership with Itaú Unibanco, which we have held for over a decade. In 2013, our Luizacred operations posted its best performance since the foundation, further strengthening the ties to our financial partner. Once again, our decision proved to be right.

In 2014, the year of the World Cup, an extremely relevant event for our sector and country, we were able to significantly expand our media exposure. We are the only retailer to sponsor the event, which will allow for extensive media coverage, with media scope reaching regions where we have yet to open physical stores, but that can be served by our website. For this reason, we are very excited about our outlook for 2014, regardless of the rate of growth of the Brazilian economy, given that most of the macro-economic essentials are once again positive for our Company.

We overcame the challenge of integrating 250 stores, proving our capability to deliver consistent and increasingly positive results. We will continue to grow and consolidate our assets, focusing on increasing profitability and generating even better returns to our shareholders.

**Luiza Helena**
**President of Magazine Luiza**
**and Vice-Chair of the Board of Directors**

# A9/ a word from the executive board

## A Word from the Executive Team
## Consumer and employee at the center of all

Going back in time, in 2011 and 2012, the Company invested heavily in the process for integration of its two recently acquired networks, Lojas Maia, in Northeastern Brazil, and Baú, in the states of São Paulo and Paraná. Despite consuming important resources and management's focus over those years, as expected and as shown in quarterly reports, this integration was effectively completed in record time: by October 2012. As projected and commented on, as of 2013, we will begin to reap the fruits of such integration.

The performance of sales and operating results are starting to show, quarter by quarter, in a gradual and consistent manner. The Company saw growth from a mere 3% in the first quarter of 2013 (same physical stores) to 16% in the last quarter of the year, culminating in growth of 14.6% in the 2013 fiscal year over the previous year, and R$10 billion in consolidated gross sales. Operating expenses were reducing from 25.0% of net revenue in 2012 to 22.8% in 2013, for a dilution of 2.2 percentage points. Thus, EBITDA (earnings before interest, taxes, depreciation and amortization) jumped from 3.7% in 2012 to 5.1% in 2013, excluding extraordinary gains from the sale of a distribution center, commented on below.

In addition to posting no extraordinary expenses, either from integration or of any other nature, the Company sold a relevant portion of its distribution center located in Louveira (SP), leading to reckon an extraordinary gain of R$43.1 million (net of taxes). These funds were completely reinvested in the Company's main business: opening new stores, renovating existing stores, logistics, technology and strengthening working capital. The portion that was sold to a third party was covered under a 10-year renewable lease with favorable terms for the Company.

The following initiatives are worth highlighting in 2013:

- Advances in the implementation of the logistics network project, with multi-channel deliveries through the integration of six out of eight distribution centers (the remaining two slated for integration in the first half of 2014);
- Implementation of the pricing and inventory project, which allows for greater autonomy in product pricing at the point of sale (stores), in addition to giving each point greater proportional responsibility for their results, with centralized controls for monitoring inventory management performance;
- Important advances in the process for analysis and management of product mix;
- Luizacred, Company resulting from the partnership with Itaú Unibanco, posted its best result performance since its inception in 2005, further supporting revenue growth, the dilution of operating expenses and improved delinquency levels in recent periods;
- Opening of 17 new stores (another 16 were closed as they failed to meet satisfactory results, most of which due to a location already served by other stores from the Baú chain), in addition to the remodeling of 62 stores;
- Significant performance from E-commerce activities with sales growth greater than the market average and satisfactory positive profitability for the area. The Company's website is part of the same company as its physical stores and shares the same infrastructure, such as distribution centers, back office and commercial areas for common products, among other synergies.

Expectations for 2014 are quite positive:

- The Company is set to continue posting gradual and consistent improvements in its results, resulting from growing sales, into the double digits in line with 2013 performance, thereby leading to greater market share, diluted operating results and a resulting increase in EBITDA margin and net income;

- The Company will invest heavily in promotional and media campaigns, such as sponsorship of the World Cup in Brazil, which play an important role in media penetration among the consumer public;

- The maturity process for new stores and those from the two recently acquired chains will continue to present favorable results, both in improved sales growth, productivity per square meter and levels of gross and net margins compatible with those posted by mature stores;

- E-commerce should also continue growing at rates greater than market growth, with profitability. The multi-channel process that is currently underway will further advance towards making operations more efficient, agile and less of a burden to the Company and its clients;

- The plan for expansion of physical stores, particularly in the Northeast, will continue, without missing opportunities for points of interest in the South, Southeast and Midwest. Between 30 and 40 new stores should be opened organically;

- The Company will continue to invest in the improvement of operational processes for its physical stores and e-commerce, in more integrated and multi-channel logistics, upgrades to its technological systems and, to a greater extent and as always, in the development and satisfaction of its employees and clients.

For the record, we, the Executive Team, would like to state that we are immensely pleased, with: the results achieved during 2013, the effort, dedication and commitment of the Company's more than 24 thousand employees, the essential partnership of our suppliers, banks and all other service providers and finally for the increasing prestige that our clients continue to grant us. The trust we put in our team and the size of our country lead us to believe that the Company's growth in both the short- and long-term will be backed by a solid, sustainable foundation.

**Executive Board**
**Magazine Luiza**

# A10/ a message from the CFO

## Focus on profitability
## Alignment of minds, hearts and the pocketbooks

We ended 2013 quite pleased with our performance, despite of a challenging economic scenario and environment marked by stiff competition. We achieved our internal goals and posted the best result in the Company's history, both in retail operations and in Luizacred. The maturity process for the 250 stores integrated at the end of 2012 began to positively affect our operational and financial performance in 2013 – we managed to expand sales in a healthy manner through all channels, without cannibalizing our own sales. We are finalizing important projects, which began to positively influence our results in 2013, and we expect even greater contribution for 2014. We maintained our commercial and competitive assertiveness, improving our sales mix and protecting the Company's gross margin, without losing control of costs and expenses. The combination of positive operating factors allowed for greater operational leverage, which led the Company to turn around its negative result from 2012. In 2013, the Company posted record net income of R$113.8 million, including a non-recurring gain (profit of R$70.7 million related to the sale of the Louveira distribution center), versus R$6.7 million loss in 2012.

The year began with lower than expected sales performance, but our strong Culture motivated the team to work through by launching the internal campaign "Together, We Are Stronger" nd we managed to end the year on a positive note. We posted strong gross sales growth, up 14.6% in 2013, for a total of R$10 billion. This performance was the result of (i) same store growth of 12.9%, (ii) productivity gains in all channels, (iii) a more assertive commercial policy tied to (iv) the increase in the contribution of recently integrated stores. We should also point out the sales of technology products (particularly smartphones), the category that posted the greatest sales increasein 2013, up by more than 50.0% year on year. This performance increased the category's share in our sales mix to 30% in 2013, up from 23% in 2012. We also recorded a significant increase in operational leverage, with important reductions in sales, general and administrative expenses. In 2013, sales, general and administrative expenses (with the effect of profit sharing) grew by a mere 6.7%, in comparison with gross sales increase of 14.6%, explaining the 4.6% expansion in operating margin in 2013 over 2.4% in 2012. In 2013, adjusted EBITDA increased much faster than net sales (37.8% versus 14.5%), reaching R$411.6 million, with a margin of 5.1%. Considering the effect of extraordinary results, particularly gains from the sale of the Louveira (SP) distribution center, EBITDA came to R$476.9 million in 2013, for a margin of 5.9%.

Long-term opportunities are plenty. We are well positioned in the Northeast (21% of our stores spread among nine states), a region that has grown faster than Brazil's GDP. We are also present among consumers in the new middle class – the focus of a Federal Government Housing program to reduce the housing deficit – My House, My Life / My Improved Home (*Minha Casa Minha Vida / Minha Casa Melhor*). In its first year, the program contributed little to our consolidated sales, however we are firm believers in the program's future potential. During World Cup years, we see significant increases in the sale of TVs, particularly televisions, which havelower margins than that of the Company average. We plan to offset possible pressure on gross margin by promoting items with greater added value and margin, such as technology (smartphones and tablets) and furniture (racks and upholstered goods). We believe that our "Building for You" promotion, launched in December 2013 valid until the end of the World Cup, will continue to act as an important sales catalyst, having proven to be a successful case in Brazilian retail, with greater appeal than any other campaign/action ever launched Magazine Luiza (see http://especiais.magazineluiza.com.br/predio-pra-voce).

A number of initiatives adopted during 2013 explain the record performance of our financial operation for consumers – Luizacred – including: (i) an improved mix of consumer direct credit (CDC) and use of Luiza card, (ii) greater sales of credit-related products among the consumer base, (iii) increased penetration of financial services, such as text message (SMS) services for clients, (iv) greater productivity and efficiency rate, and (v) improved delinquency indicators, driven by a reduction in the allowance for loan losses from 4.0% of the portfolio in December 2012 to 3.4% in December 2013. Luizacred posted net income of R$89.2 million, with average profitability of 22.0%.

The Company changed its focus from growth through opening a large number of new stores and acquisitions to an effort to increase profitability. In 2013, the Company's net total of new stores opened was only one, while investing a total of R$146.1 million, 47% of which was allocated to remodelings and opening of stores, with the remainder spent on projects to improve Logistics and Information Technology. For 2014, we plan to invest up to R$150 million in opening 30 to 40 new stores, which will lead to a sales increase of approximately 3.5%.

At the end of 2013, Magazine Luiza had loans and financing in the amount of R$1,320.3 million, cash and financial investments of R$771.6 million, for net debt of R$548.7 million, equal to 1.3 times adjusted EBITDA over the last 12 months, a reduction in the Company's leverage. The reduction of net indebtedness in 2013 was the result of improved operating results, reduced need for working capital in the period and funds from the sale of the Louveira (SP) distribution center in June. In October, the Company issued R$200 million in debentures to lengthen and optimize the Company's debt profile. We will continue to seek new sources of financing and refinancing in 2014 and will work with our financial partners and suppliers, in order to further improve our capital structure, thereby ensuring our financial health.

In 2013, Brazilian GDP grew by 2.3%, and the outlook for 2014, despite the World Cup event, does not call for much better performance. The consensus among economists calls for Brazilian GDP growth of approximately 2.5% in 2014. Independent of the recent increase in interest rates and rising inflation, we are prepared to face the challenge of delivering better results in 2014. We have chosen to increase our media exposure in 2014, year that Brazil will host the World Cup, the largest sporting event in the world. We are the only retail company in Brazil to sponsor this event with strong national appeal, which will provide for extensive journalistic coverage during eight consecutive months, reaching 98% of Brazilian cities. The completion of the integration and natural process for maturity of Lojas Maia and Baú stores, together with our efforts to rationalize expenses and increase productivity – both in retail operations and Luizacred – will contribute to ensure that we once again achieve our goals for 2014.

# CORPORATE profile

# B1/ about us

## CORPORATE PROFILE - MAGAZINE LUIZA IN BRAZIL

**VISION:** Become the most innovative retail group in Brazil, offering various lines of products and services to the Brazilian family. Be present where, when and how the client needs, either via physical, virtual stores or online. Enchant the client with the best retail team and offer competitive prices. G3 2.3, G3 4.8


Over the last 57 years, Magazine Luiza has become a Company known for its tradition, contribution to society and constant efforts to perfect the face of Brazilian retail, working in close cooperation with the Federal Government and helping to improve effective legislation in an effort to protect consumers and strengthen the sector as a whole. The many prizes and mentions the Company has received are the result of its contribution and success. We have been recognized many times as the best Company to work for in Brazil due to our leadership in retail, a strong employee focused culture, and social and environment work.

States with conventional stores
States with virtual stores
States with concept-stores
State with stores in community
distribution centers

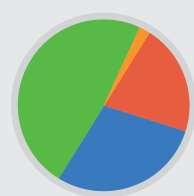
**Nacional presence**

Physical stores 16 states
E-commerce 100% nationwide

**Truck fleet size**

171 vehicles

**% of stores per region**



48% Southeast
29% South
21% Northeast
2% Middle West

We are a retailer focused on durable goods, with more than 36 million clients in our database. What we most enjoy is quite simple: we want to help make people's dreams come true and make our clients happy. This same philosophy dominates how we care for our more than 24 thousand employees. They are our most important asset. In 2013, we sold more than 26 million products, generating revenue of R$9.7 billion through our 744 stores spread over 16 states and our e-commerce. We also rely on eight distribution centers that provide essential logistics support. At the end of 2013, our market value stood at R$1.4 billion. G3 2.8

We are strategically inserted in one of the most important sectors driving Brazilian growth and generating employment – retail. This represents a unique opportunity for us, as Brazil is predominantly an economy with great consumption potential. Expanded credit offering, tied to greater household income, have contributed to increased demand for semi-durables and durable goods, which have driven the performance of retail sales recently. Brazil is well on its way to becoming the fifth largest consumer market in the world by 2020, moving nearly R$3.5 trillion (US$1 = R$2.23), versus R$2.2 trillion in 2010, according to the consulting firm Mckinsey. This growth is driven by expectations for an increase in GDP per capita of 40% by 2020, to an estimated total of R$26,137, versus R$19,017 in 2010. Per capita GDP and consumption growth are driven by low unemployment levels, an improving educational system, low penetration of durable products in Brazilian households and improved income distribution. G3. 2.8

Demographically, we are focused on the growth of the C income segment in Brazil, which jumped from 36% of the Brazilian population to 50% between 2006 and 2013, according to data complied by the FIA - Research Institute Foundation's Retail Administration Program. There are currently slightly more than 100 million Brazilians in this new income segment. Through our e-commerce operations, we are able to supplement our client base by reaching consumers with greater purchasing power (A and B income segments). Through our financial operation, Luizacred, we are well positioned to take advantage of improving income distribution among the population, providing access to accessible credit that may be used to purchase products from many global and domestic brands. We offer a highly diverse product mix with nearly 53 thousand products, ranging from electronics, technological products, furniture, domestic utensils, toys, cosmetics and much more. G3. 2.7

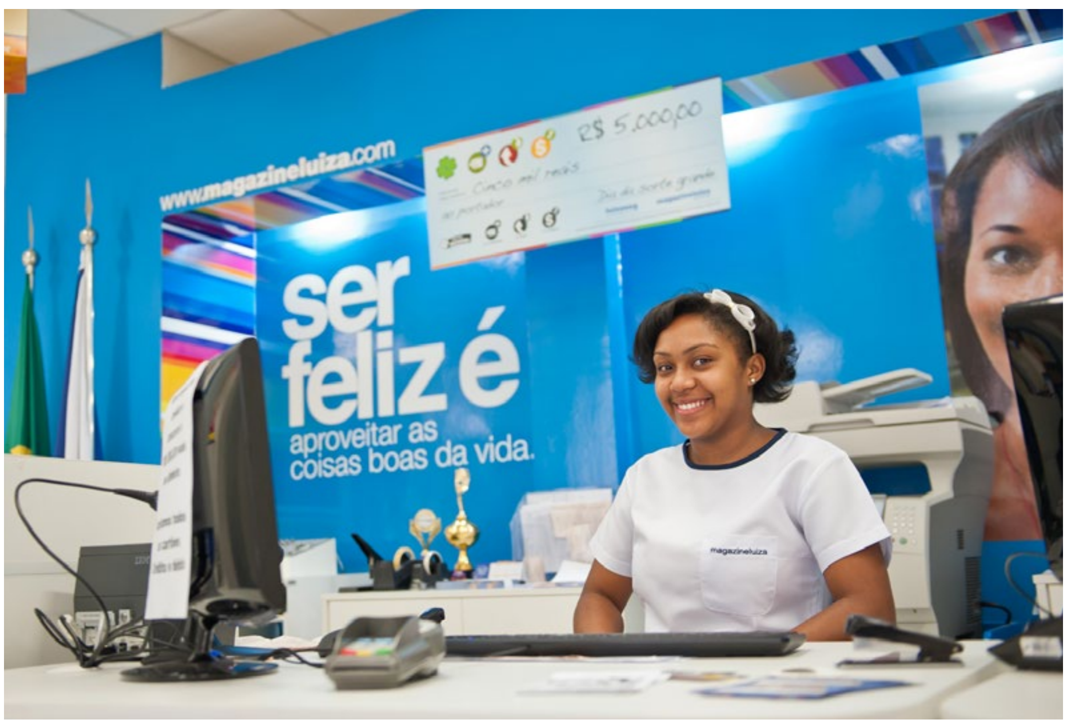
The combination of these vectors – macroeconomic, demographic, opportunities in Brazil and our strategy – makes it very clear why Magazine Luiza is the most outstanding retailer in the country in its sector. The Company has come a long way since 1957, whenit opened its first store in the city of Franca, and where a large part of its support staff is currently based. We constantly seek to improve on our value proposal for clients, employees, investors and Brazilian society, as we are committed to generating value for all of our stakeholders.

Number of Conventional Stores - 636

Number of Virtual Stores - 107

Total Investments in 2013 - R$146.1 million

Total Sales Area (m²) - 473,884



## B2/ map of Innovation

1992: Virtual stores


2000: *e-commerce*

2012: chip Luiza


2012: *Magazinevocê*


2013 Quero de Casamento
(Wedding Wish List)


## B3/ our retail G3 2.4

| | Conventional Stores | Virtual Stores | E-commerce |
|---|---|---|---|
| Foundation | 1957 | 1992 | 2000 |
| Average sales area | 750 m² | 150 m² | - |
| Average investment by store | R$ 1.5 million | R$ 300 thousand | - |
| % of group sales | 80.8% | 4.6% | 14.6% |
| Average ticket | R$ 450.00 | R$ 450.00 | R$ 550.00 |
| Number of stores | 636 | 107 | One website |
| Presence | 16 States | 4 States | Nationwide |
| Number of customers | 36 million | 36 million | 36 million |
| 2013 Sales | R$ 7.8 billion | R$ 439.8 million | R$ 1.4 billion |

GRI

# B4/ main business

## B4.1/ conventional stores

Conventional stores accounted for R$7.8 billion in sales, equal to 80.8% of total gross revenue in 2013. This increase represents a 12.4% gain over sales in the previous year, with 636 stores in 16 states. During the year, we invested R$146.1 million, 47% of which in remodeling and opening of new stores, particularly in Northeastern Brazil, 44% in logistics and IT and 9% in other projects.

As a result of recent acquisitions, we now have a more balanced store base, with an outstanding presence in Southern, Southeastern and Northeastern Brazil. Since its founding in 1957, we have sought to develop a portfolio of strategically located stores that are easily accessed by our public. Before opening a store, we evaluate the location according to several criteria, including elements such as demographics, income and competition, to identify potential and obstacles to overcome at each point. It is absolutely essential to understand the preferences and characteristics of the population of each region, its climate and income profile to ensure the feasibility, profitability and sustainability of each store, which will sell an average of nine thousand products.

From 2010 to 2013, the number of conventional stores increased from 400 to 636, for growth of 236 new stores in the period. This significant gain was the result of the opening of stores through organic growth, as well as the acquisition of the Lojas Maia chain in Northeastern Brazil and the Lojas do Baú da Felicidade chain in Southern and Southeastern Brazil.

The conventional sales model consists of stores located on the street or in malls, with average sales area of 750 square meters, showcases and their own inventory.

**Conventional Stores Openings by State in 2013**

16: 6 (SP), 2 (MG), 1 (PE), 1 (SC), 1 (PR), 1 (SE), 1(MS), 1 (PB), 1 (CE), 1 (AL)

**Conventional Stores Remodelings by State in 2013**

31 (S, SE, CO): 11 (SP), 9 (PR), 6 (RS), 3 (SC), 2 (MG)
28 (NE): 21 (PB), 5 (RN), 2 (PE)

GRI

# B4.2/ virtual stores

The Company was a pioneer in introducing the virtual store concept, even before the advent of the internet in Brazil. Thanks to this small, inventory-less store, the virtual store posts profitability superior to that of a conventional store. Virtual stores accounted for R$439.8 million, or 4.6% of total gross revenue in 2013. The sales of these stores grew by 14% over the last year. We currently have 107 virtual stores spread throughout the states of São Paulo, Minas Gerais, Paraná and Mato Grosso do Sul, and there is plenty of space for continued growth of this format in Brazil, as these stores often serve small cities or certain neighborhoods of mid-size cities with up to 50 thousand inhabitants. In 2013, we opened our first virtual store in a low-income community, in the Heliópolis neighborhood of the city of São Paulo (pp. 100) – its success has proven this format's potential for welcoming new consumers.

Considering that they are smaller stores – of about 150 square meters - these virtual stores operate without physical inventory or showrooms, carrying only small electronics and cellphones. Thus, we serve repressed demand from a more underprivileged population that depends on large commercial centers for making purchases.

Clients are served by salespersons, responsible for showing off the store's product mix using multimedia tools (digital product catalogues), which describe each item, providing details as to the benefits and differentials of the items. The personal touch is the most important factor to a successful sale, together with credit approval, as most of these clients do not have access to credit or a bank account.

These stores sprung up as an innovative answer to our need for expansion in 1992, in the middle of a challenging economic environment. These stores expanded their presence in the group without increasing the risk of carrying inventory.



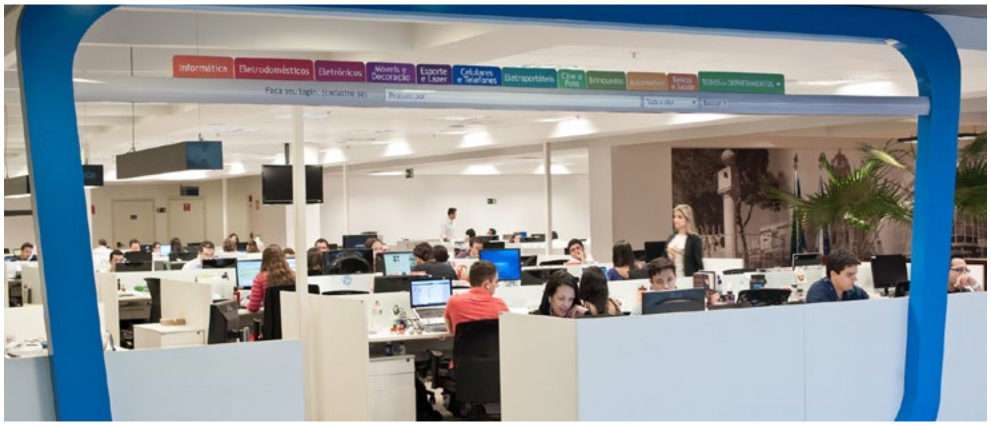
| | |
|---|---|
| Virtual Stores Openings by State in 2013: | 1 (SP) |
| Virtual Stores Remodelings by State in 2013: | 3 (SP) |

## B4.3/ e-commerce

E-commerce recorded yet another year of record growth in 2013, with sales up 28.2%, for a total of R$1.4 billion. E-commerce accounted for 14.6% of the group's total gross revenue in 2013, over 13.0% in 2012. Quite different from stores, e-commerce serves all of Brazil and income segments. As such, we are able to reach clients in the other 10 Brazilian states where we are not present. Our strategy is to serve clients swiftly, beginning with an easy navigation in our website – one of the fastest in the country – and extends to the delivery time, which is one of the shortest among e-commerce players. We are always seeking to improve the efficiency of our logistics chain and have developed solutions to reduce wait times and exchange products through reverse logistics.

Since its set up in 2000, our e-commerce is one of the operations that grows the fastest in Brazil. We offer all clients highly relevant content and exclusive offers. E-commerce currently offers more than 44 thousand products, while physical stores only offer 9 thousand. In addition to an extensive product mix, one of our differentials is "Lu," an interactive virtual salesperson that comments on products and aids customers throughout the buying process. The channel is also backed by new B2B and marketplace partnerships, which allow for the sale of third-party products, such as trips, books, food supplements and sporting goods, among other items.

The fact that our e-commerce is completely integrated into Magazine Luiza's main business, even using the same brand logo and corporate name, aids in rationalizing costs, including the possibility of diluting marketing, logistics and system expenses. Our objective is to continue to grow sustainably and maintain our product base over the coming years.



# B4.4/ Luizacred

A number of initiatives adopted throughout 2013 may explain the excellent performance posted by Luizacred, namely: an improved mix of consumer direct credit (CDC) and Luiza card; greater sales of credit-related products among the consumer base; increased penetration of financial services; greater productivity and efficiency rate, and improved delinquency indicators. Total revenue (credit and service operations) from Magazine Luiza's financial arm grew by 9.1%, for a total of R$1.4 billion in 2013. Present in every single store, Luizacred financed approximately 32% of all sales at Magazine Luiza stores, in addition to posting significant growth in operations outside of the Company's stores.

Luizacred is one of the largest financial operators in its category in Brazil. Founded in 2001, it is a joint venture with Itaú Unibanco, the largest private bank in Brazil. Magazine Luiza, which holds 50% interest in the operation, focuses on managing employees, customer service and sales processing, while Itaú Unibanco is responsible for financing, preparing credit policies, collections and support activities, such as accounting and treasury. G3 2.3

Luizacred's main products are Luiza card, Consumer Direct Credit (CDC), Personal Loans and Payroll loans. We launched the Cartão Luiza in 2007, a co-branded MasterCard credit card, which may be used in our stores and other commercial establishments with advantageous conditions for users when compared with other cards. At the close of 2013, Luizacred had issued 3.4 million cards and held a credit portfolio of R$4.1 billion. G3 2.2

This subsidiary is a fundamental tool in guaranteeing the loyalty of the Company's customer base and driving sales growth. Speed in granting credit and the simplified processes position the Company ahead of its competitors.

## B4.5/ Luizaseg

The success of Luizacred led us to create a joint venture with Cardif, a member of the French group BNP Paribas, and to open Luizaseg, founded in 2005. Today, we are one of the leaders in extended product warranties, providing Magazine Luiza with a competitive advantage in the segment. G3 2.3

In addition to providing extended warranties and unemployment and loss & and theft insurance, Luizaseg's product portfolio also includes other forms of insurance such as life, home and personal accident coverage.

In 2013, Luizaseg's gross revenue reached R$217.8 million, for growth of 26.1% in the period.

Luizaseg works with more than three thousand accredited technical assistance providers and sells more than two million policies per year. The operation is characterized by high levels of cash flow generation and low claims levels, leading the Company to close 2013 with net cash of more than R$200 million.

We exercise complete control over our insured portfolio, which is extremely beneficial, allowing the Company to maintain relationships with its clients post-sales and ensure quality services. We have a dedicated team to handle damage to clients' products and an extensive technical service network for extended warranty insurance.

## B4.6/ Consórcio Luiza

Created in 1992, Consórcio Luiza provides Brazilians with access to financing to purchase vehicles, such as automobiles, motorcycles, boats and tractors, in addition to a range of other products and services, including plastic surgery services, dental assistance, travel, construction material, graduate education and real estate. This consortium provides access to the consumption market by working through a closed group of individuals or corporations, in order to create targeted savings for purchasing goods or hiring services through self-financing.

In 2013, Consórcio Luiza's gross revenue came to R$38.5 million, for growth of 14.2% in the period.

The Company has more than 55 thousand active clients and more than 220 thousand goods have been delivered since its creation. We currently have 77 authorized commercial representatives, in addition to product availability in all Magazine Luiza stores.

# B5/ new businesses

## B5.1/ *Magazinevocê*

*Magazinevocê* continued to surpass expectations in 2013, with more than 170 thousand people working to disclose the initiative at the end of the year. Thousands of Brazilians have worked to spread *magazinevocê*, selling the same products offered by our e-commerce on Facebook. As a result of this innovative move, Magazine Luiza developed the first social media commerce network, in which online sellers have an average of 220 friends on the social network.

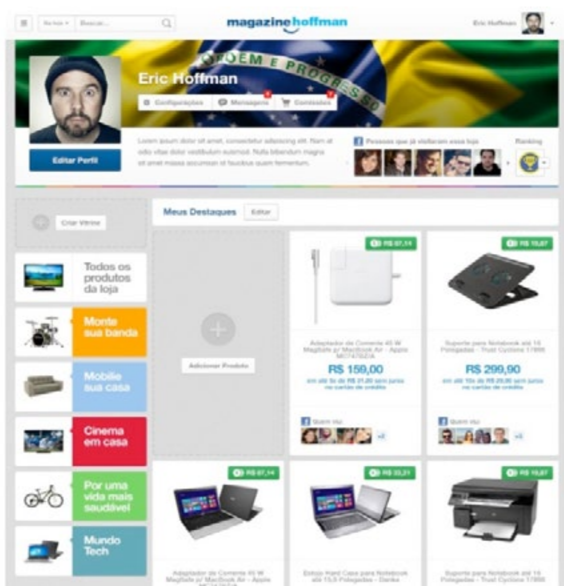
The platform was the result of our observations of the door-to-door sales system and, in addition to innovating, awakens the entrepreneur spirit in the lives of thousands of Brazilians. Interested users receive online sales classes, learn to select and share products that are sold by the magazinevocê store and are not required to provide any initial investment.

We monitor the success of *magazinevocê*'s operations quite closely and prepare a ranking of the most successful disclosing users for additional training, in addition to inviting them to our headquarters. By paying commissions on sales, *magazinevocê* is an innovative business model with regards to initiatives, utilizing an internet social media platform to offer supplementary revenue. For the Company, this platform provides extensive reach into areas where the Company is not physically present, such as states in the Northern Brazil, Rio de Janeiro and Espírito Santo.

Magazine Luiza, in turn, takes complete responsibility for operations, from receiving purchase amounts and delivery to the client, as well as the payment of commissions to users.

***Magazinevocê* - 2012/2013**

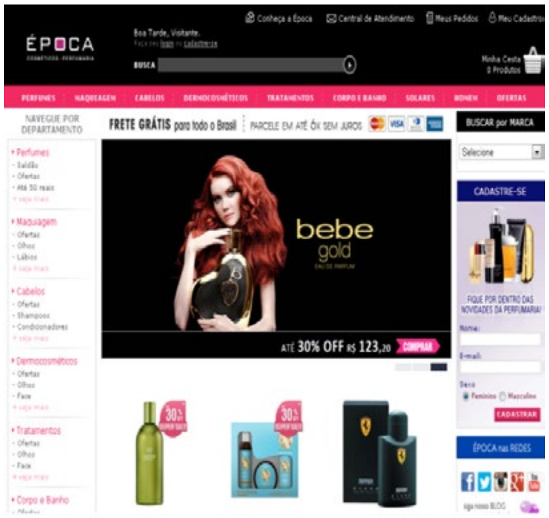

***Magazinevocê* - 2014**




GRI

## B5.2/ Época Cosméticos

In 2013, we reinforced our strategy of offering long-tail products through our website by purchasing Época Cosméticos for a fixed value of R$13.6 million and a variable value of up to R$12 million, to be paid in two installments. The first installment will be paid in the amount of R$4 million, on the date of the first-year anniversary of the transaction's approval, while the second, in the amount of R$8 million, will be paid on the second-year anniversary, and both transactions are tied to achievementof certain conditions. Magazine Luiza acquired 100% of the capital stock in Campos Floridos, owner of the website www.epocacosmeticos.com.br, specializedin the sale of beauty products. G3 2.3, G3 2.9




This acquisition strengthens Magazine Luiza's strategy for expansion and consolidation of e-commerce operations in a segment with attractive margins, high rates of growth in Brazil and client flow, given the low average ticket and higher repurchasing rate. Furthermore, this acquisition represents an opportunity to increase the number of products that may be sold through other channels, such as *magazinevocê* – the Company's social media commerce platform.

Época Cosméticos posted revenue of R$17.0, million in 2013, having been Magazine Luiza's partner for more than 2 years through operations on our marketplace, allowing Magazine Luiza to gain experience in the cosmetics market and prove its potential for growth and attractiveness.

# B5.3/ Wedding Wish List

Magazine Luiza developed a website particularly for those that have just said, “Yes, I will marry you,” and are ready to begin a new phase in their lives. The “Wedding Wish List” is an interactive present list that will make things much easier for the lovebirds.

For each product purchased by guests, the bride and groom receive a notification containing all information on the purchase. Furthermore, the couple is given exclusive access to the page, providing account information, the names of guests and messages.

All presents acquired within the wedding list generate credits for the couple to utilize at stores or on Magazine Luiza’s website, even before the big day. As soon as the first present is purchased, the happy couple is sent a card with credits, ready for use, which increase as more guests buy presents.

The page is completely integrated with Facebook, allowing the bride and groom to contact their guests using email or Facebook friends.


Couples can create exclusive albums telling their story, receive messages from friends, provide information on the party – in addition to receiving gifts, this website is a fun and easy way to interact with guests.

## B5.4/ *m-commerce* and Chip Luiza

In the same sense that *magazinevocê*, Época Cosméticos and the Wedding Wish List strengthen the offering of products via e-commerce, our m-commerce platform opens new doors for leverage and increasing loyalty among our client base. In 2013, we strengthened our offerings by providing access to *magazinevocê* over mobile phones, together with e-commerce, for the first time.

As of this time, more than one million chips (sim cards) have been sold, with a 73% activation rate. We have an exclusive Magazine Luiza menu with special content and offers, free internet access, double reloads and direct connections with *magazinevocê* users through messaging.

# B6/ opportunities, main risks and impacts

## B6.1/ opportunities

Magazine Luiza presents an attractive history of growth and investment opportunity over the long-term. This growth is directly tied to domestic consumption growth, the rhythm of which has outpaced domestic economic performance.

We are currently living a unique moment in Brazilian history, with poverty rates falling over the last years. We believe that the country has a promising future, given the increasing number of students. This education will drive the economy and consumption in coming decades due to a more professional work force.

Many economists believe that Brazil has the potential to jump two places, becoming the fifth largest economy in the world in coming years. Its stable political and economic environment, investments in infrastructure and education and improving income distribution are all factors that will contribute to Brazil reaching this new position in the world.

### FACTORS THAT WILL BENEFIT MAGAZINE LUIZA IN THE SHORT-, MID- AND LONG-TERM:

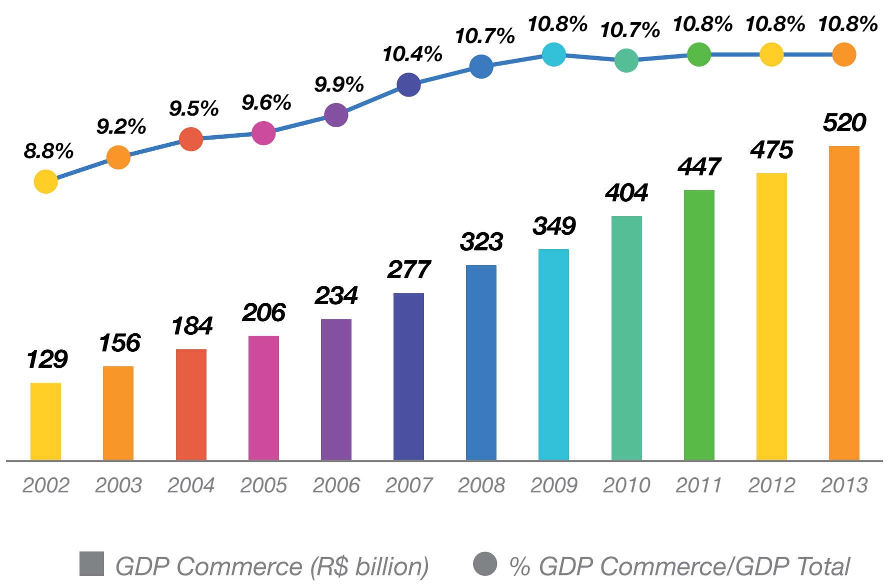
Economic stability and increasing income among the population, driving consumption.

The C Income Segment continues to rise, bringing more and more Brazilians to seek and access credit, real estate, household appliances with greater added value and improved quality of life. More than 100 million people have joined the country's C Income Segment, which makes up the Company's target public.

*Poverty Index*


*Source: Itaú-Unibanco Holdings*

The My Improved Home (Minha Casa Melhor) Program run by the Federal Government has benefitted 3.7 million families and may represent up to R$18.7 billion in sales for accredited networks (see page 97).




## B6.2/ online opportunities

Online retail in Brazil is the eighth most attractive market in the world and still has room to grow, given that the country is growing faster than others. Our e-commerce is well positioned to capture this growing demand and serve clients throughout the country.

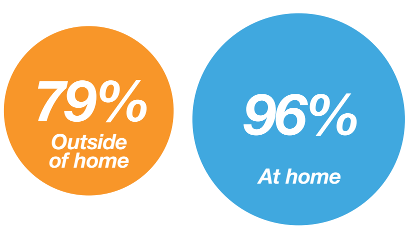
| Rank | Country | Type of Market | Attractiveness of the online market* |
|---|---|---|---|
| 1 | China | New Generation | 84 |
| 2 | Japan | Digital DNA | 83.3 |
| 3 | USA | Mature and Growing | 82.8 |
| 4 | United Kingdom | Mature and Growing | 75.7 |
| 5 | South Korea | Digital DNA | 72.2 |
| 6 | Germany | Mature and Growing | 70.4 |
| 7 | France | Mature and Growing | 65.2 |
| ***8*** | ***Brazil*** | ***New Generation*** | ***50.9*** |
| 9 | Australia | Mature and Growing | 50.8 |
| 10 | Canada | Mature and Growing | 49.7 |

* The research considers the following variables: size of the online market (40%); consumer behavior (20%); growth potential (20%); infrastructure (20%).

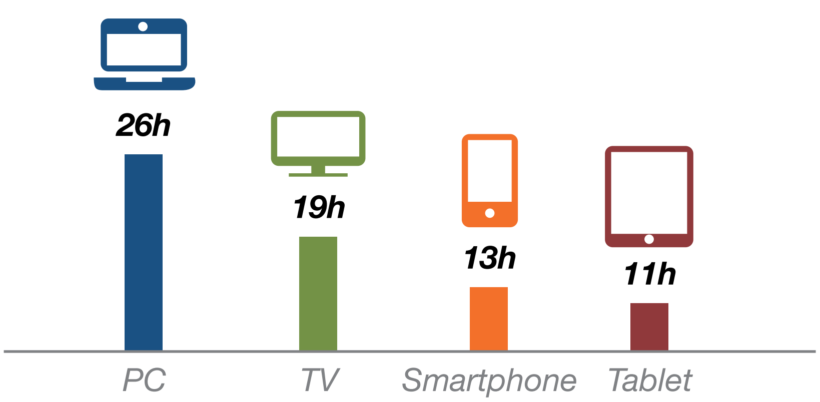
**Source:** *The 2013 Global Retail E-Commerce Index, AT Kearney*.

- According to **e-bit, the Brazilian market stood at R$29 billion in 2013**, and expectations call for a **CAGR of 20% over the next five years**
- The country currently has more than **90 million internet users, 57% of whom purchase items online**
- Smartphones usage for Internet access grew in the last years and reach 79% of growing rate in 2013.

### *Smartphone Usage*

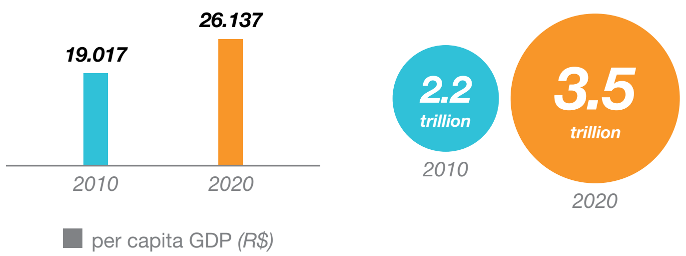



### *Weekly hours average by screen*

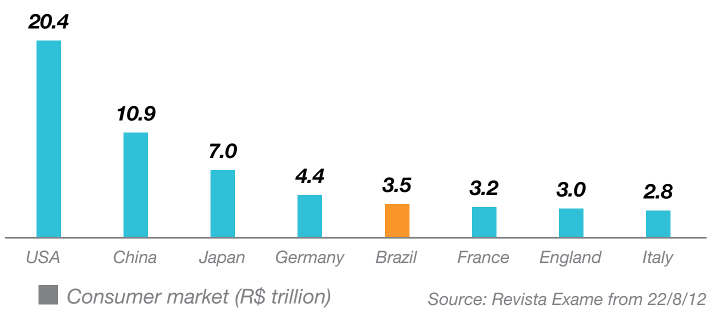


## B6.3/ market potential

*In the next decade, Brazilian per capita GDP should increase by 37%, leading Brazilian household consumption to nearly double...*




*...and making Brazil the 5th largest consumer market in the world by 2020.*

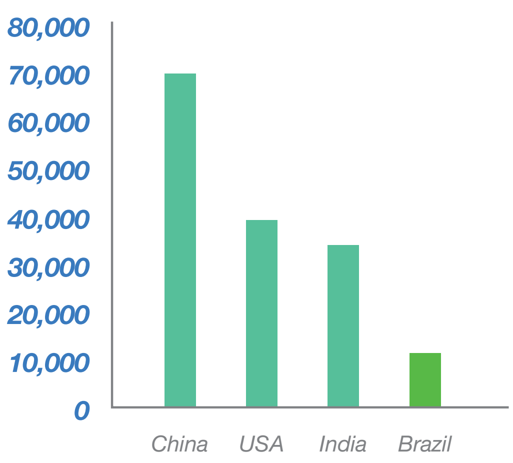



Source: Revista Exame from 22/8/12

## B6.4/ long-term opportunities

By 2050, Brazil will be the fourth largest economy in the world, with a GDP of more than US$11 trillion.

**GDP based on Purchasing Power Parity, 2050E** (US$ billions)




**US$ 360+ billion**
In international reserves

**US$ 44 billion**
In foreign debt

**US$ 2.07 billion**
In GDP in 2013

# B6.5/ risks and vulnerabilities

The challenge of our organizational culture is constant. The essence of our Company is unique and plays a key role in our development, identity and credibility. Our capacity for growth depends on a series of factors:

## OPERATING RISKS

The elements of operating risks that permeate our operations include: the possible loss of members of senior management and/or an inability to attract and maintain qualified executive officers; failures in our security system for protecting confidential client and network information, thereby hurting our reputation and brand and substantially affecting our business and operating results; failure in evaluating risks associated with credit card fraud; seasonality of sales of our products and services; damage to our distribution centers, leading to stoppages; losses not covered by insurance policies; interruptions or failures of information technology systems; a possible incapacity to maintain the same rate of sales growth and over-dependence on the efficiency of advertising and marketing campaigns.

## FINANCIAL RISKS

Financial risks in our business include: conflicts of interest between current controlling shareholders and other shareholders; an inability to post satisfactory results from recently acquired or created business operations; a need to capture additional funds through the issue of securities, which may dilute investor interest in our capital stock; stocks could fail to pay dividends; substantial limitations on the capability of shareholders to sell their shares in the Company for the price and when desired, as a result of volatility or lack of liquidity of the Brazilian stock market; negative results from subsidiaries or joint ventures; inability to guarantee that our suppliers act within the law and risks related to financing and loans issued to our clients.

### MARKET RISKS

Our business is also subject to market risks, given the highly competitive nature of Brazilian retail, which may adversely affect our market share and net revenue. Furthermore, retail is highly sensitive to reductions in consumer purchasing power and unfavorable economic cycles, in addition to being highly dependent on transportation and infrastructure in cities where our distribution centers are located to ensure delivery of merchandise to our stores.

Financial institutions in Brazil, for their part, including our subsidiary Luizacred, are largely and continuously subject to the many revisions of regulations issued by the Brazilian Central Bank.

In the political and economic sphere, the Federal Government has and continues to exercise significant influence over the Brazilian economy. Regulations on financial institutions in the country are constantly evolving, often times as a result of international treaties or agreements. Existing laws and regulations may be amended or their application or interpretation may change, just as new laws and regulations may be adopted. We have no control over government regulations that apply to our activities, including those covering: minimum capital requirements; fixed capital investment requirements; credit limits or other restrictions and accounting and statistical requirements.

## B6.6/ impacts

***In 2013, the Company underwent two major changes, the first of which regarding the accounting of its joint ventures Luizacred and Luizaseg, while the second involved a lengthening of its debt profile.***

### ACCOUNTING

In accordance with the application of CPC 19 and IFRS 11, as of the first quarter, the Company began to present its interest in joint ventures (Luizacred and Luizaseg) in accordance with the equity method, rather than the former method for proportional consolidation of assets, liabilities, revenue and expenses. The effects of this application are shown in the Company's 2013 Financial Statements.

Consolidated results correspond to the retail and consortium segments. To ensure transparency and open information, the Company maintained its Financial Statements by segments in attachments.

### DEBT LENGTHENING

Member of the Board of Directors approved the third issue of debentures in the amount of R$200 million, with a maturity of three years and rate of 108.80% of the accumulated change of average Interbank Deposits rates. The Board also approved a working capital line with Banco do Brasil, in the amount of R$120 million, in October 2013.

## B7/ shares and buyback

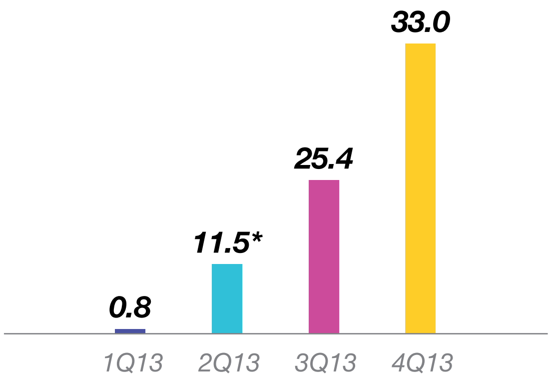
This year was quite challenging for retail and the Ibovespa index, which lost 15,5% of its value in 2013. Retail sector shares fell an average of 25.7%, while Magazine Luiza's shares have decreased 37.9%. The fall of EBX empire also had a negative effect on Brazil and impacted investors, many of whom lost billions of Brazilian Reais.

During the peak of July's protests, Magazine Luiza's common shares reached a historical low(R$4.67 per share). In September, the Company approved the first Magazine Luiza share buyback program. The Company decided to buy back five million of its shares within 365 days. At the time, there were 59,752,534 outstanding shares. On the day immediately before the buyback was announced, each share was priced at R$ 7.59.

In October, shares reached R$9.50, after Magazine Luiza announced profits of R$25.4 million in the third quarter, surpassing market expectations. At the end of the year (2013), shares closed out the year at a price of R$7.55, for a market value of R$1.4 billion, versus R$2.2 billion at the end of 2012.

We believe that Magazine Luiza continues to offer an attractive investment proposal, considering that the Company has already posted four consecutive quarters of consistent profitability since the first quarter of 2013. Leadership continues to produce gradually improving results, in an effort to generate greater value for shareholders.

***Net Profit** (R$ million)*




*Magazine Luiza recorded net income of R$54.7 million in the second quarter of 2013, for a 149.4% increase over the same period in 2012. This strong result was due to the sale of 76.7% interest in the Louveira (SP) distribution center, in addition to the Company's focus on gradual and constant improvement of profitability in 2013 in the retail and consumer financing segments. Adjusted, Consolidated Net Income came to R$11.5 million (net margin of 0.6%), representing an important improvement over the R$0.8 million in profit posted in the first quarter of 2013.

GRI


# *corporate* STRATEGY

# C1/ advances in 2013

We POSTED same store sales of 12.9% in 2013.

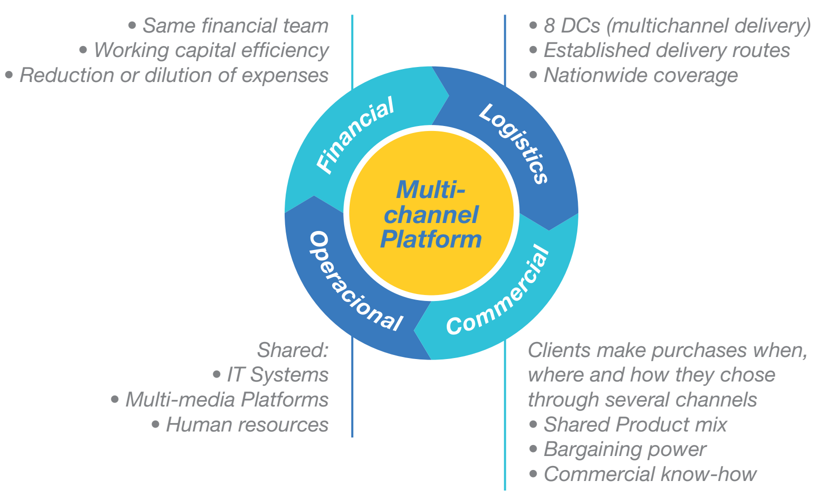
We DELIVERED CONSISTENTLY better quarterly results during 2013.

We sought WELL-STRUCTURED GOVERNANCE and solid FINANCIAL DISCIPLINE.

We also required an increase in OPERATIONAL AND FINANCIAL EFFICIENCY, PRODUCTIVITY and PROFITABILITY.

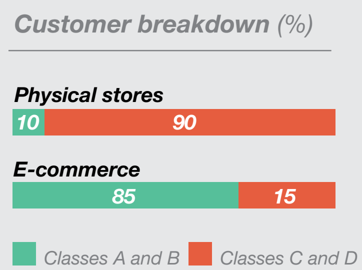
## C2/ omnichannel

Magazine Luiza has a single platform known as *Omnichannel*, through which the Company and all of its units are integrated. This platform is shared by all channels, from conventional stores to m-commerce.




### *Multiple channels attract complementary clients*

*By sharing the same infrastructure, back office, logistics and transportation platform, Magazine Luiza is capable of serving two different types of clients, from different social classes.*




## C3/ product mix G3 2.2

Our product mix is highly diverse, offering more than 50 thousand items and focused on household appliances and electronics, which represent an important source for revenue and profitability.

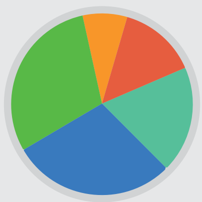
We work with an extensive portfolio to serve the entire Brazilian family, from newborns to retired individuals. Our goal is to offer the best product mix with quality, considering the desires of our clients and market trends.

Financing conditions offered by the Company allow clients to make purchases in monthly installments, ensuring they fit within their budget.

We constantly seek efficiency, not only in sales performance, but also in the product life cycles, inventory and purchasing budgets.

In the coming years, we believe in the immense potential of the Brazilian market and opportunities for the Company's growth. Low levels of penetration of household appliances and electronics in Brazil, including smartphones, flat screen TVs, laptops and automatic washing machines, is one of the leveraging factors for sales in the short-, medium- and long-term.

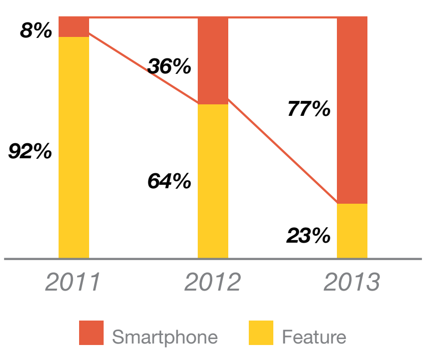
*A Balanced Product Mix* (%)



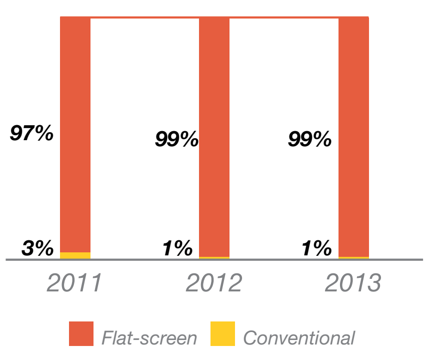

***More than 26 million products sold in 2013, versus approximately 23 million in 2012.***

*Consumer trends*

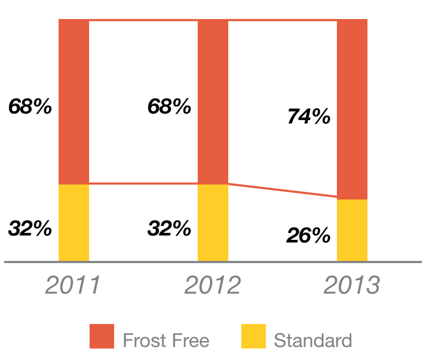
*Cellphone*



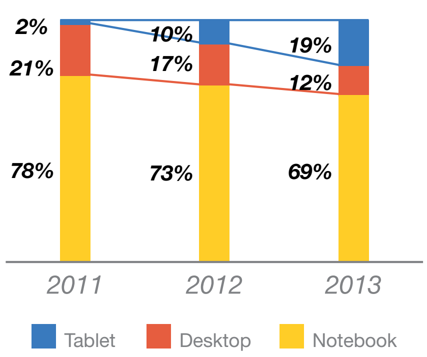

*TVs*




*Refrigerator*




Tablets, desktops, notebooks



# C4/ retail strategy and result

We are focused on increasing product penetration, monitoring new consumption trends and always offering high quality services to all of our clients.

In 2013, we gained market share in all product categories. The technology category grew at impressive rates, driven by a number of actions, including salesperson training and changes to layout and product displays in stores, which allowed for gains in market share in the sector.

We improved the management of our supply chain and captured synergies in the Northeast with the implementation of new sales team compensation and pricing systems. In doing so, we improved our product mix, gained market share in the region, increased profitability and refurbished more stores. These actions allowed us to reduce the difference in gross margin between Northeastern Brazil and other regions.

Our competitive advantages include an assertive posture at the point of sale, greater availability of the right products by store and the daily motivation of our managers.

Employment generation and improved income distribution in Brazil are two other factors that will drive demand for our products in the future.

Retail financial result is comprised of the performance of conventional stores, virtual stores, tele-sales, e-commerce, B2B, *magazinevocê*, Chip Luiza, Época Cosméticos and the Wedding Wish List.

***Price Management***

[ *Increase price intelligence by channel, region and product category* ]

*More competitive*

*Maximized management of gross margin from stores*

[ *Strengthen the Omnichannel Strategy* ]

*Integrate e-commerce with eight DCs in comparison with current configuration*

*Reduce delivery periods and costs, increasing operating efficiency*

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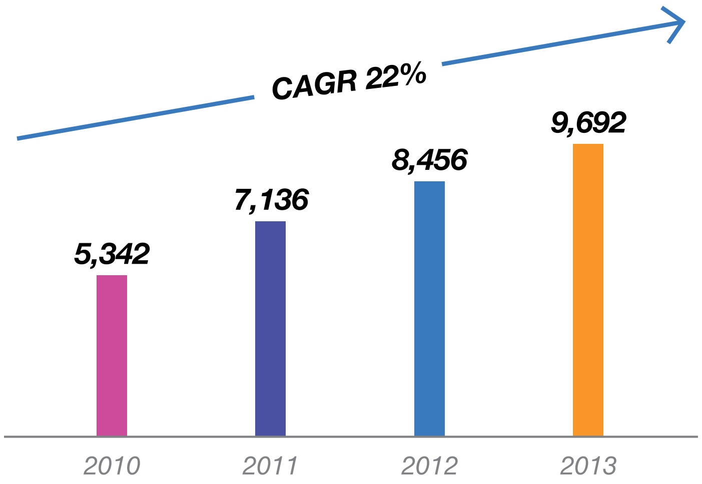
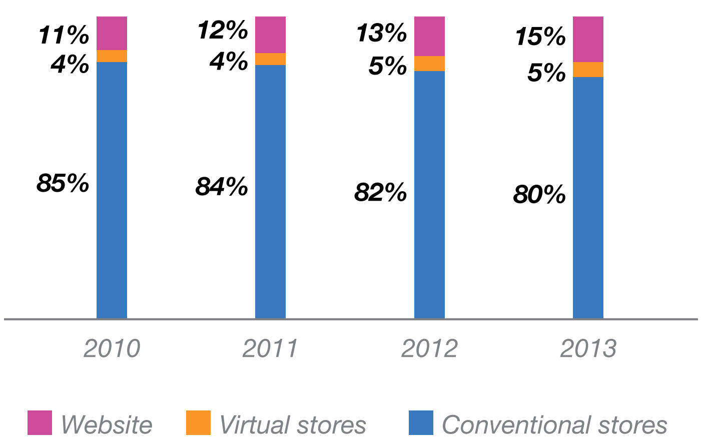
GRI

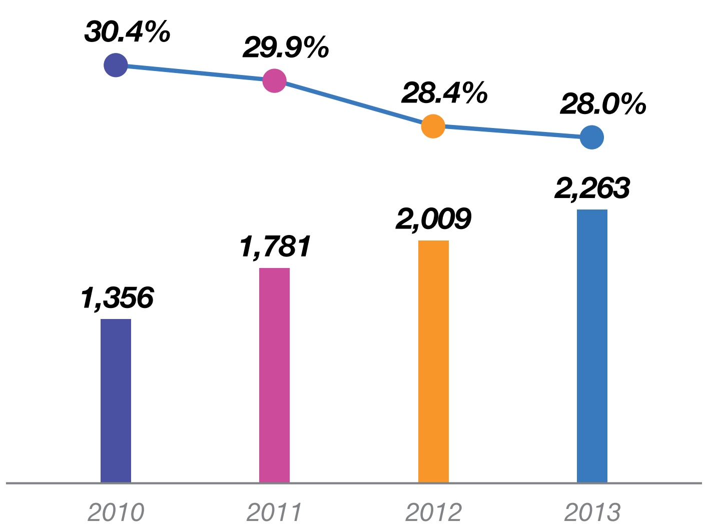
**Gross Revenue – Consolidated** *(R$ million)*



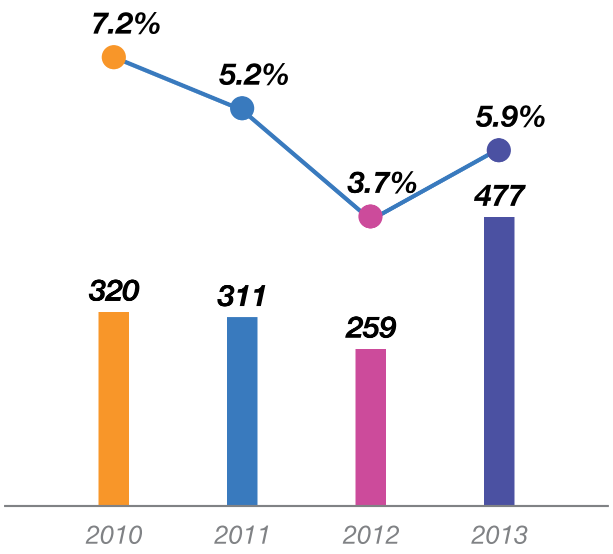

**Sales per Channel** *(%)*



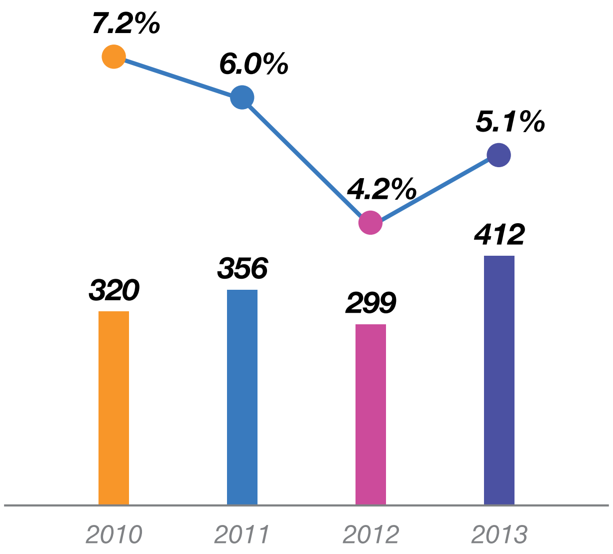

**Gross Income** *(R$ million)* **and Gross Margin** *(%)*



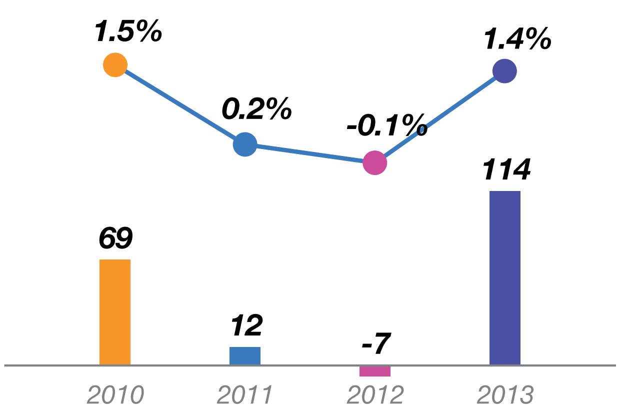
***EBITDA** (R$ million) **and EBITDA Margin***



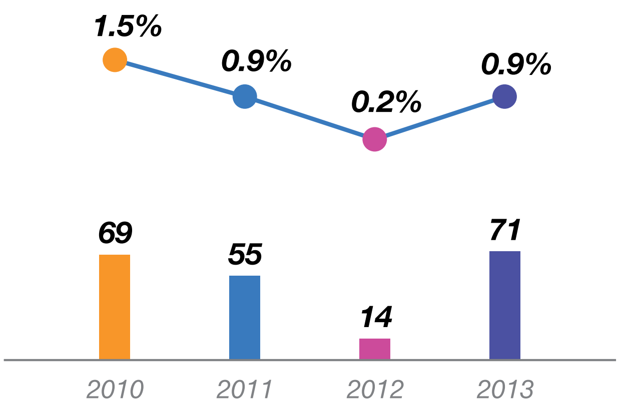

***Adjusted EBITDA** (R$ million) **and EBITDA Margin***




***Net Income** (R$ million) **Net Margin** (%)*




***Adjusted Net Income** (R$ million) **Net Margin** (%)*



# C5/ conventional stores

## Continuous Sustainable Growth

In 2013, we laid out a series of challenging goals to be met throughout the year. We sought to rationalize costs and expenses, increased the gross margin of stores in Northeastern Brazil while maintaining gross margin in other regions, increased same store sales by 12.9% and posted consolidated gross revenue growth of 14.6%.

At stores, we focused on maximizing usage per square meter, worked with reduced inventories to increase the efficiency of working capital and minimized the use of cash flow funds in daily activities. We implemented a new pricing system for stores and the entire Magazine Luiza network in the second half of 2013, to increase intelligence in separating prices by product, channel and region, in an effort to maintain margins in all regions. This pricing system trains and provides greater flexibility and autonomy to salespersons, thereby increasing and limiting the need for large discounts.


[ Retail ]

[ Conventional Stores
Virtual Stores
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ Financial Division ]

[ Luizacred - Jv Itaú
Luizaseg - Jv Cardif
Consórcio Luiza ]

GRI

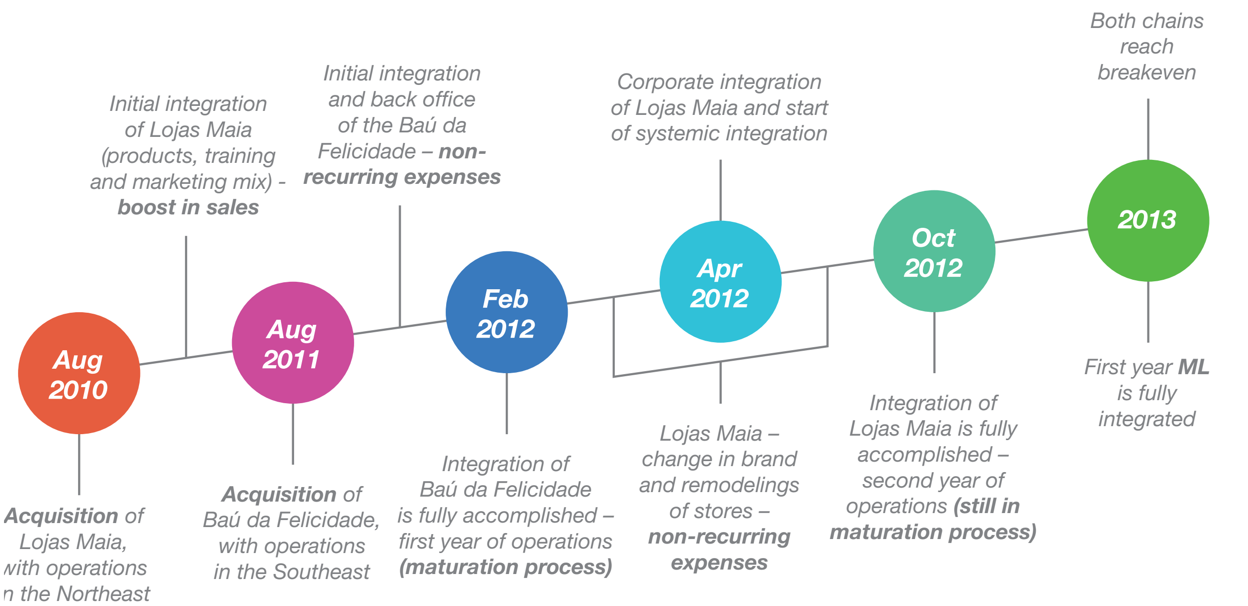
## Strategy

### Retail: Conventional stores

Expansion into new markets provided us with important knowledge and experience regarding the particularities of operating in different regions in Brazil, such as the preferences and individuality of the population in each region, climate and income profile.

As such, in adapting our product mix and stores to the target public of each region, we were able to achieve competitive advantages. The conventional store model works with units on the street or in malls, with average sales area of 750 square meters, a physical showroom and their own inventory.

We invested in opening and renovating stores to consolidate our position on current markets. The process for reaching maturity among nearly one-third of our stores also drove the Company's sales in 2013 – a system that will continue and benefit our results in the coming years.




In 2013, we began working with a Client Satisfaction Index based on NPS (Net Promoter Score) methodology, created by Bain Company, in which clients who made purchases at stores in recent days are called to collect a score of between 0 and 10 regarding whether they would recommend the store to their friends, family and colleagues. In the first year, we contacted more than 1,100 clients in Southeastern Brazil. With these results, we were able to redirect our strategy and create action plans for improvements recommended by clients. Mobile website surveys were conducted among clients that had acquired products via mobile channels (tablets and smartphones), in order to evaluate their purchasing experience. This survey consisted of a quantitative study of in-depth interviews via internet chat. Purchasing experience was the main motive for client satisfaction.

Due to several product training sessions to increase the knowledge of product category, increasing sales techniques, the Company saw an improvement in the general average of service evaluation, in accordance with Secret Shopper evaluations in Southern, Southeastern and Midwestern Brazil in 2013. PR5

Magazine Luiza acquired Lojas Maia and Baú da Felicidade in 2010 and 2011, respectively. With these acquisitions, its network size increased in 289 stores, from 455 stores in 2010 to 744 at the end of 2013. Today, Baú da Felicidade stores have been completely integrated into the Company's units in Southeastern Brazil, while Lojas Maia stores are grouped in the Northeastern division. We will continue our efforts to close the gross margin gap between stores in the Southeast and those in the Northeast. Sales in the Northeastern region grew by 15.1% in 2013, outpacing the Company's average growth, posting a total of R$1,418.3 million, equal to 14.7% of total retail sales in the year. G3 2.9

## C6/ virtual stores

The Company currently has 107 virtual stores that operate with much lower costs than conventional stores, leveraging return on capital invested. The success of this model reflects our corporate culture, focused on valuing employees and providing differentiated service to clients. These establishments, located in smaller cities, have sales areas of approximately 150 square meters.

We believe that there is sufficient space to continue expanding the virtual store format in Brazil, given that these stores serve smaller cities or certain neighborhoods in mid-sized cities. Throughout all of Brazil, there are more than 324 cities with 50 thousand inhabitants, and 2,582 cities with up to 50 thousand inhabitants.

We also seek opportunities to open virtual stores in unfortunate communities throughout the country. We opened our first virtual store in Heliópolis (pp. 100), in the city of São Paulo, in August 2013, and its success has proven the potential for expanding this format into the outskirts of other large cities. This potential for expansion is the result of the format's structure, which lacks inventory.

## Virtual Store in the Heliópolis Community

[ First store in a low income community ]

[ Opened on August 9, 2013

First virtual store in the city of São Paulo ]

[ New consumer market in the community ]

[ 12 million Brazilians, with income of R$ 56.1 billion per year

65% of the population of these communities is part of the middle class

Significant portion of consumption occurs within the community

Low product penetration, with 40% of households owning a computer

Brazilian economic development in recent years is transforming communities ]


[ Retail ]

[ Conventional Stores
**Virtual Stores**
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ Financial Division ]

[ Luizacred - Jv Itaú
Luizaseg - Jv Cardif
Consórcio Luiza ]

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# C7/ e-commerce

We have expanded our market share with our e-commerce channel, as our sales growth via this channel has surpassed that of our main competitors. We firmly believe that we will manage to maintain sales growth rates of between 20 and 30%, based on our competitive prices, attractive product mix and short delivery deadlines.

We completed our multichannel delivery project at the beginning of 2014, which will ensure important cost reduction and greater speed in delivery of orders placed over the website, in addition to moving deliveries to one of our eight distribution centers, instead of merely working through our São Paulo distribution denter. Together with improvements to the e-commerce logistics chain, we will continue seeking increased efficiency and capacity through our website, in order to ensure the operation's profitability.

With the 2012 launch of the *magazinevocê* sales channel, we strengthened the Company's capacity for innovation. We were the first retail company in the world to launch a sales platform with a relevant presence on social networks. This is a unique channel in electronic commerce that utilizes social media to leverage sales, based on the success of the door-to-door sales model. In 2013, we made important improvements to the website, including: (i) the creation of its own URL, (ii) removal of limits on the number of products offered by stores, (iii) a more modern layout, permitting greater customization, and (iv) the ability to expand the product mix using marketplace tools available on Magazine Luiza's website.

In 2013, we took the first step in improving the our offering of products in categories marked by high levels of growth and profitability (long tail strategy) and sold on our marketplace platform with the acquisition of Época Cosméticos. We will continue to perfect our marketplace strategy throughout 2014, capturing synergies between our e-commerce and marketplace operations, in order to ensure that our digital proposal continues to be one of the most attractive on the market.

[ Retail ]

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Época Cosméticos
Quero de Casamento ]

[ Financial Division ]

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Consórcio Luiza ]

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GRI

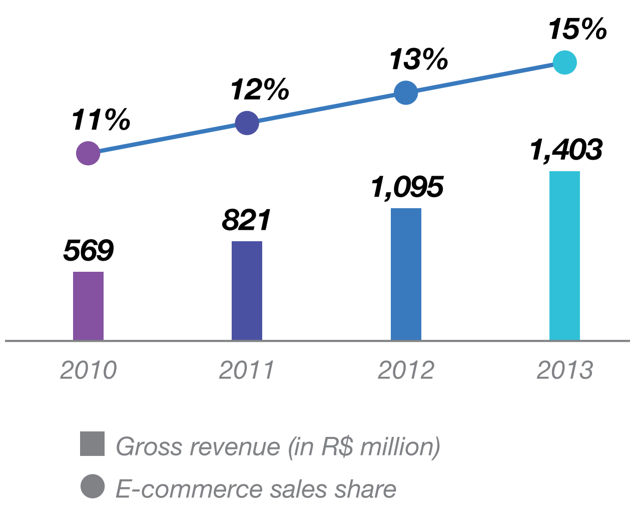
We have been recognized for our work extensively over the years. We received several different awards for our e-commerce operations in 2013, including the bronze trophy in the 54th edition of the Clio Awards, in the digital/mobile publicity category, for the *magazinevocê* case. For the tenth consecutive year, we also won the diamond trophy in the Excellence in B2C Electronic Commerce Quality Awards (e-bit), elected the "most innovative store".

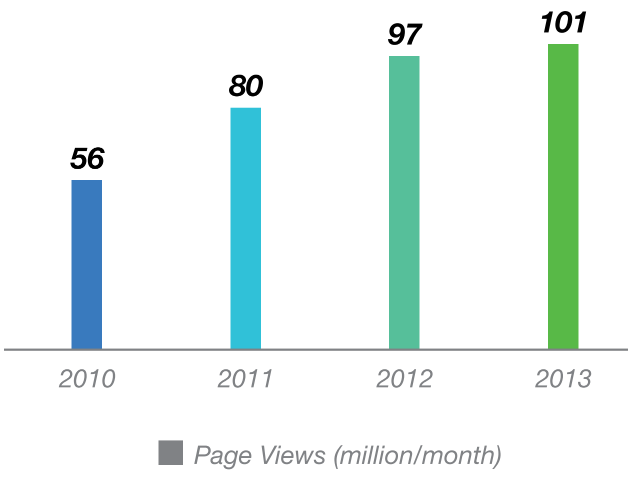
The e-bit Diamond award is a classification of electronic stores that receive positive client evaluations. The award analyzes requirements such as ease in purchasing, pricing, handling and product information and delivery deadline compliance, among other factors that represent the efficiency of the entire chain of operations, both pre- and post-sales.

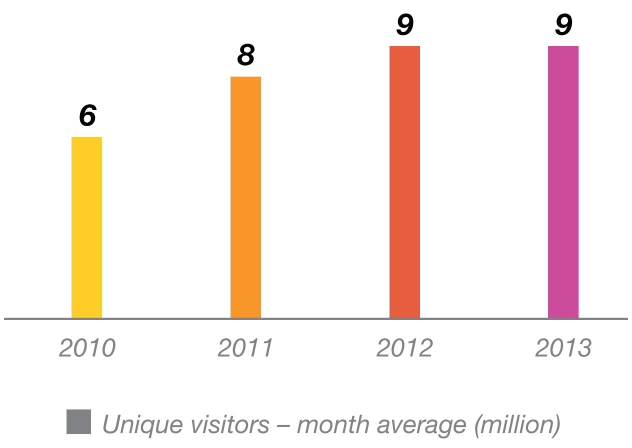
To reach the DIAMOND category, a store must have met the following requirements in the last 90 days:

- At least 1000 evaluation surveys from purchasers;
- At least 20 surveys of delivery services in the last 90 days;
- Less than 15% delays in deliveries;
- A greater than or equal to 85% probability that consumers will return to purchase at the store;
- Work with SSL security protocols;
- Guarantee confidentiality in handling client information;
- An active member of e-bit for at least 90 days;
- General client score of greater than or equal to 4.

E-consumers evaluate each of the 10 requirements on a scale of 1 to 5. In 2013, more than 3,040 consumers were surveyed. PR5






| Financial Indicator | Value Drivers | Comparativo versus loja física |
|---|---|---|
| Gross revenue | E-commerce reaches regions with no physical presence | Interaction between e-commerce and physical store makes a difference for our clients |
| Gross margin | Focused on competitive prices and quality service | Gross margin lower than registered on physical stores because the channel allows profitability with lower prices |
| EBITDA | High productivity coupled with operating expenses sharing | EBITDA above physical stores since there is a lower level of operating expenses |
| Net income | Profitability partially offset by the increase in working capital | Net profitability above physical stores |
| Working capital | Efficiency in inventory management and average payment period | Due to increased share of third party cards in sales vs. physical stores, e-commerce is more intensive in working capital |
| Investments | Focus on innovation | Low need for investment when compared to physical stores |
| ROIC | High return on invested capital | Well above physical stores |

# C8/ Magazinevocê

**We have always been interested in creating a door-to-door sales model and increasing our presence throughout Brazil, and finally found an opportunity to leverage this possibility via Facebook – a trustworthy platform for relations and intimacy among users.**

*Magazinevocê* is one manner in which we are able to leverage our e-commerce and compete aggressively in the virtual world. As a Social Commerce tool, the website serves as the next step in the natural evaluation of e-commerce.

In a never-before-seen, low-cost model, Brazilians become Magazine Luiza disseminators on Facebook. They offer our e-commerce products to their friends and are paid commission for each sale. In return, we receive a team of more than 170 thousand disseminators that we train and motivate. The relationship is simple, clear and transparent. Business costs are concentrated in maintenance, updates and actions at *www.magazinevoce.com.br*.

Considering that each *magazinevocê* disseminator has an average of 220 friends, with more than 170 thousand salespersons, we are able to reach 37 million Brazilians, or nearly half of the entire Facebook public in Brazil. The country is the second largest Facebook market in the world, with more than 88 million users as of 2013.

The potential in this area is clear. In 2013, an average of 27% of users' online time was spent on social networks, according to Hubspot. As such, we plan to grow in the area, pushing *magazinevocê* into new social networks and attracting more clients.

[ *Retail* ]

[ *Conventional Stores*
*Virtual Stores*
*E-Commerce*
***Magazinevocê***
*Chip Luiza*
*Época Cosméticos*
*Quero de Casamento* ]

[ *Financial Division* ]

[ *Luizacred - Jv Itaú*
*Luizaseg - Jv Cardif*
*Consórcio Luiza* ]

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# C9/ Chip Luiza

The mobile-commerce is still at early stages in Brazil, but we are already working hard to boost sales via mobile phone and smartphones. We believe that the purchase of products using cellphone will be increasingly common in the country, and for many, that will mean an opportunity to access the internet and social networks for the first time. This growth is linked to on-going technology sophistication of smartphones and also to the variety of models and brands available in the market.

Besides this tendency, Chip Luiza assists us in relation to customer loyalty, as it provides benefits such as free access to social networks and to Magazine Luiza websites, email and special offers.

M-commerce represents yet another way to reach customers where we have no physical presence and complements the channels for those who already buy from us. Remember that only 53% of the Brazilian population has internet access, which has more than 270 million mobile phones lines, number higher than of inhabitants, which reaches 198.7 million, and are quickly migrating to smartphones.

[ Retail ]

[ Conventional Stores
Virtual Stores
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ Financial Division ]

[ Luizacred - Jv Itaú
Luizaseg - Jv Cardif
Consórcio Luiza ]

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GRI

# C10/ Época Cosméticos

We acquired Época Cosméticos in an effort to increase and diversify the range of products sold online.

The addition of this website will strengthen our strategy for expanding and consolidating e-commerce operations in a segment with attractive margins, constant growth in Brazil and a high client flow given the low average ticket and higher repeat rate.

Furthermore, this move represents an opportunity to increase the number of products that can be sold over other channels, such as *magazinevocê*. Época Cosméticos has been Magazine Luiza's partner for over two years, through its marketplace, which allowed the Company to gain expertise in the cosmetics market and collect proof of its potential for growth.

We conducted a highly complex due diligence (audit) process and acquired the business for an amount we thought as fair. This acquisition represents a low-risk opportunity and the end of double taxing of cosmetic taxes laid out in the previous marketplace agreement signed with Época Cosméticos. This purchase does not imply in integration costs or redundancy in operations or staff.

### Acquisition of Época Cosméticos

- Long-tail strategy for e-commercee
- Expansion of existing product lines
- Segment with significant growth potential
- Attractive rates of return with aggressive goals
- Revenue of R$17.0 million in 2013

[ ***Retail*** ]

[ *Conventional Stores*
*Virtual Stores*
*E-Commerce*
*Magazinevocê*
*Chip Luiza*
***Época Cosméticos***
*Quero de Casamento* ]

[ *Financial Division* ]

[ *Luizacred - Jv Itaú*
*Luizaseg - Jv Cardif*
*Consórcio Luiza* ]

# C11/ Wedding Wish List

We are firm believers in the strong growth of social media commerce and have always sought opportunities to increase our family of websites that strengthen and complement our efforts to sell durable goods at stores.

The Wedding Wish List is the result of the success of magazinevocê, a platform that offers all e-commerce products on Facebook and an extension of product sales on the main e-commerce website aimed at couples that are planning their wedding. We believe that this part of our business is quite profitable, as the Wedding Wish List is backed by the entire e-commerce infrastructure, its marketing actions and the same experienced team.

This website represents a nearly zero-risk opportunity, requiring low levels of investment and reproducing the functionality and ease of navigation developed for *magazinevocê*.

[ Retail ]

[ Conventional Stores
Virtual Stores
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ Financial Division ]

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Luizaseg - Jv Cardif
Consórcio Luiza ]

:)

# C12/ credit operations strategy and results

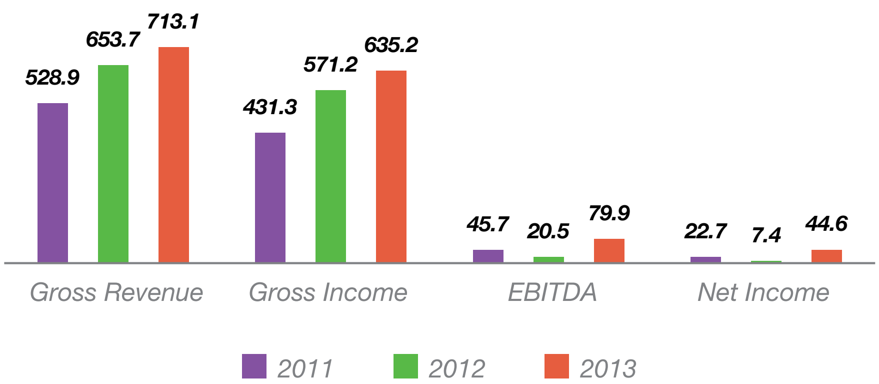
The C Income Segment continues to grow, with more than 40 million Brazilians ascending to this income segment in the last decade, for a current total of 109 million. The Brazilian population is continually seeking and accessing credit, real estate, household appliances and tablets, in addition to improved quality of life. A low unemployment rate, the demographic bonus, greater purchasing power and low delinquency rates all favor increased lending in the country.

We are well positioned to capture this credit demand and believe that we have played an important role in the nation's economic and social development over the last decade. Today, Luizacred is one of the largest financing institutions in its category.

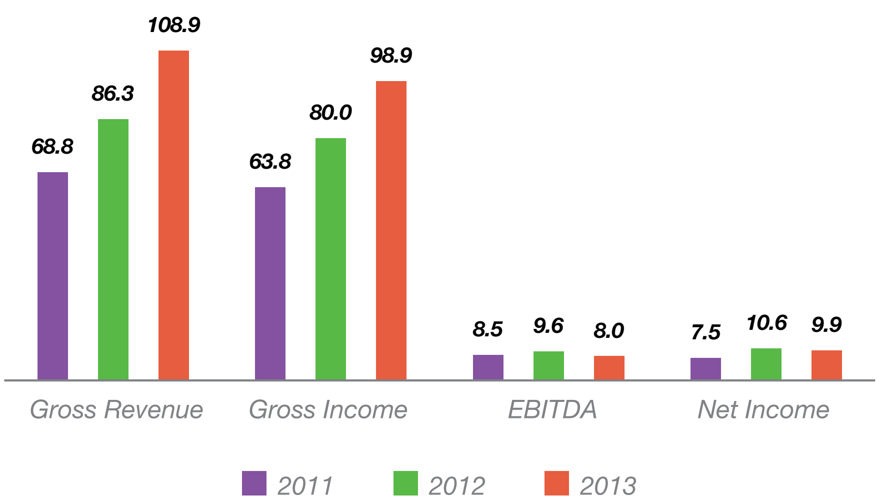
We grant credit and record provisions in a conservative manner. We work to maximize margins through cost control, an adequate mix of Direct Consumer Credit and Cartão Luiza and a disciplined and consistent policy for loss provisions and operational efficiency. We are quick to grant credit and simplify our processes, setting us apart from our competition.

Luizacred, similar to Luizaseg and Consórcio Luiza, is a fundamental tool in ensuring the loyalty of our client base and driving sales. Each company aids us in developing post-sales relations and motivating our clients to return to our stores.

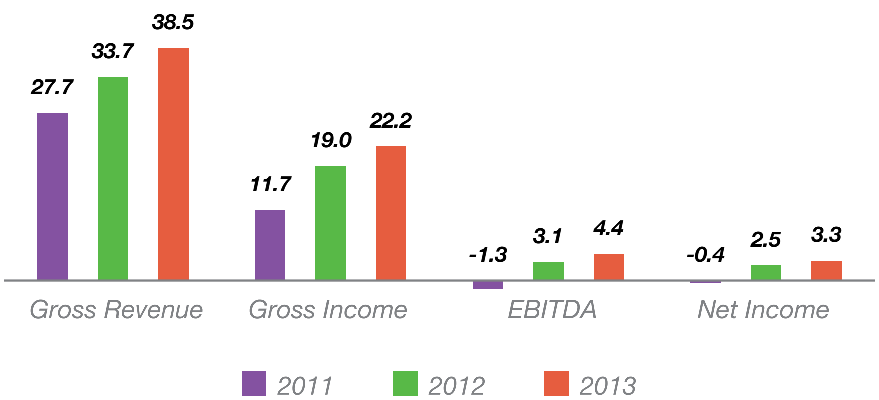
**Luizacred** (R$)




**Luizaseg** (R$)




**Consórcio Luiza** (R$)



# C13/ Luizacred

Luizacred plays an important role in Magazine Luiza's sales, contributing to the retail arm's profitability. In 2013, we increased profitability by better distributing loans and financial products associated with our card, seeking new savings with store integration and capturing synergies, we increased the productivity of our sales force, trained and motivated employees to sell more profitable products and increase the share of financial services in the sales mix.

At the same time, we maintained our focus on improving customer services and ensuring greater efficiency of processes and speed and intelligence in credit concessions.

In February 2013, Magazine Luiza signed an amendment to the Luizacred agreement to transfer management and issuance of its Co-Branded credit card to its partner in the joint venture, Itaú Unibanco. This measure sought to increase operational efficiency by reducing costs and expenses related to financial products and services.

## Focus for 2013-2014

**INCREASE PROFITABILITY**
by improving the granting of services associated with cards.

**DIVERSIFY REVENUE**
with an improved balance between consumer direct credit (CDC), cartão Luiza and financial products.

**INCREASE PENETRATION**
on sales via website.

**CONTINUE FOLLOWING**
growth of Magazine Luiza retail sales.

**MAINTAIN CONTROL**
of non performing loas and conservative approach to granting credit and allowances for loan losses.

[ Retail ]

[ Conventional Stores
Virtual Stores
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ **Financial Division** ]

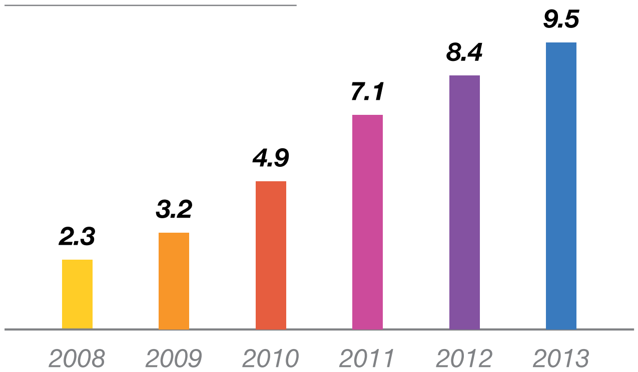
[ Luizacred - Jv Itaú
Luizaseg - Jv Cardif
Consórcio Luiza ]

:)

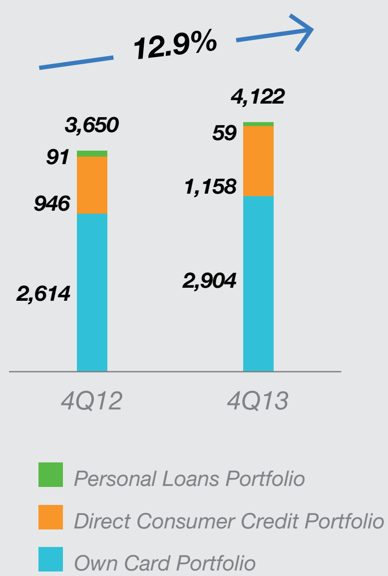
The year of 2013 was the best in Luizacred's history, driven by positive factors including an increase in loan concession for new products and better application for the profile of each consumer. Understanding a client's purchasing power and credit history is absolutely fundamental to making the right credit policy choice.

We delivered solid profitability with controlled delinquency and increased our efficiency index.

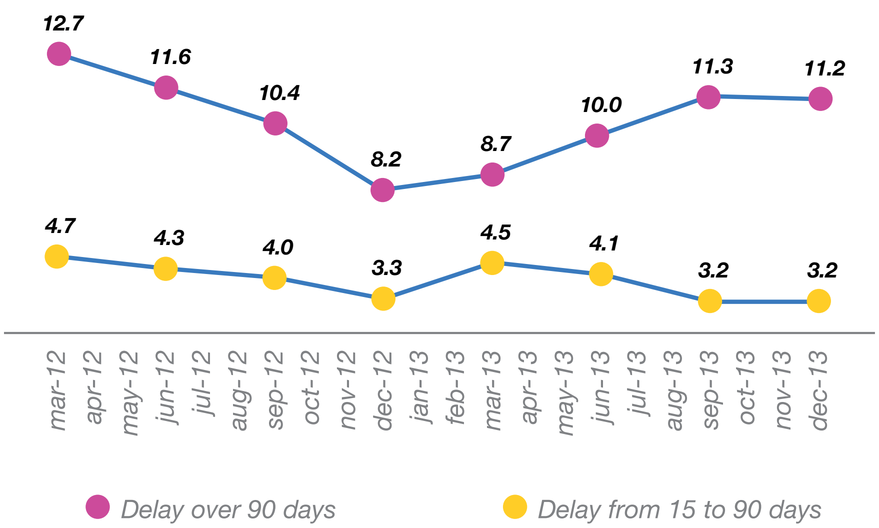
**Total Sales** *(in R$ billion)*



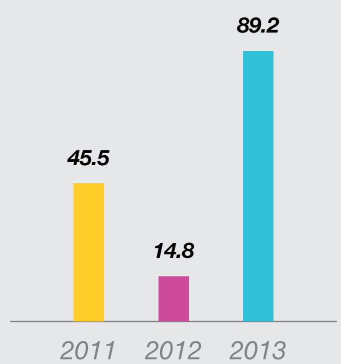

**Portfolio breakdown** *(in R$ million)*




**Default rate** *(days of delay)*




**Net Income** *(in R$ million)*



# C14/ Luizaseg, Consórcio Luiza

## Luizaseg

Luizaseg represents yet another manner in which to expand the range of products and services offered to clients at the time of purchase, including extended warranties, among other services. The Company provides the opportunity to ensure client loyalty and deepen relations with clients during the post-sales phase, thereby increasing our average ticket per client.

We therefore believe that Luizaseg is no less important when compared with Luizacred, in that it offers a competitive differential by allowing for total control of the insured portfolio, without the need to share claims with insurance sold by other retailers, in turn allowing the Company to negotiate the most advantageous conditions with our partner, passing gains onto clients.

At this time, Extended Warranties continue to be Luizaseg's main product, backed by the partnership and experience of Cardif, a subsidiary of the French bank BNP Paribas, to offer insurance aimed directly at our clients' needs.

According to market rankings, prepared by the System Coordination and Market Information (COSIM) division of SUSEP, Luizaseg is among the top companies that offer extended warranties in the Brazilian market.

## Consórcio Luiza

Consórcio Luiza's strategy represents yet another manner in which to ensure loyalty and value added to our clients, who seek improved quality of life with benefits from the financial system. Consórcio Luiza offers clients the opportunity to purchase cars, real estate and other products with high added value. We see this as a chance to promote cross sales of our products when a client finances real estate through our consortium. We offer a wide range of items for home decoration, with the consortium present at every one of our stores.

We operate through our own professions and with commercial representatives. Furthermore, consortium products may be sold

[ Retail ]

[ Conventional Stores
Virtual Stores
E-Commerce
Magazinevocê
Chip Luiza
Época Cosméticos
Quero de Casamento ]

[ **Financial Division** ]

[ Luizacred - Jv Itaú
Luizaseg - Jv Cardif
Consórcio Luiza ]

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by any Magazine Luiza employee, who must only request access to the sales system. Smaller stores are equipped with kiosks that show and offer products and services.

## C15/ investments

### CONVENTIONAL AND VIRTUAL STORES BY REGION IN BRAZIL

| State | 2013 | % |
|---|---|---|
| Southeast | 354 | 48% |
| Northeast | 158 | 21% |
| South | 214 | 29% |
| Midwest | 18 | 2% |
| Total | 744 | 100% |

### STORE OPENINGS

17 new stores (12 in S/SE/MW region and 5 in NE region)

| Region | New | Remodelings |
|---|---|---|
| Southeastern, Southern and Midwestern | 12 | 34 |
| Northeast | 5 | 28 |
| Total | 17 | 62 |

### INVESTMENTS (R$ MILLION)

| Investment | 2013 | 2012 |
|---|---|---|
| New Stores | 24.6 | 23.1 |
| Remodelings | 44.7 | 62.6 |
| Technology | 38.8 | 25.3 |
| Logistics | 25.2 | 42.6 |
| Other | 12.8 | 21.1 |
| Total | 146.1 | 174.8 |

In 2013, the Company invested R$146.1 million in fixed and intangible assets, 47% of which in store remodelings (62 stores) and openings (17 new stores), 44% in logistics and IT and 9% in other projects. We managed to achieve a significant reduction in the costs of remodeling each store and the expected time of execution after the implementation of our Invigorate Project.

GRI

## C16/ store remodelings – Invigorate project

The Invigorate Project represents advances in our business model. Launched in 2013, it seeks to guarantee the speed of store remodelings and reduce costs by improved use of materials and logistics.

We trained our engineering, architectural, merchandising, IT, sourcing and security teams in multitasking, thereby reducing execution time. We use local suppliers to reduce logistics costs.

The results of this project were nothing short of impressive. Our average investment per store fell by nearly 70% after the project's implementation, and we are currently capable of remodeling 13 units in two months. Before this project, it took an average of 45 days to complete each project, regardless of size. Today, we are able to increase product exposure by 30%. An additional benefit of this new model has been an important increase in sales at remodelled units, such as sales of mobile phones, which have shown growth of more than three digits.

The Invigorate project was a derivative of our Mobitec concept, which focuses on updating and modernizing the technology sector, seeking to sell projects with greater margins such as mobile phones, imaging equipment, IT systems, sound systems, cameras and video cameras.

Ever since the Invigorate project started, we have sought to optimize costs and improve sales quality for teams and consumers.


### *Highlights*

***Cost of investment per store down by nearly 70%***

***13 stores remodeled in two months. Before, a single remodelingtook an average of 45 days***

***Remodelings drive sales and improve clients' buying experience***

# C17/ 2014 strategy and objectives

## STRONG GROWTH PERFORMANCE

- Up to 40 new stores (focused on Northeast and Southeast)
- Growth similar to 2013 in same stores sales performance for physical stores, focused in the Northeast (maturity process)
- Accelerated e-commerce growth – same levels as 2013
- Strong sales of TVs, tablets and smartphones, driven by the World Cup
- Increased multi-channel characteristics
- Continued investment in innovation

## IMPROVED PROFITABILITY

- Maintenance of consolidated gross margin
- Service revenue opportunities (increase interest in merchandise revenue)
- Reduce Sales, General and Administrative Expenses as a result of OBZ program and multi-channel platform (diluted costs and expenses)
- Maturity process for Baú da Felicidade and Lojas Maia stores


| | | Description | Status | Expectation |
|---|---|---|---|---|
| Gross Margin | ***Difference in gross margin in the Northeast stores*** | There is a difference in gross margin between stores in the Northeast and in other regions | The difference is being reduced on a quarterly basis | The Company expects to reduce the difference, by helping to increase the gross retail margin |
| Gross Margin | ***Price management project*** | This project was designed to increase price intelligence by channel, region and product family | Continuation of process implantation | Preserve margins in all regions |
| SG&A | ***Synergies from Lojas Maia and Baú da Felicidade integration process*** | First year of full integration of Maia and Baú chains in 2013 | Remodelled of stores and improvements in management and synergies process | Increase productivity and profitability of each store |
| SG&A | ***Multi-channel delivery project*** | E-commerce products will be delivered directly by the eight distribution centers | The eight distribution centers integration will be concluded at the beginning of 2014 | This will reduce costs, increase customer services and improve quality |
| SG&A | ***Zero Base budget program*** | Stricter expenses control policies. New budgeting process for each department, adoption of goals “zero base” and lower costs | Implementation of the 2012 and 2014 budgets | Streamline costs and expenses |
| SG&A | ***Productivity of stores project*** | Increased productivity in the back office and Luizacred in stores | In implementation process | Streamline costs and expenses and increase stores productivity |

# C18/ mid- and long-term strategy and objectives

Our success is guided by three pillars that make Magazine Luiza's a unique value proposal: strategy, corporate culture and innovation, concepts that guide how we invest, in an effort to generate consistent, ever-growing returns to shareholders. We will continue to develop these three areas to maintain and increase our leadership in the 16 states where we operate. Below are some of the mid- and long-term objectives that will play a fundamental role in Magazine Luiza's future success:

## FINANCIAL STRATEGY

### WORKING CAPITAL

We are committed to decreasing the amount of working capital we employ over the years, recovering accumulated ICMS credits resulting from tax substitutions, and improving the management and turnover of inventories, with the Northeastern region completely integrated.

### DEBT

Over the next three years, the debt profile will improve by increasing the average maturity and reducing refinancing risks. Additionally, the cost of debt will be reduced, together with the net debt over adjusted EBTIDA ratio to between 1.0x and 1.3x. At the end of 2013, this adjusted indicator stood at 1.3x, down from 2.3x in 2012.

### CASH FLOW
Our objective is to generate free cash flow in the medium-term by constantly revising goals to gradually increase liquidity. Once cash generation has been strengthened, we will be able to analyze changes to dividend payment policies, which currently stand at 15%, the legal minimum.

### CORPORATE CULTURE
We always place people first

New ways to strengthen our internal communication to motivate, retain and attract talent

Our relations with the communities in which we operate will be continuously strengthened

### CLIENTS
Work to be present where, when and how the client desires

Continue as a benchmark in client loyalty process management

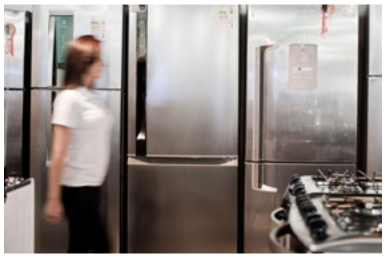
Focus on expanding our competitive portfolio
of financial products and services

### INNOVATION
Strengthen our unique multichannel platform and seek new ways to promote efficiency with greater integration between physical store and e-commerce operations

Develop new ways to accelerate m-commerce growth

Continue to increase and diversify our range of products

Seek opportunities to strengthen and complement our strategy for expansion and consolidation of e-commerce



# INTANGIBLE
## assets

# D1/ the luiza way of being

## A FOCUS ON CULTURE

We rely on important pillars that allow us to ensure sustainability and vitality to spread the pioneering and innovative culture of the Luiza Way of Being:

MERITOCRACY the practice of publicly recognizing and rewarding employees that set themselves apart through talent or performance;

COMMUNICATION we utilize the Luiza Portal, Radio Luiza and TV Luiza to motivate, inspire and inform employees on the Company's development and sales strategies;

SELF-DEVELOPMENT we drive employees to set goals, career plans and/or seek out their own personal and professional growth;

OPEN-DOOR POLICY in 1991, Luiza Helena Trajano removed all barriers when she became the Company's Superintendent, allowing for constant employee contribution to improve climate and operational and strategic processes;

PUTTING PEOPLE FIRST our Human Resources policy is based on valuing people, development and quality of life;

MONITORED LIBERTY management in managing the people who work in the unit;

A CULTURE OF ENTREPRENEURSHIP Magazine Luiza is focused on pioneering, innovation and agility in making things happen, always putting clients first;

LEADERSHIP we motivate and provide incentives to leaders to serve and act as educators;

EMPLOYEE COUNCIL elected members work directly with management and managers in administrative decision-making process at their units;

**[ Corporate Culture**

*Luiza Way of Being*

*Internal Communication*

*Stronger communities where the Company operates* **]**

*"Success in 2013 is the result of three unique pillars that make Magazine Luiza a singular value proposal: strategy, corporate culture and innovation, which allow for a focus on growth and return to the shareholder."*

**COMMUNION RITUAL** meeting in which the Company reiterates its values, shares weekly results, celebrates birthdays, achievements and commemorative dates, recognizes outstanding work and receives new employees;

**MORNING MEETING** the team meets to give direction, align and mobilize the group to face the day's challenges;

**CELEBRATION AND THANKS** employee achievements are celebrated at collective meetings promoted by the Company;

**PRESIDENT'S HOTLINE** an open communication channel open to all employees for confidential reports of practices that go against Magazine Luiza's values;

**GROUP MANAGEMENT** strategic business information is transparent and accessible, allowing each employee to take responsibility for the Company's overall results;

**STRATEGIC SEMINAR** attended by all store, distribution center and office leadership, this meeting works to prepare Magazine Luiza for the challenges of the coming year.

## D2/ advertising campaigns

Our advertising campaigns and ads are part of the essence, identity, credibility and popularity of Magazine Luiza among the C Income Segment, the largest consumer segment in Brazil. The Fantastic Sale, Gold Client Day, Inventory Turn-Over and Only Tomorrow campaigns have become synonymous with our brand, which is considered one of the most valuable in the country, according to Interbrand – Best Retail Brand 2013.

Among our initiatives, the Fantastic Sale is a pioneering, national event. With sales of up to 70% on showroom products, this action is a "fever" among consumers that wait in line for up to a week. The campaign generates spontaneous media coverage that is worth tens of millions of reais in equivalent television publicity costs. The reach and success of the Fantastic Sale have led competitors to copy the idea, thereby changing Brazilian retail promotional schedule.

Our annual sale has been established as one of the most traditional Brazilian retail sales. The campaign changed our seasonality calendar, making January – a typically weak month – present significant sales volumes. This event, in addition to Inventory Turn-Over days, works to markdown and renew inventories after Christmas sales.

Another important action is the Gold Client Day, which seeks to recognize value and promote loyalty among our most loyal fans. The results of the program have been reflected in consumption among these clients, which, in comparison with other clients, are more active and show greater frequency of purchases.

Gold Client Day is the main loyalty action for our clients, during which we open our stores four times a year, usually on Sundays, only for our Gold Clients. This special day is marked by a red carpet, breakfast and exclusive sales. More than 1.5 million clients currently account for approximately 20% of the Company's total revenue.

Only Tomorrow is another campaign that reinforces the brand's positioning amount clients and generates effective sale results. Generally on Sundays, we will announce sales on a product that are valid for a single day. This action has been around for more than 15 years and has become a part of the Magazine Luiza Events Calendar. We negotiate special conditions with suppliers for the product on sale, allowing us to offer prices lower than the market. Sales volumes stand as testament to the success of the campaign model.

Furthermore, we have excellent customer relations management through innovative CRM tools, such as the Operation Boomerang, which drives telemarketing operations at stores.

# D3/ marketing and the world cup


For the first time in its 57-year history, Magazine Luiza will be one of the official sponsors of the World Cup games on the television broadcast. With the visibility provided by the largest sporting event in the world, we estimate we will reach more than 188.1 million TV viewers per day during prime time viewing hours on the largest television network in Brazil.

The high-impact campaign will reach 98.6% of Brazil's 5,564 cities and marks the Company's transition from regional to national broadcaster during 2014, which will have a significant impact on Magazine Luiza's e-commerce by improving the brand's visibility throughout Brazil. This exposure is equivalent to an additional 38 marketing days during the year, in addition to inserts and journalistic coverage with great brand exposure.

The investment, planned in annual marketing budgets, will replace the network's recurring campaigns and sales. This extensive publicity is expected to drive national e-commerce sales and sales in the 744 strategically located stores in 16 states.

*More than 650 promotional inserts advertising the brand*

*40% increase in media days in the year*

*More than 500 mentions in national media*

*More than 165 million fans watching games*

*Most extensive media coverage of all time by Rede Globo (eight months)*

*Constant presence in 98% of Brazilian cities*

:D

GRI

# D4/ brand value: offline and on social networks

## 3rd Brazilian brand

***that creates most engagement in social networks** (Data Popular, 2013)*

| | | | |
|---|---|---|---|
| ***1.2 million*** *fans* | ***79 thousand*** *followers* | ***80 thousand*** *visitors/month* | ***1.5 million*** *views/month* |

The value of our brand reflects our culture, values and principles. This recognition among employees, clients and suppliers is a result of our work, guided by innovation and audacity. Measurement of intangible assets in 2013 resulted in 24 awards, six of which were for our CEO, Luiza Helena Trajano.

From reputation to marketing strategies and IT integration and support of sports, Magazine Luiza has consolidated its brand, seen as one of the ten most valuable in Brazil (tenth place) in a groundbreaking survey released by Interbrand – Best Retail Brand 2013.

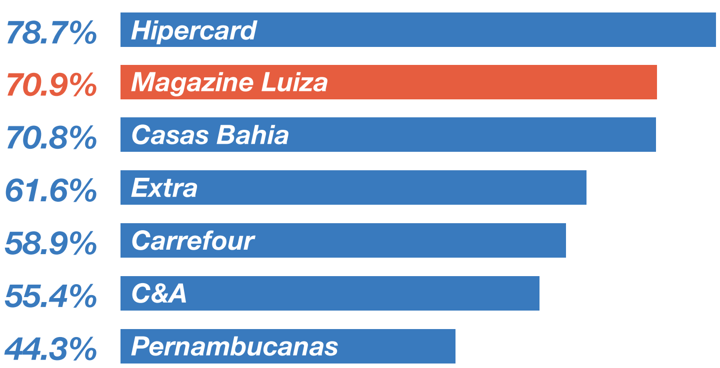
The Retail brand has also seen strong support on social networks, where it has a strong presence, mainly due to *magazinevocê*. According to Data Popular, Magazine Luiza was the third brand that most generated social media engagement in 2013.

The efforts of our communication team have also resulted in return of approximately R$50 million in spontaneous media. In this area, the Fantastic Sale, which works to markdown and renew inventory after Christmas sales, is the main event.

# D5/ brand value in the financial world

Through the attention paid to the reality in Brazil, Magazine Luiza has sought through Luizacred to provide access to credit to Brazilians with limited purchasing power, thereby democratizing the consumption of durable goods. The Company's assertiveness on this front led to greater brand recognition, ensuring Luiza's card outstanding position among the most important co-branded credit cards in Brazil in terms of acceptance and satisfaction rates.

Card Monitor studies show that 70.9% of those surveyed with more than one co-branded card prefer the Magazine Luiza Card.




*Source: Card Monitor*

CARTÃO LUIZA is one of the largest co-branded brands in Brazil, with a 7.1% market share. Luizacred's goal is to grant credit to clients and reduce transaction risks. This conservative approach defines all Luizacred processes and decisions.

***We are convinced that the popularity of our brands is intrinsically tied to the success and reputation of Magazine Luiza in Brazil.***

| Stores | Hybrids (million cards issued) |
|---|---|
| C&A | 11.5 |
| Casas Bahia | 6.0 |
| Carrefour | 5.5 |
| Pernambucanas | 4.0 |
| ***Magazine Luiza*** | ***3.6*** |
| Grupo CDB | 3.0 |
| Ponto Frio | 2.6 |
| Riachuelo | 1.9 |
| Lojas Marisa (aptos) | 1.2 |
| Renner | 1.2 |
| Lojas Americanas | 0.8 |
| Leader Magazine | 0.5 |
| Other hybrids | 8.6 |
| *Total* | *50.4* |

# D6/ intellectual property and our approach to innovation

As a leader of innovation in Brazilian retail, we drive, encourage and develop the intellectual property of our employees. In order to stimulate intellectual appetites and ensure that we are on the cutting-edge of trends in retail and technology, we set up "LuizaLab", an internal reflection group that researches, develops and seeks out new ideas throughout the world, to allow us to build our business based on a widely cohesive vision and lead the retail segment.

The laboratory of ideas is constantly dialoging with companies that drive global technological trends, such as Apple, Google, Twitter, Facebook and YouTube, to implement new ideas and adapt them to Brazilian consumption culture.

This development of intellectual property goes far beyond merely attending forums, seminars and congresses nationally and internationally. We internally test games and develop our own Apps to test our capacity and see how far we can go. In doing so, we motivate our talents. In our opinion, it is absolutely fundamental to retain and adequately compensate talents and carefully protect the human capital that works within our e-commerce group. To do so, we create career plans for the group and the rest of the online sales division.

Our intellectual property is responsible for innovations, in addition to magazinevocê and the Wedding Wish List (see pages 61 and 63 on strategy and page 83 on innovation) through the Facebook platform. This property is also focused on other areas, such as developing and executing more intelligent and efficient logistics to better serve our clients, reduce operating costs, cut delivery times and benefit our *Omnichannel* strategy (see page 86 on the Five-Year Logistics Plan).

We use our intellectual property to motivate our employees and have one of the most award-winning internal communication programs in Brazil (see page 107). Motivation is difficult to measure, but it was a factor that contributed to our excellent performance during the year.

We believe that our research, launch of new products and implementation of various technological solutions for daily operations set Magazine Luiza apart in the competitive retail world and will continue to ensure its position on the cutting edge of innovation, thereby generating competitive advantages for the Company and society.

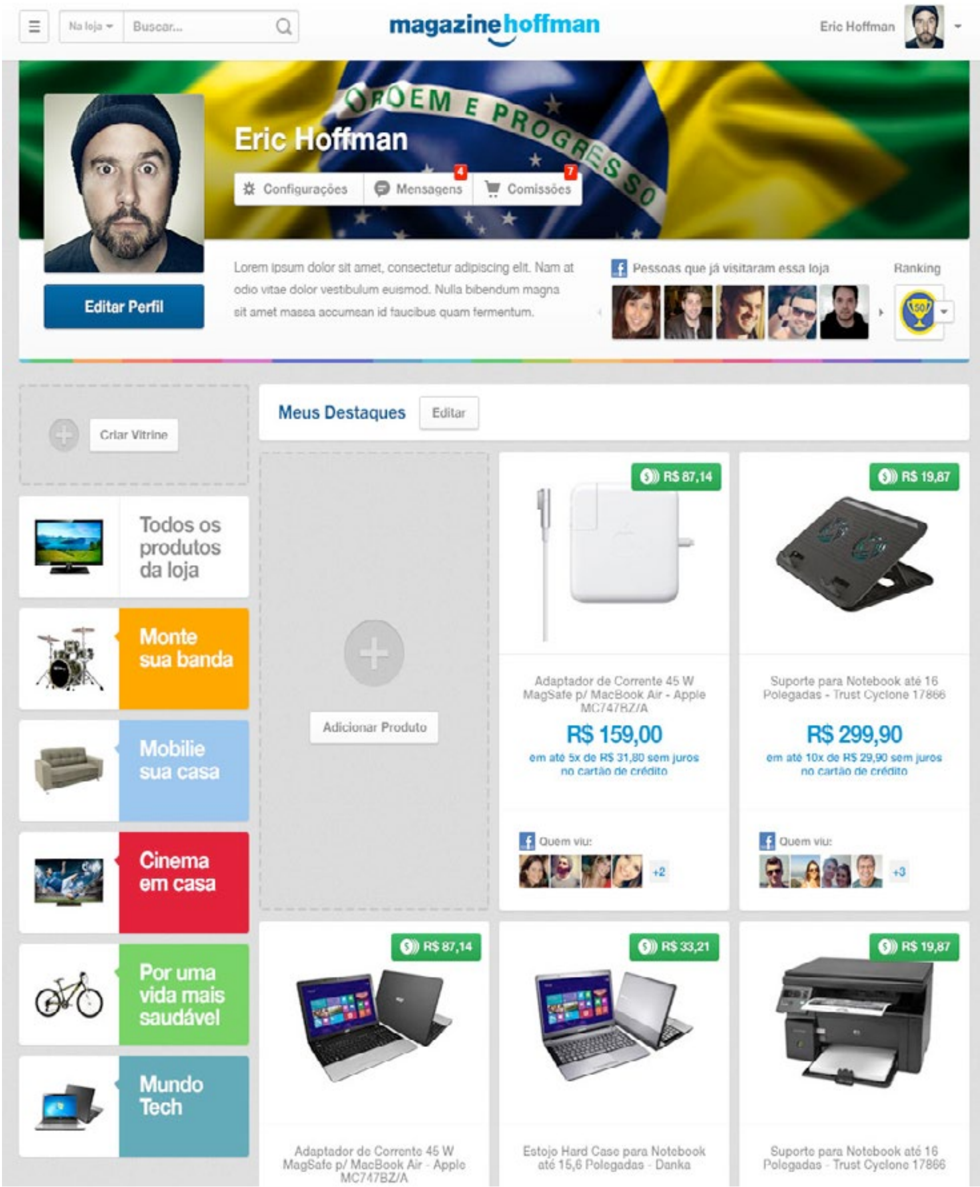
## D7/ innovation

***We have developed and structured a group of website that converge and connect our 36 million clients to our online universe for the A to C Income Segments.***

Innovation is an integral part of our history. The ability to invent, adapt and create new formats and products has been an important competitive edge for our strategy. We have a proven history of reinventing the retail sector and create new niches since 1992, with the launch of our Virtual Store format (pages 30 and 57) – a method that competitors have tried to reproduce, with little success.

In developing our strategy and vision, we think first of our clients and, above all, of the fantastic benefits we may afford them and where we may take them. Thinking about the best retail experience for our clients, together with our spirit of innovation, has always generated the best results, from small projects to those that impact and drive sector trends, such as *magazinevocê*. The success of this initiative and commercial potential of social media are unquestionable. *Magazinevocê* drives the entrepreneur spirit in the lives of millions of Brazilians and allows the Company to expand its presence into areas where it is not physically present, such as Northern Brazil and the states of Rio de Janeiro and Espírio Santo (pages 35). Even salespeople that work for our competitor's are also resellers on our *magazinevocê* website and sell e-commerce products on Facebook. At the end of 2013, the Company reached 37 million Facebook friends, versus 15 million in December 2012.

At the close of 2013, we launched a new *magazinevocê* platform to aid our disclosers to improve client engagement, further personalize their pages and accelerate the speed of online sales. For the first time, we made *magazinevocê* available on mobile devices, connecting it to e-commerce, and creating a formidable m-commerce platform. As such, disclosers are able to create a showroom and organize products as they see fit.




## NEW PLATFORM 2014

We are always working to expand on our retail offerings within the virtual universe, and at the end of 2013; we strengthened our family of websites under the e-commerce banner. We launched the Wedding Wish List website (see page 63) in December, for months after the acquisition of Época Cosméticos (page 62).

The Wedding Wish List website represents a new form in which to leverage e-commerce and maximize the entire Brazilian network's performance. The website is yet another example of our connectivity and convergence with technology to better reach our clients. Thanks to our vision, we have a unique operational platform that is truly integrated and that serves all channels, from conventional stores to m-commerce. Similar to the launch of e-commerce in 2000, we believe that the new formats and technologies that we develop today represent the new markets of tomorrow. E-commerce was innovative in developing a startup within a retail company that had been on the market for more than 40 years at the time. There was no need to discuss priorities between e-commerce and physical stores. We insisted on maintaining a separate team, with exclusive buyers, marketing teams, know-how and own systems, although the structure currently benefits from Magazine Luiza and its operations and national logistics network. We currently share office and back office infrastructure that supports off-line operations.

In 2013, we innovated once again by integrated our eight distribution centers with e-commerce. Before, e-commerce was forced to rely exclusively on our largest distribution center in Louveira, in the state of São Paulo, for deliveries throughout Brazil. Integration reduced delivery and collection times and shipping fees, increasing sales with quicker deliveries and more competitive prices that ensured customer satisfaction and decreased environmental pollution by ensuring that trucks cover shorter distances as a result of a more intelligent logistics system.

- Store shared not only on social networks, but on the internet as well
- Social connection while surfing the web
- Direct communication with disclosing party via messages

# D8/ logistics

We are currently working under a five-year plan to transform Magazine Luiza into a national benchmark in logistics, reduce costs and contribute directly to an increase in the Company's profitability. We are seeking to increase customer satisfaction, drive exponential increases in the efficiency of our *Omnichannel* strategy and set ourselves apart from the competition.

The plan is divided into three phases, known internally as Reactive, Partner and Driving Force. The first phase, Reactive, consisted of the Company merely responding to client demand. We only delivered products after client purchases. Nearly half of the products sold are delivered directly to consumers' homes from our distribution centers, while the other half is picked up at stores. Challenges in this phase included elevated costs and possible delivery errors. To mitigate these issues, we increased the capacity of our distribution centers, invested in new processes and began work to integrate all CDs with e-commerce. This Reactive phase was finalized in 2013, and we are now focused on the second phase, Partner, in which the logistics division helped the Company reduce costs, increase efficiency and build the foundation for the beginning of the Driving Force phase, with pilot programs slated for 2014. Last year, we reformulated logistics structures, focused on reducing shipping and inventory waste and implemented other processes to reduce errors. The integration of all distribution centers, from Caxias (RS) to Alhandra (PB) with e-commerce was the key to executing this stage to ensure supply and deliveries together with sales.

By the end of 2014, we hope to begin the Driving Force phase, which will take our operation to a whole new level. We believe that our five-year plan will have a positive impact on the environment, reducing pollution, in addition to reducing public costs by decreasing highway repairs and maintenance, given the fact that we are investing in new processes to create an intelligent network focused on lower numbers of trips.

***Reduced Delivery and Collection Times***

*Reduction to average delivery time by*

**56%**

*Reduction to average collection time by*

**56%**

*Shorter delivery times than competitors*

***Logistics costs fell by more than 20% in 2013***

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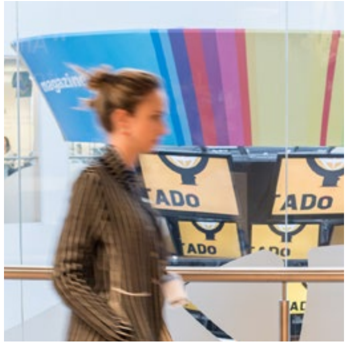
We are halfway through a process to transform our logistics network that will benefit our clients and employees, in addition to expanding and integrating distribution centers, implementing new processes and developing a more intelligent network. Magazine Luiza is also at the head of discussions in Brasília on the development of a new law on reverse logistics, which should come into effect sometime in 2014 (see page 96).

The sustainability of our logistics represents an important factor in the future success of Magazine Luiza and its stakeholders.



*10 thousand products are sold per day via e-commerce*

*More than 90% of e-commerce sales are within a 200 km radius of DCs*

;^)

# D9/ our analytic technology and intelligence

Magazine Luiza invested in a new analytic intelligence platform similar to a Big Data Project, which seeks to guide product recommendations in real time. The Company innovated with the use of data on client behavior, both on the website and at physical stores. The platform was created using a database that creates a relationship between products acquired and clients. The goal was to create a recommendation system that acts somewhat like a purchasing assistant and aids clients in choosing the best products.

The platform's main differential lies in the community concept, which allows for identification of the impact of a recommendation on a given person, whether it be a purchase, suggestion or product evaluation, within the client's network of friends. As such, recommendations are made to a given individual and are not based on group analysis, as is common among many other e-commerce websites.

The new platform led to a 35% increase in website revenue over the recommendation system previously utilized. The project was the result of the use of another platform, magazinevocê. The Company found that it was capable of storing all information on preferences and connections between people, friends and stores to better understand the behavior of its consumers and create a recommendation system based on these principles.

The Company began developing the recommendation system in January 2013 and began testing three months later, leading to implementation of the system in August. The principle was to update the system with great frequency, nearly in real time, to ensure that each user interaction on the website could be utilized for the next page view. Data is collected both online and on the traditional website, in addition to the mobile version and at virtual stores.

This platform guaranteed Magazine Luiza first place in the Retail and Consumption category at the 100+ Innovators in the Use of IT awards, in 2013.

# ECONOMIC, POLITICAL AND SOCIAL backdrop

# E1/ economic backdrop

The year of 2013 was challenging for Brazil. The economy grew by a mere 2.3% or R$4.84 trillion, according to IBGE. A series of factors negatively affected consumer confidence; however Magazine Luiza was able to overcome these less favorable conditions, in addition to higher inflation and protests in June and July, which impacted sales performance at the close of the first half of the year. Furthermore, investors also grew concerned after a sudden change in regulations in the energy sector, growing concern with the beginning of the tapering program in the US and the possible effect of this program on Brazil*.

All of this uncertainty resulted in a loss in consumer confidence during 2013. The Consumer Confidence Index released by FGV/IBRE deteriorated rapidly, reaching its lowest point in July, 2013, during the peak of protests in Brazil. Even so, Magazine Luiza posted a 14.6% increase in gross revenue, for a total of R$9.7 billion, and saw record net income of R$113.8 million, including the effect of extraordinary income (or R$70.7 million in adjusted net income), versus an R$6.7 million loss in 2012. Even with the same Consumer Confidence Index falling once again in the fourth quarter, Magazine Luiza saw a 19% increase in same store sales, the best quarterly result in the last two years.

A number of different factors contributed to our success: our selling spirit, assertive commercial campaign programming, employee motivation actions, financial control and discipline and a multi-channel strategy, which offers what the client wants, where and when they want it through multiple sales channels.

Furthermore, we operate in a service-oriented economy. We have nearly 200 million inhabitants and a workforce made up of more than 100 million Brazilians. Of this total, most work in the service industry, which represents approximately 69.4% of the country's GDP, making it the seventh largest economy in the world. Another important driver that has motivated consumption

### CONSUMER CONFIDENCE INDEX (FGV/IBRE)

| 2013 | Seasonally adjusted |
|---|---|
| January | 117.9 |
| February | 116.2 |
| March | 113.9 |
| April | 113.9 |
| May | 113.4 |
| June | 112.9 |
| July | 108.3 |
| August | 113.1 |
| September | 114.2 |
| October | 111.7 |
| November | 112.8 |
| December | 111.5 |

is related to minimum wage increases that outpaced inflation over the last seven years and excellent collective bargaining agreements, which lead to real gains in nominal wage.

Today, Brazil is the seventh largest consumer market in the world and expectations call for the country to become the fifth largest by 2020, as a result of several factors, such as: (i) constant evolution of monthly income, (ii) low unemployment rates, (iii) delinquency rates completely under control and (iv) adequate disposable monthly income levels. There is sufficient space to expand the volume of credit granted, which reached a record level of 5% of GDP in 2013.

Another important factor is our competitive positioning: the C Income Segment is Magazine Luiza's target public, which should drive growth of 40% in GDP by 2020, according to 2012 research by the Commercial Federation of Goods, Services and Tourism in the State of São Paulo (FecomercioSP). Forecasts call for the middle class accounting for consumption levels equal to those of the A and B Income Segments combined by 2015. The same study calls for household consumption in Brazil of R$3.53 trillion in 2020. This amount should represent 65% of the country's Gross Domestic Product (GDP) by that time. Growing purchasing power among the population will be most evident among the C Income Segment, which is represented by more than 109 million Brazilians and already holds a consumption capacity of R$1 trillion.

For Magazine Luiza, the brand's strength, differentiated services that it offers through subsidiaries, geographic positioning and the current stability of the Brazilian economy make up fundamental elements that support our constantly above-average performance in recent years.

*2013-2014 Scenario: The United States have begun the process of removing monetary stimulus. Tapering has always been expected and currencies are currently adjusting to external fluctuations. If demand in the United States has recovered, this will have a positive impact on companies in Europe, which will in turn drive the European economic recovery – a positive factor for Brazil. Volatility has been the result of the diffusion of information and the coordination process among countries such as Brazil, South Africa, Turkey and India, which are responding to the new economic scenario with the use of monetary policy.

# E2/ clients and product penetration

We have 36 million clients in Brazil and seek to attract an even larger public through our extensive geographic reach. We see enormous potential for sustainable growth, given that our target public is expected to grow by nearly 16 million Brazilians over the next ten years.

To sustain this demand, the Company will continue to open stores organically, at the regions and states where it plans to expand its activities. For 2013 and 2014, we have identified opportunities for opening stores in more than 240 cities throughout Brazil. These priority cities could potentially hold more than 400 Magazine Luiza stores in the long term. Of the 240 cities, 109 are located in the Southeast, 56 in the Northeast and the remainder in Northern, Midwestern and Southern Brazil.

## E3/ internal factors that sustain our growth

### SPECIAL MARKETING CAMPAIGNS

- Children's Day, Mother's Day, Father's Day, Black Friday, Easter and Christmas
- Fantastic Sale, Gold Client Day, Markdown Sales and Only Tomorrow

### STORES MANAGEMENT TEAM

- Increased focus on management and inventory and sourcing efficiency and management of store productivity

### TEAM MOTIVATION

- TV Luiza, Radio Luiza, Luiza Portal, Communion Ritual and training

## E4/ competitive environment and market position

Every Monday, at the beginning of the workday, CEO Luiza Helena Trajano calls her team of employees at the Magazine Luiza's Business Office, in São Paulo, to a meeting that has become known as the "weekly ritual." She begins the meeting with the Brazilian national anthem, followed by the Company's anthem, and ends with a prayer. All employees, at all levels participate with great excitement: "Magazine Luiza stands for my effort and my home." This scene is repeated, as mentioned, on a weekly basis, not only in São Paulo, but in every store, spread over 16 states.

Every morning, store managers motivate their teams before opening doors to clients, in an effort to provide the best service possible. Magazine Luiza provides a number of channels for communication to its employees and team managers, such as Radio Luiza, TV Luiza and the Luiza Portal, which allows for communication with employees from all units, representing an efficient channel for ensuring that all are informed of campaigns, promotions and Company News.

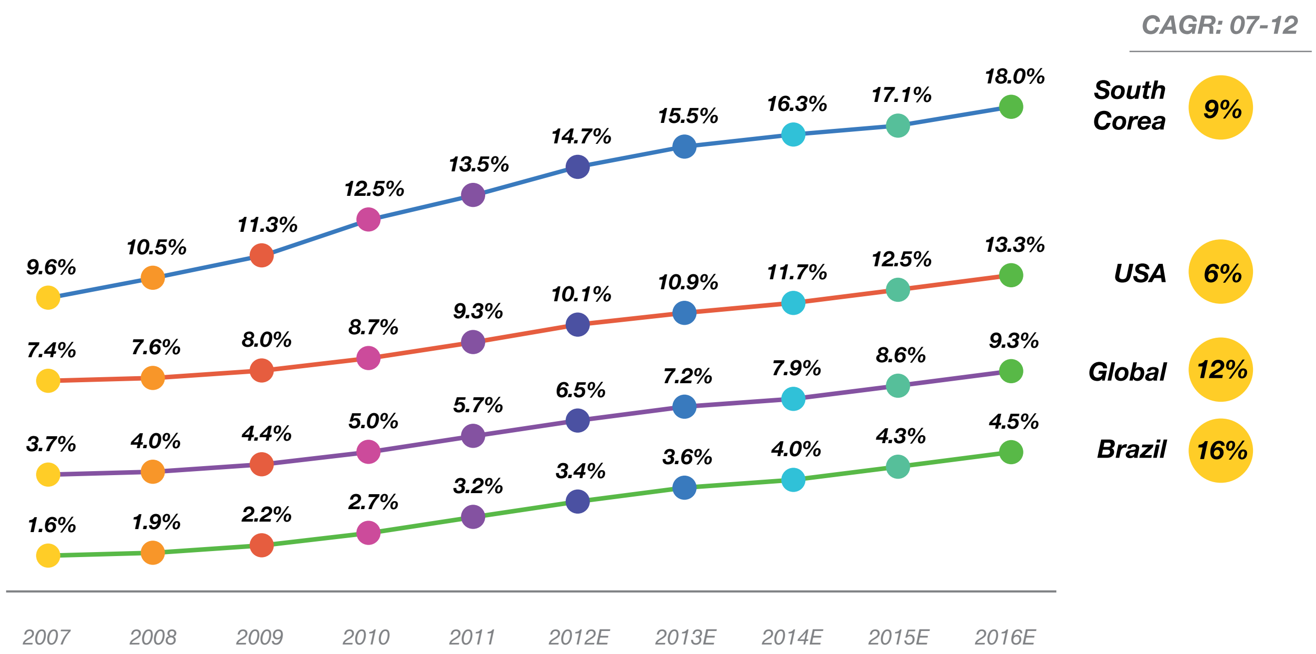
Morning rituals are an excellent example of how Magazine Luiza prepares its teams with enthusiasm for the competition in the Brazilian retail sector. The Company is leader or vice-leader of the various markets in which it operates. The Company monitors competitors' prices on a weekly basis and adjusts its own prices considering the (week's) target margin for each family of products. Our objective is to be competitive, which does not necessarily mean offering the lowest price.

The three largest players in the sector in Brazil account for a combined market share of nearly 50% of the total. The other 50% is held among a series of regional and local players, with a much more limited scale than the three main players. In 2013, Magazine Luiza signed a letter of intention with one of its competitors for the acquisition of 15 stores, 13 of which in São Paulo and two in the state of Minas Gerais.

For this transaction, the Company will pay – upon approval by the Brazilian Anti-Trust Agency (CADE) - a total of R$10.9 million. With the acquisition of these commercial points, Magazine Luiza strengthens its commitment to sustainable growth, while also reinforcing its strategy of consolidating current markets of operation.

## E5/ e-commerce share at retail sales

The growth rate of online channel in Brazil showed a larger increase among internet big markets (as shown at the chart in page 95), with a compound growth rate of 16% between 2007 and 2012. However, the penetration of the Internet on Brazil's total retail sales was only 3.6% in 2013, half the world average and far below the North-American penetration (10.9%). This penetration tends to increase, but the increase will be marginal given structural issues.



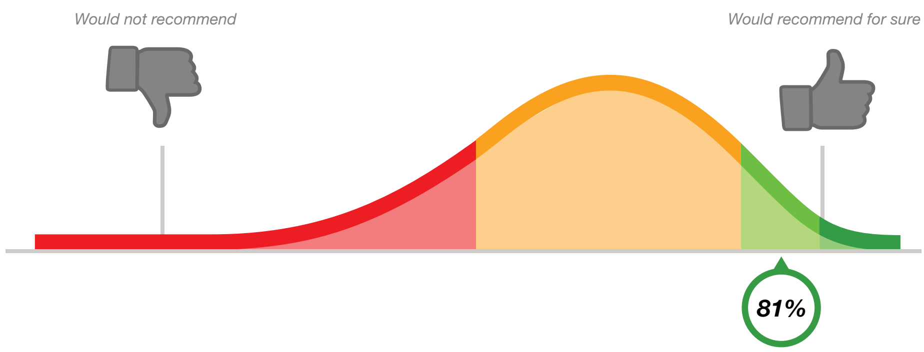

Source: Morgan Stanley Global E-commerce Index

## E-COMMERCE ACCEPTANCE

E-commerce is among the best websites in the area in Brazil in terms of satisfaction rates, according to more than 10 thousand evaluations conducted by e-bit.

***Would you recommend to a friend?***

*Satisfaction index of purchases made at this store relative to the market*
*Month of calculation: 04/2014*




| | | |
|---|---|---|
| Ricardo eletro.com | **Ricardo Eletro**<br>Loja de departamentos | **+ 10.000**<br>Avaliações em nosso site |
| extra.com.br | **Extra.com.br**<br>Loja de departamentos | **+ 10.000**<br>Avaliações em nosso site |
| UltraFarma | **UltraFarma**<br>Saúde, Cuidados Pessoais | **+ 10.000**<br>Avaliações em nosso site |
| magazineluiza.com vem ser feliz | **Magazine Luiza**<br>Loja de departamentos | **+ 10.000**<br>Avaliações em nosso site |
| Walmart | **Walmart**<br>Loja de departamentos | **+ 10.000**<br>Avaliações em nosso site |

GRI

## E6/ political scope: Brasília

We work proactively with the government entities to ensure sustainability, quality and opportunities for improvement in Brazilian retail. Since 2000, we have played an important role in discussions in Brasília, the guidelines of which are fundamental for the best performance and future of the sector in Brazil.

## E7/ my improved home

We have played a fundamental and active role in the development of this program for new home stimulus run by the Federal Government, known as My Improved Home. We have worked closely with members of the President's Staff to establish this new project.

### INSURANCE AND EXTENDED WARRENTIES

Together with the government, retailers and insurance companies, we have worked to develop a series of updates to standards to improve regulations central to the sale of insurance and extended warranties on the retail market, which should become effective in April 2014.

### REVERSE LOGISTICS

We will lead discussions on the development of a new law regarding reverse logistics, set to become effective in 2014, also with the support of the Federal Government.

Our job is to create this process together with other major retail brands in Brazil. Topics of discussion and key questions include: how should reverse logistics work? How should retail participate? How should taxes be levied? (See page 86 for more information on the five-year logistics plan)

### RETAIL DEVELOPMENT INSTITUTE G3 4.13

Magazine Luiza works quite closely with the Retail Development Institute (IDV), since it's foundation in 2004, to improve and promote change in Brazilian retail. The IDV is an initiative led by entrepreneurs and CEOs of the largest companies in the sector in Brazil that works to strengthen retail's representation as one of the largest employers in the entire country. The institute focuses on contributing to sustainable growth in both the sector and the Brazilian economy.

GRI

The Institute's mission is to recognize and respect retail as an economic driver, promoting free competition within legal standards and gradually contribute to the development of Brazil.

For its part, the IDV chose the fight against clandestine sales as a priority in its quest for development and expanding of the sector's direct and indirect employment. At the same time, the entity has also worked to develop studies and proposals that contribute to increase efficiency in retail operations, optimize resources employed and stimulate new investment. The IDV is presided by Mr. Flávio Rocha (CEO at Lojas Riachuelo) and is vice-chaired by Fernando de Castro, from Grupo Saint-Gobain for South America, and Luiza Helena Trajano, from Magazine Luiza.

### MY IMPROVED HOME

Magazine Luiza played an important role in the creation of the housing project My Improved Home, from the choice of products covered by the project, prices, specifications, definition of brands by region and manufacturers, to ethical practices.

My Improved Home involves offering financing lines for the purchase of furniture and household appliances to beneficiaries of the "My Home, My Life" program, in the amount of R$5 thousand. The Federal Government's housing program seeks to ensure that members of the low-income population are able to acquire their own homes, using financial and credit subsidies. The government expects My Improved Home financing to benefit 3.7 million families, which has the potential to represent R$18.7 billion in sales for accredited networks.

The construction of more homes and credit availability mean more opportunities for the Company to sell furniture and household appliances, thereby leveraging consumption potential for a significant portion of repressed demand among the lower-income segments in Brazil. This program may also increase the penetration of essential products among these underprivileged classes, which are still considered low for products such as washing machines, computers, notebooks and digital TVs, among others. Of Magazine Luiza's 36 million clients, 90% are classified as low income and could benefit directly from the Program.

Regarding credit conditions, a significant portion of the market is barred from consumption because of a lack of access to credit or credit terms in line with monthly budgets, often with short financing terms and high interest rates. Currently, more than 2/3 of the low-income population does not have access to a checking account and more accessible credit opportunities.

With subsidized interest rates and longer payment periods, the “My Improved Home” program will fill the gap left by banks and financing institutions, providing a large number of these families – currently shut out of the consumer market - with their first access to credit. We believe that this credit will allow the low-income population to buy essential household products.

While it is not possible to estimate how much this move may represent in repressed demand, we believe that the existing potential is enormous. As such, Magazine Luiza is preparing to benefit from this unique opportunity and leveraging sales. We have a diverse product mix with large shares of household appliances and furniture, which gives us an advantage within the program. We are well positioned and hope to play an important role in the project through our 744 stores distributed among 16 states. In 2013, consumers enrolled in the My Improved Home Program accounted for nearly 1% of our sales.

### THE GOVERNMENT’S ROLE

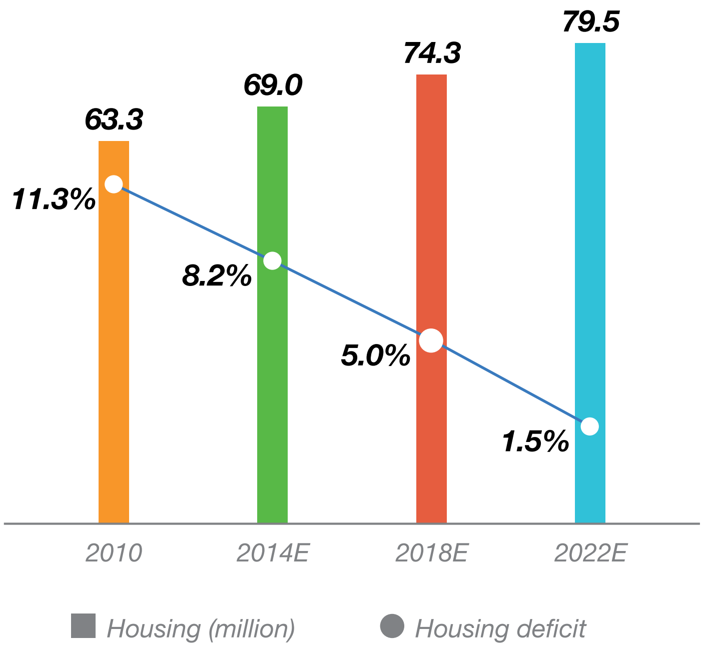
Consumer financing will by conducted by Caixa Econômica Federal, through interest rate subsidies and Treasury financing, passing sales volumes to retailers in single payments. The “My Home, My Life” borrower will request “My Improved Home” credit from a Caixa Econômica Federal branch or by phone at 0800-726-8068 (calls are toll free). After receiving a personalized “My Improved Home” card, with an automatic credit limit of R$5 thousand, borrowers will have one year to utilize the credit, with the ability to execute recurring purchases every four months over the period.

### IMPORTANT FOR THE CONSUMER

Consumers may chose products included in the basket at any store accredited by the program and purchase their products in a single installment with a 5% discount, in accordance with maximum prices established in the table found below. Caixa Econômica Federal passes the sale amount to the retailer as a lump sum, while the consumer pays Caixa Econômica

Federal in up to 48 monthly installments, beginning in the fifth month after the purchase, as a result of the period for credit use.
For more information, go to: http://www.minhacasamelhor.com.br/

*Housing projection*




## E8/ social scope: Heliópolis

**HELIÓPOLIS IS THE SECOND LARGEST COMMUNITY IN LATIN AMERICA.**

Magazine Luiza's concern with people extends to its employees, clients and suppliers. We strengthen our commitment to society by valuing people, which is the essence of our work in Heliópolis marked by the inauguration of our first virtual store in an underprivileged community (see page 57).

Our objective goes far beyond providing consumption opportunities to the more than 70 thousand inhabitants of the community. We are involved in development of this "small city", which covers an area of approximately one million square meters within the city of São Paulo.

***"The Magazine Luiza store benefits the community and its development.***

***The Company isn't just here to make money. The store is a part of this community and works with us to solve our problems.***

***This goes far beyond simply donating a television to a daycare center. They participate in conversations on education, security, women's rights and professionalization of adolescents," Said João Miranda Neto, Founder and Chairman of Honor of the Union of Nuclei, Associations and Societies of residents of Heliópolis and São João Clímaco.***

***We found Luiza and saw that their values were very similar to ours, in addition to valuing people and seeking to improve their quality of life. We believe that this store will strengthen our community."***

Our operations in the community exceed material support and seek to increase participation in social actions that include free courses and aid to stimulate youth to return to school.

Even before the opening of our virtual store in the community of Heliópolis, in August 2013, we had already worked with residents to extent our social contribution into developing the neighborhood.

Social commitment is one of our beliefs. We are firm believers that our success is the result of the people that play a role in our history.

## E9/ our employees: together, we are better

Our employees are our greatest asset. Everyday, they "play on our team" and participate in the growth of Magazine Luiza. To ensure the development and retention of these talents, we seek ways to motivate our workforce, which is currently made up of more than 24 thousand members.

In 2013, we developed and launched the "Together, We Are better" campaign, which guided motivational principles for managers of stores from Southern to Northeastern Brazil. The campaign gained traction in the city of Atibaia, in the state of São Paulo, in the month of November, when more than one thousand employees participated in our annual event of strategic positioning.

POSICIONAMENTO ESTRATÉGICO 2013
JUNTOS SOMOS MAIS

We call attention to the importance of employees in the Company's results, recognize stores with the best performance, value achievements and challenges that have been overcome during the year and are preparing our entire team for 2014, when, for the second time in history, Brazil will host the World Cup. The first World Cup to be held in Brazil took place in 1950.

As such, in the spirit of soccer teams, we have invited stars and former members of the Brazilian National Soccer Team, including Marcos Evangelista de Morais, known as Cafu, and Raí Souza Vieira de Oliveira, or Raí, to inspire and talk about leadership and how to win as a team.

We are firm believers that motivation, leadership, information, involvement and engagement make up the ingredients of our success and talent retention. Together, we have build a particular culture shared by all and in which respect and attention and care for people are guiding forces.

The very nature of our operations makes the group an important generator of formal employment. In accordance with IDV (Retail Development Institute) data, the retail sector is the second largest employer in Brazil, following the government. In addition to its nearly 22 thousand direct employees, Magazine Luiza hired a total of 354 temporary employees in 2013, which joined the Company's payroll from October to January. LA1

| Number of employees* by category/region | 2012 | 2013 |
|---|---|---|
| | **Northeast** | |
| Learners | 100 | 117 |
| Interns | 4 | 2 |
| Managers and Supervisors | 312 | 430 |
| Non managing positions | 3,873 | 4,107 |
| | **Midwest** | |
| Learners | 19 | 22 |
| Interns | - | - |
| Managers and Supervisors | 37 | 39 |
| Non managing positions | 451 | 530 |
| | **Southeast** | |
| Learners | 281 | 362 |
| Interns | 40 | 38 |
| Executives and senior managers | 19 | 22 |
| Managers and Supervisors | 1,196 | 1,261 |
| Trainees | 14 | 13 |
| Non managing positions | 10,965 | 12,216 |
| | **South** | |
| Learners | 139 | 164 |
| Interns | - | - |
| Managers and Supervisors | 438 | 448 |
| Non managing positions | 3,810 | 4,428 |

* In 2013 this indicator includes Luizacred employees. In 2012 these information were not included.

| Employees who left the job (turn over) | 2012 | 2013* |
|---|---|---|
| | Gender | |
| Men | 3,948 | 5,155 |
| Women | 2,982 | 4,621 |
| | Age | |
| Until 30 | 4,327 | 6,111 |
| from 30 to 50 | 2,471 | 3,493 |
| > 50 | 132 | 172 |
| | Unit | |
| Franca Office | 25.69% | 25.14% |
| São Paulo Office | 17.71% | 20.85% |
| João Pessoa Office | -** | 23.03% |
| Distribution centers | 48.64% | 37.64% |
| Stores | 46.88% | 46.95% |
| E-commerce | 41.22% | 35.69% |
| Luizacred | 48.90% | 39.22% |

G3 LA2

*In 2013 this indicator includes the Maia units (Northeast), where there are stores, distribution centers and João Pessoa office.
** In 2012 Northeast activities were not included because the integration of Lojas Maia was made gradually throughout 2012.

Changes in values between years are mainly due to the complete integration of Lojas Maia, which began to affect indicators in 2013. LA13

| Staff composition according to category, and gender* | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| Categoria | Female | | Male | | % Female** | | % Male** | |
| Learners | 273 | 295 | 266 | 370 | 2.63% | 2.39% | 2.35% | 3.12% |
| Interns | 20 | 25 | 24 | 15 | 0.19% | 0.20% | 0.21% | 0.13% |
| Trainees | 6 | 5 | 8 | 8 | 0.06% | 0.04% | 0.07% | 0.07% |
| Non managing positions | 9,316 | 11,049 | 9,783 | 10,232 | 89.76% | 89.62% | 86.43% | 86.20% |
| Managers and Supervisors | 761 | 951 | 1,222 | 1,227 | 7.33% | 7.71% | 10.80% | 10.34% |
| Executives and Senior Managers | 3 | 4 | 16 | 18 | 0.03% | 0.03% | 0.14% | 0.15% |

*In 2013 this indicator includes Luizacred employees. In 2012 these information were not included.
**Percentage on total number of employees.

| Staff composition according to category and race* | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Asian** | | **White** | | **Indian** | | **Black** | | **Mixed-race** | | **Not informed** | |
| Learners | 1 | 4 | 342 | 509 | 1 | - | 28 | 38 | 166 | 114 | 1 | - |
| Interns | - | - | 36 | 37 | - | - | 1 | 1 | 7 | 2 | - | - |
| Trainees | - | - | 11 | 13 | - | - | - | - | 3 | - | - | - |
| Non managing positions | 105 | 125 | 12,091 | 14,599 | 35 | 35 | 900 | 980 | 5,954 | 5,530 | 14 | 12 |
| Managers and Supervisors | 7 | 8 | 1,451 | 1,557 | - | - | 50 | 54 | 472 | 555 | 3 | 4 |
| Executives and Senior Managers | - | - | 18 | 20 | - | - | - | - | 1 | 2 | - | - |

*In 2013 this indicator includes Luizacred employees. In 2012 these information were not included.

| Staff composition according to category and age* | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **25 years old or below** | | **From 26 to 34 years old** | | **From 35 to 44 years old** | | **From 45 to 54 years old** | | **55 years old and above** | |
| Learners | 539 | 663 | - | 2 | - | - | - | - | - | - |
| Interns | 40 | 39 | 4 | 1 | - | - | - | - | - | - |
| Trainees | 10 | 10 | 4 | 3 | - | - | - | - | - | - |
| Non managing positions | 5,660 | 6,408 | 8,009 | 8,839 | 3,719 | 4,121 | 1,477 | 1,619 | 234 | 294 |
| Managers and Supervisors | 128 | 123 | 889 | 1,006 | 662 | 725 | 269 | 279 | 35 | 45 |
| Executives and Senior Managers | - | - | 2 | 4 | 9 | 11 | 6 | 5 | 2 | 2 |

*In 2013 this indicator includes Luizacred employees. In 2012 these information were not included.

| Staff composition according to education level | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| **Category** | **High School or below** | | **College (uncompleted)** | | **College (completed)** | | **Graduation or above** | |
| Learners | 536 | 663 | 3 | 2 | - | - | - | - |
| Interns | 18 | 19 | 24 | 20 | 2 | 1 | - | - |
| Trainees | 1 | - | 2 | 2 | 11 | 11 | - | - |
| Non managing positions | 17,310 | 19,414 | 866 | 860 | 846 | 928 | 77 | 79 |
| Managers and Supervisors | 1,192 | 1,313 | 319 | 328 | 404 | 463 | 68 | 74 |
| Executives and Senior Managers | - | - | 5 | 4 | 9 | 11 | 5 | 7 |

| Team composition according to time at the Company | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Less than 2 years | | From 2 to 5 years | | From 6 to 10 years | | From 11 to 15 years | | From 16 to 20 years | | More than 20 years | |
| Learners | 539 | 665 | - | - | - | - | - | - | - | - | - | - |
| Interns | 43 | 40 | 1 | - | - | - | - | - | - | - | - | - |
| Trainees | 14 | 13 | - | - | - | - | - | - | - | - | - | - |
| Non managing positions | 10,486 | 10,481 | 6,201 | 7,911 | 1,695 | 2,121 | 452 | 443 | 182 | 229 | 83 | 96 |
| Managers and Supervisors | 234 | 81 | 645 | 783 | 602 | 763 | 299 | 287 | 127 | 175 | 76 | 89 |
| Executives and Senior Managers | 2 | 2 | 5 | 7 | 5 | 6 | 2 | 2 | 4 | 4 | 1 | 1 |

## EMPLOYEE BOARD

Employee Board, created in 1995, in order to safeguard the Company's values and guarantee equal rights to all employees. All conventional and virtual stores, distribution centers and offices have their own board, made up of at least one representative elected by the employees of each sector for a one year term. The numbers are quite significant: 8.3% of employees are board members. LA13

## CORPORATE GOVERNANCE GROUPS COMPOSITION BY GENRE

| Board | Female | Male | % Female* | % Male* |
|---|---|---|---|---|
| Employee Board | 1,109 | 724 | 10.58% | 6.27% |
| Administration Board | 2 | 4 | 0.01% | 0.04% |

*Luizacred information is included.

## CORPORATE GOVERNANCE GROUPS COMPOSITION BY RACE

| Board | Asian | White | Indian | Black | Mixed-race | Not Informed |
|---|---|---|---|---|---|---|
| Employee Board | 10 | 1,178 | 5 | 89 | 548 | 3 |
| Administration Board | - | 6 | - | - | - | - |

*Luizacred information is included.

### CORPORATE GOVERNANCE GROUPS COMPOSITION BY AGE

| Board | 25 years old or below | From 26 to 34 years old | From 35 to 44 years old | From 45 to 54 years old | 55 years old and above |
|---|---|---|---|---|---|
| Employee Board | 476 | 862 | 371 | 112 | 12 |
| Administration Board | - | - | 1 | - | 5 |

* Luizacred information is included.

### CORPORATE GOVERNANCE GROUPS COMPOSITION BY EDUCATION LEVEL

| Board | High School or below | College (uncompleted) | College (completed) | Graduation or above |
|---|---|---|---|---|
| Employee Board | 1,661 | 96 | 73 | 3 |
| Administration Board | - | 1 | 2 | 3 |

* Luizacred information is included.

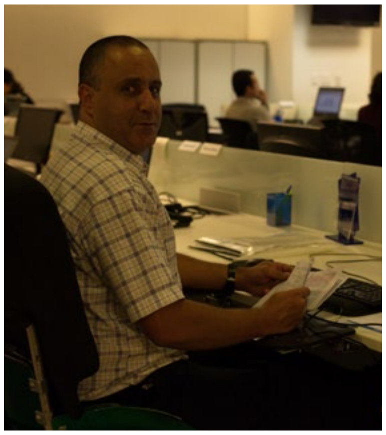
### CORPORATE GOVERNANCE GROUPS COMPOSITION BY TIME AT THE COMPANY

| Board | Less than 2 years | From 2 to 5 years | From 6 to 10 years | From 11 to 15 years | From 16 to 20 years | More than 20 years |
|---|---|---|---|---|---|---|
| Employee Board | 574 | 1,022 | 187 | 26 | 18 | 6 |
| Administration Board | - | - | - | - | - | 4 |

* Luizacred information is included.

## E10/ inclusion program

To value people and always put them first, the Company works to build a truly inclusive culture that permeates all units and places questions of diversity on the forefront. In 2013, the Company continued its Program for Inclusion of the Handicapped, developing a series of communication and relations actions among the internal public to provide full support to the project's guidelines and goals, in an effort to raise awareness regarding inclusion of the disabled.



The Inclusion Program was one of the most important in the year for the Company, structured by the Sustainability area as follows: 1) the Board of Executive Officers governs all fronts of operation and coordinates management meetings and meetings with executives on a monthly basis to control the program; 2) strategic publics and relationships involved, regional sales managers and internal people management consultants spread information to the field, given the Company's reach, spread throughout the country; 3) internal communication channels (Radio Luiza, TV Luiza and the Luiza Portal) are utilized extensively to spread program content and strategy; 4) control points for involving leaders of permanent actions.

Early actions sought to train and raise awareness among teams. The Inclusion Program was made official during the 2013 Strategy Seminar, the most important event of the year, which brings together more than one thousand of the Company's leaders for two days at a hotel in São Paulo.

## ACCESSIBILITY

Internal communication channels are also handicapped accessible, such as TV Luiza, which began to use Brazilian Sign Language (Libras) windows in its programming. The Luiza Portal also launched an Inclusion Program hotsite, which is completely handicapped accessible and contains essential information on the program, while the e-learning portal (Portal do Saber) was also adapted to offer courses for the visually impaired.

## INCLUSION AWARD

The Strategic Seminar also created and delivered the Inclusion Award, recognizing a regional manager that complied with corporate inclusion quotas and spread best practices that could motivate other regions.

## VIDEO DOCUMENTARIES

To raise awareness among the internal public regarding this theme, Magazine Luiza developed two video documentaries. Transmitted during the Strategic seminar and during all of the Company's training programs thereafter, the videos seek to aid in creating a culture

GRI

that values and welcomes diversity. The first video presents the Company's positioning on an inclusive society, emphasizing the value of people and diversity, with testimonials by handicapped employees or the Company's executives. The second, entitled "My Child is Special," tells the stories of employees with children or family members with some sort of handicap and examples from their lives.

## I AM EFFICIENT

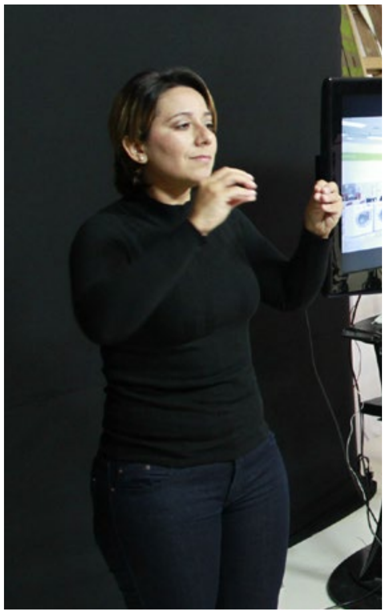
Together with these actions, the Company developed yet another internal campaign – "I Am Efficient" – via Radio Luiza and TV Luiza. On Radio Luiza, the campaign presented 26 tips regarding how to interact with the handicapped, reproduced 2,115 times. Furthermore, the Company created 13 audio spots with testimonials from handicapped employees, allowing them to lead by example. On TV Luiza, the Company showed five stories in 2013.

## RESULTS

Communication with the internal public has played an important role not only in meeting hiring goals, but, more importantly, in raising awareness among the people that will welcome these new members, helping to integrate and maintain them in the Company, thereby creating a truly inclusive culture. In 2013, Magazine Luiza trained more than 700 leaders on how to receive and select handicapped employees, to ensure they were ready to hire professionals with this profile. This type of training is of the utmost importance to the project, given that these leaders are in charge of units that are the main force for employment within Magazine Luiza. The Company closed 2013 with a total of 793 handicapped employees, a 200% increase in employees with this profile.

## INTEGRATION

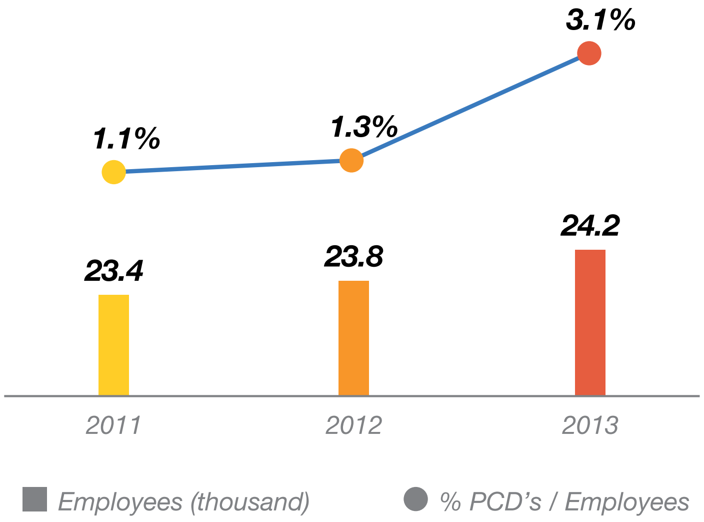
The entire team is involved in the process of integrating a handicapped employee, which is completely monitored by the store manager and HR consultant. Upon hiring a handicapped individual, Magazine Luiza's Personnel Management area asks that the team verify if the environment is adapted for the deficiency in question. The Company provides all support necessary to ensure a calm adaptation to the work routine at stores, CDs and offices, providing software for the visually impaired, Brazilian Sign Language (LIBRAS) courses for units that will welcome the deaf to their teams and accessibility for the physically handicapped.



On their first day on the job, the manager gives a tour to the handicapped employee, presenting restrooms, break rooms, obstacles, etc. The same as all other employees, the new handicapped employee is informed of the Company's policies, values and practices, in addition to participating in group alignment such as Morning Meetings, Communion Ritual, TV Luiza and Training. In the case of deaf employees, all material is adapted to include illustrations, visual resources or even Brazilian Sign Language (LIBRAS).

## DEVELOPMENT

On the e-learning portal (Portal do Saber), the Company developed a training track for handicapped employees. They are required to watch these video classes during their first week at work, ensuring they are best prepared to begin their activities. Sixty-nine employees completed the entire distance-education training track and, as a reward, were presented with an exclusive backpack and mug from the Company's Inclusion Campaign.



# E11/ culture, ethics and values reflected in stakeholder relationships

One of our greatest differentials is our culture. It helps to set us apart in the eyes of our employees, clients, suppliers, investors and competitors and plays an essential role in Magazine Luiza's growth. Our culture is so important that it leads the Company to chose employees, third parties and suppliers that share similar values.

As a part of our strategy for strengthening the Company's culture, Magazine Luiza promotes the integration and training of hundreds of stakeholders every year. We organize lectures and meetings with important directors and show videos with testimonials and the Company's history that represent the Luiza Way of Being (page 76).

We also apply the values of our culture to decisions and the definition and execution of our work. In the retail sector, the interdependent relationship between commerce and industry is quite strong and can be healthy for both parties, if each considers that gains come from a fair price to the consumer, fair gains for workers and fair gains for both partners. It is this "win-win" concept – everyone wins and develops, thereby contributing to the country's development as well.

## TRAINING

Initiation training is conducted at Stores, Offices and distribution centers. For new stores, training lasts 15 days and is held at the São Paulo Business Office. New employees receive material for taking notes and printed content that presents the Company's culture – in addition to meeting Executive Officers and Managers of several different areas. The timetable of this period includes the knowledge necessary to develop technical and operational skills to perform their functions. After this period, employees begin a "practical internship" at stores. Equally as important, emotional aspects and "dealing" with conflict are also developed by a psychologist. For existing stores, each leader is responsible for the integration of new employees. At distribution centers and offices, this training lasts 1 day and is focused on presenting the Culture, Business and structure of Magazine Luiza. After training has ended, each area takes over the practical internship of the new employee corresponding with the position to be assumed.

| *Category* | *Total number of employees** | *Average training hours per employee 2013*** |
|---|---|---|
| Directors, top managers, managers, coordinators (DCs, stores and offices) | 3,274 | 9.28 |
| Analysts and technicians (DCs, offices), sales persons, support, assemblers, checkers | 20,204 | 6.72 |
| Trainees and probationers | 53 | 199.74 |
| Learners | 665 | 4.75 |
| *Overall total* | *24,196* | *220.52* |

* The total number of employees includes the total employees including Luizacred.
** The methodology used in the calculation of the Table published in 2012 on the average training hours per employee has changed. Therefore, the Company chose to report only the data from 2013.

In 2013, the Company launched three self-development courses on its E-Learning Portal: The Monk and the Executive, Highly Developed Professional and A Baby on the Way – provided to employees free of charge and focused on professional and/or personal improvement. In all, the E-Learning Portal provides a total of 230 (active) courses, divided among 6 areas: Evaluation, Commercial, Integration, Processes, Leadership and Self-Development. This distance-learning model is constantly undergoing an increase in employee adherence, with a total of 97,606 courses taken for a total of 74,385 training hours in 2013. Coaching through an external team is offered to employees in leadership positions that require rapid development as a result of internal succession processes, new projects or for other reasons. Other interested professionals may request short-term coaching, offered by the Personnel Management Team. The Manager Development program works to prepare these professionals to face the daily challenges of managing stores and posting results, training them in processes and developing leadership skills. LA10

In addition to continued accounting of training in 2012, the Company gave each employee a Training Kit from the "10 Star Service" Sales Program, in order to strengthen Service Culture through weekly training at these units. In a unique, dynamic manner, Regional stores were the stage for On-site Product Training, known as a "joint effort," for which 2 employees from each store were selected to participate in training, thereby reaching a public of 4,671 salespersons.

In 2013, training actions included Training of Northeastern Leaders, training of office leaders in Franca and logistics training (Louveira distribution center). In addition to training mentioned above, the Company also conducted training of Internal Personnel Management Consultants to develop job-specific knowledge. LA10

## PERFORMANCE EVALUATION

360° Evaluation*: conducted annually, this evaluation allows superiors, peers and teams to evaluate their leaders, who also undergo self-evaluations. At the end of the process, professionals receive feedback and must create an action plan to improve the skills for which they received low scores. Evaluated skills include: strategic orientation, results orientation, process orientation, team leadership, client focus, technical knowledge and commitment to the Company's values.

Magazine Luiza seeks to implement the individual performance evaluation at offices and administrative areas by the end of 2015. LA12

| Total number of employees | 2012 | 2013 |
|---|---|---|
| | 21,698 | 21,905* |

| Total number of employees receiving formal skills monitoring (360o) | 2012 | | 2013 | |
|---|---|---|---|---|
| | Absolute number | Percentage (that received monitoring) | Absolute number | Percentage (that received monitoring) |
| | 1,131 | 5.21% | 1,394 | 6.36% |
| | By Gender | | By Gender | |
| | Male | Percentage (that received monitoring) | Male | Percentage (that received monitoring) |
| | 663 | 3.06% | 714 | 3.26% |
| | Female | Percentage (that received monitoring) | Female | Percentage (that received monitoring) |
| | 468 | 2.16% | 680 | 3.10% |

* The total number of employees does not include Luizacred employees.

To make this vision official, since 2000, Magazine Luiza has been signing a partnership letter with its suppliers, in which all business aspects are negotiated, thereby guaranteeing the harmony required for year-long planning in a highly transparent relationship. This practice contributes to professionalization and improved procedures, reducing the risks of badly planned production, which could be harmful to both parties.

To further solidify this commitment, as of 2010, all of the Company's contracts began to include a specific clause regarding Social and Environmental Responsibility that guarantees that through Magazine Luiza's expansion, each new unit opened increases the city's economy, not only by generating jobs and paying taxes, but also through providing different services required by the community in question. One of these services is manual labor to build/remodel commercial points where the Company plans to install a new store.

Upon taking note that certain contractors were failing to consider the quality of life conditions of their workers, Magazine Luiza's Expansion Department began to adopt a Letter of Ethics, signed by the contractor, in all of its hiring as of 2004. This letter contains the requirements and criteria necessary to ensure the best treatment of workers and compliance with labor laws.

With this, the Letter of Ethics became a requirement in all new hiring. This measure clarified Magazine Luiza's positioning, adopting and defending best practices for valuing all people, as well as influencing its partners to carry themselves in a similar fashion.

# CORPORATE governance

## F1/ concept and actions G3 4.1

In 2013, two themes came to the forefront in discussions involving matters of Corporate Governance at Magazine Luiza. The first refers to the structure of a plan of succession for major executives. Magazine Luiza believes that establishing a plan of succession is essential to the longevity of companies, in addition to maintaining the plan updated by the Board of Directors. This plan is currently under development. The second theme added to the agenda was the Integrated Report. While this discussion is still in its infancy at Magazine Luiza, it is important to point out that there has been a great deal of reflection on the adoption of this model for corporate reports. The structure of this newly proposed report was approved at the end of 2013 by the International Integrated Reporting Council (IIRC).

According to information provided by the IIRC, this report is “essential to integrated thinking... and seeks to increase responsibility for – and management of – an extensive base of capital (financial, manufactured, intellectual, human, social, relations and natural) and promote an understanding of the interdependency thereof”.

## F2/ novo mercado, the best in governance

Magazine Luiza’s choice to list its securities on the Novo Mercado Listing Segment in 2011 provided the opportunity to adopt a unique governance model within the organization.

As stated by BM&FBovespa, “the Novo Mercado Listing Segment pushes companies to the highest level of corporate governance,” achieving the levels of transparency and governance demanded by investors.

In addition to all terms laid out in Brazilian Corporation Law, the General Shareholders’ Meeting is considered a sovereign body, with exclusive power to elect or remove, at any time, members of the Board of Directors and Audit Board. The Board is also vested with the authority to rule on other matters that directly or indirectly involve Magazine Luiza, such as an increase or decrease of capital stock; any financial restructuring; M&A, spin-off, incorporation, dissolution and liquidation of the corporation.

The process for implementation and formalization of best practices at Magazine Luiza began in 1992, with the preparation of the Code of Ethics and Conduct, periodically updated by the Ethics Committee, which was instituted in 2010.

Between 2011 and 2012, the Company perfected the work of the Board of Directors and the Audit and Risk Council, which expanded its operations in 2013. During the same fiscal year, the Finance Committee and the Audit Board, created by the General Shareholders' Meeting, completed their first year of activities.

In 2013, the Company conducted an annual Code of Conduct activity aimed at current employees through electronic signature, using an individual username and password. New employees sign the Code of Conduct upon being hired or via electronic means during the campaign. The new employee's signature on the Code of Conduct during hiring aids in clarifying their rights and duties within the Company. During the month of the campaign in 2013, Magazine Luiza had a base of active employees numbering 24,254 thousand, of whom 97% electronically signed the Code. The remaining 3% had been terminated or were on holiday. S03

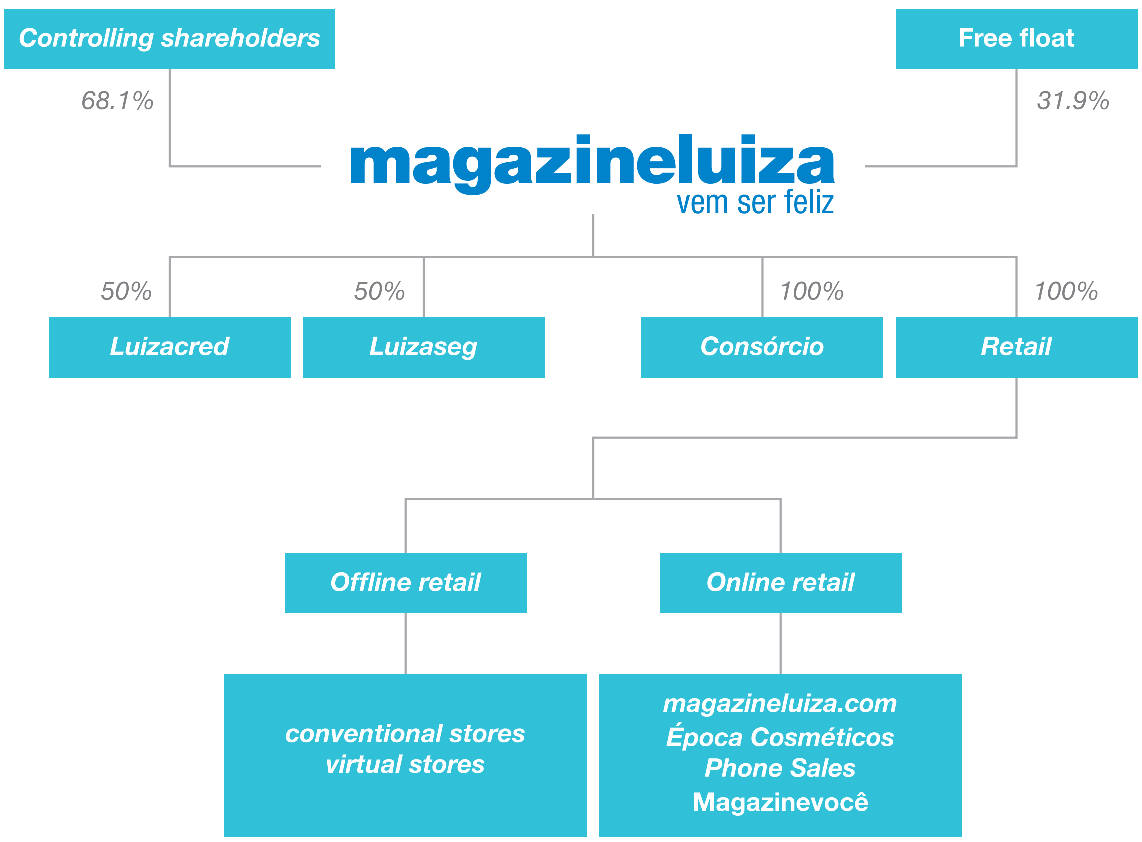
In 2013, there were no changes regarding measures applied in the case of non-compliance with the Code of Conduct. We continued to conduct the same remote audit process, application of sanctions and dissemination of the Code of Conduct. Assessments are conducted by the Internal Audit, Organizational Climate, Legal and Store Operations areas, and penalties include a formal written warning, simple termination or termination with a just cause, applied in gradually escalating severity, in accordance with previously established rules. In 2013, total formal written warnings came to 158, terminations without just cause to 58 and terminations with just cause to 22. S04

## F3/ corporate governance: practices and structure

In addition to all terms laid out in Brazilian Corporation Law, the General Shareholders' Meeting has the exclusive power to elect or remove, at any time, members of the Board of Directors or Audit Board; set total annual compensation for members of the Board of Directors and Board of Executive Officers; resolve on allocation of net income from the fiscal year and distribution of dividends; and amend the Company's Bylaws.

The Board is also vested with the authority to rule on other matters that directly or indirectly involve Magazine Luiza, including an increase or decrease in capital stock exceeding authorized limits; any form of financial restructuring; merger, spin-off, transformation, incorporation or share merger, as well as transfer of a significant portion of assets that would lead to a stoppage of activities; redemption, amortization, splitting or merger of shares or other securities issued by the Company; and distribution of dividends in an amount exceeding the mandatory minimum. G3 2.3

## F4/ organizational chart



## F5/ Board of Directors

The Board of Directors rules on strategic questions in an effort to promote and ensure compliance with the Company's basic objectives, such as adoption of an agile administrative structure comprised of well-regarded professionals and creation of strategic guidelines.

This deliberative body is made up of at least six members, two of which independent, elected by the Shareholders' Meeting for a one-year term.

Our Management is made up of a Board of Directors and a Board of Executive Officers, ruled by the terms of Law 6,404, dated December 15, 1976, also known as Brazilian Corporation Law, and our Corporate Bylaws.

## F6/ Audit Board

The Audit Board is a non-permanent corporate entity that acts independent of management and our independent auditors.

The Board is responsible for oversight of all acts undertaken by management and their legal and statutory duties; quarterly analysis and opinions on financial statements; issuing an opinion on the management report for the fiscal year; and commenting on proposals to be submitted to Shareholders' Meetings regarding modification of capital stock, issuance of debentures or subscription bonuses, investment plans or capital budgets, distribution of dividends, transformations, incorporations, mergers or spin-offs.

The Board is made up of three sitting members and an equal number of alternates, elected by the Company's Shareholders' Meeting for a term spanning from their investiture to the subsequent Annual Shareholders' Meeting.

This Board was installed by the 2012 Annual Shareholders' Meeting, in accordance with legal terms, by the Company's minority shareholders.

## F7/ Audit and Risk Committee

The main duty of the Audit and Risk Committee is to advise the Board of Directors in their oversight of the quality, veracity and integrity of financial statements and other financial reports; the qualification, performance and independence of independent auditors; monitoring of Magazine Luiza's compliance with legal and regulatory requirements; monitoring of activities to manage major corporate risks and respective internal controls for the mitigation thereof.

The Council is made up of three members nominated by the Board of Directors, one of whom must be a specialist in accounting and independent auditing, and all members are elected for term of one year.

## F8/ Finance Committee

The Finance Committee is responsible for advising the Board of Directors on the following issues: definition of the Company's financial policy and planning; analysis of budget guidelines and investment and multi-year plans; indebtedness policies and levels adequate to the Company's activities and monitoring of contractual covenants and guarantees; monitoring of transaction for merger, acquisition and significant investments; definition of policies for financial applications and investments; and supervision of financial risks for Magazine Luiza and the activities of its subsidiaries.

This committee is installed by the Board of Directors and is made up of three financial specialists elected for a term of one year.

## F9/ Code of Conduct

The Code of Conduct is an expression of the Company's commitment to the highest levels of ethics. This Code highlights a set of guidelines for all professional, client, supplier, shareholder and employee relations to strengthen and preserve the business.

This code is valid for all Magazine Luiza employees, include those employed by associated companies. The main themes covered in the Code of Conduct are: conflicts of interests, information security and intellectual property; assets; corporate funds and registration; gifts, presents, favors and other courtesies; community activities; product donation and support for projects and sponsorships; questions of public interest; the environment and family employees.

## F10/ Ethics Committee

The Ethics Committee, created in 2010, is responsible for updating the Code of Conduct, proposing a new flow for internal employee complaints to Customer Services, sanctions and revisions of policies and store procedures.

In 2012, the Company trained employees in the Code of Conduct in 11 operational meetings and 2 meetings with the Executive Committee. The Company also created a set of sanctions to be applied in cases of non-compliance with the Code of Conduct.

Assessments are conducted by the Internal Audit, Organizational Climate, Legal and Store Operations areas, among other operating sectors, and penalties include a formal warning and simple termination or termination with a just cause, applied in a gradually escalating fashion, in accordance with previously established rules.

The Operational Committee is made up of 12 employees and is coordinated by the Culture Department.

GRI

# FINANCIAL
## analysis

# G1/ accounting changes

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
## TO THE MANAGEMENT AND SHAREHOLDERS OF MAGAZINE LUIZA S.A. SÃO PAULO – SP

We have examined the individual and consolidated financial statements of Magazine Luiza S.A. ("Company"), identified as Controller and Consolidated, respectively, that cover balance sheets dated December 31, 2013 and respective statements of income, of comprehensive income, changes to shareholders' equity and cash flow for the fiscal year ended thereon, as well as the summary of major accounting practices and other notes to the financial statements.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Company's Management is responsible for the preparation and adequate presentation of individual financial statements, in accordance with accounting practices adopted in the country, in addition to consolidated financial statements, in accordance with International Financial reporting Standards (IFRS), issued by the International Accounting Standards Board – IASB and accounting practices adopted in brazil, as well as internal controls that the Company deemed necessary to permit the preparation of these financial statements without relevant distortions, independent of causes such as fraud or error.

## RESPONSIBILITY OF INDEPENDENT AUDITORS

It is our responsibility to express an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and international audit standards that require auditor compliance with ethical requirements and that the audit be planned and executed in order to obtain reasonable assurance that the financial statements in question are free of relevant distortions.

Audits involve the execution of selected procedures to obtain evidence regarding the values and disclosures presented in financial statements. The procedures selected depend on the judgment of the auditor, including the evaluation of risks of relevant distortion of financial statements, independent of causes such as fraud or error. In this risk evaluation, the auditor considers relevant internal controls on the preparation and correct presentation of the Company's financial statements to plan audit procedures that are fitting with the circumstances, however does not seek to present an opinion on the efficiency of these internal controls. An audit also includes an evaluation of the adequacy of the accounting practices utilized and the reality of accounting estimates presented by management, in addition to an assessment of the presentation of financial statements as a whole.

We believe that the auditing evidence obtained was sufficient and appropriate to serve as a base for our opinion.

### OPINION ON INDIVIDUAL FINANCIAL STATEMENTS

In our opinion, the individual financial statements in question adequately present, in all relevant aspects, the asset and financial position of Magazine Luiza S.A. on December 31, 2013, the performance of its operations and cash flows for the fiscal year ended on that date, in accordance with accounting practices adopted in Brazil.

### OPINION ON CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements in question adequately present, in all relevant aspects, the consolidated asset and financial position of Magazine Luiza S.A. on December 31, 2013, the consolidated performance of its operations and consolidated cash flow for the fiscal year ended on that date, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB and accounting practices adopted in Brazil.

### EMPHASIS OF MATTER

Individual financial statements were prepared in compliance with accounting practices adopted in the country. In the case of Magazine Luiza S.A., these practices differ from IFRS applicable to separate financial statements merely with regards to the valuation of investments in subsidiaries, associated companies and jointly-controlled companies using the equity method, while, under IFRS, the Company is required to present information on fair cost or value. Our opinion is therefore not reserved as a result of this matter.

As a result of changes to accounting practices adopted by the Company in 2013, corresponding values for the previous fiscal year, presented for comparative purposes, were adjusted and presented once again as determined by CPC 23 (Accounting Practices, Changes to Estimates and Error Rectification). Our opinion does not contain any modifications related to this matter.

## other matters

### STATEMENTS OF ADDED VALUE

We also examined individual and consolidated statements of added value (DVA) for the fiscal year ended December 31, 2013, prepared under the support of the Company's Management and required by Brazilian legislation on publicly held companies and as complementary IFRS information, even though not required. These statements were subject to the same audit procedures described above and, in our opinion, are adequately presented, in all relevant aspects, with regards to financial statements as a whole.

### FINANCIAL STATEMENTS FOR PREVIOUS PERIODS EXAMINED BY ANOTHER INDEPENDENT AUDITOR

Values corresponding to the opening balances on January 1, 2012, presented for comparison and presented once again as a result of changes to accounting practices described in note 2.26, were audited by other independent auditors that issued an audit report dated February 21, 2014, lacking any modification.

São Paulo, february 21, 2014.
ERNST & YOUNG Auditores Independentes S.S. CRC-2SP015199/O-6

## G2/ analysis of results and the allocation thereof

In 2013, the Company posted record net income of R$113.8 million, including the effect of extraordinary results related to the sale of interest in the Louveira distribution center (or R$70.7 million in adjusted net income), versus a loss of R$6.7 million in 2012.

*Results in 2013 serve as a testament to our capacity to present consistently positive results and establish a new level for obtaining improved future profitability.*

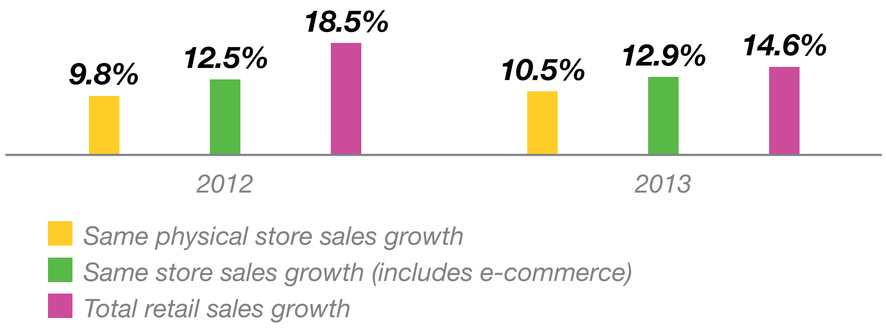
## G3/ gross revenue by channel

In 2013, gross sales grew 14.6% to an approximate total of R$10 billion, driven by same store growth of 12.9% and productivity gains in all sales channels, with greater assertiveness in commercial policy allied with an increase in the contribution of recently inaugurated stores (Maia and Baú). The number of stores at the end of 2013 was 744, stable in comparison with 2012 (opening of 17 new stores and closing of 16).

| *Gross Revenue by Channel (R$ million)* | *12M13* | *V.A.(%)* | *12M12* | *V.A.(%)* | *Growth* |
|---|---|---|---|---|---|
| Virtual Stores | 439.8 | 4.6% | 385.8 | 4.6% | 14.0% |
| Website | 1,403.3 | 14.6% | 1,094.8 | 13.0% | 28.2% |
| Subtotal – Virtual Stores | 1,843.1 | 19.1% | 1,480.6 | 17.6% | 24.5% |
| Conventional Stores | 7,796.3 | 80.9% | 6,937.2 | 82.4% | 12.4% |
| *Total* | *9,639.4* | *100.0%* | *8,417.8* | *100.0%* | *14.5%* |

## G4/ same-store sales

*Same store sales growth* (%)




## G5/ e-commerce revenue

E-commerce sales grew at a compound rate of 35% over the last three years. In 2013, sales reached R$1.4 billion, up 28.2% over the same period last year, accounting for nearly 15% of Magazine Luiza's consolidated sales. If virtual stores were considered also under online sales, their share in the Company's total sales would have reached 21% in 2013, versus 15% in 2010.

## G6/ Luizacred gross revenue

As a result of the elevated growth of Consumer Direct Credit in 2013, offset by the increased average CDI rate in the period, gross revenue from financial intermediation GREW 7.2%, FOR A TOTAL OF R$1.2 BILLION.

| *LUIZACRED - Income (em R$ million)* | *12M13* | *V.A.(%)* | *12M12* | *V.A.(%)* | *Chg (%)* |
|---|---|---|---|---|---|
| Financial Intermediation Revenue | 1,156.6 | 100.0% | 1,079.4 | 100.0% | 7.2% |
| Credit Cards | 617.3 | 53.4% | 654.0 | 60.6% | -5.6% |
| Direct Credit to Customers | 468.4 | 40.5% | 319.3 | 29.6% | 46.7% |
| Personal Loans | 70.9 | 6.1% | 106.0 | 9.8% | -33.1% |

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## G7/ number of clients and products sold

We increased our number of active clients from 8.1 million in 2012 to 9.9 million in 2013, a 27% increase in the total from both years, while the volume of products sold INCREASED FROM 22.7 MILLION IN 2012 TO 26.1 MILLION IN 2013.

| Year | Active | Total | % Active |
|---|---|---|---|
| 2010 | 5,800,099 | 19,153,317 | 30% |
| 2011 | 6,943,860 | 22,619,496 | 31% |
| 2012 | 8,093,076 | 29,865,660 | 27% |
| 2013 | 9,863,307 | 36,527,414 | 27% |

## G8/ main factors

The main factors driving the 2013 result were:

- Productivity gains in all retail sales channels, with a more assertive commercial policy allied with an increase in contribution from recently inaugurated stores (Maia and Baú);
- In 2013, on a comparative basis, gross margin was 28.6% versus 28.4% in 2012. This increase was the result of factors such as an increase in gross margin among stores in Northeastern Brazil and the price management project that sought greater competitiveness;
- Sales, general and administrative expenses grew by a mere 6.7%, versus gross sales increase of 14.6%, resulting in greater operational leverage;
- Record performance by Luizacred, resulting from initiatives adopted throughout 2013, including: an improved mix of sales of consumer direct credit (CDC) and Luiza card and an increase in the sale of credit products among the client base.

## G9/ other operating income (expenses)

| (in R$ million) | 12M13 | % NR | 12M12 | % NR | % Chg |
|---|---|---|---|---|---|
| Gain on sale of assets | 125.4 | 1.6% | (0.8) | 0.0% | ND |
| Deferred revenue recorded | 32.3 | 0.4% | 43.0 | 0.6% | -24.8% |
| Provision for tax liabilities | (40.6) | -0.5% | 12.9 | 0.2% | -414.3% |
| Non-recurring expenses | (19.4) | -0.2% | (25.6) | -0.4% | -24.3% |
| Other | 0.4 | 0.0% | 2.3 | 0.0% | -82.0% |
| **Total** | **98.2** | **1.2%** | **31.7** | **0.4%** | **209.4%** |

In 2013, other net operating income came to R$98.2 million, equivalent to 1.2% of net revenue, driven by the sale of the Company's interest in the Louveira distribution center.

## operating expenses

### PROFIT SHARING PROGRAM (PSP)

Having achieved internal goals in 2013, the Company provisioned for a total of R$22.7 million in 4Q13, equal to 0.9% of net revenue. It is important to note that in the last two fiscal years the Company did not record a PSP provision.

In 2013, selling expenses excluding PSP came to R$1,512.4 million, equal to 18.7% of net income, down 1.2 percentage points, including the effect of the accounting reclassification of INSS by 0.5 percentage points. General and administrative expenses excluding PSP came to R$382.4 million, equal to 4.7% of net revenue, for a 0.5 percentage point decrease , including the effect of the accounting reclassification of INSS by 0.2 percentage points. In 2013, allowances for loan losses came to R$21.2 million, equal to 0.3% of net revenue.

## STATEMENT OF VALUE ADDED* EC1

| | 2012 | 2013 |
|---|---|---|
| ***REVENUES*** | | |
| Sales of goods, products and services | 8,018,476 | 9,157,276 |
| Allowance for loan losses, net of reversals | (23,471) | (21,212) |
| Other operating revenue | 71,539 | 111,623 |
| | ***8,066,544*** | ***9,247,687*** |
| ***INPUTS ACQUIRED FROM THIRD PARTIES*** | | |
| Cost of products, goods and services sold | (5,502,341) | (6,409,093) |
| Supplies, energy, outsourced services and other | (643,244) | (695,961) |
| Loss and recovery of asset values | (17,988) | (18,516) |
| | ***(6,163,573)*** | ***(7,123,570)*** |
| ***GROSS VALUE ADDED*** | ***1,902,971*** | ***2,124,117*** |
| ***DEPRECIATION AND AMORTIZATION*** | ***(92,447)*** | ***(101,958)*** |
| ***NET VALUE ADDED PRODUCED BY THE COMPANY*** | ***1,810,524*** | ***2,022,159*** |
| ***ADDED VALUE RECEIVED IN TRANSFER*** | | |
| Equity income | 18,012 | 54,464 |
| Financial revenues | 47,777 | 69,398 |
| ***TOTAL VALUE ADDED TO DISTRIBUTE*** | ***1,876,313*** | ***2,146,021*** |

* In 2013, Luizaseg and Luizacred companies were not included, due to a change in the consolidation accounting policy. The 2012 figures were adjusted in relation to previously published data in 2012, not covering Luizaseg and Luizacred.

## G10/ EBITDA

| *(in R$ milion)* | *12M13* | *% NR* | *12M12* | *% NR* | *% Chg* |
|---|---|---|---|---|---|
| EBITDA | 476.9 | 5.9% | 258.9 | 3.7% | 84.2% |
| Extraordinary Costs | - | 0.0% | 15.0 | 0.2% | -100.0% |
| Extraordinary Revenue | (126.4) | -1.6% | (5.0) | -0.1% | 2423.3% |
| Extraordinary Expenses | 61.1 | 0.8% | 38.6 | 0.5% | 58.4% |
| Deferred Revenue Adjustment | - | 0.0% | (8.8) | -0.1% | -100.0% |
| ***Adjusted EBITDA*** | ***411.6*** | ***5.1%*** | ***298.8*** | ***4.2%*** | ***37.8%*** |

In 2013, adjusted EBITDA greatly outgrew net sales (37.8% versus 14.5%), reaching a total of R$411.6 million, with a margin of 5.1%. Considering the effect of extraordinary results, mainly gains from the sale of the Louveira (SP) distribution center, EBITDA came to R$476.9 million in 2013, for an EBITDA margin of 5.9% Other factors driving the increased EBITDA margin include excellent sales performance in all channels and dilution of expenses, combined with record performance by Luizacred.

## G11/ financial result

In 2013, adjusted net financial expenses came to R$221.6 million, stable at 2.7% of net revenue in the period.

## G12/ working capital

In December 2013, net working capital fell by half in comparison with 4Q12, for a total of R$101 million, equal to 1% of gross revenue over the last 12 months, in comparison with 2.6% in the same period last year. This decrease from December 2012 is mainly the result of an improvement in inventory turnover and the average purchase period.

At the close of 4Q13, the balance of advanced credit card receivables from third parties in the form of discounted receivables was R$1,186.3 million. Considering the balance of discounted receivables, the need for working capital could increase to 13.3% of gross revenue.

## G13/ cash flow

| ADJUSTED CASH FLOW STATEMENTS | 12M13 | 12M12 |
|---|---|---|
| Cash Flow from Operating Activities | 228.7 | 73.9 |
| Cash Flow from Investing Activities | 53.2 | (148.8) |
| Cash Flow from Financing Activities | (55.5) | 424.0 |
| Change in Cash and Cash equivalents | 226.3 | 349.1 |

Note: the difference between the Statement of Cash Flow and the Adjusted Statement of Cash Flow mainly lies in the treatment of Securities as Cash Equivalents.

We posted cash generation of R$226.3 million in 2013, positively impacted by the sale of assets in the amount of R$205.5 million and new funding of R$411.6 million, as well as operational cash flow of R$228.7 million. Major cash investments in 2013 were: investments (R$146.1 million), repurchase of shares (R$20.1 million), interest expenses with financial debt and discounted receivables (R$100.6 million) and the purchase of Época Cosméticos (R$12.2 million).

## G14/ net debt

| *CONSOLIDATED (R$ million)* | *dec-13* | *dec-12* |
|---|---|---|
| ***(=) Gross Debt*** | ***1,320.3*** | ***1,236.0*** |
| (-) Cash and cash equivalents | 280.3 | 418.9 |
| (-) Current securities | 491.3 | 126.4 |
| (-) Total Cash | 771.6 | 545.3 |
| ***(=) Net Debt*** | ***548.7*** | ***690.7*** |
| Short Term Debt/Total | 32% | 26% |
| Long Term Debt/Total | 68% | 74% |
| Adjusted EBITDA (LTM) | 411.6 | 298.8 |
| ***Net Debt / Adjusted EBITDA*** | ***1.3 x*** | ***2.3 x*** |

As a medium-term goal, Magazine Luiza is focused on reducing its indebtedness levels, lengthening the maturity of its debt, reducing its funding costs, reducing amortization and lowering its refinancing risk.

We are confident in our ability to improve our profile by refinancing our existing debt inventory and increased focus on reducing costs and the use of working capital, among other factors. In December 2013, Magazine Luiza held loans and financing in the amount of R$1,320.3 million, cash and financial investments in the amount of R$771.6 million, for net debt of R$548.7 million, equal to 1.3 times adjusted EBITDA over the last 12 months, for a decrease in the Company's leverage.

The reduction in net debt at the end of December 2013 is the result of improved operating results and a reduction in the need for working capital in the period, as well as the origination of funds from the sale of the Louveira (SP) distribution center in June 2013. With the previous method of proportional consolidation of results, assets and liabilities of Luizacred and Luizaseg, net debt would have come to R$418.6 million, equal to 1.0 times adjusted EBITDA over the last 12 months, versus 2.1 times in December 2012, as stated in previous reports.

## ISSUE OF DEBENTURES

In October 2013, the Company issued debentures in the amount of R$200 million in an effort to lengthen and optimize its debt profile. Debentures were issued in  single series, with a maturity of three years, and will pay interest calculated as of the Issue Date equal to 108.80% of the cumulative change of the average overnight rate (CDI), over extra group, expressed as a yearly percentage, based on a two hundred and fifty-two (252) day year.

## DIVIDENDS

The provisioned amount in 2013 for interest on equity and payment of dividends came to R$31.5 million (the value per share for payment of dividends will be R$0.107358645, to shareholders of record on April 22, 2013, and the value paid per share for interest on equity shall be R$0.065683434, to shareholders of record on February 20, 2014). Dividends and Interest on Equity will be paid on April 30, 2014.

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| | ***Society*** | |
| SO2 | Percentage and total number of business units subject to corruption risk evaluations | The internal audit area evaluates 100% of stores and offices. Distribution centers are visited on a regular basis by internal auditors. In 2013, there was an increase in the use of remote auditing tools, allowing for operations monitoring without the physical presence of an auditor. |
| SO3 | Percentage of employees trained in the organization's anti-corruption policies and procedures. | 116 |
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GRI