

# Luiza's Report

**magazineluiza**  
vem ser feliz





Annual and  
Sustainability Report  
2014

# Contents

06	Message from Management
08	Message from the President
11	About this Report
13	Overview
21	Corporate Governance
25	Business Model
29	Operation Strategy
39	Capitals
57	GRI Index
65	Credits





## Message from Management

G4-1

“Luiza Trajano, founder of Magazine Luiza, with her niece Luiza Helena Trajano.”



## Message from Management

### Growth, Innovation, and Profitability

We have grown more than the Brazilian economy, broken new result records, and won market share, fruit of our strategy that is based on innovation, growth, and profitability.

2014 was the year we reaped the benefits from initiatives and investments made in the past few years. We are committed to the development of the society in general, and especially of Brazil. We always strive to act responsibly and ethically, based on our beliefs and our strategic pillars. For the past 17 years, Magazine Luiza has been one of the best companies to work for in the country according to the “Great Place to Work” survey, which recognizes our excellent work environment. In 2014, we ranked 5th among all economic activities.

The Magazine Luiza brand had its exposure significantly increased in 2014 as a result of the right decision of sponsoring the World Cup in the Globo television network. In addition to the large increase in sales caused by the broad media coverage, we had important market share gains in different categories, and went back to the Interbrands Ranking in the 25th place, with an estimated brand value of R\$366 million.

The excellent performance of our sales division was paramount for the result for 2014. Our purchase planning was very effective, with an appropriate online and offline channel supply throughout the year, particularly in the months prior to the World Cup, and the TV sets line stood out in the period. We managed to have the right products in the right places at adequate amounts and the right time. The performance of our sales division, combined with sponsoring the World Cup and promotional campaigns, including the success of the “An Apartment Building for You” (Prédio pra Você), resulted in a significant growth of 18.7% in sales for the year, reaching R\$11.5 billion in gross income.

We are now focusing on four great themes that will sustain our strategy from now on:

- Growing our multichannel model,
- Expanding our digital platform,
- Digitizing and automating physical stores and integrated distribution centers,
- Increase our business model's profitability and sustainability.

Our robust CRM system has been upgraded every year and now has over 39 million registered clients. This system was developed in-house more than 20 years ago, and has enabled greater efficiency and impact for our promotional actions, especially the excellent work developed with our “gold clients,” which already account for 20% of our income and are extremely loyal to our brand.

Another important addition to our 2014 result came from the performance of affiliates, mainly the equity pickup of Luizacred. Luizacred's net income more than doubled in 2014 to R\$180.8 million (or R\$90.4 million for our 50.0% interest), with return on equity (ROE) of 36.1% for the year. In 2014, Luizacred's equity pickup represented 14.9% of the Company's EBITDA. Our loan portfolio's delinquency indicators continue under strict control. We maintained a very conservative approval policy for new loans in 2014, and it will also be applied in 2015.

We continue to channel our efforts to the Northeast. We have successfully completed the remodeling of 60 stores, most of them in different cities in the Northeast, and opened 24 new stores—14 in the Northeast, and 10 in the South, Southeast, and Central-West. We have plans to invest nearly R\$150 million in 2015, opening up to 50 new stores, half of them in the Northeast.

We are paying attention to inflation pressures, which have significantly impacted our consumers and our business. For the past few years, we have implemented strict cost and expense controls, and introduced internal campaigns and actions so we manage to “Do More with Less.” Last year we moved forward with our project named “Together we are more stores” (Juntos Somos Mais Lojas), which focuses on increasing the productivity and profitability of physical stores by rationalizing and optimizing resources. The benefits of this project will last for the upcoming years.

Our EBITDA margin has been consistently evolving. It rose from 5.1% in 2013 to 6.2% in 2014. In the same period, net income totaled R\$128.6 million in 2014—with a net margin of 1.3%—an increase of 81.8% over the adjusted net income of 2013 (mostly not considering the effect of the sale of interest in the distribution center of Louveira, in the state São Paulo), or of 13.0% over the reported net income for 2013.

Valuing and respecting people are the essence of Magazine Luiza's culture. We seek to ensure human diversity in all aspects, especially when recruiting employees for new stores. Magazine Luiza believes that living with differences contribute to everyone's development and learning. Moreover, we strive to include disabled people and make the Company's environments accessible. With over 1,000 physically disabled people among our employees, we have received for the first time the Aberje award of the State of São Paulo, in the Communication of Corporate Sustainability-Oriented Programs category, in recognition of the evolution of our Inclusion Program.

In over half a century of history, Magazine Luiza has already been through several economic crises and became stronger with each one of them. 2015 is rising as another year of uncertainty for the Brazilian economy and, consequently, the retail industry as a whole. There is also the risk of a possible power and water rationing, whose impacts for the sector are currently unpredictable. We are better prepared today than in the past because we now have a better distributed geographic footprint and a more diversified sales mix than we did in 2001, the year when the country lived its last power rationing. A power and water crisis management committee has been created and is closely monitoring this situation and preparing an action plan to ensure the continuity of our operations.

To keep getting better and better, we count on the strength of our strategic pillars which place people, channels, financial products and services, and corporate governance at the base of our business. We want to thank all our clients, employees, shareholders, suppliers, partners, and the community in general for the trust and partnership during 2014, which has once again allowed for us to meet our goals.

## **The Management**





**<sup>1</sup> Respect, Development, and Recognition:** to us, people come first because they are the strength and vitality of our organization;

**Ethics:** our actions and relations are based on the truth, integrity, honesty, transparency, justice, and common good;

**Simplicity and Freedom of Expression:** we seek simplicity in our relations and processes, respect the opinions of everyone and are open to them, regardless of the position they have in the Company;

**Innovation and Boldness:** We cultivate entrepreneurship in our search for doing things differently, with innovative, bold initiatives and,

**Golden Rule:** do to others what you would like others to do to you.

## Message from the President

### The Digital Cycle and Sustainability of Our Business

The result we achieved in 2014 was possible because we were bold once again. Our decision to sponsor the World Cup on TV network Globo was extremely successful and positively impacted our sales and brand visibility. But none of that would have worked out had we not managed to balance the use of new technologies and our values<sup>1</sup>. We adopted the participative management model, a “win-win policy,” and above all we did not give up on good communication. We always communicate in a transparent and direct manner, in the best face-to-face style.

In 2014, we grew our sales above the market average, both in traditional stores and our e-commerce channels, resulting in market share gains in both channels. Gross sales rose 18.7% to R\$11.5 billion, driven by a same-store sales increase of 17.8%. Our e-commerce grew 33.7%, above the average growth of 25.0% in the online market, according to E-bit.

The digital era is in the spotlight. We are aware of the fast-paced digital evolution that has impacted consumers in different sectors of the economy, and we are paying attention to the top global trends. This rapid transformation agenda poses a huge challenge to us: managing to adapt our physical stores to this new reality. We have increasingly invested in processes and technologies to make the store experience easier and easier for consumers. We have to continue this transformation, and fast, with a well-adapted, structured model, ensuring the sustainable growth of the business.

Innovation was and will continue to be the base for our business. We are now focusing on four great themes that will sustain our strategy from now on:

- Growing our multichannel model,
- Expanding our digital platform,
- Digitizing and automating physical stores and integrated distribution centers,
- Increase our business models profitability and sustainability.

We were once again trailblazers and created a dedicated innovation center: Luizalabs, a start-ups accelerator, in charge of digitizing Magazine Luiza’s stores. Among the top projects developed by Luizalabs’ engineers team in 2014, the following stand out: (1) Clube da Lu (Lu’s Club) app, which promotes daily offers with discounts; (2) multimedia mobile sales app for smartphones, and (3) a product recommendation platform: offers are suggested according to the client’s behavior on our sales channels.

The success of our business is not only made of technology and innovation, but mostly of people—this is one of our beliefs. Patriotism, believing in Brazil, and respecting diversity are values we always cultivate at Magazine Luiza. We support several social and cultural projects in the communities we operate in, valuing and supporting local initiatives, especially the regional culture. Good actions are welcome and always encouraged through the Rede do Bem Project, which gathers and discloses throughout the whole Company social actions developed by employees or units.

Working as a type of social actions multiplier, Rede do Bem allows for employees to send information on voluntary projects they participate in, or register campaigns that support the community or the environment. We are delivering what we promised after completing the integration of the acquired networks. More than ever, we are striving to continue to grow our sales, but in a profitable, sustainable manner.

2015 will be a difficult year for Brazil and, consequently, for retail as a whole, but we are ready to overcome this new challenge and get even stronger once again. We will continue working on and improving our digital model, but we will remain a friendly Company, prioritizing our values. After all, we are a traditional retail Company, with 58 years of history and a strong digital focus: we are truly multichannel.

### **Luiza Helena Trajano**

Magazine Luiza's President





## Awards and Recognition

In 2014, Magazine Luiza was received the following awards and recognitions:

- 🏆 **25th place in the “Most Valuable Brazilian Brands”** ranking of specialized consulting firm **Interbrands**;
- 🏆 **5th place in the “Large Companies” category (with over 1,000 employees)** in the “Brazilian Small to Medium-Sized Businesses” ranking (100 to 999 employees) prepared by the **Great Place to Work Institute (GPTW)**. **Consórcio Luiza** was also featured on the ranking, in the 20th place;
- 🏆 **15th best company to work for in Latin America** in the **Great Place to Work Institute’s** ranking;
- 🏆 **E-Commerce Quality Excellence Award** by **E-bit**;
- 🏆 **One of the 150 Best Companies to Work For** according to a survey by **Guia Você S/A** and **Fundação Instituto de Administração (FIA)**;
- 🏆 **Effie 2014 award, in the “Promotions” category for the “Building for You” campaign**, considered one of the most innovative and boldest in the Brazilian retail;
- 🏆 **2nd place in the “E-commerce store” category** for the 13th Trusted Brands Survey of **Seleções Magazine/Ibope**;
- 🏆 **Winner of the Aberje 2014 Award in the State of São Paulo, in the Communication of Corporate Sustainability-Oriented Programs category**, for the Inclusion Program;
- 🏆 **7th place in the Best Companies for Disabled Workers Award** promoted by the **State Secretariat for the Rights of People with Disabilities** in a partnership with **Fundação Instituto de Pesquisas Econômicas (Fipe)** and consulting firm **i.Social**, which specializes in employability for people with disabilities;
- 🏆 **Certified as one of the 100 Best Companies in Human and Organizational Development**, standing out in the “Transparency” scope.

In 2014, Magazine Luiza’s President **Luiza Helena Trajano** was awarded the following awards and recognitions:

- 🏆 **“Business Personality”** at the **Comandatuba Forum (Bahia)**, promoted by **LIDE – Corporate Leaders Group**;
- 🏆 **“Business Personality”**, appointed by the **Executives** and the **Board of the Brazilian Association of Marketing and Business (ABMN)**;

- 🏆 **Elected, for the 3rd time, as the “Most Reliable Executive in Brazil”** in the 13th **Trusted Brands Survey of Seleções Magazine/Ibope**, and was the leader in the “Executive Personality” category;
- 🏆 **One of the four “Most Admired Executives in Brazil”**, and the only woman awarded in this survey by **Carta Capital** magazine;
- 🏆 **Elected for the second time as chairman of the Retail Development Institute (IDV)**, entity that represents the retail industry in the Federal Government, for a two-year term-of-office; the Institute is composed of the 64 most representative companies in the industry.





## About this Report

GRI G4-18 | G4-19 | G4-20 | G4-21 |  
G4-24 | G4-25 | G4-27



After publishing two reports adhering to the guidelines in the Global Reporting Initiative (GRI), non-governmental organization offering a global standard for corporate sustainability reporting, we realized it was time to move one step forward to a more concise model, enabling the reader to identify in a more direct manner our accomplishments and strategies.

This report is in line with the GRI G4 guidelines and the integrated reporting framework, created based on the methodology proposed by the International International Reporting Committee (IIRC), and is intended to reporting the key developments and accomplishments of Magazine Luiza from January 1 to December 31, 2014.

The process to determine this report’s content included consulting with the main stakeholders<sup>2</sup>, which served as input for the materiality matrix presented below, which in turn supported the selection of GRI indicators.

This report includes our profile, a time line of our history, our sector context, and business model. We have also addressed our corporate governance, performance, and provided a description and performance of the six types of capital (Human capital, Natural capital, Manufactured capital, Financial capital, Intellectual capital, and Social and relationship capital).

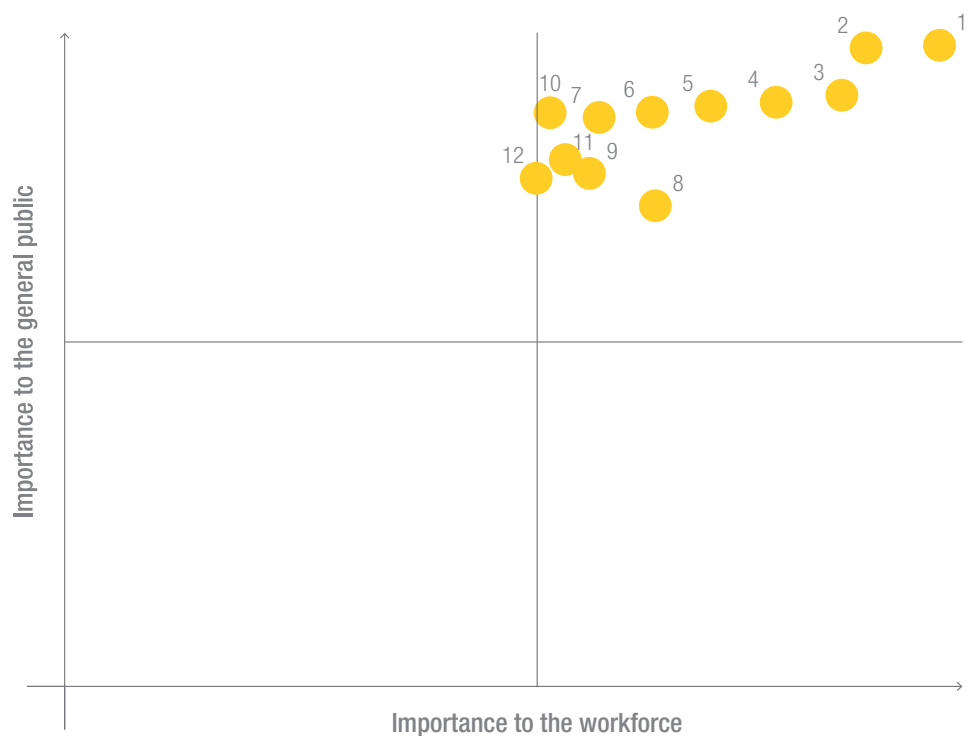
Throughout this document, readers will find links leading to deeper aspects of the Company’s operations, to learn more about our professionals that make the key decisions, access our complete financial results, or learn more about the social projects we support.

The main purpose of this report is to show our commitment to creating long-term value for clients, employees, investors, shareholders, the society, and stakeholders that are somehow impacted by our operations or that have an impact on our businesses.

Material themes:

1. Customer relationship, dialogue, and satisfaction;
2. Capacity to retain the workforce
3. Logistics development in delivery to customers
4. Employee training, education, and development
5. Reduction of the environmental impact at the end of the useful life of products sold
6. Fighting corruption in negotiations and transactions
7. Encouraging good social-environmental practices in the supply chain
8. Promoting products with a better environmental performance and making them available to clients
9. Managing the economic impact by contracting suppliers
10. Financial assistance received from the government
11. Management of waste and effluents produced by the operation
12. Respect for free / fair competition

<sup>2</sup> Stakeholders included employees, suppliers, and sell side investors.





NCIAS  
*digitais*



Overview

## Organization's Profile

GRI G4-3 | G4-5 | G4-6 | G4-7 | G4-8 | G4-9

### Our Mission

Be a competitive, innovative, bold company, always seeking the common good.

Be the most innovative group in the Brazilian retail, offering different product lines and services to Brazilian families. Be present where, when, and how the client wants, in physical, virtual or e-commerce. Always charm clients with the best retail team, differentiated customer service, and competitive prices.

### Our Vision

### Values and Principles

**Respect, Development, and Recognition:** to us, people come first because they are the strength and vitality of our organization;

**Ethics:** our actions and relations are based on the truth, integrity, honesty, transparency, justice, and common good;

**Simplicity and Freedom of Expression:** we seek simplicity in our relations and processes, respect the opinions of everyone and are open to them, regardless of the position they have in the Company;

**Innovation and Boldness:** We cultivate entrepreneurship in our search for doing things differently, with innovative, bold initiatives,

**Golden Rule:** do to others what you would like others to do to you.

We are Magazine Luiza S.A., a retail chain with 58 years of operations whose core business is the sale of durable consumer goods. We also have operations in the credit (Luizacred) and insurance (Luiza-seg) markets, with the purpose of generating additional revenue and support our core business.

We have more than 39 million clients registered with our database, and over 24,000 employees to do what we enjoy the most: help clients make their dreams come true.

In 2014, we served our customers in 756 stores located in 16 states, and on our website, which allows us to meet orders across the whole country. To support our sales force, we have our headquarters in Franca (São Paulo), a business office in São Paulo (São Paulo), another in João Pessoa (Paraíba), and eight distribution centers fully integrated and aligned with our physical and online operations.

### Strategic priorities for the sustainability of our business

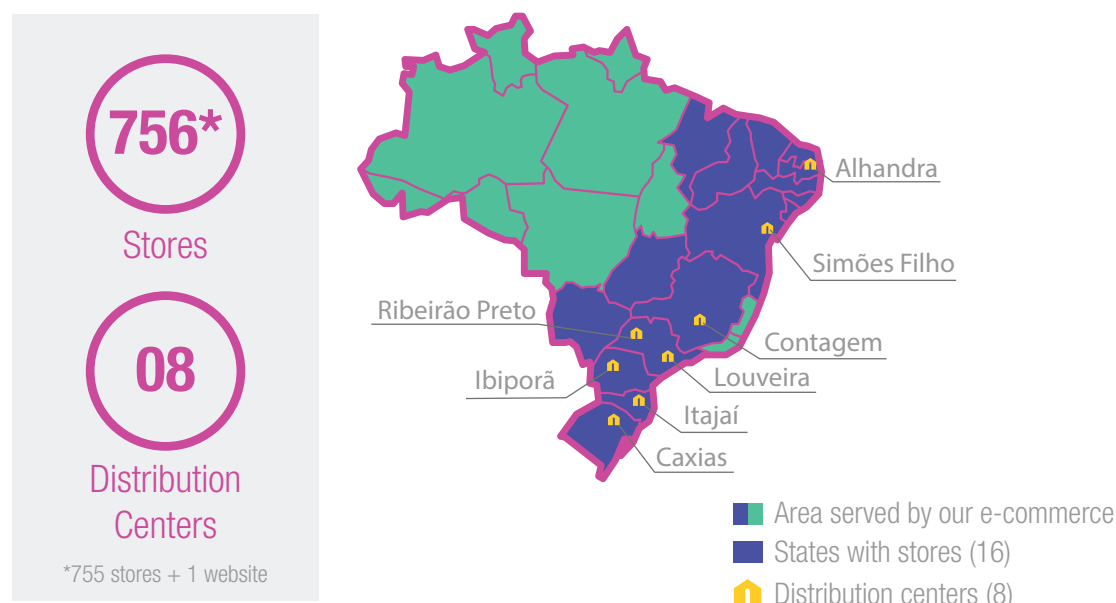
GRI G4-1

We adopt the following principles to ensure the longevity of our business:

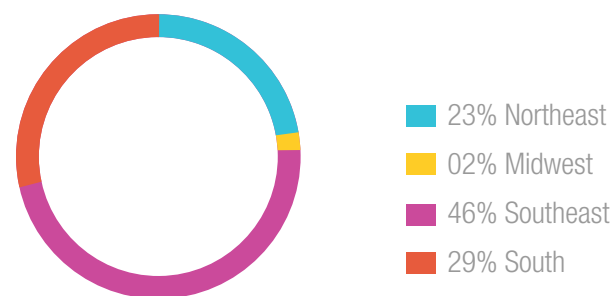
- Transparency in negotiations
- Valuing people
- Contributing to the communities where we operate
- Customer and employee satisfaction

Our long-term growth outlook is based on these principles that guide our decision-making processes.

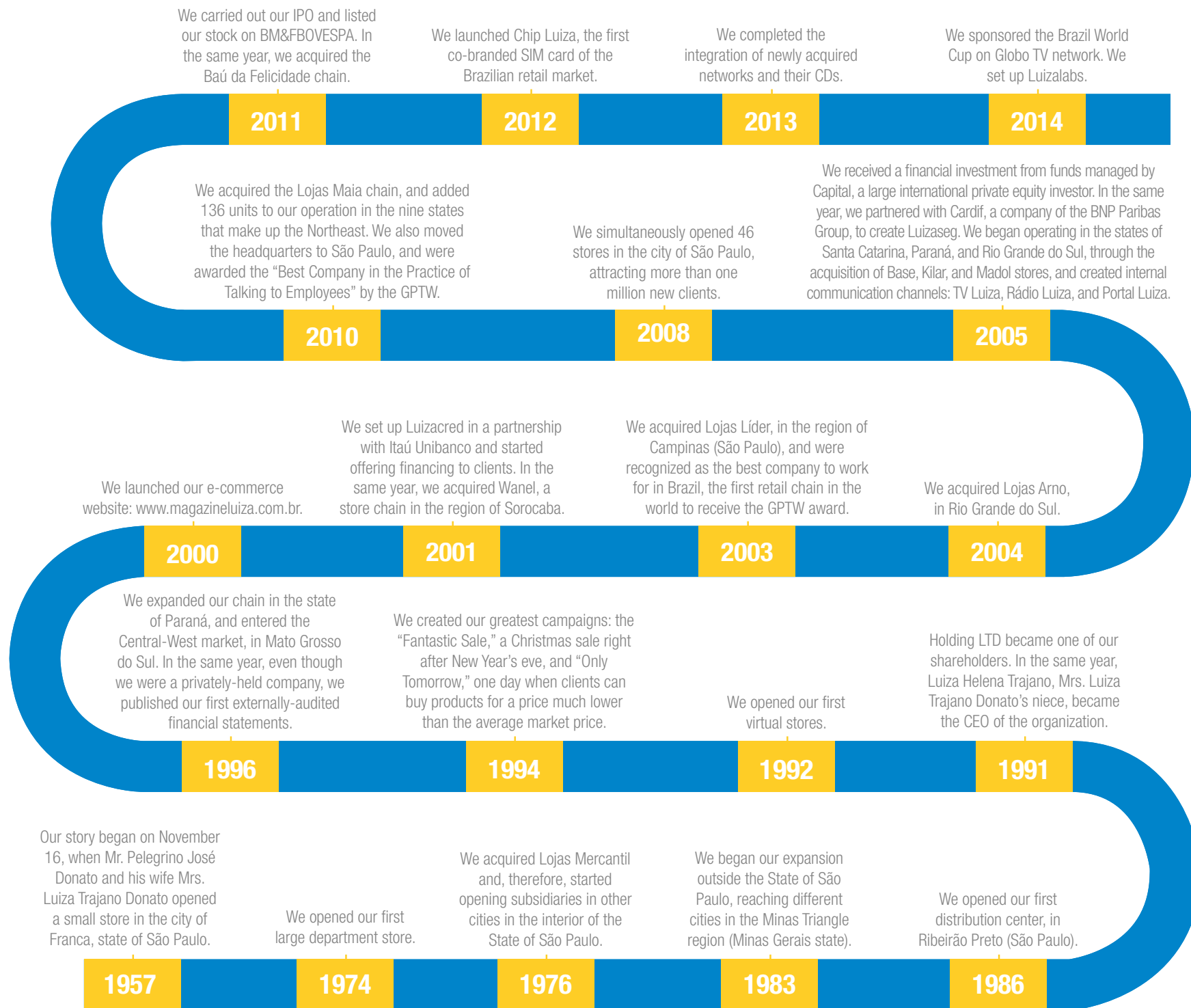
## Geographic Footprint



## Stores by region (%)



# Our History



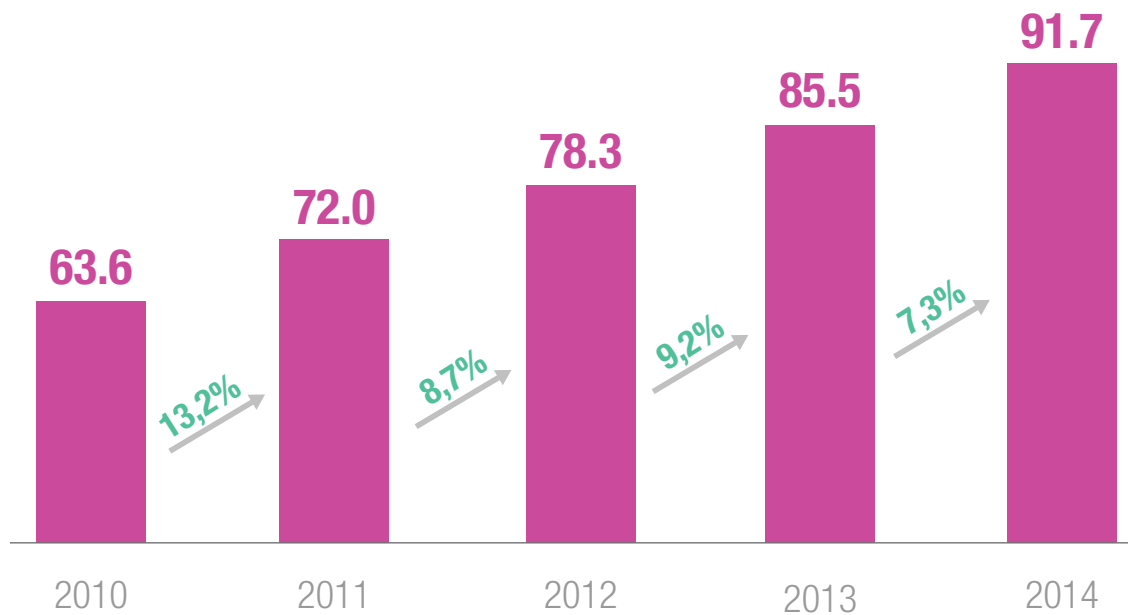
## Sector Outlook

In 2014 the Brazilian retail sector experienced small growth thanks to the hosting of the World cup together with some uncertainties as a result of the presidential election. According to the Brazilian Geography and Statistics Bureau (IBGE), the Brazilian retail sector recorded a 2.2% increase in sales in 2014 year-over-year.

In the same period, the furniture and home appliances segment grew 0.6%, a slower pace compared to the increase of 5.0% in 2013. Also according to IBGE, this lower growth rate is explained by higher interest rates<sup>3</sup> and the gradual removal of tax incentives (reduced IPI tax on manufactured products) for the white line.

In spite of the slightly lower growth pace, revenue in the furniture and home appliances retail segment rose 7.3% in 2014 year-over-year to R\$91.7 billion, according to the chart below:

### Retail Revenue from Furniture and Home Appliances (R\$ billion)



Source: IBGE

<sup>3</sup> According to the Central Bank of Brazil, the average rate for loans with free resources went up from 29% in December 2013 to 32.4% in December 2014.

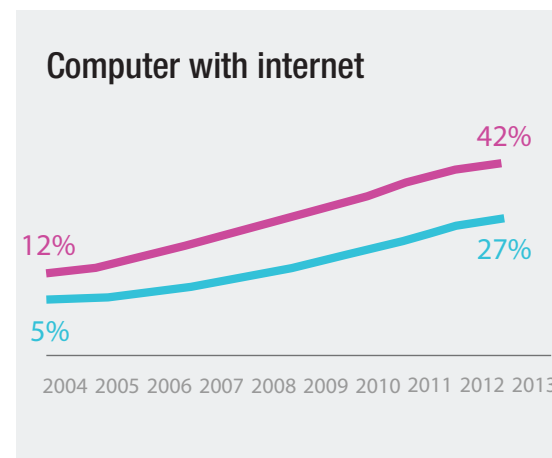
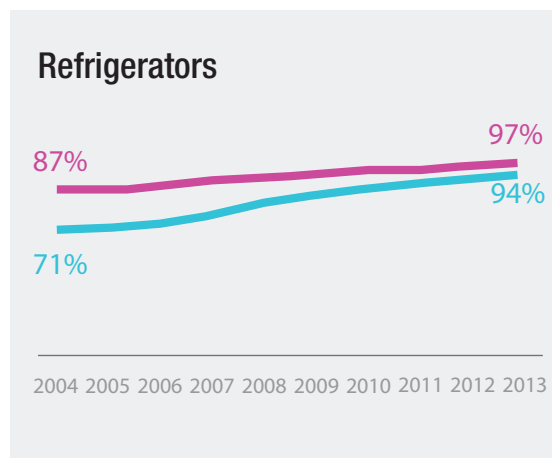
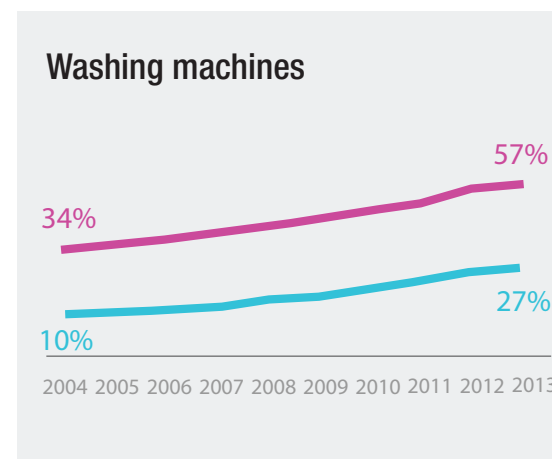
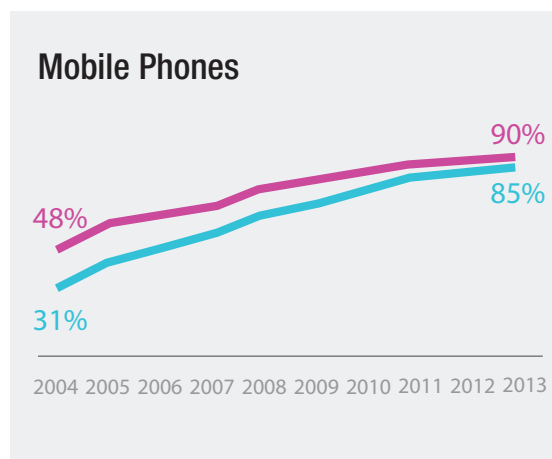




One of the greatest opportunities for Magazine Luiza is in the Northeast, region that has been recording an above average economic performance in Brazil. This re-

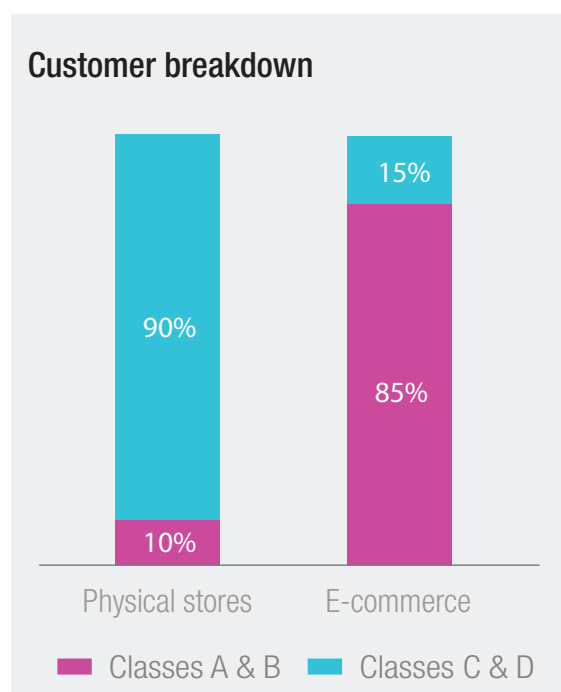
gion has a relatively low penetration for home appliances, and the per capita income has consistently evolved, implying a high consumer potential for the upcoming years.

## Penetration GAP: NE vs. Brazil



■ Brazil  
■ NE

We have historically focused our operations in Brazil's growing middle-class, which went up from 36% of the Brazilian population to over 50%<sup>4</sup>, and currently has more than 100 million Brazilians. In addition to the middle class, we have managed to reach different audience profiles through our multichannel strategy, as the graph below illustrates, offering the same efficiency in service and delivery to all of them.

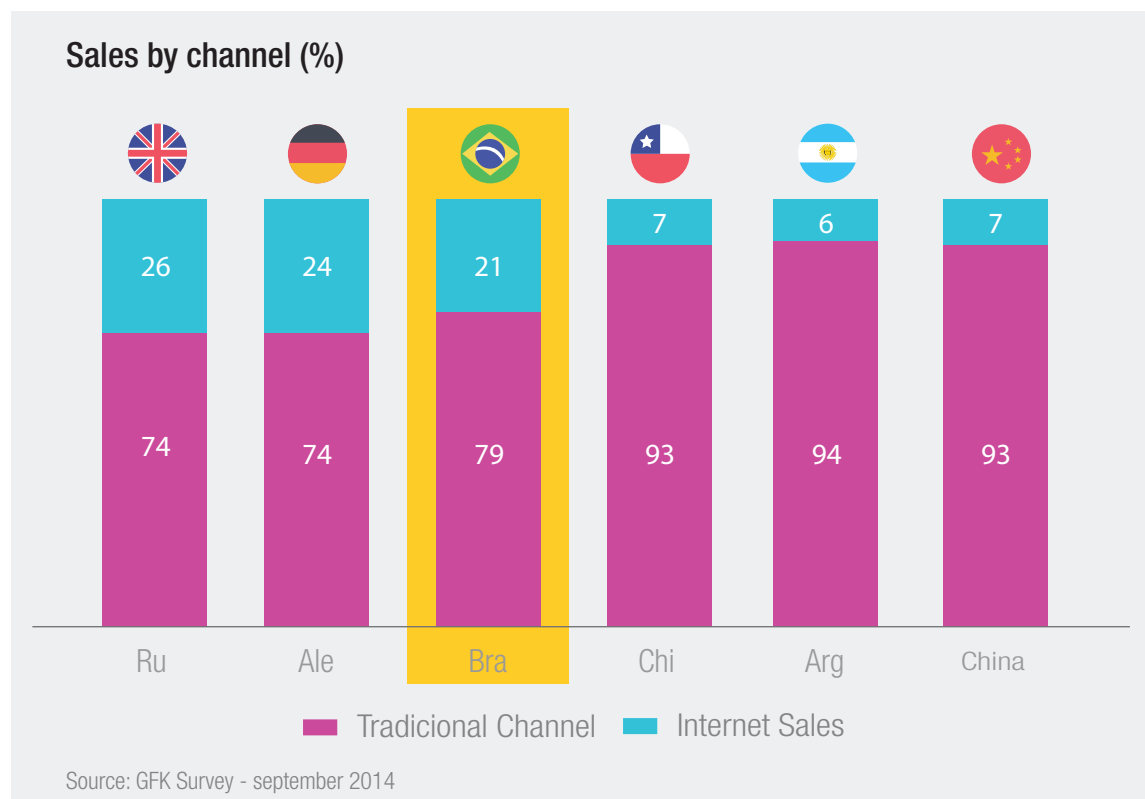


## Multichannel client

When we analyze the evolution of Brazilian consumer habits, we see they have been following some global trends according to which in addition to buying at physical stores, over 20% of consumers also buy online (including smartphones and tablets) and through catalogs. Brazilian consumers have behaved more like Europeans than Latin American or Chinese consumers, as illustrated in the chart below:

<sup>4</sup> Data compiled by the Retail Administration Program of Fundação Instituto de Pesquisa (FIA).

Considering this scenario, we believe this sector has opportunities for growth, both regarding new consumers and product mix, and in the different sales channels and regions in the country.







Corporate  
Governance

## Ownership

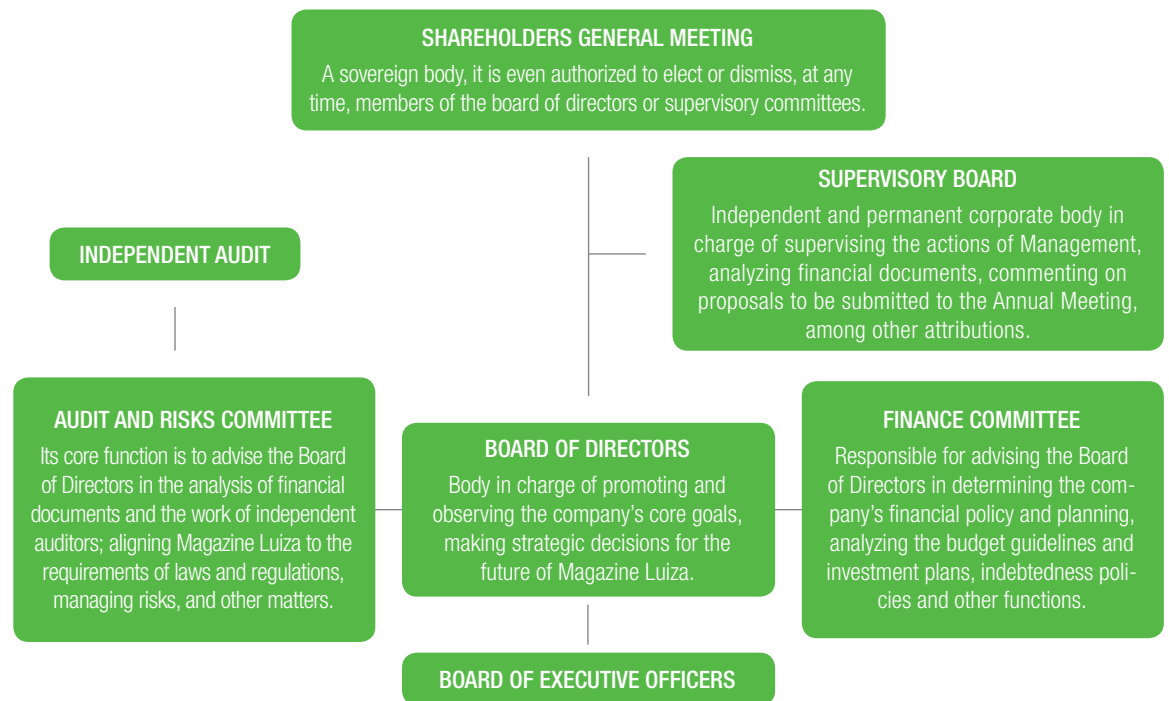
Our stock has been listed on the Novo Mercado segment of the BM&FBOVESPA, which gathers the companies with the highest corporate governance levels, since 2011. Our Corporate Governance is based on transparency and fairness. Currently, our controlling shareholders own 72% of Magazine Luiza's shares, and 28% of our stock is traded on BM&FBOVESPA (free float).

Please visit our  
**IR website**  
for further  
information.



## Governance Structure

GRI G4-34



## Ethics values

GRI G4-56

Our ethics values are clearly expressed in our Code of Conduct, a document updated on a yearly basis by the Ethics Committee and available to all of Magazine Luiza's stakeholders. The Code addresses themes such as conflicts of interest; information security and intellectual property; equity; Company resources; gifts, favors and other benefits; community activities; product donation; and other themes. Please visit our **IR website** to read this document.

## Anti-corruption

GRI G4 S03 | S04 | S05

In 2014, we encouraged all employees to renew their adherence to the Code of Conduct in a campaign introduced in our annual leadership convention, named "Strategic Positioning Seminar," which involved 1,300 store, office, and distribution center leaders who later passed it on to their teams. We also have an anti-corruption communication plan in place, consisting of insertions on the internal radio channel and TV Luiza that directly impact our 24,000 employees. By the end of 2014, 77% of our employees had formally adhered to our code of conduct.

In 2014, we  
trained 3,063  
professionals  
on anti-  
corruption  
proceedings

## 2014 Figures

### Corruption cases

recorded: 11

Employees

dismissed or

punished for

corruption: 44

Commercial

partners punished

for corruption: 0

### Corruption cases

Other cases of fraud identified at Magazine Luiza basically consist of appropriation of cash and/or products from store inventories. The Internal Audit, Organizational Environment, Legal, and Store Operations areas investigate fraud reporting. Penalties in these cases range from a formal warning, dismissal with or without cause, and are scaled according to predetermined rules. All reports are submitted to Internal Audit so that evidence is collected and verified. At the end of this process, a Special Audit Report is forwarded to the Store Operations and People Management Executive Officers, who determine which penalty will be applied based on the sanctions chart. Internal Audit monitors the actions taken.



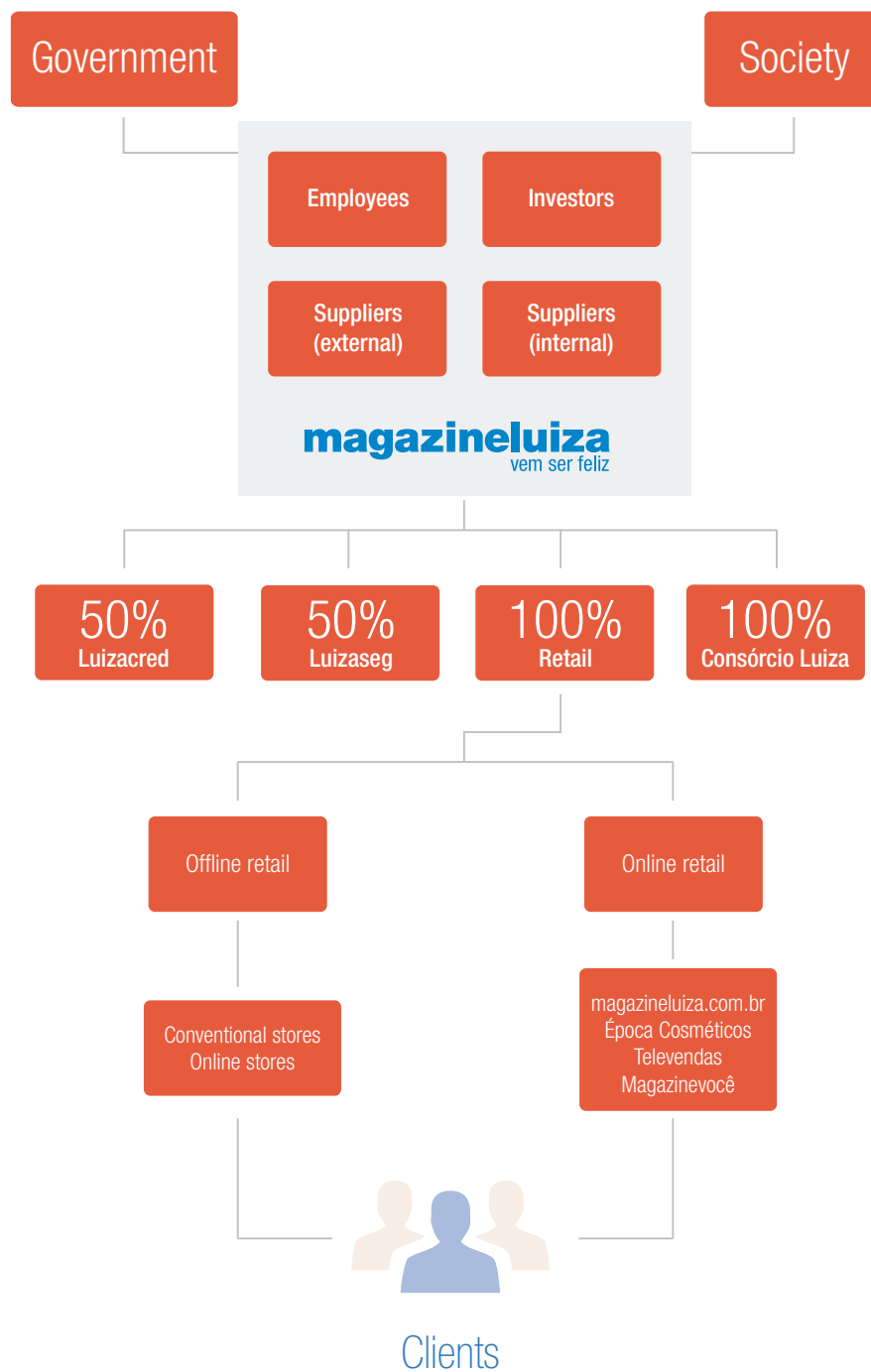


## Business Model

GRI G4-4

We have structured our operations to create different sales channels, through which we interact in different ways with our clients, always in an attempt to reach all locations and serve all social classes with affection and respect.

## Our Business Model





## Conventional stores

Located in 392 cities, in 16 states, Magazine Luiza's 644 conventional stores account for 79.1% of our gross revenue. This point of sale is mostly located on the streets, but is also present in shopping malls, with an average sales area of 750 m<sup>2</sup>, window display, and own inventory.

## Virtual stores

A trailblazer initiative of Magazine Luiza, created 20 years ago, the 111 online stores are spread throughout four states, with a higher profitability than conventional stores. This sales channel has an average area of 150 m<sup>2</sup>, and sellers use multimedia terminals to sell the products, because the store has no inventory or showroom, except for digital cameras and mobile phones. This is how we meet the demand from consumers that are far from large commercial centers.

## E-commerce

An e-commerce website ([www.magazineluiza.com.br](http://www.magazineluiza.com.br)) offering more than 44,000 products accounted for 16.4% of the group's overall gross revenue in 2014. This channel serves the whole national territory and all social classes, since we have a logistics structure capable of delivering in any city in Brazil.

## Luizacred

The result of a joint venture with Itaú Unibanco in which we hold a 50% interest, Luizacred has been, since 2001, one of the largest consumer finance companies, and operates from inside our stores. An important instrument to promote our customer base's loyalty and expand sales, the competitive edges of Luizacred are agility in granting credit and streamlined processes.

## Luizaseg

Founded in 2005, Luizaseg (where we hold a 50% interest) is a partnership with Cardif, a company owned by French group BNP Paribas, and is currently one of the leaders in extended warranty insurance for products in Brazil. In addition to extended warranty, the Luizaseg offers other products, such as unemployment insurance, loss and theft insurance, life, home, personal accidents, and other types of policies.

## Consórcio Luiza

Consórcio Luiza has offered, since 1992, access to financing for the acquisition of goods and services such as cars, motorbikes, motorboats, tractors, plastic surgery, dental assistance, travel assistance, building materials, graduate programs, and real estate properties.



Please visit  
our IR website  
for further  
information on  
Business Models.

## Value generation process

### Resources

24,000 employees  
(including 1,000 people with disabilities)

Over 700 suppliers

91.203.541 kWh of power consumed

756 stores, 8 distribution centers,  
a fleet of 162 vehicles

R\$151.7 million invested  
in physical assets

Loans and financing in the amount of  
R\$1,711.6 million and available cash  
and banks of R\$863.1 million

181,494,467 shares,  
and market cap of R\$1.2 billion

### Activities and results

**644 conventional stores  
that sold R\$9.0 billion**

Find the addresses of our stores in 16 states at:  
[www.magazineluiza.com.br/nossas-lojas/](http://www.magazineluiza.com.br/nossas-lojas/)

**111 online stores that  
sold over R\$520 million**

in the states of São Paulo, Minas Gerais,  
Paraná, and Mato Grosso do Sul.

**R\$43.3 million gross  
revenue from Consórcio Luiza**

which can be contracted at the stores, with sales  
reps, and online at [www.consorcioluiza.com.br](http://www.consorcioluiza.com.br)

**3.4 million cards issued  
by Luizacred, and a loan**

**portfolio of R\$4.6 billion** learn more at  
<http://especiais.magazineluiza.com.br/luizacred>

**E-commerce offering more than  
44,000 products, with sales of R\$1.9 billion.**

Access our online store at [www.magazineluiza.com.br](http://www.magazineluiza.com.br)

**Gross revenue of R\$165.3 million  
from insurance policies sold by Luizaseg**

with a portfolio of 9 types of insurance policies;  
learn more at [www.luizaseg.com.br](http://www.luizaseg.com.br)

### Value creation

**24,428 jobs with R\$1.0 billion  
paid during the year**  
in salaries, benefits, and FGTS

**R\$479.9 million**  
in taxes, charges and contributions  
**paid to the government**

**Participation in the Retail Development  
Institute (IDV) with the goal of strengthening  
this industry, which is one of the largest  
employers in Brazil**

A base of **39 million customers**,  
**90% of which in the low income  
classes who have access to retail  
through Magazine Luiza**

More than **10,000 people benefiting**  
from donations and tax incentive laws





Operation  
Strategy



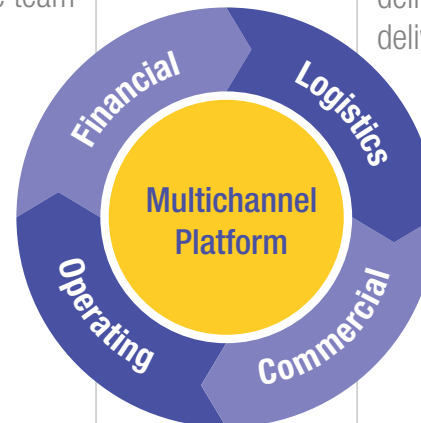
We are one of the largest durable goods retailers in Brazil and have been growing organically and through acquisitions. We rely on four main approaches to keep up this successful trajectory:

Multichannel

We operate a unique platform that integrates our brick-and-mortar and virtual stores, and e-commerce. Such an approach generates important operational, commercial, financial and logistics benefits.

Gain of efficiency in working capital use and reduced operating costs with financial management carried out by the same team

Optimization of delivery operations, with a gain in deadlines for clients, through 8 fully-integrated distribution centers (multichannel deliveries) with established delivery routes



One single brand allows for our marketing and CRM efforts to be concentrated, with a less costly operation than a multibrand operation. Shared IT systems, multimedia platform, human resources reduce costs

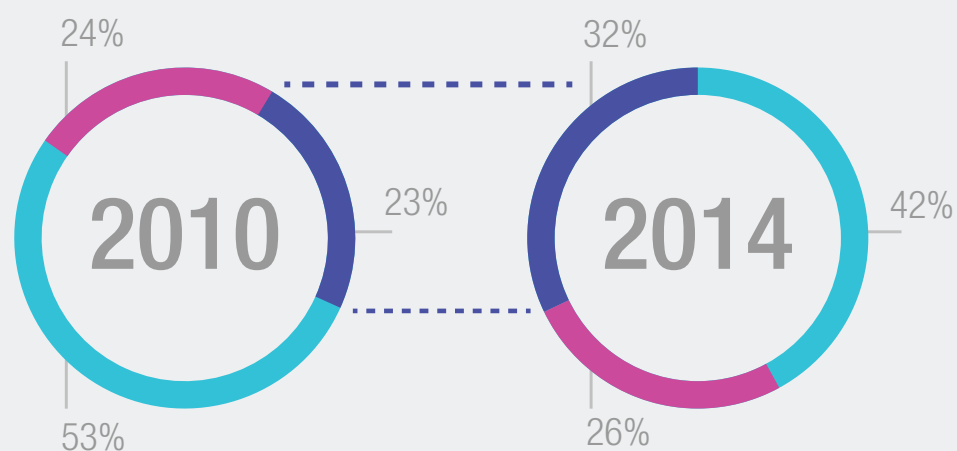
Excellence in serving customers, who buy when, where and how they want to. We share the different sales channels of the product mix, ensuring greater bargaining power and a better use of our sales knowledge

## Mix of products

We count on a diversified mix of over 50,000 items for the entire Brazilian family, especially home appliances, which account for most of our revenue and profit. Within this segment, we try to fill in the gaps and identify products that enjoy lower penetration rates in Brazil, such as smartphones, large flat screen TVs, laptops and dishwashers.

To make up our mix of products, we not only consider sales performance figures but also the life cycle of those products, inventories, household budget and trends in consumer demand.

### Evolution of the Product Mix



- **Technology** (*smartphones, laptops, computers, games*)
- **Home appliances** (*white & brown lines*)
- **Furniture/light appliances** (*kitchen, bedroom, living room lines / portable electronics, gifts, toys*)



**In 2014, we set up Luizalabs, our innovation accelerator that employs unit 40 specialists focused on developing digital technology in the retail industry.**

#### Payment Plans

Our strategy has always focused on providing payment plans that allow consumers to pay their purchases in installments, which is an option that gives them easier access to products and technologies that have a higher average selling price and would not be affordable for most Brazilians.

In addition to being a profitable product, Luizacred makes access to credit easier to consumers when they want to make a purchase in our stores.

#### Research and Development (R&D) GRI G4 EC4 | EC7

Innovation has always been ubiquitous and is an essential strategy in our company directed at becoming ever more competitive. Throughout the years, we created significant tools in our business, such as:

- Social media sales on Magazine Você;
- Wedding present lists with a prepaid credit card (Quero Casamento);
- Product recommendation system based on customers' purchase and browsing history on [magazineluiza.com.br](http://magazineluiza.com.br) (Bob);
- Mobile system that allows sales agents perform all sales operations except for payments on tablets and smartphones. We started to deploy this system as a pilot in 2014 and it will be rolled out in 2015.

The graphic features a yellow and orange background with a map of Brazil. A large blue pin labeled 'magazine luiza' is positioned over the northeastern region. Other pins mark cities: ARACATI, GENERAL SAMPAIO, CAUCAIA, MARACANAU, PACAÏS, MONTESE, and JUREMA. A red circular badge contains the text '8/12 9 HORAS'. Below the map, a woman in a blue uniform stands behind a counter with the 'magazineluiza' logo and the slogan 'vem ser feliz'. The main headline reads 'O MAGAZINE LUIZA ESTÁ CRESCENDO EM FORTALEZA E REGIÃO.' and a sub-headline states 'São mais 7 lojas inaugurando no mesmo dia!'.

**grande venda de inauguração**

**8/12 9 HORAS**

**O MAGAZINE LUIZA ESTÁ CRESCENDO EM FORTALEZA E REGIÃO.**

São mais 7 lojas inaugurando no mesmo dia!

**magazineluiza**  
vem ser feliz

## FOCUS ON NORTHEASTERN BRAZIL

The northeastern region of Brazil has been posting solid growth rates due to incentives by the federal government and the migration of the industrial base from the south-east, pursuing lower production costs. Due to historical reasons, this region shows low penetration rates of home appliances and is thus a new consumer market for all the products that we sell.

In 2010, Magazine Luiza acquired Lojas Maia retail chain, thinking of future opportunities to strengthen its positioning in the region. In addition, we now have two distribution centers to supply to stores in the region and to support online orders.



Magazine Luiza obtained government funding through FINEP, a research and studies financing state-run company created to promote economic and social development in Brazil through public funding of science, technology and innovation. For us, not only did this funding allow us to carry out important projects, it is also the recognition of all our efforts in R&D throughout these years, because we were the first company to obtain the go-ahead with the federal funding. In total, we have

R\$ 45 million worth of approved projects partially funded from last year and they are set to continue in 2015, should be paid in full within 5 years.









The funded projects are directed at promoting excellence in customer service by employing new and innovative technologies, training, education, retaining certified professionals, in addition to improving accessibility of our online store to people with disabilities who are visually impaired.

## Exposure of our business to risks

Aimed at promoting the sustainable growth of our company, we continuously monitor the risks inherent to our business. The Board of Executive Officers manages risks through operational strategies and internal controls, and ensures the liquidity and security of all operations. The Board of Directors, the Audit and Risks Committee and the Finance Committee supervises and monitors the most significant risks to which Magazine Luiza is exposed. The main risks monitored are:

### Operational risks

The operational risks to which our activities are exposed include:

-  Loss of senior manager and/or officers specialized in our business and who understand our culture;
-  Customer data and network information security breaches;
-  Insufficient assessment of risks associated with credit card fraud;
-  Effects of seasonal sale of products and services;
-  Damage to distribution centers that might stall operations;
-  Uninsured losses;
-  Software system interruptions or failure;
-  Dependence on the effectiveness of advertising and marketing campaigns.

## Financial risks

Financial risks to which our activities are exposed include:

- ⚠ Conflict of interest among current controlling and other shareholders;
- ⚠ Failure to reach expected results with businesses recently acquired or created;
- ⚠ Need for more funding by issuing additional shares, which could lead to dilution of the existing investor's proportional ownership in our company;
- ⚠ Inability to pay dividends to shareholders;
- ⚠ Significant restriction to shareholders selling out their shares at the price and time they wish, due to volatility and lack of liquidity of the Brazilian securities market;
- ⚠ Negative results of controlled companies and joint ventures;
- ⚠ Vendors might resort to illegal practices to finance activities and grant loans to clients.

## Market risks

Our business is also exposed to market risks, including industry-specific matters, impacts of legislation and regulations passed by the Brazilian government, and the macro-economic scenario. The main risks are:

- ⚠ Economic or legal changes performed by the federal government in terms of legislation or regulations might impact negatively our business;
- ⚠ Strengthening of or new retailers that could gain market share in Brazil and affect negatively our market share and net revenue;
- ⚠ Reduced purchasing power of consumers due to adverse macroeconomics factors;
- ⚠ Adverse changes in logistics systems and infrastructure at the cities where our distribution centers are located;
- ⚠ Brazilian financial institutions, Luizacred among them, are subject to regulatory reviews by the Brazilian Central bank.

## Business opportunities

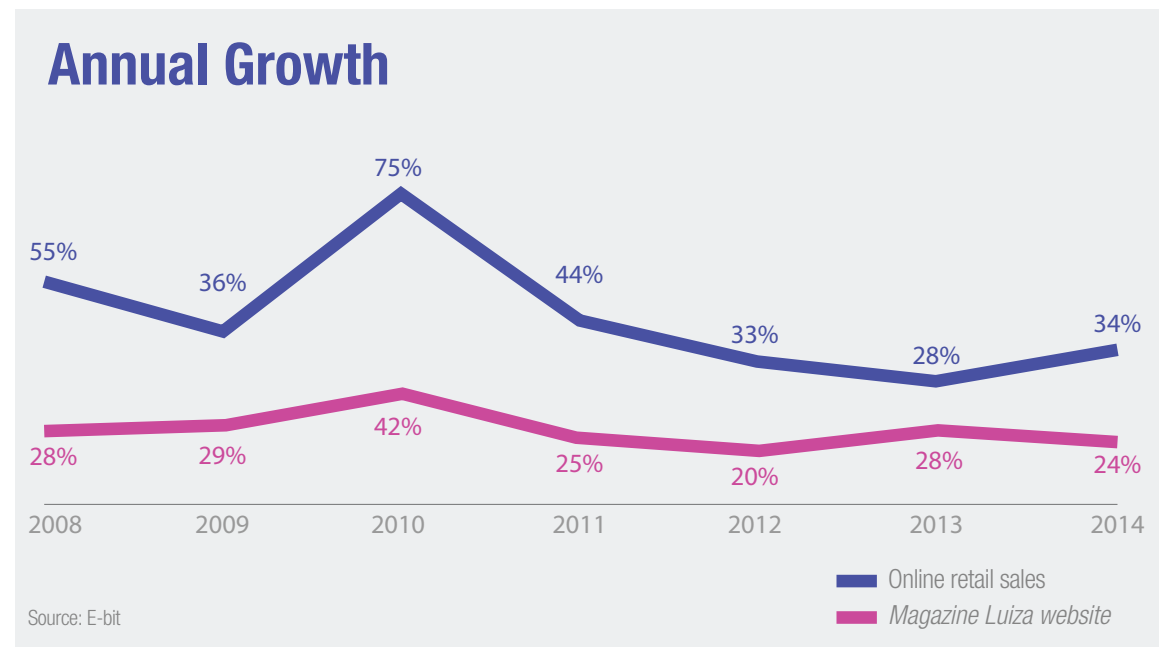
Magazine Luiza has been recording growth not always related with expanded consumer spending power, because its sales growth rate has been consistently outdoing Brazil's economic performance rate.

We see business opportunities both among the new class C -today 54% of the population and set to go up to 58% by 2023, or 125 million people<sup>5</sup> - and classes A and B.

<sup>5</sup> Source: Revista Exame (<http://exame.abril.com.br/economia/noticias/54-dos-brasileiros-formam-a-classe-c-diz-serasa-experian>)

For higher income brackets, our main tool is the e-commerce channel, which has been growing above the average online sales figures in Brazil (please, refer to the chart). To meet demand from class C consumers, our brick-and-mortar and virtual stores offer special client services and payment plans.

## E-commerce sales growth evolution

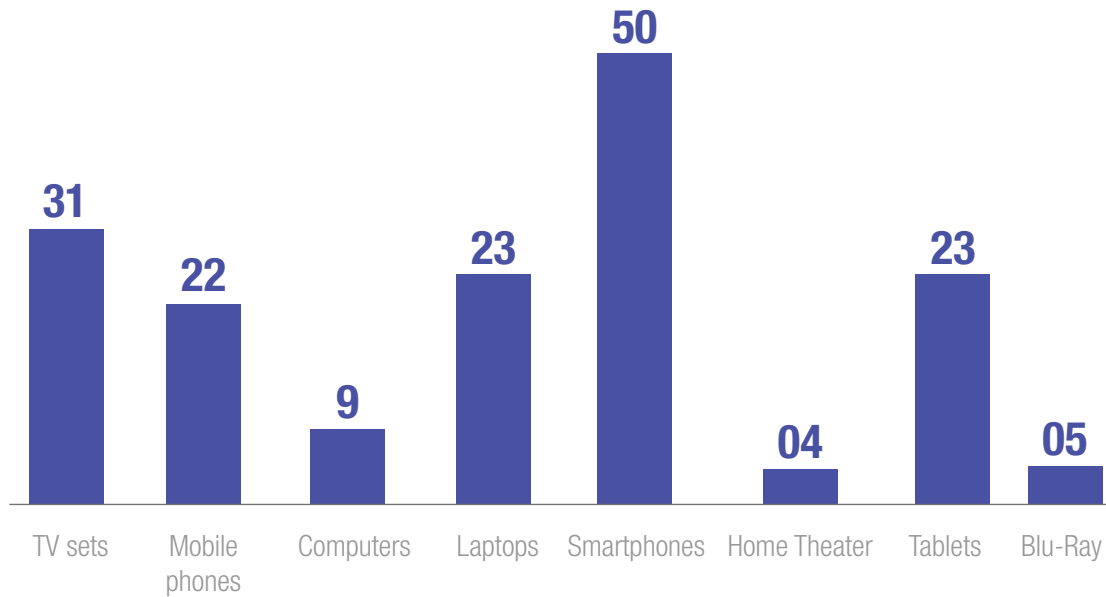


## Technology

By focusing on the technology segment, we noticed that items such as smart-phones, laptops and tablets were, according to market research and consulting firm GFK, the top objects of consumer desire in Brazil in 2014; they also top the bucket list of products that people want to buy within six months, and the price tag is the main component here.

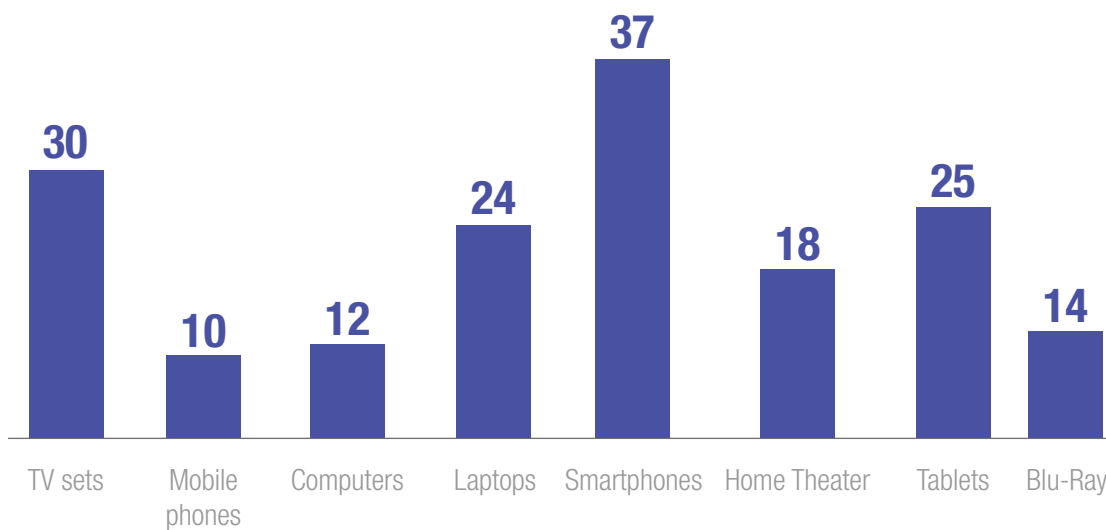


## Most desired electronics by Brazilians in 2014 (%)



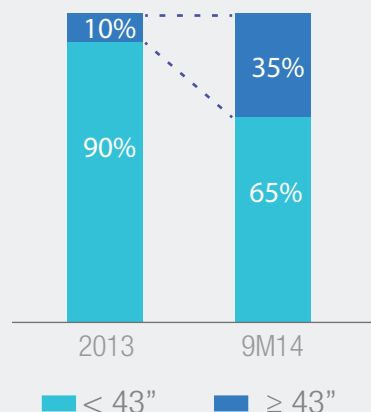
Source: GfK Survey – september 2014

## Technology items Brazilians intend to buy in the next 6 months (%)



Source: GfK Survey – september 2014

### Screen size

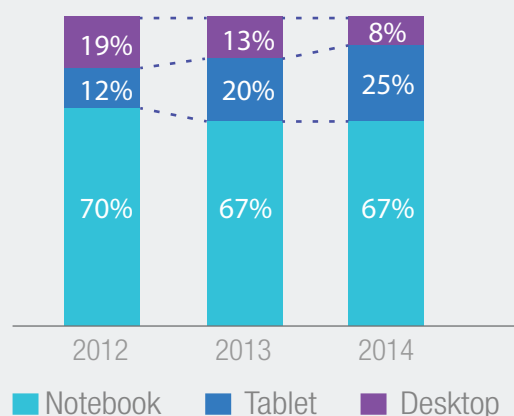


In terms of products, the main business opportunities are TV sets, tablets and smartphones:

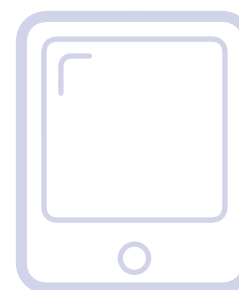
- TVs: for many years present in the homes of Brazilian families, older TV models have been gradually replaced by plasma and smart TVs with even bigger screens, having a positive impact on sales;



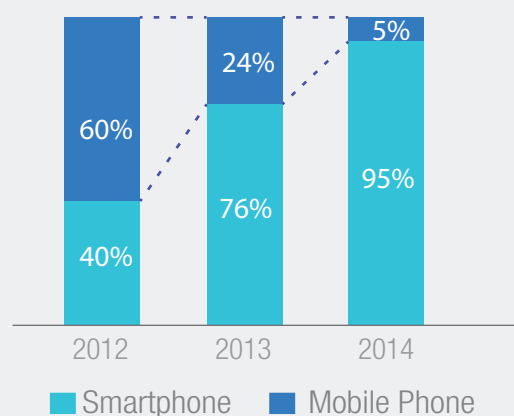
### Notebook x Tablet x Desktop



- Tablets: electronics that still have relatively low penetration rates but that have been significantly drawing interest of consumers. According to research by GFK, this item has a short replacement cycle of six months to one year.



### Mobile Phone vs. Smartphone



- Smartphones: they are the flavor very aspirational at the moment in the electronics retail sector, with 54 million units sold in 2014 in Brazil, accounting for almost 100% of phones sold at Magazine Luiza.





Capitals

“A leader takes people further than they can get on their own.”  
Luiza Helena

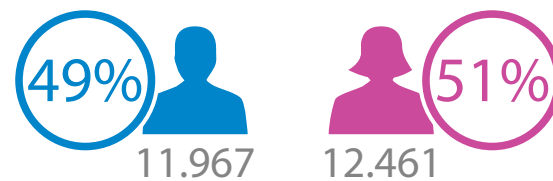
# Human Capital

GRI G4-10 | LA1 | LA9 | LA11

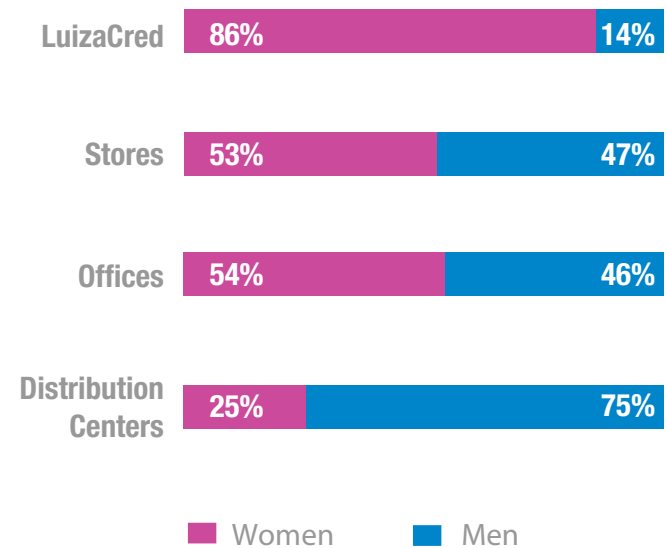
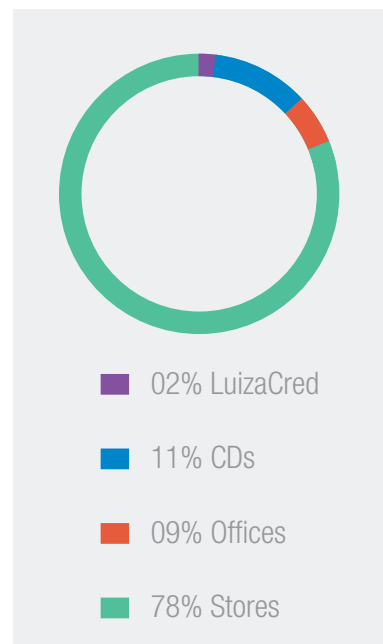
Since the Company was founded, we established that success relies on good interpersonal relations. That is why our employees are considered our greatest asset. They are the ones who interact with the consumers at the physical and virtual stores, who conduct logistics operations and replenish distribution centers, who provide back-office services at stores and execute the strategies.

On December 31, 2014, we had

**24,428**  
**employees**



## Employees by unit





## Turnover

Age	Total hirings	Turnover
30 y.o. and younger	6.652	58.74%
30 to 50 y.o.	3.504	34.96%
50 y.o. and older	167	19.86%
Gender		
Women	5.003	43.57%
Men	5.320	47.66%

The table above includes interns, young apprentices, trainees, and temporary salespeople.

To calculate the Turnover column, we considered the total hirings in 2014 divided by the average workforce between December 2013 and November 2014.

Units	Total hirings	Turnover
Franca Office	132	18.53%
São Paulo Office	102	19.01%
João Pessoa Office	14	17.23%
Distribution centers	724	30.83%
Stores	8.241	50.06%
LuizaCred	799	49.89%
E-commerce	311	37.10%

## Training

Function	Total training hours offered:		Average per employee (hour/man):	
	W	M	W	M
Apprentices	3,138	3,245	07	06
Leadership (DCs and Offices)	35,645	34,929	23	19
Interns and Trainees	1,803	1,618	43	50
Other Employees (Stores and DCs)	127,122	88,747	10	09

## Performance Evaluation

In 2014, all of the company's leaders were evaluated for their performance using the 360 methodology, totaling 1,979 employees, representing 8.1% of all Magazine Luiza's employees.

### Employees who received performance analysis (%)

Function	W	M
Leaders	3.61	4.49

# Natural Capital

GRI G4 EN28 | EN7 | EN22 | EN23 | EN27 | EN28 | EN30

**In 2014, our total power consumption reached 91.203.541 kWh.**

**Since 2013, all new or remodeled stores' lighting consists of fluorescent light bulbs, which reduce consumption by up to 40%.**

## Waste

Type of waste	Weight (Kg)	Destination
Organic	188,400	Landfill
Organic debris (branches, grass, vegetation)	34,482	Landfill
Trash (office paper, bathroom)	161,290	Landfill
Cardboard	479,232	Recycling
Plastic	34,741	Recycling
Other recyclable materials	8,841	Recycling

These figures are from the Louveira Distribution Center

Product category:	Recovered packaging (%)
Heavy Appliances	0.10%
Furniture	0.09%
Sound/Video	0.09%
Computers	0.08%
Movies/Photography	0.08%
Light Line	0.07%
Portable Electronics	0.07%
Telephony	0.06%
E-commerce	0.06%

\* Compared to 2013, there was an increase of 8.7% in electricity consumption due to installation of air conditioners in 60 stores.

The numbers in the table include sales at conventional, virtual and e-commerce stores, and the total replacements made by clients.

# In 2014, the Company disposed of



## in an ecologically sound manner.

\* The product shipping information covers only the Company's own fleet (excluding third-party fleet).

Due to the nature of its operations, Magazine Luiza does not have large ecological footprint. However, in view of scale and size of operations, we pursue responsible management of residues, of electrical energy and, due to logistics operations, fuel consumption and corresponding greenhouse gas emissions.

In this sense, in 2014 we set up a Water and Energy Crisis Management Committee that meets on a weekly basis to discuss and report updates of our action plans regarding:

- Actions to take in case of power outage and water shortage to keep production up and running;
- Saving measures to optimize and reduce the use of energy and water.

Magazine Luiza plans to launch in 2015 an engagement campaign targeting water and energy consumption reduction initiatives at its units.

### Shipping and Delivery\*

To reduce fuel consumption, Magazine Luiza monitors its fleet and establishes consumption reduction targets that can be reached by periodically inspecting vehicles, reviewing itineraries and determining a more efficient logistics grid.

Due to potential environmental impacts caused by the manufacturing and disposal of used tires, we monitor this material and rely on a series of action to extend their useful life. Those actions include:

- We use tires and treads approved by INMETRO (official Accreditation body in Brazil) and Alapa (Latin American association of tires and wheels). In addition, we always select parts that have high mileage performance.
- We monitor the performance, pressure and conditions of tires.
- We recover used tires which can still be safely used, thus extending their useful life up to 200%.
- We rotate, adjust ideal pressure and align tires.
- At the end of their life cycle, tires are analyzed to understand the reasons of tear and wear.

When they reach the end of their useful life, they are disposed of in an ecologically sound manner through Reciclanip, one of the most important initiatives in post-consumption responsibility in Brazil created by tire manufacturers.



## Fuels and Greenhouse Gas Emissions

The fleet management department at Magazine Luiza employs two tools to prevent waste related to fleet performance, from which greenhouse gas emissions (GGE) can be determined.

In 2014, Magazine Luiza had a fleet with 162 vehicles that consumed 1,241,904 liters of fuel and emitted 3,426.466 tons GGE.

## Energy

We hired specialized consulting firms to carry out power efficiency studies directed at reducing the consumption and optimizing energy use in all States we have operations. In 2015, we will be implementing daily and permanent monitoring processes to compare against the regional average consumption of similar units and power outage time at each one.

# Manufactured Capital

GRI G4-13

The operational structure of Magazine Luiza at the end of 2014 comprised 756 stores (644 brick-and-mortar and 111 stores, and the website), in addition to eight distribution centers and a 162-truck fleet.

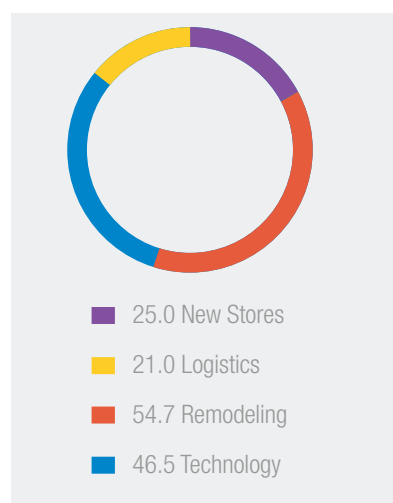
## Stores

In 2014, Magazine Luiza opened 24 new stores and closed 12, an 8.3% increase to the total of 744 stores. This expanded its sales area by 1.7%, totaling 481,726 sq. meters.

## Fuel Consumption and Greenhouse Gas Emissions GRI G4 EN19

	2013	2014
<b>Fleet</b>	173	162
<b>Fuel Consumption (L)</b>	1,362,371	1,241,904
<b>GHG Emissions (tons)</b>	3,765,488	3,426.466

## Investments in assets in the period (R\$ million)



Investment of **R\$ 22.5 million** in R&D projects



**756**  
**Stores**

24 were opened and 60 were renovated in 2014 with a sales area of 481,726 m<sup>2</sup>

**644** brick-and-mortar    **111** virtual    **1** website

**8** Distribution Centers  
Own fleet with **162** trucks



The Company's new stores strategy moved on to northeastern Brazil, where it opened 14 of 24 stores; 10 other stores were opened in southern, southeastern and central Brazil. During the year, 60 stores were renovated, mainly in northeastern Brazil.

Out of the current 756 stores, 41% are reaching maturity stage and the other 59% are 5 years or older, and have already reached it.

In 2015, Magazine Luiza plans to invest approximately R\$ 150 million in 50 new store openings, half of them in northeastern states in Brazil. Our focus will be on continuously improving our multichannel strategy by launching new services and website features, in addition to enhancing customer experience and digitalizing the stores even further.

## Logistics

Magazine Luiza has eight distribution centers scattered across the country, except in northern Brazil, which are fully integrated with the company's multichannel strategy.

## Investments

In 2014, the company invested R\$ 25.0 million in new stores, or 1.6% higher than the previous year. Another R\$ 54.7 million were directed at remodeling of stores, 22.3% higher than in 2013; approximately R\$ 46.5 million in technology, a 19.8% growth vis-à-vis the period compared here, and R\$ 21.0 million in logistics, a 16.6% drop.

In total, investments in fixed and intangible assets amounted to R\$ 151.7 million in 2014, up 3.8% vis-à-vis the previous year.

# Financial Capital

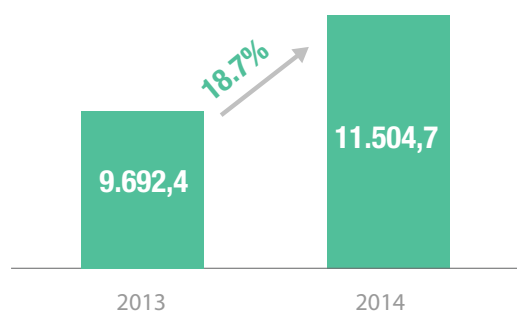
GRI G4-9

By the end of 2014, our market cap was R\$1.2 billion.

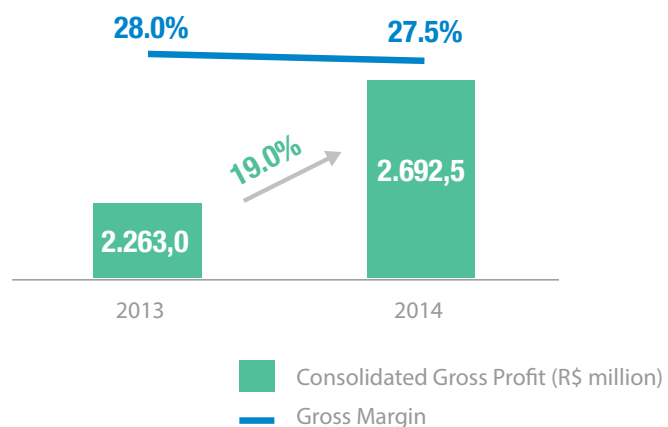
(R\$ million)	2012	2013	2014	Chg. 2013 vs. 2014
Gross Revenue	8.456	9.692	11.505	18.7%
Gross Revenue Growth	18.5%	14.6%	18.7%	4.1 p.p.
Adjusted EBITDA	299.0	411.6	605.3	47.0%
Adjusted EBITDA Margin	4.2%	5.1%	6.2%	1.1 p.p.
Adjusted Net Income	14	71	129	81.8%
Adjusted Net Margin	0.2%	0.9%	1.3%	0.4 p.p.

In 2014  
Magazine Luiza's  
Adjusted Net  
Income rose **81.8%**.

Gross Revenue

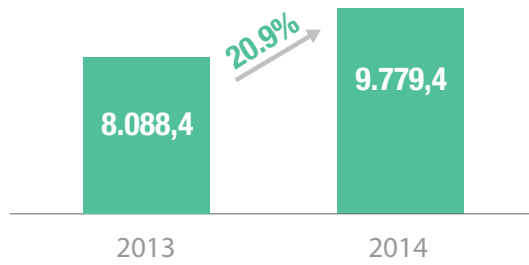


Gross Income

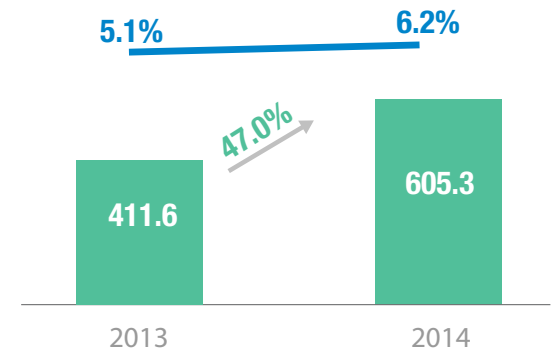


Gross Revenue  
→ **2014 R\$ 11.5 billion**

### Net Revenue

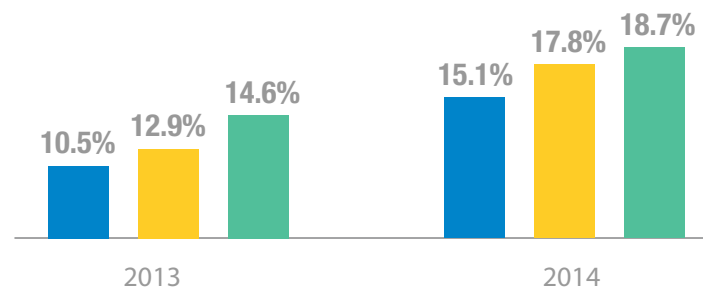


### Adjusted EBITDA



Adjusted EBITDA (R\$ million)  
Adjusted EBITDA Margin

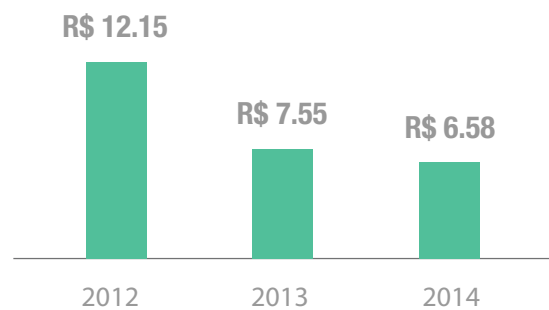
### Same Store Gross Sales Growth



Sales Growth Same Physical Stores  
Same Store Sales Growth (includes e-commerce)  
Growth of Total Retail Sales

## Capital Market

Price per Share (as at 12/31/2014)



On December 31, 2014,  
Magazine Luiza had  
**181,494,467**  
outstanding shares



In 2014, our consolidated gross revenue grew 18.7%, totaling R\$ 11.5 billion. Such significant growth figure was generated by in-store sales growth, especially in north-eastern Brazil, whose sales grew almost 30%, and higher share of e-commerce in total sales of 16.4%.

In the same period, consolidated gross profit reached R\$ 2.7 billion, up 19.0%, with a 27.5% margin. The 0.50 p.p. drop in gross margin may be explained by higher presence of image-related products in the mix of products and increased share of e-commerce sales, only slightly offset by the gradual improvement in gross margin from stores in the northeastern region.

Due to good sales performance and gains of productivity through implementing cost and expenses rationalization projects in 2014, we managed to dilute operating expenses by 0.8 p.p.

EBITDA, earnings before interest, taxes, depreciation and amortization, topped R\$ 605.3 million in 2014, with a margin of 6.2%. The factors driving the good performance of EBITDA were sales performance (in all channels), dilution of operating expenses and equity in the earnings of Luizacred.

Net profit of Magazine Luiza totaled R\$ 128.6 million, equivalent to 1.3% of net revenue.

## Luizacred<sup>6</sup>

Luizacred posted record results in 2014. In the year, net revenue in the segment grew 14.9%, topping R\$ 1.6 billion, as a result of enhanced mix between consumer credit and Cartão Luiza card, and also an increment in revenue from services.

Gross profit of Luizacard grew 11.1% in 2014, reaching R\$ 1.41 billion; however, gross margin dropped 3.0 p.p., or the equivalent to 86.1% of net revenue, due to an increase in CDI interest rate.

Provision for doubtful accounts, net of recoveries, totaled R\$ 543.0 million in 2014, indicating a significant reduction of 9.7 p.p. due to improved delinquency rate and portfolio profile throughout the year.

Other operating expenses (selling, administrative, tax, depreciation and amortization) of Luizacred totaled R\$ 557.5 million in 2014, equivalent to 34.0% of net revenue, or a 1.0 p.p. drop due to initiatives to reduce expenses and promote gains in productivity.

<sup>6</sup> The results shown for Luizacred represent 100% of its operations.

# Intellectual Capital

## Our Culture

An essential part of our success and strength of our operations, also known as 'Jeito Luiza de Ser' [Luiza's way of being], is based on the following:

### Key concepts

**Merit:** employees with outstanding talent and performance are recognized publicly;

**Self-development:** employees are stimulated to set their own goals, career plans and/or pursue personal and professional growth;

**Open door policy:** senior managers and CEO leave their office door open and partitions are made of glass. Offices have an open concept which stimulates openness of employees with their leaders and contributes towards a better organizational climate;

**People first:** our human resources policy is based on valuing people, considering their development and quality of life;

**Responsible freedom:** every unit leader is encouraged to act as an owner in terms of managing people, expenses and results;

**Entrepreneurial culture:** innovation and pioneering spirit are both focused and directed at putting clients first,

**Leadership:** managers act as servant leaders and coach their teams.

In addition, we strengthen our corporate culture on a daily basis by using the following tools:

### Tools

**Communication:** Portal Luiza (intranet), Rádio Luiza and TV Luiza are used to interact with, motivate, inspire and inform employees about what is up at the Company and sales strategies;

**Employee committee:** professionals appointed by other employees who work side by side with managers to make administrative decisions at the unit where they work;

**Community meeting:** where we reinforce our values, share the results achieved in the week, recognize outstanding performers, welcome new employees and celebrate birthdays, milestones achieved and special dates;

**Morning meetings:** team meetings to guide, align objectives and engage the team in daily activities;

**Celebration and Recognition meetings:** results achieved by employees are celebrated and recognized at public events;

**Direct line with the CEO:** a communication line open to all employees who want to inform secretly on practices against the values promoted by the Company;

**Participative management:** strategic business information is transparent and accessible to all employees, so they also become responsible for our global results,

**Strategic Positioning Seminar:** this is an event for leaders of all stores, distribution centers and offices to prepare them for the challenges ahead in the year.

## Our Brand

Due to the sponsorship initiative during the FIFA World Cup in Brazil, aired on Globo TV, Magazine Luiza increased its brand exposure significantly in 2014, which led to an expressive increase in sales and market share. During this period, we made it back to Interbrand's Best Global Brands, garnering 25th place, and an estimated brand value of R\$ 366 million.

## Innovation

Innovation is a strong trait we have since our foundation. In 1992, we were pioneer in launching a virtual store model. Our capacity to design, adapt and create new products and formats has been a competitive edge within our strategy.

As a result, in 2014 we were the first company granted with funding from FINEP, and the creation of Luizalabs turned this capacity into a full-fledged system within the company (for more information, please refer to Research and Development).

## Logistics

An essential component of good customer service, cost reduction and increased profitability, efficient logistics is continuously pursued by all employees. We aim at turning Magazine Luiza into a national benchmark in logistics. For this reason, we devised a 3-stage action:



**2+ million**

Facebook fans



**100,000+**

Twitter followers



**35,000+**

Brand channel subscribers



**690,000+**

Circles on Google+

## History of logistics management model

### Reactive (up to 2013)

The Company used to respond to customers' demand, high cost challenges, and likely delivery errors. This stage also includes the increase in capacity, and the integration of all distribution centers (DCs).

### Partner (2014)

The structure was redesigned focusing on reducing waste, freights, and errors. This stage also includes the integration of all DCs with e-commerce, and the exploration of synergies among distribution networks.

### Driver (2015 onwards)

Development of a smart warehouse system (funding by a FINEP facility, for further information please refer to item "Research and Development") that will create benefits like reduced fuel waste, and new processes to build a smart network to reduce the number of trips and handling operations.

# Social and Relationship Capital

## Customers

We ended 2014 with a customer base of 39 million people, 90% of which from lower income brackets, who were able to make their consumption dreams come true and improve their quality of life, through our offers and payment plans.

Our relationship with customers is one of the most valuable assets we have, that is why we base our actions on honesty, simplicity, empathy and ethics.

### Satisfaction Survey

GRI G4 PR5

In 2014, we spoke on the phone with over 21,000 customers at five moments during the year to get feedback on their level of satisfaction with Magazine Luiza. Results revealed an average satisfaction level of 76.8% for the year. In addition, we surveyed clients at 190 stores, inquiring about the company's "approach", "presentation of products and services" and "sales process". Our survey called Cliente Surpresa revealed an evolution of the average score to 5.3 (out of 10), especially in "sales process", which went from 3.9 in 2013 to 5.2 in 2014.

## Vendors

GRI G4 LA14 | LA15

In 2014 we relied on a network of over 700 vendors carefully selected. Our relationship with those partners creates long-lasting bonds to allow us to improve the management of our supply chain going forward. Procurement is diversified to prevent relying on a single vendor. On December 31, 2014 our biggest vendor represented 16.3% of supply and together with the top ten vendors, they accounted for 59.5% of procurement amounts.



On the ethics front, Magazine Luiza refutes any sort of illegal labor practice or human rights abuses and violation of environmental regulations. In this sense, we have set up compliance practices, among which the main one is that all vendors must sign a term of conduct, a section of the vendor agreement establishing that it may be terminated should vendors breach any condition set forth therein.

Then, since October 2014 we also require that our (current and potential) vendors provide a series of documents stating that they comply with legislation regarding specialized occupational health and safety services (OHSS).

### Local Suppliers

GRI G4-12 | S09 | S010 | EC9

In 2014 the amount paid by Magazine Luiza to vendors totaled R\$ 8,249,178,531.00, of which 43% was directed at local suppliers, as per the table below:

Region	% paid locally:
S	26%
SE + CENTRAL WEST	54%
NE	28%
<b>TOTAL</b>	<b>43%</b>



## Shareholders and Investors

Our relationship with shareholders and investors is based on transparent and fair practices, in the form of clear policies in using and disclosing material information, as well as rules and guidelines about using, publishing and keeping confidential any information yet to disclose to the public.

## Employees

GRI G4-LA2

Our relationship with employees is based on the principle that people always come first. This is made evident both in our daily interaction based on mutual respect, simplicity and non-discriminatory policies and punctual initiatives such as:

- **Disclosure of figures:** every store manager know how their units are performing and what the targets to meet are;
- **Self-management:** sales agents and managers are free to negotiate product prices (within preset margins) with clients;
- **Far-reaching Communication:** Portal Luiza, Rádio Luiza and TV Luiza are tools employed on a daily basis to engage and keep employees motivated;
- **Benefits:** among the benefits provided to employees are health and dental insurance, private pension fund, groceries and meal allowance, scholarships, child care benefit for mothers with children under the age of 10 (cheque-mãe), special education allowances and pay-check-backed loans. Most benefits extrapolate the minimum required by law.

## Government and Society

GRI G4-15 | G4-16 | S01

We are committed to society and look for means of actively contributing with important debates both around the retail industry and Brazilian society as a whole.

In 2014 the Company strengthened and expanded its outreach initiatives and now supports 150 institutions that provide ser-

vices to over 20,000 vulnerable people, especially children and adolescents by means of tax-benefit subsidies, donation of products and volunteer work.

### **Rede do Bem [Goodwill Network]**

Since 2010 employees are encouraged to engage in social benefit initiatives focused on infrastructure enhancement projects at low-income neighborhoods or cities through the project Rede do Bem [Goodwill Network]. Volunteer opportunities are posted on the Company's Google+ profile for all employees to see. In 2014 we carried out 59 projects that involved over 600 employees and brought benefits to more than 1,000 people in 49 cities across Brazil.

### **Heliópolis**

In 2012 the Company opened a store at the poor community of Heliópolis in São Paulo, and keeps a close connection with the neighborhood by promoting workshops and classes in various crafts and cooking lessons. Magazine Luiza also supports the nonprofit civil association Baccarelli Institute, which teaches music to 1,800 students every year and maintains the Heliópolis Symphony. This partnership allows the Institute's musicians to perform at special events (such as Dia de Ouro [Golden Day]) and at the Company's units. The employees working in São Paulo can also enjoy concerts by the Heliópolis Symphony at concert hall Sala São Paulo.

In 2014 Magazine Luiza supported or subscribed to the following organizations:

- **Lide Educação strategic alliance** – supported social initiatives promoted by Ayrton Senna Institute (“IAS”).
- **Commitment to increase the number of women in leadership positions** – signed at the 2nd Leader Women Forum, held in August 2014.
- **Pacto Compromisso e Atitude** – signed in March 2014 with the National Ministry of Women Policy to fight violence against women.



In addition, through its leaders, Magazine Luiza operates in different sector organizations. Including:

- Instituto para Desenvolvimento do Varejo (IDV);
- Instituto Brasileiro de Supply Chain (Inbrasc);
- Comitê de Frotas e Fretes Verdes;
- Comitê de Desenvolvimento Institucional do Instituto Brasileiro de Relações com Investidores (IBRI);
- Instituto Brasileiro de Hospitalidade Empresarial (IBHE).







GRI Index

“Do you want to be successful as a leader? Serve your subordinates and they will serve your customers.”

Marcelo Silva

# GRI's Content Index - Global Reporting Initiative

## Profile

### Strategy and Analysis

Index	Information to be obtained	Chapter or Direct Response
G4-1	Company's sustainability strategy and its importance in the organization.	pg. 11, 15

### Organizational Profile

G4-3	Name of the organization.	pg. 14
G4-4	Primary brands, products and/or services.	pg. 25
G4-5	Location of organization's headquarters.	pg. 14
G4-6	Name of countries where the organization operates.	pg. 14
G4-7	Nature of ownership and legal form.	pg. 14
G4-8	Markets served.	pg. 14
G4-9	Scale of the reporting organization, including workforce, total operations, net revenue and number of products offered.	pg. 14, 47
G4-10	Total number and variation of workforce by employment type in the year, broken down by gender and employment contract.	pg. 40
G4-11	Percentage of total employees covered by collective bargaining agreements at the end of the reporting period.	100% of our employees are subject to collective bargaining agreements.
G4-12	Total of active vendors and total paid during the reporting year, broken down by supplier.	pg. 53
G4-13	Significant changes during the reporting period regarding size, structure, ownership or operations.	No significant changes were recorded.
G4-14	Report whether or how the precautionary principle is addressed by the organization.	Indicator not reported.

G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes.	pg. 54
G4-16	Memberships in associations which the organization views as strategic.	pg. 54
G4-17	Subsidiaries of the organization included in the financial reports.	Please refer to: <a href="http://ri.magazineluiza.com.br/ListResultados/Central-de-Resultados?=&amp;ccDvwZJVjNNGqzBR8BdEKg==">http://ri.magazineluiza.com.br/ListResultados/Central-de-Resultados?=&amp;ccDvwZJVjNNGqzBR8BdEKg==</a>
G4-18	Process of defining report content and scope of information reported for each aspect.	pg. 11
G4-19	List all the material aspects identified in the process for defining report content.	pg. 11
G4-20	Boundary for each material aspect within the organization.	pg. 11
G4-21	Boundary for each material aspect outside the organization.	pg. 11
G4-22	Explanation of the effect of any re-statements of information provided in earlier reports.	No re-statements of information are recorded from previous reporting periods.
G4-23	Significant changes from the previous reporting periods in the scope or boundaries.	No significant changes were recorded.
<b>Stakeholder Engagement</b>		
G4-24	List of stakeholder engaged by the organization.	pg. 11
G4-25	Basis for identification and selection of stakeholders with whom to engage.	pg. 11
G4-26	Approaches to stakeholder engagement, including frequency of engagement.	The company conducted an online survey Engagement is analyzed every year.
G4-27	Key topics that have been raised through stakeholder engagement, and how the organization has responded to those key topics.	pg. 11
<b>Reporting Profile</b>		
G4-28	Reporting period.	January 1st, 2014 to December 31st, 2014.
G4-29	Date of most recent previous report.	2013



G4-30	Reporting cycle.	<b>Annual</b>
G4-31	Contact point for questions regarding the report.	<b>pg. 65</b>
G4-32	Report the 'in accordance' option (core or comprehensive), GRI Content Index, and reference to External Assurance Report.	This reports follows G4 guidelines, core option and – except for the financial information - it has not been externally assured.
G4-33	Policy and current practice with regard to seeking external assurance for the report.	The report has not been externally assured.

### Corporate Governance

G4-34	Governance structure of the organization, including committees.	<b>pg. 22</b>
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### Ethics and Integrity

G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	<b>pg. 23</b>
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## Performance

### Economic Performance

#### Aspect: Economic Performance

EC4	Significant financial assistance received from government.	<b>pg. 34</b>
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EC7	Development and impact of infrastructure investments and services provided.	<b>pg. 34</b>
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EC8	Significant indirect economic impacts, including the extent of impacts.	In addition to employment and income, Magazine Luiza also promotes the professional development of its employees and locations of its operations.
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#### Aspect: Procurement Practices

EC9	Proportion of spending on locally-based suppliers at significant locations of operation.	<b>pg. 53</b>
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### Environmental Performance

EN7	Reductions in energy requirements of products and services.	The Company will monitor this indicator in 2015. Reductions initiatives can be found under section Natural Capital.
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EN19	Reduction of greenhouse gas emissions (GGE).	<b>pg. 45</b>
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## Aspect: Effluents and Waste

EN22 Total water discharge by quality and destination. **pg. 43**

EN23 Total weight of waste by type and disposal method. **pg. 43**

EN25 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. The Company does not ship, import or export waste deemed hazardous.

## Aspect: Products and Services

EN27 Initiatives to mitigate environmental impacts of products and services and their extent. **pg. 43**

EN28 Percentage of products sold and their packaging materials that are reclaimed by category. **pg. 43**

## Aspect: Transport

EN30 Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. **pg. 43**

## Aspect: Supplier Environmental Assessment

EN32 Percentage of new suppliers that were screened using environmental criteria. Currently we do not screen logistics providers (transport, shuttle service, cafeteria, loading and unloading etc.) using environmental criteria.

EN33 Significant actual and potential negative environmental impacts in the supply chain and actions taken. Currently we do not have possible environmental impacts of logistics service providers mapped out.

## Social Performance

### Labor Practices and Decent Work

#### Aspect: Labor

LA1 Total number and rate of new employee hires and employee turnover by age group, gender, and region. **pg. 40**

LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	pg. 54
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LA3	Return to work and retention rates after parental leave, by gender.	During 2014, 745 employees took parental leave and the post maternity return rate was 100%.
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### Aspect: Training and Education

LA9	Average hours of training per year per employee by gender and by employee category.	pg. 40
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LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	We have an employee assistance program that provides legal aid and specific guidance on the Company's policy on retirement, helps employees who need to access public agencies and also offers career transition coaching when needed.
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LA11	Percentage of employees receiving regular performance and career development reviews, by gender and position.	pg. 40
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### Aspect: Supplier assessment for labor practices

LA14	Percentage of new suppliers that were screened using labor practice criteria.	pg. 52
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LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken.	pg. 52
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## Society

### Aspect: Local Communities

SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	pg. 54
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## Aspect: Anti-Corruption

S03	Percentage and total number of operations assessed for risks related to corruption and the significant risks identified.	pg. 23
S04	Communication and training on anti-corruption policies and procedures.	pg. 23
S05	Actions taken in response to incidents of corruption.	pg. 23

## Aspect: Anti-competitive behavior

S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	During 2014 there were no legal actions against the Company for anti-competitive behavior, antitrust, and monopoly practices.
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## Aspect: Supplier assessment for impacts on society

S09	Percentage of new suppliers screened using criteria for impacts on society.	pg. 53
S010	Significant actual and potential negative impacts on society in the supply chain and actions taken.	pg. 53

## Product Responsibility

### Aspect: Customer Health and Safety

PR1	Percentage of significant products and services in which health and safety impacts are assessed for improvement.	Magazine Luiza sell products that improve and make the lives of its consumers easier. In addition, the Company strives for customer safety both in terms of security of financial transactions and quality of products sold in its stores and e-commerce.
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### Aspect: Product and Service Labeling

PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Magazine Luiza complies with all industry norms and requirements on selling its products.
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PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	There were no cases of non-compliance of this type recorded during the reporting period.
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PR5	Results of surveys measuring customer satisfaction.	<b>pg. 52</b>
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### Aspect: Marketing Communications

PR6	Sale of banned or challenged products.	The Company does not sell products that are banned or challenged.
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PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	In 2014, 190 complaints were filed at the Consumer Protection Agency (PROCON), 116 of which for alleged failure to comply with supply conditions, 72 for uncompleted orders and two for false advertising.
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### Aspect: Customer Privacy

PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	There were no complaints of this type recorded during the reporting period.
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### Aspect: Compliance

PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	In 2014 the monetary value of fines for noncompliance amounted to R\$1,1 million.
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“An entrepreneurial culture based on respect and valorization of people is the competitive advantage of the Company.”

Telma Rodrigues

## Credits

GRI G4-31



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