

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD  
Form 20-F  
April 26, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 20-F**

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
OR  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

.. OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
OR  
.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

**Commission File Number 1-14626**

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**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

(Exact Name of Registrant as Specified in its Charter)

**BRAZILIAN DISTRIBUTION COMPANY**

(Translation of Registrant's name into English)

**THE FEDERATIVE REPUBLIC OF BRAZIL**

(Jurisdiction of incorporation or organization)

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(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

<b><u>Title of each class</u></b>	<b><u>Name of each exchange on which registered</u></b>
Preferred Shares, without par value*	New York Stock Exchange**
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one Preferred Share	New York Stock Exchange

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\*The Preferred Shares are non-voting, except under limited circumstances.

\*\*Not for trading purposes, but only in connection with the listing on the New York Stock Exchange of American Depositary Shares representing those Preferred Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the period covered by the annual report:

99,679,851 Common Shares, no par value per share

163,771,484 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

X

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 " Item 18 "

**If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**

" Yes x No

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## INTRODUCTION

All references in this annual report to (i) “CBD,” “we,” “us,” “our” and “Company” are references to Companhia Brasileira de Distribuição and its consolidated subsidiaries, unless the context requires otherwise, (ii) the “Brazilian government” are references to the federal government of the Federative Republic of Brazil, or Brazil, and (iii) “preferred shares” and “common shares” are references to our authorized and outstanding shares of non-voting preferred stock, designated as *ações preferenciais*, and common stock, designated as *ações ordinárias*, respectively, in each case without par value.

All references to “ADSs” are to American depositary shares, each representing one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or “ADRs,” issued by The Bank of New York Mellon.

All references herein to the “*real*,” “*reais*” or “R\$” are to Brazilian *reais*, the official currency of Brazil. All references to “US\$,” “dollars” or “U.S. dollars” are to United States dollars.

We have prepared our consolidated financial statements included in this annual report in conformity with accounting practices adopted by the International Financial Reporting Standards, or IFRS, issued by the International Accounting Standards Board, or IASB, in *reais*.

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts in respect of the year ended December 31, 2012 was R\$2.044 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2012, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate. See “Item 3A. Selected Financial Data—Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

## FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, principally in “Item 3D. Risk Factors,” “Item 4B. Business Overview” and “Item 5. Operating and Financial Review and Prospects.” We have based these forward looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things:

- the effects of the global financial and economic crisis in Brazil,
- our ability to sustain or improve our performance,
- competition in the Brazilian retail industry in the sectors in which we operate,
- government regulation and tax matters,
- adverse legal or regulatory disputes or proceedings,
- credit and other risks of lending and investment activities, and
- other risk factors as set forth under “Item 3D. Risk Factors.”



The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## 3A. Selected Financial Data

We present in this section summary financial and operating data derived from our audited financial statements as of and for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 included in this annual report and prepared in accordance with IFRS.

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2012 have been translated into U.S. dollars at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Brazilian Central Bank, as of December 31, 2012, of R\$2.044 to US\$1.00 (subject to rounding adjustments).

	As of and for the Year Ended December 31,					2012
	2008	2009 <sup>(1)</sup>	2010 <sup>(2)</sup>	2011	2012	(millions of US\$, except as indicated)
	(millions of R\$, except as indicated)					
<b>Statement of income data</b>						
Net sales revenue	18,032.0	23,192.8	32,091.7	46,594.5	50,924.4	24,914.1
Cost of sales	(13,279.5)	(17,493.8)	(24,241.5)	(33,933.0)	(37,120.7)	(18,160.8)
Gross profit	4,752.5	5,699.0	7,850.2	12,661.5	13,803.7	6,753.3
Selling, general and administrative expenses	(3,470.1)	(4,212.1)	(5,817.2)	(9,619.7)	(10,114.0)	(4,948.1)
Depreciation and amortization	(442.7)	(459.9)	(446.1)	(680.5)	(798.4)	(390.6)
Other operating expenses, net	(19.1)	(77.9)	(127.9)	(258.7)	(33.0)	(16.1)
Operating profit	820.6	949.1	1,459.0	2,102.6	2,858.3	1,398.5
Financial income	292.1	246.7	331.7	593.3	593.3	290.3
Financial expense	(623.7)	(501.2)	(1,154.7)	(1,926.0)	(1,786.2)	(873.9)
Share of profit in an associate	(0.5)	5.4	34.5	34.8	10.8	5.3
Income before income and social contribution taxes	488.5	700.0	670.5	804.7	1,676.2	820.2
Income and social contribution taxes	(147.2)	(94.0)	(84.5)	(85.0)	(519.8)	(254.4)
Net income and comprehensive income	341.3	606.0	585.9	719.7	1,156.4	566.0

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Attributable to equity holders of the parent.	341.3	609.3	618.5	718.2	1,051.2	514.2
Attributable to noncontrolling interest	0.0	(3.4)	(32.6)	1.4	105.2	51.5
Basic earnings per shares						
Common	1.39	2.34	2.27	2.61	3.78	1.85
Preferred	1.54	2.59	2.50	2.87	4.15	2.03
Diluted earnings per shares						
Common	1.39	2.34	2.27	2.61	3.78	1.85
Preferred	1.49	2.50	2.48	2.85	4.12	2.02
Basic earnings per ADS	1.54	2.59	2.50	2.87	4.15	2.03
Diluted earnings per ADS	1.49	2.50	2.48	2.85	4.12	2.02
Weighted average number of shares outstanding (in thousands)						
Common	99,680	99,680	99,680	99,680	99,680	99,680
Preferred	132,170	145,442	156,873	159,775	162,417	162,417

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	As of and for the Year Ended December 31,					2012 (millions of US\$, except as indicated)
	2008	2009 <sup>(1)</sup>	2010 <sup>(2)</sup>	2011	2012	
	(millions of R\$, except as indicated)					
Total	231,850	245,122	256,553	259,455	262,097	262,097
Dividends declared and interest on equity per share						
Common	0.25	0.53	0.63	0.62	0.59	0.29
Preferred	0.28	0.60	0.69	0.68	0.65	0.32
Dividends declared and interest on shareholders' equity per ADS <sup>(3)</sup>	0.28	0.60	0.69	0.68	0.65	0.32
<b>Balance sheet data</b>						
Cash and cash equivalents	1,623.5	2,341.9	3,818.0	4,970.0	7,086.3	3,466.9
Property and equipment, net	4,867.0	5,356.6	6,794.3	7,358.3	8,114.5	3,969.9
Total assets	13,718.6	18,574.1	29,772.3	33,769.0	35,396.2	17,317.1
Short-term debt (including current portion of long-term debt)	334.6	687.6	2,915.1	4,917.5	4,211.1	2,060.3
Long-term debt	3,092.6	3,582.6	5,591.9	6,240.9	6,281.1	3,072.9
Shareholders' equity	5,454.2	6,656.7	9,500.6	10,094.4	11,068.0	5,414.9
Share capital	4,450.7	5,374.8	5,579.3	6,129.4	6,710.0	3,282.8
<b>Other financial information</b>						
Net cash provided by (used in):						
Operating activities	1,256.0	1,842.8	361.4	1,128.1	5,299.3	2,592.6
Investing activities	(484.7)	(1,636.7)	(1,399.4)	(1,356.4)	(1,306.2)	(639.0)
Financing activities	(206.8)	512.4	2,514.1	1,380.3	(1,876.8)	(918.2)
Capital expenditures	(488.3)	(1,631.7)	(1,521.7)	(1,723.4)	(1,426.1)	(697.9)

(1) Includes the result of operations of Via Varejo S.A. (formerly Globex Utilidades S.A.), or "Viavarejo," which operates under the brand name *Pontofrio* as from July 1, 2009.

(2) Includes the results of operations of Nova Casa Bahia S.A., or Nova Casa Bahia, which operates under the brand name *Casas Bahia* as from November 1, 2010.

(3) Each preferred share received a dividend 10% higher than the dividend paid to each common share. See "Item 8A. Consolidated Statements and Other Financial Information — Dividend Policy and Dividends."

**As of and for the Year Ended December 31,**

<b>Operating Data</b>	<b>2008</b> (millions of R\$, except as indicated)	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b> (millions of US\$, except as indicated)	<b>2012</b>
Employees at period end <sup>(1)</sup>	70,656	85,244	144,914	149,070	151,037	151,037
Total square meters of selling area at period end	1,360,706	1,744,653	2,811,103	2,855,851	2,962,009	2,962,009
Number of stores at period end:						
<i>Pão de Açúcar</i>	145	145	149	159	163	163
<i>CompreBem</i>	165	157	-	-	-	-
<i>Sendas</i>	73	68	-	-	-	-
<i>Extra Hiper</i>	139	103	110	132	138	138
<i>Minimercado Extra</i>	-	52	68	72	107	107
<i>Extra Supermercado</i>	-	13	231	204	207	207
<i>Extra Eletro</i>	47	47	-	-	-	-
<i>Assaí</i>	28	40	57	59	61	61
<i>Pontofrio</i>	-	455	506	401	397	397
<i>Casas Bahia</i>	-	-	526	544	568	568
<i>Nova Pontocom</i>	-	-	-	-	-	-
Total number of stores at period end	597	1,080	1,647	1,571	1,641	1,641

	As of and for the Year Ended December 31,					
	2008	2009	2010	2011	2012	2012
Net sales revenues per employee <sup>(1)</sup> :						
<i>Pão de Açúcar</i>	229,076	262,547	287,016	288,256	243,825	119,317
<i>CompreBem</i>	325,737	336,011	-	-	-	-
<i>Sendas</i>	244,060	297,414	-	-	-	-
<i>Extra Hiper</i> <sup>(2)</sup>	339,614	356,092	431,185	457,355	442,813	216,693
<i>Minimercado Extra</i> <sup>(3)</sup>	-	N/A	N/A	270,466	195,418	95,629
<i>Extra Supermercado</i> <sup>(4)</sup>	-	N/A	316,028	256,486	338,644	165,718
<i>Extra Eletro</i>	409,722	548,748	-	-	-	-
<i>Assaí</i>	437,538	303,361	418,860	486,356	545,787	267,084
<i>Pontofrio</i> <sup>(5)</sup>	-	253,219	466,002	365,954	542,007	265,235
<i>Casas Bahia</i> <sup>(6)</sup>	-	-	N/A	464,689	474,760	232,327
<i>Nova Pontocom</i> <sup>(7)</sup>	-	-	-	-	-	-
CBD average net sales revenues per employee	297,536	315,055	382,182	393,595	445,366	217,943
Net sales revenues by store format:						
<i>Pão de Açúcar</i>	3,378	3,802	4,287	4,740	5,161	2,526
<i>CompreBem</i>	2,573	2,585	-	-	-	-
<i>Sendas</i>	1,397	1,608	-	-	-	-
<i>Extra Hiper</i> <sup>(2)</sup>	9,120	10,402	11,658	12,364	13,504	6,608
<i>Minimercado Extra</i> <sup>(3)</sup>	-	N/A	N/A	182	241	118
<i>Extra Supermercado</i> <sup>(4)</sup>	-	N/A	4,597	4,390	4,381	2,144
<i>Extra Eletro</i>	295	386	-	-	-	-
<i>Assaí</i>	1,269	1,982	2,943	3,902	4,639	2,270
<i>Pontofrio</i> <sup>(5)</sup>	-	2,428	4,455	4,524	4,872	2,384
<i>Casas Bahia</i> <sup>(6)</sup>	-	-	2,448	13,304	14,566	7,128
<i>Nova Pontocom</i> <sup>(7)</sup>	-	-	1,704	3,189	3,409	1,668
<i>Malls and Properties</i> <sup>(8)</sup>	-	-	-	-	152	74
Total net sales	18,032	23,193	32,092	46,594	50,924	24,920
Average monthly net sales revenue per square meter <sup>(9)</sup> :						
<i>Pão de Açúcar</i>	1,481.1	1,637.2	1,835.1	1,944.6	2,041.7	999.1
<i>CompreBem</i>	1,085.4	1,148.7	-	-	-	-
<i>Sendas</i>	897.1	1,088.6	-	-	-	-
<i>Extra Hiper</i> <sup>(2)</sup>	1,025.3	1,138.0	1,219.4	1,280.0	1,310.6	641.3
<i>Minimercado Extra</i> <sup>(3)</sup>	-	N/A	N/A	1,027.2	1,149.4	562.5
<i>Extra Supermercado</i> <sup>(4)</sup>	-	N/A	1,187.5	1,331.1	1,483.5	726.0
<i>Extra Eletro</i>	881.1	1,154.1	-	-	-	-
<i>Assaí</i>	2,486.1	1,395.2	1,790.3	1,777.7	2,036.2	996.4
<i>Pontofrio</i> <sup>(5)</sup>	-	620.4	1,032.6	1,072.9	1,245.6	609.5
<i>Casas Bahia</i> <sup>(6)</sup>	-	-	N/A	1,122.2	1,193.5	584.0
<i>Nova Pontocom</i> <sup>(7)</sup>	-	-	-	-	-	-
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	1,287.2	1,282.8	1,377.3	674.0

Average ticket amount:

<i>Pão de Açúcar</i>	26.1	29.8	33.2	36.3	39.6	19.4
<i>CompreBem</i>	19.3	20.7	-	-	-	-
<i>Sendas</i>	21.9	24.2	-	-	-	-
<i>Extra Hiper</i> <sup>(2)</sup>	43.7	48.5	53.3	64.0	59.3	29.0
<i>Minimercado Extra</i> <sup>(3)</sup>	-	N/A	N/A	12.0	12.8	6.3
<i>Extra Supermercado</i> <sup>(4)</sup>	-	N/A	23.9	25.1	26.7	13.0
<i>Extra Eletro</i>	299.1	346.6	-	-	-	-
<i>Assaí</i>	78.9	74.5	85.0	88.6	103.6	50.7
<i>Pontofrio</i> <sup>(5)</sup>	-	618.4	563.9	451.2	432.6	211.7
<i>Casas Bahia</i> <sup>(6)</sup>	-	-	361.3	372.2	391.5	191.6
<i>Nova Pontocom</i> <sup>(7)</sup>	-	-	538.3	485.6	428.2	209.6
CBD average ticket amount	32.6	41.2	54.1	73.4	79.3	38.8

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	<b>As of and for the Year Ended December 31,</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>
Average number of tickets per month (Brazilian <i>reais</i> – R\$):						
<i>Pão de Açúcar</i>	10,769,076	10,607,751	10,765,303	10,882,640	10,862,968	10,862,968
<i>CompreBem</i>	11,128,328	10,387,308	-	-	-	-
<i>Sendas</i>	5,315,750	5,537,072	-	-	-	-
<i>Extra Hiper</i> <sup>(2)</sup>	17,406,079	17,886,223	18,237,819	18,025,561	18,966,815	18,966,815
<i>Minimercado Extra</i> <sup>(3)</sup>	-	N/A	N/A	1,355,022	1,563,405	1,563,405
<i>Extra Supermercado</i> <sup>(4)</sup>		N/A	16,026,255	14,588,413	13,693,582	13,693,582
<i>Extra Eletro</i>	82,185	92,908	-	-	-	-
<i>Assaí</i>	1,340,148	2,218,159	2,885,286	3,671,405	3,732,878	3,732,878
<i>Pontofrio</i> <sup>(5)</sup>	-	333,487	658,275	835,446	938,511	938,511
<i>Casas Bahia</i> <sup>(6)</sup>	-	-	564,626	2,978,613	3,100,208	3,100,208
<i>Nova Pontocom</i> <sup>(7)</sup>	-	-	263,747	547,328	663,300	663,300
CBD average number of tickets per month	46,041,566	47,062,907	49,401,310	52,884,427	53,521,666	53,521,666

(1) Based on the average of the full-time equivalent number of employees, which is the product of the number of all retail employees (full- and part-time employees) and the ratio of the average monthly hours of all retail employees to the average monthly hours of full-time employees.

(2) In 2009, includes the results of operations of *Extra Hiper* stores, *Extra Supermercado* stores and *Minimercado Extra* stores. In 2010, includes the results of operations of *Extra Hiper* stores and *Minimercado Extra* stores.

(3) In 2009 and 2010, the results of operations of *Minimercado Extra* are included in *Extra Hiper* banner.

(4) In 2010, includes the results of operations of *Sendas* and *CompreBem* stores. During 2010 and 2011, we converted the *Sendas* and *CompreBem* stores into *Extra Supermercado* stores.

(5) In 2009, includes the results of operations of *Pontofrio* stores and Pontofrio.com. From 2010 the results of Pontofrio.com are included in Nova Pontocom.

(6) In 2010, includes the results of operations of *Casas Bahia* stores as from November 1, 2010.

(7) Includes all e-commerce assets of the Company. For further information, see “Item 4B. Business Overview — Our Company — E-commerce Operating Segment.”

(8) In 2012, R\$152 million net sales revenue (R\$153 gross sales) was recognized from real estate projects through a land swap. The land swap revenue is the net result of the book value of the assets swapped.

(9) Calculated using the average of square meters of selling area on the last day of each month in the period.

## Exchange Rates



Brazil's foreign exchange system allows the purchase and sale of currency and the international transfer of *reais* by any person or legal entity, regardless of amount, subject to certain regulatory procedures.

The Brazilian currency has during the last years experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between mid-2003 and 2008 the *real* appreciated significantly against the U.S. dollar and in August 2008 reached R\$1.559 per US\$1.00. Primarily as a result of the crisis in the global financial markets, the *real* depreciated 31.9% against the U.S. dollar and reached R\$2.337 per US\$1.00, at year end 2008. In 2009 and 2010, the *real* appreciated against the U.S. dollar and reached R\$1.666 per US\$1.00 at year end 2010. During 2011 and 2012 the *real* depreciated and on December 31, 2012, the exchange rate was R\$2.044 per US\$1.00.

The Central Bank has intervened occasionally to combat instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise.

The following tables present the selling rate, expressed in *reais* to the U.S. dollar (R\$/US\$), for the periods indicated:

Year	Exchange Rate of Brazilian Currency per US\$1.00			
	Low	High	Average <sup>(1)</sup>	Year-End
2008	1.559	2.500	1.838	2.337
2009	1.702	2.421	1.994	1.741
2010	1.655	1.881	1.759	1.666
2011	1.535	1.902	1.675	1.876
2012	1.702	2.112	1.955	2.044

Month	Exchange Rate of Brazilian Currency per US\$1.00			
	Low	High	Average <sup>(1)</sup>	Period-End
October 2012	2.022	2.038	2.030	2.031
November 2012	2.031	2.107	2.068	2.107
December 2012	2.044	2.112	2.078	2.044
January 2013	1.988	2.047	2.031	1.988
February 2013	1.957	1.989	1.973	1.975
March 2013	1.953	2.019	1.983	2.014
April 2013 (through April 17, 2013)	1.974	2.024	1.966	1.994

Source: Central Bank

(1) Represents the average of the exchange rates of each trading date.

### 3B. Capitalization and Indebtedness

Not applicable.

### 3C. Reasons for the Offer and Use of Proceeds

Not applicable.

### 3D. Risk Factors

*An investment in the ADSs or our preferred shares involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs and our preferred shares could decline due to any of these risks or other factors, and you may lose all or part of your investment. The risks described below are those that we currently believe may materially affect us.*

#### Risks Relating to Brazil

*The Brazilian government has historically exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions may adversely affect us and the trading price of the ADSs and our preferred shares.*

The Brazilian government's economic policies may have important effects on Brazilian companies, including us, and on market conditions and prices of Brazilian securities. Our financial condition and results of operations may be adversely affected by the following factors and the Brazilian government's response to these factors:

- interest rates;
- monetary policy;
- exchange rate and currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- tax and regulatory policies; and
- other political, social and economic developments in or affecting Brazil.

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Uncertainty over whether the Brazilian government will implement changes in policies or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. These uncertainties and other future events affecting the Brazilian economy could cause a material adverse effect on us and the trading price of the ADSs and our preferred shares.

***Brazilian government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm us and the trading price of the ADSs and our preferred shares.***

Brazil has in the past experienced extremely high rates of inflation and has therefore followed monetary policies that have resulted in one of the highest real interest rates in the world. Between 2005 and 2012, the base interest rate (SELIC) in Brazil varied between 19.75% p.a. and 7.25% p.a. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, which could negatively affect our business. We may not be able to adjust the prices we charge our customers to offset the effects of inflation on our cost structure. Furthermore, interest rate decreases may affect our ability to maintain interest margins we charge on installment sales, especially in connection with our home appliance segment, which could have a negative effect on our financial income. Brazilian government measures to combat inflation that result in an increase in interest rates may have an adverse effect on us as our indebtedness is indexed to the interbank deposit certificate, or CDI, rate. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm us or adversely affect the trading price of the ADSs and our preferred shares.

***Exchange rate instability may have a material adverse effect on the Brazilian economy and us.***

The Brazilian currency fluctuates in relation to the U.S. dollar and other foreign currencies. The Brazilian government has in the past utilized different exchange rate regimes, including sudden devaluations, periodic mini devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, Brazil has adopted a floating exchange rate system with interventions by the Central Bank in buying or selling foreign currency. From time to time there have been significant fluctuations in the exchange rate between the *real* and the U.S. dollar and other currencies. For example, the *real* appreciated 11.8%, 8.7% and 17.2% against the U.S. dollar in 2005, 2006 and 2007, respectively. In 2008, as a result of the worsening global economic crisis, the *real* depreciated 32% against the U.S. dollar, closing at R\$2.337 to US\$1.00 on December 31, 2008. For the years ended December 31, 2009 and 2010, the *real* appreciated 25.5% and 4.2%, respectively, against the U.S. dollar, closing at R\$1.741 and R\$1.666 to US\$1.00 on December 31, 2009 and 2010, respectively. For the years ended December 31, 2011 and 2012, the *real* depreciated 12.6% and 8.9%, respectively, against the U.S. dollar, closing at R\$1.876 and R\$2.044 to US\$1.00, respectively. The *real* may substantially depreciate or appreciate against the U.S. dollar in the future. Exchange rate instability may have a material adverse effect on us. Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and result in a material adverse effect on us. Depreciation would also reduce the U.S. dollar value of distributions and dividends and the U.S. dollar equivalent of the trading price of the ADSs and our preferred shares.

***Developments and the perception of risk in other countries, especially in the United States, the European Union and in emerging market countries, may adversely affect our business and the market price of Brazilian securities, including the ADSs and our preferred shares.***

The market price of securities of Brazilian issuers is affected by economic and market conditions in other countries, including the United States and emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in other countries may have an adverse effect on the market price of securities of Brazilian issuers. Crises in the United States, the European Union or emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the market price of our preferred shares and the ADSs, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

The global financial crisis that began during the second half of 2008 has had significant consequences, including in Brazil, such as stock and credit market volatility, credit retraction, a general economic slowdown, volatile exchange rates and inflationary pressure, among others, which may adversely affect us and the market price of Brazilian securities, including the ADSs and our preferred shares.

### **Risks Relating to the Retail Industry and Us**

*We face significant competition, which may adversely affect our market share and net income.*

We operate mainly in the food retail and home appliances sectors. The food retail sector in Brazil, including the self-service wholesale segment (*atacado de auto serviço*) and the home appliances sector, are highly competitive in Brazil. We face intense competition from small retailers, especially from those that operate in the informal segment of the Brazilian economy. In addition, in our markets, and particularly in the São Paulo and Rio de Janeiro city areas, we compete in the food retail sector with a number of large multinational retail food and general merchandise and self-service wholesale chains, as well as local supermarkets and independent grocery stores. In the home appliances sector, we also compete with large multinational chains and large or specialized Brazilian companies. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

In the e-commerce segment we compete with other large well established players that, similar to us, offer a wide range of products, as well as with specialized retailers that focus on one or a few products. Because barriers to entry are much lower than in traditional retail, competition in the e-commerce market in Brazil is even more intense and if we are unable to respond to changes in that market our market share and net income may be adversely affected.

*Disagreements between our controlling shareholder and our principal minority shareholder could adversely affect us.*

We are currently controlled by the Casino Guichard Perrachon Group, or Casino Group, through our holding company, Wilkes Participações S.A., or the Holding Company, which owns 65.6% of our voting shares and also the usufruct of 34.3% of our voting shares that are held by the Casino Group.

Between 2005 and June 2012, the Casino Group and a group composed of Mr. Abilio dos Santos Diniz and other members of the Diniz family, or Diniz Family, shared equal voting power in the Holding Company and were our co-controlling shareholders. In June 2012, according to the terms of the Holding Company shareholders' agreement, the Casino Group chose to elect Mr. Jean-Charles Naouri as the chairman of the board of directors of the Holding Company, which caused the so called co-control rearrangement, as provided for in the Holding Company shareholders' agreement, and since then the Casino Group, as per Brazilian Corporate Law, is our sole controlling shareholder inasmuch as it has the right to elect the majority of the members of both our board of directors and the Holding Company's and to direct our business. Accordingly, the Casino Group has elected the majority of the members of the board of directors of the Holding Company on July 2, 2012, and the majority of the members of our Board of Directors on June 22, 2012. In addition, by means of the exercise of a put option by the Diniz Family, the Casino Group became the largest voting shareholder of our Holding Company. Pursuant to the terms of the Holding Company shareholders' agreement, the Diniz Family is entitled to certain veto rights and other minority shareholder rights for as long as it holds at least 10% of the Holding Company voting shares and Mr. Abilio dos Santos Diniz, who has been our chairman since 2003, has the right to maintain this position for as long as he is mentally and physically fit for the functions and we have a good performance track record. For further information on the terms of the Holding Company shareholders' agreement, see "Item 7A. Major Shareholders – Shareholders' Agreements and Conditional Put Option Agreement."

Since mid 2011, there have been disagreements between the Casino Group and the Diniz Family. On May 30, 2011, the Casino Group filed a request for arbitration under the International Chamber of Commerce rules, or the ICC rules, against Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Península Participações Ltda. On July 1, 2011, the Casino Group filed another request for arbitration under the ICC rules, naming as respondents all the parties listed above and us. The two arbitrations were consolidated into a single proceeding and a three-member arbitral tribunal constituted to decide the dispute. On April 5, 2013, the arbitral tribunal dismissed us from the arbitration. However, on December 12, 2012 the Diniz Family filed a request for arbitration under the ICC rules against the Casino Group. The arbitration proceedings are subject to confidentiality provisions and aim at ensuring compliance with the terms of the shareholders' agreements entered into by and between the Casino Group and the Diniz Family. We cannot predict the effects of the dispute on us.

***We may not be successful in integrating and capturing synergies from acquired companies.***

As part of our growth strategy, we regularly analyze acquisition opportunities. Acquisitions involve risks and challenges, such as those related to the integration of operations, personnel, products and customer base of the acquired companies with ours, generation of expected return on the investment and exposure to liabilities of the acquired companies. The integration of acquired businesses with our business and our capturing of synergies from acquired companies may require more resources and time than initially expected. In addition, we may be required to obtain approval from Brazilian anti-trust authorities for certain acquisitions. The Brazilian anti-trust authorities may grant the approval subject to restrictive measures, such as sale of part of the assets, or may not grant it in a timely manner.

If we are not able to successfully integrate acquired businesses with ours or to capture synergies as planned, we may be materially and adversely affected.

***We are subject to environmental laws and regulations.***

We are subject to a number of different national, state and municipal laws and regulations relating to the preservation and protection of the environment, especially in relation to our gas stations. Among other obligations, these laws and regulations establish environmental licensing requirements and standards for the release of effluents, gaseous emissions, management of solid waste and protected areas. We incur expenses for the prevention, control, reduction or elimination of releases into the air, ground and water at our gas stations, as well as in the disposal and handling of wastes at our stores and distribution centers. Any failure to comply with those laws and regulations may subject us to administrative and criminal sanctions, in addition to the obligation to remediate or indemnify others for the damages caused. We cannot ensure that these laws and regulations will not become stricter. In this case, we may be required to increase, perhaps significantly, our capital expenditures and costs to comply with these environmental laws and regulations. Unforeseen environmental investments may reduce available funds for other investments and could materially and adversely affect us and the trading price of the ADSs and our preferred shares.

***We may not be able to renew or maintain our stores' lease agreements on acceptable terms, or at all.***

Most of our stores are leased. The strategic location of our stores is key to the development of our business strategy and, as a result, we may be adversely affected in case a significant number of our lease agreements is terminated and we fail to renew these lease agreements on acceptable terms, or at all. In addition, as per applicable law, landlords may increase rent periodically, usually every three years. A significant increase in the rent of our leased properties may adversely affect us.

***We face risks related to our distribution centers.***

Approximately 85% of our products are distributed through our 55 distribution centers located in the southern, southeastern, mid-western and northeastern regions of Brazil. If operations at one of these centers are adversely affected by factors beyond our control, such as fire, natural disasters, power shortages, failures in the systems, among others, and in the event that no other distribution center is able to meet the demand of the region affected, the distribution of products to the stores supplied by the affected distribution center will be impaired, which may adversely affect us. Our growth strategy includes the opening of new stores which may require the opening of new or the expansion of our existing distribution centers to supply and meet the demand of the additional stores. Our operations may be negatively affected if we are not able to open new distribution centers or expand our existing distribution centers in order to meet the supply needs of these new stores.





***We are exposed to risks related to customer financing and loans.***

We have a financial partnership with Itaú Unibanco Holding S.A., or Itaú Unibanco, through which we have established Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, or FIC, which exclusively offers credit cards, financial services and insurance at our stores. In addition, installment sales are widely used in the Brazilian home appliance market. We extend credit to our customers to finance their purchases in certain circumstances, specifically in our *Casas Bahia* stores. We are subject to the risks normally associated with providing these types of financing, including risk of default on the payment of principal and interest and any mismatch of cost and maturity of our funding in relation to cost and maturity of financing to our customers, which could have a material adverse effect on us.

***The retail segment is sensitive to decreases in consumer purchasing power and unfavorable economic cycles.***

Historically, the retail segment has experienced periods of economic slowdown that led to declines in consumer expenditures. The success of operations in the home appliances retail sector depends on various factors related to consumer expenditures and consumers' income, including general business conditions, interest rates, inflation, consumer credit availability, taxation, consumer confidence in future economic conditions, employment and salary levels. Reductions in credit availability and more stringent credit policies by us and credit card companies may negatively affect our sales, especially in the home appliance segment. Unfavorable economic conditions in Brazil, or unfavorable economic conditions worldwide reflected in the Brazilian economy, may significantly reduce consumer expenditure and available income, particularly in the lower income classes, who have relatively less credit access than higher income classes, more limited debt refinancing conditions and more susceptibility to increases in the unemployment rate. These conditions may cause a material adverse effect on us.

Because the Brazilian retail industry is perceived as essentially growth-oriented, we are dependent on the growth rate of Brazil's urban population and its different income levels. Any decrease or slowdown in growth may adversely affect our sales and our results of operation.

***Unauthorized disclosure of customer data through breach of our computer systems or otherwise could cause a material adverse effect on us.***

One of the main e-commerce issues is the safe transmission of confidential information of our customers on our servers and the safe data storage on systems that are connected to our servers. We depend on encryption and authentication technologies of third parties to safely transmit confidential information. Technological advances, new encryption techniques and other developments may result in technological failures related to protection of personal data provided by customers during purchasing. Security breaches by third parties of our computer systems and unauthorized disclosure or use of confidential information of our customers may expose us to claims for fraudulent use of this information, loss of reputation and judicial claims with potentially high liability, which could cause a material adverse effect on us.

***We depend on the transportation system and infrastructure to deliver our products to our stores.***

Products destined for all of our stores are distributed through our distribution centers located in 14 Brazilian states. The transportation system and infrastructure in Brazil are underdeveloped and need significant investment to work efficiently and to meet our business needs. Any significant interruptions or reduction in the use of transportation infrastructure or in their operations in the cities where our distribution centers are located as a result of natural disasters, fire, accidents, systemic failures or other unexpected causes may delay or affect our ability to distribute products to our stores and may decrease our sales, which may have a material adverse effect on us.

***Financial institutions in Brazil, including FIC, are subject to changing regulation by the Central Bank.***

FIC is a financial institution regulated by the Central Bank and is therefore subject to significant regulation. The regulatory structure of the Brazilian financial system is continuously changing. Brazilian government rules and intervention may adversely affect our operations and profitability more than those of a retailer without financial operations. Existing laws and regulations may be amended, and their application or interpretation may also change, and new laws and regulations may be adopted. We may be adversely affected by changes in regulations, including those related to:

- minimum capital requirements;
- requirements for investment in fixed capital;
- credit limits and other credit restrictions;
- accounting requirements; and
- intervention, liquidation and/or temporary special management systems.

***We may not be able to adapt to changing consumer habits.***

We compete with other retailers based on price, product mix, store location and layout and services. Consumer habits are constantly changing and we may not be able to anticipate and quickly respond to these changes. If we are unable to adapt our store format mix or layout, identify locations and open stores in preferred areas, quickly adjust our product mix or prices under each of our banners and segments or otherwise adjust to changing consumer preferences our business and results of operation could be materially adversely affected.

***Our controlling shareholder has the ability to direct our business and affairs.***

Our controlling shareholder has the power to, among other things, appoint the majority of the members to our board of directors, who, in turn, appoint our executive officers; determine the outcome of any action requiring shareholder approval, including the timing and payment of any future dividends, provided that we observe the minimum mandatory dividend established by Brazilian corporate law; determine corporate reorganizations, acquisitions, dispositions and the transfer of our control to third parties; deliberate on related party transactions and enter into new partnerships; and deliberate on financings and similar transactions. Our controlling shareholder may prevail over our other shareholders or holders of ADSs. For a description of our ownership structure, see “Item 7A. Major Shareholders.”

**Risks Relating to the Preferred Shares and ADSs**

***If you exchange the ADSs for preferred shares, as a result of Brazilian regulations you may risk losing the ability to remit foreign currency abroad.***

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian’s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our preferred shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to

our preferred shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes. See "Item 10D. Exchange Controls."

***You might be unable to exercise preemptive rights with respect to the preferred shares underlying the ADSs.***

You will not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933, or the Securities Act, is effective with respect to those rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement or to take any action to make preemptive rights available to holders of ADSs. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. In addition, we may issue a substantial number of preferred shares as consideration for future acquisitions and we may choose not to extend preemptive rights to holders of ADSs.

***The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire.***

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in more developed markets, and these investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than more developed securities markets. The top 10 stocks in terms of trading volume accounted for approximately 49%, 47% and 43% of all shares traded on the São Paulo stock exchange (*BM&FBovespa S.A. – Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, in 2010, 2011 and 2012, respectively. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited.

***Holders of the ADSs and our preferred shares may not receive any dividends.***

According to our by-laws, we must pay our shareholders at least 25% of our annual net income as dividends, as determined and adjusted under Brazilian corporate law. This adjusted income may be used to absorb losses or otherwise appropriated as allowed under the Brazilian corporation law and may not be available to be paid as dividends. We may not pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in view of our financial condition.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **4A. History and Development of the Company**

We were incorporated in Brazil under Brazilian law on November 10, 1981 as Companhia Brasileira de Distribuição. Our principal executive offices are located at Avenida Brigadeiro Luis Antonio, 3,142, São Paulo, SP, Brazil (telephone: +55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

We have been a pioneer in the Brazilian retail food industry, opening our first store, a pastry shop, in 1948 in the city of São Paulo under the name *Pão de Açúcar*. We established one of the first supermarket chains in Brazil, opening our first supermarket in 1959, and opened the first hypermarket in Brazil in 1971.

Brazilian economic reforms implemented in 1994, including the introduction of the *real* as the Brazilian currency and the drastic reduction of inflation rates, resulted in an unprecedented growth in local consumer markets. This increase in available income and the resulting increase in consumer confidence broadened our potential customer base and

provided us with growth opportunities.

We responded to these changes by strengthening our capital structure, increasing our logistics and technology investments and implementing an expansion strategy focused on the different consumer preferences of the Brazilian population. To support our expansion strategy, consisting of acquisitions and organic growth, we defined the format of our stores to tailor them to the expectations, consumption patterns and purchasing power of the different income levels in Brazil. Our stores have operated under different banners targeted at the various income segments of the Brazilian population. For further information on our banners, see “Item 4B. Business Overview — Our Company” and “— Operations.”

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In order to implement that strategy and to increase our market share, between 1981 and 2003 we acquired important supermarket chains such as *Coopercitrus*, *Lourenção*, *Barateiro*, *Peralta*, *Paes Mendonça*, *ABC Supermercados*, *Sé Supermercados*, *Sendas* and small chains, such as *São Luiz*, *Nagumo* and *Rosado*. These chains were later and gradually converted into our current banners.

In 2004, we entered into a financial partnership called FIC with Itaú Unibanco. FIC exclusively offers credit cards, financial services and insurance at our stores. For further information on FIC, see “Item 4B. Business Overview — FIC and Investcred.”

In 2007, we acquired a 60% ownership interest in the *Assaí* chain. This acquisition enabled us to enter the self-service wholesale segment in the State of São Paulo. In 2008, we started self-service wholesale operations in the State of Rio de Janeiro through *Xantocarpa*, a company that assumed the operation of three *Sendas* stores, which were converted into *Assaí* stores. In July 2009, we purchased the remaining 40% interest in *Assaí* and became owners of 100% of the chain.

In July 2009, we purchased a 70.2% ownership interest in Viavarejo (formerly Globex), a company which operates in the home appliances sector under the brand name *Pontofrio*. In this annual report, the term “home appliances” refers to sale of durable goods, i.e., electronics, furniture and other items for the home. In a tender offer triggered by the acquisition, our Company increased its ownership interest in Viavarejo to 98.8%.

In 2010, we consolidated our leading position in the retail segment in Brazil and we believe we became the largest home appliance retailer in the country as a result of the association with the partners of Casa Bahia Comercial Ltda., a Brazilian home appliances retailer which operates under the brand name *Casas Bahia*. Pursuant to the association agreement, by means of a corporate reorganization, we and the partners of Casa Bahia Comercial Ltda. merged our respective businesses in the home appliances and e-commerce segments under Viavarejo. As a result we now own 52.4% of Viavarejo.

In April 2013, we and Viavarejo entered into a term of undertaking (*Termo de Compromisso de Desempenho*), or TCD, with the Administrative Council for Economic Defense, or CADE, for the approval of the association agreement between CBD and Casa Bahia Comercial Ltda.

Our main undertaking under the TCD is to divest 74 stores, distributed across in 54 cities and seven states, representing approximately 3% of Viavarejo’s consolidated gross sales in 2012.

The approval of the association terminates the obligations assumed by us, Casa Bahia Comercial Ltda. and Viavarejo under the provisional agreement (*Acordo de Preservação de Reversibilidade da Operação – APRO*) entered into with CADE on February 3, 2010, allowing Viavarejo to capture all the synergies deriving from the association.

### **Capital Expenditures and Investment Plan**

As part of our capital expenditures and investment plan, we have invested approximately R\$4,671.2 in our operations in the three years ended December 31, 2012. Our capital expenditure and investment plan for 2013 contemplates capital expenditures and investments for 2013 in the total amount of up to R\$2.0 billion relating to (i) the opening of new stores, purchase of real estate and conversion of stores, (ii) the renovation of existing stores, and (iii) improvements to information technology, logistic and other infrastructure related capital expenditures and investments. The Company has historically financed its capital expenditures and investments mainly with cash flow generated from its operations and, to a lesser extent, funded by third parties. The Company plans to continue financing its capital expenditures and investments principally with cash flow from its operations. Our investments in the last three years



have included:

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*Opening of new stores and purchases of real estate* – In the food retail sector, we seek real estate properties to open new stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities that suit one of our formats. We have opened 184 new stores from 2010 through 2012, including those in the food retail sector and those in the home appliances retail sector. The total cost of opening these new stores and the purchase of real estate from 2010 through 2012 was R\$1,110.1 million.

*Acquisition of retail chains* – We have paid an aggregate of R\$803.1 million from 2010 through 2012 for the acquisition of interests in Globex, Sendas, Barcelona, Assaí and Rede Duque.

*Renovation of existing stores* – We usually remodel a number of our stores every year. Through our renovation program we add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information technology systems. The total cost of renovating stores from 2010 through 2012 was R\$1,963.4 million.

*Improvements to information technology* – We view technology as an important tool for efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We have made significant investments in information technology in an aggregate amount of R\$520.0 million from 2010 through 2012. For more information on our information technology, see “Item 4B. Business Overview—Technology.”

*Expansion of distribution facilities* – Since 2009, we have opened distribution centers in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. The increase and improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have capitalized an aggregate of R\$274.6 million on our distribution facilities from 2010 through 2012.

The following table provides a summary description of our principal capital expenditures for the three years ended December 31, 2012:

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
		(in millions of R\$)	
Opening of new stores	335.3	391.5	285.6
Purchases of real estate	0.5	0.2	97.0
Acquisition of retail chains	225.2	460.7	117.2
Renovation of existing stores	778.9	620.6	563.9
Information technology	136.4	130.1	253.5
Distribution centers	45.4	120.3	108.9
<b>Total</b>	<b>1,521.7</b>	<b>1,723.4</b>	<b>1,426.1</b>

When significant components of property and equipment are replaced, they are recognized as individual assets with specific useful lives and depreciation. Likewise, when a major replacement is performed, its cost is recognized at the carrying amount of the equipment as a replacement, if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss for the year as incurred. Leasehold improvements are amortized using the shorter of the lease term and the useful life of the assets.

#### **4B. Business Overview**

### **The Brazilian Retail Industry**

The Brazilian retail food industry represented approximately 5.7% of Brazil's GDP (gross domestic product) in 2012. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of approximately R\$250 billion in 2012, representing an 11.03% increase compared with 2011.

The Brazilian retail food industry is highly fragmented. Despite consolidation within the industry, according to ABRAS, the three largest supermarket chains represented approximately 45.9% of the retail food industry in 2012, as compared to 46.8% in 2011. Our consolidated gross sales represented 22.9% of the gross sales of the entire retail food industry in 2012, also according to ABRAS.

The self-service wholesale segment (*atacado de auto serviço*) was created in order to serve customers within a market niche that was neither reached by self-service retail nor by direct wholesale. According to the Brazilian Wholesalers Association (*Associação Brasileira de Atacadistas e Distribuidores de Produtos Industrializados*), or ABAD, this segment in Brazil had gross revenues of R\$164.5 billion in 2011, representing an 8.8% increase compared with 2010.

According to data published in February 2013 by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the volume of sales in the food retail sector increased by 8.4% in 2012 compared to 2011. This data mainly reflects the increase in the Brazilian population’s purchasing power, mostly driven by the rise in the salaries and number of people employed.

According to the IBGE, the volume of sales in furniture and house appliances sector in Brazil increased 12.3% in relation to the previous year. This performance occurred due to the maintenance of the employment and income growth and credit availability, as well as price reduction, mostly in house appliances, stimulated by the Federal VAT (IPI) reduction imposed by the government since December 2011 to the “white goods” segment and, starting in March 2012, to furniture.

According to the IBGE, the total population of Brazil was approximately 193.9 million in 2012, a 14.2% growth since 2000. Given that more than 84% of the population lives in urban areas (where most of our operations are located) and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from Brazil’s urban growth and economies of scale related to urban growth. According to an IBGE estimate for 2012, the city of São Paulo has a population of approximately 11.4 million and the city of Rio de Janeiro has a population of approximately 6.4 million. These are the two largest cities in Brazil. The State of São Paulo has a total population in excess of 42 million, representing 21.6% of the Brazilian population and is our largest consumer market. The State of Rio de Janeiro is our second largest consumer market.

According to *Fundação Getúlio Vargas*, or FGV, per capita income in Brazil increased approximately 2.7%, in real terms, during the 12-month period ended January 2012. During the same period, poverty decreased 7.9%. The study projects that the A and B social-economic classes (upper income) are likely to grow 29.3% until 2014, while the C (middle class) is expected to grow by 11.9%.

According to FGV, the social inequality index (Gini) in Brazil has decreased for the 12th consecutive year, in January 2012 reaching the lowest level since the 1960’s (0.5190). During the past 10 years, income for the poorest 50% in Brazil increased 68%, while it increased only 10% for the richest 10%.

The Brazilian retail industry is perceived as essentially growth-oriented, because retail margins are substantially more constrained compared to other industries. We are therefore intrinsically dependent on the growth rate of Brazil’s urban population and its different income levels. While living expenses in Brazil are lower than those in North America, Western Europe and Japan, Brazilian household income levels are also substantially lower.

The following table sets forth the different income class levels of Brazilian households, according to the Consumption Potential Index (*Índice de Potencial de Consumo – IPC*) Maps 2011.

	<b>Class Level</b>	<b>Average Monthly Income (in R\$)</b>
A1		13,100
A2		9,100
B1		4,900
B2		2,750
C1		1,650

C2	1,100
D	710
E	490

According to a study by IPC Maps 2011, classes A1 and A2 households will account for only 19.0% of the urban population and classes B1 and B2 households will account for 46.4% of the urban population. Classes C1, C2, D and E will collectively represent 34.6% of all urban households. In recent years, the number of class C, D and E households has increased in terms of total urban households and their average purchasing power has increased.

We expect that increased consumption by the lower income class levels will occur over time as a result of gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage increased 9.0% from R\$622.00 in January 2012 to R\$678.00 in January 2013. Our management believes based on internal data for the years immediately following the introduction of the *real*, that even small purchasing power increments generally result in significant increases in consumption in absolute terms, as well as increased expenditures in premium-priced food products and other non-food items, including home appliances and consumer electronics.

### **Our Company**

We are the largest retailer in Brazil, with a market share of approximately 22.9%, according to ABRAS. As of December 31, 2012, our total gross sales, including the food and non-food retail segments, totaled R\$57,234 million. On the same date, we operated 1,641 stores, 84 gas stations and 157 drugstores in 19 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 55 distribution centers located in 13 Brazilian states and the Federal District.

We classify our various business segments into four operating segments as follows:

- *Food retail segment*, which consists of sales of food and non-food products to individual consumers at (i) supermarkets through the banners *Pão de Açúcar* and *Extra Supermercado*, (ii) hypermarkets through the banner *Extra Hiper* and (iii) neighborhood stores through the banner *Minimercado Extra*. The food retail segment also includes GPA Malls & Properties transactions.

Food products include non-perishable food products, beverages, fruit, vegetables, meat, bread, cold cuts, dairy products, cleaning products, disposable products, and personal care products. In some cases, these goods are sold in the form of private label products at our food retail stores. We also sell non-food products, which include clothing items, baby items, shoes and accessories, household articles, books, magazines, CDs and DVDs, stationery, handcraft, toys, sports and camping gear, furniture, mattresses, pet products, gardening and also electronics products, such as personal computers, software, computer accessories, and sound and image systems. Some of the products listed above are also offered in the form of our private label products. We also sell our products in the food retail segment through our websites [www.paodeacucar.com.br](http://www.paodeacucar.com.br) and [www.extra.com.br](http://www.extra.com.br).

In addition, we include in the food retail segment the non-food products we sell at our drugstores, such as medications and cosmetics, and the non-food products we sell and the services we provide at our gas stations.

In the food and non-food retail segments we also provide extended warranties to our customers upon the sale of home appliances at our stores and bill payment services, in addition to the services directly offered at our stores, such as photo development.

- *Self-service wholesale segment*, which consists of sales of food and some non-food products to resellers, intermediate consumers and retail customers through the *Assaí* banner.
- *Home appliances segment*, which consists of sales of durable goods, i.e., electronics, home appliances, furniture and other items for the home, and the provision of products and services, such as specialized and convenient

sales and after-sales service through *Casas Bahia* and *Pontofrio* stores.

- *E-commerce segment*, which consists of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br, CasasBahia.com.br, Barateiro.com.br, PartiuViagens.com.br, wholesale activities and E Hub, owned by Nova Pontocom Comércio Eletrônico S.A., or Nova Pontocom, and its subsidiaries.

**Segment Revenue and Income Distribution**

The table below shows our gross and net revenues from our operating segments and their participation in our net revenues. Results of the operating segments are presented in conformity with IFRS, the measure used by management in evaluating the performance of and strategy for the four segments listed below.

Operating segment	Year Ended December 31, 2012			
	Gross Revenues from the Segment (in millions of R\$)	Percentage of Total Net Revenues	Net Revenues from the Segment (in millions of R\$)	Percentage of Total Net Revenues
Food retail	26,016.9	45.5%	23,439.0	46.0%
Self-service wholesale	5,080.1	8.9%	4,639.2	9.1%
Home appliances	22,387.0	39.1%	19,437.7	38.2%
E-commerce	3,749.7	6.6%	3,408.5	6.7%
<b>Consolidated</b>	<b>57,233.7</b>	<b>100.0%</b>	<b>50,924.5</b>	<b>100.0%</b>

The table below shows the net profit from each of the operating segments and their participation in our net income. Results of the operating segments are presented in conformity with IFRS, the measure used by management in evaluating the performance of and strategy for the four segments listed below.

Operating segment	Year Ended December 31, 2012	
	Net Profit from the Segment (in millions of R\$)	Percentage of Total Net Income
Food retail	773.5	66.9%
Self-service wholesale	60.8	5.3%
Home appliances	319.3	27.6%
E-commerce	2.9	0.3%
<b>Consolidated</b>	<b>1,156.4</b>	<b>100.0%</b>

For more information about our revenues and net income from our operating segments, see “Item 5A. Operating Results—Results of Operations for 2012, 2011 and 2010.”

**Number of Stores**

The following table sets forth the total number of stores at the end of the periods indicated per store format:

	<i>Pão de Açúcar</i>	<i>Extra Hiper</i>	<i>Extra Super<sup>(1)</sup></i>	<i>Mini-mercado Extra</i>	<i>Assaí</i>	<i>Pontofrio<sup>(2)</sup></i>	<i>Casas Bahia</i>	<i>Total</i>
As of December 31, 2009	146	103	238	52	40	502	-	1,081
During 2010								
Opened	1	8	2	23	13	8	-	55
Closed	-	(1)	(2)	(7)	-	(4)	-	(14)



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Transferred (from)/to	3	-	(7)	-	4	-	-	-
Acquired	-	-	-	-	-	-	526	526
As of December 31, 2010	150	110	231	68	57	506	526	1,648
During 2011								
Opened	3	3	1	6	2	6	20	41
Closed	-	-	(2)	(2)	-	(111)	(2)	(117)
Transferred (from)/to	7	19	(26)	-	-	-	-	-
Acquired	-	-	-	-	-	-	-	-
As of December 31, 2011	160	132	204	72	59	401	544	1,572
During 2012								
Opened	4	6	3	39	3	8	25	88
Closed	(1)	-	-	(4)	(1)	(12)	(1)	(19)
Transferred (from)/to								
Acquired	-	-	-	-	-	-	-	-
As of December 31, 2012 <sup>(3)</sup>	163	138	207	107	61	397	568	1,641

(1) In 2009, the *Sendas* and *CompreBem* stores were included in *Extra Supermercado* stores. During 2010 and 2011, we converted the *Sendas* and *CompreBem* stores into other formats.

(2) In 2009, the *Extra Eletro* stores were included in *Pontofrio* stores. During 2010, we converted the *Extra Eletro* into *Pontofrio* stores.

(3) Excludes 84 gas stations and 157 drugstores.

### **Geographic Distribution of Stores**

The Company operates mainly in the Southeast region of Brazil, which consists of the states of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo. The Southeast region accounted for 84.2% of the Company's consolidated net revenue for the year ended December 31, 2012, while the other Brazilian regions (North, Northeast, Center West and South regions) in the aggregate accounted for the remaining consolidated net sales for the year ended December 31, 2012. In addition, none of these regions represents individually more than 7.4% of the consolidated net sales.

The following table sets forth the number of our stores by region as of December 31, 2012:

	City of São Paulo	State of São Paulo (excluding the City of São Paulo) <sup>(1)</sup>	State of Rio de Janeiro	South and Southeast Regions (excluding the States of São Paulo and Rio de Janeiro) <sup>(2)</sup>	North and Northeast Regions <sup>(3)</sup>	Middle-West Region <sup>(4)</sup>
<i>Pão de Açúcar</i>	59	45	19	4	22	14
<i>Extra Hiper</i>	28	46	24	7	20	13
<i>Extra Supermercado</i>	69	84	46	-	8	-
<i>Minimercado Extra</i>	89	18	-	-	-	-
<i>Assaí</i>	19	22	10	-	7	3
<i>Pontofrio</i>	50	97	93	125	-	32
<i>Casas Bahia</i>	87	181	98	102	51	49
Total <sup>(5)</sup>	401	493	290	238	108	111

(1) Consists of stores in 121 cities, including Campinas, Ribeirão Preto and Santos.

(2) This area comprises the states of Espírito Santo, Minas Gerais, Paraná, Rio Grande do Sul and Santa Catarina.

(3) This area comprises the states of Alagoas, Bahia, Ceará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, Sergipe and Tocantins.

(4) This area comprises the states of Goiás, Mato Grosso, Mato Grosso do Sul and the Federal District.

(5) Excludes 84 gas stations and 157 drugstores.

### **Operations**

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats as of December 31, 2012:

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	<b>Store Format</b>	<b>Number of Stores</b>	<b>Total Selling Area (in square meters)</b>	<b>Average Selling Area Per Store (in square meters)</b>	<b>Total Number of Employees (1)</b>	<b>Percentage of Our Net Sales Revenues</b>
<i>Pão de Açúcar</i>	Supermarket	163	213,560	1,310	21,166	10.2%
<i>Extra Hiper</i>	Hypermarket	138	883,243	6,400	30,496	26.6%
<i>Minimercado Extra</i>	Neighborhood store	107	26,308	246	1,234	0.5%
<i>Extra Supermercado</i>	Supermarket	207	248,188	1,199	12,936	8.6%
<i>Assaí</i>	Self-service wholesale	61	196,795	3,226	8,500	9.1%
<i>Pontofrio</i>	Home appliances store	397	341,610	860	8,969	9.6%
<i>Casas Bahia</i>	Home appliances store	568	1,052,304	1,853	30,680	28.7%
<i>Nova Pontocom</i> (2)	E-commerce	-	-	-	-	6.7%
Head office & distribution center		55	-	-	37,036	-
<b>Total</b> (3)		<b>1,641</b>	<b>2,962,009</b>	<b>1,805</b>	<b>151,037</b>	<b>100.0%</b>

(1) Based on the average of the full-time equivalent number of employees, which is the product of the number of all retail employees (full- and part-time) and the ratio of the average monthly hours of all retail employees to the average monthly hours of full-time employees.

(2) Nova Pontocom's employees are included in Head office & distribution center.

(3) Excludes 84 gas stations and 157 drugstores.

For a detailed description of net sales revenue for each of our store formats, see "Item 5A. Operating Results."

### ***Food Retail Operating Segment***

#### *Pão de Açúcar Stores*

*Pão de Açúcar* operates convenient neighborhood stores, which are predominantly located in large urban areas (with over one-third located in the greater São Paulo metropolitan area). We believe that the locations of our *Pão de Açúcar* stores are a competitive advantage since available sites in these urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and high level of customer service, with an average selling area of 1,310 square meters as of December 31, 2102. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments. Many stores have shopping advisors that assist customers with inquiries about their particular needs, prices, special discounts and brand information.

As of December 31, 2012, we had 163 *Pão de Açúcar* stores. The *Pão de Açúcar* stores have an average of 1,310 square meters of selling space. Food products represented 93.5% of gross sales revenue attributable to *Pão de Açúcar* in 2012 and non-food products represented 6.5%.

The *Pão de Açúcar* banner recorded gross sales of R\$5,741 million in 2012, representing an increase of 8.7% relative to 2011. This increase was mainly a result of our expansion (four new stores were opened), as well as growth in certain categories, such as general merchandise and perishables, particularly sea food.

*Extra Hiper Stores*

*Extra Hiper* stores are our largest stores. We introduced the hypermarket format in Brazil with the opening of our first 7,000 square meter store in 1971. The *Extra Hiper* stores offer the widest assortment of products of any of our store formats and had an average selling area of 6,400 square meters as of December 31, 2012. The *Extra Hiper* stores target the Brazilian classes B, C, D and E classes. As of December 31, 2012, we had 138 *Extra Hiper* stores. The sale of food products and non-food products represented 62.5% and 37.5% of *Extra Hiper*'s gross sales in 2012, respectively.

Gross sales of the *Extra Hiper* banner in 2012 reached R\$15,076.7 million, an 8.9% increase compared to 2011. This increase was mainly due to our expansion (six new *Extra Hiper* stores were opened in 2012), as well as to better assortment of products.

#### *Extra Supermercado Stores*

As of December 31, 2012, we operated 207 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by stores with an average sales area of 1,199 square meters and a complete mix of food products and general merchandise. Our *Extra Supermercado* stores are complete neighborhood supermarkets with exceptional meat and bakery products, where families can stock up their pantries rapidly and economically and also acquire a wide range of household items in an easily accessible and pleasant environment with exemplary customer service. The sale of food products and non-food products represented 91.6% and 8.4%, respectively, of *Extra Supermercado*'s gross sales in 2012.

As part of our strategy to increase our operations in this segment and take advantage of the migration of the Brazilian population from lower income class to lower-middle income class, we converted *CompreBem* and *Sendas* stores into *Extra Supermercado* stores to unify our banners that are targeted at lower to middle income consumers. Through this conversion process, we strengthened our position in this increasingly growing segment of the Brazilian population and streamlined our operations.

Gross sales of the *Extra Supermercado* format in 2012 reached R\$4,788, a 0.8% decrease compared to 2011. This decrease was mainly due to the conversion of 26 stores in 2011 from the supermarket format into *Extra Hiper* and *Pão de Açúcar* stores.

#### *Minimercado Extra Stores*

In 2011, we began to re-brand this banner to *Minimercado Extra* (Extra Minimarket), keeping our "umbrella brand" in the name, but specifically emphasizing the neighborhood concept behind these stores. Through this process, the model was improved with some changes to the products and services mix, including a larger offer of customized services on perishable goods such as bakery products, sliced cheese/meat and butchery products. The mean sales area also increased to 246 square meters, with more check-outs and employees. These changes are a response to consumer demand, specifically the demand for healthier food, comfort and convenience. The sale of food products and non-food products represented 95.5% and 4.5%, respectively, of *Minimercado Extra*'s gross sales in 2012.

Gross sales of the *Minimercado Extra* banner in 2012 reached R\$258 million, a 32.4% increase compared to 2011, mainly due to our expansion (we opened 39 new stores in 2012), bringing the total of *Minimercado Extra* stores to 107 units as of December 31, 2012. We expect to continue growing this banner in the next couple of years.

#### *Gas Stations*

As of December 31, 2012, we operated 84 gas stations. The vast majority of our gas stations are located within the parking area of certain of our stores, mainly in *Extra Hiper* stores. The location of our gas stations allows our customers to both shop and refuel their cars while they are on our premises. Our strategy for gas stations is based on competitive prices and the reliability and quality of fuel, which is assured by the brand. We expect to increase the number of gas station units, especially in connection with the *Extra* and *Assaí* banners, and increase synergies with drugstores and *Minimercado Extra* stores. We opened six new stores in 2012.

#### *Drugstores*

As of December 31, 2012, we operated 157 units in 17 states and in the Federal District. Our strategy, in relation to our drugstores, is to provide greater convenience to our customers by providing additional products, mainly in our *Extra Hiper* stores. We opened ten new drugstores in 2012.

### *Food Delivery*

Our food delivery has become another sales channel of the Company, including Pão de Açúcar Delivery, or PA Delivery, and the Extra Delivery, launched in 2012. We have consolidated our leadership in food e-commerce through our food delivery formats. Using our food delivery formats, our customers can order their products online and receive them at home (within 24 hours for conventional delivery, or 4 hours for express delivery).

On December 31, 2012, we operated six PA Delivery units (conventional delivery) in Brazil, two of which are located in the Greater São Paulo area and the others of which are located in Rio de Janeiro, Brasília, Curitiba and Fortaleza. We operated sixteen PA Express Delivery units, twelve of which are located in the Greater São Paulo area and four of which are located in the countryside of São Paulo state.

In the Extra Delivery (conventional delivery) we operated three units, two of which are located in São Paulo and one of which is located in Rio de Janeiro. We operated one Extra Express Delivery unit, located in the Greater São Paulo area.

### ***Self-Service Wholesale Operating Segment***

#### *Assaí Stores*

The self-service wholesaler Assaí has been operating in the self-service wholesale segment for 40 years. In 2012, the format continued to undergo some changes as a result of a strategic decision to focus more on food distributors and processors, which led to a move to larger stores (from an average sales area of approximately 3,100 square meters in 2011 to new stores larger than 5,000 square meters opened in 2012) with a more robust layout, a reduced and more profitable product mix and certain other operational efficiencies, including greater use of technology, generating scale gains and permitting more advantageous negotiations with suppliers. We also introduced dual pricing, through which products our offered both at a standard price for unitary purchase and at a lower price per unit for higher quantity purchases.

In 2012, we opened three new *Assaí* stores, all with the new format, for a total of 61 stores as of December 31, 2012, and we expect to continue growing this segment in the next couple of years. In 2012, the *Assaí* banner recorded gross sales of R\$5,080, an increase of 18.5% compared to 2011.

### ***Home Appliances Operating Segment***

#### *Pontofrio Stores*

Our *Pontofrio* stores are specialized in home appliances such as consumer electronics. As of December 31, 2012, we operated 397 *Pontofrio* stores as a result of our acquisition of Globex (now called Viavarejo) in July of 2009. In 2012, *Pontofrio* stores had gross sales of R\$5,561 million.

Our *Pontofrio* stores target middle- and higher-income customers and our strategy is to open more stores in shopping malls focused on the A and B classes (higher income). We offer these customers customized expert advice on our products, as well as a range of value-added services, during and after sales, such as extended warranties.

#### *Casas Bahia Stores*



Our *Casas Bahia* stores are specialized in furniture and home appliances. As of December 31, 2012, we operated 568 stores as a result of the association with Casa Bahia Comercial Ltda. In 2012, *Casas Bahia* stores' gross sales totaled R\$16,825 million.

Our *Casas Bahia* stores target middle- and lower-income customers (B and C classes), who are attracted by flexible payment alternatives, including installment plans. *Casas Bahia* stores are generally larger than *Pontofrio* stores. Our *Casas Bahia* stores also offer a range of value-added services, during and after sales, such as extended warranties.

### ***E-commerce Operating Segment***

In line with our strategy of expanding our share of the sales of home appliances through e-commerce, in 2010 we consolidated our e-commerce operations by creating a new company called Nova Pontocom. This segment consists of remote sales of a broad product mix through the websites: *Extra.com.br*, *PontoFrio.com.br* and *CasasBahia.com.br*.

In addition, we have begun to offer a marketplace e-commerce solution, *E-hub*, to provide our customers the possibility of purchasing products from a large number of partners through a single purchase experience from our websites. We also seek to offer other e-commerce related services, such as *E-plataforma*, our e-commerce solution that we sell to specialized retailers, and B2B solutions. In 2012, we launched *PartiuViagens.com*, an online travel agency that focuses especially on travel packages, a higher value added product as compared to current players, who mostly focus on sales of airline tickets. We also launched *Barateiro.com*, a website dedicated to selling phased-out products and products with small flaws.

In 2012, the e-commerce segment's gross sales totaled R\$3,750 million. Nova Pontocom currently has a market share of slightly less than 20% of the Brazilian e-commerce market, as measured by e-Bit, and is the second largest e-commerce company in Brazil.

### **Seasonality**

We have historically experienced seasonality in our results of operations, principally due to traditionally stronger sales in the fourth quarter holiday season. Sales revenues in December are typically 40% above the average sales revenues in the other months. We also experience strong seasonality in our results for the months of March or April as a result of the Easter holiday where we offer specialized products for the occasion as well as in Soccer World Cup years where some of our products show an increase in sales.

Seasonality relating to the availability of some of our products (such as fruits and vegetables) does not affect our results due to the large and diverse selection of products we offer our customers.

### **Our Products**

Our products in the food retail sector are mostly ready-for-sale products that we purchase and resell to our end user consumers. Only a portion of our products are produced at our stores, which are based on formulations prepared by our technical team for development of perishables. In certain circumstances, we have entered into partnerships with suppliers who deliver semi-finished products that are finished at our stores.

The products manufactured and/or handled at our stores are: (i) fruits and vegetables, cut or packaged at our stores; (ii) meat (beef, pork, chicken and fish) as well as cold cuts and cheeses, which are cut, weighed and packaged at our stores; (iii) ready-to-eat meals sold at our deli counters; and (iv) bread, cakes and sweets made at the bakeries located within our stores.

We do not manufacture the products sold under our own exclusive brands. These products are manufactured by suppliers who are carefully selected by us, after we have thoroughly evaluated the quality of their service and their capacity to meet our demand. The development of products carrying our private label is guided by a detailed process aimed at standardizing our products and ensuring the products' manufacturing and launch within the commercial and strategic targets of our brands and compliance with our quality standards, involving various areas of our Company.

In the home appliances retail sector all our products are ready-for-sale products that we purchase and resell to our end-user consumers. We generally do not sell products in the home appliances segment under our own brands, but we offer value-added services, such as extended warranties.

## Suppliers

The purchasing of products for our *Pão de Açúcar*, *Extra Hiper*, *Extra Supermercado*, *Minimercado Extra* and *Assaí* stores is centralized and we purchase substantially on the spot or on a short-term basis from a large number of unaffiliated suppliers. As a result, we are not dependent on any single supplier.

The purchasing of products for our *Pontofrio* and *Casas Bahia* stores and for our e-commerce operating segment is separate and we purchase from a small number of suppliers, mostly Brazilian. We do not depend on any single supplier in our home appliance and e-commerce segments. In 2012, our largest supplier in the home appliance and e-commerce segments represented 14.0% and 19.4% of our respective sales and the ten largest suppliers in these segments represented 63.0% and 58.1% of our respective sales.

## Distribution and Logistics

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 55 distribution centers (including those of Viavarejo) strategically located in 13 Brazilian states and the Federal District with a total storage capacity of approximately 1.52 million square meters. The locations of our distribution centers enable us to make frequent shipments to stores, which reduces the need of in-store inventory space, and limits non-productive store inventories.

Our distribution centers are significantly supported by pd@net, a business-to-business technology platform, which links our computer automated ordering system to our distribution centers and suppliers in order to automatically replenish our inventory.

In 2012, we focused on applying a new supply synergy concept to our logistics network and, therefore, sharing the use of physical areas between our different businesses in lower density regions, addressing the specificities of each business with increased focus on reducing losses and working capital through the full implementation of demand planning processes under the Oracle retail platform. In 2013, our strategy is to (i) apply a new supply solution to avoid the increase in freight costs in cities that have imposed circulation restrictions to medium- and large-sized trucks, such as “U.L.A” (Advanced Logistic Units) that are located close to smaller format stores to reduce the “last mile” cost; (ii) increase the automation of our facilities with Picking by Voice, Put to Light and RFID pilot to control logistic assets; and (iii) review organization and processes to meet the needs of all banners and business units to increase the response speed to meet the singularities of each banner while maintaining and using synergy opportunities by sharing physical areas, distribution costs and working capital.

Eight years ago we initiated the Top Log program to certify our suppliers who employ the best policies and practices in logistics and supply ascertained during the year. In 2012, 147 suppliers participated in the Top Log Program, and were evaluated with respect to their service level, suitability to the client and integration. This program has led to several efficiency gains and better interaction between our logistics and that of our suppliers.

Our logistics and distribution processes are organized in accordance with the products and services sold under our banners. Accordingly, our distribution processes are guided by the following procedures:

### *Stores, Supermarkets and Hypermarkets*

As of December 31, 2012, the logistic process to supply our stores, supermarkets, hypermarkets and our self service wholesale operation, excluding drugstores and gas stations, included 24 distribution centers located in the states of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 502,124

square meter area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet. As of December 31, 2012, our centralization rate (the percentage of revenue from the products supplied at our stores that comes directly from our distribution centers) was 85% excluding our self-service wholesale operation. Including our self-service wholesale operation, our centralization rate was 76%.

Orders made for our non-centralized products are made directly by the stores and delivered by the suppliers following the supply model known as “Direct Delivery.” As of December 31, 2012, 15% of our stores sales, excluding our self-service wholesale operation, corresponded to “Direct Delivery” products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines. Including our self-service wholesale operation, 24% of our stores’ sales corresponded to “Direct Delivery” products.

### *Electronic Products and Home Appliances – Casas Bahia and Pontofrio Stores*

The logistics process associated with our *Casas Bahia* and *Pontofrio* stores involves an analysis of forecast sales, which we use to submit orders to our suppliers. Once these orders are issued, the delivery of products is managed by Viavarejo's supply chain area, which analyzes inventory levels, sales estimates by store and other variables, and schedules the delivery of the requested products with our suppliers. The products are delivered and distributed among Viavarejo's distribution centers, which as of December 31, 2012 totaled 23 distribution centers located in 13 Brazilian states (São Paulo, Rio de Janeiro, Minas Gerais, Paraná, Bahia, Espírito Santo, Goiás, Mato Grosso, Mato Grosso do Sul, Santa Catarina, Ceará, Rio Grande do Sul and the Federal District), corresponding to an 898,745 square meter area.

### *Delivery*

Our PA Delivery and Extra Delivery e-commerce operations share the same inventories with our stores and are strategically located to take advantage of a larger delivery area and to optimize logistics.

### *Nova Pontocom*

Our non-food products' e-commerce network offers assistance to our clients from a network of fully dedicated distribution centers. These centers are used for storage and handling of goods from the time they are selected and packed until the invoice is issued and the products are shipped. Upon the placement of an order on our website or through our call center and upon confirmation of the payment by the financial institution, the products are selected by a specialized team, are checked and packaged by our quality control department, and the invoice is issued.

### *Drugstores*

Our drugstores are supplied with medications and other products, such as cosmetics. The logistics system varies between centralized deliveries through our warehouses and decentralized deliveries. We have supply agreements with the main pharmaceutical distributors in the country, as well as regional distributors across Brazil. Since 2010, we have had a centralized operation in São Paulo with some pharmaceutical industries delivering to our drugstores in the state of São Paulo.

### *Gas Stations*

Our gas stations are supplied by exclusive suppliers. In 2012, we used four suppliers. Supply orders are made individually by each station, and fuel is requested through purchase orders or pre-agreed daily supplies, pursuant to the service agreements entered into by each gas station. Fuel transportation is carried out exclusively by our suppliers while unloading operations are closely followed by our employees for safety and quality control reasons. The process for compressed natural gas, or GNV, is different. GNV is delivered by regional suppliers directly to the gas stations, through dealers and using pipelines connected to the entrance boxes located at the gas stations and holding fuel meters installed and controlled by the dealers themselves. This equipment regularly measures the GNV volumes supplied. GNV is sold through dispensers attached to these entrance boxes, using specific pipelines.

### **Marketing**

Our marketing policy is aimed at attracting and retaining our customers. To this end, we conduct integrated marketing campaigns that are specific to each store banner in which we operate and are structured and directed at the target market for each store banner. Our marketing teams are media experts dedicated to developing quality marketing

campaigns to emphasize our strengths in terms of selection, service and competitive prices. We recognize marketing campaign expenses on sales expenses as they are incurred.

In 2012 we implemented a series of marketing actions designed to attract even more customers, especially to our *Extra* banners. These actions included a number of scheduled clearance sales, called *alerta vermelho* (red alert), and a Black Friday sale, as well as partnerships with suppliers in joint campaigns to promote specific products.

In 2010, 2011 and 2012, we spent approximately R\$281.0 million, R\$973.9 million and R\$1,006.4, respectively, on advertising (approximately 0.9%, 2.1% and 2.0%, respectively, of total net sales revenues in each year) accounted for as sales expenses. Marketing expenses of Casa Bahia were included only as from November 1, 2010. Also, 28.1%, 18.2% and 17.7% of our total marketing expenditures in 2010, 2011 and 2012, respectively, we spent on radio, newspaper and magazine advertising. Television advertisements accounted for 35.8%, 54.1% and 56.1% of advertising expenses in 2010, 2011 and 2012, respectively. We spent 36.1% in 2010, 27.2% in 2011 and 26.2% in 2012 on other promotional activities.

### **FIC and Investcred**

Before our acquisition of Viavarejo, Viavarejo had entered into an association with Unibanco – União de Bancos Brasileiros S.A. (currently, Itaú Unibanco), named Banco Investcred Unibanco S.A., or Investcred. In December 2009, we amended our partnership with Itaú Unibanco to include Investcred in the partnership and to extend the partnership's term an additional five years. Itaú Unibanco paid us R\$600.0 million, of which R\$550.0 million related to Itaú Unibanco's breach of the exclusivity clause, which allowed it to obtain the right to enter into similar partnerships with other retailers and R\$50.0 million related to the extension of term until August 28, 2029.

FIC operates service kiosks in our stores that have exclusive rights to offer credit cards, financial services and insurance, except for extended warranties. FIC has been operating for eight years and has 8.7 million customers (including the customer base of Investcred). Our Company and Itaú Unibanco each hold 50% of FIC's capital stock. The retail segment holds 36% of FIC through CBD, and the home appliance segment holds 14% through Viavarejo. Itaú Unibanco is responsible for the financial and operational policies of FIC, appointing the majority of its officers.

FIC's share of our total gross sales amounted to 6% as of December 31, 2012. In 2012, FIC had a share of profit in an associate of R\$10.8 million, a decrease compared to R\$34.8 million in 2011, due to a decrease in FIC's results. We maintain our strategy to increase the FIC card's share of sales, making it the best payment option in our stores and e-commerce operations, with exclusive benefits and advantages for card-holders.

The table below sets forth the breakdown of FIC's customers in 2010, 2011 and 2012.

<b>Total number of clients (in thousands)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Credit cards	7,671	8,350	8,773
Direct consumer credit agreements and personal loans	94	33	-
<b>Total</b>	<b>7,765</b>	<b>8,382</b>	<b>8,773</b>

### **Credit Sales**

In 2012, 58.6% of our net sales revenue was represented by credit sales, principally in the form of credit card sales, installment sales and food vouchers, as described below:



*Credit card sales.* All of our store formats accept payment for purchases with main credit cards, such as MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 45.8%, 48.7% and 47.9% of our consolidated net sales revenue in 2010, 2011 and 2012, respectively. Of this total, sales through our co-branded credit cards accounted for 6% of our net sales revenue in 2012. An allowance for doubtful accounts is not required as credit risks are assumed by credit card companies or issuing banks.

*Installment credit card sales.* Our *Extra* hypermarkets and *Pontofrio* and *Casas Bahia* stores offer attractive consumer financing conditions to our customers to purchase home appliances on an installment basis through our co-branded and private label credit cards, as well as third-party credit cards. Sales to customers using credit cards on an installment basis accounted for 50%, 62% and 59.5% of our total credit card sales (mentioned above) in 2010, 2011 and 2012, respectively. An allowance for doubtful accounts is not required as credit risks for all installments are assumed by credit card companies or issuing banks.

*Installment sales (“Crediário”).* Our *Casas Bahia* stores offer access to credit through payment slips (“*carnês*”) to our customers to finance their purchases. Sales to customers using payment slips accounted for 6.3% of our consolidated net sales revenue in 2012. Installment sales are widely used in the Brazilian home appliance market. We usually sell the receivables in connection with these installments to meet working capital needs of the home appliance segment. The cost of sales of receivables is considered as a financial expense.

*Food vouchers.* We accept as payment in our food stores vouchers issued by third-party agents to participating companies who provide them to their employees as a fringe benefit. Food vouchers accounted for 5.9%, 3.6% and 4.3% of our consolidated net sales revenue in 2010, 2011 and 2012, respectively. We record allowance for doubtful accounts based on average historical losses complemented by our estimates of probable future losses.

## **Technology**

We invested R\$136.4 million, R\$130.1 million and R\$253.5 million in information technology in 2010, 2011 and 2012, respectively. Our information technology department is interconnected with our other departments, streamlining our strategic initiatives.

In 2012, we continued to implement Oracle Retail, with the adoption of BAM (Business Activity Monitoring), a tool to track and manage supply chain processes and the TMS module (Transportation Management System), a tool to optimize the process of goods transportation, which will contribute to efficiency gains and reduced freight costs. We also started the Client Comes First program, which will allow us, through the SAP Hana software, to have a customized approach to our customers, creating loyalty programs and campaigns for a targeted audience.

Through the adoption of training, awareness and preventive maintenance in the stores processes throughout the year, we improved the availability and useful life of our checkout equipment. In addition, we invested R\$32 million to renew more than 10,500 pieces of equipment in 680 stores. This modernization process was also extended to the largest distribution center of the group, through the introduction of picking-by-voice technology, with a focus on efficiency in the picking operation.

We defined the strategic roadmap for IT evolution for the next three years, considering the technological trends and business needs in four areas: architecture and information systems, infrastructure, information security and governance. In 2013 our plans include, among other initiatives, the continued modernization of our technology, considering the renewal of over 10,000 pieces of equipment in approximately 350 stores; the implementation of the Demantec Markdown module in order to optimize inventory turnover in stores and reduce margin loss; the completion of the Client Comes First program; and the introduction of electronic issuance of coupon tax in stores to meet the requirement of SAT-Fiscal.

## **Intellectual Property**

We consider our brands to be one of our most valuable assets and we have worked extensively to define the characteristics of each of our banners (*Extra*, *Extra Supermercado*, *Minimercado Extra*, *Pão de Açúcar*, *Pontofrio*, *Casas Bahia* and *Assaí*) with respect to the expectations, consumption patterns and purchasing power of the different income levels in Brazil. We believe that Brazilian consumers associate each of our banners with a specific combination of products, services and price levels.

In Brazil, to acquire a brand it is necessary to officially register it with the *Instituto Nacional de Propriedade Industrial* (National Industrial Property Institute), or INPI. This registration gives the owner the exclusive right to use the trademark throughout Brazil for a renewable period of time.

As of December 31, 2012, our most important trademarks (Pão de Açúcar, Extra, Qualitá, Tael, Pontofrio, Casas Bahia, Assaí, and Barateiro, among others) were duly registered with INPI and we had approximately 2,930 trademarks registered or in the process of being registered in Brazil. We did not have any registered patents as of December 31, 2012.

We own the following domain names, among others: [www.extra.com.br](http://www.extra.com.br), [www.grupopaodeacucar.com.br](http://www.grupopaodeacucar.com.br), [www.paodeacucar.com.br](http://www.paodeacucar.com.br), [www.assaiatacadista.com.br](http://www.assaiatacadista.com.br), [www.assai.com.br](http://www.assai.com.br), [www.pontofrio.com.br](http://www.pontofrio.com.br), [www.casasbahia.com.br](http://www.casasbahia.com.br), [www.barateiro.com.br](http://www.barateiro.com.br) and [www.partiuviagens.com.br](http://www.partiuviagens.com.br). Note that these domain names are for informative purposes only and the information contained in these websites is not incorporated by reference in this annual report.

## Competition

Brazil's leading retail food companies are controlled by companies headquartered abroad. Foreign presence in the Brazilian retail food industry started with the French retail food chain, *Carrefour*. In the past decade, the U.S. chain *Walmart* has also entered the Brazilian market, mostly through the acquisition of domestic retail food chains, increasing competition in the industry. Thus, the Brazilian retail food industry is highly competitive. Nonetheless, supermarket penetration levels in Brazil, in terms of the number of supermarkets in proportion to the country's population and area, is estimated to be lower than the levels recorded in the United States, several Western European countries and some other South American countries.

Recently, leading retail food companies, including our Company, have pursued the following strategies:

- acquire smaller chains;
- migrate large stores to smaller formats, such as neighborhood banners; and
- increase share of hypermarkets in sales of clothing, general goods, electronic products, furniture and construction materials as well as in other categories of non-food products.

Our competitors vary depending on the regional location of the stores. Our principal competitors in food retail in the State of São Paulo are *Carrefour*, *Futurama*, *Mambo*, *Pastorinho*, *Sonda* and *Walmart*. In Brasília, our principal competitors are *Big Box*, *Carrefour*, *Super Cei* and *Super Maia*. In the State of Rio de Janeiro, our principal competitors are *Guanabara*, *Mundial*, *Prezunic* and *Zona Sul* supermarkets. In the states of Paraíba, Pernambuco, Ceará and Piauí, our principal competitors are the local supermarkets, in addition to *Bompreço* and *GBarbosa*.

The principal competitor of *Extra* hypermarket is *Carrefour*, which operates stores in the southeastern and southern regions of Brazil, and *Walmart*, which operates through various banners in the southeastern, northeastern and southern regions of Brazil.

*Assai* chain competes with *Atacadão*, a self-service wholesale chain purchased by *Carrefour* in 2007, *Roldão*, *Tenda*, *Makro* and *Maxxi*.

In our other regional markets, we compete not only with the organized food retail sector, but also with various small and medium-sized chains, family companies and food retail businesses.

In the home appliances market, the principal competitors of our *Casas Bahia* and *Pontofrio* stores are *Magazine Luiza*, *Pernambucanas*, *Ricardo Eletro*, *Lojas Insinuante* and *Fast Shop*, as well as hypermarkets such as *Carrefour* and *Walmart*.

In relation to our food products e-commerce, our PA Delivery and Extra Delivery units are market leaders and do not face competition at the national level; however there are relevant competitors in local markets, such as *Zona Sul*, which has a higher market share than us in the city of Rio de Janeiro, *Mercadorama*, which belongs to the *Walmart*

group, in the city of Curitiba, and *Sonda*, in the city of São Paulo.

In non-food products e-commerce, our competitors are Brazilian and foreign companies, although we believe that the competition from foreign companies is not yet material in this segment. According to a study by Exame, a Brazilian business magazine, in the beginning of March 2010, Nova Pontocom (comprised of *Extra.com.br*, *PontoFrio.com* and *CasasBahia.com*) has the second-highest market share in this segment. Our main competitors in this segment are B2W, the market leader, which owns *Americanas.com*, *Submarino* and *Shoptime*, among others, *Comprafacil* of the Hermes Group, *Magazine Luiza*, *Walmart*, *Saraiva*, *Fast Shop* and, more recently, *Amazon*.

## **Regulatory Matters**

We are subject to a wide range of governmental regulation and supervision generally applicable to companies engaged in business in Brazil, including federal, state and municipal regulation, such as labor laws, public health and environmental laws. In order to open and operate our stores, we need a business permit and site approval and an inspection certificate from the local fire department, as well as health and safety permits. Our stores are subject to inspection by city authorities. We believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business. In addition, we have internal policies that in some instances go beyond what is required by law, particularly with respect to environmental and sustainability requirements and social and community matters.

Our business is primarily affected by a set of consumer protection rules regulating matters such as advertising, labeling and consumer credit. We believe we are in compliance in all material respects with these consumer protection regulations.

## **Environmental and Social Matters**

We have been engaged in sustainability for years. For example, we initiated our innovative recycling program in 2001. We incorporate sustainability into our operations on a company-wide level, encompassing every sector of the organization. In 2009, we created an internal working group and the Sustainable Development Committee, which is linked to our board of directors. In 2010, the concept of sustainability was incorporated into our strategic management.

Sustainable projects that we have adopted in the last few years include:

- control of our water and energy consumption, in addition to controlling the volume of waste generated and proper disposal thereof, including offering our customers recycling stations at 124 *Pão de Açúcar* stores and 126 *Extra* stores;
- we have 40 stores that optimize the re-usage of our recyclable and organic garbage, re-using approximately 83% of the waste volume (including recycling, composting, etc.). The same system is being adapted for additional stores throughout all our banners; and
- monitoring fruit, vegetables, eggs and meat suppliers to ensure their compliance with environmental, social and economic criteria.

We support small communities and organizations that show socio-environmental responsibility by promoting their products since 2002 through our “Caras do Brasil” (Faces of Brazil) program. This program allows these communities and organizations to access a wider public through our stores without having to comply, at first, with all operational requirements we generally ask from our suppliers. We currently do not incur any material costs associated with environmental regulations compliance.

## **4C. Organizational Structure**

We conduct our operations through Companhia Brasileira de Distribuição. We invest in subsidiaries primarily to acquire the share capital of other retail chains from third parties. In most cases, the retail operations are transferred to retail stores under existing banners or the stores acquired begin operating under our banners. We conduct our food retail segment operations under the *Pão de Açúcar*, *Extra Hiper*, *Minimercado Extra*, *Extra Supermercado* banner and

for self-service wholesale retail segment operations, under the *Assaí* brand. We conduct our home appliances retail segment operations through our *Pontofrio* and *Casas Bahia* brands. The chart below sets forth a summary of our organizational structure:

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(\* Viavarejo is a publicly traded company listed on the BM&FBOVESPA and its free float on January 1, 2013, was equivalent to 0.59% of its capital.

For further information on our subsidiaries, see note 3(b) to our financial statements included in this annual report.

#### **4D. Property, Plants and Equipment**

We own 119 stores, twelve distribution centers and a portion of the real estate property where our headquarters are located. The remaining 1,522 stores and 43 distribution centers we operate and the remaining portion of the real estate property where our headquarters are located are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 21 leases expiring by the end of 2013. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31, 2012, we leased 16 properties from members of the Diniz Family and 62 stores from Fundo de Investimento Imobiliário Península, which is owned by the Diniz Family. In addition, all of the 568 *Casas Bahia* stores are leased, of which 274 were leased from members of the Klein family as of December 31, 2012. Our management believes that our leases follow at least market standards. See “Item 7B. Related Party Transactions—Leases” and note 13 to our audited consolidated financial statements included in this annual report.

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that we own and lease as of December 31, 2012:



	Owned		Leased		Total <sup>(1)</sup>	
	Number	Area (in square meters)	Number	Area (in square meters)	Number	Area (in square meters)
<i>Pão de Açúcar</i>	35	44,789	128	165,277	163	210,066
<i>Extra Hiper</i>	43	244,222	95	560,480	138	804,702
<i>Extra Supermercado</i>	28	38,541	179	197,275	207	235,816
<i>Minimercado Extra</i>	1	172	106	25,326	107	24,498
<i>Assaí</i>	9	31,154	52	165,641	61	196,725
<i>Pontofrio</i>	3	1,055	394	340,555	397	341,610
<i>Casas Bahia</i>	-	-	568	1,052,304	568	1,052,304
<i>Warehouses</i>	12	390,864	43	1,131,797	55	1,558,661
<i>Headquarters</i>	3	4,648	10	94,316	13	98,964

(1) Excludes 84 gas stations and 157 drugstores.

For further information on Capital Expenditures, see “Item 4A. History and Development of the Company – Capital Expenditures and Investment Plan.”

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*You should read this discussion in conjunction with our consolidated financial statements prepared in accordance with IFRS and the related notes and the other financial information included elsewhere in this annual report.*

##### 5A. Operating Results

##### Brazilian Economic Environment and Factors Affecting Our Results of Operations

Since all of our operations are in Brazil, our results of operations are affected by macroeconomic conditions in Brazil, including inflation rate, interest rate, Brazilian GDP, employment rates, wage levels, consumer confidence and credit availability.

For the period from 2010 through 2012, Brazilian GDP increased by an average of 3.7% annually (7.5% in 2010, 2.7% in 2011 and 0.9% in 2012). Inflation, as measured by the IPCA, was 5.9%, 6.5% and 5.8% in 2010, 2011 and 2012, respectively. From January 2010 through December 2012, the *real* appreciated 18.5% against the U.S. dollar. Unemployment decreased from 6.1% in January 2011 to 4.6% in December 2012. International reserves increased from US\$352.1 billion to US\$378.6 billion.

In 2008, Brazil received investment grade long-term debt ratings from Standard & Poor’s and Fitch and, in September 2009, from Moody’s. The upgraded long-term debt ratings reflected a favorable medium-term economic environment for Brazil due to the maturity of its financial institutions and the political structure of the country, as well as advances in fiscal policy and control over public debt. In the following months, the Brazilian government

promoted a series of measures to stimulate consumption, including reducing interest rates, expanding credit through federal public banks and cutting taxes on durable goods, such as vehicles and refrigerators. In April 2011, Fitch upgraded Brazil's rating on Brazil's local and foreign currency debt to BBB from BBB-, and its country ceiling to BBB+ from BBB.

In the second half of 2008, global economic conditions worsened significantly, in light of the global financial crisis. The immediate effects on the Brazilian economy included reduced growth and depreciation of the *real*, which decreased 31.6% between August and October 2008 (from R\$1.57/US\$1.00 on August 4, 2008 to R\$2.29/US\$1.00 on October 10, 2008). The crisis also adversely affected the Brazilian capital markets, as reflected by a decrease in the Ibovespa index of 49.0% between May 19, 2008 and December 30, 2008.

After these initial effects, the Brazilian economy resumed its prior growth trend, with rising income levels, stable employment rates and controlled inflation. The increase in GDP in 2010 was 7.5%. In 2011, GDP growth totaled 2.7%, below initial estimates, mainly due to the debt crisis in the Eurozone, which forced the Brazilian government and the Central Bank to adjust its economic policy during the second half of the year, lowering the base interest rate. According to IBGE, the average real income of Brazil's workforce in 2012 was estimated at R\$1,793,96, the highest since 2003, with a 4.1% growth over 2011. Between 2003 and 2012, the purchasing power related to the average real income of Brazil's workforce increased 27.2% (in 2003 the figure was R\$1,409.84), while unemployment fell from 10.9% in December 2003 to 4.6% in December 2012. The accumulated inflation rate as measured by the IPCA was 5.8% in December 2012, at the top of the targeted range. The Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM, began to decrease the SELIC in a controlled manner, which resulted in an SELIC rate of 7.25% at the end of 2012.

The following table sets forth data on real GDP growth, inflation and interest rates, and the U.S. dollar exchange rate for the indicated periods:

	<b>December 31</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
GDP Growth <sup>(1)</sup>	7.5%	2.7%	0.9%
Inflation (IGP-M) (%) <sup>(2)</sup>	11.3%	5.1%	7.6%
Inflation (IPCA) (%) <sup>(3)</sup>	5.9%	6.5%	5.8%
CDI (%) <sup>(4)</sup>	9.8%	11.6%	8.4%
TJLP (%) <sup>(5)</sup>	6.0%	6.0%	5.5%
SELIC rate (%) <sup>(6)</sup>	10.75%	11.00%	7.25%
Appreciation (depreciation) of <i>real</i> before USD (%)	4.5%	(12.6)%	(8.9)%
Exchange rate (closing) R\$ per USD 1.00 <sup>(7)</sup>	1.666	1.876	2.044
Average exchange rate R\$ per USD 1.00 <sup>(8)</sup>	1.759	1.675	1.955

(1) Source: IBGE.

(2) Inflation (IGP-M) is a General Market Price Index measured by FGV.

(3) Inflation (IPCA) is a Broad National Consumer Price Index measured by IBGE.

(4) The interbank deposit certificate (CDI) is the average rate of the interbank deposits in Brazil (at the end of each period and year).

(5) Long-term interest rate required by BNDES for long-term financing (end of the period data).

(6) Annual average interest rate. Source: Central Bank.

(7) Exchange rate (for sale) of the last day of the period. Source: Central Bank.

(8) Average of exchange rates (for sale) of the period. Source: Central Bank.

## **Financial Presentation and Accounting Policies**

### ***Presentation of Financial Statements***

The preparation of our consolidated financial statements, under the International Financial Reporting Standards – IFRS as issued by IASB, requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

***Critical Accounting Policies***

We discuss below key assumptions and judgments concerning the future, and other key sources of uncertain estimates at the reporting date that have a significant risk of causing a material impact to the carrying amounts of assets and liabilities within the next financial year. They are:

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*Operating lease commitments—Company as lessor*

We have entered into commercial property leases with respect to our investment property portfolio. We have determined, based on an evaluation of the terms and conditions of the arrangements, that we retain all the significant risks and rewards of ownership of these properties and we account for the contracts as operating leases.

*Estimated impairment of goodwill and intangibles*

We test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4 to our financial statements and IAS 36 Impairment of Assets. Other intangible assets, the useful lives of which are indefinite, such as tradenames and commercial rights were submitted to impairment tests according to the same calculation criteria used for goodwill.

As of December 31, 2012, the Company calculated the recoverable amount of goodwill arising from past acquisitions, which balance ceased to be amortized as of January 1, 2008, for the purpose of evaluating if there were changes in the assets' value resulting from events or changes in economic, operating and technological conditions that might indicate impairment for all cash generating units ("CGU").

For impairment testing purposes, the goodwill acquired for business combinations and licenses with indefinite useful lives were allocated to our four cash generating units, which consists of our retail, home appliances, cash and carry and e-commerce operating segments.

The recoverable amount of the segments was defined by means of a calculation based on the value in use based on cash projections arising from the financial budgets approved by senior management for the next three years. The discount rate before taxes applied to cash flow projections is 10.8% (15.5% at December 31, 2011), and cash flows exceeding 3 years are extrapolated by using a growth rate of 6.7% (3.0% at December 31, 2011). As a result of this analysis, there was no impairment.

For tradenames, the value was subject to impairment testing through the income approach – Relief from Royalty, which consists of determining the value of an asset by measuring the present value of future benefits. Given the indefinite useful life of the tradename, we consider a perpetual growth of 2.5% in the preparation of the discounted cash flow. The royalty rate used was 0.9%.

Commercial rights refer to amounts paid to former owners of commercial spots, and amounts calculated as the fair value of these rights in the business combinations of Casa Bahia and Pontofrio. To test the non-realization of these assets, we allocated the stores that have rise to these rights, and we tested them together with the fixed assets as described in note 6 b) to our financial statements.

Advantageous supply agreement on Bartira, and advantageous lease agreement with the Klein Family were tested for impairment following the same methodology of goodwill, and no impairment was noted.

*Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the nature and complexity of our business, differences arising between the actual results and the assumptions made, or future changes to those assumptions, could require future adjustments to tax income and expense already recorded. We establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which we operate. The amount of the provisions is based

on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred income and social contribution taxes assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax-planning strategies.

We have tax loss carry forwards amounting to a tax benefit of R\$796.8 million (R\$764.5 million in 2011). These losses do not expire and relate to subsidiaries that have tax-planning opportunities available to support these balances.

#### *Bonuses*

Bonuses received from suppliers are measured and recognized based on agreements signed, and the results are recognized into our net income (loss), insofar as the corresponding inventories are sold. The agreements are based on volume, logistics services and individual negotiations for the recovery of the margin or marketing expenses, among others.

#### *Fair value of derivatives and other financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash-flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors could affect the reported fair value of financial instruments.

The fair value of financial instruments that are actively traded on organized markets is determined based on the market quotes, on the balance sheet dates, without any deduction for transaction costs. For financial instruments that are not actively traded, the fair value is based on valuation techniques defined by us and compatible with usual market practices. These techniques include the use of recent market transactions between independent parties, benchmarks to the fair value of similar financial instruments, analysis of discounted cash flows and other valuation models.

#### *Share-based payments*

We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. We disclose the assumptions and models used for estimating fair value for share-based payment transactions in note 27(f) to our financial statements included in this annual report.

#### *Revenue – Sales of goods*

Revenues are recognized at the fair value of the consideration received or receivable for the sale of goods and services. Revenues from the sale of products are recognized when their value can be measured reliably, all risks and benefits inherent to the product are transferred to the buyer, the Company no longer has the control or responsibility over the goods sold and the economic benefits generated to the Company are probable. Revenues are not recognized if their realization is uncertain.

#### *Service Revenue*

Service revenue mainly derives from services provided in stores, such as photo printing, financial intermediation and extended warranty. Service revenue is recognized when services are rendered.





### *Finance service revenue*

Since customer financing is essential for conducting the business of the Company, the revenue or expense for all financial instruments measured at amortized cost are recorded using the effective interest rate, which discounts the estimated future cash receipts of the expected life of the financial instrument, or a shorter period of time, where applicable, from the net book value of the asset. Interest income is included under financial services, composing the Company's gross profit in the income statement.

### *Inventories*

Inventories are carried at the lower of cost or net realizable value. The cost of inventories purchased is recorded at average cost, including warehouse and handling costs, to the extent these costs are necessary, so that makes inventories available for sale in the Company's stores.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Inventories are also reduced by an allowance for losses and breakage, which are periodically reviewed and evaluated as to its adequacy.

## **Business Combinations**

### *Casa Bahia Comercial Ltda. Association*

We have consolidated the results of operations of Nova Casa Bahia S.A., or NCB, into our financial statements starting on November 1, 2010. The business combination was accounted for under the acquisition method consistent with IFRS 3 R.

### *Fair Value of Identifiable Assets and Liabilities*

The fair value, net of income taxes, of identifiable assets and liabilities acquired from NCB on the date of the business combination amounted to R\$1,763.9 million, divided as follows:

- (i) fair value of investment held in Bartira, a furniture maker that sells exclusively to *Casas Bahia*, equivalent to 25% of its capital stock, in the amount of R\$57.1 million, measured based on the income-approach method considering the present value of future benefits generated, directly or indirectly measured, and quantified in the form of cash flow;
- (ii) "*Casas Bahia*" tradename, a well-known trademark that is not going to be discontinued, in the amount of R\$1,066.2, million, measured based on the royalties-relief method considering market compensation for the brand if it had not been acquired by us;
- (iii) right of use of points-of-sale, several of which are located in large, busy shopping malls, in the amount of R\$264.7 million, measured based on the market-approach method considering comparable market transactions;
- (iv) fair value of property and equipment in the amount of R\$60.9 million, measured based on the market-approach method considering market value prices published by FIPE (*Fundação Instituto de Pesquisas Econômicas*) minus a 10% discount;

(v) exclusive furniture supply agreement with Bartira, at lower than market prices, in the amount of R\$146.0 million, based on the income approach method considering comparable market transactions; and

(vi) lease agreements, including stores, warehouses and administrative buildings at lower than market prices, in the amount of R\$169.0 million, based on the income approach method considering comparable market transactions.

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### *Allocation of the Purchase Price*

In 2010, we recorded a provisional purchase price allocation as of December 31, 2010 of a bargain purchase gain of R\$351.7 million.

In 2011, we carried out a final valuation that resulted in adjustments to the fair value of the net assets acquired and consideration transferred, which we recorded retroactively in the year ended December 31, 2010. The final purchase price allocation recorded was a bargain purchase gain of R\$351.7 million.

The changes to the provisional purchase price allocation were mainly to reflect adjustments to (i) unrecoverable assets of NCB; (ii) intangibles related to the Bartira supply agreement, purchase call option and investment, using cash flow; (iii) fair value of the NCB truck fleet; and (iv) expenses incurred at Viavarejo (formerly Globex), related to periods before the business combination, which should be reimbursed to the Klein family, in the proportion of the losses.

For further information on the association, see “Item 7B. Related Party Transactions – Leases” and “Item 10C. Material Contracts.”

### **Overview**

Our focus in 2012 was consolidating the various changes started in previous years. These included not only the consolidation of our banners, but also reinforcing our corporate values through a management model which rewards performance and growth for each business, generating added value to our customers according to their profile while taking into account recent changes in consumer habits.

With the assumption of offering quality service to our customers in all different purchasing moments, we invest and believe in multichannel operations with complementary business models. We own hypermarkets, supermarkets, neighborhood markets, specialized furniture and consumer electronics stores, e-commerce featuring strong brands, gas stations and drugstores, in addition to a real estate unit through which the group promotes synergy between its retail strength and its real estate assets.

In line with these guidelines, 2012 was the year in which Extra grew stronger as a national and multichannel player. It was the first full year of Extra Supermercado’s operations and the year in which Extra Delivery was launched. Extra Hiper, which already operated gas stations and drugstores, consolidated the one-stop shop concept with the relaunch of its clothing brand and the introduction of the store-in-store concept for certain products. We also completed the conversion of all former Extra Fácil stores into Minimercado Extra, reaching year end with over 100 stores under this banner. We believe our clients approved such change: Minimercado Extra was the banner which posted the highest growth in gross sales revenues: 33.5%.

The expansion process for the *Pão de Açúcar* banner was resumed. The banner opened its first green stores outside the State of São Paulo, in Goiânia and Recife. Further, *Pão de Açúcar* strengthened its strategic pillar of promoting conscious consumption.

In 2011, *Assaí* began a comprehensive restructuring process which brought broad changes from its management model to its store layout. In addition, its assortments have been adjusted to meet the needs of the banner’s target consumers. The restructuring led to a 18.5% growth in gross sales revenue in 2012. As a result, *Assaí*’s share of gross sales revenue in the food retail segment increased from 15.1% to 16.4%.

In the home appliances segment, the integration between Pontofrio and Casas Bahia was continued, respecting limitations imposed by CADE at the time. We started a cultural and process integration program in 2012. Viavarejo's gross sales totaled R\$ 26.1 billion, underscoring its leadership in the segment with a direct effect on its profitability.

The e-commerce business faced a year which saw increased integration between our various e-commerce operations, adjusted consumer electronics operation and the launch of an e-commerce site for tourism (*PartiuViagens.com.br*) and another site which sells phased-out products and refurbished product (*Barateiro.com.br*). In 2012, gross sales in our e-commerce business segment increased by 8.1%. During the period, the main players in the segment carried out aggressive pricing strategies given the relatively low demand in the sector. We adopted a strategy focused on profitability above market, which enabled us not only to increase sales but also to generate cash from operations and positive results.

In 2013, we plan to continue pursuing sustainable growth, seeking a strong competitive position while maintaining profitability and market share gains.

### Results of Operations for 2012, 2011 and 2010

We measure the results of our operating segments in conformity with IFRS using, among other measures, each segment's operating results. At times, our Company revises the measurement of each segment's operating results. When revisions are made, the operating results for each segment affected by the revisions are restated for all periods presented to maintain comparability. Therefore, there were no changes in the segments reported in 2012. Information for the segments is included in the following table:

Segments	As of December 31, 2012					Total
	Food Retail	Self-Service Wholesale	E-commerce	Home Appliances	Elimination (1)	
<b>Statement of operations data</b>						
	(in millions of R\$)					
<b>Net sales</b>	23,439.0	4,639.2	3,408.5	19,437.7	-	50,924.5
<b>Gross profit</b>	6,780.5	674.8	490.4	5,858.0	-	13,803.7
Depreciation and amortization	(592.0)	(43.7)	(9.7)	(152.9)	-	(798.4)
Operating profits	1,498.4	145.6	107.8	1,106.6	-	2,858.4
Financial expenses	(872.3)	(90.1)	(113.0)	(745.0)	34.3	(1,786.2)
Financial income	423.4	23.5	10.0	170.7	(34.3)	593.3
Share of profit in an associate	11.3	-	-	(0.5)	-	10.8
<b>Profit before income and social contribution taxes and noncontrolling interest</b>	1,060.7	79.0	4.7	531.8	-	1,676.3
Income and social contribution taxes	(287.2)	(18.3)	(1.8)	(212.5)	-	(519.9)
Net income (loss)	773.5	60.8	2.9	319.3	-	1,156.4

(1) Accounts for inter-company transactions.

Segments	As of December 31, 2011					Total
	Food Retail	Self-Service Wholesale	E-commerce	Home Appliances	Elimination (1)	
<b>Statement of operations data</b>						
	(in millions of R\$)					
<b>Net sales</b>	21,675.8	3,902.0	3,189.2	17,827.5	-	46,594.5
<b>Gross profit</b>	6,078.6	534.0	490.5	5,558.4	-	12,661.5
Depreciation and amortization	(515.6)	(31.7)	(7.4)	(125.8)	-	(680.5)
Operating profits	1,193.1	75.2	171.7	662.6	-	2,102.6
Financial expenses	(925.4)	(98.7)	(131.9)	(816.2)	46.2	(1,926.0)
Financial income	372.4	10.9	1.9	254.3	(46.2)	593.3
Share of profit in an associate	18.9	-	-	15.9	-	34.8
<b>Profit (loss) before income and social contribution taxes and noncontrolling interest</b>	659.0	(12.6)	41.7	116.6	-	804.7
Income and social contribution taxes	(34.6)	4.1	(14.9)	(39.6)	-	(85.0)
Net income (loss)	624.4	(8.5)	26.8	77.0	-	719.7

(1) Accounts for inter-company transactions.

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Segments	As of December 31, 2010					Total
	Food Retail	Wholesale	E-commerce	Home Appliances (1)	Elimination (2)	
<b>Statement of operations data</b>						
	(in millions of R\$)					
<b>Net sales</b>	20,542.7	2,943.0	1,702.3	6,903.7	-	32,091.7
<b>Gross profit</b>	5,524.7	421.7	276.6	1,627.1	-	7,850.2
Depreciation and amortization	(354.8)	(24.7)	(2.2)	(64.4)	-	(446.1)
Operating profits	1,106.3	62.6	77.4	212.7	-	1,459.0
Financial expenses	(660.0)	(53.6)	(73.5)	(376.2)	8.5	(1,154.7)
Financial income	298.8	7.2	0.3	34.0	(8.5)	331.7
Share of profit in an associate	21.7	-	-	12.8	-	34.5
<b>Profit (loss) before income and social contribution taxes and noncontrolling interest</b>	766.7	16.2	4.2	(116.6)	-	670.5
Income and social contribution taxes	(123.1)	(8.0)	(5.3)	51.8	-	(84.6)
Net income (loss)	643.6	8.2	(1.1)	(64.8)	-	585.9

(1) Includes the results of operations of Nova Casa Bahia as from November 1, 2010.

(2) Accounts for inter-company transactions.

The following table presents the consolidated results of operations in accordance with IFRS, as included in our financial statements.

Results of Operation	As of and for the Year Ended December 31,					
	2012	%	2011	%	2010 <sup>(1)</sup>	%
	(in millions of R\$)					
Net sales	50,924.5	100.0	46,594.5	100.0	32,091.7	100.0
Cost of sales	(37,120.7)	(72.9)	(33,933.0)	(72.8)	(24,241.5)	(75.5)
Gross profit	13,803.7	27.1	12,661.5	27.2	7,850.2	24.6
Selling, general and administrative expenses <sup>(3)</sup>	(10,114.0)	(19.9)	(9,619.7)	(20.6)	(5,817.2)	(18.1)
Depreciation and Amortization	(798.4)	(1.6)	(680.5)	(1.5)	(446.1)	(1.4)
Other operating expenses, net	(33.0)	(0.1)	(258.7)	(0.6)	(127.9)	(0.4)
Operating profit	2,858.4	5.6	2,102.6	4.5	1,459.0	4.5
Financial income	593.3	1.2	593.3	1.3	331.7	1.0
Financial expense	(1,786.2)	(3.5)	(1,926.0)	(4.1)	(1,154.7)	(3.6)
Share of profit in an associate	10.8	0.0	34.8	0.1	34.5	0.1
Income before income and social contribution taxes and noncontrolling interest	1,676.3	3.3	804.7	1.7	670.5	2.1
Income and social contribution taxes	(519.9)	(1.0)	(85.0)	(0.2)	(84.5)	(0.3)
Net income	1,156.4	2.3	719.7	1.5	585.9	1.8

Attributable to equity holders of the parent	1,051.2	2.1	718.2	1.5	618.5	1.9
Attributable to noncontrolling interest	105.2	0.2	1.4	-	(32.6)	(0.1)

(1) Includes the results of operations of Nova Casa Bahia as from November 1, 2010.

### **Year Ended December 31, 2012 Compared to Year Ended December 31 2011**

#### ***Consolidated***

*Net sales.* Net sales increased by 9.3%, or R\$4,330.0 million, from R\$46,594.5 million in 2011 to R\$50,924.5 million in 2012, mainly due to: (i) an increase in the variations of sales of stores open for at least one year, or same-stores sales, of 6.0% in Viavarejo and 6.5% in food retail and self-service wholesale segments in the amount of R\$3,592.8 million; and (ii) the opening of 88 stores, which increased the sales area by 140,718 square meters.

*Gross profit.* Gross profit increased by 9.0%, or R\$1,142.2 million, from R\$12,661.5 million in 2011 to R\$13,803.7 million in 2012, which was in line with net sales growth.

*Selling, general and administrative expenses* increased by 5.1%, or R\$494.3 million, from R\$9,619.7 million in 2011 to R\$10,114.0 million in 2012. This increase was mainly due to the food retail and self-service wholesale segments, as follows: (i) salary increases of R\$233.0 million; (ii) an increase of R\$30.0 million in marketing expenses; and (iii) an increase of R\$186.0 million in other expenses including rentals and other expenses variable over sales.



*Depreciation and Amortization* increased by 17.3%, or R\$117.9 million, from R\$680.5 million in 2011 to R\$798.4 million in 2012, mainly due to the depreciation and amortization related to assets acquired in 2011 and 2012. We invested R\$1,426.1 billion in 2012.

*Other operating expenses, net* decreased by 87.2%, or R\$225.7 million, from R\$258.7 million in 2011 to R\$33.0 million in 2012. This decrease was mainly due to: (i) payment of contractual obligations due to us by the sellers related to the association with Casa Bahia in the amount of R\$72.0 million; (ii) sales of fixed assets in the amount of R\$59.0 million; (iii) the reduction in severance charges of R\$51.0 million; and (iv) the R\$28.0 million effect of the tax amnesty program in 2011.

*Net financial expenses* decreased by 10.5%, or R\$139.8 million, from R\$1,332.7 million in 2011 to R\$1,192.9 million in 2012, mainly due to the decrease of the average CDI rate from 11.6% in 2011 to 8.4% in 2012. Despite the 28% decrease in the average CDI rate, cash investments indexed to the CDI rate increased approximately 42%, increasing financial revenue. In December 2012, we deconsolidated PAFIDC and redeemed the senior quotas of Globex FIDC, therefore, our indebtedness was reduced. For more information about the PAFIDC, see “Item 5B. Liquidity and Capital Resources – Securitization Funds.”

*Share of profit in an associate* decreased by 69.0%, or R\$24.0 million, from R\$34.8 million in 2011 to R\$10.8 million in 2012, due to a decrease in FIC’s results.

*Profit before income taxes and noncontrolling interest* increased by 108.3%, or R\$871.6 million, from R\$804.7 million in 2011 to R\$1,676.3 million in 2012, due to sales growth in line with the increase in gross profit, partially offset by the increase in operating expenses, as mentioned above.

*Income and social contribution taxes* increased by 511.6%, or R\$434.9 million, from R\$85.0 million in 2011 to R\$519.9 million in 2012, affecting the effective rate from 10.6% in 2011 to 31% in 2012. This variation was due: (i) growth in profit in 2012, affecting the income tax and social contribution expenses by approximately R\$262.0 million; (ii) the reversal of previous unrecognized deferred tax benefits from Sendas in the amount of R\$106.0 million in 2011; and (iii) the variation in the extemporaneous tax credits of R\$48.0 million.

*Net income* increased by 60.7%, or R\$436.7 million, from R\$719.7 million in 2011 to R\$1,156.4 million in 2012, mainly due to sales growth partially offset by growth in expenses, as explained above, and an increase in the profitability of Viavarejo, as explained below in the home appliances segment.

### ***Segment Information***

We present the results of our operating segments in the same manner management evaluates the performance of and strategy for the four segments listed below. For further information on the segments, see note 35 to our financial statements included in this annual report.

#### ***Food Retail Segment***

As of December 31, 2012, the food retail segment was comprised of the banners *Pão de Açúcar* and *Extra* (including *Minimercado Extra*, *Extra Supermercado* and *Extra Hiper*).

*Net sales* increased by 8.1%, or R\$1,763.2 million, from R\$21,675.8 million in 2011 to R\$23,439.0 million in 2012, mainly due to (i) increase in same store sales of 5.3%, or R\$1,127.5 million related to increased sales volume and prices; (ii) the opening of 52 stores, mainly Minimercado Extra stores, which ended the year with over 100 stores; (iii) the opening of three drugstores; and (iv) increased sales in the clothing and beauty products segments.

*Gross profit* increased by 11.5%, or R\$701.9 million, from R\$6,078.6 million in 2011 to R\$6,780.5 million in 2012, increasing our gross margin from 28.0% in 2011 to 29.1% in 2012, mainly due to (i) the increase in net sales mentioned above; (ii) different mix of products in 2012, with a focus on non-food items; (iii) improved negotiations with suppliers, in line with a commercial strategy which relies on IT systems to assist us in determining price elasticity for our products; and (iv) Oracle Retail's management of inventory levels, which minimizes the impact of shrinkage and excess inventory.

*Depreciation and amortization* increased by 14.8%, or R\$76.4 million, from R\$515.6 million in 2011 to R\$592.0 million in 2012, mainly due to R\$918.4 million in property, plant and equipment acquired in the period.

*Operating profit* increased by 25.6%, or R\$305.3 million, from R\$1,193.1 million in 2011 to R\$1,498.4 million in 2012, mainly due to sales growth and better negotiations with suppliers. Expenses as a percentage of net sales remained stable year-over-year, reaching 20.0% in 2012 compared to 20.2% in 2011.

*Net financial expenses* decreased by 18.8%, or R\$104.1 million, from R\$553.0 million in 2011 to R\$448.9 million in 2012, mainly due to the decrease of the average CDI rate from 11.6% in 2011 to 8.4% in 2012. Despite the 28% decrease in the average CDI rate, cash investments indexed to the CDI rate increased approximately 25%, increasing financial revenue.

*Profit before income and social contribution taxes and noncontrolling interest* increased by 61.0%, or R\$401.7 million, from R\$659.0 million in 2011 to R\$1,060.7 million in 2012, mainly due to an increase in sales, efficiency gain on inventory management and reduction in financial expenses. This increase was partially offset by the increase in amortization, as mentioned above.

#### *Self-Service Wholesale Segment*

As of December 31, 2012, the *Assaí* banner represented our self-service wholesale segment.

*Net sales* increased by 18.9%, or R\$737.2 million, from R\$3,902.0 million in 2011 to R\$4,639.2 million in 2012, mainly due to increase in same-store sales of 16.2%, or R\$620.7 million, in light of the successful repositioning of the product mix and the new store format. The bigger stores, bigger parking lots and addition of shelving space resulted in an increase in the average institutional customer ticket (the primary target customers for the segment): food distributors and processors. There were also gains from the maturation of the stores opened in the last two years, including two stores opened in 2012.

*Gross profit* increased by 26.4%, or R\$140.8 million, from R\$534.0 million in 2011 to R\$674.8 million in 2012, due to the increase in net sales and better negotiations with suppliers. Our margin increased to 14.5% in 2012 from 13.7% in 2011 mainly as a result of the product mix and the new store format.

*Depreciation and amortization* increased by 37.9%, or R\$12.0 million, from R\$31.7 million in 2011 to R\$43.7 million in 2012, due to the opening of new stores.

*Operating profit* increased by 93.6%, or R\$70.4 million, from R\$75.2 million in 2011 to R\$145.6 million in 2012, due to the increase in net sales as explained above. Expenses as a percentage of net sales decreased from 10.9% in 2011 to 10.5% in 2012, due to an increase in same-stores sales, resulting in a dilution of expenses.

*Net financial expenses* decreased by 24.1%, or R\$21.2 million, from R\$87.8 million in 2011 to R\$66.6 million in 2012, mainly due to the decrease of the average CDI rate from 11.6% in 2011 to 8.4% in 2012.

*Profit (loss) before income and social contribution taxes and noncontrolling interest* increased by R\$91.6 million, from a loss of R\$12.6 million in 2011 to a profit of R\$79.0 million in 2012, due to the increase in net sales and operating profit as explained above.

#### *Home Appliance Segment*

As of December 31, 2012, our home appliance segment was comprised of the banners *Pontofrio* and *Casas Bahia*.

*Net sales* increased by 9.0%, or R\$1,610.2 million, from R\$17,827.5 million in 2011 to R\$19,437.7 million in 2012, mainly due to: (i) a growth in same-stores sales of 8.8%, or R\$1,539.4 million; (ii) the opening of 16 stores; (iii) the overall increase in sales in light of a decrease in federal value-added tax granted to products such as refrigerators, washing machines, etc, which reduced price to consumers, benefiting the volume of sales; and (iv) increase in sales resulting from the positioning of Pontofrio stores with a new product mix.

*Gross profit* increased by 5.4% or R\$299.6 million, from R\$5,558.4 million in 2011 to R\$5,858.0 million in 2012 as a result of the increase in sales. Gross margin decreased from 31.2% in 2011 to 30.1% in 2012, mainly due to increased logistic costs. *Depreciation and amortization* increased by 23.7%, or R\$29.3 million, from R\$123.6 million in 2011 to R\$152.9 million in 2012, due to the opening of 16 new stores.

*Operating profit* increased by R\$444.0 million, from R\$662.6 million in 2011 to R\$1,106.6 million in 2012, due to the increase in net sales as explained above. Expenses as a percentage of net sales decreased from 26.7% in 2011 to 23.7% in 2012, due to (i) a decrease in personnel costs due to rationalization of expenses and stores closing (113 in 2011 and 13 in 2012) and (ii) a restructuring provision recorded in 2011 in the amount of R\$125 million in other expenses.

*Net financial expenses* increased by 2.2%, or R\$12.4 million, from R\$561.9 million in 2011 to R\$574.3 million in 2012, mainly due to (i) a R\$77 million decrease in financial revenue related to the decrease of the average CDI rate from 11.6% in 2011 to 8.4% in 2012; and (ii) the decrease in financial expenses of R\$89 million related to the decrease of the average CDI rate.

*Profit before income, social contribution taxes and noncontrolling interest* increased by R\$415.2 million, from R\$116.6 million in 2011 to R\$531.8 million in 2012, due to the increase in net sales and operating profit as explained above.

#### *E-commerce Segment*

As of December 31, 2012, our e-commerce segment consisted of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br, CasasBahia.com.br, Barateiro.com.br, PartiuViagens.com.br; self-service wholesale activities (B2B), and E-Hub.

*Net sales* increased by 6.9%, or R\$219.3 million, from R\$3,189.2 million in 2011 to R\$3,408.5 million in 2012, due to increased sales volume, partially offset by the decrease in the average ticket, from R\$485.6 in 2011 to R\$428.2 in 2012.

*Gross profit* decreased by 0.02%, or R\$0.1 million, from R\$490.5 million in 2011 to R\$490.4 million in 2012. Gross margin decreased from 15.4% in 2011 to 14.4% in 2012, due to fiercer competition in 2012.

*Depreciation and amortization* increased by 31.1%, or R\$2.3 million, from R\$7.4 million in 2011 to R\$9.7 million in 2012 million, due to assets acquired during the year.

*Operating profit* decreased by 37.2%, or R\$63.9 million, from R\$171.7 million in 2011 to R\$107.8 million in 2012, mainly due to the decrease in gross profit, as explained above.

*Net financial expenses* decreased by 20.8%, or R\$27 million, from R\$130.0 million in 2011 to R\$103.0 million in 2012, primarily due to the decrease of the average CDI rate from 11.6% in 2011 to 8.4% in 2012. Additionally, Nova Pontocom issued debentures in April 2012, with interest equivalent to 105.35% of CDI, as a better funding alternative

instead of the sales of receivables made during 2011.

*Profit (loss) before income and social contribution taxes and noncontrolling interest* had an income of R\$41.7 million in 2011 compared to R\$4.7 million in 2012, mainly due to the decrease in gross profit, as explained above.

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## Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

### *Consolidated*

*Net sales.* Net sales increased by 45.2%, or R\$14,502.8 million, from R\$32,091.7 million in 2010 to R\$46,594.5 million in 2011, due to R\$10,855.9 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Besides the effect of this consolidation, the increase in net sales was mainly due to increased same-stores sales in all business segments in the amount of R\$2,479.5 million.

*Gross profit.* Gross profit increased by 61.3%, or R\$4,811.3 million, from R\$7,850.2 million in 2010, to R\$12,661.5 million in 2011, due to R\$3,874.7 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Having Nova Casas Bahia together with Pontofrio stores and E-commerce operations resulted in efficiencies of scale with suppliers and access to better product mixes. Besides the effect of this consolidation, the increase in gross profit was also due to increased net sales in the food retail and self-service wholesale segments, which increased by R\$2,092.1 million. Our gross margin increased from 24.5% in 2010 to 27.2% in 2011, mainly due to (i) greater participation in the results of Nova Casas Bahia, with furniture sales having a higher gross margin than other formats, and (ii) increased sales of perishables in the food retail segment, which have a higher gross margin than other products, such as groceries.

*Selling, general and administrative expenses* increased by 65.4%, or R\$3,802.5 million, from R\$5,817.2 million in 2010 to R\$9,619.7 million in 2011, mainly due to R\$3,064.2 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Besides the effect of this consolidation, the increase in selling, general and administrative expenses was also due to increased sales in the food retail and self-service wholesale segments. Selling, general and administrative expenses as a percentage of net sales were equivalent to 18.1% in 2010 and 20.6% in 2011, mainly due to the increased participation in our results of home appliances that operate with a higher personnel base than the food retail segment.

*Depreciation and Amortization* increased by 52.5%, or R\$234.4 million, from R\$446.1 million in 2010 to R\$680.5 million in 2011, mainly due to R\$88.4 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Besides the effect of this consolidation, the increase was due to the amortization of intangibles from the acquisition of Nova Casas Bahia, in the amount of R\$125.3 million.

*Other operating expenses, net* increased by 102.3%, or R\$130.8 million, from R\$127.9 million in 2010 to R\$258.7 million in 2011. Other operating income decreased by R\$393.8 million in 2011 compared to 2010, mainly due to the gains resulting from the association with Casas Bahia in 2010. In addition, other operating expenses decreased by R\$263.0 million in 2011 compared to 2010, mainly due to the write-off of unrealized tax credits and effects of the enrollment in the tax installment payment program (REFIS) in 2010.

*Net financial expenses* increased by 61.9%, or R\$509.7 million, from R\$823.0 million in 2010 to R\$1,332.7 million in 2011, mainly due to (i) R\$335.1 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated and (ii) R\$101.8 million in interest on net bank debt, due to increased debt to finance business growth.

*Share of profit in an associate* increased by 0.9% from R\$34.5 million in 2010 to R\$34.8 million in 2011 due to the increase in (i) the number of FIC's customers, and (ii) the products related to credit cards, such as personal credit, payment of invoices in installments, among others, which increased our profitability.

*Profit before income taxes and noncontrolling interest* increased by 20.0%, or R\$134.2 million, from R\$670.5 million in 2010 to R\$804.7 million in 2011 due to sales growth in line with higher gross profit, partly offset by higher operating expenses, as mentioned above.



*Income and social contribution taxes* were flat in 2010 and 2011, R\$84.6 million in 2010 and R\$85.0 million in 2011, due to reversal of previously unrecognized deferred tax benefit from Sendas in the amount of R\$106.0 million. The effective tax rate on December 31, 2011 was 10.6% while in 2010 it was 12.6%.

*Net income* increased by 22.8%, or R\$133.8 million, from R\$585.9 million in 2010 to R\$719.7 million in 2011, due to (i) the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated, which together with Pontofrio stores and our E-commerce operations allowed scale gains with suppliers and access to better assortment, and (ii) the recovery of deferred income tax, partly offset by higher operating expenses and net financial expenses.

### ***Segment Information***

We present the results of our operating segments in the same manner management evaluates the performance of and strategy for the four segments listed below. For further information on the segments, see note 33 to our financial statements included in this annual report.

#### ***Food Retail Segment***

As of December 31, 2011, the food retail segment was comprised of the banners *Pão de Açúcar* and *Extra* (including *Minimercado Extra*, *Extra Supermercado* and *Extra Hiper*).

*Net sales* increased by 5.5%, or R\$1,133.1 million, from R\$20,542.7 million in 2010 to R\$21,675.8 million in 2011 due to (i) the conclusion of the conversion of the *CompreBem* and *Sendas* stores, mainly into Extra Supermercado stores, (ii) Brazil's first "Black Friday" sale in 336 Extra bricks-and-mortar stores, pioneered by the banner, and (iii) the launch of *Minimercado Extra* to replace *Extra Fácil*, with a larger sales area and a focus on perishables and services.

*Gross profit* increased by 10.0%, or R\$553.9 million, from R\$5,524.7 million in 2010 to R\$6,078.6 million in 2011 mainly due to (i) the conversion of *CompreBem* and *Sendas* stores into the *Extra Supermercado* format, meeting the needs of consumers by favoring perishables, which margins are higher; and (ii) more advantageous negotiations with suppliers, in line with a commercial strategy which relies on IT systems that assist us in determining price elasticity for our products and which served to increase margins, and Oracle Retail, which manages inventory levels, minimizing the impact of shrinkage and excess inventory. Therefore, our gross margin increased from 26.9% in 2010 to 28.0% in 2011.

*Depreciation and amortization* increased by 45.3%, or R\$160.8 million, from R\$354.8 million in 2010 to R\$515.6 million in 2011, mainly due to amortization of intangibles from the association with Nova Casas Bahia, in the amount of R\$125.3 million, which intangibles were allocated in the food retail segment.

*Operating profit* increased by 7.8%, or R\$86.8 million, from R\$1,106.3 million in 2010 to R\$1,193.1 million in 2011 mainly due to sales growth and more advantageous negotiations with suppliers.

*Net financial expenses* increased by 53.1%, or R\$191.8 million, from R\$361.2 million in 2010 to R\$553.0 million in 2011. The increase was mainly due to (i) R\$99.7 million of cost of net debt to fund business growth, and (ii) R\$34.7 million of costs of sales of receivables due to sales growth.

*Profit before income and social contribution taxes and noncontrolling interest* decreased by 14.0%, or R\$107.7 million, from R\$766.7 million in 2010 to R\$659.0 million in 2011 mainly due to an increase in sales and more advantageous negotiations with suppliers. Partly offset by higher amortization and net financial expenses, as

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mentioned above.

*Self-Service Wholesale Segment*

As of December 31, 2011, the *Assaí* banner represented our self-service wholesale segment.

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*Net sales* increased by 32.6%, or R\$959.0 million, from R\$2,943.0 million in 2010 to R\$3,902.0 million in 2011 mainly due the successful repositioning of the product mix in the self-service wholesale stores, which target food distributors and processors, resulting in an increase in the average institutional customer ticket and benefiting same-store sales growth; there were also gains from the maturation of stores opened in the last two years.

*Gross profit* increased by 26.6%, or R\$112.3 million, from R\$421.7 million in 2010 to R\$534.0 million in 2011 due to the strategic decision to focus on food distributors and processors, which led to a reduced assortment and a more profitable mix, generating scale gains and permitting more advantageous negotiations with suppliers.

*Depreciation and amortization* increased by 28.3%, or R\$7.0 million, from R\$24.7 million in 2010 to R\$31.7 million in 2011 due to the opening of new stores.

*Operating profit* increased by 20.1%, or R\$12.6 million, from R\$62.6 million in 2010 to R\$75.2 million in 2011 due to the increase in sales and reduced assortment permitting more advantageous negotiations with suppliers.

*Net financial expenses* increased by 89.2%, or R\$41.4 million, from R\$46.4 million in 2010 to R\$87.8 million in 2011. Financial expenses increased by 84.1%, or R\$45.1 million, from R\$53.6 million in 2010 to R\$98.7 million in 2011, mainly due to interest on net debt, which grew to finance the opening of new stores. This increase was from R\$24.8 million.

*Profit (loss) before income and social contribution taxes and noncontrolling interest* decreased by R\$28.8 million, from a profit of R\$16.2 million in 2010 to a loss of R\$12.6 million in 2011 mainly due to the increase in financial expenses of R\$45.1 million.

#### *Home Appliance Segment*

As of December 31, 2011, our home appliance segment was comprised of the banners *Pontofrio* and *Casas Bahia*.

*Net sales* increased by 158.2%, or R\$10,923.8 million, from R\$6,903.7 million in 2010 to R\$17,827.5 million in 2011, mainly due to the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated.

*Gross profit* increased by 241.6% or R\$3,931.3 million, from R\$1,627.1 million in 2010 to R\$5,558.4 million in 2011, mainly due to the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Gross margin increased from 23.6% in 2010 to 31.2% in 2011, primarily as a result the consolidation of Nova Casas Bahia's results of operations, which together with Pontofrio stores allowed scale gains with suppliers, access to better assortment and focus on mix with more profitability. In addition the sale of furniture had a better gross margin than electronics products.

*Depreciation and amortization* increased by 95.3%, or R\$61.4 million, from R\$64.4 million in 2010 to R\$125.8 million in 2011, mainly due to the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated.

*Operating profit* increased by R\$449.9 million, from R\$212.7 million in 2010 to R\$662.6 million in 2011, mainly due to the consolidation of Nova Casas Bahia's results, as mentioned previously.

*Net financial expenses* increased by 64.2%, or R\$219.7 million, from R\$342.2 million in 2010 to R\$561.9 million in 2011. Financial expenses increased by 117.0%, or R\$440.0 million, from R\$376.2 million in 2010 to R\$816.2 million

in 2011, mainly due to the anticipation of receivables to meet working capital needs in the home appliance segment. We expect the home appliance segment to continue financing its operations through the sales of receivables.

*Profit (loss) before income, social contribution taxes and noncontrolling interest* improved R\$233.2 million, from a loss of R\$116.6 million in 2010 to R\$116.6 million in 2011, mainly due to the consolidation of Nova Casas Bahia's results of operations, which allowed scale gains with suppliers and access to better assortment.

#### *E-commerce Segment*

As of December 31, 2011, our e-commerce segment consisted of our e-commerce operations through the websites Extra.com.br, Pontofrio.com.br and Casasbahia.com.br; self-service wholesale activities (B2B), and E Hub.

*Net sales* increased by 87.3%, or R\$1,486.9 million, from R\$1,702.3 million in 2010 to R\$3,189.2 million in 2011 mainly due to R\$516.4 million from the consolidation of Casasbahia.com.br's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Besides the effect of this consolidation, the increase in net sales was due to: (i) R\$366.5 million related to the consolidation of Extra.com.br, (ii) R\$367.6 million from the consolidation of self-service wholesales activities (B2B) and (iii) organic growth of the Pontofrio.com.br.

*Gross profit* increased by 77.3%, or R\$213.9 million, from R\$276.6 million in 2010 to R\$490.5 million in 2011 mainly due to the increase of sales. Gross margin decreased from 16.2% in 2010 to 15.4% in 2011 due to the consolidation of the self-service wholesales activities (B2B) which has a lower margin compared to our websites.

*Depreciation and amortization* increased by 236.4%, or R\$5.2 million, from R\$2.2 million in 2010 to R\$7.4 million in 2011 due to the consolidation of Casasbahia.com.br, self-service wholesales activities and the investment activities during 2011.

*Operating profit* increased by 121.8%, or R\$94.3 million, from R\$77.4 million in 2010 to R\$171.7 million in 2011 due to the increase of sales. Gross margin decreased from 16.2% in 2010 to 15.4% in 2011 due to the consolidation of the self-service wholesales activities (B2B) which has a lower margin compared to our websites.

*Net financial expenses* increased by 77.6%, or R\$56.8 million, from R\$73.2 million in 2010 to R\$130.0 million in 2011. Financial expenses increased by 79.5%, or R\$58.4 million, from R\$73.5 million in 2010 to R\$131.9 million in 2011 mainly due to the anticipation of receivables to meet working capital needs in the E-commerce segment.

*Profit (loss) before income and social contribution taxes and noncontrolling interest* had a loss of R\$4.2 million in 2010 compared to R\$41.7 million in 2011 mainly due to sales growth and the consequent dilution of operating expenses.

#### **5B. Liquidity and Capital Resources**

We have funded our operations and capital expenditures mainly from our operating cash flow and sale of receivables entered into with financial institutions (banks and credit card acquirers). Additionally, we have issued debentures in the local markets, accessed loans from banks and from the Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES.

We discontinued the sale of receivables through two receivables securitization investment funds (Pão de Açúcar Receivables Investment Fund (*Pão de Açúcar Fundo de Investimentos em Direitos Creditórios*), or PAFIDC, and Globex Receivables Investment Fund (*Globex Fundo de Investimento em Direitos Creditórios*), or Globex FIDC, that we have used until recently. In December 2012, we redeemed the senior quotas of Globex FIDC and liquidated our interest as quotaholders of PAFIDC, in light of a change in PAFIDC's by-laws which transformed it in a non-exclusive fund now named Rabobank Multicredit FIDC. In March 2013, remaining balances of Globex FIDC were liquidated.

After the liquidation of the Globex FIDC Viavarejo and the end of our relationship with PAFIDC, we continued selling our receivables to banks and credit card merchant acquirers without right of recourse or any obligation related therewith. For more information on the sale of receivables, see note 8(c) to our financial statements included elsewhere in this annual report.

As of December 31, 2012, we had R\$7,086.3 million in cash and cash equivalents. We have a policy of maintaining our cash and cash equivalents to respond to short-term liquidity requirements. Historically, a relevant proportion of our cash is generated during the fourth quarter of the year, and the cash level decreases between the second and third quarter of each year.

Our main cash requirements include:

- the servicing of our indebtedness;
- capital expenditures, including the construction and remodeling of new stores and investments in our infrastructure;
- acquisitions of other supermarket chains; and
- distribution of dividends and interest on shareholders' equity.

Our primary sources of liquidity have historically been cash flow from our operating activities and borrowings. Net cash from operating activities was R\$5,299.3 in 2012 of which R\$2,364.5 are due to the no longer consolidating the debt of PAFIDC and Globex FIDC, R\$1,128.1 million in 2011 and R\$361.4 million in 2010. Net cash provided by financing activities was R\$1,876.8 in 2012, R\$1,380.3 million in 2011 and R\$2,514.1 million in 2010. In 2012, these cash flows were primarily used for investments in the capital expenditures program, totaling R\$1,426.1 million.

As of December 31, 2012, our total outstanding debt was R\$10,492.3, consisting of:

- R\$9,586.1 in *real*-denominated loans, and
- R\$906.2 in U.S. dollar-denominated debt, swapped to *real*-denominated loans.

We have adopted a treasury policy to manage financial exchange risk, principally by entering into swaps in *reais* for 100% of our U.S. dollar-denominated liabilities, which represent less than 10% of our total debt. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party that provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, pursuant to which we are then effectively liable for amounts in *reais* and interest at a percentage of the CDI rate. The reference amounts and maturity periods of these swaps generally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

Total debt as of December 31, 2012 decreased by 6.0% or R\$666.1 million, from R\$11,158.4 million in 2011 to R\$10,492.3 million in 2012. Part of our debt was incurred in connection with the acquisition and construction of new stores and with the remodeling of existing stores, strengthening our working capital needs. Additionally, part of our debentures issued in 2012 was a result of our strategy to maintain a higher cash position to face possible market volatilities during the year. Our debt interest expense was R\$913.1 million in 2012 and R\$336.1 million in 2011.

We have entered into four lines of credit with BNDES, which are denominated in *reais* and subject to indexation, based on the TJLP plus an annual spread. Amortizations are in monthly installments after a grace period. BNDES has been historically an important source of financing for new stores and the acquisition of supermarket chains. For further information on our lines of credit with BNDES, see note 19(e) to our financial statements included in this annual report.

Under the lines of credit with BNDES, we are prohibited from offering assets as collateral in loans entered into with third parties without the prior consent of BNDES. We also have to comply with the maintenance of covenants measured in accordance with the relevant BNDES agreements: capitalization ratio (shareholders' equity/total assets) equal to or in excess of 0.30 and current ratio (EBITDA/net debt) equal to or in excess of 0.35.



We issued a number of non-convertible debentures in recent years, as follows:

*CBD*

On March, 2007, the shareholders approved the sixth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$779.6 million, for 77,965 non-convertible debentures issued as the first (54,000) and second (23,965) series of the sixth issuance. The debentures accrue interest at the average CDI rate plus a spread of 0.5% per year, which is payable semi-annually. The principal amount was repaid in three equal installments on March 1, 2011, 2012 and 2013.

On June, 2009, the shareholders approved the seventh issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$200 million, for 200 non-convertible debentures issued as the first series of the seventh issuance. The debentures accrue interest equivalent to 119% of the average CDI rate, which is payable on the maturity date. The principal amount was repaid in one installment on June 5, 2011.

On December, 2009, the shareholders approved the eighth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$500 million, for 500 non-convertible debentures issued as the first series of the eighth issuance. The debentures accrue interest equivalent to 109.5% of the average CDI rate, payable on the thirty-sixth month after the issue date and annually thereafter until December 15, 2014.

On January, 2011, the shareholders approved the ninth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$610 million, for 610 non-convertible debentures issued as the first series of the ninth issuance. The debentures accrue interest equivalent to 107.75% of the average CDI rate, which will be payable on the maturity date on January 5, 2014.

On December, 2011, the shareholders approved the tenth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$800 million, for 80,000 non-convertible debentures issued as the first series of the tenth issuance. The debentures accrue interest at the average CDI rate plus a spread of 8.5% per year which will be payable annually. Principal will be paid on the maturity date on June 29, 2015.

On May, 2012, the shareholders approved the eleventh issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$1,200 million, for 120,000 non-convertible debentures issued as the first series of the eleventh issuance. The debentures accrue interest at the average CDI rate plus a spread of 1% per year, which will be payable semi-annually. Principal will be paid on the maturity date on November 2, 2015.

*Viavarejo*

On January, 2012, the shareholders approved the third issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$400 million for 40,000 non-convertible debentures issued as the first series of the third issuance. The debentures remuneration is CDI + 1% per year, which will be payable semi-annually and principal on the maturity date on July 30, 2015.

*Nova Pontocom*

On April, 2012, the shareholders approved the first issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$100 million for 100,000 non-convertible debentures issued as the first series of the first issuance. The debentures remuneration is 105.35% of CDI, which will be payable on the maturity date on April 25, 2013.

*Nova Casa Bahia*

On June, 2012, the shareholders approved the first issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$400 million for 40,000 non-convertible debentures issued as the first (20,000) and second (20,000) series of the first issuance. The debentures remuneration is CDI + 0.72% per year, which will be payable semi-annually and principal on the maturity dates on December 29, 2014 and January 29, 2015.

### *Consolidated*

As of December 31, 2012, we had 459,087 non-convertible debentures outstanding, totaling R\$4,422.0 million. We are subject to certain covenants: net debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity, and maintenance of net debt to EBITDA ratio less than or equal to 3.25.

For further information on our non-convertible debentures, see note 19(i) to our financial statements included in this annual report.

### *Securitization Funds*

On September 19, 2003, we concluded the structuring of PAFIDC, a receivables securitization fund. We transferred until 2012 to PAFIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R\$9.7 billion in 2012 and R\$9.5 billion in 2011.

On May 25, 2010, we organized Globex FIDC, a receivables securitization fund, created to acquire the accounts receivable of Viavarejo (mainly credit card), originated from the sale of products and services to its customers, with an indefinite term. We transferred to Globex FIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R\$3.3 billion in 2012 and R\$3.9 billion in 2011.

We retained servicing responsibilities and subordinated equity interests in the funds. Credits in default would be collected by the funds' managers, which would be assisted by our collection department. We did not receive any fees for collection services. The holders of senior equity interests had no recourse to our other assets for failure of debtors to pay. Pursuant to the terms of the agreements between us and each of the funds, the transfer of credit rights was irrevocable, non-retroactive and the transfer was definitive and not enforceable against us. The results of PAFIDC were consolidated into our financial statements.

As a result of a change in our liquidity policy, we negotiated certain amendments to the receivables funds, as follows:

*PAFIDC:* Due to a change in PAFIDC's by-laws, approved on December 21, 2012, we no longer have an equity interest or co-obligation to PAFIDC. The fund had its name changed to Multicredit FIDC and no longer holds, exclusively, our receivables. Accordingly, the results of the fund ceased to be consolidated into our financial statements on December 26, 2012.

*Globex FIDC:* We ceased to sell credit card receivables through the Globex FIDC on December 14, 2012 in mutual agreement with its holders of senior equity interests. The fund paid back the holders of senior equity interests. On December 31, 2012, the remaining interest of senior equity interests in Globex FIDC's balance of cash and obligations owed to holders of subordinated equity interests were substantially redeemed, and the process of liquidating the Globex FIDC was concluded during the first quarter of 2013.

### *Capital expenditures*

In 2012, our capital expenditures totaled R\$1,426.1 million. These investment projects were financed with our operating cash flow and by third parties. Our capital expenditures were R\$1,723.4 million in 2011. For specific use of our capital expenditures in 2012, see "Item 4A. History and Development of the Company — Capital Expenditure and Investment Plan."

We believe that existing resources and operating income will be sufficient for our capital expenditure and investment plan and meet our liquidity requirements. However, our capital expenditure and investment plan is subject to a number of contingencies, many of which are beyond our control, including the continued growth and stability of the Brazilian economy. We cannot assure you that we will successfully complete all of or any portion of our capital expenditure and investment plan. In addition, we may participate in acquisitions not budgeted in the capital expenditure and investment plan, and we may modify these plans.

**5C. Research and Development, Patents and Licenses, Etc.**

We do not have any significant research and development activities.

**5D. Trend Information**

Based on our good performance in 2012, we expect 2013 to be a year of continued growth for the Company.

For 2013, the Company intends to invest in the opening of new stores, remodeling and renovating stores and acquiring land in strategic locations. We also intend to invest in infrastructure related to information technology and distribution.

We believe we are well-positioned to achieve our growth targets. Our investment plan reflects a positive outlook for the Brazilian economy. While we will prioritize organic growth through the existing stores and through the opening of new stores, we will also remain alert to any opportunities for strategic acquisitions that will result in operational synergies, leverage the return on invested capital and create value for our shareholders.

In addition, we expect our home appliances segment to grow and to continue financing its operations through the sale of receivables.

**5E. Off-balance sheet arrangements**

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, except for off-balance sheet arrangements related to operational leases disclosed in note 25 to our financial statements.

**5F. Tabular disclosure of contractual obligations**

The following table summarizes significant contractual obligations and commitments as of December 31, 2012:

Contractual Obligations	Total	Payment Due by Period			
		Less than one year	One to three years	Three to five years	After five years
		(in millions of R\$)			
Debt	5,958.9	3,488.2	1,845.4	625.3	-
Debentures	4,410.1	668.7	3,741.4	-	-
Estimated interest payments <sup>(1)</sup>	(122.3)	(29.5)	(92.8)	-	-
Taxes, other than on income	1,359.9	155.4	301.1	301.1	602.3
Financial lease	245.6	83.1	77.3	24.8	60.4
Operating lease <sup>(2)</sup>	7,595.4	931.2	1,289.8	1,289.8	4,084.7
<b>Total contractual obligations</b>	<b>19,447.6</b>	<b>5,297.1</b>	<b>7,162.2</b>	<b>2,241.0</b>	<b>4,747.4</b>

(1) Estimated interest payments include unrealized losses on cross-currency and interest rate swap contracts. Estimated interest payments and foreign currency losses were determined considering the interest rate and exchange rate as of December 31, 2012. However, our debt is subject to variable interest rates and inflation index, and these estimated payments may differ significantly from the payments actually made.

(2) Operating leases include minimum rental obligations.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **6A. Directors and Senior Management**

#### **Board of Directors**

The following table sets forth the name and the year of election of each of our board members. A brief biographical description of each of our board members follows the table:

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<b>Name</b>	<b>Position</b>	<b>Since</b>	<b>Date of Birth</b>
Abilio dos Santos Diniz	Chairman	2003	12/28/1936
Arnaud Strasser	Vice-Chairman	2012	07/06/1969
Antoine Marie Remi Lazars Giscard D'Estaing	Director	2009	01/05/1961
Claudio Eugenio Stiller Galeazzi	Director	2013	06/27/1940
Eleazar de Carvalho Filho	Director	2012	07/26/1957
Fábio Schvartsman	Director	2007	02/25/1954
Guilherme Affonso Ferreira	Director	2008	05/09/1951
Jean-Charles Henri Naouri	Director	2005	03/08/1949
Jean Louis Bourcier	Director	2009	11/17/1947
Luiz Augusto de Castro Neves	Director	2012	10/29/1943
Luiz Fernando Figueiredo	Director	2013	01/05/1964
Maria Helena dos Santos Fernandes de Santana	Director	2013	06/23/1959
Pedro Henrique Chermont de Miranda	Director	2009	08/24/1973
Roberto Oliveira de Lima	Director	2012	04/01/1951
Ulisses Kameyama	Director	2010	10/11/1972

*Mr. Abilio dos Santos Diniz* has been the chairman of our board of directors since 2003 and a member of our board of directors since 1995. His professional career was entirely dedicated to the Grupo Pão de Açúcar, from his initial position as sales manager to the position he currently occupies. He was responsible for our Company's major business upturn and, as chief executive officer, promoted the implementation of corporate governance policies and management professionalization. Mr. Diniz is one of the founders of both the São Paulo and Brazilian Supermarket Associations, the APAS (*Associação Paulista de Supermercados*), and the ABRAS (*Associação Brasileira de Supermercados*). He was also member of the Brazilian Monetary Council for ten years, and is currently a member of the Federal Government Economic and Social Development Council. Mr. Abilio Diniz holds a bachelor's degree in Business Administration from Fundação Getúlio Vargas and has attended Columbia University in New York and the University of Ohio in Dayton.

*Mr. Arnaud Strasser* has been the vice-chairman of our board of directors since 2012 and a member of the board of directors since 2010. Mr. Strasser has worked for the Casino Group since 2007 and was the development and equity interests officer, having previously been responsible for the international development department and was an advisor to the presidency. Mr. Strasser worked in the Cabinet of the Prime Minister of France in 2005 as Mission Head, and in the Cabinet of Renaud Dutreil, French Minister of Companies and Trade, from 2005 to 2007, as special advisor. He was also a member of the board of directors of *Almacenes Exito* (Colombia), Big C (Thailand) and Super de Boer (Holland), as well as a member of the executive committee of the Casino Group (France).

*Mr. Antoine Marie Remi Lazars Giscard D'Estaing* has been a member of our board of directors since 2009. Mr. D'Estaing is the financial director of the Casino Group. He was previously financial, strategy and IT director of the Danone Group, and more recently, partner at Bain & Company. Mr. D'Estaing holds a degree in administration from the HEC Business School and the École Nationale d'Administration.

*Mr. Claudio Eugenio Stiller Galeazzi* has been a member of the board of directors since 2013. Mr. Galeazzi is currently partner and director of BTG Pactual and officer of the São Paulo Modern Art Museum (Museu de Arte Moderna SP MAM). Mr. Galeazzi has previously acted as CEO of Sendas Distribuidora S.A. and CBD, CEO and chairman of Lojas Americanas, chairman and CEO of Artex, Commercial Vice President of British Petroleum Mining in Brazil, chairman and CEO of Cia. Estanifera do Brasil (CESBRA), a joint venture between British Petroleum and BRASCAN, superintendent of Ceramica Cocrisa and Portinari, chairman and CEO of Vila Romana and VR, and chairman and CEO of Laticínios Mococa. He has been appointed by the president of Brazil to act for 5 years as president of the National Council of SESI, in Brasilia. He has acted as officer of Instituto Euvaldo Lodi (IEL),

vice-president of the National Factoring Association (ANFAC), officer of the Sao Paulo Industry Federation (Federação das Indústrias de São Paulo). In the past, he has acted as member of several board of directors.

*Mr. Eleazar de Carvalho Filho* has been a member of the board of directors since 2012. Mr. Carvalho Filho was the CEO of Unibanco Banco de Investimentos, of Banco Nacional de Desenvolvimento Econômico e Social (BNDES), of Banco UBS – Brasil, Chairman of BHP Billiton – Brasil and he was member of the board of directors of Petrobras, Eletrobrás, Vale, Tele Norte Leste Participações, Alpargatas, Rossi Residencial, Varig, Santista Têxtil and Telemig. He is currently a founding partner of Virtus BR Partners and Iposeira Capital, as well as member of the board of directors of FMC Technologies Inc. and of Brookfield Renewable Energy Partners. He holds a master's degree in foreign affairs from Johns Hopkins University and a graduation degree in Economic Sciences from New York University.



*Mr. Fábio Schvartsman* has been a member of our board of directors since 2007. Mr. Schvartsman is the chief executive officer of Klabin S.A. and was the chief executive officer of Telemar Participações and member of the board of directors of Telemar Norte Leste, Contax Participações S.A. and Gafisa S.A. In the last company, he was also the president of their audit committee. Mr. Schvartsman is still a member of Signatura Lazard, San Antonio Internacional do Brasil, Duratex and Hospital Israelita Albert Einstein. He is also the founder and president of FSCH Assessoria. Mr. Schvartsman was the chief financial officer and a member of the board of directors of Ultrapar Participações S.A. until April 2007. Mr. Schvartsman has a degree in Engineering and has post-graduation degrees in Production Engineering from Escola Politécnica da Universidade de São Paulo – USP and in Business Administration from Fundação Getúlio Vargas.

*Mr. Guilherme Affonso Ferreira* has been a member of our board of directors since 2008. Mr. Ferreira is the Chief Executive Officer of Bahema Participações S.A. and is also member of the board of directors of Eternit, Signatura Lazard, Rio Bravo Investimentos and Tavex. Mr. Ferreira holds a degree in Production Engineering from Escola Politécnica da Universidade de São Paulo – USP and in Economics and Politics from Macalester College.

*Mr. Jean-Charles Henri Naouri* has been a member of our board of directors since 2005. Mr. Naouri is Chairman and Chief Executive Officer of the Casino Group. Mr. Naouri has a degree in sciences from Ecole Normale Supérieure, has studied at Harvard University and at Ecole Nationale d'Administration.

*Mr. Jean Louis Bourgier* has been a member of our board of directors since 2009. Mr. Bourgier has been a member of the Casino Group since 1989 and is currently the director of international operations, having previously held the positions of restaurant activity director, supermarket and convenience store director, international vice president, manager of the Taiwan branch and director of corporate projects. Before working with the Casino Group, he worked at Procter & Gamble, RJ Reynolds and Burger King. Mr. Bourgier graduated in business management from ESSEC in France.

*Mr. Luiz Augusto de Castro Neves* has been a member of the board of directors since 2012. Mr. Castro Neves was a career diplomat, who joined the diplomatic service of Brazil in March 1967. He served as ambassador of Brazil in Paraguay (2000-2004), China (2004-2008) and Japan (2008-2010) and at the same time, he was ambassador of Brazil in Mongolia and Democratic People's Republic of Korea. He was also chairman of Itaipu Binacional. He was interim Minister of State and Head of the Secretariat of Strategic Affairs of the Presidency. He is currently a founding partner of CN Estudo e Projetos Ltda. and president of the Brazilian Center of Foreign Affairs (“Centro Brasileiro de Relações Internacionais”). He graduated in Economic Sciences from UFRJ and in diplomacy from Instituto Rio-Branco of the Ministry of Foreign Affairs (“Ministério das Relações Exteriores”). He holds a master's degree in Economic Sciences from University of London. He is also teaches economic sciences at Instituto Rio Branco and foreign economic relations at the University of Brasília (“Universidade de Brasília”).

*Mr. Luiz Fernando Figueiredo* has been a member of the board of directors since 2013. Mr. Figueiredo is currently a founding partner and member of the executive committee of Mauá Sekular Investimentos and founding partner of Gávea Investimentos, as well as ANBIMA's officer. Mr. Figueiredo has previously acted as officer of the Brazilian Central Bank (Banco Central do Brasil) between 1999 and 2003 (responsible for the departments of Open Market, Banking Operations and Payment Systems (DEBAN) and Exchange), former partner and treasury officer of Bank BBA and AMEC's officer member of Market Committee of BM&F.

*Mrs. Maria Helena S. F. Santana* is currently a member of the Latin-American Roundtable on Corporate Governance (OECD / WB Group). Mrs. Santana was chairwoman of the Brazilian Securities and Exchange Commission, or CVM, from July 2007 to July 2012. Before being appointed as chairwoman, she was a commissioner of the CVM from July 2006 to July 2007. She worked for the São Paulo Stock Exchange – BOVESPA from 1994 to 2006, acting as head of Listings and Issuer Relations from 2000 to 2006, being responsible for the supervision of listed companies and for attracting new companies to the stock exchange, where she was involved in the creation of the *Novo Mercado* listing

segment and in charge of its implementation. Mrs. Santana was vice-chairwoman of the IBGC – Brazilian Institute of Corporate Governance, from 2004 to 2006 and chairwoman of the Executive Committee of IOSCO – International Organization of Securities Commissions from 2011 to 2012.

*Mr. Pedro Henrique Chermont de Miranda* has been a member of the board of directors since 2009. Mr. Miranda was the chairman of the board of directors of Casa Show S.A. and CIO and trustee of the main funds of IP Participações, in addition to having participated in the boards of directors of Viavarejo (Pontofrio), Pontofrio.com, Mills Andaimes Tubulares do Brasil S.A. and Rossi Residencial S.A. He graduated in Mechanical Engineering from the Pontifícia Universidade Católica of the State of Rio de Janeiro.

*Mr. Roberto Oliveira de Lima* has been a member of the board of directors since 2012. Mr. Lima is a member of the board of directors of Telefonica Brasil S.A., and has held several executive positions at Grupo Vivo. He was CEO of Tele Sudeste Celular Participações S.A., of Tele Leste Celular Participações S.A. and of Celular CRT Participações S.A. until February 2006 and Telemig Celular Participações S.A. until November of 2009. He was executive officer of Telemig Celular Participações S.A., Avista Participações Ltda., Tagilo Participações Ltda., Sudestecel Participações Ltda. and Vivo Brasil Comunicações Ltda., until November of 2009. Furthermore, he is a member of the board of directors of Edenred Sarl, headquartered in Paris, France. Mr. Roberto Oliveira was president of the board of directors of Grupo Credicard from 1999 to 2005 and CEO of Banco Credicard S.A. from 2002 to 2005. Moreover, he held executive positions on Accor Brasil S.A., Rhodia Rhone Poulec S.A. and Saint Global S.A. He graduated business school and has an MBA from Fundação Getulio Vargas. He holds a master degree in finance and strategic planning from Institute Superieur des Affaires, Jouy in Josas, in France.

*Mr. Ulisses Kameyama* has been a member of the board of directors since 2010. Mr. Kameyama has worked for the Casino Group since December 2005 and was the development and equity interests' officer for Latin America, having previously been a senior member of the development and equity interests' team. He has also worked as an investments analysis officer at Brasil Telecom S.A. and as an officer at Rothschild Investment Bank. He graduated in Production Engineering from the Federal University of Rio de Janeiro – UFRJ.

## Executive Officers

The following table sets forth the name, position and the year of election of each of our executive officers. A brief biographical description of each of our executive officers follows the table:

<b>Name</b>	<b>Position</b>	<b>First Year Elected</b>	<b>Date of Birth</b>
Enéas César Pestana Neto	Chief Executive Officer	2010	2/27/1963
Christophe Jose Hidalgo	Chief Financial Officer	2012	10/25/1967
Antonio Salvador	Personnel Vice-President	2013	6/13/1967
Paulo Gualtieri	Strategic Development Vice-President	2011	01/25/1960
José Roberto Coimbra Tambasco	Retail Vice-President	2010	11/04/1956
Belmiro de Figueiredo Gomes	Wholesale Officer	2012	08/11/1971
Alexandre Gonçalves Vasconcellos	GPA Malls & Properties Officer	2012	07/01/1953
Daniela Sabbag	Investor Relations Officer	2013	04/10/1975

*Mr. Enéas César Pestana Neto* has been our Chief Executive Officer since 2010. Mr. Pestana began his career with us in 2003, as an Administrative Officer and was our CFO and COO before becoming our CEO. He was the Vice-President of Laboratório Delboni Auriemo and has worked for GP Investimentos and Carrefour. Mr. Pestana holds a degree in Accounting from Pontifícia Universidade Católica de São Paulo – PUC and specialization degrees in controlling, finance, leadership and management from national and international institutions.

*Mr. Christophe José Hidalgo* has been our Chief Financial Officer and Corporate Services Officer since 2012. Mr. Hidalgo served as the CFO of Êxito Group (Colombia), a subsidiary of Casino Group, from 2010 to 2012. After joining Casino in 2000, Mr. Hidalgo held several positions in financing and controllership within the Group. In Brazil,

he also worked as the CFO of Castorama from 1996 to 2000. Mr. Christophe Hidalgo is French and holds a bachelor's degree in law and a master's in finance and accounting from the Bordeaux University, France.

*Mr. Antonio Salvador* has been our Personnel Vice-President officer since 2013. Mr. Salvador was vice president of Human Resources Brazil at Hewlett-Packard between 2010 and 2013. Previously, he was HR executive director at PricewaterhouseCoopers Brazil from 2007 to 2010, associate partner at IBM Global Business Services from 2003 to 2007, executive director at Promon Tecnologia from 2001 to 2003, senior manager at PricewaterhouseCoopers Brazil from 1997 to 2001 and corporate university manager at Brahma from 1994 to 1997. He holds a bachelor's degree in Social Communication from Universidade Gama Filho and an executive MBA from Fundação Cândido Mendes. Additionally, he has completed programs in business administration at Fundação Getúlio Vargas, INSEAD and Harvard Business School. In 2011 and 2012, Mr. Salvador received the "HR Professional of the Year" award for the technology industry from Voce S.A.

*Mr. Paulo Gualtieri* has been our Strategic Development Vice-President since 2010. Mr. Gualtieri has worked for us since 1989, in the operations, commercial and the information technology areas. He graduated with an Economics degree from the Pontifícia Universidade Católica of the State of São Paulo, holds a graduate degree in Industrial Marketing from Mackenzie University and concluded an MBA at Fundação Getúlio Vargas.

*Mr. José Roberto Coimbra Tambasco* has been our Retail Vice-President since 2010. Mr. Tambasco began his career with us in 1979 and since then, has worked as our Administration Trainee, Sales Assistant, Sales Manager, Commercial Manager, Commercialization Officer, Operations Officer, Supermarket Division Officer, Pão de Açúcar Unity Officer, Commercial, Operational and Marketing Vice-President. He has been our executive officer since 2003 and has a degree in Business Administration from Fundação Getúlio Vargas.

*Mr. Belmiro de Figueiredo Gomes* has been our Wholesale Officer since 2012. Mr. Gomes joined Grupo Pão de Açúcar in 2010, having also held the position of Commercial Director. Previously, he worked in several areas of the Atacadão chain for 22 years. In 2007, he coordinated the sale process of the Atacadão chain to the Carrefour Group, subsequently serving as an executive director responsible for the Commercial, Logistics, Marketing and Business Strategy areas.

*Mr. Alexandre Vasconcellos* has been our GPA Malls & Properties Officer since 2012. Mr. Vasconcellos joined the Company in July 2008, having been responsible for the IT department, the New Store Supply Model Project and the mergers of Pontofrio and Casas Bahia. He has experience in system and process transformation projects in companies including Natura, Unibanco, Directv and Lojas Americanas. He earned a bachelor's degree in business administration from PUC/RJ and an executive MBA in retail from COPPEAD/UFRJ.

*Ms. Daniela Sabbag* has been our Investor Relations Officer since 2013. With GPA for the last 13 years, Daniela exercised the role of Investor Relations Officer from 2006 to 2010, when she became the Strategic Planning, M&A, New Business Officer and also acted in GPA's finance team. Previously, she worked at Deutsche Bank and the Jeronimo Martins Group. She trained in Business Administration at the Fundação Getúlio Vargas (FGV), and did post-graduate work in Capital Markets at the Universidade de São Paulo and in the MBA program at FGV

## **6B. Compensation**

For the year ended December 31, 2012, the aggregate compensation paid in cash to the directors, executive officers and members of the committees of CBD was R\$61.1 million. Non-cash benefits in 2012 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. Under a new CVM (*Comissão de Valores Mobiliários*) rule, listed companies are now required to publicly disclose the lowest, highest and average compensation paid to executive officers and board members. However, our Company, together with other listed companies, has not disclosed this information, based on an injunction obtained by IBEF-RJ on March 2, 2010, that, according to our legal department, supersedes the CVM requirement.

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees and retained the financial institution *Brasilprev Seguros e Previdência S.A.* for management purposes. When establishing the plan, the Company provides monthly contributions on behalf of its employees on account of services rendered to the Company. Contributions made by the Company in the year ended December 31, 2012, amounted to R\$3,780.0 and employees' contributions amounted to R\$4,715.0 with 878 participants.

We have established a profit sharing plan for our management, including our executive officers. The plan and its rules have been approved by our board of directors. The plan does not apply to our board of directors. Under the terms of the plan, each member of our management (including our executive officers) who is beneficiary of the plan is assigned annually a base amount for computation of payments under the profit sharing plan. The final amount of the profit

sharing payment to an individual is based on the consolidated results of the Company, the results of the business segment or the department, as the case may be, to which the individual belongs and the individual's performance. This individual amount is determined by multiplying the base amount by an index applicable to all participants. This index depends on our operating performance.

### Compensation of the Board of Directors, Executive Officers and Fiscal Council of CBD for 2011, 2012, and 2013

The table below indicates the compensation for members of the board of directors, executive officers and fiscal council for 2011:

	<b>Board of Directors</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>	<b>Total</b>
		(In R\$, when applicable)		
Number of members	14.00	11.67	3.00	28.67
Fixed Annual Compensation	-	14,510,921	432,000	14,942,921
Benefits	-	2,012,539	-	2,012,539
<b>Variable Compensation</b>				
Profit Sharing	-	23,149,407	-	23,149,407
Participation in Meetings	7,537,000	-	-	7,537,000
Others (Invitees' Compensation)	37,397	-	-	37,397
<b>Post-Employment Benefit</b>	-	-	-	-
<b>Benefits on ceasing to exercise the position</b>	-	-	-	-
<b>Share-based compensation <sup>1</sup></b>	-	13,132,702	-	13,132,702
<b>Total Compensation</b>	<b>7,574,397</b>	<b>52,805,569</b>	<b>432,000</b>	<b>60,811,966</b>

(1) Compensation referring to achieving the goals established for previous years, to be recognized in the results for the year ended December 31, 2011, in line with current policy.

The table below indicates the compensation for members of the board of directors, executive officers and fiscal council for 2012:

	<b>Board of Directors</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>	<b>Total</b>
		(In R\$, when applicable)		
Number of members	14.58	9.58	3.00	26.66
Fixed Annual Compensation	-	13,552,826	486,000	14,038,826
Benefits	-	2,512,906	-	2,512,906
<b>Variable Compensation</b>				
Profit Sharing	-	15,937,732	-	15,937,732
Participation in Meetings	7,923,797	-	-	7,923,797
Others (Invitees' Compensation)	-	-	-	-
<b>Post-Employment Benefit</b>	-	-	-	-
<b>Benefits on ceasing to exercise the position</b>	-	-	-	-
<b>Share-based compensation <sup>1</sup></b>	-	20,661,745	-	20,661,745
<b>Total Compensation</b>	<b>7,923,797</b>	<b>52,665,209</b>	<b>486,000</b>	<b>61,075,006</b>

(1) Compensation referring to achieving the goals established for previous years, to be recognized in the results for the year ended December 31, 2012, in line with current policy.





The table below indicates the estimated compensation for members of the board of directors and members of the committees of the company, executive officers and fiscal council for 2013:

	<b>Board of Directors and members of the committees of the company</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>	<b>Total</b>
		(In R\$, when applicable)		
Number of members	15.00	9.00	3.00	28.00
Fixed Annual Compensation	-	11,452,683	504,000	11,956,683
Benefits	-	2,580,198	-	2,580,198
<b>Variable Compensation</b>				
Profit Sharing	-	19,824,279	-	19,824,279
Participation in Meetings	6,585,600	-	-	6,585,600
Others (Invitees' Compensation)	-	-	-	-
<b>Post-Employment Benefit</b>	-	-	-	-
<b>Benefits on ceasing to exercise the position</b>	-	-	-	-
<b>Share-based compensation <sup>1</sup></b>	-	13,663,664	-	13,663,664
<b>Total Compensation</b>	<b>6,585,600</b>	<b>47,520,824</b>	<b>504,000</b>	<b>54,610,424</b>

(1) Compensation referring to achieving the goals established for previous years, to be recognized in the results for the year ended December 31, 2012, in line with current policy.

### Variable Compensation 2011, 2012 and 2013

With the exception of the compensation based on the hours actually worked, the members of our board of directors and our fiscal council receive no variable compensation in the exercise of their functions. Below we present the variable compensation of our executive officers paid in 2011 and 2012 and expected to be paid in 2013.

<b>2011</b>	<b>Executive Officers</b> (In R\$, when applicable)
Number of members <sup>1</sup>	11.67
<b>Profit sharing</b>	
Minimum expected amount	-
Maximum expected amount	33,452,250
Expected amount – goals achieved	22,301,500
Amount actually recognized	23,149,407

(1) The number of members of our executive board informed in the above table represents the average annual number of executive officers ascertained on a monthly basis.

<b>2012</b>	<b>Executive Officers</b> (In R\$, when applicable)
Number of members	9.58
<b>Profit sharing</b>	
Minimum expected amount	-

Maximum expected amount	30,732,136
Expected amount – goals achieved	25,610,114
Amount actually recognized	15,937,732

**2013**

**Executive Officers**  
(In R\$, when applicable)

Number of members	9.00
<b>Profit sharing</b>	
Minimum expected amount	-
Maximum expected amount	23,789,135
Expected amount – goals achieved	19,824,279

**Stock Option Plan for Board of Directors and Executive Officers**

As of December 31, 2012, we had one stock option plan in effect. This plan was approved by our shareholders at the general shareholders' meeting held on December 20, 2006, or Option Plan.

Our Option Plan is managed by the stock option plan management committee, which is elected by our board of directors. This committee is comprised of three to five members and determines which employees should benefit from the stock options based on their duties, responsibilities and performance.

The Option Plan covers only the preferred shares issued by our Company.

### ***General Terms and Conditions***

Our stock option plan management committee usually undertakes annual option granting cycles. Each granting cycle is allocated a serial number, whereby the grants from the Option Plan are numbered beginning with the letter A, that is, as from “Series A1.” For the year ended December 31, 2012, the options granted under the Series A4 to A6 of the Option Plan were in effect.

The options granted within the scope of the Option Plan can be classified as “Gold” and “Silver”; this differentiation implies alterations to the option exercise price as explained below.

The Stock Option Committee established the criteria to calculate the reduction and/or increase index (reducer or accelerator) for the number of options granted and classified as “Gold” in each series of the Option Plan, according to the analysis of the concept of return on invested capital (ROIC), under the following terms:

- (a) Accelerator: after 3%, for every 1% more than ROIC, increase by 0.5% the number of shares granted, classified as “Gold.”
- (b) Reducer: after -3%, for each 1% less than the ROIC, reduce by 5.0% the number of shares granted, classified as “Gold.”

That is:

### ***Main Objectives of the Plan***

The aim of the Option Plan is to (i) attract and retain highly qualified executive officers and professionals; (ii) enable our managers and employees to participate in our capital and in the equity increases arising from the results these managers and employees have contributed; and (iii) to align the interests of our managers and employees with those of our shareholders, encouraging these professionals to better perform while ensuring continuity in the management of our Company.

### ***Maximum Number of Shares and Options***

The maximum number of shares covered by the Option Plan is 15,500,000 preferred shares. The number of shares covered by the Option Plan must always be within our Company’s approved capital limit, which may be amended at any time upon determination of our board of directors. When stock options are exercised, we issue the beneficiaries new shares, with the right to use our treasury shares.

There is no maximum number of options that may be granted within the scope of the Option Plan, provided that the total number of shares arising from the exercise of the options does not exceed the limit discussed above and a limit of 2% of our capital stock per series.

### ***Exercise Price***



In the case of options classified as “Silver,” the exercise price per preferred share will correspond to the average closing price of our preferred shares over the last 20 BM&FBOVESPA trading sessions prior to the date on which the stock option plan disbursement committee decides to grant the option. After this average price has been determined, a discount of 20% will be applied. For Gold-type options, the exercise price per preferred share will correspond to R\$0.01.

### ***Vesting***

As a general rule the options will vest as from the 36th month to the 48th month following the date of execution of the adhesion agreement, the beneficiary will be entitled to acquire 100% of the Silver-type shares. The exercise of the Gold-type options will occur in the same period, but the percentage of these options subject to exercise will be determined by the stock option plan disbursement committee in the 35th month following the date of execution of the adhesion agreement.

The options granted within the scope of the Option Plan may be exercised in whole or in part.

### ***Restrictions on Transferring Shares***

The stock option plan disbursement committee may establish restrictions on the transfer or circulation of the shares resulting from the exercise of the options.

### **Outstanding Stock Options for Senior Management**

The members of our board of directors are not eligible for our stock Option Plan. Below are the outstanding options for the members of our senior management, as of December 31, 2012.

Number of members benefiting from the granting of stock options:

<b>In relation to options not yet exercisable:</b>	<b>Series A4– Gold</b>	<b>Series A4– Silver</b>	<b>Series A5– Gold</b>	<b>Series A5– Silver</b>	<b>Series A6– Gold</b>	<b>Series A6– Silver</b>
Quantity (in thousand)	75.09	18.72	88.24	88.27	156.27	156.33
Vesting date	05/31/2013	05/31/2013	05/31/2014	05/31/2014	03/31/2015	03/31/2015
Maximum deadline for exercising the options	05/31/2014	05/31/2014	05/31/2015	05/31/2015	03/31/2016	03/31/2016
Weighted average exercise price (in R\$, per share)	0.01	46.49	0.01	54.69	0.01	64.13
Fair value of the options on the last day of the year (in R\$, per share)	51.99	23.02	59.75	25.27	79.78	37.98
<b>In relation to exercisable options:</b>						
Quantity	N/A	N/A	N/A	N/A	N/A	N/A
Maximum deadline for exercising the options	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A	N/A

Weighted average  
exercise price (in R\$,  
per share)

Fair value of the options on the last day of the business year (in R\$, per share)	N/A	N/A	N/A	N/A	N/A	N/A
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Fair value of the options on the last day of the year (in thousand R\$)	N/A	N/A	N/A	N/A	N/A	N/A
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### Stock Options Exercised and Shares Delivered for Senior Management

The table below shows the options exercised and the shares delivered to the members of our senior management in 2012.

56

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Number of members benefiting from the granting of stock options: 9

**In relation to the options exercised and the shares delivered:**

	<b>Series A3 – Gold</b>	<b>Series A3 – Silver</b>
Number of shares (in thousand)	97,714	97,710
Weighted average exercise price (in R\$, per share)	0.01	27.47
Total amount of the difference between the exercise price and the market price of the shares referring to the options exercised (in R\$, per share)	75.29	47.83

**Insurance**

We have an insurance policy with Itaú Seguros S.A., effective from November 23, 2012 through November 23, 2013, covering all our managers against damages attributed to them in the exercise of their functions. Coverage is limited to US\$50 million, with deductibles of US\$200,000 for all losses and damages arising from one and the same damaging act involving the capital markets, and US\$50,000 for all losses and damages arising from one and the same damaging act of a different nature. The policy is automatically extended to the management of our new subsidiaries, with liability limited to 30% of the total assets of the new subsidiary.

**6C. Board Practices**

According to our by-laws, our board of directors consists of at least three and up to 18 members. The directors meet ordinarily five times a year, and extraordinarily whenever required. The members of our board of directors are appointed at general shareholders' meetings for a term of office of three years. The board's responsibilities include leading the corporate governance process, electing our executive officers and members of our committees and supervising our management. Currently our board of directors consists of 15 members elected by our shareholders, consisting of eight representatives of the Casino Group, three representatives of the Diniz Family and four independent directors, whose terms of office expire in 2014. We are managed by our board of directors and by our board of executive officers. None of our directors and officers is party to an employment agreement providing for benefits upon termination of employment.

Our board of executive officers is composed of at least two and up to 14 members. The general responsibilities of our executive officers are determined pursuant to our by-laws and their specific duties and titles are established by our board of directors. As of March 31, 2013, our board of executive officers was composed of eight members.

The responsibilities of our executive officers include adopting plans related to our management and operations, reporting to shareholders each fiscal year on the status of our business activities, presenting the year end balance sheets and other legally required financial statements and submitting investment programs and budgets to our board of directors.

Our executive officers are elected by our board of directors for three-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. On May 5, 2011, our directors elected our current executive officers. The current term of all executive officers expires in April 2014.

**Committees**

Pursuant to our by-laws, we currently have the following four special committees: (i) Human Resources and Compensation Committee; (ii) Financial Committee; (iii) Sustainable Development Committee; and (iv) Corporate Governance Committee. The attributions of each committee are established by our board of directors. The members

of each committee are appointed by our board of directors, which may include in each committee one member from outside of our board of directors, and the board of directors also designates the chairman of each special committee. Each special committee is composed of three and up to five members for a term of office of three years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.



### ***Human Resources and Compensation Committee***

The human resources and compensation committee holds meetings at least once every two months and has the following duties: (i) to provide guidelines for the selection of our Chief Executive Officer; (ii) to examine candidates for election to our board of directors; (iii) to examine candidates for appointment to our board of executive officers; (iv) to review and discuss management compensation and stock option plan for our officers; (v) to propose criteria for the assessment of the performance of our managers, using comparable Brazilian corporations as benchmark; (vi) to review the recruitment and hiring methods adopted by us and our controlled companies, using comparable Brazilian corporations as benchmark; (vii) to define the compensation and incentive policies for our managers; and (viii) to identify individuals within our Company and our controlled companies who could be our future leaders and follow up the development of their career. Our Human Resources and Compensation Committee is composed of Arnaud Strasser, as Chairman, Roberto Oliveira de Lima, Guilherme Affonso Ferreira, Abilio dos Santos Diniz and Claudio Eugenio Stiller Galeazzi

### ***Financial Committee***

The financial committee holds meetings at least once every two months and has the following duties: (i) to review the financial/economic viability of our investment plans and programs; (ii) to review and recommend actions for the negotiation of any merger and acquisition or of any similar transaction involving us or any of our controlled companies; (iii) to follow up any such transaction and negotiation referred to in item (ii); (iv) to review our cash flow, indebtedness policy and capital structure; (v) to monitor the implementation and accomplishment of our annual investment plan; (vi) to monitor the average cost of our capital structure and to make suggestions for modifications whenever deemed necessary; and (vii) to review and recommend opportunities related to financing transactions that may improve our capital structure. Our financial committee is currently composed of Eleazar de Carvalho Filho, as Chairman, Pedro Henrique Chermont de Miranda, Arnaud Strasser, Antoine Marie Remi Lazars Giscard d'Estaing and Fabio de Oliveira Barbosa, as an external member.

### ***Sustainable Development Committee***

The sustainable development committee holds meetings at least once every three months and has the following duties: (i) to increase the value of our business by expanding our sustainable development and environmental matters; (ii) to establish sustainable practices, based on economic, environmental and social elements in order to promote sustainable development and disseminate these practices throughout all of our strategic activities and relationships; (iii) to evaluate and approve projects, proposals and institutional campaigns related to environmental or social issues, including the allocation of resources; (iv) to evaluate investment opportunities and projects from a sustainable perspective; and (v) to approve the social and sustainable development reports. Our sustainability committee is composed of Luiz Augusto de Castro Neves, as chairman, Roberto Oliveira de Lima, Ulisses Kameyama, Guilherme Affonso Ferreira, Luiz Fernando Figueiredo, and Helio Mattar, as an external consultant.

### ***Corporate Governance Committee***

The corporate governance committee holds meetings at least once every three months and has the following duties: (i) promoting, monitoring and ensuring the adoption of the best practices of corporate governance and coordinating the process for implementing and maintaining such practices at the Company, as well the effectiveness of corporate governance processes, suggesting changes, updates and improvements, as necessary; (ii) reviewing, from time to time, and recommending necessary changes to the corporate governance policies and practices adopted by the Company; (iii) ensuring the good operation of the Board of Directors, the Executive Management, and the support committees of the Company and the relationship between themselves and the shareholders of the Company, and accordingly, reviewing, from time to time and making recommendations to the Board of Directors about its operations and authorities, as well as regarding the Executive Management and the support committees of the Company; (iv)

preparing or reviewing, from time to time, as the case may be, the Company's by-laws, and the Codes and Policies of the Company, and the Internal Regulations of the support committees of the Company, as well as any other document related to the corporate governance of the Company as well as criticizing, making recommendations of modifications and suggestions that it deems necessary to the Board of Directors, in order to maintain such documents updated according to the highest corporate governance practices, always observing the singular characteristics of the Company; (v) keeping the Board of Directors informed and updated on rules, regulations and recommendations in force and adopted on the market, including regarding rules that are created and impact the Company's corporate and capital markets activities; (vi) following-up on the implementation in respect to of all the requirements stated forth in the Brazilian corporate and capital markets law, and of the stock market inspection agencies the Company is subject to; (vii) drafting, submitting and reviewing the related party transaction policy of the Company to the Board of Directors, as well as any other policies necessary for the adoption, by the Company, of the best practices of management and corporate governance; (viii) issuing an opinion, under the request of the Board of Directors or the Executive Management, regarding situations where there might be a conflict of interests scenario in the Company's activities; and (ix) providing its opinion on any others matters submitted to it by the Board of Directors, as well as on those matters it determines to be relevant. Our corporate governance committee is currently composed of Maria Helena dos Santos Fernandes Santana, as chairman, Luiz Augusto de Castro Neves, Guilherme Affonso Ferreira, Roberto Oliveira de Lima and Arnaud Strasser.

In addition, to the four special committees, we have an audit committee, a stock option plan management committee and a fiscal council, should its installation be required by our shareholders. We set forth below a description of our audit committee, stock option plan management committee and fiscal council.

### **Audit Committee, Stock Option Plan Management Committee and Fiscal Council**

#### ***Audit Committee***

On October 18, 2012, our shareholders approved the establishment of an audit committee, which purpose is to: (a) recommend the appointment or replacement of independent auditors to our board of directors; (b) analyze our management reports and financial statements, making recommendations to the board of directors; (c) review our annual and quarterly financial statements; (d) evaluate the effectiveness and adequacy of our internal control structure, internal audit processes and present recommendations to improve policies, practices and procedures relating to our internal controls; (e) give opinions, at the board of directors' request, on management proposals regarding changes in our capital structure, issuance of debentures, guarantees, capital budgets, dividend distribution, transformation, merger or spin-off; and (f) give opinions on matters referred to them by the board of directors, as well as other relevant matters.

The audit committee is an auxiliary body of the board of directors and is comprised of three members, two of which must be external and independent. The board of directors elects all members for a one-year term assuming they meet the applicable requirements set forth in the rules of the CVM and in our by-laws.

Pursuant to our by-laws, if the fiscal council is instated, the board of directors will decide which powers will be exercised by the audit committee during that fiscal year. Our board of directors may also, at its sole discretion, choose to suspend the operation of the audit committee for any fiscal year in which the fiscal council is in operation, fully or partially delegating the functions and powers of the audit committee to the fiscal council, observing all requirements and impediments set forth by law.

As of the date of this annual report, an audit committee has not been instated.

#### **Stock Option Plan Management Committee**

Our stock option plan management committee has the following duties: (i) to deliberate matters relating to granting, prices, dates and the amount granted in each plan; (ii) to decide when each stock option plan will be granted, considering the possibility of not granting the plan in our Company's interest; (iii) to take into account all the necessary measures in order to appropriately manage the stock option plan, including the interpretation of the general guidelines; (iv) to guide the Company on when to issue new shares or when to use the shares held in treasury; (v) to select, among the eligible personnel, who will take part in the stock option plan according to the attributions, responsibilities and/or their performance based on the goals established by the "Gold" option plan; (vi) to establish the appropriate guidelines for each stock option for each beneficiary, approving the stock option plan agreements, especially regarding the amount of shares and the conditions to exercise each stock option plan; (vii) to establish, for each beneficiary, the alternatives, terms and conditions for each exercise, the share acquisition price and payment; (viii) to extend, generally or in specific cases, the termination date for each stock option plan; (ix) to determine the increase or decrease of the stock option plan lots that were already granted, maintaining its terms and conditions, especially regarding the acquisition rights of its exercise; and (x) to modify unilaterally the terms and conditions of the option granted freely as well as adapting them to amendments in Brazilian corporate law. Our stock option plan management committee is composed of Arnaud Strasser, Enéas César Pestana Neto, José Roberto Coimbra Tambasco, Antonio Ramatis Fernandes Rodrigues and Roberto Oliveira de Lima.



### *Fiscal Council*

On October 18, 2012, our shareholders approved an amendment of our by-laws in order to make our fiscal council a non-permanent body. Under Brazilian corporate law, the fiscal council is a corporate body independent of management and of Company's external auditors. The fiscal council has not typically been equivalent to or comparable with a U.S. audit committee; when instated its primary responsibility has been to monitor management's activities, review the financial statements and report its findings to the shareholders. However, pursuant to Exchange Act Rule 10A-3(c)(3) which provides for an exemption under the rules of the SEC, regarding the audit committees of listed companies, a foreign private issuer is not required to have a separate audit committee composed of independent directors if it has a fiscal council established and selected pursuant to home country legal or listing provisions expressly requiring or permitting such a board and such board meets certain requirements. Pursuant to this exemption, our fiscal council, when instated, can exercise the required duties and responsibilities of a U.S. audit committee to the extent permissible under Brazilian corporate law. To comply with the rules of the SEC, the fiscal council must meet the following standards: it must be separate from the full board, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In addition, in order to qualify for the exemption, the board of auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);
- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- receive appropriate funding from the Company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, we chose to modify our fiscal council to comply with the exemption requirements. Our board of directors has delegated to the fiscal council, when instated, certain additional responsibilities and the fiscal council and the board of directors adopted an additional charter delegating to the fiscal council the duties and responsibilities of a U.S. audit committee to the extent permitted under Brazilian corporate law. Because Brazilian corporate law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide neither the board nor the fiscal council with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the fiscal council cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the fiscal council if instated may only make recommendations to the board of directors and shareholders with respect to the appointment, retention and compensation of the external auditors, and with regard to resolution of disagreements between management and the external auditors, the fiscal council may only make recommendations to the board of directors and shareholders.

Under Brazilian corporate law, the fiscal council may not contain members who are members of the board of directors or management, or who are our employees or employees of a controlled company or of a company of the group, or a spouse or relative of any member of our management. In addition, Brazilian corporate law requires that fiscal council members receive a compensation at least 10% of the average amount paid to each executive officer, not including profit sharing and other benefits. Brazilian corporate law requires a fiscal council to be composed of a minimum of three and a maximum of five members and their respective alternates.



Our fiscal council, when instated, shall be composed of at least three and up to five members who are elected at the annual shareholders' meeting, with terms lasting until the next annual shareholders' meeting after their election. Under Brazilian corporate law, minority shareholders have the right to elect separately one member of the fiscal council. In any event, however, our controlling shareholder has the right to elect the majority of the members of the fiscal council.

On April 17, 2013, the date of our last annual shareholders' meeting, our fiscal council was instated for a 1-year term of office, and the following members were elected: Fernando Maida Dall Acqua (and his alternate Antonio Luiz de Campos Gurgel) and Mario Probst (and his alternate John Michel Pimenta de Moraes Streithorst) appointed by the Holding Company and Raimundo Lourenço Maria Christians (and his alternate William Pereira Pinto) appointed by the separate vote of our preferred shareholders. We set forth below the names, ages and positions of the members of our fiscal council and their respective alternates.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year First Elected</b>	<b>Date of Birth</b>
Fernando Maida Dall Acqua	63	Chairman	2009	03/01/1949
Mario Probst	59	Member	2009	05/30/1953
Raimundo Lourenço Maria Christians	54	Member	2011	08/08/1957
Antonio Luiz de Campos Gurgel	71	Alternate	2009	11/12/1940
John Michel Pimenta de Moraes Streithorst	42	Alternate	2009	02/09/1970
William Pereira Pinto	54	Alternate	2012	19/03/1959

*Fernando Maida Dall'Acqua*, born in 1949, has been Chairman of the fiscal council since 2009. He is currently the chairman of the fiscal council of Viavarejo, board member and chairman of the audit committee member at ISA-CTEEP and the chairman of the audit committee member at the O Estado de São Paulo newspaper. In addition to providing Consulting services to major companies on mergers and acquisitions, economic and financial valuation and macroeconomic and tax advisory services. He was Finance Secretary to the São Paulo state government, has held financial, tax, budget and strategic management positions, besides serving as a member of the São Paulo State Privatization Council. He was director of the Project Center for Latin America e Caribe of the IICA/OEA. He was also member of the Board of Directors and the audit committee at Sabesp, and member of the Boards of CESP, PRODESP, DERSA, Banco Nossa Caixa and Banespa, besides serving on the Advisory Board of Grupo Pão de Açúcar. He was president of the People Bank of the São Paulo Government. He holds a master's degree in business administration from the Getulio Vargas Foundation, a PhD in Economic Development from the University of Wisconsin-Madison, USA, and received the post-doctoral title of "Livre Docente" in Business Administration from the Getulio Vargas Foundation. He is Professor of economics of the School of Administration of São Paulo (Getulio Vargas Foundation). He was also a Fellow at Michigan State University, U.S.A and adviser of the World Bank for fiscal policy and credit market and of the Ministry of Finance of the Brazilian Government

*Mario Probst*, born in 1953, has been a member of the fiscal council since 2009. Mr. Probst was partner of KPMG Auditores Independentes and is currently a member of the fiscal council Odontoprev S.A. and Ultrapar Participações S.A. He graduated in Business Administration from the Getulio Vargas Foundation and in Accounting Sciences from the College of Political and Economic Sciences of Rio de Janeiro.

*Raimundo Lourenço Maria Christians*, born in 1957, began his career at PricewaterhouseCoopers from 1979 to March 25, 2011, when he retired. In 32 years, worked on accounting and financial areas and afterwards on tax matters. He became partner in 1994 and was elected member of the Global Governance Board (2001 to 2005) and Oversight Board to South America (2000 to 2005) of PwC. After retirement from PwC, he became a board member of General Shopping do Brasil S.A., chairman of the audit committee of Dasa - Diagnósticos da América S.A.,

chairman of the fiscal council of Kroton Educacional S.A. and fiscal council of Viavarejo. He is also member of Finance, Accounting and Financial markets commission at Brazilian Corporate Governance Institute. He holds a bachelor's degree in accounting of Universidade Católica de Campinas - PUCC.

*Antonio Luiz de Campos Gurgel*, born in 1940, has been an alternate member of the fiscal council since 2009. A retired Fiscal Auditor for Brazil's Federal Internal Revenue Service, where he was assistant to the Chief of the financial institutions division (*Delegado da Delegacia Especial de Instituições Financeiras*) in São Paulo. He currently dedicates to the study of financial institutions and has been involved in consultancy and training work for various companies. He also works as associate professor in the Accounting, Finance and Control Department of FGV/EAESP. He graduated in Business Administration from FGV/EAESP and holds an MBA from Michigan State University, U.S.A.



*John Michel Pimenta de Moraes Streithorst*, born in 1970, he has been an alternate member of the fiscal council since 2009. He is currently an alternate member of the fiscal council of Viavarejo, and member of the Investment Committee of Capital Mezanino FIP. He was member of the Investment Committee and director of Icatu Equity Partners and member of the Investment Committee of AIG Latin American Equity Partners. He holds a computer engineering degree from the Campinas State University (UNICAMP).

*William Pereira Pinto*, born in 1959, has been an alternate member of the fiscal council since 2012. He was elected to the audit committee of Banco Pine as a specialized member in accounting and auditing. He was a Director (Junior Partner) of external audit work of middle market companies and private equity at Ernst & Young Terco. Mr. Pinto was responsible for the training program and audit professional development of Terco Grant Thornton. He was responsible for reviewing the quality in offices of Terco Grant Thornton. He performed consulting work related to implementation of internal controls, evaluating controls for SOX certification and IFRS implementation projects in several companies by Ernst & Young Terco. He graduated in Accounting from Universidade São Judas Tadeu, and holds an MBA - Controller from FIPECAFI - USP with an abroad module in St John's University – NY, USA.

## 6D. Employees

As of December 31, 2012, we had 151,037 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management believes that our relations with our employees and their unions are good.

The following table sets forth the number of our employees as of December 31, 2008, 2009, 2010, 2011 and 2012:

	As of December 31 <sup>(1)</sup>				
	2008	2009	2010	2011	2012
Operational	60,605	73,617	131,534	135,867	137,349
Administrative	10,051	11,627	13,380	13,203	13,688
Total	70,656	85,244	144,914	149,070	151,037

(1) Based on the average of the full-time equivalent number of employees, which is the product of the number of all retail employees (full- and part-time) and the ratio of the average monthly hours of all retail employees to the average monthly hours of all full-time employees.

## 6E. Share Ownership

As of December 31, 2012, our board members directly owned an aggregate amount of 159,085 preferred shares. The members of our board of directors and our executive officers, on an individual basis and as a group, own directly less than 1% of our common stock. For further information on direct and indirect share ownership of our board members, see “Item 7A. Major Shareholders.” As of March 31, 2013, our management and some of our employees also owned options to purchase an aggregate amount of 2,079,425 preferred shares at per-share weighted average purchase price of R\$31.33. None of the members of our management and our employees holds any options to purchase our common shares. See “Item 6B. Compensation” for a description of our stock option plan applicable to our management and employees, including those of our subsidiaries.



**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7A. Major Shareholders**

The following table sets forth information relating to the beneficial ownership of our capital stock as of March 31, 2013 by each person known by us to beneficially own 5% or more of our common shares or preferred shares and all our directors and officers as a group.

Shareholder	Common Shares		Preferred Shares		Total Shares	
	Number	%	Number	%	Number	%
Wilkes Participações S.A (1)	65,400,000	65.61	1,637,314	1.00	67,037,314	25.45
Fundo de Investimento em Ações Santa Rita (2)	-	-	5,378,451	3.28	5,378,451	2.04
Sudaco Participações S.A. (3)	28,619,178	28.71	3,091,566	1.89	31,710,744	12.04
Segisor S.A. (3)	-	-	5,091,754	3.11	5,091,754	1.93
Casino Guichard Perrachon S.A (3)	5,600,052	5.62	-	-	5,600,052	2.13
Bengal LLC (3)	-	-	1,550,000	0.95	1,550,000	0.59
Oregon LLC (3)	-	-	1,550,000	0.95	1,550,000	0.59
King LLC (3)	-	-	975,051	0.60	975,051	0.37
Geant International BV (3)	-	-	4,771,493	2.91	4,771,493	1.81
Pincher LLC (3)	-	-	1,550,000	0.95	1,550,000	0.59
Cobivia SAS (3)	-	-	3,907,123	2.39	3,907,123	1.48
Abílio dos Santos Diniz	100	0.00	-	-	100	0.00
João Paulo F. dos Santos Diniz	-	-	17,893	0.01	17,893	0.01
Ana Maria F. dos Santos Diniz D'Avila	1	0.00	-	-	1	0.00
Pedro Paulo F. dos Santos Diniz	-	-	724	0.00	724	0.00
Jean-Charles Naouri	-	-	1	0.00	1	0.00
Rio Plate Empreendimentos e Participações Ltda (4)	-	-	4,105,906	2.51	4,105,906	1.56
Stanhore Trading Internacional S.A. (4)	-	-	7,416,944	4.53	7,416,944	2.82
Directors and Officers (5)	-	-	168,591	0.10	168,591	0.06
Others	60,520	0.06	122,558,673	74.84	122,619,193	46.54
<b>TOTAL</b>	<b>99,679,851</b>	<b>100.00</b>	<b>163,771,484</b>	<b>100.00</b>	<b>263,451,335</b>	<b>100.00</b>

(1) Península Participações S.A. and Sudaco Participações Ltda own 25.67% and 74.33%, respectively, of the capital stock of Wilkes Participações S.A..

(2) Península Participações S.A., PAIC Participações Ltda. and Onyx 2006 Participações Ltda own 10.97%, 2.73% and 86.3%, respectively, of the quotas issued by Fundo de Investimento em Ações Santa Rita. Península Participações S.A. and Abilio Diniz own 92.38% and 7.62%, respectively, of the capital stock of PAIC Participações Ltda. Rio Plate Empreendimentos e Participações Ltda. and Abilio Diniz own 99.998% and .002%, respectively, of the capital stock of Onyx 2006 Participações Ltda. Abilio Diniz, Ana Maria Diniz, João Paulo Diniz, Pedro Paulo Diniz, Adriana Diniz, Rafaela Marchesi Diniz and Miguel Marchesi Diniz own 12.07%, 14.78%, 14.78%, 14.78%, 14.78%, 14.41% and 14.41%, respectively, of the capital stock of Península Participações S.A.

(3) Sudaco Participações Ltda., Segisor S.A., Casino Guichard Perrachon S.A., Bengal LLC, Oregon LLC, King LLC, Geant International BV, Pincher LLC and Cobivia SAS are part of the Casino Group.

(4) Península Participações S.A. owns 100% of the capital stock of Rio Plate Empreendimentos e Participações Ltda. and Stanhore Trading Internacional S.A.

(5) These shares refer to the amount of shares that the directors and officers own directly, not beneficially.

As of the date of this annual report, the Casino Group is the beneficial owner of 40.6% of the total capital stock of CBD. As of the date of this annual report, the Diniz Family is the beneficial owner of 16.84% of the total common shares, 10.33% of the total preferred shares and 12.79% of the total capital stock.

On March 31, 2013, 58,575,744 of our preferred shares were held in the form of ADSs, representing 35.77% of the total of our preferred shares. None of our common shares are held in the form of ADSs.

The Casino Group, jointly with its holding company Rallye S.A., has increased its direct and indirect ownership of our company from 35.4% as of January 1, 2010 to 40.6% as of March 31, 2013 as a result of (i) a series of market transactions, (ii) the receipt of newly issued shares of our company in connection with the amortization of goodwill and (iii) the acquisition of shares of the Holding Company held by the Diniz Family as a result of the exercise of the first put option.

The Diniz Family has decreased its direct and indirect ownership of our company from 20.8% as of January 1, 2010 to 12.79% as of March 31, 2013 as a result of (i) a series of market transactions between December 2012 and January 2013, and (ii) the sale of shares of the Holding Company to the Casino Group as a result of the exercise by the Casino Group of the first put option.

### **Holding Company Goodwill Contribution of Deferred Tax Benefits**

On May 3, 2005, the Casino Group and the Diniz Family formed Vieri Empreendimentos e Participações S.A., or Vieri, which became our parent company. The control of Vieri was shared by the Casino Group and the Diniz Family.

The group was reorganized and restructured in 2006, resulting in our current ownership structure.

Under the terms of the corporate reorganization, the resulting tax benefit reverts 80% to the benefit of the controlling shareholder that originated the goodwill upon the issuance of new shares and the remaining 20% reverts to the benefit of all shareholders without issuing new shares. The realization of this benefit does not cause any negative effects to our profitability or the flow of dividends to our minority shareholders.

The offsetting entry to the initial recognition of the tax benefit balance is recognized directly in shareholders' equity as a capital reserve (goodwill special reserve), as it represents a realizable asset contribution by the shareholders. Also under the terms of the corporate reorganization, the effective tax benefit realized in each fiscal year will subsequently be capitalized in the proportion described above, and non-controlling shareholders are entitled to a right of preference to acquire a number of shares to be issued by us proportional to their interest in our capital at the time.

On March 31, 2011, our shareholders approved a capital increase in the amount of R\$105.7 million by capitalizing the goodwill special reserve. Out of this total, R\$21.1 million was capitalized without the issuing new shares, to the benefit of all shareholders, and R\$84.5 million was capitalized to the benefit of our Holding Company, pursuant to article 7 of CVM Rule 319/99, through the issuance of 1,354 thousand new preferred shares.

On April 27, 2012, our shareholders approved a capital increase in the amount of R\$200.9 million, by capitalizing the goodwill special reserve. Out of this amount, R\$40.2 million were capitalized without issuing new shares, to the benefit of all shareholders, and R\$160.7 million was capitalized to the benefit of our Holding Company.

On April 17, 2013, our shareholders approved a capital increase in the amount of R\$38.0 million, by capitalizing the goodwill special reserve. Out of this amount, R\$7.6 million were capitalized without issuing new shares, to the benefit of all shareholders, and R\$30.4 million was capitalized to the benefit of our Holding Company.

As of the date of this annual report the goodwill special reserve has been fully capitalized.

### **Shareholders' Agreements and Conditional Put Option Agreement**

On November 27, 2006, Casino Group and the Diniz Family entered into a conditional put option agreement, or the Conditional Put Option Agreement, which contemplated the conditional transfer of indirect equity interest in us from the Diniz Family to the Casino Group. At the same date, the Casino Group and the Diniz Family entered into a shareholders' agreement, or the Holding Company Shareholders' Agreement, that outlines the rules for the exercise of our control, corporate governance and restrictions on transfer of the Holding Company's shares. Furthermore, the Holding Company has a right of first refusal of 34.3% of our common shares held by the Casino Group through Casino Guichard Perrachon S.A. and Sudaco Participações Ltda.

In addition, the Holding Company, the Casino Group and the Diniz Family entered into a separate shareholders' agreement, or the CBD Shareholders' Agreement, that contains rules on, among other matters, the transfer of our shares that are held by either of the Casino Group and the Diniz Family other than through the Holding Company. As of March 31, 2013, the Casino Group, through Sudaco Participações Ltda. and Casino Guichard Perrachon S.A., held an aggregate of 34,219,230 of our common shares, representing approximately 34.3% of our outstanding common shares. At the same date, the Diniz Family did not hold common shares other than through the Holding Company.

In June 2012, according to the terms of the Holding Company Shareholders' Agreement and the Conditional Put Option Agreement, the Casino Group chose to elect Mr. Jean-Charles Naouri as the chairman of the board of directors

of the Holding Company, which caused the so called co-control rearrangement, as provided for in the Holding Company shareholders' agreement, and since then the Casino Group, as per Brazilian Corporate Law, is our sole controlling shareholder inasmuch as it has the right to elect the majority of the members of both our board of directors and the Holding Company's and to direct our business. Accordingly, the Casino Group has elected the majority of the members of the board of directors of the Holding Company on July 2, 2012, and the majority of the members of our Board of Directors on June 22, 2012.. The appointment of the chairman of the board of directors of the Holding Company triggered a put option that the Casino Group had granted to the Diniz Family, which permitted the Diniz Family to require the Casino Group to purchase from the Diniz Family 1,000,000 shares issued by the Holding Company. As a result of this event the Casino Group has also become the largest voting shareholder of our Holding Company.

The three following sections summarize certain provisions of the Conditional Put Option Agreement and the Shareholders' Agreements. The summaries below are qualified by reference to the agreements that are filed as exhibits to this annual report.

### ***Holding Company Shareholders' Agreement***

Pursuant to the Holding Company Shareholders' Agreement, the Diniz Family is currently entitled to:

- veto rights regarding (a) any corporate restructuring of CBD or the Holding Company, including, without limitation, a capital contribution in kind, a merger, including a merger of shares, a split and a spin-off, without an independent fairness opinion; (b) any contracts or agreements entered into by and between CBD, on the one hand, and the Holding Company, on the other hand, on terms and conditions other than on arm's-length basis; (c) CBD or the Holding Company seeking court or other protection under any applicable bankruptcy or the reorganization law without an independent fairness opinion; (d) any change in the dividend policy of CBD or of the Holding Company; (e) the delisting of the Preferred Shares or of the Common Shares, if applicable, of CBD; (f) any change in the rights and characteristics of the Preferred Shares of CBD; and
- election rights to appoint: (a) one director of the board of directors of the Holding Company composed of four directors, and (b) three directors of our board of directors and, as long as Abilio Diniz maintains himself as our Chairman and together with the Casino Group, four independent directors of our board of directors, observed that in case an agreement is not reached such position shall remain vacant. Mr. Abilio Diniz has the right to remain Chairman as long as he is mentally and physically fit for the functions and as long as we maintain a good performance track record.

Both the Casino Group and the Diniz Family are subject to limitations on the purchase of our preferred shares on the open market, which limitations vary according to the percentage of shares freely available to the investing public. However, the Casino Group may acquire any of our common or preferred shares held by the Diniz Family.

Both the Casino Group and the Diniz Family have a right of first offer with respect to shares or convertible securities of the Holding Company that any of them wishes to sell or otherwise dispose of.

The Holding Company Shareholders' Agreement will remain in effect until June 21, 2045 or, subject to limited exceptions, terminates automatically in the event either the Casino Group or the Diniz Family ceases to hold 10% of the Holding Company's shares or convertible securities.

### ***Conditional Put Option Agreement***

The appointment by the Casino Group of Jean-Charles Naouri as Chairman of the board of directors of the Holding Company in June 2012 triggered a put option that the Casino Group had granted to the Diniz Family, under the Conditional Put Option Agreement, which permitted the Diniz Family to require the Casino Group to purchase from the Diniz Family 1,000,000 shares issued by the Holding Company. The Diniz Family exercised this option in August 2012.

As a result of the exercise of the first put option, the Diniz Family is entitled to cause the Casino Group to purchase its remaining 19,375,000 shares issued by the Holding Company. This second put option may be exercised for a period of eight years commencing on June 22, 2014.

The Conditional Put Option Agreement provides for the acceleration of this second put option under certain circumstances including the transfer by the Casino Group of: (i) at least 10% of its shares of the Holding Company to a third party other than a competitor of CBD or (ii) any of its shares of the Holding Company to a competitor of CBD.

Under certain circumstances, the Diniz Family will be entitled at any time within a period starting on June 22, 2014 and ending on June 21, 2022 to convert or, at the Casino Group's sole discretion, to exchange the common shares that would have been subject to the second put option into preferred shares of CBD at the ratio of 915 preferred shares for 1,000 common shares.

### ***CBD Shareholders' Agreement***

According to the CBD Shareholders' Agreement, the Holding Company has, except in certain circumstances, the right of first refusal with respect to our shares or convertible securities to be disposed of by any affiliate of the Casino Group and/or the Diniz Family. Furthermore, the Holding Company has a right of first refusal of 34.3% of our common shares held by the Casino Group through Casino Guichard Perrachon S.A. and Sudaco Participações Ltda.

If, in the future, our preferred shares are vested with voting rights by operation of law, the Casino Group and/or the Diniz Family will automatically transfer such voting rights to the Holding Company. During the period in which the preferred shares have any voting rights, the Casino Group will be allowed to acquire our preferred shares from any third party provided that it transfers such voting rights to the Holding Company.

During the term of the CBD Shareholders' Agreement, the Casino Group may not convert any of our common shares into preferred shares unless such conversion is authorized by the Holding Company.

The CBD Shareholders' Agreement will be valid as long as the Holding Company is our controlling shareholder.

### **7B. Related Party Transactions**

From time to time we have entered into transactions with the Diniz Family, Casino Group and other related parties for the provision of certain services. The following discussion summarizes certain of the significant agreements and arrangements among us and certain of our affiliates. For further details regarding our related party transactions, see note 13 to our audited consolidated financial statements included elsewhere herein.

#### **Leases**

We currently lease properties from some members of the Diniz family, some of whom are our shareholders, and also lease properties from Fundo de Investimento Imobiliário Península, which is controlled by members of the Diniz Family. These properties include one store from Mrs. Floripes Pires Diniz, four stores from Mr. Arnaldo dos Santos Diniz, four stores from Mrs. Vera Lúcia dos Santos Diniz, seven stores from Mrs. Sonia Maria dos Santos Diniz Bernardini and 62 stores from the Fundo de Investimento Imobiliário Península.

Aggregate payments in 2012 under those leases equaled approximately R\$19.0 million to the Diniz family and R\$156.7 million to the Fundo de Investimento Imobiliário Península. We believe that all the leases are on terms at least as favorable to us as those which could be obtained from unrelated parties on an arm's-length basis (market conditions). For further information on these leases, see note 25 to our financial statements included in this annual report.



The spun-off portion of Casa Bahia Comercial Ltda. that was merged by Nova Casa Bahia does not include real estate properties; Casa Bahia Comercial Ltda. and Nova Casa Bahia entered into operating lease agreements for Casa Bahia Comercial Ltda. properties where some of the stores, distribution centers and buildings of Nova Casa Bahia are located. As of December 31, 2012, 274 stores were leased from members of the Klein family.

During the three first years of the lease agreements, i.e., until June 30, 2013, the rental will be fixed in the total annual amount of R\$140 million, annually adjusted by inflation based on the positive variation of IPCA/IBGE (Extended Consumer Price Index of the Brazilian Institute of Geography and Statistics). As of the fourth year of the lease agreements, the rental of real properties where stores are located, which corresponds to 50% of the aforementioned amount, will be the highest amount between (i) the aforementioned fixed amount adjusted by IPCA, and (ii) the amount corresponding to the application of certain percentage over gross sales. This percentage will vary between the fourth and the seventh year of the lease term.

#### **Furniture Supply Agreement with Bartira**

Within the scope of the association with Casa Bahia Comercial Ltda., on October 1, 2010, a furniture supply agreement was entered into between Viavarejo and Nova Casa Bahia, on the one hand, and Indústria de Móveis Bartira Ltda., or Bartira, a furniture manufacturer company controlled by Casa Bahia Comercial Ltda., on the other hand, to exclusively supply furniture to Nova Casa Bahia. The agreement has a six-year term. Aggregate payments to Bartira in 2012 under this agreement were approximately R\$593.0 million. Nova Casa Bahia owns 25% of Bartira's capital stock for the purpose of safeguarding its rights in the furniture supply agreement. On November 9, 2010, an agreement was entered into between Nova Casa Bahia and Casa Bahia Comercial Ltda., pursuant to which a purchase option of 75% of Bartira's capital stock was granted to Nova Casa Bahia, exercisable for a 30-day term as of November 9, 2013. If Nova Casa Bahia does not exercise its option, Casa Bahia Comercial Ltda. will have the obligation to buy Nova Casa Bahia's equity interest in Bartira. On January 2013, Nova Casa Bahia was merged into Viavarejo, consequently Viavarejo is the legal successor of Nova Casa Bahia's obligations and rights set forth in the agreements mentioned above.

#### **Technical Assistance Agreement with Casino**

In July 2005, we entered into a technical assistance service agreement with Casino Group. Pursuant to the agreement, Casino Group provides us with technical assistance in the areas of human resources, trademarks, marketing and communication, global campaigns and administrative assistance, among others. In exchange, we pay to Casino Group a fixed annual fee in *reais* corresponding to US\$1.8 million. The agreement was automatically renewed in 2012 and will thereafter remain in force for an undetermined period of time.

#### **7C. Interests of Experts and Counsel**

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION**

#### **8A. Consolidated Statements and Other Financial Information**

The information included in Item 18 of this annual report is referred to and incorporated by reference into this Item 8A.

#### **Legal Proceedings**

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business. These include general civil, tax and labor litigation and administrative proceedings. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimated losses in the event of unfavorable court decisions to us and to ensure that the outcomes of these legal proceedings have no material effect on our financial condition or results of operations. We cannot estimate the amount of all potential costs that we may incur or penalties that may be imposed on us other than those amounts for which we have made provisions. For further information on

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our legal proceedings, see note 24 to our financial statements included in this annual report.

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Based on the advice of our external legal counsel, we have identified and made provisions for the following probable losses that may result from legal proceedings to which we are a party:

	2010	2011 (in millions of R\$)	2012
COFINS <sup>(1)</sup> and PIS <sup>(2)</sup> tax claims	104.5	78.1	86.6
Other tax claims	464.9	346.1	364.1
Labor claims	110.6	132.9	190.8
Civil and other claims	129.4	123.1	132.9
Total accrued liabilities for legal proceedings	809.4	680.2	774.4

(1) Social integration (*Programa de Integração Social*), or PIS.

(2) Social security contribution (*Contribuição para o Financiamento da Seguridade Social*), or COFINS.

### ***Tax-related claims***

Tax-related claims are indexed to the SELIC rate, which was 11.00% on December 31, 2011 and 7.25% on December 31, 2012, and are also subject, in certain cases, to fines. We have made provisions for interest charges and fines, when applicable.

In addition, tax claims are subject to monthly indexing, which involves adjusting the amount of provisions for litigation in accordance with the indexing rates used by each tax jurisdiction. The indexing is required by law for all tax amounts, including the provision for judicial deposits.

### ***COFINS and PIS taxes***

We pay contribution for social integration, (*Programa de Integração Social*), or PIS tax, and social security tax contributions (*Contribuição para o Financiamento da Seguridade Social*), or COFINS tax, at the rates of 1.65% and 7.6% on gross sales revenue, respectively. We adopt the non-cumulative system whereby these tax liabilities can be offset by credits we accrue from taxes previously paid on products we purchase and other expenses. As a result of our application of the non-cumulative system, we and our subsidiaries have requested the right to exclude state value added taxes (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*), or ICMS, from the calculation basis of these two contributions.

In addition, the Company offset certain PIS and COFINS with IPI tax credits acquired from third parties based on a final unappealable court decision. The value of the demands for PIS and COFINS as of December 31, 2012 was R\$86.6 million, compared to R\$78.1 million as of December 31, 2011.

### ***Taxes and other***

We have other tax claims that were deemed probable losses by our legal counsel: (i) tax assessment notices related to purchase, industrialization and sale of soybean and byproducts exports (PIS, COFINS and IRPJ); (ii) disagreement on the non-application of Accident Prevention Factor, or FAP, in 2011; (iii) disagreement on the State Government Fund Against Poverty (*Fundo de Combate à Pobreza*), enacted by the State of Rio de Janeiro government; (iv) discussions related to tax losses carry forward; (v) purchases from suppliers considered disqualified before the registration of the relevant State Financing Secretary; (vi) error in application rate, (vii) ancillary obligations by state tax authorities; and (viii) other less relevant issues. The amount we provisioned as of December 31, 2012 was R\$173.7 (R\$161.5 million

as of December 31, 2011).

In addition, we discussed in court the eligibility to not pay the contributions provided for by Supplementary Law 110/01, referring to the Government Severance Indemnity Fund for Employees, or FGTS, costs. The accrued amount as of December 31, 2012 was R\$31.5 (R\$26.3 million as of December 31, 2011).

Provisions for tax contingent liabilities were recorded by our subsidiary Viavarejo at the time of the business combination. As of December 31, 2012, the amount recorded was R\$158.9 in tax contingent liabilities (R\$158.3 as of December 31, 2011).

For further information on our tax-related claims, see note 24 to our financial statements included in this annual report.

### ***Labor claims***

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of business. As of December 31, 2012, we recorded a provision of R\$177.7 million (R\$118.6 million as of December 31, 2011) referring to lawsuits which risk of loss was considered probable. Management, assisted by legal counsel, evaluates these claims recording provision for losses when reasonably estimable, taking into account previous experience in relation to the amounts claimed. Labor claims are indexed to the benchmark interest rate (“TR”) of 0.29% accrued as of December 31, 2012 (1.20% as of December 31, 2011) plus 1% monthly interest rates.

We recorded labor provisions in our subsidiary Viavarejo relating to contingent liabilities recognized upon business combination amounting to R\$13.1 million as of December 31, 2012 (R\$14.3 million as of December 31, 2011).

### ***Civil and other claims***

We are defendants in civil lawsuits. Among these lawsuits, we highlight the following:

- We file and respond to various lawsuits requesting the review of lease amounts. In these lawsuits, the judge determines a provisional lease amount, which is then paid by the stores until the final lease amount is defined. The Company recognizes a provision for the difference between the original amount paid by the stores and the amounts pleaded by the adverse party (owner of the property) in the lawsuit, when internal and external legal advisors agree on the likelihood of a change to the lease paid by the entity. As of December 31, 2012, the provision for these lawsuits was R\$36.1 million (R\$21.9 million as of December 31, 2011) to which there are no judicial deposits.
- Viavarejo is party to lawsuits involving consumer relations rights (civil claims and assessments from PROCON-*Fundação de Proteção e Defesa do Consumidor*) and a few lawsuits involving contracts terminated with suppliers in the amount of R\$43.8 million at December 31, 2012, as compared to R\$50.0 million in December 31, 2011.
- Viavarejo recorded civil provisions relating to contingent liabilities recognized at the time of the business combination in the amount of R\$2.7 million as of December 31, 2012, as compared to R\$6.5 million as of December 31, 2011.

As of December 31, 2012, including the lawsuits mentioned above, we had provisioned for civil actions in the amount of R\$132.9 million, as compared to R\$123.1 million as of December 31, 2011.

### ***Other contingent liabilities for which there are no provisions***

As of December 31, 2012, we were a party to certain legal proceedings for which the probability of loss was deemed possible and, therefore, we have not recorded provisions for these proceedings. See note 24(d) to our audited consolidated financial statements included in this annual report for detailed information on these proceedings.

We are a party to several tax-related legal proceedings with various governmental agencies related to social security taxes (INSS), federal income tax (*Imposto de Renda da Pessoa Jurídica*), or IRPJ, withholding tax (*Imposto de Renda Retido na Fonte*), or IRRF, social contribution on net profits (*Contribuição Social Sobre o Lucro Líquido*), or CSLL, COFINS, PIS, contribution tax on financial transactions, (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, state value added tax (*Imposto Sobre Circulação de Mercadorias e Serviços*), or ICMS, municipal service tax (*Imposto Sobre Serviços*), or ISS,

municipal property tax (*Imposto Predial e Territorial Urbano*), or IPTU and property transfer tax (*Imposto sobre transferência de bens imóveis*), or ITBI. As of December 31, 2012, the aggregate amount of the possible loss regarding these tax-related legal proceedings was R\$7,451.9 million, as compared to R\$4,362.2 million in 2011.

Other tax contingent liabilities recorded refer to administrative proceedings related to the offset of PIS contribution, under the protection of Decrees 2445/88 and 2449/88, generated in view of credits deriving from legal proceedings and the offset of tax debts with contribution credits levied on coffee exports.

#### *Other Legal Proceedings*

We are party to certain administrative proceedings and lawsuits related to civil, consumer protection matters and labor claims. As of December 31, 2012, the aggregate amount of the possible loss regarding these proceedings was R\$638.5 million, as compared to R\$414.3 million in 2011.

#### ***Federal Tax Installment Payment Program (REFIS)***

On May 27, 2009, the Brazilian government enacted Law No. 11,941/09, which amends the federal tax laws related to tax debt payments by installments by allowing certain judicial deposits to be deducted and paid in installments.

Previously, we maintained provisions for judicial proceedings related to certain social security contributions and income taxes. During the third quarter of 2009, our management and legal counsel, adhering to the federal tax installment payment program introduced by Law No. 11,941/09, decided to include tax and social security liabilities from proceedings, in particular those related to the COFINS tax rate, which at the time totaled approximately R\$987.0 million, and other applicable tax liabilities in the federal tax installment payment program. The balance of the consolidated installments on December 31, 2012 was R\$1,359.9 million, as compared to R\$1,463.0 million in 2011.

Refis debts are adjusted by the SELIC rate (8.62% in 2012 and 11.76% in 2011). The amount we paid under REFIS in 2012 was R\$214.2 million, as compared to R\$212.9 million in 2011.

#### **Dividend Policy and Dividends**

##### ***General***

Pursuant to Brazilian corporate law, Brazilian corporations are required to hold an annual shareholders' meeting in the first four months of each fiscal year at which time the allocation of the results of operations in any year and the distribution of an annual dividend are approved. Under Brazilian corporate law, shareholders of a Brazilian corporation have the right to receive, as a mandatory dividend for each fiscal year, a part of the corporation's net profits as established under its by-laws or, if not provided under such by-laws, an amount equal to 50% of the company's adjusted net profits pursuant to Brazilian corporate law. Currently, Brazilian corporate law generally requires that each Brazilian corporation distribute as a mandatory dividend an aggregate amount equal to at least 25% of the adjusted net profits and adjusted according to Brazilian corporate law. Pursuant to Brazilian corporate law, in addition to the mandatory dividend, the board of directors may recommend to the shareholders payment of interim dividends and payment of dividends from other legally available funds. Also pursuant to Brazilian corporate law, a Brazilian company is allowed to suspend the distribution of the mandatory dividends in any year in which its management report to its shareholders' general meeting that the distribution would be incompatible with its financial condition.

For the fiscal year ended 2012, we have not changed the dividend distribution period. Pursuant to our dividend policy created by our board of directors on August 3, 2009, we anticipate our dividend distribution on a quarterly basis. For further information see "Item 10B. Memorandum and Articles of Association — Allocation of Net Profits and Distribution of Dividends – Distribution of Dividends." According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval.





**Dividend Policy and History of Dividend Payments**

The following table sets forth the distributions paid to holders of our common shares and preferred shares since 2008:

Period	Description	First payment date	R\$ per preferred R\$ per common		Total amount in dividends on shareholders' equity shares (in R\$ millions)
			share	share	
2009	Dividends	August 24, 2009	0.13558	0.12326	30.9
2009	Dividends	November 30, 2009	0.06614	0.06013	15.5
2009	Dividends	June 28, 2010	0.39372	0.35793	94.1
2010	Dividends	May 31, 2010	0.08	0.0727272	19.2
2010	Dividends	August 17, 2010	0.08	0.0727272	19.6
2010 <sup>(2)</sup>	Dividends	December 1, 2010	0.08	0.0727272	19.6
2010	Dividends	May 30, 2011	0.45827	0.40955	113.2
2011	Dividends	May 27, 2011	0.09	0.0818181	22.5
2011	Dividends	August 10, 2011	0.09	0.0818181	22.6
2011	Dividends	November 28, 2011	0.09	0.0818181	22.6
2011	Dividends	June 26, 2012	0.372950601	0.410245661	102.9
2012	Dividends	June 20, 2012	0.11	0.10	27.8
2012	Dividends	August 13, 2012	0.11	0.10	27.9
2012	Dividends	November 23, 2012	0.11	0.10	27.9
2012 <sup>(3)</sup>	Dividends	To de determined	0.653088073	0.593716430	165.9

(1) Taking into account the 500:1 reverse stock split that became effective on September 1, 2007. The dividend accrued on December 31, 2009 was approved at the annual shareholders' meeting held on April 29, 2010 and paid in June 2010.

(2) The dividend accrued on December 31, 2010 was approved at the annual shareholders' meeting held on March 31, 2011 and was paid on May 30, 2011. On October 18, 2010, the ratio of our ADR (American Depositary Receipt) program changed, whereby one ADR (CBD) represented one preferred share of CBD (PCAR4). This ratio change resulted in a 2 for 1 split (one additional ADR for each ADR held).

(3) These amounts have been proposed by management and are subject to confirmation at the annual shareholders' meeting to be held on April 17, 2013.

Shareholders who are not residents of Brazil must generally register with the Central Bank to have dividends and/or interest on shareholders' equity, sales proceeds or other amounts with respect to their shares eligible to be remitted in foreign currency outside of Brazil. See "Item 10D. Additional Information — Exchange Controls." The preferred shares underlying the ADSs are held in Brazil by the custodian, as agent for the depositary, the registered owner on the records of the custodian for the preferred shares underlying the ADSs. The current custodian is Banco Itaú Corretora de Valores S.A.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the custodian on behalf of the depositary, which will then convert the payments in Brazilian currency into U.S. dollars and thereafter will cause the U.S. dollars to be delivered to the depositary for distribution to holders of ADSs as described above. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends and/or interest on

shareholders' equity into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that occur before the distributions are converted and remitted. See "Item 3A. Selected Financial Data — Exchange Rates." Dividends and interest on shareholders' equity in respect of the preferred shares paid to shareholders, including holders of ADSs, are subject to the tax treatment outlined in "Item 10E. Taxation — Brazilian Tax Considerations."

**8B. Significant Changes**

None.

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**ITEM 9. THE OFFER AND LISTING****9A. Offer and Listing Details**

Our preferred shares are traded on the BM&FBOVESPA under the trading symbol PCAR4. Our preferred shares in the form of ADSs also trade on the New York Stock Exchange, or NYSE, under the trading symbol “CBD”. We are also listed, but not traded, on the Luxembourg Stock Exchange.

Our ADSs commenced trading on the NYSE in May 1997. As of December 31, 2012, the ADSs represented 38.8% of our preferred shares. Each ADS represents one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York Mellon.

The following table sets forth, for the period indicated, the reported high and low sales prices for the preferred shares on the BM&FBOVESPA:

Calendar Period	R\$		US\$( <sup>1</sup> )		R\$ Average Daily Trading Volume
	High	Low	High	Low	
2008:	40.66	24.67	17.40	10.56	20,689,189
2009:	65.00	27.96	37.33	16.06	25,598,431
2010:	71.18	54.40	42.84	30.14	51,106,841
2011:					
1st quarter	70.21	58.93	43.12	36.20	48,534,251
2nd quarter	73.25	62.30	46.92	39.91	87,314,590
3rd quarter	72.99	56.00	39.36	30.20	41,020,592
4th quarter	68.84	56.05	36.70	29.88	34,576,724
2012:					
1st quarter	87.45	66.00	47.99	36.22	45,303,826
2nd quarter	90.90	73.51	44.97	36.37	38,784,515
3rd quarter	90.55	76.79	44.59	37.82	37,872,879
4th quarter	98.19	90.26	48.05	44.17	46,280,542

(1) Converted into U.S. dollars at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. See “Item 3A. Selected Financial Data — Exchange Rates.”

Preferred share prices for the most recent six months are as follows:

Calendar Period	R\$		US\$( <sup>1</sup> )		R\$ Average Daily Trading Volume
	High	Low	High	Low	
October 2012	98.19	91.23	48.34	44.91	42,997,643
November 2012	93.00	90.26	44.13	42.83	42,120,206
December 2012	95.87	90.44	46.91	44.26	54,684,438
January 2013	93.90	88.67	47.23	44.60	139,089,808
February 2013	99.20	93.25	50.22	47.21	93,549,779
March 2013	107.89	99.50	53.58	49.41	86,545,113

(1) Converted into U.S. dollars at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. See “Item 3A. Selected Financial Data — Exchange Rates.”

On April 17, 2013, the closing sale price for the preferred shares on the BM&FBOVESPA was R\$105.00 per preferred share, equivalent to US\$52.66 per ADS translated at the exchange rate of R\$1.99 per US\$1.00, the commercial selling rate on that date. On the same date, the closing sale price for our ADSs on the NYSE was US\$53.20.

The following table sets forth, for the periods indicated, the reported high and low sales prices for our ADSs listed on the NYSE:

Calendar Period	High	Low	High	Low	US\$ Average Daily Trading Volume
	US\$ ADSs		R\$ ADSs <sup>(1)</sup>		
2008 <sup>(2)</sup>	24.73	11.09	57.79	25.92	14,613,403
2009 <sup>(2)</sup>	37.79	11.65	65.79	20.28	11,633,266
2010:	42.26	29.15	70.21	52.60	25,490,183
2011:					
1st quarter	43.40	35.99	70.66	58.59	21,871,240
2nd quarter	48.00	39.61	74.93	61.84	51,315,485
3rd quarter	47.39	30.78	87.88	57.08	26,384,299
4th quarter	41.01	30.68	76.93	57.55	19,712,106
2012:					
1st quarter	49.64	36.03	90.45	65.65	22,757,073
2nd quarter	49.67	36.58	100.40	73.94	24,356,991
3rd quarter	45.11	38.08	91.60	77.33	15,740,608
4th quarter	48.94	43.28	100.01	88.44	17,249,246

(1) Converted into Brazilian *reais* at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. See “Item 3A. Selected Financial Data — Exchange Rates.”

(2) Adjusted to reflect the current ADR share ratio of 1:1.

Share prices for the most recent six months are as follows:

Calendar Period	High	Low	High	Low	US\$ Average Daily Trading Volume
	US\$ ADSs		R\$ ADSs <sup>(1)</sup>		
October 2012	48.94	45.44	99.41	92.30	17,997,358
November 2012	46.07	43.28	97.09	91.21	14,654,513
December 2012	46.60	43.78	95.23	89.46	19,188,197
January 2013	47.74	43.99	94.92	87.47	19,649,936
February 2013	50.68	47.44	100.11	93.71	24,323,767
March 2013	55.33	50.92	102.54	102.54	43,393,072

(1) Converted into Brazilian *reais* at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. See “Item 3A. Selected Financial Data

Exchange Rates.”

In addition, our common shares are traded on the BM&FBOVESPA under the trading symbol PCAR3, although they are not actively traded. See “Item 7A. Major Shareholders” for more information on ownership of our common shares.

**9B. Plan of Distribution**

Not applicable.

**9C. Markets**

**Trading on the BM&FBOVESPA**

The trading market for our preferred shares and common shares is the BM&FBOVESPA. The BM&FBOVESPA stock exchange is a stock corporation where all stock trades in Brazil are carried out, with the exception of public-debt bonds, which are traded electronically, and the privatization auctions, which are run by the Rio de Janeiro Stock Exchange. Settlement of transactions on BM&FBOVESPA occurs three business days after the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia*, or CBLC, a subsidiary of BM&FBOVESPA. Under the regulations of the CBLC, financial settlement is carried out through the *Sistema de Transferência de Reservas* (Reserve Transfer System) of the Central Bank. The settlement of trades of shares is carried out in the custodial system of CBLC. All deliveries against final payment are irrevocable.

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On May 8, 2008, the São Paulo Stock Exchange and the Brazilian Mercantile and Futures Exchange merged, creating BM&FBOVESPA. Together, the companies have formed one of the largest exchanges worldwide in terms of market value, the second largest in the Americas, and the leading exchange in Latin America.

As of April 17, 2013, there were 522 companies listed on the BM&FBOVESPA.

Trading on the BM&FBOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment and tax legislation.

### **Regulation of the Brazilian Securities Markets**

The Brazilian securities market is regulated and supervised by the National Monetary Council (Conselho Monetário Nacional), or CMN, the CVM, which has general authority over stock exchanges and the securities markets and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The regulatory and supervision powers of the CMN, the CVM and the Central Bank are set out by Law No. 4,595, dated December 31, 1964, as amended, and Law No. 6,385, dated December 7, 1976, as amended, or Brazilian Securities Law.

Under Law No. 6,404, dated December 15, 1976, as amended, or Brazilian Corporate Law, a company is either public, a *companhia aberta*, such as we are, or private, a *companhia fechada*. All public companies are registered with the CVM, and are subject to periodic reporting requirements and disclosure of material facts. A company registered with the CVM may have its securities traded either on the BM&FBOVESPA or on the Brazilian over the counter market. The shares of a company listed on the BM&FBOVESPA may also be traded privately, subject to certain limitations. To be listed on the BM&FBOVESPA, a company must apply for registration with the CVM and with the BM&FBOVESPA. Trading of securities of a public company on the BM&FBOVESPA may be suspended at the request of such company in anticipation of a material announcement. Trading may also be suspended on the initiative of the BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries made by the CVM or the BM&FBOVESPA.

The Brazilian Securities Law, Brazilian Corporate Law and the laws and regulations issued by the CVM, the CMN, and the Central Bank provide for, among other matters, disclosure requirements applicable to issuers of traded securities, restrictions on insider trading and price manipulation, protection of minority shareholders, licensing procedures, supervision of brokerage firms, and governance of the Brazilian stock exchanges.

### **Corporate Governance Practices**

In 2000, the BM&FBOVESPA introduced three special listing segments, known as Level 1 (Nível 1) and 2 (Nível 2) of differentiated Corporate Governance Practices and New Market (Novo Mercado), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BM&FBOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by applicable Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

To be listed on the Level 1 segment, in addition to the obligations imposed by current Brazilian law, a company must agree to (a) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading (at least 25% must be free float), (b) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (c) comply with minimum quarterly disclosure standards including the disclosure of consolidated financial statements and independent audit revision opinion, (d) follow stricter disclosure policies with



respect to transactions made by controlling shareholders, directors and officers involving securities issued by the respective company, (e) submit any existing shareholders' agreements and stock option plans to the BM&FBOVESPA and (f) disclose to shareholders an annual corporate events calendar.

On May 10, 2011 the differentiated Corporate Governance Practices and New Market (Novo Mercado) rules were amended. The new provisions include, among others, new pecuniary sanctions for companies that do not comply with rules. In addition to that, according to the amended rules, a company's CEO or major executive officer cannot hold the position of chairman of the board of directors as well as all board members shall be elected for continuous terms extending for a maximum of two (2) years. Reelection is permitted.

We have been listed as a Level 1 listed company since March 31, 2003. As a result, we must comply with the corporate governance standards and Level 1 listing requirements described in the previous paragraphs in addition to other obligations imposed by the applicable Brazilian law.

### **Disclosure Requirements**

According to Brazilian corporate law and CVM regulation, a public company must submit to the CVM and BM&FBOVESPA certain periodic information, including financial statements accompanied by the management discussion and analysis report and independent audit report, quarterly information, management discussion and analysis and independent audit reports. This legislation also requires us to file with the CVM and the BM&FBOVESPA our shareholders' agreements, notices of shareholders' meetings and copies of the related minutes and communications regarding material acts or facts.

The CVM rules also provide for requirements regarding the disclosure and use of information related to material acts or facts, including the disclosure of information in the trading and acquisition of securities issued by publicly held companies.

Such requirements include provisions that:

- establish the concept of a material act or fact that gives rise to reporting requirements. Material acts or facts include decisions made by the controlling shareholders, resolutions of the general meeting of shareholders or of management of the company, or any other political, administrative, technical, financial or economic acts or facts related to the company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade or maintain such securities or to exercise any of such securities' underlying rights;
- specify examples of acts or facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control of a public company, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;
- oblige the public company to disclose material acts or facts to the CVM, to the BM&FBOVESPA and through the publication of such acts in the newspapers usually utilized by such company;
- require the acquirer of a controlling stake in a public company to publish a material fact, including its intentions as to whether or not to de-list the corporation's shares, within one year;
- require management, members of the fiscal council, if active, or of any technical or advising body of a public company to disclose to the company, to the CVM and to the BM&FBOVESPA the number, type and form of trading of securities issued by the company, its subsidiaries and controlling public companies that are held by them or by persons closely related to them, and any changes in their respective ownership positions;
- require that, if any direct or indirect controlling shareholder or any shareholder electing members of the board of directors of a public company increases or decreases participation in such company by more than 5.0%, such person

or entity must disclose information regarding such acquisition or disposition; and

- forbid trading on the basis of insider information.

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Under the terms of CVM Instruction No. 358, dated January 3, 2002, as amended, we may, under exceptional circumstances, submit a request for confidential treatment to the CVM concerning a material act or fact when our controlling shareholders or managers consider that their disclosure will risk the company's legitimate interest.

**9D. Selling Shareholders**

Not applicable.

**9E. Dilution**

Not applicable.

**9F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**10A. Share Capital**

As of December 31, 2012, our capital stock consisted of a total of 263,409,965 non-par shares, of which 99,679,851 were common shares and 163,730,114 were preferred shares. As of the same date, our Company held 232,586 preferred shares in treasury. In 2012, we increased our capital stock by 3,171 thousands of preferred shares due to the stock option plan.

As of March 31, 2013, our capital stock consisted of a total of 263,451,335 non-par shares, of which 99,679,851 were common shares and 163,771,484 were preferred shares. As of the same date, 232,586 preferred shares were held in treasury and no common shares were held in treasury.

On April 17, 2013, our shareholders approved a capital increase which will result in the issuance of 299,968 new preferred shares. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Holding Company Goodwill Contribution of Deferred Tax Benefits."

In the last three years we have not issued any other class of shares.

**10B. Memorandum and Articles of Association**

Below is a brief summary of certain significant provisions of our by-laws and Brazilian corporate law. This description does not purport to be complete and is qualified by reference to our by-laws (an English translation of which has been filed with the SEC) and to the Brazilian corporate law.

**Corporation Objects and Purposes**

We are a publicly held corporation with principal place of business and jurisdiction in the city of São Paulo, Brazil, governed by Brazilian laws (including Brazilian corporate law), CVM and SEC regulations and our by-laws.

Our main business purpose is to sell manufactured, semi-manufactured and natural products of both Brazilian and foreign origin, of any and all kinds and description, nature or quality, provided that they are not forbidden by law. Furthermore, we may also engage in a wide range of activities set forth in article 2 of our by-laws.

**Preferred Shares and Common Shares**

Pursuant to Brazilian corporate law and our by-laws, each common share entitles the holder thereof to one vote at our shareholders' meetings. Holders of common shares are not entitled to any preference relating to our dividends or other distributions or any preference upon our liquidation, provided that they may convert their common shares into preferred shares at any time. See “—Conversion of Common Shares into Preferred Shares.”

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Pursuant to Brazilian corporate law, each preferred share is non-voting, except under limited circumstances, and is entitled to:

- priority in the receipt of fixed or minimum dividend;
- priority in the reimbursement of capital, with or without premium; or
- cumulative preferences and advantages established in items (i) and (ii) above.

Furthermore, the preferred shares will only be admitted for trading on the BM&FBOVESPA if they are entitled to at least one of the following preferences:

- right to participate in the distribution of the mandatory dividend of at least 25% of our adjusted net profits, pursuant to the following criteria (See “— Allocation of Net Profits and Distribution of Dividends – Mandatory Dividends” for a description of calculation of our adjusted net profits): (i) priority in the receipt of dividends corresponding to at least 3% of the shares’ book value; and (ii) right to participate in the profit distribution together with the common shares under equal conditions, after the common shares have received dividends as set forth in item (i) above; or
- right to receive dividends in an amount per share of at least 10% higher than the amount per share paid to holders of common shares.

In addition, pursuant to Brazilian corporate law and our by-laws, the preferred shares will acquire the right to vote in the event that the minimum non-cumulative annual preferred dividend is not paid for a period of three consecutive years and such voting right will cease upon the payment of such minimum non-cumulative annual preferred dividend.

Under Brazilian corporate law, amendments reducing the rights of preferred shares entitle the holders of those shares to withdrawal rights. See “–Withdrawal Rights” for a description of withdrawal rights.

## **Allocation of Net Profits and Distribution of Dividends**

### ***Allocation of Net Profits***

Brazilian corporate law defines the “net profit” as the results of the relevant fiscal year, reduced by accumulated losses of prior fiscal years, provisions for income tax and social contribution for such fiscal year, and amounts allocated to employees’ and management’s participation in the results in such fiscal year. The allocation of our net profits is proposed by our management and is subject to approval by our shareholders at a general shareholders’ meeting. The discretion of our management and our shareholders to determine the allocation of our net profits, however, is limited by certain rules that determine whether such net profits should be distributed as dividends or allocated to certain profit reserves or carried forward to future fiscal years, as follows:

*Mandatory dividends.* Our shareholders are generally entitled to receive mandatory dividends each year, in an amount equivalent to 25% of our adjusted net profits. Adjusted net profits are net profits following the addition or subtraction of:

- amounts allocated to the formation of a legal reserve account;
- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years;
- amounts allocated to the formation of a tax incentives reserve account;

- amounts allocated to the statutory reserve, if any;
- amounts allocated to the unrealized profit reserve;

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- amounts allocated to the retained profit reserve; and
- reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

The payment of our mandatory dividends may be limited to the profits actually realized in the fiscal year, if the portion of the profits not realized is allocated to the unrealized income reserve account (as described below).

For the fiscal year ended 2009, we created a new dividend policy during the board of directors meeting held on August 3, 2009, pursuant to which we anticipate our dividend distribution on a quarterly basis; we have not made further alterations to the dividend distribution period.

*Legal reserve account.* We are required to maintain a legal reserve to which we must allocate 5% of our net profits for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. The allocation of a portion of the net profits to the legal reserve account is mandatory and it must be submitted for approval to the shareholders voting at the general shareholders' meeting and may only be transferred to our capital account or used to offset accumulated losses, if any. We are not required to make any allocations to our legal reserve for any fiscal year in which such reserve, when added to our capital reserves, exceeds 30% of our capital stock. The legal reserve account is not available for the payment of dividends.

*Expansion Reserve.* Currently, our by-laws provide for an expansion reserve (*Reserva de Expansão*) which will be made of up to 100% of the remainder adjusted net profits after the establishment of the legal, contingency and unrealized income reserves. The total amount of this reserve may not exceed the amount corresponding to our share capital. Our shareholders may amend our by-laws in order to establish other discretionary reserves. The allocation of our net profits to discretionary reserve accounts may not be made if it prevents the distribution of our mandatory dividends.

*Contingency reserve account.* A portion of our net profits may also be allocated to a contingency reserve for an anticipated loss that is deemed probable in future years. Any amount so allocated in a prior year must either be reversed in the fiscal year for which the loss was anticipated if the loss does not occur or be charged off if the anticipated loss occurs.

*Tax incentives reserve account.* According to Brazilian corporate law, our shareholders' meeting, upon a justified proposal of our board of directors or board of executive officers or according the rules of the benefit granted, may decide to allocate a percentage of our net profits resulting from government donations or subventions for investment purposes.

*Retention of our net profits.* According to Brazilian corporate law, the shareholders can decide to retain a portion of the net profit provided that such portion has been contemplated in the capital budget previously approved by the shareholders.

*Unrealized income reserve account.* The portion of the mandatory dividends that exceeds the net profits actually realized in that year may be allocated to the unrealized income reserve account. Unrealized income is income resulting from investments measured by equity method and/or the profits of earnings of any transaction, the financial satisfaction of which takes place in the subsequent fiscal year.

The unrealized income reserve account, when realized, must be used first to offset accumulated losses, if any, and the remaining portion must be used for the payment of mandatory dividends.

The balance of the profits reserve accounts, except for the contingency reserve account and unrealized income reserve account, may not exceed our share capital. If this occurs, a shareholders' meeting must resolve if the excess will be



applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed share capital or to distribute dividends.

### *Distribution of Dividends*

Under Brazilian corporate law and our by-laws, we may pay dividends only from:

- our “net profits” earned in a given fiscal year, which is our result of the relevant fiscal year, reduced by: accumulated losses from prior fiscal years; provisions for income tax and social contribution for such fiscal year; and amounts allocated to employees’ and managers’ participation in the results in such fiscal year pursuant to our Profit Sharing Program (*participações dos empregados nos resultados*). Furthermore, our by-laws allow us to implement a profit sharing plan for employees and managers and a stock option plan. The amount to be paid in connection with both plans is set forth by our board of directors and must not exceed an amount equal to 15% of our net profits. Under Brazilian corporate law, this profit sharing may only be paid to managers with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders;
- our net profits accrued in previous fiscal years or in any six-month and/or quarterly interim period of a fiscal year; or
- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, “profit reserves” means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by our shareholders’ resolution or unrealized income reserve account, not including the legal reserve account.

Under our by-laws, the preferred shares are entitled to: (i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R\$0.08 per preferred share, (ii) priority in reimbursement of capital, without premium, in case of liquidation, (iii) participation on equal terms with common shares in the distribution of bonus shares resulting from capitalization of reserves of retained earnings and (iv) receipt of the mandatory dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.08 per share.

Consequently, under our by-laws, to the extent funds are available, dividends and/or interest on shareholders’ equity are paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares in the amount of R\$0.08 per preferred share; and (ii) after common shares are assured a dividend equal to the minimum non-cumulative annual preferred dividend equal to R\$0.08 per share, each preferred share receives a dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.08 per preferred share, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition. We are authorized, but not required, to distribute a higher amount of dividends.

Dividends are generally to be declared at general shareholders’ meetings in accordance with the recommendation of the board of directors. Our board of directors may declare interim dividends to be deducted from the accrued profits recorded in our annual or semiannual financial statements. In addition, our board of directors may pay dividends from the net income based on our unaudited quarterly financial statements. The interim dividends may be declared and debited to the profit reserve amount registered at the most recent annual or semiannual statement. These semiannual or quarterly interim dividends may not exceed the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividends relating to the net profits earned in the year the interim dividends were paid.

Distributions of interest on our shareholders’ equity may constitute an alternative form of payment to shareholders. These payments may qualify as part of the mandatory dividend at their net value. Please see “Item 10E. Taxation — Brazilian Tax Considerations.”

Under Brazilian corporate law, dividends must be available to the shareholders within 60 days after the date the dividends were declared to the holder of record on the declaration date. The amount is subject to monetary restatement, in accordance with recommendation of our board of directors and Brazilian corporate law.

A shareholder has a three-year period following the dividend payment date to claim a dividend in respect of its shares. After the expiration of that period, we are no longer liable for the payment of such dividend.

Our calculation of “net profits” and allocations to reserves for any fiscal year are determined on the basis of financial statements.

Under Brazilian corporate law, however, we are allowed to suspend the distribution of the mandatory dividends in any year in which our management report to our shareholders’ general meeting that the distribution would be incompatible with our financial condition. Such suspension is subject to review by the fiscal council, if it is in place. In addition, in case of public companies, like us, our management must file a justification for such suspension with the Brazilian Securities Commission within five days from the date of the relevant general shareholders’ meeting. In case the mandatory dividend is not paid, the unpaid amount shall be attributed to a special reserve account and, if not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

### ***Conversion of Common Shares into Preferred Shares***

Our by-laws do not provide for the conversion of preferred shares into common shares. In accordance with our by-laws, our shareholders may at any time convert our common shares into preferred shares, provided that such common shares are fully paid and that the total of preferred shares issued does not exceed the limit of two-thirds of all outstanding shares. The requests for conversion must be submitted in writing to our board of executive officers and subsequently ratified at the next board of directors meeting.

### **Interest on Shareholders’ Equity**

We are allowed to pay interest on shareholders’ equity as an alternative form of payment to shareholders, which payment may be treated as a deductible expense for income tax and social contribution purposes. Payments of interest on shareholders’ equity may be made at the discretion of our board of directors, subject to the approval of our shareholders in the shareholders’ meeting. The amount paid to shareholders as interest on shareholders’ equity, net of any withholding tax, may be included as part of the mandatory distribution. This interest is limited to the daily pro rata variation of the TJLP, as determined by the Central Bank from time to time, and cannot exceed, for tax purposes, the greater of (i) 50% of net income (after deduction of social contribution on profits and before taking such distribution and any deduction for corporate income tax) for the year in respect of which the payment is made; or (ii) 50% of the sum of retained profits and profit reserves in the beginning of the period with respect to which the payment is made.

Distribution of interest on shareholders’ equity may also be accounted for as our tax deductible expense, and any payment of interest on preferred shares to shareholders, whether Brazilian residents or not, including holders of ADSs, is subject to Brazilian withholding tax at the rate of 15% or at the rate of 25% in case the beneficiary is resident and domiciled in a “tax haven,” a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment. See “Item 10E. Taxation — Brazilian Tax Considerations — Distribution of Interest on Shareholders’ Equity.” To the extent we distribute interest on shareholders’ equity in any year, which distribution is not accounted for as part of the mandatory distribution, a Brazilian withholding tax would apply and we would not be required to make a gross-up.

### **Board of Directors**

According to Brazilian corporate law, our officers and directors are prohibited from voting on, or acting in, matters in which their interests conflict with ours.

Our by-laws provide that the shareholders are responsible for determining the global remuneration of the members of our management bodies. There are no specific provisions regarding the directors' power to vote on their compensation in the absence of an independent quorum.

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With respect to the borrowing powers of the Board of Directors, the Board of Directors has the power to authorize the borrowing of funds. Other financing arrangements, including bank loans, may be entered into by us upon the joint signatures of (i) one executive officer, acting jointly with the Chief Executive Officer or other executive officer indicated by the board of directors, (ii) one officer and one attorney-in-fact, or (iii) two attorneys-in-fact.

There is no requirement under Brazilian corporate law or our by-laws that directors retire upon reaching a certain age. In addition, our by-laws do not provide for the re-election of directors at staggered intervals.

For a discussion of our Board of Directors, see “Item 6A. Directors and Senior Management — Board of Directors” and “Item 6C. Board Practices.”

### **Voting Rights**

Each common share entitles the holder thereof to one vote at our shareholders’ meetings. Preferred shares do not entitle the holder to vote.

Brazilian corporate law provides that non-voting or restricted voting shares (such as our preferred shares) entitled to fixed or minimum dividends acquire unrestricted voting rights if the company has failed for three consecutive fiscal years (or for any shorter period set forth in a company’s by-laws) to pay any fixed or minimum dividend to which such shares are entitled, and such voting rights exist until the payment thereof is made. Our by-laws do not set forth any shorter period.

In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle the holder thereof to one vote.

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority or preference over the existing preferred shares, would require, in addition to the affirmative vote of shareholders holding the majority of our common shares in a shareholders’ meeting, the prior approval or the ratification by holders of a majority of the concerned outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares. This meeting would be called by notice published at least three times in the *Diário Oficial do Estado de São Paulo*, as well as in a newspaper of wide circulation in São Paulo, at least 15 days prior to the meeting, but would not generally require any other form of notice. We have designated newspapers such as *Folha de São Paulo*, *Valor Econômico*, *Estado de S. Paulo* or *Brasil Econômico* for this purpose. In addition to these newspapers, we also have to publish the notice on the website of CVM or BM&FBOVESPA and our website.

According to Brazilian corporate law, (i) shareholders that jointly hold preferred shares that represent at least 10% of the total capital stock, and (ii) holders of common shares that are not controlling shareholders and represent, at least 15% of the total voting stock, will have the right to elect one member of the board of directors and an alternate. In case non-controlling shareholders do not achieve the aforementioned percentage, they may combine their participation and, if they jointly hold at least 10% of the total capital, they may elect a member of the board of directors and an alternate director. Only shareholders that prove they have been holding the shares for at least 3 continuous months may exercise such rights.

### **Shareholders’ Meetings**

Under Brazilian corporate law, at an annual general meeting of shareholders, or an extraordinary general meeting, convened and held in accordance with such law and our by-laws, the shareholders are empowered to decide all matters relating to our business purposes.

In accordance with Brazilian corporate law, shareholders voting at our general meeting have the power, among others, to:

- amend our by-laws;
- delist from CVM (to become a private company);

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- approve the issuance of convertible debentures and secured debentures;
- elect or dismiss members of the board of directors and of the fiscal council, at any time;
- receive the management's accounts and approval of our financial statements, including the allocation of net profits;
- suspend the rights of a shareholder who has violated Brazilian corporate law or our by-laws;
- approve the valuation of assets offered by a shareholder in consideration for the subscription of shares of our capital stock;
- approve the transformation of the corporate form or a merger with or into another company, spin-off, consolidation or split; and
- authorize the management to petition for bankruptcy, to declare our company insolvent and to request procedures involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code.

In addition, our by-laws also establish that a general meeting of our shareholders will have the following duties:

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review of the reports;
- appointment and removal of the Chairman of our board of directors;
- approval of the annual global compensation of the members of our management, including benefits;
- approval of or amendment to our annual investment program;
- approval of any issuance of common or preferred shares up to the limit of our authorized capital (400,000,000 shares), and/or any bonuses, debentures convertible into our shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for our shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which we are or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and the terms and conditions of subscription and payment;
- approval of any agreement or amendment to any agreement, directly or indirectly, between us and/or our affiliates and any of our controlling shareholders or their relatives, members of our management or any of our controlled companies and affiliates, except those agreements executed in the ordinary course of business, which should be contracted on an arm's-length basis (market conditions);
- approval of any delisting from trading on any stock exchange or filings for new listings;
- approval of any change in our dividend policy;
- approval of any joint venture between us and third parties involving an individual investment or investments aggregated over a fiscal year in excess of the amount equivalent in *reais* to US\$100.0 million or in excess of an amount equal to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher, provided that the joint venture was previously approved by our board of directors;



- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or amounts aggregated over a fiscal year in excess of the amount in *reais* equivalent to US\$100.0 million, or in excess of an amount equal to 6% of our shareholders equity as determined in our latest annual balance sheet, whichever is higher; and
- approval of any financial arrangement, including the lending or borrowing by us of funds and the issuance of non-convertible debentures in excess of an individual amount equal to two times our EBITDA of the preceding 12 months.

In relation to the matters described in the last two bullet points above, according to our by-laws, our board of directors has the following duties:

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- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or cumulated over a fiscal year in excess of the amount in *reais* equivalent to US\$20.0 million or in excess of an amount equal to 1% and up to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher; and
- approval of any financial arrangement in excess of an individual amount equivalent to one half and up to two times our EBITDA of the preceding 12 months.

According to Brazilian corporate law, neither a company's by-laws nor actions taken at a shareholders' meeting may deprive a shareholder of certain specific rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under the Brazilian law described under “—Preemptive Rights on Increase in Preferred Share Capital”;
- the right to withdraw from the company in the cases specified under Brazilian corporate law, see “—Withdrawal Rights”; and
- the right to supervise, pursuant to Brazilian corporate law, the management of the company.

### *Quorum*

Generally, Brazilian corporate law provides that a quorum at a shareholders' meeting consists of shareholders representing at least 25% of a company's issued and outstanding voting capital on the first call and, if that quorum is not reached, any percentage on the second call. If the shareholders are called to amend our by-laws, a quorum at a shareholders' meeting consists of shareholders representing at least two-thirds of our issued and outstanding voting capital on the first call and any percentage on the second call.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders' meeting is required to ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing more than one-half of our issued and outstanding voting capital is required to:

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or create a new class with greater privileges than the existing classes of preferred shares;
- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge us into or with another company;
- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in Brazilian corporate law);

- apply for cancellation of any voluntary liquidation;
- merge all our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company; and
- approve our dissolution.

### ***Notice of our shareholders' meetings***

Notice of our shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, and the newspapers *Folha de São Paulo*, *Valor Econômico*, *Estado de S. Paulo* or *Brasil Econômico*. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, the CVM may require that the first notice be published 30 days in advance of the meeting.

### ***Conditions of admission***

Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares they intend to vote. A shareholder may be represented at a shareholders' meeting by a proxy appointed less than a year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. Investment funds must be represented by their manager.

### **Preemptive Rights on Increase in Preferred Share Capital**

Under Brazilian corporate law, each shareholder has a general preemptive right to subscribe for shares in any capital increase, in proportion to its shareholding, except in the event of the grant and exercise of any option to acquire shares of our capital stock under our stock option program. A shareholder has a general preemptive right to subscribe for debentures convertible into our shares and subscription warrants that we may issue. A minimum period of 30 days following the publication of the notice of a capital increase must be respected to exercise such right, except if otherwise determined by the by-laws or the shareholder meeting, and the right is negotiable.

According to Brazilian corporate law, capital increases that do not change the proportion between the existing classes and types of shares entitle the shareholders to exercise their preemptive rights solely with respect to shares of equal class and type as the shares they already hold. However, if an issuance of shares changes the existing proportion of classes and types of shares, then (i) the shareholders may exercise their preemptive rights with respect to shares of equal class and type as the shares they already hold and, (ii) if necessary to maintain such shareholders' ownership proportional with regard to the total capital stock, they may subscribe for other classes or types of shares.

Our board of directors is authorized to eliminate preemptive rights with respect to the issuance of shares, debentures convertible into shares and subscription warrants, provided that the distribution of such shares is effected (i) through a stock exchange or in a public offering or (ii) through an exchange of shares in a public offering, the purpose of which is to acquire control of another company.

In the event of a capital increase, that maintains or increases the proportion of capital represented by preferred shares, holders of ADSs, may, under certain circumstances described above, exercise preemptive rights to subscribe newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs, may under certain circumstances described above, have preemptive rights to subscribe for preferred shares, in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see "Item 3D. Risk Factors — Risks Relating to the Preferred Shares and ADSs — You might be unable to exercise preemptive rights with respect to the preferred shares underlying the ADSs."

### **Withdrawal Rights**

Neither the common shares nor the preferred shares are redeemable. Any of our shareholders who dissent from certain actions taken by our shareholders in a shareholders' meeting have the right to withdraw from our company and to receive the value of their shares. According to Brazilian corporate law, the withdrawal rights of a dissenting

shareholder may be exercised in the event that our shareholders representing at least one-half of our issued and outstanding voting capital authorizes:

- i. the creation of preferred shares or the disproportional increase of an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;

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- ii. the modification of a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or the creation of a new class with greater privileges than the existing classes of preferred shares;
- iii. a reduction in the mandatory distribution of dividends;
- iv. a change in our corporate purposes;
- v. the transfer of all of our shares to another company in order to make us a wholly owned subsidiary of such company or vice versa;
- vi. our merger into or with another company, including if we are merged into one of our controlling companies, or are consolidated with another company;
- vii. our participation in a group of companies as defined under Brazilian corporate law and subject to the conditions set forth therein;
- viii. a spin-off of our company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a centralized group of companies; or
- ix. the transformation of us into another type of company.

Dissenting shareholders also have a right of withdrawal in the event that the entity resulting from (a) a transfer of all of our shares to another company in order to make us a wholly owned subsidiary of such company or vice versa, (b) a spin-off or, (c) a merger or a consolidation of a Brazilian publicly listed company, fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken.

The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting. In items (i) and (ii) above, the resolution will be effective only upon the prior approval or confirmation within one year by the preferred shareholders, which must be made at a special meeting, in which case the 30-day term is counted from the date the minutes of the special meeting are published. In any event, we are entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of the 30-day term mentioned above, if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

In addition, the rights of withdrawal in items (iv), (v), (vii) and (viii), above, may not be exercised by holders of shares if such shares have (a) liquidity, when such shares are part of the BM&FBOVESPA Index, or part of any other stock exchange index in Brazil or in the world, as defined by the CVM, and (b) dispersion, when the controlling shareholder or other companies under the same control has less than 50% of the shares or class of shares.

Our preferred shares may be withdrawn at their book value, determined on the basis of the last balance sheet approved by the shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs more than sixty days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a special balance sheet that is of a date within sixty days of such shareholders' meeting. In this case, we must immediately pay 80% of the book value of the shares according to the most recent balance sheet approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the relevant shareholders' meeting.

### **Form and Transfer of Shares**

Our shares are in book-entry form, and the transfer of such shares is made by the registrar in our books, by debiting the share account of the transferor and crediting the share account of the transferee. We maintain book entry form

services with Banco Itaú Corretora de Valores S.A., or the custodian, which performs all the services of safekeeping and transfer of our shares and related services.

Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to Resolution 2,689 of CMN, the foreign investor should also seek amendment through its local agent, if necessary, of the electronic registration to reflect the new ownership.

BM&FBOVESPA operates a clearing house through CBLIC. CBLIC is also responsible for settlement and custody of the shares. The payment of dividends, bonuses and other corporate events is managed by “Central Depositária.” a branch of BM&FBOVESPA.

### **Other Dispositions**

In addition to the provisions already described in this annual report, Brazilian corporate law and current regulations set forth, among others:

- i. upon a sale of control, the acquirer is required to launch a tender offer to purchase all minority voting shares at a price equal to at least 80% of the control price;
- ii. if provided for in the by-laws, disputes among our shareholders will be subject to arbitration; our by-laws currently do not provide for arbitration;
- iii. upon the occurrence of a tender offer aiming at delisting our company or through which our controlling shareholders acquire more than one-third of the float shares, the purchase price will be equal to the fair value of the shares taking into account the total number of outstanding shares;
- iv. members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent accountant of the controlling shareholders; and
- v. the chairman of any shareholders’ or board of directors’ meeting will disregard any vote that is rendered against provisions of any shareholders’ agreement if that shareholders’ agreement has been duly filed with us.

### **10C. Material Contracts**

#### **Casas Bahia**

Below we summarize the shareholders’ agreement entered into among us, the Klein Family and Viavarejo. The summary is qualified by reference to the agreements that are filed as exhibits to this annual report.

Pursuant to the shareholders’ agreement CBD will have the right to elect the majority of members of Viavarejo’s board of directors and the partners of Casa Bahia Comercial Ltda. will have the right to elect a certain number of members corresponding to their ownership interest in Viavarejo’s capital stock if Casa Bahia Comercial Ltda. holds, at least, 25% of shares bound to the shareholders’ agreement. The partners of Casa Bahia Comercial Ltda. shall appoint, at least, two members of Viavarejo’s board of directors if they hold, at least, 20% of the shares bound to the shareholders’ agreement. The shareholder’s agreement also provides for veto rights regarding certain matters. Currently, the board of directors is composed of five members elected by CBD and four members elected by partners of Casa Bahia Comercial Ltda.

In addition, during the period in which the partners of Casa Bahia Comercial Ltda. hold shares bound to the shareholders’ agreement representing, at least, 29% of Viavarejo’s total capital stock (excluding treasury shares from this calculation), Mr. Michael Klein will be appointed chairman of the board of directors.

### **10D. Exchange Controls**

The ownership of preferred or common shares by individuals or legal entities domiciled outside Brazil is subject to certain conditions established under Brazilian Law.



The right to convert dividend payments and proceeds from the sale of common shares or preferred shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires, among other things, obtaining an electronic registration with the Central Bank.

Resolution No. 1,927 of the CMN, which is the restated and amended Annex V to Resolution No. 1,289 of the CMN, or the Annex V Regulations, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. We filed an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we received final approval before the offering of the preferred shares underlying the ADSs in May 1997.

An electronic registration, which replaced the amended certificate of registration, was issued in the name of the depository with respect to the ADSs and is maintained by the custodian on behalf of the depository.

This electronic registration was carried on through the *Sistema do Banco Central*—SISBACEN, a database of information provided by financial institutions to the Central Bank. Pursuant to the electronic registration, the custodian is able to convert dividends and other distributions with respect to the preferred shares represented by the ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges those ADSs for preferred shares, that holder will be entitled to continue to rely on the depository's electronic registration for only five business days after that exchange, following which that holder must seek to obtain its own electronic registration. Thereafter, unless the preferred shares are held pursuant to Resolution No. 2,689 of the CMN, dated as of January 26, 2000, as amended, a holder of preferred shares who applies for and obtains a new electronic registration may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon disposal of the preferred shares, or distributions with respect thereto, and generally will be subject to a less favorable tax treatment on the proceeds arising from any sale of the preferred shares. In addition, if the foreign investor is domiciled in a Low or Nil Taxation Jurisdiction (as defined under "Brazilian Tax Considerations"), the investor will also be subject to a less favorable tax treatment, even if its registry before the Central Bank is in accordance with the provisions of Resolution No. 2,689. See "Item 10E. Taxation — Brazilian Tax Considerations."

Under Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that the requirements described below are fulfilled. In accordance with Resolution 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities domiciled or headquartered outside Brazil.

Pursuant to Resolution No. 2,689, foreign investors must fulfill the following requirements before engaging in financial transactions:

- i. appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- ii. appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM;
- iii. complete the appropriate foreign investor registration form;
- iv. register as a foreign investor with the CVM; and
- v. register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out on stock exchanges or through organized over-the-counter markets licensed by the CVM, except for subscription, bonification, conversion of debentures into shares, securities indexes, purchase and sale of investment funds quotas and, if permitted by the CVM, going private transactions, canceling or suspension of trading. Moreover, the offshore transfer or assignment of the securities or other financial assets held by foreign investors pursuant to Resolution No. 2,689 are prohibited, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Investors under Resolution No. 2,689 who are not resident in a tax haven jurisdiction (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See "Item 10E. Taxation — Brazilian Tax Considerations."



## **10E. Taxation**

This summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposal of preferred shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to these matters based upon the particular circumstances of a holder.

This summary is based upon tax laws of Brazil and the federal income tax laws of the United States in effect as of the date hereof, which laws are subject to change (possibly with retroactive effect) and differing interpretations. This summary is also based upon the representations of the depositary and on the assumption that each obligation in the Amended and Restated Deposit Agreement, dated as of May 28, 1997, among us, the depositary and the owners from time to time of American Depositary Receipts, and any related documents, will be performed in accordance with its terms.

Although there is presently no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how such a treaty would affect a U.S. holder of preferred shares or ADSs.

### **Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposal of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Brazilian Holder”). It is based on Brazilian law as currently in effect, which is subject to change, possibly with retroactive effect, and to differing interpretations. Any change in such law may change the consequences described below. Each Non-Brazilian Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in preferred shares or ADSs.

#### ***Taxation of Dividends***

Dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us to the depositary in respect of preferred shares underlying ADS or to a Non-Brazilian Holder in respect of preferred shares, are exempt from withholding income tax.

#### ***Distribution of Interest on Shareholders' Equity***

In accordance with the Law No. 9,249, dated December 26, 1995, as amended, Brazilian corporations may make payments to shareholders characterized as distributions of interest on shareholder's equity as an alternative to making dividend distributions. Such interest is calculated by reference to the TJLP (long term interest rate) as determined by the Central Bank from time to time and cannot exceed the greater of:

- i. 50% of the net income (before taking the distribution and any deductions for calculating income taxes into account), as measured in accordance with generally accepted accounting principles in Brazil for the period in respect of which the payment is made; or
- ii. 50% of retained earnings for the year preceding the year in which the payment is made, as measured in accordance with generally accepted accounting principles in Brazil.

Payments of interest on shareholder's equity to a Non-Brazilian Holder may be deducted for purposes of calculating Brazilian corporate income tax and social contribution on net profits as far as the limits described above are observed.

Such payments are subject to withholding income tax at the rate of 15%, or 25% if the Non-Brazilian Holder is domiciled in a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% (“Low or Nil Taxation Jurisdiction”). These payments may be included, at their net value, as part of any mandatory dividend. To the extent that such payments are accounted for as part of the mandatory dividend, under current Brazilian law, we are obliged to distribute to shareholders an additional amount sufficient to ensure that the net amount received by the shareholders, after payment by us of applicable Brazilian withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend. The distribution of interest on shareholders’ equity is proposed by our board of directors and subject to subsequent declaration by the shareholders at the general meeting.

### *Taxation of Gains*

According to Law No. 10,833 of December 29, 2003, capital gains realized on the disposal of assets located in Brazil by a Non-Brazilian Holder, whether to other non-Brazilian resident or to a Brazilian resident are subject to taxation in Brazil. In this sense, on the disposal of the preferred shares, as they are assets located in Brazil, the Non-Brazilian Holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the disposal is conducted in Brazil or abroad and with a Brazilian resident or not.

Regarding the ADSs, although the matter is not free from doubt, arguably the gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident are not taxed in Brazil, based on the argument that ADSs would not constitute assets located in Brazil for purposes of Law No. 10,833/03. However, we cannot assure you of how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident. As a result, gains on a disposal of ADSs by a Non-Brazilian Holder to a Brazilian resident, or even to a non-Brazilian resident in the event that Brazilian courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described below.

The withdrawal of ADSs in exchange for preferred shares is not subject to Brazilian income tax as long as registration rules for the preferred shares are appropriately observed with the Central Bank. The deposit of preferred shares in exchange for ADSs may be subject to Brazilian income tax on capital gains at the rate of 15% or 25%, in case of a resident in a Low or Nil Taxation Jurisdiction, if the acquisition cost of the preferred shares is lower than (1) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the fifteen trading sessions immediately preceding such deposit. In this case, the difference between the acquisition cost and the average price of the preferred shares, calculated as above, will be considered a capital gain subject to taxation. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a Non-Brazilian Holder that is a 2,689 Holder (as defined below) and is not a resident in a Low or Nil Taxation Jurisdiction.

Under Brazilian law, income tax rules on such gains can vary, depending on the domicile of the Non-Brazilian Holder, the type of registration of the investment by the Non-Brazilian holder before the Central Bank and how the disposal is carried out, as described below.

Capital gains assessed by a Non-Brazilian Holder on a disposal of preferred shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

- i. exempt from income tax when assessed by a Non-Brazilian Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 2,689, of January 26, 2000, (“2,689 Holder”) and (2) is not a resident in a Low or Nil Taxation Jurisdiction; or
- ii. subject to income tax at a rate of 15% in any other case, including a case of gains assessed by a Non-Brazilian Holder that is not a 2,689 Holder, or is a resident in a Low or Nil Taxation Jurisdiction.

In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain.

Any other gains assessed on a disposal of the preferred shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, except for a resident in a Low or Nil Taxation Jurisdiction or yet where the local legislation imposes restrictions on the disclosure of the shareholding composition, of the ownership of the investment or of the identity of the effective beneficiary of the income attributed to non-residents, which, in this case,

is subject to income tax at the rate of 25%. If these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by a Non-Brazilian Holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

As a general rule, the gains realized as a result of a disposal of preferred shares or ADSs is the positive difference between the amount realized on the sale or exchange of the shares and their acquisition cost.

There is no assurance that the current preferential treatment for a Non-Brazilian Holder of ADSs and 2,689 Holder of preferred shares will continue or that it will not be changed in the future.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the preferred shares or ADSs by a Non-Brazilian Holder will be subject to Brazilian taxation at the same rate applicable to the sale or disposal of preferred shares.

### ***Discussion on Low or Nil Taxation Jurisdictions***

In certain circumstances, the Brazilian tax legislation imposes higher taxation on transactions that are carried out with entities located in jurisdictions considered to maintain favorable tax regimes (the above mentioned Low or Nil Taxation Jurisdiction).

On June 24, 2008, Law No. 11,727 enlarged the scope of Low or Nil Taxation Jurisdiction (by adding the fourth paragraph to article 24 of Law No. 9,430/96 and introduced a new concept of “Privileged Tax Regime.” According to the enacted article 24-A of Law No. 9,430/96 it is considered as such the tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; or (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; or (iii) does not tax or taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

The recent enactment of the Normative Ruling no. 1,037/10, which sets forth the updated list of countries or jurisdictions deemed by Brazilian tax authorities to provide favorable taxation and privileged tax regimes, made evident the acknowledgement by tax authorities that tax legislation does not provide for a singular concept of “tax haven.” Rather, there are cases of Low or Nil Taxation Jurisdiction and there are cases of Privileged Tax Regime, which must be analyzed separately. The provisions of Law No. 11,727/08 that refer to the “Privileged Tax Regime” came into effect on January 1, 2009.

In principle, the best interpretation of Law No. 11,727/08 lead us to conclude that the new concept of “privileged tax regime” should be solely applied for purposes of transfer pricing rules in export and import transactions (Law No. 9,430/96) and thin capitalization rules (Law No. 12,249/10).

Thus, to income and gains realized by foreign investors that invest in the Brazilian financial and capital markets (2,689 Holder), the relevant concept is the one that makes reference to “countries that tax income at a rate lower than 20%,” as provided under Law No. 9,959/00 (i.e. only Low or Nil Taxation Jurisdiction) and the countries listed in the article one of the Normative Ruling No. 1,037/10.

### ***Other Brazilian Taxes***



There are no Brazilian federal inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of preferred shares or ADSs by a Non-Brazilian Holder. Gift and inheritance taxes, however, may be levied by some states on gifts made or inheritances bestowed by the Non-Brazilian Holder to individuals or entities resident or domiciled within such states in Brazil. There is no Brazilian stamp, issue, registration or similar taxes or duties payable by a Non-Brazilian Holder of preferred shares or ADSs.

### ***Taxation of Foreign Exchange Transactions (“IOF/Exchange”)***

Pursuant to Decree No. 6,306/07, the conversion into foreign currency or the conversion into Brazilian currency of the proceeds received or remitted by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment by a Non-Brazilian Holder in the preferred shares and ADSs may be subject to the Tax on Foreign Exchange Transactions, or IOF/Exchange. Currently applicable rate for almost all foreign currency exchange transactions is 0.38%. Effective as of December 1, 2011, currency exchange transactions carried out for the inflow of funds in Brazil for investment made by a foreign investor (including a Non Brazilian Holder, as applicable) are subject to IOF/Exchange at (i) 0% rate in case of variable income transactions carried out on the Brazilian stock, futures and commodities exchanges, as well as in the acquisitions of shares of Brazilian publicly-held companies in public offerings or subscription of shares related to capital contributions, provided that the issuer company has registered its shares for trading in the stock exchange; and (ii) 0% for the outflow of resources from Brazil related to these type of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market. Furthermore, the IOF/Exchange is currently levied at a 0% rate on the withdrawal of ADSs into shares. In any case, the Brazilian Government is permitted to increase at any time the rate to a maximum of 25%, but only in relation to future transactions.

### ***Tax on Bonds and Securities Transactions (“IOF/Bonds”)***

Pursuant to Decree 6,306/07, the Tax on Bonds and Securities Transactions (“IOF/Bonds”) may be imposed on any transactions involving bonds and securities even if the transactions are performed on a Brazilian stock exchange. As a general rule, the rate of this tax is currently 0% but the Brazilian government may increase such rate up to 1.5% per day, but only with respect to future transactions. On November 19, 2009, the Brazilian government increased the IOF/Bonds from zero to 1.5% on the issuance of depositary receipts traded outside of Brazil which underlying shares are issued by a Brazilian company and listed on a Brazilian stock exchange. Any increase in the rate would not apply retroactively.

### **U.S. Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relating to the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. holder (as defined below) holding such preferred shares or ADSs as capital assets (generally, property held for investment). This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the “IRS”) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any implications under state, local or non-U.S. tax law, or any aspect of U.S. federal tax law (such as the estate tax, gift tax or the Medicare tax on net investment income) other than U.S. federal income taxation.

This summary does not purport to address all the material U.S. federal income tax consequences that may be relevant to the holders of the preferred shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for the alternative minimum tax, partnerships and other pass-through entities, U.S. expatriates, investors that own or are treated as owning 10% or more of our voting stock, investors that hold the preferred shares or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction and persons whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used below, a “U.S. holder” is a beneficial owner of preferred shares or ADSs that is, for U.S. federal income tax purposes:

- i. an individual citizen or resident of the United States;
- ii. a corporation (or an entity taxable as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

- iii. an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- iv. a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership or other entity taxable as a partnership holds preferred shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners of partnerships holding preferred shares or ADSs should consult their tax advisors.

In general, for U.S. federal income tax purposes, holders of American Depositary Receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs.

### *Taxation of Distributions*

In general, distributions with respect to the preferred shares or ADSs (which likely include distributions of interest on shareholders' equity, as described above under “—Brazilian Tax Considerations—Distribution of Interest on Shareholders' Equity”) will, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our current and accumulated earnings and profits, as so determined under U.S. federal income tax principles, the excess will be treated first as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. holders should assume all distributions are made out of earnings and profits and constitute dividend income. As used below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to the preferred shares or ADSs generally will be subject to U.S. federal income taxation as ordinary income and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in Brazilian currency will be included in the gross income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are actually or constructively received by the U.S. holder, or in the case of dividends received in respect of ADSs, on the date the dividends are actually or constructively received by the depositary or its agent, whether or not converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt by the U.S. holder or disposition, as the case may be, and any gain or loss recognized upon a subsequent disposition of such Brazilian currency generally will be foreign currency gain or loss that is treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the day they are received by the U.S. holder, the depositary or its agent, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for short-term and hedged positions, under current law, the U.S. dollar amount of dividends received in taxable years beginning on or before December 31, 2012 by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends represent “qualified dividend income.” Beginning in taxable years after December 31, 2012, the maximum rate of taxation on dividends received by an individual U.S. holder with respect to the ADSs will be 20%. Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States, (ii) the U.S. holder meets the holding period requirement for the ADSs (generally more than 60 days during the 121-day

period that begins 60 days before the ex-dividend date, and (iii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The ADSs are listed on the New York Stock Exchange, and should qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Based on our audited financial statements as well as relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2012 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2012 taxable year. Because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future) tax year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares (to the extent not represented by ADSs) will be treated as qualified dividend income, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Dividends paid by us generally will constitute foreign source “passive category” income and will be subject to various other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian income tax imposed or withheld on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder’s U.S. federal income tax liability (or at a U.S. holder’s election if it does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. holder’s taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian income tax on dividends could be affected by future actions that may be taken by the IRS. The rules with respect to the U.S. foreign tax credit are complex, and U.S. holders of preferred shares or ADSs are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Taxation of Capital Gains***

Deposits and withdrawals of preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

In general, gain or loss, if any, realized by a U.S. holder upon a sale, exchange or other taxable disposition of preferred shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition and such U.S. holder’s adjusted tax basis in the preferred shares or ADSs. Such capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other taxable disposition the preferred shares or ADSs have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gain of certain U.S. holders (including individuals) is eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations under the Code.

Gain, if any, realized by a U.S. holder on the sale, exchange or other taxable disposition of preferred shares or ADSs generally will be treated as U.S. source gain for U.S. foreign tax credit purposes. Consequently, if a Brazilian income tax is imposed on the sale or disposition of preferred shares, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian income tax. Alternatively, a U.S. holder may take a deduction for all foreign income taxes paid during the taxable year if it does not elect to claim a foreign tax credit for any foreign taxes paid or accrued during the taxable year. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

### ***Passive Foreign Investment Company Rules***

Based upon our current and projected income, assets and activities, we do not expect the preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year or for future fiscal years. However, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income, assets and the nature of our business, as well as the income, assets and business of entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or “excess distributions” allocable to prior years in the U.S. holder’s holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our preferred shares or ADSs would not be “qualified dividend income” eligible for preferential rates of U.S. federal income taxation. In addition, if we are a PFIC, U.S. holders would generally be required to comply with annual reporting requirements. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules to the preferred shares or ADSs.

### ***U.S. Information Reporting and Backup Withholding***

A U.S. holder of preferred shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends paid by our company or the proceeds of a sale, exchange or other taxable disposition of preferred shares or ADSs, unless such U.S. holder (i) is an exempt recipient and demonstrates this fact when so required, or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is a U.S. person and that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder’s U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

Recently enacted legislation requires certain U.S. holders to report information to the IRS with respect to their investment in certain “foreign financial assets” not held through a custodial account with a U.S. financial institution. U.S. holders who fail to report required information could become subject to substantial penalties. U.S. holders are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment.

### **10F. Dividends and Paying Agents**

Not applicable.

### **10G. Statement by Experts**

Not applicable.

### **10H. Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549, and at the Commission’s Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F

Street N.E., Washington, D.C. 20549. You may also inspect these reports and other information at the offices of the New York Stock Exchange Inc., 120 Broad Street, New York, New York 10005, on which our ADSs are listed.



We also file financial statements and other periodic reports with the CVM, including the *Formulário de Referência* (similar to proxy statement) in accordance with CVM Instruction No. 480/09, which can be accessed through [www.cvm.gov.br](http://www.cvm.gov.br). Information from that website is not incorporated by reference into this document.

Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our headquarters at: Avenida Brigadeiro Luiz Antônio, no. 3,142, São Paulo, São Paulo, Brazil.

## **10I. Subsidiary Information**

Not required.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See note 20 to our financial statements included in this annual report for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk.

Starting in 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial part of our U.S. dollar-denominated liabilities to obligations denominated in *reais*. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in *reais* and interest at a percentage of the CDI rate. Amounts are normally consummated with the same financial institutions and for the same maturity periods. See “Item 5B. Liquidity and Capital Resources.”

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. Our realized and unrealized gains and losses on these contracts are included within “financial income” and “financial expense,” respectively.

We use interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements.

We have a policy of entering into contracts only with parties that have high credit ratings. The counter-parties to these contracts are major financial institutions. We do not anticipate a credit loss from counter-party non-performance.

### **Interest Rate Risk**

We are exposed to interest rate volatility with regard to our cash and cash equivalents, fixed and floating rate debt. For cash and cash equivalents, we generally swap the fixed interest rate for a floating rate, the CDI rate. The interest rate in our cash and cash equivalents denominated in *reais* is based on the CDI rate, the benchmark interest rate set by the interbank market on a daily basis.

We are exposed to interest rate volatility with regard to future issuances of fixed rate debt, foreign currency fluctuations and existing issuances of fixed rate debt, foreign currency fluctuations and existing issuances of variable rate debt. We manage our debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, and using derivative financial instruments. Among other facilities, we also use bank loans to meet our financing requirements, originally denominated in U.S. dollars and swapped to obligations in *reais* accruing interest based on the CDI rate.

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2012. See note 20 to our financial statements included in this annual report.

	2013	2014	2015	As of December 31, 2012 Expected Maturity Date			Total	Fair Value	Annual Average Interest Rate
				2016	2017	Thereafter			
(in millions of R\$)									
<b>Assets:</b>									
Cash and banks in <i>reais</i>	490.6	-	-	-	-	-	490.6	490.6	
Cash equivalents denominated in <i>reais</i>	6,595.6	-	-	-	-	-	6,595.6	6,595.6	100.6% of CDI
Total cash and cash equivalents	7,086.2	-	-	-	-	-	7,086.2	7,086.2	
<b>Liabilities:</b>									
Loans and financing Floating rate, denominated in US dollars	705.6	200.5	-	-	-	-	906.1	906.1	102.7% of CDI
Floating rate, denominated in <i>reais</i>	2,640.8	779.3	593.6	179.2	341.1	-	4,534.0	4,549.1	12.1%
Floating rate, denominated in <i>reais</i>	113.2	102.5	90.8	89.9	-	-	396.4	488.8	9.1% over TJLP
Floating rate, denominated in <i>reais</i>	83.1	37.1	40.2	24.8	60.4	-	245.6	245.6	4.8% of CDI
Total loans and financing	3,542.7	1,119.4	724.6	293.9	401.5	-	6,082.1	6,174.5	
Debentures floating rate, denominated in <i>reais</i>	668.7	1,148.0	2,593.4	-	-	-	4,410.1	4,402.2	108.9% of CDI
Total liabilities	4,211.4	2,267.4	3,318.0	293.9	401.5		10,492.2	10,576.7	

The following table presents historical data for interest rates relevant to our financial instrument in the last three years:

	As of December 31,		
	2010	2011	2012
CDI <sup>(1)</sup>	9.8%	11.6%	8.4%

TJLP <sup>(2)</sup>	6.0%	6.0%	5.5%
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(1) *Certificado de Depósito Interbancário* (Interbank Variable Interest Rate), annualized rate at the end of each period.

(2) *Taxa de Juros de Longo Prazo* (Long-term Interest Rate), reference rate at the end of each period.

We have not experienced, and we do not expect to experience, difficulty in obtaining financing or refinancing existing debt. See “Item 5B. Liquidity and Capital Resources” for a discussion of our credit agreements.

### **Exchange Rate Risk**

We are exposed to fluctuations in foreign currency cash flows related to certain short-term and long-term debt payments. We are principally exposed to fluctuations of the exchange rate with the U.S. dollar. Additionally, certain lines of credit agreements entered into with BNDES are subject to indexation based on a basket of foreign currencies to reflect BNDES’s funding portfolio.

Since December 31, 2007 and through December 31, 2012, the U.S. dollar depreciated by 14.4% against the *real*, and as of December 31, 2012, the commercial market rate for purchasing U.S. dollars was R\$2.044 to U.S.\$ 1.00. In the first quarter of 2013, the *real* appreciated 1.5% against the U.S. dollar, and as of April 17, 2013, the commercial market rate for purchasing U.S. dollars was R\$1.99 to U.S.\$1.00.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency-denominated liabilities as of December 31, 2012 included debt denominated mainly in U.S. dollars. Our net foreign currency exposure (U.S. dollar-denominated debt less our cross-currency interest rate swaps in our U.S. dollar-denominated debt) was R\$12.3 million as of December 31, 2012 compared to R\$4.9 million as of December 31, 2011. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially protect our exposure arising from our U.S. dollar-denominated debt.

The table below provides information on our debt outstanding as of December 31, 2012.

	2013	2014	Expected Maturity Date				Total	Fair Value
			2015	2016	2017	Thereafter		
				(in millions of R\$)				
Loans and financing								
US dollars (*)	705.6	200.5	-	-	-	-	906.1	906.1
<i>Reais</i>	2,837.1	918.9	724.6	293.9	401.5	-	5,176.0	5,268.4
<b>Total loans and financing</b>	<b>3,542.7</b>	<b>1,119.4</b>	<b>724.6</b>	<b>293.9</b>	<b>401.5</b>	<b>-</b>	<b>6,082.1</b>	<b>6,174.5</b>
Debentures								
<i>Reais</i>	668.7	1,148.0	2,593.4	-	-	-	4,410.1	4,402.2
<b>Total Debentures</b>	<b>668.7</b>	<b>1,148.0</b>	<b>2,593.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,410.1</b>	<b>4,402.2</b>

(\*) Originally US dollar-denominated and swapped to CDI.

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar-denominated short-term and long-term debt for Brazilian *real*-denominated floating rate debt, based on the CDI rate variation. See note 19 to our financial statements included in this annual report. As of December 31, 2012, the originally U.S. dollar-denominated debt of R\$906.1 million and R\$1,367.0 million as of December 31, 2011, which were covered by floating rate swaps in *reais*, based on the CDI rate, has been treated on a combined basis as if these loans had been originally denominated in *reais* and accrued CDI. In addition, the swap agreements do not provide for collateral.

The table below provides information about our cross-currency interest rate swaps:

	2013	2014	2015	2016	2017	Expected Maturity Date		Fair Value of (Assets) Liabilities	Average Paying Rate in <i>reais</i>	Average Receiving Rate
						There-	Total			
Cross currency and interest rate swap contracts notional amount										
U.S. dollars to <i>reais</i>	967.4	200.3	-	-	-	-	1,167.7	(122.3)	102.7%	3.8% over over CDI U.S. dollar

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

**12A. American Depositary Shares**

In the United States, our preferred shares trade in the form of ADS. The ADSs commenced trading on the NYSE on May 29, 1997.

We do not treat ADR holders as our shareholders and ADR holders have no shareholder rights. Brazilian law governs shareholder rights. The depositary is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights.

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## Fees and Expenses

The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

### Persons depositing or withdrawing shares must pay: For:

<p>US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p>	<ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> </ul>
<p>US\$.02 (or less) per ADS</p> <p>A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs</p> <p>Registration or transfer fees</p>	<ul style="list-style-type: none"> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> <li>• Any cash distribution to ADS registered Holders</li> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS registered holders</li> </ul>
<p>Expenses of the depository</p>	<ul style="list-style-type: none"> <li>• Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares</li> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li> </ul>
<p>Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</p> <p>Any charges incurred by the depository or its agents for servicing the deposited securities</p>	<ul style="list-style-type: none"> <li>• Converting foreign currency to U.S. dollars</li> <li>• As necessary</li> <li>• As necessary</li> </ul>

### Fees Incurred Since January 1, 2012

From January 1, 2012 until December 31, 2012, the Company received from the depository US\$1.5 million for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of reimbursement of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

### Fees to be Paid in the Future

The Bank of New York Mellon, as depository, has agreed to reimburse the Company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depository has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depository has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing

annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

No matters to report.



## **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

## **ITEM 15. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports that it files or submits, under the Securities Exchange Act of 1934, was recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer, with the participation and assistance of other members of management, have evaluated the effectiveness, as of December 31, 2012, of the Company's "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended ("the Exchange Act"). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2012, are effective at the reasonable assurance level.

*Management's Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting did not undergo significant changes in its design or operation during the year.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management believes that, as of December 31, 2012, our internal control over financial reporting is effective based on those criteria. For our management's report on internal control over financial reporting, see page F-1 of this annual report.

The effectiveness of internal controls over financial reporting as of December 31, 2012 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report appearing on page F-2 of this annual report.

## **ITEM 16. [RESERVED]**

### **16A. Audit Committee Financial Expert**

Our board of directors has determined that we do not appoint an audit committee financial expert (as defined under the rules and regulations of the SEC). We believe that the combined knowledge, skills and experience of the members of our fiscal council enable them, as a group, to act effectively in the fulfillment of their tasks. In addition, the members of our fiscal council have the power and authority to engage outside experts as they deem appropriate to provide them with advice on matters related to their responsibilities.



**16B. Code of Ethics**

In 2000, our board of directors adopted a code of ethics for our directors, officers and employees, including our chief executive officer and chief financial officer, which was amended by our board of directors on November 3, 2011. This Code of Moral Conduct of the Company complies with item 5.8 of the New Listing Regulation for Corporate Governance Level 1 issued by BM&FBOVESPA and is available at our website [www.gpa-ri.com.br](http://www.gpa-ri.com.br) and at [www.cvm.gov.br](http://www.cvm.gov.br). We intend to make publicly available on this website any amendments to our code of ethics. Information from that website is not incorporated by reference into this document.

**16C. Principal Accountant Fees and Services**

Deloitte Touche Tohmatsu Auditores Independentes, or Deloitte, acted as our independent registered public accounting firm for the fiscal year ended December 31, 2012 and Ernst & Young Terco Auditores Independentes S.S., or E&Y, acted as our independent registered public accounting firm for the fiscal year ended December 31 2011. The chart below sets forth the total amount billed to us by our independent accountants for services performed in 2012 and 2011, and a breakdown of these amounts by category of service:

	<b>2011</b>	<b>2012<sup>(2)</sup></b>
	(in millions of R\$) <sup>(1)</sup>	
Audit Fees	7.8	7.8
Audit-Related Fees	0.4	0.5
<b>Total</b>	<b>8.2</b>	<b>8.3</b>

(1) Fees including out-of-pocket expenses.

(2) Includes Ernest & Young Terco fees for work performed to Viavarejo.

**Audit Fees**

Audit fees are fees billed for the audit of our annual financial statements and for the reviews of our quarterly financial statements in connection with statutory and regulatory filings or engagements.

**Audit-Related Fees**

Audit-related fees were comprised of assurance and related services that are related to the performance of the audit or review of our financial statements, including due diligence related to mergers and acquisitions, audit in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, consultations concerning financial accounting and reporting standards and tax compliance review.

**Pre-Approval Policies and Procedures**

The Fiscal council approves all audit, audit-related, tax and other services provided by our independent accountants. Any services provided by our independent accountants that are not specifically included within the scope of the audit must be pre-approved by the fiscal council prior to any engagement. The fiscal council is permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception before the completion of the engagement. In 2012 and 2011, none of the fees paid to our independent accountants were approved pursuant to the *de minimis* exception.

**16D. Exemptions from the Listing Standards for Audit Committees**

Under the listed company audit committee rules of the NYSE and the SEC, effective July 31, 2005, we were required to comply with Exchange Act Rule 10A-3, which requires that we either establish an audit committee composed of members of the board of directors that meets specified requirements or designate and empower our fiscal council to perform the role of the audit committee in reliance on the exemption set forth in Exchange Act Rule 10A-3(c)(3). In our assessment, our fiscal council is able to act independently in performing the responsibilities of an audit committee under the Sarbanes-Oxley Act of 2002 and to satisfy the other requirements of Exchange Act Rule 10A-3. For a further discussion of our fiscal council, our audit committee and the audit committee exemption, see “Item 6C. Board Practices — Committees — Fiscal Council and Audit Committee.”

**16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**16F. Change in Registrant's Certifying Accountant:**

Not applicable.

**16G. Corporate Governance**

**Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we must disclose any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards. As a Brazilian company listed on BM&FBOVESPA, we are required to comply with the corporate governance standards set forth in Brazilian corporate law, and the rules of CVM. The following is a summary of those differences.

***Independence of Directors and Independence Tests***

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors.

While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. Brazilian corporate law requires that our directors be elected by our shareholders at a general shareholders' meeting. Currently our board of directors consists of fifteen members elected by our shareholders, consisting of three representatives of the Diniz Group, eight representatives of the Casino Group, and four external directors.

***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected from management. There is no requirement that non-management directors meet regularly without management. As a result, the non-management directors on our board do not typically meet in executive session.

Our board of directors consists of fifteen members elected by our shareholders, all of whom are non-management directors.

***Nominating/Corporate Governance Committee***

NYSE rules require that listed companies have a nominating/corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company.

We are not required under applicable Brazilian corporate law to have, and accordingly we do not have, a Nominating Committee and a Corporate Governance Committee.

### ***People Management Policies Committee***

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive compensation and equity-based plans.

We are not required under applicable Brazilian law to have a compensation committee. Under Brazilian corporate law, the total amount available for compensation of our directors and executive officers and for profit sharing payments to our executive officers is established by our shareholders at the annual general meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such determinations, the board reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation.

We do, however, have a Human Resources and Compensation Committee, which, among other assignments, reviews management compensation. For further information on our Human Resources and Compensation Committee, see "Item 6C. Board Practices — Committees — Human Resources and Compensation Committee."

### ***Audit Committee and Audit Committee Additional Requirements***

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporate law.

Brazilian corporate law requires companies to have a permanent or non-permanent fiscal council composed of three to five members who are elected at the general shareholders' meeting. If a non-permanent fiscal council is established, meetings of such fiscal council shall be convened upon request of shareholders representing a certain percentage of the share capital of the company, as set forth in the Brazilian corporate law. The fiscal council operates independently from management and from a company's independent auditors. Its main function is to monitor the activities of management, review our quarterly financial information, examine our financial statements of each fiscal year and provide a formal report to our shareholders.

We have a non-permanent fiscal council that consists of three members and three alternates and which has ordinary meetings at least every three months. Under Brazilian corporate law, the fiscal council shall be installed in case shareholders representing 10% or more of the preferred shares issued by the company requires its installation at the annual shareholders' meeting. Our By-laws set forth that the board of directors can suspend the activities of our audit committee in case of the installation of the fiscal council. In this case, in order to comply with the exemption requirements that allow our fiscal council to act as an audit committee pursuant to SEC rules, our board of directors shall approve the delegation to the fiscal council of certain additional responsibilities and the fiscal council and the board of directors adopted an additional charter that delegates to the fiscal council the duties and responsibilities of a U.S audit committee to the extent permitted under Brazilian corporate law. For further information on our fiscal

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council and audit committee, see “Item 6C. Board Practices — Committees — Fiscal Council and Audit Committee.”

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### ***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under Brazilian corporate law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval.

Our board of directors is responsible for voting on the issuance of new equity in connection with our existing stock option plans, provided that the limit of our authorized capital is respected. However, any issuance of new shares that exceeds such authorized capital is subject to shareholder approval.

### ***Corporate Governance Guidelines***

Under NYSE listing standards, a listed U.S. company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We have adopted and observed corporate governance guidelines in accordance with Brazilian legislation, including a disclosure policy which requires, among other things, the disclosure of our corporate governance guidelines, material facts and annual Financial Reports. In addition, we have adopted and observed a policy on business conduct and ethics.

### ***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement.

Although we were not required to adopt a code of ethics, we implemented a code of ethics in 2000, as amended in 2011, to regulate our employee's conduct with us and our customers, suppliers, competitors and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act and NYSE rules, we implemented rules applicable to our managers' conduct in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data in 2005. For more information about our code of ethics, see "Item 16B. Code of Ethics."

### ***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the fiscal council or the audit committee, as the case may be, with ongoing assessments of the company's risk management processes and system of internal control. Our internal audit department and our internal control department are responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal control over financial reporting. The internal audit department reports to our Board of Directors and fiscal council or audit committee, as the case may be, and our internal control department reports to our chief financial officer.

### ***Sarbanes Oxley Act of 2002***

We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. We have filed the relevant officer certifications under Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal controls over financial reporting as Exhibits 12.1 and 12.2 to this annual report.

**16H. Mine Safety Disclosure**

Not applicable.

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### PART III

#### ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this item.

#### ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements, together with the Reports of Independent Registered Public Accounting Firms, are filed as part of this annual report.

#### ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	<u>English translation of our <i>Estatuto Social</i> (by-laws), as amended.*</u>
2.(a)	Form of Amended Deposit Agreement, among us, The Bank of New York Mellon, as depository, and each Owner and Beneficial Owner from time to time of ADRs issued thereunder, including the form of American Depositary Receipt. <sup>(1)</sup>
4.(b)(1)	Joint Venture Agreement dated as of May 3, 2005 among Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda., Casino Guichard Perrachon S.A., and Companhia Brasileira de Distribuição. <sup>(2)</sup>
4.(b)(2)	Private Instrument of Institution of Usufruct dated as of July 8, 2005 among Vieri Participações S.A., Casino Guichard Perrachon, Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda. and Companhia Brasileira de Distribuição. <sup>(2)</sup>
4.(b)(3)	Technical Assistance Agreement dated as of July 8, 2005 by and between us and Casino Guichard Perrachon. <sup>(3)</sup>
4.(b)(4)	Real Estate Structure Agreement dated as of October 3, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. <sup>(4)</sup>
4.(b)(5)	First Amendment to the Real Estate Structure Agreement dated as of December 30, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. <sup>(4)</sup>
4.(b)(6)	Wilkes' Shareholders' Agreement dated as of November 27, 2006 among Sudaco Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda. <sup>(5)</sup>
4.(b)(7)	Companhia Brasileira de Distribuição Shareholders' Agreement dated as of December 20, 2006 among Wilkes Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda. <sup>(5)</sup>
4.(b)(8)	Conditional Put Option Agreement dated as of November 27, 2006 by and between Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda., AD Península Empreendimentos e Participações Ltda. and Casino Guichard Perrachon S.A. and Segisor. <sup>(6)</sup>
4.(b)(13)	Shareholders' Agreement dated as of July 1, 2010 among Companhia Brasileira de Distribuição, Samuel Klein, Michael Klein, Eva Lea Klein, Via Varejo S.A. as intervening party, Casa Bahia Comercial Ltda. and Wilkes Participações S.A. <sup>(7)</sup>
6.1	

See note 32 to our financial statements for information explaining how earnings per share information was calculated.

8.1 List of Subsidiaries. See note 3 to our financial statements for information regarding our subsidiaries.

12.1 Section 302 Certification of the Chief Executive Officer.\*

12.2 Section 302 Certification of the Administrative Financial Officer.\*

13.1 Section 906 Certification of the Chief Executive Officer.\*

13.2 Section 906 Certification of the Administrative Financial Officer.\*

(1) Incorporated herein by reference to our registration statement on Form F-6 (No. 333-145679).

(2) Incorporated herein by reference to our annual report on Form 20-F filed on September 15, 2005.

(3) Incorporated herein by reference to our 6-K filed on August 1, 2005.

(4) Incorporated herein by reference to our annual report on Form 20-F filed on June 27, 2006.

(5) Incorporated herein by reference to our annual report on Form 20-F filed on June 28, 2007.

(6) Incorporated herein by reference to our annual report on Form 20-F filed on June 23, 2009.

(7) Incorporated herein by reference to our annual report on Form 20-F filed on July 1, 2011.

\* Filed herewith.

+ Confidential treatment has been requested and granted for portions of this exhibit and submitted separately to the Securities and Exchange Commission.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

By: /s/ Enéas César Pestana Neto

Name: Enéas César Pestana Neto

Title: Chief Executive Officer

By: /s/ Christophe Hidalgo

Name: Christophe Hidalgo

Title: Chief Financial Officer

Dated: April 26, 2013

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*Companhia Brasileira de Distribuição*

*Consolidated Financial Statements for the  
Year Ended December 31, 2012 and 2011*

# Companhia Brasileira de Distribuição

Consolidated Financial Statements

Years ended December 31, 2012 and 2011

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## Management's Report on Internal Control over Financial Reporting

The management of Companhia Brasileira de Distribuição is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposal of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management's assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. Based on that assessment, management believes that, as of December 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of internal controls over financial reporting as of December 31, 2012 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Deloitte Touche Tohmatsu Auditores Independentes's attestation report on the Company's internal controls over financial reporting is included herein.

/s/ Enéas César Pestana Neto  
Enéas César Pestana Neto  
Chief Executive Office  
Date: April 19, 2013

/s/ Christophe José Hidalgo  
Christophe José Hidalgo  
Chief Financial Officer

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of

**Companhia Brasileira de Distribuição and subsidiaries**

We have audited the accompanying consolidated balance sheet of Companhia Brasileira de Distribuição and subsidiaries (the “Company”) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Companhia Brasileira de Distribuição and subsidiaries as of December 31, 2012 and the consolidated results of their operations and their cash flows for the year ended, in conformity with International Financial Reporting Standards - IFRS, issued by the International Accounting Standards Board - IASB.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 19, 2013, expressed an unqualified opinion thereon.

DELOITTE TOUCHE TOHMATSU

Auditores Independentes



**Report of independent registered public accounting firm**

The Board of Directors and Shareholders of

**Companhia Brasileira de Distribuição and subsidiaries**

We have audited the internal control over financial reporting of Companhia Brasileira de Distribuição and subsidiaries (the “Company”) as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Company’s internal control over financial reporting is a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended and our report dated April 19, 2013, expressed an unqualified opinion thereon.

DELOITTE TOUCHE TOHMATSU

Auditores Independentes

April 19, 2013

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**Companhia Brasileira de Distribuição**

Statements of income and comprehensive income

Years ended December 31, 2012, 2011 and 2010

(In thousands of reais, except earnings per share)

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
Net sales	28	<b>50,924,461</b>	46,594,486
Cost of sales	29	<b>(37,120,732)</b>	(33,935,134)
Gross profit		<b>13,803,729</b>	12,659,352
Operating expenses			
Selling expenses	29	<b>(8,360,114)</b>	(7,936,647)
General and administrative	29	<b>(1,753,859)</b>	(1,683,097)
Depreciation and amortization		<b>(798,354)</b>	(678,377)
Other operating expenses, net	30	<b>(33,014)</b>	(258,693)
Operating profit		<b>2,858,388</b>	2,102,538
Net financial expenses	31	<b>(1,192,873)</b>	(1,332,708)
Share of profit in an associate	14	<b>10,819</b>	34,825
Profit before income and social contribution taxes		<b>1,676,334</b>	804,655
<b>Income and social contribution taxes</b>	22	<b>(519,898)</b>	(84,999)
<b>Net income and comprehensive income</b>		<b>1,156,436</b>	719,656
Attributable to equity holders of the parent		<b>1,051,181</b>	718,219
Attributable to noncontrolling interest		<b>105,255</b>	1,437
Net income and comprehensive income		<b>1,156,436</b>	719,656
<b>Earning per ordinary share</b>	32		
Basic earnings per share attributable to ordinary equity holders of the parent		<b>3.78</b>	2.61
Diluted earnings per share attributable to ordinary equity holders of the parent		<b>3.78</b>	2.61
<b>Earnings per preferred non-voting share</b>			
Basic earnings per share attributable to ordinary equity holders of the parent		<b>4.15</b>	2.87
Diluted earnings per share attributable to ordinary equity holders of the parent		<b>4.12</b>	2.85

See accompanying notes.





**Companhia Brasileira de Distribuição**

## Balance sheet

December 31, 2012 and 2011

(In thousands of reais)

<b>Assets</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Current</b>			
Cash and cash equivalents	7	<b>7,086,251</b>	4,969,955
Trade accounts receivable, net	8	<b>3,208,963</b>	5,437,500
Other accounts receivable, net	9	<b>221,477</b>	279,621
Inventories	11	<b>5,759,648</b>	5,552,769
Recoverable taxes	12	<b>871,021</b>	907,702
Other receivables		<b>103,324</b>	128,845
<b>Total current assets</b>		<b>17,250,684</b>	17,276,392
<b>Noncurrent assets</b>			
Trade accounts receivable, net	8	<b>108,499</b>	110,785
Other accounts receivable	9	<b>556,397</b>	538,069
Inventories	11	<b>172,280</b>	14,000
Recoverable taxes	12	<b>1,231,642</b>	729,998
Financial Instruments	20	<b>359,057</b>	304,339
Deferred income and social contribution taxes	22	<b>1,078,842</b>	1,249,687
Related parties	13	<b>172,164</b>	133,415
Restricted deposits for legal proceedings	24	<b>952,294</b>	737,688
Other receivables		<b>61,892</b>	36,898
Investments	14	<b>362,429</b>	340,122
Property and equipment, net	16	<b>8,114,498</b>	7,358,250
Intangible assets	17	<b>4,975,556</b>	4,939,361
<b>Total noncurrent assets</b>		<b>18,145,550</b>	16,492,612
<b>Total assets</b>		<b>35,396,234</b>	33,769,004

Certain amounts of 2011 were reclassified for better presentation and comparison. See note 2.

See accompanying notes.



**Companhia Brasileira de Distribuição**

## Balance sheet

December 31, 2012 and 2011

(In thousands of reais)

<b>Liabilities</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Current</b>			
Trade accounts payable	18	<b>6,803,240</b>	6,278,757
Loans and financing	19	<b>3,542,706</b>	4,415,654
Debentures	19	<b>668,444</b>	501,844
Payroll and related charges		<b>728,970</b>	758,663
Taxes and contributions payable	21	<b>650,761</b>	332,416
Tax payable in installments	21	<b>155,368</b>	171,212
Related parties	13	<b>81,641</b>	27,878
Dividends payable	27	<b>168,798</b>	103,396
Payable related to acquisition of non-controlling interest	23	<b>63,021</b>	54,829
Financing related to acquisition of real estate		<b>88,181</b>	14,211
Rent payable		<b>51,377</b>	48,991
Deferred revenue	26	<b>92,120</b>	81,915
Other accounts payable		<b>860,766</b>	711,436
<b>Total current liabilities</b>		<b>13,955,393</b>	13,501,202
<b>Noncurrent liabilities</b>			
Loans and financing	19	<b>2,539,751</b>	4,103,382
Debentures	19	<b>3,741,353</b>	2,137,518
Deferred income and social contribution taxes liability	22	<b>1,137,376</b>	1,114,873
Tax payable in installments	21	<b>1,204,543</b>	1,291,810
Provision for risks	24	<b>774,361</b>	680,123
Acquisition of non-controlling interest	23	<b>158,201</b>	188,602
Deferred revenue	26	<b>471,665</b>	381,406
Other accounts payable		<b>345,640</b>	275,663
<b>Total noncurrent liabilities</b>		<b>10,372,890</b>	10,173,377
<b>Shareholders' equity</b>			
Share capital	27	<b>6,710,035</b>	6,129,405
Reserves	27	<b>1,784,690</b>	1,495,868
<b>Equity attributable to owners of the parent</b>		<b>8,494,725</b>	7,625,273
Non-controlling interest		<b>2,573,226</b>	2,469,152
<b>Total shareholders' equity</b>		<b>11,067,951</b>	10,094,425
<b>Total shareholders' equity and liabilities</b>		<b>35,396,234</b>	33,769,004

Certain amounts of 2011 were reclassified for better presentation and comparison. See note 2.

See accompanying notes.

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**Companhia Brasileira de Distribuição**

## Statement of Changes in Shareholders' Equity

Years ended December 31, 2012, 2011 and 2010

(In thousands of reais)

Description	Capital Reserve						Legal E
	Share capital	Special goodwill reserve	Other equity instruments	Other Reserves	Granted Options	Legal E	
<b>Balance at December 31, 2009</b>	5,374,751	428,513	128,096	7,398	83,225	176,217	
Capitalization of reserve	169,388	(83,908)	-	-	-	-	-
Stock option exercised	35,120	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-
Recognized granted options	-	-	-	-	27,920	-	-
Acquisition of noncontrolling interest-C.Bahia	-	-	-	-	-	-	-
Acquisition of noncontrolling interest-Sendas	-	-	(128,096)	-	-	-	-
Paid-In-Capital acquisiton NCB	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-
Appropriation of net income to reserve	-	-	-	-	-	(36,122)	-
Dividends	-	-	-	-	-	-	-
<b>Balance at December 31, 2010</b>	5,579,259	344,605	-	7,398	111,145	212,339	
Capitalization of reserve	527,175	(105,675)	-	-	-	-	-
Stock option exercised	22,971	-	-	-	-	-	-
Recognized granted options	-	-	-	-	26,869	-	-
Participation of noncontrolling shareholders	-	-	-	-	-	-	-
Gain (loss) in equity interest	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-
Appropriation of net income to reserve	-	-	-	-	-	-	35,910
Dividends	-	-	-	-	-	-	-
<b>Balance at December 31, 2011</b>	6,129,405	238,930	-	7,398	138,014	248,249	
Capitalization of reserve	559,320	(200,905)	-	-	-	-	-
Stock option exercised	21,310	-	-	-	-	-	-

Recognized granted options	-	-	-	-	<b>45,022</b>	-
Gain (loss) in equity interest	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Appropriation of net income to Reserve	-	-	-	-	-	<b>52,559</b>
Dividends	-	-	-	-	-	-
Unclaimed dividends	-	-	-	-	-	-
<b>Balance at December 31, 2012</b>	<b>6,710,035</b>	<b>38,025</b>	-	<b>7,398</b>	<b>183,036</b>	<b>300,808</b>

See accompanying notes.

**Companhia Brasileira de Distribuição**

## Statement of Cash Flows

Years ended December 31, 2012, 2011 and 2010

(In thousands of reais)

	2012	2011	2010
Cash flow provided by operating activities			
Net income for the year	1,156,436	719,656	585,930
Adjustment to reconcile net income			
Deferred income tax	193,348	(57,118)	32,470
Depreciation and amortization	834,109	706,494	446,129
Share of profit in an associate	(10,819)	(34,825)	(34,499)
Adjustment to present value	(13,696)	22,427	(83,950)
Financial charges	1,099,034	965,557	239,473
Provision for risks	83,477	(4,798)	298,406
Bargain purchase gain	-	-	(351,718)
Share-based payment	45,022	26,869	27,920
Barter revenue	(158,280)	-	-
Deferred revenue	54,418	54,759	-
Gain (loss) on disposal of property and equipment	(11,805)	48,820	73,517
Allowance for doubtful accounts	(19,488)	37,004	56,541
Provision for obsolescence and losses and			
Breakage	(22,683)	23,903	25,657
Provision for disposals and losses of fixed assets	10,989	9,791	-
Others	(23,021)	-	(54,311)
Decrease (increase) in assets			
Trade accounts receivable, net	2,296,663	(1,716,551)	733,423
Marketable securities	-	634,978	88,745
Inventories	(191,977)	(776,442)	(732,362)
Recoverable taxes	(575,266)	(506,651)	(171,574)
Restricted deposits for legal proceedings	(179,431)	(68,116)	(150,314)
Increase (decrease) in liabilities			
Trade accounts payable	498,422	972,395	245,298
Payroll, related charges and taxes payable	100,779	169,477	(170,354)
Related parties	24,530	(189,360)	(941,274)
Financial instruments	(50,000)	114,365	108,404
Other liabilities	158,494	(24,571)	89,828
Net cash flow provided by operating activities	5,299,255	1,128,063	361,385





**Companhia Brasileira de Distribuição**

## Statement of Cash Flows -- Continued

Years ended December 31, 2012, 2011 and 2010

(In thousands of reais)

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Cash flow used in investing activities			
Marketable securities	-	-	58,798
Acquisition of property and equipment	<b>(1,308,951)</b>	(1,262,640)	(1,296,464)
Acquisition of intangible assets	<b>(84,443)</b>	(191,635)	(196,714)
Sales of property and equipment	<b>87,240</b>	97,892	34,934
Net cash used by investing activities	<b>(1,306,154)</b>	(1,356,383)	(1,399,446)
Cash flow from financing activities			
Capital increase	<b>21,310</b>	22,971	35,120
Net cash increase from acquisition	-	-	64,957
Financings:			
Funding and refinancing	<b>7,210,792</b>	6,918,179	3,981,201
Payments	<b>(7,976,686)</b>	(4,772,162)	(1,204,381)
Interest paid	<b>(913,098)</b>	(336,126)	(182,813)
Acquisition of noncontrolling interest	<b>(32,729)</b>	(269,113)	(28,544)
Dividend paid	<b>(186,394)</b>	(183,468)	(151,412)
Net cash provided by (used in) financing activities	<b>(1,876,805)</b>	1,380,281	2,514,128
Net increase in cash and cash equivalents	<b>2,116,296</b>	1,151,961	1,476,067
Cash and cash equivalents at the end of year	<b>7,086,251</b>	4,969,955	3,817,994
Cash and cash equivalents at the beginning of year	<b>4,969,955</b>	3,817,994	2,341,927

The main non-cash transactions are disclosed in the notes 1 (c), 15 (ii), 16 (c) and (e), 22 a) and 27 (c) and (e).

See accompanying notes.



## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 1. Corporate information

Companhia Brasileira de Distribuição (“Company” or “GPA”), operates in the food retailer, clothing, home appliances, electronics and other products segment through its chain of hypermarkets, supermarkets, specializes and department stores, principally under the banners “Pão de Açúcar”, “Extra Hiper”, “Extra Super”, “Mini-mercado Extra”, “Assai”, “Ponto Frio” and “Casas Bahia”, in addition to the e-commerce platforms “Casas Bahia.com”, “Extra.com”, “Ponto Frio.com”, “Barateiro.com” and “Partiuviagens.com”. Its headquarters are located in São Paulo, SP, Brazil.

Founded in 1948, the Company had 151 thousand employees, 1,882 stores in 19 Brazilian states and in the Federal District and a logistics infrastructure comprising of 55 warehouses located in 13 states at December 31, 2012. The Company’s shares are listed in the Level 1 Corporate Governance trading segment of the São Paulo Stock Exchange (“BM&FBovespa”), code “PCAR4” and its shares are also listed on the New York Stock Exchange (ADR level III), code “CBD”. Company is also listed on the Luxembourg Stock Exchange, however, with no shares traded.

The Company is controlled by Wilkes Participações S.A. (“Wilkes”), that on July 2, 2012 became a subsidiary of Casino Guichard Perrachon (“Casino”).

#### a) *Casino Arbitration*

On May 30, 2011, Casino filed two arbitration requests in accordance with the rules set forth by the International Arbitration Court of the International Chamber of Commerce against Mr. Abilio dos Santos Diniz, Ms. Ana Maria Falleiros dos Santos Diniz D’Avila, Ms. Adriana Falleiros dos Santos Diniz, Mr. João Paulo Falleiros dos Santos Diniz, Mr. Pedro Paulo Falleiros dos Santos Diniz and Península Participações S.A. (“Península”).

On July 1, 2011, Casino filed another arbitration request in accordance with the rules set forth by the International Arbitration Court of the International Chamber of Commerce, with the abovementioned parties and the Company as the defendants.

On October 5, 2011, Mr. Abilio dos Santos Diniz, Ms. Ana Maria Falleiros dos Santos Diniz D'Avila, Ms. Adriana Falleiros dos Santos Diniz, Mr. João Paulo Falleiros dos Santos Diniz, Mr. Pedro Paulo Falleiros dos Santos Diniz and Península presented their responses to both arbitration requests and filed counter claims.

The arbitrations were unified into one single proceeding and an arbitration court composed of three members was established to settle the dispute. This first hearing of the aforementioned arbitration proceeding was held in São Paulo on May 9, 2012. The arbitration process, including the Counter Claims, is subject to a confidentiality clause and aims to ensure compliance with the Company's shareholders' agreement, Wilkes' shareholders' agreement and the law. On June 21, 2012, the Company raised an objection claiming that there is no reason for it to take part in this arbitration, as it is not a party to Wilkes' Shareholders' Agreement.

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## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 1. Corporate information -- Continued

#### b) *Wilkes' corporate events*

At the Extraordinary General Meeting held on June 22, 2012, the following members of the Board of Directors appointed by Casino were elected: Mr. Eleazar de Carvalho Filho, Mr. Luiz Augusto de Castro Neves and Mr. Roberto Oliveira de Lima Casino, with Mr. Abilio dos Santos Diniz remaining as the chairman of the Board of Directors. After the changes approved in this meeting, the new members of the Company's Board of Directors were: Mr. Abilio dos Santos Diniz (chairman), Mr. Antoine Marie Remi Lazars Giscard D'Estaing, Mr. Arnaud Strasser, Mr. Candido Botelho Bracher, Mr. Eleazar de Carvalho Filho, Mr. Fábio Schvartsman, Ms. Geyze Marchesi Diniz, Mr. Guilherme Affonso Ferreira, Mr. Jean Louis Bourgier, Mr. Jean Charles Henri Naouri, Mr. Luiz Augusto de Castro Neves, Mr. Pedro Henrique Chermont de Miranda, Mr. Pedro Paulo Falleiros dos Santos Diniz, Mr. Roberto Oliveira de Lima and Mr. Ulisses Kameyama. Ms. Ana Maria Falleiros dos Santos Diniz D'Avila and Mr. João Paulo Falleiros dos Santos Diniz were no longer members of the Company's Board of Directors.

On the same date, Wilkes, the Company's controlling shareholder, also held an Extraordinary General Meeting, which resolved to replace the chairman of its Board of Directors. Mr. Jean Charles Henri Naouri, Casino's CEO, was appointed as the chairman of the aforementioned Board, a position previously occupied by Mr. Abilio dos Santos Diniz.

On July 2, 2012, Wilkes held another Extraordinary General Meeting, after which the membership of the Company's Board of Directors was as follows: Mr. Jean Charles Henri Naouri (chairman), Mr. Abilio dos Santos Diniz, Mr. Marcelo Fernandez Trindade and Mr. Arnaud Strasser. After these events Casino became the Company's sole controlling shareholder.

#### c) *Corporate Reorganization*

At December 28, 2012, the Extraordinary General Meeting approved a corporate reorganization with the purpose of obtaining administrative, economic and financial benefits for the Group, the base date of the restructuring were the balance sheets of subsidiaries at December 31, 2012. The reorganization consists of the merger by the Company of the operations of 44 stores of the subsidiary Sé Supermercados Ltda. (“Sé”), with net assets of R\$515, and 6 stores of the subsidiary Sendas Distribuidora S.A. (“Sendas”), with net assets of R\$504.

Additionally, there was a swap of equivalent amounts of shares between the Company and the subsidiary Novasoc Comercial Ltda. (“Novasoc”), in which the Company assigned 6.9% of Sé Supermercados in exchange for 17.25% of Barcelona Comércio Varejista e Atacadista S.A. (“Barcelona”), allocated to Sé. The same meeting also approved an increase of R\$557,534 in the Company’s interest in Barcelona, without the issue of new shares, using the Company’s credits against this subsidiary.

The reorganization did not have impact on the consolidated financial statements, except for R\$7,491 impact on the result for the year ended December 31, 2012, mainly related to the loss of deferred social contribution tax credits in its subsidiaries.

## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 1. Corporate information -- Continued

#### *c) Corporate Reorganization -- Continued*

On December 28, 2012, the Extraordinary General Meeting also approved an increase in the Company's interest in Sendas Distribuidora amounting to R\$1,100,000, without the issue of new shares, using the Company's credits against this subsidiary.

#### *d) Arbitration request by Morzan*

Pursuant to the Material Fact released on June 15, 2012, the Company hereby announces that it has received a letter from the International Chamber of Commerce – ICC notifying about the request for the filing of an arbitration proceedings (“Proceedings”) submitted by Morzan Empreendimentos e Participações Ltda. (“Morzan”), former controlling shareholders of Globex Utilidades S.A. (Ponto Frio network), currently denominated Via Varejo S.A. (“Via Varejo”).

The Proceeding is associated with claims arising from the Share Purchase Agreement executed between the subsidiary Mandala Empreendimentos e Participações S.A. on June 8, 2009 (“Agreement”) for the acquisition of 86,962,965 registered common shares with no par value, which then represented 70.2421% of the total and voting capital of Via Varejo, object of the Material Fact disclosed by the Company on June 8, 2009. The arbitration terms are subject to confidentiality requirements.

On July 11, 2012, the Company exercised its right to appoint an arbitrator to compose the arbitration court responsible for conducting the Proceeding.



The Company understands that the request is groundless, given that the Agreement was fully complied with, as it will be demonstrated during the Proceeding.

Until the present date there were no developments in this arbitration, thus not causing any impact on these financial statements. The Company will maintain its shareholders and the market informed of any material developments regarding the Proceeding.

e) *Arbitration request Abílio dos Santos Diniz x Casino*

On December 20, 2012, partner Abílio dos Santos Diniz informed the Company of the filing of an arbitration procedure against the Casino Group, whose terms are subject to a confidentiality obligation. The Company is not a party to the arbitration procedure.

f) *Restructuring of Via Varejo*

On December 14, 2011 the Board of Directors of the Company approved a formal plan for closing 88 Ponto Frio stores, upon approval by the Anti-trust Agency (“CADE”), as required by Preserve Reversibility of Operation Agreement (“APRO”). On December 31, 2011, the Company communicated employees, store owners, suppliers and others and recorded a provision for closing stores in the amount of R\$34,700, R\$20,700 of which related to the net amount of property and equipment and R\$14,000 to other expenses related to the closure.

Of the 88 stores planned to be closed, the Company has closed 66 and has decided to maintain 8. At December 31, 2012 the Company had a provision for closing stores of R\$7,289, related to the 14 stores planned to be closed and additional expenses that may be incurred by the stores already closed.

g) *Notice to the Market*

Regarding works of external advisors informed on Notice to the Market on October 16, 2012, the Company believes there is no fact or effect that should be disclosed in these financial statements.



## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 2. Basis of preparation

The consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the “International Accounting Standards Board (“IASB”).

The financial statements have been prepared on the historical cost basis except for certain financial instruments measured at their fair value.

The consolidated financial statements are presented in Brazilian Reais, which is the functional and reporting currency of the Company and its subsidiaries.

The consolidated financial statements for the year ended December 31, 2012 was approved by the Board of Directors at April 19, 2013.

For better presentation and comparison, the following balances at December 31, 2011 were reclassified:

	2011	Paes Mendonça	Others	2011 Reclassified
<b>Assets:</b>				
Trade accounts receivables – noncurrent	555,841	(445,056)	-	110,785
Other accounts receivables – noncurrent	107,013	445,056	(14,000)	538,069
Inventories – noncurrent	-	-	14,000	14,000



**Companhia Brasileira de Distribuição**

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

**3. Basis of consolidation**

a) Interest in subsidiaries, associates and joint ventures

Companies	Interest - % 2012		2011	
	Company	Indirect interest	Company	Indirect interest
<b><u>Subsidiaries:</u></b>				
Novasoc Comercial Ltda. ("Novasoc")	10.00	-	10.00	-
Sé Supermercado Ltda. ("Sé")	100.00	-	93.10	0.69
Sendas Distribuidora S.A. ("Sendas")	100.00	-	18.33	76.04
Pão de Açúcar Fundo de Investimentos em Direitos Creditórios ("PAFIDC")	-	-	9.04	1.06
PA Publicidade Ltda. ("PA Publicidade")	100.00	-	100.00	-
Barcelona Comércio Varejista e Atacadista S.A. ("Barcelona")	82.75	17.25	-	93.79
CBD Holland B.V.	100.00	-	100.00	-
CBD Panamá Trading Corp.	-	100.00	-	100.00
Xantocarpa Participações Ltda. ("Xantocarpa")	-	100.00	-	94.36
Vedra Empreend. e Participações S.A.	99.99	0.01	99.99	0.01
Bellamar Empreend. e Participações Ltda.	100.00	-	-	93.10
Vancouver Empreend. e Participações Ltda.	100.00	-	100.00	-
Bruxellas Empreend. e Participações S.A.	99.99	0.01	99.99	0.01
Monte Tardeli Empreendimentos e Participações S.A.	99.91	0.09	99.00	1.00

GPA Malls & Properties Gestão de Ativos e Serviços. Imobiliários Ltda. (“GPA M&P”)	100.00	-	89.42	9.85
GPA 2 Empreend. e Participações Ltda.	99.99	0.01	99.90	0.10
GPA 4 Empreend. e Participações S.A.	99.91	0.09	99.00	1.00
GPA 5 Empreend. e Participações S.A.	99.91	0.09	99.00	1.00
GPA 6 Empreend. e Participações Ltda.	99.99	0.01	99.90	0.10
ECQD Participações Ltda.	100.00	-	100.00	-
API SPE Planej. e Desenv. de Empreend. Imobiliários Ltda.	100.00	-	100.00	-
Posto Ciara Ltda.	-	100.00	-	-
Auto Posto Império Ltda.	-	100.00	-	-
Auto Posto Duque Salim Maluf Ltda.	-	100.00	-	-
Auto Posto Duque Santo André Ltda.	-	100.00	-	-
Auto Posto Duque Lapa Ltda.	-	100.00	-	-
Duque Conveniências Ltda.	-	100.00	-	-
Lake Niassa Empreend. e Participações Ltda.	-	52.41	-	52.41
Via Varejo	52.41	-	52.41	-
Globex Administração e Serviços Ltda. (“GAS”)	-	52.41	-	52.41
Nova Casa Bahia S.A. (“NCB”)	-	52.41	-	52.41
Ponto Frio Adm e Importação de Bens Ltda.	-	52.41	-	52.40
Rio Expresso Com. Atacad. de Eletrodoméstico Ltda.	-	52.41	-	52.41
Globex Adm. Consórcio Ltda.	-	52.41	-	52.41
PontoCred Negócio de Varejo Ltda.	-	52.41	-	52.15
Nova Extra Eletro Comercial Ltda.	0.10	52.36	0.10	52.36
Nova Pontocom Comércio Eletrônico S.A. (“Nova Pontocom”)	39.05	31.11	39.05	31.11
E-HubConsult. Particip. e Com. S.A. (“E-Hub”)	-	70.16	-	70.16
Nova Experiência Pontocom S.A.	-	70.16	-	70.16
Saper Participações Ltda.	-	-	24.21	-
Sabara S.A	-	52.41	-	52.41
Casa Bahia Contact Center Ltda.	-	52.41	-	52.41
Globex - Fundo de Investimentos em Direitos Creditórios (“Globex FIDC”)	-	52.41	-	7.86
<b><u>Associates and Joint Ventures:</u></b>				
Ponto Frio Leasing S.A.	-	-	-	26.21
Financeira Itaú CBD S.A. – Crédito, Financiamento e Investimento (“FIC”)	-	43.22	-	40.76

Indústria de Móveis Bartira Ltda. ("Bartira")	-	<b>13.10</b>	-	13.10
Dunnhumby Brasil Cons. Ltda.	<b>2.00</b>	-	2.00	-
Banco Investcred Unibanco S.A. ("BINV")	-	<b>26.21</b>	-	26.21
FIC Promotora de Vendas Ltda.	-	<b>43.22</b>	-	40.76

The interests were calculated based on the percentage held by GPA or its subsidiaries. The consolidation does not necessarily reflect such percentages as some companies have shareholders' agreements that grant the control to the Company and are therefore fully consolidated.

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## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 3. Basis of consolidation -- Continued

#### b) Subsidiaries

The consolidated financial statements include the financial statements of all the subsidiaries directly or indirectly controlled by the Company.

Subsidiaries are all entities (including special purpose entities, in the case of the securitization funds) over which the Company has the power to govern financial and operating policies and, in general terms, holds shares equivalent to more than one half of the voting rights. The existence and the effect of potential voting rights currently exercisable or convertible are taken into account to determine if the Company controls another entity. Subsidiaries are fully consolidated as of the date of acquisition, which corresponds to the date on which the Company obtains control over them, and excluded from consolidation, if applicable, as of the date on which this control ceases to exist.

The financial statements of the subsidiaries are prepared on the same closing date as those of the Company, using consistent accounting policies. All intra-group balances, including revenue and expenses, unrealized gains and losses and dividends resulting from intra-group transactions, are fully eliminated.

Gains or losses arising from changes in equity interest in subsidiaries which do not result in loss of control are directly recorded in equity.

Losses are attributed to the non-controlling interest, even if that results in a deficit balance.

The main subsidiaries included in the consolidation comprise:

Companhia Brasileira de Distribuição



i. *Novasoc*

Although the Company's interest in Novasoc represents 10% of its shares, Novasoc is included in the consolidated financial statements because the Company controls 99.98% of Novasoc's voting rights, pursuant to the shareholders' agreement. Moreover, under Novasoc's Bylaws, its net income allocation is not necessarily required to be proportional to the interest held in the company.

ii. *PAFIDC and Globex FIDC*

The Company consolidates the financial statements of PAFIDC and GlobexFIDC, which represent investment funds established for the exclusive purpose of securitizing the Company's and its subsidiaries' receivables. The consolidation is justified by the fact that default risks and custody and administration expenses related to the fund are linked to subordinated shares owned by the Company and its subsidiaries.

In the year ended December 31, 2012, PAFIDC and GlobexFIDC were restructured. See Note 10.

iii. *Via Varejo*

The Company controls Via Varejo through a 52.41% voting interest, therefore, fully consolidating it in its financial statements. Via Varejo sells electronic products, operating under the brands "Ponto Frio" and "Casas Bahia". The company also operates in e-commerce through its subsidiary Nova Pontocom, selling products to final consumers at [www.extra.com.br](http://www.extra.com.br), [www.pontofrio.com.br](http://www.pontofrio.com.br), [www.casasbahia.com.br](http://www.casasbahia.com.br), [www.barateiro.com.br](http://www.barateiro.com.br) and [www.partiuviajens.com.br](http://www.partiuviajens.com.br).

iv. *Sendas*

The Company directly or indirectly holds a 100% interest in Sendas, a food retail company that operates mainly in the state of Rio de Janeiro.



## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 3. Basis of consolidation -- Continued

#### b) Subsidiaries--Continued

##### v. *GPA M&P*

In 2011, the Company began organizing GPA M&P, a subsidiary whose purpose is to manage and operate its real estate assets.

#### c) Associates – Ponto Frio Leasing S.A.

BINV's Extraordinary General Meeting of December 30, 2011 approved the full merger of the Ponto Frio Leasing S.A. based on the balance sheet of November 30, 2011, that occurred on April 13, 2012 upon approval by the Central Bank of Brazil - BACEN.

#### d) Associates - BINV and FIC

The Company's investments in its associates FIC and BINV, entities that directly finance sales to GPA customers, are a result of a partnership between Banco Itaú Unibanco S.A ("Itaú Unibanco"), GPA, and Via Varejo. These investments are accounted for under the equity method, since it is an entity in which the Company has significant influence, but not control, neither the power to make prevailing operational and financial decisions regarding BINV and FIC.

The income statement for the year reflects the share of the results of operations of the associates. Whenever a change is recognized directly in the associates' equity, the Company recognizes its contribution in said eventual changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated proportionally to the interest in the associates.

The share of profit of associates is shown on the face of the income statement as share of profit in an associate. The financial statements of the associates are prepared for the same closing date as the parent company, and when necessary, adjustments are made to adjust the accounting policies in line to those of the Company.

After applying the equity method, the Company determines whether it is necessary to recognize an impairment loss related to the Company's investment in associates. On each reporting date, the Company determines whether there is any evidence that its investment in associates will not be recoverable. If applicable, the Company calculates the impairment amount as the difference between the investment's recoverable amount and its carrying amount and records this loss in the income statement for the year.

Upon loss of significant influence over the associates, the Company measures and recognizes any remaining investment at its fair value. Any differences between the carrying amount of the associates upon loss of significant influence and the fair value of the remaining investment and write-off results are recognized in the income statement for the year.

**Companhia Brasileira de Distribuição**

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

**3. Basis of consolidation -- Continued**e) Interest in joint venture - Bartira

The Company has an indirect interest in a joint venture named Bartira, in which GPA holds a 25% interest through its subsidiary NCB while the Klein family holds the remaining 75% through Casa Bahia Comercial Ltda. ("Casa Bahia"). These parties signed a partnership agreement that establishes the joint control of the entity's operating activities.

The agreement requires the unanimous resolution of participants in the financial and operational decision-making process. The Company recognizes its interest in the joint venture using the proportional consolidation method. The joint venture financial statements are prepared for the same period adopted by the Company. Adjustments are made when necessary to bring the accounting policies in line with of the Company.

The main lines of Bartira's condensed financial statements are shown below, it should be noted that the Company proportionately consolidates 25% of Bartira.

	2012	2011
Current assets	<b>157,196</b>	130,564
Noncurrent assets	<b>73,244</b>	60,258
<b>Total assets</b>	<b>230,440</b>	190,822
Current liabilities	<b>111,550</b>	87,216
Noncurrent liabilities	<b>16,440</b>	1,177
Equity	<b>102,500</b>	102,429
<b>Total liabilities and equity</b>	<b>230,440</b>	190,822

**Income**

Net revenue from sales and services	<b>464,048</b>	473,838
Earnings before income tax	<b>5,516</b>	23,387
Net income for the year	<b>68</b>	14,619

**4. Significant accounting practices**

a) Financial instruments

Financial instruments are recognized on the trade date and recorded at fair value plus transaction costs directly attributable to their acquisition or issue. Their subsequent measurement occurs every balance sheet date according to the rules established for each category of financial assets and liabilities.

Note 20 disclose the fair value of the financial instruments and provides additional details on their measurement.

(i) *Financial assets*

Initial recognition and measurement

The financial assets held by the Company within the scope of IAS 39 are classified according the purpose for which they were acquired or contracted for the following categories: (i) assets measured at fair value through profit or loss; ii) loans and receivables and investments held to maturity. The Company determines the classification of their financial assets at inception.



## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 4. Significant accounting practices -- Continued

#### a) Financial instruments -- Continued

##### (i) *Financial assets* -- Continued

#### Initial recognition and measurement -- Continued

Financial assets are initially recognized at fair value through profit or loss and transaction costs are expensed in the income statement. Loans and receivables are accounted for at amortized cost.

Purchases or sales of financial assets that require the assets to be delivered within a time frame established by regulations or market conventions (negotiations under regular conditions) are recognized on the trade date, i.e., on the date that the Company commits to purchase or sell the asset.

The financial assets of the Company include cash and cash equivalents, trade accounts receivables, related-party receivables, restricted deposits from legal proceedings and derivative financial instruments.

#### Subsequent measurement

- Financial assets measured at fair value through profit or loss: are measured at fair value at the end of balance sheet date. Interest rates, monetary restatement, exchange rate variation and variations arising from the fair value valuation are recognized in the income statement for the period as financial income or



expenses, when incurred.

- Loans and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, they are measured using the amortized cost through the effective interest rate method. Interest income, monetary restatement, exchange rate variation, less depreciation, as applicable, are recognized in the income statement as financial income or expenses, when incurred; and
- Held-to-maturity financial assets: financial assets that cannot be classified as loans and receivables as they are quoted in an active market. In this case, these financial assets are acquired with the intent and ability to hold to maturity. They are stated at their acquisition cost plus income earned against profit or loss for the year using the effective interest rate method.

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## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 4. Significant accounting practices -- Continued

#### a) Financial instruments -- Continued

##### (i) *Financial assets* -- Continued

#### Derecognition of financial assets

A financial asset (or, as applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows has expired; and
- The Company have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party under a “pass-through” arrangement; and either (a) the Company has transferred substantially all the risks and benefits related to the asset, or (b) the Company has neither transferred nor retained substantially all the risk and benefits related to the assets, but has transferred its control.

When the Company has transferred its rights to receive cash flows an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and benefits related to the asset or transferred control of the asset, the asset is maintained and recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Company.

#### Impairment of financial assets

At the end of the reporting periods, the Company assesses whether there is any indication of impairment of a financial asset or group of financial assets. The impairment of a financial asset or group of financial assets is only considered when there is objective evidence resulting from one or more events occurred after the asset's initial recognition ("loss event"), and if said event affects the estimated future cash flows of the financial asset or group of financial assets, which can be reliably estimated. The evidence of impairment may include indications that debtors (or group of debtors) are going through relevant financial constraints, moratorium or default in the amortization of interest or principal; likelihood that they will file for bankruptcy or another type of financial reorganization; and when these data indicate a measurable decrease in future cash flows, such as default interest variations or economic conditions related to default

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## Companhia Brasileira de Distribuição

Notes to the financial statements

December 31, 2012 and 2011

(In thousands of Brazilian reais, except when otherwise stated)

### 4. Significant accounting practices -- Continued

#### a) Financial instruments -- Continued

##### (i) *Financial assets* -- Continued

#### Impairment of financial assets -- Continued

Specifically in relation to financial assets held to maturity, the Company, firstly, verify whether there is objective evidence of impairment loss individually for financial assets that are individually significant, or collectively for assets that are not individually significant. Should the Company determine the nonexistence of objective evidence of impairment loss of a financial asset measured individually – whether or not this significant loss – the Company classifies a group of financial assets with credit risk characteristics similar which are evaluated collectively. The assets individually assessed as to impairment loss, or for which the impairment loss is (or continues to be) recognized, are not included in the collective assessment of the loss.

Impairment is measured as the difference between the carrying amount of an asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted by the original effective interest rate of the financial asset. The asset's carrying amount decreases through the use of a provision and the impairment loss is recognized in the income statement. In the case of loans or investments held to maturity with a variable interest rate, the Company measures the non-recovery based on the fair value of the instrument adopting an observable market price.

If, in a subsequent period, impairment decreases and this reduction can be objectively associated with an event occurred after the recognition of the provision (such as an improvement in a debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement. If a

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write-off is later recovered, this recovery is also recognized in the income statement.

(ii) *Financial liabilities*