

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
April 30, 2012

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

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, 2011
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

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)

José Antônio de Almeida Filippo, Chief Financial Officer

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(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

*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

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

160,558,750 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

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,” “Company” or “Pão de Açúcar Group” 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, 2011 was R\$1.876 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2011, 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 changed our financial reporting from Brazilian GAAP to IFRS, beginning with the financial statements as of and for the year ended December 31, 2009. Therefore, 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 and 2011 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, 2011 have been translated into U.S. dollars at the commercial rate for purchase of U.S. dollars in effect as of December 31, 2011 as reported by the Brazilian Central Bank of R\$1.876 to US\$1.00

	As of and for the Year Ended December 31,				
	2008	2009⁽¹⁾	2010⁽²⁾	2011	2011
	(millions of R\$, except share, per share and ADS amounts)				(millions of US\$, except share, per share and per ADS amounts)
Statement of operations data					
Net sales revenue	18,032.0	23,192.8	32,091.7	46,594.5	24,837.2
Cost of sales	(13,279.5)	(17,493.8)	(24,241.5)	(33,933.0)	(18,088.0)
Gross profit	4,752.5	5,699.0	7,850.2	12,661.5	6,749.2
Selling, general and administrative expenses	(3,470.1)	(4,212.1)	(5,817.2)	(9,619.7)	(5,127.8)
Depreciation and amortization	(442.7)	(459.9)	(446.1)	(680.5)	(362.7)
Other operating expenses, net	(19.1)	(77.9)	(127.9)	(258.7)	(137.9)
Operating profit	820.6	949.1	1,459.0	2,102.6	1,120.8
Financial income	292.1	246.7	331.7	593.3	316.3
Financial expense	(623.7)	(501.2)	(1,154.7)	(1,926.0)	(1,026.7)
Equity pickup	(0.5)	5.4	34.5	34.8	18.6
Income before income and social contribution taxes	488.5	700.0	670.5	804.7	429.0
Income tax expense					
Current	(36.3)	(68.1)	(52.1)	(142.1)	(75.7)
Deferred	(110.9)	(25.9)	(32.5)	57.1	30.4
Net income and comprehensive income	341.3	606.0	585.9	719.7	383.7
Attributable to equity holders of the parent	341.3	609.3	618.5	718.2	382.8
Attributable to noncontrolling interest	0.0	(3.4)	(32.6)	1.4	0.7
Basic earnings per 1,000 shares					
Preferred	1.54	2.59	2.50	2.87	1.53
Common	1.39	2.34	2.27	2.61	1.39
Diluted earnings per 1,000 shares					
Preferred	1.49	2.50	2.48	2.85	1.52
Common	1.39	2.34	2.27	2.61	1.39
Basic earnings per ADS	1.54	2.59	2.50	2.87	1.53
Diluted earnings per ADS	1.49	2.50	2.48	2.85	1.52

Weighted average number of shares
outstanding (in thousands)

Preferred	132,170	145,442	156,873	159,775	159,775
Common	99,680	99,680	99,680	99,680	99,680
Total	231,850	245,122	256,553	259,455	259,455

Dividends declared and interest on
equity per 1,000 shares ⁽³⁾

Preferred	0.28	0.60	0.69	0.68	0.36
Common	0.25	0.53	0.63	0.62	0.33

Dividends declared and interest on
shareholders' equity per ADS⁽³⁾

0.28	0.60	0.69	0.68	0.36
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Balance sheet data

Cash and cash equivalents	1,623.5	2,341.9	3,818.0	4,970.0	2,649.3
Property and equipment, net	4,867.0	5,356.6	6,794.3	7,358.3	3,922.3
Total assets	13,718.6	18,574.1	29,772.3	33,769.0	18,000.5
Short-term debt (including current portion of long-term debt)	334.6	687.6	2,915.1	4,917.5	2,621.3
Long-term debt	3,092.6	3,582.6	5,591.9	6,240.9	3,326.7
Shareholders' equity	5,454.2	6,656.7	9,500.6	10,094.4	5,380.8
Share capital	4,450.7	5,374.8	5,579.3	6,129.4	3,267.3

Other financial information

Net cash provided by (used in):

Operating activities	1,256.0	1,842.8	361.4	1,128.1	601.3
Investing activities	(484.7)	(1,636.7)	(1,428.0)	(1,625.5)	(866.5)
Financing activities	(206.8)	512.4	2,542.7	1,649.4	879.2
Capital expenditures	(488.3)	(1,631.7)	(1,521.7)	(1,723.4)	(918.7)

(1) Includes the result of operations of Via Varejo S.A. (formerly Globex Utilidades S.A.), or "Viavarejo", which operates under the brand name *Ponto Frio* 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."

	2008	2009	2010	2011	2011 (in millions of US\$, except as indicated)
Operating Data	(in millions of R\$, except as indicated)				
Employees at period end	70,656	85,244	144,914	149,070	
Total square meters of selling area at period end	1,360,706	1,744,653	2,811,103	2,821,091	
Number of stores at period end:					
<i>Pão de Açúcar</i>	145	145	149	159	
<i>CompreBem</i>	165	157	-	-	
<i>Sendas</i>	73	68	-	-	
<i>Extra Hipermercados</i> ⁽¹⁾	139	155	178	204	
<i>Extra Supermercado</i> ⁽²⁾	-	13	231	204	
<i>Extra Eletro</i>	47	47	-	-	
<i>Assaí</i>	28	40	57	59	
<i>Ponto Frio</i> ⁽³⁾	-	455	506	401	
<i>Casas Bahia</i> ⁽⁴⁾	-	-	526	544	
<i>Nova Pontocom</i> ⁽⁵⁾	-	-	N/A	N/A	
Total number of stores at period end	597	1,080	1,647	1,571	
Net sales revenues per employee ⁽⁶⁾ :					
<i>Pão de Açúcar</i>	229,076	262,547	287,016	288,256	153,655
<i>CompreBem</i>	325,737	336,011	-	-	-
<i>Sendas</i>	244,060	297,414	-	-	-
<i>Extra Hipermercados</i> ⁽¹⁾	339,614	356,092	431,185	452,815	241,373
<i>Extra Supermercado</i> ⁽²⁾	-	-	316,028	256,486	136,720
<i>Extra Eletro</i>	409,722	548,748	-	-	-
<i>Assaí</i>	437,538	303,361	418,860	486,356	259,251
<i>Ponto Frio</i> ⁽³⁾	-	253,219	466,002	365,954	195,071
<i>Casas Bahia</i> ⁽⁴⁾	-	-	N/A	464,689	247,702
<i>Nova Pontocom</i> ⁽⁵⁾	-	-	N/A	N/A	N/A
CBD average net sales revenues per employee	297,536	315,055	382,182	393,595	209,806
Net sales revenues by store format:					
<i>Pão de Açúcar</i>	3,378	3,802	4,287	4,740	2,527
<i>CompreBem</i>	2,573	2,585	-	-	-
<i>Sendas</i>	1,397	1,608	-	-	-
<i>Extra Hipermercados</i> ⁽¹⁾	9,120	10,402	11,658	12,546	6,688
<i>Extra Supermercado</i> ⁽²⁾	-	-	4,597	4,390	2,340
<i>Extra Eletro</i>	295	386	-	-	-
<i>Assaí</i>	1,269	1,982	2,943	3,902	2,080
<i>Ponto Frio</i> ⁽³⁾	-	2,428	4,455	4,524	2,411
<i>Casas Bahia</i> ⁽⁴⁾	-	-	2,448	13,304	7,091
<i>Nova Pontocom</i> ⁽⁵⁾	-	-	1,704	3,189	1,700
Total net sales	18,032	23,193	32,092	46,594	24,837

Average monthly net sales revenue per square meter⁽⁷⁾:

<i>Pão de Açúcar</i>		1,481.1	1,637.2	1,835.1	1,944.6	1,036.6
<i>CompreBem</i>		1,085.4	1,148.7	-	-	-
<i>Sendas</i>		897.1	1,088.6	-	-	-
<i>Extra Hipermercados</i> ⁽¹⁾		1,025.3	1,138.0	1,219.4	1,275.4	679.9
<i>Extra Supermercado</i> ⁽²⁾		-	-	1,187.5	1,331.1	709.5
<i>Extra Eletro</i>		881.1	1,154.1	-	-	-
<i>Assaí</i>		2,486.1	1,395.2	1,790.3	1,777.7	947.6
	<i>Ponto Frio</i> ⁽³⁾	-	620.4	1,032.6	1,072.9	571.9
<i>Casas Bahia</i> ⁽⁴⁾		-	-	N/A	1,122.2	598.2
<i>Nova Pontocom</i> ⁽⁵⁾		-	-	N/A	N/A	N/A
CBD average monthly net sales revenue per square meter		1,104.3	1,110.1	1,287.2	1,282.8	683.8

Average ticket amount:

<i>Pão de Açúcar</i>		26.1	29.8	33.2	36.3	19.3
<i>CompreBem</i>		19.3	20.7	-	-	-
<i>Sendas</i>		21.9	24.2	-	-	-
<i>Extra Hipermercados</i> ⁽¹⁾		43.7	48.5	53.3	53.9	28.8
<i>Extra Supermercado</i> ⁽²⁾		-	-	23.9	25.1	13.4
<i>Extra Eletro</i>		299.1	346.6	-	-	-
	<i>Assaí</i>	78.9	74.5	85.0	88.6	47.2
<i>Ponto Frio</i> ⁽³⁾		-	618.4	563.9	451.2	240.5
<i>Casas Bahia</i> ⁽⁴⁾		-	-	361.3	372.2	198.4
<i>Nova Pontocom</i> ⁽⁵⁾		-	-	538.3	485.6	258.8
CBD average ticket amount		32.6	41.2	54.1	73.4	39.1

Average number of tickets per month:

<i>Pão de Açúcar</i>		10,769,076	10,607,751	10,765,303	10,882,640	
<i>CompreBem</i>		11,128,328	10,387,308	-	-	
<i>Sendas</i>		5,315,750	5,537,072	-	-	
<i>Extra Hipermercados</i> ⁽¹⁾		17,406,079	17,886,223	18,237,819	19,380,583	
<i>Extra Supermercado</i> ⁽²⁾				16,026,255	14,588,413	
<i>Extra Eletro</i>		82,185	92,908	-	-	
	<i>Assaí</i>	1,340,148	2,218,159	2,885,286	3,671,405	
<i>Ponto Frio</i> ⁽³⁾		-	333,487	658,275	835,446	
<i>Casas Bahia</i> ⁽⁴⁾		-	-	564,626	2,978,613	
<i>Nova Pontocom</i> ⁽⁵⁾		-	-	263,747	547,328	
CBD average number of tickets per month		46,041,566	47,062,907	49,401,310	52,884,427	

(1) In 2011, includes the results of operations of 132 *Extra Hipermercados* stores and 72 *Mini Mercado Extra* stores. In 2010, includes the results of operations of 110 *Extra Hipermercados* stores and 68 *Mini Mercado Extra* stores. In 2009, includes the results of operations of 103 *Extra Hipermercados* stores, 13 *Extra Supermercado* stores and 52 *Mini Mercado Extra*.

(2) In 2011, includes the results of operations of 204 *Extra Supermercado* stores. In 2010, includes the results of operations of 101 *Extra Supermercado* stores, 17 *Sendas* stores and 113 *CompreBem* stores.

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

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

(5) Includes all e-commerce assets of the Pão de Açúcar Group (www.pontofrio.com.br, www.extra.com.br; www.casasbahia.com.br; wholesale activities and E-Hub). In 2010, includes the results of operations of *Casasbahia.com* as from November 1, 2010.

(6) 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.

(7) 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 decades 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 the *real* depreciated and on December 31, 2011, the exchange rate was R\$1.876 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(1)	Year-End
2007	1.733	2.156	1.948	1.771
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

Month	Exchange Rate of Brazilian Currency per US\$1.00			
	Low	High	Average(1)	Period-End
October 2011	1.689	1.886	1.773	1.689
November 2011	1.727	1.894	1.790	1.811
December 2011	1.783	1.876	1.837	1.876
January 2012	1.739	1.868	1.790	1.739
February 2012	1.702	1.738	1.718	1.709
March 2012	1.715	1.833	1.795	1.822
April 2012 (through April 19, 2012)	1.826	1.887	1.839	1.887

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;
- other political, social and economic developments in or affecting Brazil.

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 2011, the base interest rate (SELIC) in Brazil varied between 19.75% p.a. and 8.75% 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. In addition, 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% 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 year ended December 31, 2011, the *real* depreciated 12.6% against the U.S. dollar, closing at R\$1.876 to US\$1.00. 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, investor's 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 cash-and-carry segment (*atacarejo*), a wholesale format in the retail food sector, 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 cash-and-carry 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. Some of these international competitors have greater financial resources than we have. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

We are controlled by two groups of shareholders.

We are controlled by two groups of shareholders through their shared ownership of our holding company, Wilkes Participações S.A., 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 Guichard Perrachon Group (or “Casino Group”) and the group composed of Mr. Abílio dos Santos Diniz and other members of the Diniz family (or “Diniz Family”). This holding company is also referred to in this annual report as the “Holding Company.” The Casino Group and the Diniz Family have shared control of our Company since 2005. See “Item 7A. Major Shareholders.” Our two major shareholders have the power to control our Company, including the power to:

- appoint 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 shareholders may have interests that conflict with those of our other shareholders or holders of ADSs and the interests of our controlling shareholders may prevail over those of our other shareholders or holders of ADSs.

In addition, the co-control of our Company could result in deadlocks and disputes between our controlling shareholders with respect to strategic, control and other important issues, which may adversely affect us. On May 30, 2011, the Casino Group filed a request for arbitration under the International Chamber of Commerce rules against Abílio 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 International Chamber of Commerce rules, naming as respondents all the parties listed above and us. The two arbitrations have been consolidated into a single proceeding and a three-member arbitral tribunal has been constituted to decide the dispute. The consolidated arbitration proceeding is subject to confidentiality provisions and is aimed at ensuring compliance with the shareholders’ agreements concluded between the controlling shareholders. We cannot predict the effects of the dispute on us. For additional information on shared decision-making, see “Item 7A. Major Shareholders — Conditional Put Option Agreement and Shareholders’ Agreements.”

An Evolution of the Governance Structure and Control of Our Company is expected to occur in June 2012.

We are controlled by the Holding Company which, in turn, is currently co-controlled by the Casino Group and the Diniz Family, which share equal voting power in the Holding Company. Mr. Abílio dos Santos Diniz is the chairman of the Holding Company.

Mr. Abilio dos Santos Diniz has been our chairman since 2003 and the Holding Company’s chairman since 2006. According to the terms of the Holding Company shareholders’ agreement, upon the election by Casino of the Chairman of the Board of Directors of the Holding Company there will be a change in our corporate governance structure, resulting in Casino becoming, through the Holding Company, the sole controlling shareholder of the Company, while Mr. Abilio dos Santos Diniz will be entitled to certain veto rights and other rights pursuant to the terms of the Shareholders’ Agreements (for further information, see “Item 7A. Major Shareholders – Conditional Put Option Agreement and Shareholders’ Agreements). On March 21, 2012, Casino informed us that it had sent a notice to the Diniz Family exercising its right to appoint, for compulsory election, as from June 22, 2012, the chairman of the

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board of directors of the Holding Company. We cannot predict the effects of such changes on us.

The Casino Group granted a sale option to the Diniz Family, which if and when exercised would permit the Diniz Family to require the Casino Group to purchase from the Diniz Family shares in the Holding Company corresponding to 1,000,000 shares of our issued and outstanding common shares. In addition, the Diniz Family granted a purchase option of one common share of the Holding Company to the Casino Group which, if and when exercised, will grant to the Casino Group the majority of the common shares issued by the Holding Company. We cannot anticipate the effects of such a change on us.

Under the terms of the Holding Company Shareholders' Agreement, Mr. Abilio Diniz has the right to remain chairman of our board of directors for as long as he is mentally and physically fit for the functions and as long as we maintain a good performance track record. For further information, see "Item 7A. Major Shareholders – Conditional Put Option Agreement and Shareholders' Agreements."

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.

In 2010, we entered into an association agreement with the partners of Casa Bahia Comercial Ltda., which is still under review by Brazilian anti-trust authorities. Until these authorities approve the association agreement, we cannot fully integrate the assets related to the association with our home appliances retail business or fully capture synergies between this business and our Company.

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, specially related 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, our lease agreements contain contractual provisions that allow the landlord to increase the 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 52 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 private label and co-branded credit cards, personal and consumer credit and insurance at our stores. FIC raises funds from financial institutions in order to finance credit sales to our clients. 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, especially in our home appliance segment 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 affect 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 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 personal data protections 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

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 is 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 our subsidiary FIC, are subject to changing regulation by the Central Bank.

Our subsidiary 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.

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 Securities Act of 1933 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 58%, 49% and 47% of all shares traded on the São Paulo stock exchange (*BM&FBovespa S.A. – Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, in 2009, 2010 and 2011 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, São Paulo, 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

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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.”

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*.

In 2004, we entered into a financial partnership called FIC with Itaú Unibanco. FIC exclusively offers private label and co-branded credit cards, personal and consumer credit and insurance at our stores.

In 2007, we acquired a 60% ownership interest in the *Assaí* chain by purchasing 60% of the capital stock of Barcelona Comércio Varejista e Atacadista S.A., or Barcelona, a company holding all of the operating assets of the *Assaí* chain. This acquisition enabled us to enter the cash-and-carry segment, a wholesale format in the retail food sector, in the State of São Paulo. In 2008, we started cash-and-carry 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 a 70.2% ownership interest in Viavarejo (formerly Globex), a company which operates in the home appliances sector under the brand name *Ponto Frio*. 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%.

Also in July 2009, we purchased Barcelona’s remaining stock for R\$175 million, corresponding to 40% of its capital stock and, accordingly, we now own 100% of the *Assaí* chain.

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. Pursuant to the association agreement, by means of a corporate reorganization, we and the partners of Casa Bahia Comercial Ltda. have integrated our respective businesses in the home appliances retail sector, and have unified the e-commerce operations conducted by our subsidiary, Viavarejo. We own 53% of Viavarejo. We have been consolidating Nova Casa Bahia’s results of operations into our results of operations since November 2010. The association agreement remains subject to the approval of the Brazilian anti-trust authorities.

Also in December 2010, we entered into a stock purchase agreement with *Sendas S.A.* related to the acquisition of the remaining shares issued by *Sendas Distribuidora S.A.*, held by *Sendas S.A.* Upon the acquisition of the remaining shares, we and our controlled companies *Sé Supermercados Ltda.* and *Barcelona* became holders of 100% of *Sendas Distribuidora S.A.*’s voting capital.

In 2011 we concluded the conversion of *CompreBem* and *Sendas* stores, which had begun in 2010, into *Extra Supermercados* stores and the integration of *Ponto Frio* and *Casas Bahia* is in progress, with the recurring capture of synergies.

Reorganization of E-Commerce Operations

When we acquired Nova Casa Bahia, we agreed with its then controlling shareholders to concentrate all e-commerce assets of the Pão de Açúcar Group and Casa Bahia Comercial Ltda. into Nova Pontocom Comércio Eletrônico S.A., or Nova Pontocom, an e-commerce company controlled by Viavarejo. In addition, on November 8, 2010, Viavarejo and

Nova Pontocom acquired the remaining equity interest of 55% in E-Hub, a service company in the e-commerce segment, which was a joint venture recorded as an investment in affiliated companies.

Nova Pontocom has an experienced management team, a platform integrated with state-of-the-art e-commerce technology, a broad portfolio of assets – www.pontofrio.com.br, www.extra.com.br; www.casasbahia.com.br; wholesale activities and E-Hub, all supported by our logistics, administrative capacities and IT infrastructure. Viavarejo is the controlling shareholder of Nova Pontocom, holding 50.1% of its capital stock, CBD directly owns 43.9% and certain executive officers of Nova Pontocom hold the remaining shares, representing 5.53%.

Capital Expenditures and Investment Plan

As part of our capital expenditures and investment plan, we have invested approximately R\$4,876.9 million in our operations in the three years ended December 31, 2011. The Company's capital expenditure and investment plan for 2012 was proposed and is still subject to shareholder approval at the general shareholders' meeting to be held on April 27, 2012. The plan contemplates capital expenditures and investments for 2012 in the total amount of up to R\$1.9 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:

Acquisitions of retail chains – When entering new geographic markets in the food retail sector, we have generally sought to acquire local supermarket chains to benefit from existing know-how in the geographic region. For expansion within urban areas where we already have a presence, our preference has been to open new stores. To enter the home appliances retail sector, we acquired Viavarejo and Nova Casa Bahia. Our main focus in both the food and home appliances retail sectors is to expand organically, but we may continue carrying out strategic acquisitions if they result in synergies and add value to our business. Since 2009, we have acquired 983 stores in the home appliances retail sector. We have spent an aggregate of R\$1,571.0 million in cash on acquisitions from 2009 through 2011.

The following table presents information regarding our acquisitions and the regional distribution of the stores we acquired since 2009:

Year	Chains Acquired	Stores	Geographic Distribution
2009	Ponto Frio ⁽¹⁾	457	São Paulo, Rio de Janeiro, Distrito Federal, Espírito Santo, Minas Gerais, Mato Grosso, Paraná, Bahia, Goiás, Rio Grande do Sul and Santa Catarina
2010	Casas Bahia ⁽²⁾	526	São Paulo, Rio de Janeiro, Distrito Federal, Espírito Santo, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, Bahia, Goiás, Sergipe and Santa Catarina
2011	None	-	-
	Total	983	

(1) Acquired in July 2009.

(2) Association agreement entered into in December 2009. The results of operations of Nova Casa Bahia have been consolidated with our results of operations as from November 1, 2010.

Opening of new stores and purchases of real estate – In the food retail sector, we usually 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 142 new stores from 2009 through 2011, 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 was R\$992.0 million.

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. In 2011, we focused on the conversion of 17 *Sendas* stores and 111 *CompreBem* stores into *Extra Supermercado*, *Extra Hipermercado* and *Pão de Açúcar* stores. The total cost of renovating stores from 2009 through 2011 was R\$1,733.8 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\$410.7 million from 2009 through 2011. 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 spent an aggregate of R\$169.4 million on our distribution facilities from 2009 through 2011.

The following table provides a summary description of our principal capital expenditures for the three years ended December 31, 2011:

	Year Ended December 31,		
	2009	2010	2011
	(in millions of R\$)		
Opening of new stores	228.3	335.3	391.5
Acquisition of retail chains	885.1	225.2	460.7
Purchases of real estate	36.2	0.5	0.2
Renovations	334.3	778.9	620.6
Information technology	144.2	136.4	130.1
Distribution centers	3.7	45.4	120.3
Total	R\$ 1,631.8	R\$ 1,521.7	R\$ 1,723.4

4B. Business Overview

The Brazilian Retail Industry

The Brazilian retail food industry represented approximately 5.4% of Brazil’s GDP (gross domestic product) in 2011. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of R\$224.3 billion in 2011, representing an 11.3% increase compared with 2010.

The Brazilian retail food industry is highly fragmented. Despite consolidation within the industry, according to ABRAS, the three largest supermarket chains represented approximately 46.8% of the retail food industry in 2011, as compared to 43.4% in 2010. Our gross sales represented 23.5% of the gross sales of the entire retail food industry in 2011, also according to ABRAS.

The cash-and-carry segment (*atacarejo*), a wholesale segment in the retail food industry, was created in order to serve customers within a market niche that was neither reached by self-service retail nor by wholesale.

According to data published in February 2011 by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the home appliance retail sector was the second most important segment in December 2010 in the retail business in terms of sector revenues, after the food retail segment. The migration of lower income classes to lower-middle income classes drove consumption of higher value-added products.

According to the IBGE, the total population of Brazil was approximately 192.4 million in 2011, a 13.2% 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 2011, the city of São Paulo has a population of approximately 11.3 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 41 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%.

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 50% poorest 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.

Class Level	Average Monthly Income (in R\$)
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 the gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage was increased to R\$622.73 in January 2012. 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 in the food retail sector based on both gross sales and number of stores and we believe we are the largest home appliance retailer in Brazil. In 2011, we had a market share of approximately 23.5% of the Brazilian food retail sector, according to ABRAS. As of December 31, 2011, our total gross sales, including the food and non-food retail segments, totaled R\$52,681 million. On the same date, we operated 1,571 stores, 78 gas stations and 154 drugstores in 19 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 52 distribution centers located in 14 Brazilian states.

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 Hipermercados*, and (iii) neighborhood stores through the banner *Mini Mercado Extra*.

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 and gardening. 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 website www.paodeacucar.com.br. At our *Extra Hipermercados* stores, we also sell electronics, such as personal computers, software, computer accessories, and sound and image systems.

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.

- *Cash-and-carry segment*, which consists of sales of food and some non-food products to 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 *Ponto Frio* stores.
- *E-commerce segment*, which consists of our e-commerce operations through the websites *Extra.com.br*, *PontoFrio.com.br*, *CasasBahia.com.br*, wholesale activities and E-Hub, owned by Nova Pontocom.

Segment Revenue and Income Distribution

The table below shows our revenues from our operating segments and their participation in our net revenues. Results of the operating segments are presented in 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, 2011	
	Net Revenues from the Segment (in millions of R\$)	Percentage of Total Net Revenues
Food retail	21,675.8	46.5%
Cash-and-carry	3,902.0	8.4%
Home appliances	17,827.5	38.3%
E-commerce	3,189.2	6.8%
Pão de Açúcar Group	46,594.5	100.0%

The table below shows the profit or loss (as the case may be) from each of the operating segments and their participation in our net income. Results of the operating segments are presented in IFRS, the measure used by management in evaluating the performance of and strategy for the four segments listed below.

Year Ended December 31, 2011

Operating segment	Net Income from the Segment (in millions of R\$)	Percentage of Total Net Income
Food retail	624.4	86.8%
Cash-and-carry	(8.5)	(1.2)%
Home appliances	77.0	10.7%
E-commerce	26.8	3.7%
Pão de Açúcar Group	719.7	100.0%

For more information about our revenues and net income from our operating segments, see “Item 5A. Operating Results _Results of Operations for 2011, 2010 and 2009 .”

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</i>	<i>Extra</i>	<i>Extra</i>	<i>Mini</i>	<i>Extra</i>	<i>Ponto</i>	<i>Casas</i>				
	<i>Açúcar</i>	<i>CompreBem</i>	<i>Hiper</i>	<i>Eletro</i>	<i>Sendas</i>	<i>Extra</i>	<i>Super</i>	<i>Assaí</i>	<i>Frio</i>	<i>Bahia</i>	<i>Total</i>
As of December 31, 2008	145	165	102	47	73	32	5	28	–	-	597
During 2009											
Opened	5	–	2	–	–	21	–	7	11	-	46
Closed	(2)	(1)	–	–	(2)	(1)	(1)	–	(13)	-	(20)
Transferred (from)/to	(3)	(7)	(1)	–	(3)	–	9	5	–	-	–
Acquired	–	–	–	–	–	–	–	–	457	-	457
As of December 31, 2009	145	157	103	47	68	52	13	40	455	-	1,080
During 2010											
Opened	1	-	8	-	-	23	2	13	8	-	55
Closed	-	(1)	-1	(3)	(1)	(7)	-	-	(1)	-	(14)
Transferred (from)/to	3	(43)	-	(44)	(50)	-	86	4	44	-	-
Acquired	-	-	-	-	-	-	-	-	-	526	526
As of December 31, 2010	149	113	110	-	17	68	101	57	506	526	1,647
During 2011											
Opened	3	-	3	-	-	6	1	2	6	20	41
Closed	-	(2)	-	-	-	(2)	-	-	(111)	(2)	(117)
Transferred (from)/to	7	(111)	19	-	(17)	-	102	-	-	-	-
Acquired	-	-	-	-	-	-	-	-	-	-	-
As of December 31 2011	159	-	132	-	-	72	204	59	401	544	1,571

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 83.1% of the Company’s consolidated net sales for the year ended December 31, 2011, 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, 2011. In addition, none of these regions represents individually more than 10% of the consolidated net sales.

The following table sets forth the number of our stores by region as of December 31, 2011:

	City of São Paulo	State of São Paulo (excluding the City of São Paulo) ⁽¹⁾	State of Rio de Janeiro	South and Southeast Regions (excluding the States of São Paulo and Rio de Janeiro) ⁽²⁾	North and Northeast Regions ⁽³⁾	Middle-West Region ⁽⁴⁾
<i>Pão de Açúcar</i>	59	43	19	4	21	13
<i>Extra Hipermercado</i>	28	43	24	7	18	12
<i>Extra Supermercado</i>	69	82	45	-	8	-
<i>Mini Mercado Extra</i>	61	11	-	-	-	-
<i>Assaí</i>	18	21	10	-	7	3
<i>Ponto Frio</i>	51	99	93	122	0	36
<i>Casas Bahia</i>	87	179	97	100	35	46
Total	373	478	288	233	89	110

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

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

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

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

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, 2011:

	Store Format	Number of Stores	Total Selling Area (in square meters)	Average Selling Area Per Store (in square meters)	Total Number of Employees ⁽¹⁾	Percentage of Our Net Sales Revenues
<i>Pão de Açúcar</i>	Supermarket	159	211,159	1,328	16,444	10.2%
<i>Extra Hipermercado</i> ⁽²⁾	Hypermarket	132	840,676	6,369	27,034	26.9% ⁽²⁾
<i>Mini Mercado Extra</i> ⁽²⁾	Neighborhood store	72	15,776	449	673	-(2)
<i>Extra Supermercado</i>	Supermarket	204	244,393	1,198	17,114	9.4%
<i>Assaí</i>	Cash and carry	59	183,848	3,116	8,023	8.4%
<i>Ponto Frio</i>	Home appliances store	401	322,431	804	12,362	9.7%
<i>Casas Bahia</i>	Home appliances store	544	1,003,008	1,844	28,629	28.6%
<i>Nova Pontocom</i> ⁽³⁾	E-commerce	-	-	-	-	6.9%
Head office & distribution center		-	-	-	38,791	-

Total	1,571	2,821,091	1,796	149,070	100.0%
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(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) Mini Mercado Extra sales are included in Extra Hipermercado sales.

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

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 of 77.9 employees per 1,000 square meters of store space. 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, 2011, we had 159 *Pão de Açúcar* stores. The *Pão de Açúcar* stores have an average of 1,328 square meters of selling space. Food products represented 93.8% of gross sales revenue attributable to *Pão de Açúcar* in 2011 and non-food products represented 6.2%.

The *Pão de Açúcar* banner recorded gross sales of R\$5,282.3 million in 2011, representing an increase of 10.9% relative to 2010. This increase was a result of the strong performance of the *Pão de Açúcar* banner in the Northeast region and expansion (3 new stores were opened and seven stores were converted into *Pão de Açúcar* banner).

Extra Hipermercados Stores

Extra hypermarkets 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* hypermarkets offer the widest assortment of products of any of our store formats and had an average selling area of 6,369 square meters as of December 31, 2011. The *Extra* stores target the Brazilian classes B, C, D and E classes. As of December 31, 2011, we had 132 *Extra* stores. The sale of food products and non-food products represented 61.5% and 38.5% of *Extra Hipermercados*' gross sales in 2011, respectively.

Gross sales of the *Extra* banner in 2011, including *Mini Mercado Extra* sales, reached R\$14,034.5 million, a 11.0% increase compared to 2010. This increase was due to price competitiveness, better assortment of electronic products and expansion (three new stores were opened and 19 stores were converted from the supermarket format into *Extra* hypermarkets).

Extra Supermercado Stores

As of December 31, 2011, we operated 204 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by stores with an average sales area of 1,137 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 91.5% and 8.5% of *Extra Supermercado*'s gross sales in 2011, respectively.

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 2011 reached R\$4,825.2 million, a 4.8% decrease compared to 2010. This decrease was mainly due to the conversion of 26 stores from the supermarket format into *Extra Hipermercados* and *Pão de Açúcar* stores and the closing of two stores.

Mini Mercado Extra Stores

With the establishment of the *Extra Fácil* banner in July 2007, we significantly increased our presence in the convenience and neighborhood store segment, where we had already been operating through our *Extra Supermercado* stores. In 2011, we began to re-brand the banner to *Mini Mercado Extra* (Extra Mini Market), 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 300 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.

We opened five new stores in 2011, bringing the total of *Mini Mercado Extra* stores to 72 units as of December 31, 2011. The sale of food products and non-food products represented 94.5% and 5.5% of *Mini Mercado Extra*'s gross sales in 2011, respectively.

Gas Stations

As of December 31, 2011, we operated 78 gas stations. The vast majority of our gas stations are located within the parking area of certain of our stores. The location of our gas stations allows our customers to both shop and refuel their car 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 *Mini Mercado Extra* stores.

Drugstores

As of December 31, 2011, we operated 154 units in 16 states and in the Federal District. We opened four new stores in 2011. In addition, we presented a new positioning of our drugstores: larger stores with a new product mix and better services. A part of our drugstores have already been changed to fit this new concept. Our strategy for drugstores is to provide greater convenience to our customers by providing additional products.

Pão de Açúcar Delivery

The Pão de Açúcar Delivery, or PA Delivery, is an extension of our *Pão de Açúcar* banner. Through the PA Delivery, our clients order products through the Internet. As of December 31, 2011, we had nine PA Delivery shipping units in Brazil, three located in the Greater São Paulo area, one in each of the cities of Indaiatuba (interior of the State of São Paulo), Bertioga (in the coastal region of the state of São Paulo), Rio de Janeiro, Brasília, Curitiba and Fortaleza.

Cash-and-Carry Operating Segment

Assaí Stores

The cash-and-carry Assaí has been operating in the cash-and-carry segment for 38 years and as of December 31, 2011, Assaí had 8,023 employees and 59 stores. In 2011, we opened 2 new Assaí stores. In 2011, the Assaí banner recorded gross sales of R\$4,288.8 million, an increase of 31.8% compared to 2010.

In 2011, the format underwent some changes as a result of a strategic decision to focus on food distributors and processors, which led to a reduced and more profitable product mix, generating scale gains and permitting more advantageous negotiations with suppliers.

Home Appliances Operating Segment

Ponto Frio Stores

Our *Ponto Frio* stores are specialized in home appliances such as consumer electronics. As of December 31, 2011, we operated 401 *Ponto Frio* stores as a result of our acquisition of Globex (now called Viavarejo) in July of 2009. In 2011, *Ponto Frio* stores had gross sales of R\$5,210.3 million.

Our *Ponto Frio* 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, 2011, we operated 544 stores as a result of the association with Casa Bahia Comercial Ltda. In 2011, *Casas Bahia* stores' gross sales totaled R\$15,570.8 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 *Ponto Frio* 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 2011, the e-commerce segment's gross sales totaled R\$3,468.7 million.

In recent years, Nova Pontocom's sales have grown at least 50% more than the fast growing Brazilian e-commerce segment (as measured by e-Bit). As of March 2010, it had the second highest market share of the segment according to Exame, and has since narrowed the gap with the market leader.

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 month of 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) do 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 our Company, 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 Hipermercados*, *Extra Supermercado*, *Mini Mercado 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 *Ponto Frio* 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 2011, our largest supplier in the home appliance and e-commerce segments represented 14.7% and 13.2% of their respective sales and the ten largest suppliers in these segments represented 66.1% and 63.4% of its respective sales.

Distribution and Logistics

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 52 distribution centers (including those of Nova Casa Bahia and Viavarejo) strategically located in 14 Brazilian states with a total storage capacity of approximately 1,372,423 square meters. We were the first retailer in Brazil to have a centralized distribution center. 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 2011, we focused on the following tasks: (i) in order to obtain better performance for our logistics network in the next few years we have redefined it, opening or changing warehouse formats by using new concepts such as CDA (Advanced Distribution Center) which aims to bring our store operation and distribution units closer and increase regionalization and products organization by turn-over. We are also beginning a synergies study to (i) better use the physical structure within the supply operations of our different businesses; (ii) increase technological investment, prioritizing productivity and operational efficiency increases such as picking by voice; (iii) implement an Oracle-Retail system that guarantees an advanced purchase planning platform with global stock reports of the entire supply chain, reducing inventory and increasing product availability in stores. In 2012, our strategy is to apply a new supply synergy concept to our logistics network and, therefore, to share the use of physical areas between our different businesses in lower density regions, addressing the specificities of each business. The expectation is to capture gains through the reduction of losses and working capital.

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

Stores, Supermarkets and Hypermarkets

As of December 31, 2011, the logistic process to supply our stores, supermarkets and hypermarkets (excluding *Ponto Frio*, *Casas Bahia*, our e-commerce business, drugstores and gas stations) included 20 distribution centers located in the states of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 421,168 square meters area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet that, on December 31, 2011, totaled more than 1,500 vehicles exclusively dedicated to this activity, all of which are tracked via GPS. As of December 31, 2011, our centralization rate (the percentage of the products supplied at our stores that come directly from our distribution centers) was 85%, excluding our cash and carry operation. Including our cash and carry 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 Entry.” As of December 31, 2011, 15% of our stores sales, excluding our cash and carry operation, corresponded to “Direct Entry” products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines. Including our cash and carry operation, 24% of our stores’ sales corresponded to “Direct Entry” products.

Electronic products and home appliances – Casas Bahia and Ponto Frio stores

The logistics process associated with our *Casas Bahia* and *Ponto Frio* stores involves an examination of Ponto Frio’s stores’ forecast for sales, which we use to submit orders to our suppliers. Once these orders are issued, the delivery of products is managed by Viavarejo 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, 2011 totaled 26 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.)

PA Delivery

Our PA Delivery units share the same inventories with our stores, where our PA Delivery units are strategically located, to take advantage of a larger area of delivery and profit.

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 similar 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 2011, we used five 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.

In 2009, 2010 and 2011 we spent approximately R\$266.4 million, R\$281.0 million and R\$973.9 million respectively, on advertising (approximately 1.0%, 0.9% and 2.1% of total net sales revenues in each year, respectively). Also, 26.3%, 28.1% and 18.2% of our total marketing expenditures in 2009, 2010 and 2011, respectively, were spent on radio, newspaper and magazine advertising. Television advertisements accounted for 39.2%, 35.8% and 54.1% of advertising expenses in 2009, 2010 and 2011, respectively. We spent 35.6% in 2009, 36.1% in 2010, and 27.2% in 2011 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 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 private label and co-branded credit cards, personal and consumer credit and insurance. FIC has been operating for seven years and has 8.4 million customers (including the customer base of Investcred). Our Company and Itaú Unibanco each hold 50% of FIC's capital stock. Our Company holds 36% and Viavarejo holds 14%. Itaú Unibanco is responsible for managing FIC and appointing the majority of its officers.

FIC's share of our total gross sales amounted to 8.1% as of December 31, 2011. In 2011, FIC had an equity pickup of R\$34.8 million, a decrease compared to the R\$34.5 million in 2010, due to (i) the increase in the number of FIC's customers, (ii) the products related to credit cards, such as personal credit, payment of invoices in installments, among others, which increased our profitability.

We maintain our strategy to increase the FIC card's share of sales, making it the best payment option in the 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 2009, 2010 and 2011.

Total number of clients (in thousands)	2009⁽¹⁾	2010	2011
Private label cards	4,262	5,172	5,519
Co-branded cards	2,228	2,499	2,831
Direct consumer credit agreements	358	70	24
Personal loans	57	24	9
Total	6,905	7,765	8,382

(1) Including Viavarejo (Ponto Frio).

Credit Sales

In 2011, 59.3% of our net sales revenue were represented by credit sales, principally in the form of credit card sales, installment sales and purchase vouchers, as described below:

Credit card sales. All of our store formats accept payment for purchases with MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 43.6%, 45.8% and 48.7% of our net sales revenue in 2009, 2010 and 2011 respectively. Of this total, sales through private label and co-branded credit cards accounted for 12.3% of our net sales revenue in 2011. 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, *Ponto Frio* 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 38%, 50% and 62% of our total credit card sales (mentioned above) in 2009, 2010 and 2011 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 easy access to credit through payment slips (“*carnês*”) to our customers to finance their purchases. Sales to customers using payment slips accounted for 6.8% in 2011. Installment sales are widely used in the Brazilian home appliance market. We usually discount certain receivables in connection with these installments to meet working capital needs of the home appliance segment. These discounts are considered as a financial expense.

Purchase vouchers. We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 7.5%, 5.9% and 3.6% of our net sales revenue in 2009, 2010 and 2011 respectively. An allowance for doubtful accounts is not required as credit risks are substantially assumed by the companies that issue the vouchers.

We record allowance for doubtful accounts based on average historical losses complemented by our estimates of probable future losses.

Technology

We invested R\$144.2 million in information technology in 2009, R\$136.4 million in 2010, and R\$130.1 million in 2011. Our information technology department is interconnected with our other departments, streamlining our strategic initiatives.

In 2011 we completed the final part of the Oracle-Retail implementation process. It was our largest investment in technology in the past years and this tool has already contributed to reduce inventory and shrinkage levels in stores. During the year, the new production model of commercial planning based on demand, which considers product sales history based on a scientific historical database, is already being implemented in every banner. Currently, 40% of our grocery products are supplied by this model using a previously defined demand and with a minimum margin of error.

We also implemented MFP (Merchandising Financial Planning), a tool that has already useful during the Integrated Planning process for 2012 and will adjust the comparison between budget and actual sales. In addition, we also implemented OTM (Oracle Transportation Management), which helps our distribution by optimizing the loads in the trucks and reducing transportation costs.

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, Mini Mercado Extra, Pão de Açúcar, Ponto Frio, 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 *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, 2011, our most important trademarks (*Pão de Açúcar, Companhia Brasileira de Distribuição, Extra, Qualitá, Taelq, Ponto Frio, Casas Bahia* and *Assaí*, among others) were duly registered with INPI and we had approximately 3,046 trademarks registered or in the process of being registered in Brazil. We did not have any registered patents as of December 31, 2011.

We own the following domain names, among others: www.extra.com.br, www.grupopaodeacucar.com.br, www.paodeacucar.com.br, www.assaiatacadista.com.br, www.pontofrio.com.br and www.casasbahia.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 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 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 supermarkets 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 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.

Assaí chain competes with *Atacadão*, a 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 *Ponto Frio* 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 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 by *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*, *Carrefour* and *Fast Shop*.

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, 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.

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.

Since 2010, the Brazilian Congress is discussing a bill requiring a prior assessment of the impact of the construction of a hypermarket in excess of 1,000 square meters in the relevant neighborhood. The proposed regulation is intended to protect traditional family-owned retailers that have increasingly lost market share in Brazil to the larger chains and hypermarkets. Regulations of this type already exist at the municipal level. For example, the city of Porto Alegre in the State of Rio Grande do Sul has an ordinance prohibiting the construction of food retail stores with a selling area greater than 2,500 square meters. Other jurisdictions may adopt similar laws, and, if the bill pending before the Brazilian Congress becomes law, our future expansion and growth may be subject to significant constraints.

Environmental Matters

In 2008, we initiated a new policy of sustainable operations strengthening our sustainability practices which are now measured and improved on a regular basis. We also incorporated sustainability into our operations on a company-wide level, encompassing every sector of the organization. As a result, we created an internal working group and the Sustainable Development Committee, which is linked to our board of directors.

The sustainability measures 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 114 *Pão de Açúcar* stores and 121

Extra stores;

- we have 40 stores that optimize the re-usage of our recyclable and organic garbage, re-using approximately 85% of the waste volume (including recycling, composting, etc.) The same system is being adapted for additional store throughout all our banners;
- *Caixa Verde* (Green Checkout) program that since 2008 enables our clients to dispose of paper and plastic packaging at the time of purchase, the first retail pre-consumption recycling program in Brazil. *Green Checkout* is currently available in 71 Pão de Açúcar and 66 *Extra* stores;

- 27.5% of the energy we buy comes from renewable sources;
- our refrigeration systems (cold stores, air conditioning, refrigerators and freezers) use R-22 gas, a variation of refrigeration gas which is less damaging to the ozone layer than R-12 gas;
- we have five green stores that use R-410 gas in the air conditioning system and R-404 gas in the refrigeration system, which have a minimum impact on the ozone layer;
- in 2005 we pioneered in initiatives to incentive the rational use of plastic bags through the sale of re-usable bags as an alternative to plastic bags. Currently, certain of the cities in which we operate, including São Paulo, have prohibited the distribution of plastic bags. In 2011, we sold 1.2 million re-usable bags at *Pão de Açúcar* stores and 1.6 million reusable bags at Extra stores;
- tracking meat, fruit and vegetable products to ensure we offer products that adopt sustainable production practices, including proper treatment of livestock and environmental preservation; and
- we support small organizations and communities that show socio-environmental responsibility by promoting their products since 2002 through our “Caras do Brasil” (Faces of Brazil) program.

In 2011 in our Commitment to Nature publication, we noted that we would include green initiatives for new *Pão de Açúcar* stores, such as equipment replacement favoring more efficient or environmentally friendlier models (such as skylights, water flow restrictors on taps and toilets, furniture made from certified wood, refrigerators with less polluting gases).

Seven 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 2011, 148 suppliers participated in the Top Log Program, and were evaluated with respect to their service level, suitability to the client and integration. Twenty questions related to sustainability, such as pollutant emissions’ reduction, route optimization and reverse logistics were also applied.

We currently do not incur any 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 Hipermercado*, *Mini Mercado Extra*, *Extra Supermercado* banner and for cash-and-carry retail segment operations, under the *Assaí* brand. We conduct our home appliances retail segment operations through our *Ponto Frio* and *Casas Bahia* brands. The chart below sets forth a summary of our organizational structure:

(*) Viavarejo is a publicly traded company listed on the BM&FBovespa and its free float on December 31, 2011, 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 130 stores, eight distribution centers and a portion of the real estate property where our headquarters are located. The remaining 1,441 stores and 44 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 16 leases expiring by the end of 2012. 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, 2011, we leased 17 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 544 *Casas Bahia* stores are leased, of which 272 were leased as of the December 31, 2011 from members of the Klein family. Our management believes that the leases follow market standards, and are on an arm's length basis, except for stores leased from the Klein family. See "Item 7B. Related Party Transactions—Leases" and note 14 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, 2011:

	Owned		Leased		Total	
	Number	Area (in square meters)	Number	Area (in square meters)	Number (*)	Area (in square meters)
<i>Pão de Açúcar</i>	34	49,216	125	161,943	159	211,159
<i>Extra Hipermercados</i>	38	227,051	94	613,625	132	840,676
<i>Extra Supermercado</i>	25	37,922	179	206,471	204	244,393
<i>Mini Mercado Extra</i>	1	220	71	15,556	72	15,776
<i>Assaí</i>	10	47,494	49	136,354	59	183,848
<i>Ponto Frio</i>	22	27,919	379	294,512	401	322,431
<i>Casas Bahia</i>	-	-	544	1,003,008	544	1,003,008
<i>Warehouses</i>	8	322,870	44	1,049,553	52	1,372,423
<i>Headquarters</i>	1	28,240	1	44,411	2	72,651

(*) 24 of our stores have been subject to liens as a result of judicial proceedings.

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 2009 through 2011, Brazilian GDP increased by an average of 3.3% annually ((0.3)% in 2009, 7.5% in 2010 and 2.7% in 2011). Inflation, as measured by the IPCA, was 4.3%, 5.9% and 6.5% in 2009, 2010 and 2011, respectively. From January 2009 through December 2011, the *real* appreciated 19.5% against the U.S. dollar. Unemployment decreased from 8.2% in January 2009 to 4.7% in December 2011. International reserves increased from US\$193.8 billion to US\$352.1 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 2011 increased 2.7%, reaching R\$1,625.46. Between 2003 and 2011, the purchasing power from this income increased 22.2%, while unemployment fell from 10.9% in December 2003 to 4.7% in December 2011. The accumulated inflation rate as measured by the IPCA was 6.5% in December 2011, 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 average SELIC rate of 11.7% during 2011. In March 2012, COPOM had lowered it to 9.75% in an effort to stimulate consumption and credit.

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:

	December 31		
	2009	2010	2011
GDP Growth ⁽¹⁾	(0.3)%	7.5%	2.7%
Inflation (IGP-M) (%) ⁽²⁾	(1.7)%	11.3%	5.1%
Inflation (IPCA) (%) ⁽³⁾	4.3%	5.9%	6.5%
CDI (%) ⁽⁴⁾	9.9%	9.8%	11.6%
TJLP (%) ⁽⁵⁾	6.0%	6.0%	6.0%

SELIC rate (%) ⁽⁶⁾	8.7%	10.7%	10.9%
Appreciation (depreciation) of real before USD (%)	34.2%	4.5%	(12.6)%
Exchange rate (closing) R\$ per USD 1.00 ⁽⁷⁾	1.7	1.7	1.9
Average exchange rate R\$ per USD 1.00 ⁽⁸⁾	2.0	1.8	1.7

(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 each month during the period. Source: Central Bank.

(8) Average of exchange rates (for sale) of the last day of each month during the period. Source: Central Bank.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

The preparation of our consolidated financial statements 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 adjustment to the carrying amounts of assets and liabilities within the next financial year. They are:

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. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations and market quotes. The calculations of value-in-use require the use of estimates.

Other intangible assets, which useful lives are indefinite as Tradenames and Commercial rights “Fundo do Comércio,” were submitted to impairment test according to the same calculation criteria used for goodwill.

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. The 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\$764.5 million (R\$720.5 million in 2010). These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support these balances.

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 26(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 service. 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.

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 make 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

We used provisional amounts of net assets acquired in 2010. 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.

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\$453.6 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,” “Item 10C. Material Contracts” and note 16(a) to our financial statements included in this annual report.

Overview

Since 2008 we have been reorganizing our management model. We have segregated each of our business segments into separate operating units: food retail, cash-and-carry, home appliances retail and e-commerce. Our management model ensures that each operating unit keeps its individual business characteristics and is managed by professionals that are specialized in each unit's business segment. In addition, under our new management model, each operating unit benefits from a single administrative and operating structure that includes market strategy, commercial strategy, corporate relations, supply chain, corporate services (finance and IT), human resources and management control. Through our new management model we gain synergies and integrate our business segments without jeopardizing the specificity and expertise that is necessary to generate positive results in each of the segments.

The 2011 fiscal year was an important year for us in terms of operational consolidation. We concluded the conversion of 221 CompreBem and Sendas stores, which had begun in 2010; we revised the management model for Assaí, our cash-and-carry format, as well as the management model and positioning of our neighborhood store format (Extra Fácil to Mini Mercado Extra); we improved the product mix of all our formats to bring it in line with changing Brazilian consumption habits, especially to cater to the population that has migrated from lower-income class to lower-middle-income class in the last couple of years; we revised corporate and in-store processes; and the integration of Ponto Frio and Casas Bahia is in progress, with capture of synergies. We believe our management model will exploit the synergistic functioning of all our businesses, while observing their particular needs.

Even with the slowing of the economy, especially in the second half of 2011, we maintained our investments in management processes, integrating further information technology, logistics and the back-office, which ensures efficient execution. This processes automation reduces shrinkage and stock-outs and increase store productivity and efficiency by improving the management of inventories and, consequently, working capital. The unification of the Ponto Frio and Casas Bahia systems into a single operational platform helped capture synergies between the two companies and improve inventory and margin management.

The e-commerce operation completed a year under the new model, which joined the operations of Extra.com.br, PontoFrio.com and CasasBahia.com.br into a new company, Nova Pontocom, and achieved growth that was twice that of the market, with increased profitability. Nova Pontocom continued to invest in logistics, technology and services in order to confront current and future challenges.

In 2012 we plan to continue to pursue a sustainable growth, seeking a strong competitive positioning while maintaining profitability and gains in market share.

Results of Operations for 2011, 2010 and 2009

We measure the results of our operating segments in 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. Information for the segments is included in the following table:

Segments Statement of operations data	As of December 31, 2011					Total
	Food Retail	Cash-and-Carry	E-commerce	Home Appliances	Elimination ⁽¹⁾	
	(in millions of R\$)					
Net sales	21,675.8	3,902.0	3,189.2	17,827.5	-	46,594.5
Gross profit	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
Equity pickup	18.9	-	-	15.9	-	34.8
Income before income and social contribution taxes and noncontrolling interest	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.

Segments Statement of operations data	As of December 31, 2010					Total
	Food Retail	Cash-and-Carry	E-commerce	Home Appliances	Elimination ⁽²⁾	
	(in millions of R\$)					
Net sales	20,542.7	2,943.0	1,702.3	6,903.7	-	32,091.7
Gross profit	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
Equity pickup	21.7	-	-	12.8	-	34.5
Income before income and social contribution taxes and noncontrolling interest	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.

Segments	As of December 31, 2009					Total
	Food Retail	Cash-and-Carry	E-commerce	Home Appliances (1)	Elimination (2)	
	(in millions of R\$)					
Net sales	18,524.2	1,981.8	625.5	2,118.8	(57.5)	23,192.8
Gross profit	4,965.2	291.3	102.2	397.8	(57.5)	5,699.0
Depreciation and amortization	(415.5)	(12.1)	(2.4)	(25.5)	(4.4)	(459.9)
Operating profits	957.3	39.5	(17.6)	(42.5)	12.4	949.1
Financial expenses	(432.6)	(10.6)	(14.7)	(43.3)	-	(501.2)
Financial income	238.0	1.4	-	10.6	(3.3)	246.7
Equity Pickup	(7.4)	-	-	12.8	-	5.4
Income before income and social contribution taxes and noncontrolling interest	763.4	30.3	(18.4)	(95.4)	20.1	700.0
Income and social contribution taxes	(119.8)	(14.3)	3.4	102.1	(65.4)	(94.0)
Net income (loss)	643.6	16.0	(15.0)	6.7	(45.3)	606.0

(1) Includes the results of operations of Viavarejo as from July 1, 2009.

(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,					
	2011	%	2010 (1)	%	2009 (2)	%
	(in millions of R\$)					
Net sales	46,594.5	100.0	32,091.7	100.0	23,192.8	100.0
Cost of sales	(33,933.0)	(72.8)	(24,241.5)	(75.5)	(17,493.8)	(75.4)
Gross profit	12,661.5	27.2	7,850.2	24.6	5,699.0	24.6
Selling, general and administrative expenses (3)	(9,619.7)	(20.6)	(5,817.2)	(18.1)	(4,212.1)	(18.2)
Depreciation and Amortization	(680.5)	(1.5)	(446.1)	(1.4)	(459.9)	(2.0)
Other operating expenses, net	(258.7)	(0.6)	(127.9)	(0.4)	(77.9)	(0.3)
Operating profit	2,102.6	4.5	1,459.0	4.5	949.1	4.1
Financial income	593.3	1.3	331.7	1.0	246.7	1.6
Financial expense	(1,926.0)	(4.1)	(1,154.7)	(3.6)	(501.2)	(3.5)
Equity pickup	34.8	0.1	34.5	0.1	5.4	-
Income before income and social contribution taxes and noncontrolling interest	804.7	1.7	670.5	2.1	700.0	3.0
Income tax expense						
Current	(142.1)	(0.3)	(52.1)	(0.2)	(68.1)	(0.3)

Deferred	57.1	0.1	(32.5)	(0.1)	(25.9)	(0.1)
Net income	719.7	1.5	585.9	1.8	606.0	2.6
Attributable to equity holders of the parent	718.2	1.5	618.5	1.9	609.3	2.6
Attributable to noncontrolling interest	1.4	-	(32.6)	(0.1)	(3.4)	0.0

(1) Includes the results of operations of Viavarejo as from July 1, 2009 and Nova Casa Bahia as from November 1, 2010.

(2) Includes the results of operations of Viavarejo as from July 1, 2009.

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 Ponto Frio 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 cash-and-carry 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 cash-and-carry 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.

Equity pickup 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, (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 valuation allowance 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 Ponto Frio stores and our E-commerce operations allowed scale gains with suppliers and access to better assortment, (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 *Mini Mercado Extra*, *Extra Supermercado* and *Extra Hipermercado*).

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, (iii) the launch of Mini Mercado 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; (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, (ii) R\$34.7 million of costs of discounted 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.

Cash -and-Carry Segment

As of December 31, 2011, the *Assaí* banner represented our cash-and-carry segment.

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 cash-and-carry 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 *Ponto Frio* 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 Ponto Frio 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 their operations through the discount 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; 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 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 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 Nova Casas Bahia.com.br, 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 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 was 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.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Consolidated

Net sales. Net sales increased by 38.4%, or R\$8,898.9 million, from R\$23,192.8 million in 2009 to R\$32,091.7 million in 2010, due to R\$3,017.0 million from the consolidation of the results of operations of Ponto Frio stores and PontoFrio.com.br in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements, and R\$2,507.3 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010. Beside the effects of these consolidations, the increase in net sales was mainly due to (i) increased same-stores sales in all business segments in the amount of R\$2,008.9 million and (ii) the opening of new stores in the food retail and cash-and-carry segment, which net sales totaled R\$516.0 million.

Gross profit. Gross profit increased by 37.7%, or R\$2,151.2 million, from R\$5,699.0 million in 2009, to R\$7,850.2 million in 2010, mainly due to R\$727.1 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010 and to R\$595.1 million from the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements. Beside the effects of these consolidations, the increase in gross profit was also due to increased sales in the food retail and cash-and-carry segments. Our gross margin remained relatively stable from 24.6% in 2009 to 24.5% in 2010. While there was an increased participation in net sales of the cash-and-carry segment, a business segment with lower margins, from 8.5% in 2009 to 9.2% in 2010, we increased sales in the home appliance segment, a business segment with higher margins, driven by the FIFA Soccer World Cup, leading to higher sales in this segment.

Selling, general and administrative expenses increased by 38.1%, or R\$1,605.1 million, from R\$4,212.1 million in 2009 to R\$5,817.2 million in 2010, mainly due to R\$629.3 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010 and R\$473.3 million from the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements. Besides the effects of these consolidations, the increase in selling, general and administrative expenses was also due to increased sales in the food retail segment. Selling, general and administrative expenses as a percentage of net sales remained stable, at 18.2% in 2009 and 18.1% 2010.

Depreciation and amortization decreased by 3.0%, or R\$13.8 million, from R\$459.9 million in 2009 to R\$446.1 million in 2010. The R\$13.8 million represents the net result between the change in the estimate of useful life of certain property and plant assets during 2010, which resulted in an amount of R\$90.9 million related to the extension of the useful life of those assets, and the increase of R\$104.7 million related to the opening of new stores, the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements, and the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010.

Other operating expenses, net increased by 64.2%, or R\$50.0 million, from R\$77.9 million in 2009 to R\$127.9 million in 2010. Other operating income decreased in 2010 compared with 2009. In 2009, we received a non-recurring payment of R\$600.0 million from Itaú Unibanco related to the amendment of the FIC partnership and we also recorded revenue from extemporaneous tax credits, while in 2010 other operating income consisted primarily of a R\$351.7 million gain resulting from the association with Nova Casa Bahia. In addition, other operating expenses decreased in 2010 compared with 2009. In 2009, we incurred other greater operating expenses mainly due to the write-off of unrealizable tax credits and effects of the enrollment in the tax installment payment program (REFIS). In 2010, other operating expenses consisted primarily of additional provisions for contingencies.

Net financial expenses increased by 223.4%, or R\$568.5 million, from R\$254.5 million in 2009 to R\$823.0 million in 2010, mainly due to R\$146.7 million from the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements, and R\$125.4 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010. The increase resulted primarily from the sale by Viavarejo (*Ponto Frio*) and Nova Casa Bahia of receivables at a discount to third parties to meet working capital needs in the home appliance segment. The discount is considered a financial expense. We expect Nova Casa Bahia and Viavarejo (*Ponto Frio*) to continue financing their operations through sale of receivables.

Besides the consolidation of the *Ponto Frio* stores and PontoFrio.com.br and Nova Casa Bahia, the increase in net financial expenses was also due to a R\$870.0 million increase in the average notional amount of net debt to support opening of new stores and acquisitions, combined with an increase of 0.05% in the base interest rate.

Equity pickup increased from R\$5.4 million in 2009 to R\$34.5 million in 2010 due to (i) the increase in the number of FIC's customers, (ii) the capture of synergies with Banco Investcred, (iii) the beginning of private label card operations since the third quarter of 2009, and (iv) the launch by FIC of new products related to credit cards, such as personal credit and payment of invoices in installments, among others, which increased our profitability.

Profit before income taxes and noncontrolling interest decreased by 4.2%, or R\$29.5 million, from R\$700.0 million in 2009 to R\$670.5 million in 2010 due to the decrease in other operating expenses, net and the effect of the change in the useful life of certain assets on depreciation, partially offset by the increase in net financial expenses primarily as a

result of the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br and Nova Casa Bahia, as mentioned above.

Income and social contribution taxes decreased R\$9.4 million, from R\$(94.0) million in 2009 to R\$(84.6) million in 2010, due to an increase in non-taxable income primarily as a result of increased equity pickup and other permanent differences. The effective tax rate on December 31, 2010 was 12.6% while in 2009 it was 13.4%.

Net income decreased by 3.3%, or R\$20.1 million, from R\$606.0 million in 2009 to R\$585.9 million in 2010, due to the gain resulting from the association with Nova Casa Bahia, the decrease in other operating expenses, net and the effect of the change in the useful life of certain assets on depreciation, partially offset by the increase in financial expenses primarily as a result of the effect in 2010 of the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br and Nova Casa Bahia, as mentioned above.

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, 2010, the food retail segment was comprised of the banners *Pão de Açúcar*, *Comprebem*, *Sendas* and *Extra* (including *Mini Mercado Extra*, *Extra Supermercado* and *Extra Hipermercado*).

Net sales increased by 10.9%, or R\$2,018.5 million, from R\$18,524.2 million in 2009 to R\$20,542.7 million in 2010 due to (i) an increase in sales resulting from the conversion of 93 *CompreBem* and *Sendas* stores into *Extra Supermercado* stores, which changed the mix of products at recently converted *Extra Supermercado* stores to meet increased demand for higher added value products from customers who migrated from lower income classes to lower-middle income classes, (ii) the more than 15% increase in sales from 2009 to 2010 at drugstores and of higher margin products, principally at our *Extra* stores, such as textile products and other general merchandise, (iii) the opening of 47 stores, and (iv) an increase in same-store sales of 10.5%, partially explained by the effect of a higher inflation rate of 5.91% for the 12 months.

Gross profit increased by 11.3%, or R\$559.5 million, from R\$4,965.2 million in 2009 to R\$5,524.7 million in 2010 due to (i) the increase in sales as a result of the opening of new stores, combined with the conversion of *CompreBem* stores into *Extra Supermercado* stores, (ii) the negotiation of better terms and conditions with suppliers, and (iii) improved operational and sales management due to the implementation of the software DemandTec, which assisted us in determining price elasticity for our products and served to increase margins.

Depreciation and amortization decreased by 14.6%, or R\$60.7 million, from R\$415.5 million in 2009 to R\$354.8 million in 2010. This positive effect resulted from the change in the estimate of the useful life of certain property and plant assets during 2010.

Operating profit increased by 15.6%, or R\$149.0 million, from R\$957.3 million in 2009 to R\$1,106.3 million in 2010 due to (i) increased sales through the opening of new stores, (ii) decreased expenses as a result of a stricter cost control, and (iii) a decrease in depreciation and amortization, explained above.

Net financial expenses increased by 85.6%, or R\$166.6 million, from R\$194.6 million in 2009 to R\$361.2 million in 2010. The increase was mainly due to an increase in financial expenses of 49.4%, or R\$213.6 million, from R\$432.6 million in 2009 to R\$660.0 million in 2010, primarily as a result of an increase in our net debt to support our expansion. Net debt interest expenses increased R\$169.0 million, caused by (i) a R\$500.0 million increase in the

average notional amount of net debt, combined with an increase of 0.05% in the base interest rate and (ii) an increase of R\$24.0 million in the sale of receivables.

Profit before income and social contribution taxes and noncontrolling interest increased by 0.4%, or R\$3.3 million, from R\$763.4 million in 2009 to R\$766.7 million in 2010 due to (i) increased sales through the opening of new stores, (ii) decreased expenses as a result of a stricter cost control, and (iii) a decrease in depreciation and amortization, explained above. The increase in profit before income and social contribution taxes and noncontrolling interest was partially offset by an increase in net financial expenses.

Cash -and-Carry Segment

As of December 31, 2010, the *Assaí* banner represented our cash-and-carry segment.

Net sales increased by 48.5%, or R\$961.2 million, from R\$1,981.8 million in 2009 to R\$2,943.0 million in 2010 mainly due to (i) the opening of 17 stores, (ii) the maturation of 12 stores opened in 2009, (iii) increased sales driven by favorable macro-economic conditions that benefited restaurants and similar businesses, which are the main target customers of the cash-and-carry segment, and (iv) the effect of a higher inflation of 5.91%.

Gross profit increased by 44.8%, or R\$130.4 million, from R\$291.3 million in 2009 to R\$421.7 million in 2010 due to the effects of our expansion plan and negotiation of better terms and conditions with suppliers.

Depreciation and amortization increased by 104.1%, or R\$12.6 million, from R\$12.1 million in 2009 to R\$24.7 million in 2010 due to the opening of new stores and the conversion of stores to the *Assaí* banner.

Operating profit increased by 58.5%, or R\$23.1 million, from R\$39.5 million in 2009 to R\$62.6 million in 2010 due to increased gross profit and continued cost control management.

Net financial expenses increased by 404.3%, or R\$37.2 million, from R\$9.2 million in 2009 to R\$46.4 million in 2010. Financial expenses increased by 405.7%, or R\$43.0 million, from R\$10.6 million in 2009 to R\$53.6 million in 2010, mainly due to (i) a R\$150.0 million increase in the average notional amount of net debt to support our expansion, (ii) an increase of monetary correction primarily on judicial deposits and provisions for contingencies, and (iii) an increase in the sale of receivables.

Profit before income and social contribution taxes and noncontrolling interest decreased by 46.5%, or R\$14.1 million, from R\$30.3 million in 2009 to R\$16.2 million in 2010 due to higher financial expenses, as mentioned above.

Home Appliance Segment

As of December 31, 2010, our home appliance segment was comprised of the banners *Ponto Frio* and *Casas Bahia*.

Net sales increased by 225.8%, or R\$4,784.9 million, from R\$2,118.8 million in 2009 to R\$6,903.7 million in 2010, mainly due to R\$2,447.7 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010 and to R\$2,417.5 million from the consolidation of the results of operations of *Ponto Frio* stores in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements. Besides the effects of the consolidations, the increase was also due to (i) increased sales of electronic products, driven by the FIFA Soccer World Cup, (ii) a 24.1% increase in same-stores sales and favorable Brazilian macro-economic conditions, which benefitted the low income classes of the Brazilian population, increasing its purchasing power and access to credit.

Gross profit increased by 309.0%, or R\$1,229.3 million, from R\$397.8 million in 2009 to R\$1,627.1 million in 2010, mainly due to R\$709.7 million from the consolidation of Nova Casa Bahia's results of operations in our financial statements as from November 1, 2010 and to R\$498.0 million from the consolidation of the results of operations of *Ponto Frio* stores in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements. Gross margin increased from 18.8% in 2009 to 23.6% in 2010, primarily as a result of the beginning of the integration of Nova Casa Bahia, which has higher margins, and the achievement of synergies.

Depreciation and amortization increased by 152.5%, or R\$38.9 million, from R\$25.5 million in 2009 to R\$64.4 million in 2010, due to an increase in the number of stores resulting from the integration of 526 *Casas Bahia* stores and the conversion of 44 *Extra Eletro* stores into *Ponto Frio* stores.

Operating profit increased R\$255,2 million, from R\$(42.5) million in 2009 to R\$212.7 million in 2010, mainly due to sales growth, an improved gross margin, and our continued cost control management.

Net financial expenses increased by 962.7%, or R\$314.8 million, from R\$32.7 million in 2009 to R\$342.2 million in 2010. Financial expenses increased by 768.8%, or R\$332.9 million, from R\$43.3 million in 2009 to R\$376.2 million in 2010, mainly due to R\$122.7 million from the consolidation of Nova Casa Bahia's results of operations as from November 1, 2010 in our financial statements and to R\$120.9 million from the consolidation of the results of operations of *Ponto Frio* stores in our results of operations for the full fiscal year, while in 2009 there were only six months of consolidation of these results of operations in our financial statements. Besides the effects of the consolidations, the increase was also due to a R\$220.0 million increase in the average notional amount of net debt.

To meet working capital needs, Nova Casa Bahia and Viavarejo assigned to third parties at a discount or sold part of its installment payment receivables, which generates financial expenses. We expect Nova Casa Bahia and Viavarejo to continue financing their working capital through sale of receivables.

Profit (loss) before income and social contribution taxes and noncontrolling interest increased by 22.2%, or R\$21.2 million, from R\$(95.4) million in 2009 to R\$(116.6) million in 2010 due to sales growth, an improved gross margin as a result of the integration with Nova Casa Bahia and consolidation of Viavarejo (*Ponto Frio*) for the full fiscal year, and continued cost control management. This increase was offset by the increase in net financial expenses.

E-commerce Segment

As of December 31, 2010, our e-commerce segment consisted of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br and CasasBahia.com.br; wholesale activities (B2B), and E-Hub.

Net sales increased by 172.2%, or R\$1,076.8 million, from R\$625.5 million in 2009 to R\$1,702.3 million in 2010 mainly due to (i) the transfer of the website operation Extra.com.br in April 2010 to the e-commerce segment, (ii) the consolidation in the e-commerce segment of the results of operations of CasasBahia.com.br, (iii) the incorporation of the B2B business in this segment, (iv) increased sales as a result of synergies from the joint operations of Extra.com.br and PontoFrio.com.br, which benefited from each others' expertise and strengths, especially in the mix of products, and (v) continued good performance of the PontoFrio.com.br.

Gross profit increased by 170.6%, or R\$174.4 million, from R\$102.2 million in 2009 to R\$276.6 million in 2010 due to sales growth and integration of the platforms. Gross margin remained stable at 16.3%.

Depreciation and amortization decreased by 8.3%, or R\$0.2 million, from R\$2.4 million in 2009 to R\$2.2 million in 2010 due to loss investments in fixed assets.

Operating profit increased R\$95.0 million, from R\$(17.6) million in 2009 to R\$77.4 million in 2010 due to (i) the reorganization in the e-commerce operations within the Pão de Açúcar Group, (ii) the B2B business incorporated in this new segment, and (iii) increased sales as a result of synergies from the joint operations of Extra.com.br and PontoFrio.com.br, which benefited from each others' expertise and strengths, especially in the mix of products.

Net financial expenses increased by 398.0%, or R\$58.5 million, from R\$14.7 million in 2009 to R\$73.2 million in 2010. Financial expenses increased by 400.0%, or R\$58.8 million, from R\$14.7 million in 2009 to R\$73.5 million in 2010 due to sale of receivables to support working capital needs. Working capital was necessary for the expansion of operations in this segment.

Profit (loss) before income and social contribution taxes and noncontrolling interest was R\$(18.4) million in 2009 compared to R\$4.2 million in 2010 due to the expansion of the operations in this segment, as mentioned above.

5B. Liquidity and Capital Resources

We have funded our operations and capital expenditures mainly from our operating cash flow, loans from the Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, issuances of debentures and loans from banks. In addition, we fund our working capital needs through a receivables securitization investment fund (PAFIDC), Globex FIDC and also sale of receivables with financial institution.

As of December 31, 2011, we had R\$4,970.0 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents to respond to short-term liquidity requirements.

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;
- receivables from clients;
- 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\$1,128.1 million in 2011, R\$361.4 million in 2010 and R\$1,842.8 million in 2009. Net cash provided by financing activities was R\$1,649.4 million in 2011, R\$2,542.7 million in 2010 and R\$512.4 million in 2009. In 2011, these cash flows were primarily used for investments in the capital expenditures program, totaling R\$1,631.8 million.

As of December 31, 2011, our total outstanding debt was R\$11,158.4 million, consisting of:

- R\$9,791.4 million in *real*-denominated loans, and
- R\$1,367.0 million in U.S. dollar-denominated debt.

We have adopted a treasury policy to manage financial market risk, principally by entering into swaps in *reais* for more than 95% of our U.S. dollar denominated liabilities. 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.

We may in the future enter into cross-currency swap agreements and other swap transactions to manage our remaining exposure to foreign currency liabilities, namely our import-finance credit lines.

Total debt as of December 31, 2011 increased by 31.2% or R\$2,651.3 million, from R\$8,507.1 million in 2010 to R\$11,158.4 million in 2011. The most significant part of our debt was incurred in connection with the acquisition and construction of new stores, and with the remodeling of the existing stores. Our cash interest expense was R\$336.1 million in 2011 and R\$182.8 million in 2010.

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(c) 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 0.40 and current ratio (current assets/current liabilities) equal to or in excess of 1.05.

We issued a number of non-convertible debentures between 1997 and 2011.

On March 27, 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 are indexed to the average CDI rate and accrue an annual spread of 0.5%, which is payable semi-annually. The principal amount was repaid in three equal installments on March 1, 2010, 2011 and 2012.

On June 08, 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 are indexed to the average CDI rate and accrue an annual spread of 19% which will be payable on the maturity date.

On December 4, 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 are indexed to the average CDI rate and accrue an annual spread of 9.5%, payable on the thirty-sixth month after the issue date and annually thereafter.

On January 5, 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 are indexed to the average CDI rate and accrue an annual spread of 7.75% which will be payable on the maturity date.

On December 14, 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 are indexed to the average CDI rate and accrue an annual spread of 8.5% which will be payable on the maturity date.

As of December 31, 2011, we had 133,087 non-convertible debentures outstanding, totaling R\$2,639.4 million. We have to comply with certain negative 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 *Pão de Açúcar Fundo de Investimento em Direitos Creditórios*, or PAFIDC, a receivables securitization fund, with a term of duration until December 7, 2012. We transferred to PAFIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R\$9,477.4 million in 2011, R\$9,803.0 million in 2010. . For all securitizations, we retained servicing responsibilities and subordinated shares interests. The default credits will be collected by PAFIDC's

administrator, which will be assisted by our collection department. We do not receive fees for collection services. The quota holders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us. PAFIDC is consolidated into our financial statements.

On May 25, 2010, we organized *Globex Fundo de Investimento em Direitos Creditórios*, or Globex FIDC, a receivables securitization fund, with a term of duration until November 11, 2013 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\$3,948.5 million in 2011 and R\$390.7 million in 2010. The fund equity structure as of December 31, 2011 was composed of 11,666 senior equity interests held by third parties, amounting to R\$1,184.5 million, representing 85% of the fund equity and 1,910 subordinated equity interests held by Viavarejo and its subsidiaries, amounting to R\$209.1 million, accounting for 15% of the fund's net assets.

The outstanding balances of these receivables in PAFIDC and Globex FIDC at December 31, 2011, net of allowance, were R\$ 2,558,726, as compared to R\$ 1,667,029 in December 31, 2010.

Capital expenditures

In 2011, our capital expenditures totaled R\$1,723.4 million. These investment projects were financed primarily with our operating cash flow and, to a lesser extent funded by third parties. Our capital expenditures were R\$1,521.7 million in 2010. For specific use of our capital expenditures in 2011, 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 policies.

5D. Trend Information

Based on our good performance in 2011, we expect 2012 to be a year of continued growth for the Company.

For 2012, the Pão de Açúcar Group 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.

5F. Tabular disclosure of contractual obligations

The following table summarizes significant contractual obligations and commitments as of December 31, 2011:

Contractual Obligations	Total	Payment Due by Period			
		Less than one	One to three	Three to five	After five
		year	years	years	years
		(in millions of R\$)			
Long-term debt	8,269.1	4,313.4	3,568.8	386.9	-
Debentures	2,639.3	501.8	1,337.5	800.0	-
Estimated interest payments (1)	(28.8)	18.3	(44.1)	(3.0)	
Taxes, other than on income	1,463.0	171.2	218.3	218.3	855.2
Financial lease	276.3	81.6	110.3	42.6	41.8
Operating lease (2)	7,357.5	940.6	1,222.5	1,222.5	3,972.0
Total contractual obligations	19,976.4	6,026.9	6,413.3	2,667.3	4,869.0

(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, 2011. However, our long-term 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:

Name	Position	Since	Date of Birth
Abilio dos Santos Diniz	Chairman	2003	12/28/1936
Ana Maria Falleiros dos Santos Diniz D'Avila	Director	2003	7/28/1961
João Paulo Falleiros dos Santos Diniz	Director	1999	09/19/1963
Pedro Paulo Falleiros dos Santos Diniz	Director	2003	05/22/1970
Geyze Marchesi Diniz	Director	2005	04/11/1972
Jean-Charles Henri Naouri	Director	2005	03/08/1949
Candido Botelho Bracher	Director	2005	12/05/1958
Fábio Schvartsman	Director	2007	02/25/1954
Guilherme Affonso Ferreira	Director	2008	05/09/1951
Jean Louis Bourgier	Director	2009	11/17/1947
Antoine Marie Remi Lazars Giscard D'Estaing	Director	2009	01/05/1961
Pedro Henrique Chermont de Miranda	Director	2009	8/24/1973
Arnaud Strasser	Director	2010	07/06/1969
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. Since 1999, he is also a member of the board of directors of the Casino Group. 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.

Mrs. Ana Maria Falleiros dos Santos Diniz D'Ávila has been a member of our board of directors since 2003. Prior to this date she was our chief operations officer and responsible for the human resources, marketing and consumer services departments. She is a founding partner of Sykué Bioenergia and also founder of Axialent do Brasil. Ms. D'Ávila holds a bachelor's degree in business administration from Fundação Armando Álvares Penteado (FAAP) and a postgraduate degree in marketing from Fundação Getúlio Vargas. She graduated in owner/president management from Harvard Business School. She is involved in several educational projects including *Todos Pela Educação* and *Parceiros da Educação*. Mrs. Diniz D'Ávila is Mr. Abilio Diniz's daughter.

Mr. João Paulo Falleiros dos Santos Diniz has been a member of our board of directors since 1999. Mr. João Paulo Diniz started his career in the Company in 1985 and was director of development and new businesses and director responsible for our affiliated companies and international division, having also been responsible for the Company's assets. Mr. Diniz holds a bachelor's degree in business administration from Fundação Getúlio Vargas and has attended the London Business School. Mr. João Paulo Diniz is Mr. Abilio Diniz's son.

Mr. Pedro Paulo Falleiros dos Santos Diniz has been a member of our board of directors since 2003. Mr. Pedro Paulo is a businessman, and shareholder of PPD Holding, an investment company, in addition to being partner and co-founder of Greentech, an investment fund that invests in environmentally friendly, clean technology companies including Sucral, Sykué, Veridas, Panozon, GT Water and Brazil Timber. He has also founded companies in the gastronomy and leisure sector. Mr. Pedro Paulo Diniz is Mr. Abilio Diniz's son.

Mrs. Gezye Marchesi Diniz has been a member of our board of directors since 2005. Mrs. Marchesi Diniz is the owning-partner of ING11 Consultoria Empresarial e Planejamento Estratégico Ltda. She holds a bachelor's degree in economy from Universidade Mackenzie, and an MBA in business management from Fundação Getúlio Vargas. Mrs. Marchesi Diniz is Mr. Abilio Diniz's wife.

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. Candido Botelho Bracher has been a member of our board of directors since 2005. Mr. Bracher was a director of Banco Itamarati S.A. and Vice President of BADESP – Banco de Desenvolvimento do Estado de São Paulo S.A. Mr. Bracher is CEO of Banco Itaú BBA S.A. Mr. Bracher has a degree in Business Administration from Fundação Getúlio Vargas.

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 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. 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. 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 (Ponto Frio), Ponto Frio.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. Arnaud Strasser has been 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. 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:

Name	Position	First Year Elected	Date of Birth
Enéas César Pestana Neto	Chief Executive Officer	2010	2/27/1963
José Roberto Coimbra Tambasco	Executive Vice-President of Retail Business	2010	11/04/1956
Hugo Antonio Jordão Bethlem	Executive Vice-President of Corporate Relations	2010	10/16/1958
Antonio Ramatis Fernandes Rodrigues.	Executive Vice-President of Commercial Strategy, Supply Chain and IT	2011	12/27/1961
José Antônio de Almeida Filippo	Corporate and Finance Services Officer	2011	10/27/1960
Caio Racy Mattar	Executive Vice-President of Specialized Businesses	2010	05/22/1957
Sylvia de Souza Leão Wanderley	People Officer	2010	03/09/1962
Marcelo Lopes	Supply Chain Officer	2010	09/01/1967
Paulo Gualtieri	Control and Management Officer	2011	01/25/1960
Andelaney Carvalho dos Santos	IT Officer	2011	11/05/1967
Vitor Fagá de Almeida	Investor Relations Officer	2010	04/23/1975

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. José Roberto Coimbra Tambasco has been our Executive Vice-President of Retail Business. 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. Hugo A. Jordão Bethlem has been our Executive Vice-President of Corporate Relations. Mr. Bethlem began his career with us in 2001 and since then has worked as our Commercialization Officer, Commercial Officer, executive Officer of CompreBem and Sendas unities and Supply Chain and IT Vice-President. Mr. Bethlem was the Commercial Officer of DiCicco, Jerônimo Martins, Parque Temático Play Center and *Carrefour*. Mr. Bethlem has a degree in Business Administration from Faculdades Metropolitanas Unidas – FMU and has a post-graduate degree in Administration from Cornell University and has been our executive officer since 2003.

Mr. Antonio Ramatis Fernandes Rodrigues has been our Executive Vice-President of Commercial Strategy. Mr. Rodrigues was the Commercial and Marketing vice-chairman of Grupo Bom Preço, the Commercial and Logistics vice-chairman of Grupo Sonae and the Commercial vice-chairman of C&A. Mr. Rodrigues has a degree in engineering from Fundação Armando Álvares Penteado – FAAP and holds a master degree in business administration from Universidade de São Paulo.

Mr. Jose Antônio de Almeida Filippo has been our Corporate and Finance Services Officer since 2010. Prior to joining our Company in 2010, he worked for Gafisa S.A, Reinolds LATASA and Ingersoll-Rand in various executive financial positions. From 2004 until prior to joining us in 2010 he was Vice President of Finance and head of Investor Relations at CPFL Energia. Mr. Filippo graduated from the UFRJ with a degree in civil engineering, earned a finance post-graduate degree at IAG/PUC-RJ, and a specialization in management from IBMEC and Harvard Business School.

Mr. Caio Racy Mattar has been our Executive Vice-President of Specialized Businesses. He previously served as a member of the executive office of Reúne Engenharia e Construções Ltda., he is the chairman of Gafisa S.A. and he is also a member of the board of directors of Paramount Lansul S.A.. Mr. Mattar has an engineering degree from Instituto de Engenharia Paulista and has attended the London Business School. Mr. Mattar began his career with us in 1993 and has been our executive officer since 1995.

Mrs. Sylvia de Souza Leão Wanderley has been our People Officer since 2008. In 2000, Mrs. Leão began working at our Company as a commercial director. Prior to joining our Company, she worked as a Commercial and Marketing Director for Wal Mart and has also worked for Mesbla. Mrs. Leão has a degree in Social Communications from FACHA and an Executive MBA from UFRJ.

Mr. Marcelo Lopes has been our Supply Chain Officer since 2010. Mr. Lopes has worked for us since 2001, operating in the logistics and supply chain areas. He worked at São Paulo Alpargatas, operating in the industrial and commercial areas. He graduated in Business Administration from Unicapital and took specialization courses at Coppead and Fundação Getúlio Vargas.

Mr. Paulo Gualtieri has been our Control and Management Officer since 2010. Mr. Paulo 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. Andelaney Carvalho dos Santos has been our IT Officer since May 2011. He was IT Officer at Holcim, Sadia and Carrefour. He has a degree in Computer Sciences, an Executive MBA from Fundação Getúlio Vargas and specialization degrees in leadership, management and processes.

Mr. Vitor Fagá de Almeida has been our Investor Relations Officer since August, 2010. Before joining GPA, Mr. Fagá was Chief Financial Officer at Medial Saúde, M&A and Investor Relations Officer at Julio Simões Logística, Investor Relations Officer at CPFL Energia and strategic consultant at BCG – The Boston Consulting Group. He is also a member of the Brazilian Investor Relations Institute (IBRI), where he acted as Chief Financial Officer as well as Vice-President/SP.

6B. Compensation

For the year ended December 31, 2011, the aggregate compensation paid in cash to the directors, executive officers and members of the committees of CBD was R\$69.8 million. Non-cash benefits in 2011 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, 2011, amounted to R\$2,791 million and employees' contributions amounted to R\$3,990 million with 881 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 Pão de Açúcar Group, 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 2010, 2011, and 2012

The table below indicates the compensation for members of the board of directors, executive officers and fiscal council for 2010:

	Board of Directors	Executive Officers	Fiscal Council	Total
		<i>(In R\$, when applicable)</i>		
Number of members ⁽¹⁾	14	11	3	28
Fixed Annual Compensation	-	13,033,027	432,000	13,465,027
Benefits	-	1,875,566	-	1,875,566
Base Compensation	-	-	-	-
Others	-	-	-	-
Variable Compensation				
Bonus	-	-	-	-
Profit Sharing	-	23,789,333	-	23,789,333
Participation in Meetings	7,198,600	-	-	7,198,600
Participation in Committee Meetings	-	-	-	-
Commissions	-	-	-	-
Others (Invitees' Compensation)	101,000	-	-	101,000
Post-Employment Benefit				
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation ⁽²⁾	-	14,742,400	-	14,742,400
Total Compensation	7,299,600	53,440,326	432,000	61,171,926

(1) The number of members of our management informed in the above table represents the average annual number of members of each body ascertained on a monthly basis.

(2) Compensation referring to achieving the goals established for previous years, to be recognized in the results for the year ended December 31, 2010, in line with current policy.

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

	Board of Directors	Executive Officers	Fiscal Council	Total
		<i>(In R\$, when applicable)</i>		
Number of members	14	11.67	3	28.67
Fixed Annual Compensation	-	14,510,921	432,000	14,942,921
Benefits	-	2,012,539	-	2,012,539
Base Compensation	-	-	-	-
Others	-	-	-	-
Variable Compensation				

Bonus	-	-	-	-
Profit Sharing	-	23,149,407	-	23,149,407
Participation in Meetings	7,537,000	-	-	7,537,000
Commissions	-	-	-	-
Others (Invitees' Compensation)	37,397	-	-	37,397
Post-Employment Benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation ¹	-	13,132,702	-	13,132,702
Total Compensation	7,574,397	52,805,569	432,000	60,811,966

(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 estimated compensation for members of the board of directors, executive officers and fiscal council for 2012:

	Board of Directors	Executive Officers	Fiscal Council	Total
		<i>(In R\$, when applicable)</i>		
Number of members	14	12	3	29
Fixed Annual Compensation	-	16,401,580	504,000	16,905,580
Benefits	-	2,774,395	-	2,774,395
Base Compensation	-	-	-	-
Others	-	-	-	-
Variable Compensation				
Bonus	-	-	-	-
Profit Sharing	-	25,610,114	-	25,610,114
Participation in Meetings	7,768,400	-	-	7,768,400
Commissions	-	-	-	-
Others (Invitees' Compensation)	67,800	-	-	67,800
Post-Employment Benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation ¹	-	16,642,548	-	16,642,548
Total Compensation	7,836,200	61,428,637	504,000	69,768,837

(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 2010, 2011 and 2012

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 2010 and 2011 and expected to be paid in 2012.

Amounts referring to the year 2010

	Executive Officers
	<i>(In R\$, when applicable)</i>
Number of members ¹	11
Bonus	
Minimum expected amount	-
Maximum expected amount	-
Expected amount– goals achieved	-
Amount actually recognized	-
Profit sharing	
Minimum expected amount	-
Maximum expected amount	27,000,000

Expected amount – goals achieved	18,000,000
Amount actually recognized	23,789,333

(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.

Amounts referring to the year 2011

	Executive Officers <i>(In R\$, when applicable)</i>
Number of members ¹	11.67
Bonus	
Minimum expected amount	-
Maximum expected amount	-
Expected amount– goals achieved	-
Amount actually recognized	-
Profit sharing	
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.

Amounts projected for the year 2012

	Executive Officers <i>(In R\$, when applicable)</i>
Number of members	12
Bonus	
Minimum expected amount	-
Maximum expected amount	-
Expected amount – goals achieved	-
Profit sharing	
Minimum expected amount	-
Maximum expected amount	30,732,136
Expected amount– goals achieved	25,610,114

Stock Option Plan for Board of Directors and Executive Officers

As of December 31, 2011, 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, 2011, the options granted under the Series A2 to A5 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:

Principal 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 11,617,748 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 adherence 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, 2011.

Number of members benefiting from the granting of stock options: 12

In relation to options not yet exercisable:	Series A3 – Gold	Series A3 – Silver	Series A4 – Gold	Series A4 – Silver	Series A5 – Gold	Series A5 – Silver
Quantity (in thousand)	218.0	218.0	173.4	43.2	156,3	156.4
Vesting date	05/31/2012	05/31/2012	05/31/2013	05/31/2013	05/31/14	05/31/14
Maximum deadline for exercising the options	05/31/2013	05/31/2013	05/31/2014	05/31/2014	05/31/2015	05/31/2015
Weighted average exercise price (in R\$, per share)	0.01	27.47	0.01	N/A	0,01	54,69
Fair value of the options on the last day of the year (in R\$, per share)	0.01	27.47	0.01	46.49	0,01	54,69
In relation to exercisable options:						
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
Weighted average exercise price (in R\$, per share)	N/A	N/A	N/A	N/A	N/A	N/A
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
Fair value of the options on the last day of the	N/A	N/A	N/A	N/A	N/A	N/A

year (in thousand
R\$)

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 2011.

Number of members benefiting from the granting of stock options: 12

In relation to the options exercised and the shares delivered:	Series A3 – Gold (1st tranche)	Series A3 – Silver (1st tranche)	Series A4 – Gold (5th tranche)	Series A4 – Silver (5th tranche)	Series A5 – Gold (1st tranche)	Series A5 – Silver (1st tranche)
Number of shares (in thousand)	N/A	N/A	N/A	N/A	N/A	N/A
Weighted average exercise price (in R\$, per share)	N/A	N/A	N/A	N/A	N/A	N/A
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)	N/A	N/A	N/A	N/A	N/A	N/A

Insurance

We have an insurance policy with Itaú Seguros S.A., effective from November 23, 2011 through November 23, 2012, 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 supervising our management. Currently our board of directors consists of fourteen members elected by our shareholders, consisting of five representatives of the Diniz Family, four independent directors and five representatives of the Casino Group, whose terms of office expire in 2014. We are managed by our board of directors (*Conselho de Administração*) and by our board of executive officers (*Diretoria*). None of our directors and officers is party to an employment agreement providing for benefits upon termination of employment.

Mr. Abilio Diniz acts as the Chairman of our board of directors and is responsible for the general supervision of our strategy and activities and liaises between our board of directors and our board of executive officers. As Chairman of our board of directors, Mr. Abilio Diniz has a casting vote for matters in the regular course of our business.

Our board of executive officers is composed of at least two and up to 14 members, being one the Chief Executive Officer, five Vice Presidents, one Chief Financial Officer and further Executive Officers, elected by our board of directors. 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, 2012 our board of executive officers was composed of 11 members.

The responsibilities of our executive officers include adopting plans and rules 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 three special committees: (i) Human Resources and Compensation Committee; (ii) Financial Committee; and (iii) Sustainable Development 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, solely among its members, 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 Ana Maria Falleiros dos Santos Diniz D'Avila, Geyze Marchesi Diniz, Jean Louis Bourgier, Arnaud Strasser and Guilherme Affonso Ferreira.

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 Ana Maria Falleiros dos Santos Diniz D'Avila, João Paulo Falleiros dos Santos Diniz, Antonie Marie Remi Lazars Giscard d'Estaing and Arnaud Strasser.

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 Jean Louis Bourgier, Maria Silvia Bastos Marques, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Ulisses Kameyama, Guilherme Affonso Ferreira and Hélio Mattar, as independent advisor.

In addition, to the three special committees, we also have a fiscal council that serves as our audit committee and a stock option plan management committee. We set forth below a description of our fiscal council and stock option

Fiscal Council and Audit Committee

Under the 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; 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 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 board of auditors 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 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 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 the 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, the 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. The 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 is composed of three members who are elected at the annual shareholders' meeting, with terms lasting until the next annual shareholders' meeting after their election. Under the Brazilian corporate law, holders of preferred shares have the right to elect separately one member of the fiscal council. Also, under the Brazilian corporate law, minority groups of shareholders that hold at least 10% of the voting shares are entitled to elect one member of the fiscal council and his alternate by a separate vote. In any event, however, the common shareholders have the right to elect the majority of the members of the fiscal council. We set forth below the names, ages and positions of the members of our fiscal council and their respective alternates indicated by the Holding Company and elected with previous consent of our preferred shareholders on March 31, 2011, the date of the last annual shareholders' meeting.

Name	Age	Position	Year First Elected	Date of Birth
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
John Michel Pimenta de Moraes Streithorst..	42	Alternate	2009	02/09/1970
Antonio Luiz de Campos Gurgel	71	Alternate	2009	11/12/1940
Eduardo Cysneiros de Morais	37	Alternate	2011	09/21/1974

Fernando Maida Dall'Acqua, born in 1949, he has been Chairman of the Fiscal Council since 2009. He is currently the chairman of the Fiscal Council of Viavarejo, Board member and Audit Committee member at ISA-CTEEP and 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 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 also member of the Board of Directors and the Sarbanes-Oxley 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 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, and Professor of the School of Administration of São Paulo (Getulio Vargas Foundation). He was also a Fellow at Michigan State University, U.S.A.

Mario Probst, born in 1953, he 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 of Viavarejo, 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, begun 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. 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., member of the fiscal council and the audit committee of CBD - Companhia Brasileira de Distribuição and member of the fiscal council of Viavarejo. He is also officer at Holland-Brazil Commerce Chamber and 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.

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).

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.

Eduardo Cysneiros de Moraes, born in 1974, has been an alternate member of the Fiscal Council since 2011. He started his career in 1998 at Matrix Bank, as buy-side analyst. Worked for Claritas in March 2002 as Portfolio Manager, variable income analyst and became partner in 2005. He is currently an alternate member of the fiscal council of Viavarejo and member of the fiscal council of Taesa, Cremer and OHL and held in 2009 the same position in Medial and Cremer. He is also member of the AMEC's technical committee. He holds bachelor in economics at UFRJ and is certified at AMBIMA (CGA) and CFA.

Our board of directors has determined that we do not need to 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.

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 the Brazilian corporate law. Our stock option plan management committee is composed of Abilio dos Santos Diniz, Enéas César Pestana Neto, José Roberto Coimbra Tambasco, Caio Racy Mattar, José Antônio Almeida Filippo, Sylvia de Souza Leão Wanderley, Antonio Ramatis Fernandes Rodrigues and Claudia Elisa de Pinho Soares.

Advisory Board

In addition to the committees aforementioned, our by-laws provide for a non-permanent *ad hoc* advisory board, which whenever installed, must consist of up to 13 members, shareholders or not, elected by our annual shareholders' meeting, whose purpose is to make recommendations to our board of directors on measures to be taken in order to ensure the development of our businesses and activities, as well as render opinion on any matters submitted by our board of directors. Our advisory board meets semi-annually and, in extraordinary circumstances, whenever called by

the chairman of our board of directors. The current term of all members of our advisory board is three years, reelection being permitted, and the members may receive a compensation established by our general shareholders' meeting. Our currently installed advisory board was (first) elected by our shareholders in the shareholders' meeting held on April 30, 2008 and is comprised of the following members, most of them economists or former ministers of economy of Brazil: Luiz Carlos Bresser Gonçalves Pereira, Mailson Ferreira da Nóbrega, Roberto Teixeira da Costa, Manuel Carlos Teixeira de Abreu, Luiz Felipe Chaves D'Ávila, Luiz Marcelo Dias Sales and Yoshiaki Nakano.

6D. Employees

As of December 31, 2011, we had 149,070 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. We have not had strikes in our history.

The following table sets forth the number of our employees as of December 31, 2007, 2008, 2009, 2010 and 2011:

	As of December 31 ⁽¹⁾				
	2007	2008	2009	2010	2011
Operational	55,494	60,605	73,617	131,534	129,703
Administrative	10,671	10,051	11,627	13,380	19,367
Total	66,165	70,656	85,244	144,914	149,070

(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, 2011, our board members directly owned an aggregate amount of 4,388 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, 2012, our management and some of our employees also owned options to purchase an aggregate amount of 2,681,930 preferred shares at per-share weighted average purchase price of R\$24.76. 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, 2012 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	-	-	-	65,400,000	25.16
Península Participações Ltda (2)	-	-	2,622,182	1.63	2,622,182	1.01	1.01
Sudaco Participações S.A. (3)	28,619,178	28.71	3,091,566	1.93	31,710,744	12.18	12.18
Segisor S.A. (3)	-	-	5,091,754	3.17	5,091,754	1.96	1.96

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Casino Guichard Perrachon S.A (3)..	5,600,052	5.62	-	-	5,600,052	2.15
Bengal LLC (3)	-	-	1,550,000	0.97	1,550,000	0.60
Oregon LLC (3)	-	-	2,483,761	1.55	2,483,761	0.95
King LLC (3)	-	-	4,752,590	2.96	4,752,590	1.83
Lobo I LLC (3)	-	-	6,566,493	4.09	6,566,493	2.52
Pincher LLC (3)	-	-	1,550,000	0.97	1,550,000	0.60
Parker I LLC (3)	-	-	3,907,123	2.43	3,907,123	1.50
Abílio dos Santos Diniz	100	-	-	-	100	-
João Paulo F. dos Santos Diniz	-	-	17,893	0.01	17,893	0.01
Ana Maria F. dos Santos Diniz D' Avila	1	-	-	-	1	-
Pedro Paulo F. dos Santos Diniz	-	-	724	-	724	-
Jean-Charles Naouri	-	-	1	-	1	-
PAIC Participações Ltda (4)	-	-	652,140	0.41	652,140	0.25
Onyx 2006 Participações Ltda (5)	-	-	20,635,313	12.85	20,635,313	7.93
Rio Plate Empreendimentos e Participações Ltda (6)	-	-	4,076,494	2.54	4,076,494	1.57
Stanhore Trading Internacional S.A. (6)	-	-	7,398,417	4.61	7,398,417	2.84
Directors and Officers (7)	-	-	447,765	0.28	447,765	0.17
Others	60,520	0.06	95,750,586	59.62	95,750,586	36.81
TOTAL	99,679,851	100.0	160,594,802	100.0	260,274,653	100.00

(1) Península Participações S.A. and Sudaco Participações Ltda own 27% and 73%, respectively, of the capital stock of Wilkes Participações S.A..

(2) 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, Lobo I LLC, Pincher LLC and Parker I LLC are part of the Casino Group.

(4) Península Participações S.A. and Abilio Diniz own 92.38% and 7.62%, respectively, of the capital stock of PAIC Participações Ltda.

(5) Rio Plate Empreendimentos e Participações Ltda. and Abilio Diniz own 99.998% and .002%, respectively, of the capital stock of Onyx 2006 Participações Ltda.

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

(7) 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, Abilio Diniz is the beneficial owner of 2,14% of the total common shares, 2,69% of the total preferred shares and 2,48% of the total capital stock. Ana Maria Diniz, João Paulo Diniz and Pedro Paulo Diniz are the beneficial owners of 2,62% of the total common shares, 3,25% of the total preferred shares and 3,01% of the total capital stock. As of the date of this annual report, the Casino Group is the beneficial owner of 41,59% of the total capital stock of CBD.

On March 31, 2012, 63,760,086 of our preferred shares were held in the form of ADSs, representing 39.7% of the total of our preferred shares. None of our common shares are held in the form of ADSs.

Holding Company Goodwill Contribution of Deferred Tax Benefits

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

On December 31, 2011, the tax benefit related to both our income taxes and our social contribution tax on profits resulting from the Vieri goodwill was fully utilized, as compared to a balance of R\$104.9 million in 2010 and R\$208.7 million in 2009. See note 22(b) to our financial statements included elsewhere herein.

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 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.

In 2011, the economic benefits generated by the amortization of shareholder's premium was R\$97.8 million plus R\$103 million used on installment refers period of 2007, which will be submitted for approval at the annual shareholders' meeting on April 27, 2012. The remaining goodwill reserve balance as of December 31, 2011 is R\$238 million. See note 26(c) to our financial statements included in this annual report.

Shareholders' Agreements and Conditional Put Option Agreement

Since May 2005, the Diniz Family and the Casino Group has shared control over our Company through shared ownership of our Holding Company, which owns 65.6% of our voting shares. On November 27, 2006, the Diniz Family and the Casino Group entered into a conditional put option agreement, or the Conditional Put Option Agreement, which contemplates the conditional transfer of indirect equity interest in us from the Diniz Family to the Casino Group. At the same date, the Diniz Family and the Casino Group 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 Diniz Family and the Casino Group 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 Diniz Family and the Casino Group other than through the Holding Company. As of March 31, 2012, 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 34.33% of our outstanding common shares. At the same date, the Diniz Family did not hold common shares other than through the 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. See "Recent Developments Between Our Controlling Shareholders" below.

Holding Company Shareholders' Agreement

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

- appoint: (i) two directors of the board of directors of the Holding Company composed of four directors, and (ii) two executive officers of the Holding Company;
- appoint the Chairman of the board of directors of the Holding Company until the Casino Group exercises its option to appoint the Chairman of the Holding Company as described below;
- appoint five directors of our board of directors; and
- appoint the Chairman of our board of directors until June 21, 2012; from June 22, 2012, the appointment will alternate every three years between the two groups, and the Casino Group will have the right to the first alternate appointment for a term-in-office from June 22, 2012 to June 21, 2015; however, the Casino Group has agreed, for this first alternate appointment, that Mr. Abilio Diniz will continue as Chairman of our board of directors, provided that we maintain a good performance track record; moreover, for any subsequent terms as to which the Casino Group is entitled to name our Chairman, Casino has agreed that 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.

Pursuant to the Holding Company Shareholders' Agreement, the Casino Group is entitled to:

- appoint (i) two directors of the board of directors of the Holding Company composed of four directors, and (ii) two executive officers of the Holding Company;

- appoint the Chairman of the board of directors of the Holding Company for the remaining term of the Holding Company Shareholders' Agreement as from June 22, 2012;
- after June 22, 2014, the option to appoint the Chairman of the Holding Company if the Diniz Family transfers common shares of the Holding Company to a third party;

- the appointment by the Casino Group of the Chairman of the Holding Company in accordance with items above will entitle the Diniz Family to exercise the First Put Option;
- appoint five directors to our board of directors; and
- appoint the Chairman of our board of directors if, after June 22, 2014, the Diniz Family transfers any common shares of the Holding Company to a third party.

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.

The Diniz Family may not sell its shares of the Holding Company until June 21, 2014 (or, if the Casino Group exercises the Distressful Call Option or appoints the Chairman of the board of directors of the Holding Company at an earlier date, until the date of such appointment or exercise of the Distressful Call Option). 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.

If the Casino Group (i) appoints the Chairman of the board of directors of the Holding Company or (ii) exercises the Distressful Call Option, the Diniz Family's rights under the Holding Company Shareholders' Agreement will be limited to (y) 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 (z) certain election rights.

The Holding Company Shareholders' Agreement will remain in effect until June 21, 2045 or, subject to limited exceptions, terminates automatically in the event either of 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 Conditional Put Option Agreement grants, among other rights: (i) a first put option, or the First Put Option, and a second put option, or the Second Put Option, to the Diniz Family and (ii) a distressful call option, or the Distressful Call Option, to the Casino Group.

- **First Put Option:** in the event that the Casino Group elects the Chairman of the Holding Company from June 22, 2012, the Diniz Family will be entitled during a period of 60 days following the date Casino elected to appoint the chairman of the Holding Company board to cause the Casino Group to purchase for a fixed price a direct equity interest in the Holding Company corresponding to 1,000,000 shares of our issued and outstanding common shares.
- **Distressful Call Option:** in the event that CBD experiences a distressful situation as defined in the Conditional Put Option Agreement, the Casino Group will be entitled to cause the Diniz Family to sell for a fixed price a direct equity interest in the Holding Company corresponding to 1,000,000 shares of our issued and outstanding common

shares.

- Second Put Option: in the event that either of the First Put Option, the Security Call Option or the Distressful Call Option is exercised, the Diniz Family will be entitled to cause the Casino Group to purchase a direct equity interest in the Holding Company corresponding to 19,375,000 shares of our issued and outstanding common shares. The Second Put Option may be exercised through the exercise of the First Put Option, the Security Call Option or through the exercise of the Distressful Call Option during the period of eight years commencing on June 22, 2014.

The Conditional Put Option Agreement provides for the acceleration of the First Put Option and the 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.

Should the Diniz Family not be allowed under the terms of the Put Option Agreement to exercise the First Put Option and the Second Put Option, 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 First Put Option and the Second Put Option into preferred shares of CBD at the ratio of 915 preferred shares for 1,000 common shares.

The Holding Company Shareholders' Agreement (as described above) and the Conditional Put Option Agreement also grant the Casino Group, among other rights: (i) a conditional call option to acquire control of the Holding Company, or the Rearrangement Call Option and (ii) a call option to assure control of the Holding Company, or the Security Call Option, as follows:

- **Rearrangement Call Option:** in the event the Casino Group expresses its intention to appoint, after June 22, 2012, the chairman of the board of directors of the Holding Company and does not become the holder of more than 50% of the Holding Company's common shares within 60 days of that appointment, the Casino Group, after such period, will be entitled to cause the Diniz Family to sell one Holding Company common share.
- **Security Call Option:** in the event that the Casino Group attempts to exercise its right to appoint the Chairman of the Holding Company from June 22, 2012 and, for any reason, its appointee fails to be elected, the Casino Group will be entitled to buy the shares subject to the First Put Option.

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. Recent Developments Between Our Controlling Shareholders

On March 21, 2012, Casino informed us that it had sent a notice to the Diniz Family exercising its right to appoint, for compulsory election, on June 22, 2012, the chairman of the board of directors of the Holding Company. This action will result in the Casino Group becoming, through the Holding Company, the sole controlling shareholder of the Company, while Mr. Abilio dos Santos Diniz will be entitled to certain veto rights and other rights pursuant to the terms of the Shareholders' Agreements (for further information, see "Item 7A. Major Shareholders – Conditional Put Option Agreement and Shareholders' Agreements).

Under the terms of the Holding Company Shareholders' Agreement, Mr. Abilio Diniz has the right to remain chairman of our board of directors for as long as he is mentally and physically fit for the functions and as long as we maintain a

good performance track record.

7C. 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 24 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 two stores from Mrs. Floripes Pires Diniz, four stores from Mr. Arnaldo dos Santos Diniz, four stores from Mrs. Vera Lúcia dos Santos Diniz, 57 stores from the Sendas family and seven stores from Mrs. Sonia Maria dos Santos Diniz Bernardini and 62 stores from the Fundo de Investimento Imobiliário Península.

Aggregate payments in 2011 under those leases equaled approximately R\$17.5 million to the Diniz family, R\$34.5 million to the Sendas family and R\$148.5 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 24(b) 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.

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., 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 2011 under this agreement were approximately R\$537 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.

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\$2.7 million. The agreement will be automatically renewed in 2012 and will thereafter remain in force for an undetermined period of time.

7D. 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 a 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 our legal proceedings, see note 23 to our financial statements included in this annual report.

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

	2009	2010	2011
	(in millions of R\$)		
COFINS and PIS tax claims	161.4	104.5	78.1
Labor claims	103.1	110.6	132.9
Civil and other claims	117.5	129.4	123.1
Other tax claims	279.3	464.9	346.1
Total accrued liabilities for legal proceedings	661.3	809.4	680.2

Tax-related claims

Tax-related claims are indexed to the SELIC rate, which was 9.37% on December 31, 2010 and 11.04% on December 31, 2011, 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 contribution (*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 compensated certain PIS and COFINS with IPI tax credits acquired from third parties based on final court decisions. The value of the demands for PIS and COFINS as of December 31, 2011 was R\$78.1 million, compared to R\$104.5 million as of December 31, 2010.

Labor claims

We are party to numerous lawsuits involving disputes with employees, primarily arising from layoffs in the ordinary course of business. Excluding provisions recorded in Viavarejo as discussed below, at December 31, 2011, the Company recorded a provision of R\$118.6 million, as compared to R\$89.9 million in December 31, 2010, referring to lawsuits whose risk of loss was considered probable. Management, assisted by its legal counsels, evaluates these contingencies and provides for losses where reasonably estimable, bearing in mind previous experience in relation to the amounts sought. Labor claims are indexed to the Referential Interest Rate (“TR”) 1.20% accumulated in the year ended December 31, 2011 (0.69% in December 31, 2010) accrued of 1% monthly interest.

Labor provisions were recorded in Viavarejo subsidiary referring to contingent liabilities recognized upon business combination amounting to R\$14.3 million at December 31, 2011, as compared to R\$20.8 in December 31, 2010.

For further information on our tax-related claims, see note 23 to our financial statements included in this annual report.

Civil and other claims

We are a defendant 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. We set up a provision for the difference between the amount originally paid by the stores and that established temporarily in these lawsuits. In other lawsuits, we recorded a provision for the difference between the amount paid as provisional rent and that pleaded by the adversary party, based on a report prepared by the technical assistant of the adversary party, according to the probability of loss for each of the lawsuits. As of December 31, 2011, the provision for these lawsuits amounts to R\$21.9 million, as compared to R\$33.3 million as of December 31, 2010, for which there are no judicial deposits.
- Viavarejo is party in 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\$50.0 million at December 31, 2011, as compared to R\$35.1 million in December 31, 2010.
- Civil provisions were recorded at the subsidiary Viavarejo relating to contingent liabilities recognized at the time of the business combination in the amount of R\$6.5 million, as compared to R\$10.7 million as of December 31, 2010.

As of December 31, 2011, including the lawsuits mentioned above, we had provisioned for civil actions in the amount of R\$123.1 million, as compared to R\$129.4 million as of December 31, 2010.

Other tax claims

We have other tax claims which, after analysis of our legal counsel, were deemed as probable losses and accrued by the Company. These are: (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 (FAP); (iii) disagreement on the “*Fundo de Combate à Pobreza*” (State Government Fund Against Poverty), enacted by the Rio de Janeiro State government; (iv) question related to compensation of tax losses, as well as acquisition of

supplier considered disqualified at the registration of the Finance Secretary, error in application rate, ancillary obligations by state and treasury departments and (v) other less relevant issues. The amount recorded at December 31, 2011 is R\$161.5 million, as compared to R\$75.9 million in December 31, 2010.

In addition, the Company discusses in court the eligibility to not pay the contributions provided for by Supplementary Law 110/2001, referring to the FGTS (Government Severance Indemnity Fund for Employees) costs. The accrued amount at December 31, 2011 is R\$26.3 million, as compared to R\$31.1 million in December 31, 2010.

Tax provisions for contingent liabilities were recorded in our Globex subsidiary (currently Viavarejo), which are recorded upon business combination, according to IFRS 3 Business Combination requirements. The Company re-evaluated Viavarejo claims on the reference date of acquisition by CBD (July 6, 2009) and on December 31, 2011 the amount of R\$158.3 million was recorded, as compared to R\$159.2 million on December 31, 2010 in tax contingent liabilities.

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 incurring on coffee exports.

For further information on our tax-related claims, see note 23 to our financial statements included in this annual report.

Other contingent liabilities for which there are no provisions

As of December 31, 2011, 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 23(f) to our audited consolidated financial statements included in this annual report for detailed information on these proceedings.

Tax-Related Claims

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, 2011, the aggregate amount of the possible loss regarding these tax-related legal proceedings was R\$4,362.2 million, as compared to R\$2,844.2 million in 2010.

Other Legal Proceedings

We are a party to certain administrative proceedings and suits related to civil, consumer protection matters and labor claims. As of December 31, 2011, the aggregate amount of the possible loss regarding these proceedings was R\$414.3 million, as compared to R\$128.8 million in 2010.

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, 2011 was R\$1,463.0 million, as compared to R\$1,431.8 million in 2010.

Dividend Policy and Dividends

General

Pursuant to the 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 the 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 the Brazilian corporate law. Currently, the 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 the 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 the 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 2011, 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 2007

: Period	Description	First payment date	R\$ per		Total amount in dividends on shareholders' equity shares (in R\$ millions)
			preferred share	common share	
2007 ⁽¹⁾	Dividends	June 2008	0.2288	0.2080	50.1
2008	Dividends	June 2009	0.2735	0.2486	61.8
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 ⁽²⁾	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 ⁽³⁾	Dividends	To de determined	0.372950601	0.410245661	102.9

- (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 (PCAR5). 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 27, 2012.

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 depository, 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 depository, 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 depository 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.

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 on the Luxembourg Stock Exchange.

Our ADSs commenced trading on the NYSE in May 1997. As of December 31, 2011, the ADSs represented 39.8% 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\$(¹)		R\$ Average Daily Trading Volume
	High	Low	High	Low	
2007 ⁽²⁾	40.72	27.03	23.00	15.27	19,440,718
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:					
1st quarter	68.17	57.63	38.27	32.35	42,694,323
2nd quarter	64.09	54.40	35.51	30.14	46,772,924
3rd quarter	64.48	56.13	38.21	33.27	64,902,605
4th quarter	71.18	59.31	42.84	35.70	49,312,169
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

(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.”

(2) Adjusted to reflect the reverse stock split of the shares.

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

	High		Low		High		Low
		R\$			US\$(1)		
October 2011	68.84		56.05		40.77		33.20
November 2011	66.15		59.58		36.53		32.90
December 2011	68.75		64.49		36.65		34.38
January 2012	73.00		66.00		41.98		37.95
February 2012	80.00		73.25		46.81		42.86
March 2012	87.45		79.80		47.99		43.80

(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 19, 2012, the closing sale price for the preferred shares on the BM&FBOVESPA was R\$89.01 per preferred share, equivalent to US\$47.18 per ADS translated at the exchange rate of R\$1.887 per US\$1.00, the commercial market rate on that date. On the same date, the closing sale price for our ADSs on the NYSE was US\$47.93.

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(1)		
2007 ⁽²⁾⁽³⁾	21.89	13.75	38.76	24.36	12,211,102
2008 ⁽³⁾	24.73	11.09	57.79	25.92	14,613,403
2009 ⁽³⁾	37.79	11.65	65.79	20.28	11,633,266
2010:					
1st quarter	38.87	31.90	69.24	56.83	20,101,111
2nd quarter	36.50	29.15	65.88	52.60	22,684,079
3rd quarter	37.05	32.00	62.51	53.99	31,911,583
4th quarter	42.26	35.43	70.21	58.86	26,967,500
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

(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 reverse stock split of the shares.

(3) 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⁽¹⁾		
October 2011	41.01	30.68	69.25	51.80	29,740,007
November 2011	39.02	32.14	70.66	58.20	14,263,426
December 2011	38.19	34.72	71.64	65.13	15,132,887
January 2012	42.77	36.03	74.38	62.66	14,438,633
February 2012	48.04	42.91	82.11	73.34	25,362,158
March 2012	49.64	45.99	90.45	83.80	27,951,032

(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.”

9B. Plan of Distribution

Not applicable.

8C. 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.

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 19, 2012, there were 534 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 cumulate the position of chairman of the board of directors as well as all board members shall be elected for unified 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 the 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 communication 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 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.

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, 2011, our capital stock consisted of a total of 260,238,601 non-par shares, of which 99,679,851 were common shares and 160,558,750 were preferred shares. As of the same date, our Company held 232,586 preferred shares in treasury.

As of March 31, 2012, our capital stock consisted of a total of 260,274,653 non-par shares, of which 99,679,851 were common shares and 160,594,802 were preferred shares. As of the same date, 232,586 preferred shares were held in treasury and no common shares were held in treasury.

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 the 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 the 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.”

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;
- 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 the 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 the 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 the 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 allows 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 periods 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 the 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 the 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 the 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 does 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 do 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 the 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.

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 the 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.

The 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 the 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 the 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;
- delisting from CVM (to become a private company);
- 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 the 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 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 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\$100,000,000 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\$100,000,000, 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:

- 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\$20,000,000 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 some 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”;
- 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 the 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 the 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 the 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;
- 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 the 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 CBLC. CBLC 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, the 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 considering 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 between us, Casa Bahia Comercial Ltda., Viavarejo and the partners of Casa Bahia Comercial Ltda. 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.

The board of directors appointed Mr. Raphael Klein to hold the position of Viavarejo's chief executive officer on November 17, 2010, with two-year term of office.

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 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 2,689. See “Item 10E. Taxation — Brazilian Tax Considerations.”

Under Resolution 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 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 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 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 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 Brazilian resident, or even to a non-Brazilian resident in the event that 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 the 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 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 for “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—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.” 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 2011 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. 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. We realized and unrealized gains and losses on these contracts which 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, 2011. See note 20 to our financial statements included in this annual report.

	As of December 31, 2011 Expected Maturity Date							Fair Value	Annual Average Interest Rate
	2012	2013	2014	2015	2016	Thereafter	Total		
	(in millions of R\$)								
Assets:									
Cash and banks in <i>reais</i>	522.3	-	-	-	-	-	522.3	522.3	
Cash equivalents denominated in <i>reais</i>	4,447.7	-	-	-	-	-	4,447.7	4,447.7	100.9% of CDI
Total cash and cash equivalents	4,970.0	-	-	-	-	-	4,970.0	4,970.0	
Liabilities:									
Loans and financing									
Floating rate, denominated in US dollars	555.8	524.8	191.8	94.5	-	-	1,366.9	1,366.9	104.8% of CDI
Floating rate, denominated in <i>reais</i>	1,235.9	1,184.5	-	-	-	-	2,420.4	2,420.4	107.9% of CDI
Floating rate, denominated in <i>reais</i>	2,389.8	695.3	436.3	42.6	62.7	-	3,896.7	3,896.7	12.1%
Floating rate, denominated in <i>reais</i>	152.6	112.0	110.0	90.0	94.0	-	558.6	765.4	8.4% over TJLP
Floating rate, denominated in <i>reais</i>	81.6	89.1	21.2	21.2	21.5	41.8	276.4	276.4	4.8% of CDI
Total loans and financing	4,415.7	2,875.7	759.3	248.3	178.2	41.8	8,519.0	8,725.8	
Debentures									
Floating rate, denominated in <i>reais</i>	501.8	451.9	885.6	800.0	-	-	2,639.3	2,641.1	108.3% of CDI

(1) We entered into cross-currency interest rate swaps in the same amount to mitigate our exposure to exchange rate variations.

The following table presents historical data for interest rates relevant to our financial instrument in the last three years:

	As of December 31,		
	2009	2010	2011
CDI (1)	9.9%	9.8%	11.6%
TJLP (2)	6.0%	6.0%	6.0%

(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.

Foreign Currency 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 January 1, 2005 and through December 31, 2011, the U.S. dollar depreciated by 29.7% against the real, and as of December 31, 2011, the commercial market rate for purchasing U.S. dollars was R\$1.876 to U.S.\$ 1.00. In the first quarter of 2011, the *real* appreciated 1.8% against the U.S. dollar, and as of April 19, 2012, the commercial market rate for purchasing U.S. dollars was R\$1.887 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, 2011 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\$4.9 million as of December 31, 2011 compared to R\$8.3 million as of December 31, 2010. 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, 2011.

	2012	2013	Expected Maturity Date				Total	Fair Value
			2014	2015	2016	Thereafter		
				(in millions of R\$)				
Loans and financing								
US dollars (*)	555.8	524.8	191.8	94.5	-	-	1,366.9	1,366.9
<i>reais</i>	3,859.9	2,350.9	567.5	153.8	178.2	41.8	7,152.1	7,358.9
Total loans and financing	4,415.7	2,875.7	759.3	248.3	178.2	41.8	8,519.0	8,725.8
Debentures								
<i>reais</i>	501.8	451.9	885.6	800.0	-	-	2,639.3	2,641.1
Total Debentures	501.8	451.9	885.6	800.0	-	-	2,639.3	2,641.1

(*) 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, 2011, the originally U.S. dollar-denominated debt of R\$1,367.0 million and R\$1,135.8 million as of December 31, 2010, 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:

	2012	2013	2014	Expected Maturity Date			Total	Average Fair Value of (Assets) Liabilities	Average Paying Rate in <i>reais</i>	Average Receiving Rate
				2015	2016	Thereafter				
Cross currency and interest rate swap contracts notional amount										
US dollars to <i>reais</i>	463.7	566.8	160.3	-	-	-	1,190.8	(28.8)	104.8%	3.7% 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.

Fees and Expenses

The depositary 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 depositary 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 depositary may collect its annual fee for depositary 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 depositary 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"> • Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
<p>US\$.02 (or less) per ADS</p>	<ul style="list-style-type: none"> • Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
<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>	<ul style="list-style-type: none"> • Any cash distribution to ADS registered Holders • Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
<p>Registration or transfer fees</p>	<ul style="list-style-type: none"> • Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
<p>Expenses of the depositary</p>	<ul style="list-style-type: none"> • Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
<p>Taxes and other governmental charges the depositary 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>	<ul style="list-style-type: none"> • Converting foreign currency to U.S. dollars • As necessary
<p>Any charges incurred by the depositary or its agents for servicing the deposited securities</p>	<ul style="list-style-type: none"> • As necessary

Fees Incurred Since January 1, 2011

From January 1, 2011 until December 31, 2011, the Company received from the depositary US\$ 1,784,465.000, 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 depositary, has agreed to reimburse the Company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse the

Company for its continuing annual stock exchange listing fees. The depositary 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, 2011, 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, 2011, 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.

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, 2011. 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, 2011, 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, 2011 has been audited by Ernst & Young Terco Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report appearing on page F-3 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 and at 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

Ernst & Young Terco Auditores Independentes S.S., or E&Y, acted as our independent registered public accounting firm for the fiscal years ended December 31, 2011 and 2010. The chart below sets forth the total amount billed to us by our independent accountants for services performed in 2011 and 2010, and a breakdown of these amounts by category of service:

	2010	2011
	(in millions of R\$)(1)	
Audit Fees.....	4.9	7.8
Audit-Related Fees.....	0.9	0.4
Total	5.8	8.2

(1) Fees including out-of-pocket expenses.

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 the 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 2011 and 2010, 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 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:

As previously disclosed in our current report on Form 6-K furnished on December 22, 2011, our board of directors, pursuant to applicable CVM regulation regarding auditor rotation, approved the rotation of E&Y as independent registered public accounting firm and the engagement of Deloitte Touche Tohmatsu Auditores Independentes, or Deloitte, to serve as our new independent registered public accounting firm as from the first quarter of 2012 for the fiscal year ending December 31, 2012 and future fiscal years until new auditor rotation is required.

E&Y’s audit report dated April 27, 2012 on our consolidated financial statements for the fiscal year ended December 31, 2011 does not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. E&Y’s audit report dated June 30, 2011 on our consolidated financial statements for the fiscal year ended December 31, 2010 also did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

E&Y’s audit report dated April 27, 2012 on the effectiveness of our internal control over financial reporting as of December 31, 2011 does not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or otherwise. E&Y’s audit report dated June 30, 2011 on the effectiveness of our internal control over financial reporting as of December 31, 2010 also did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or otherwise.

During the two fiscal years preceding the rotation of E&Y, there were no disagreements between us and E&Y on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the subject matter of the disagreement in its report on our consolidated financial statements. During the two fiscal years preceding the rotation of E&Y, there were no “reportable events” as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

We have provided E&Y with a copy of this Item 16F and have requested and received from E&Y a letter addressed to the Securities and Exchange Commission stating whether or not E&Y agrees with the above statements. A copy of the letter from E&Y is attached as Exhibit 16.1 to this annual report.

During the two fiscal years preceding the rotation of E&Y, neither us nor anyone acting on our behalf, consulted Deloitte regarding any of the matters or events set forth in Item 3.04(a)(2) of Regulation S-K.

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 the 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 the 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 the 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. The Brazilian corporate law requires that our directors be elected by our shareholders at a general shareholders' meeting. Currently our board of directors consists of fourteen members elected by our shareholders, consisting of five representatives of the Diniz Group, five 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. The Brazilian corporate law does not have a similar provision. According to the 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 fourteen 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 the 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.

The 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 external auditors. Its main function is to monitor the activities of management, examine the financial statements of each fiscal year and provide a formal report to our shareholders.

We have a permanent Fiscal Council that consists of three members and three alternates and which has ordinary meetings at least every three months. 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 approved 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 Council, see "Item 6C. Board Practices — Committees — Fiscal Council and Audit Committee."

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 the 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

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 / audit committee 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 / Audit Committee 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.

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
<u>1.1</u>	<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. ⁽¹⁾
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. ⁽²⁾
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. ⁽²⁾
4.(b)(3)	Technical Assistance Agreement dated as of July 8, 2005 by and between us and Casino Guichard Perrachon. ⁽³⁾
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. ⁽⁴⁾
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. ⁽⁴⁾
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. ⁽⁵⁾
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. ⁽⁵⁾
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. ⁽⁶⁾
4.(b)(9)	Operational and Administrative Management Services Agreement dated as of June 27, 2007. ⁽⁷⁾ +
4.(b)(10)	First Amendment to Operational and Administrative Management Services Agreement, dated as of December 10, 2007. ⁽⁷⁾ +
4.(b)(11)	Second Amendment to Operational and Administrative Management Services Agreement, dated as of October 1, 2008. ⁽⁷⁾ +
4.(b)(12)	Third Amendment to Operational and Administrative Management Services Agreement, dated as of December 31, 2009. ⁽⁷⁾
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. ⁽⁸⁾
6.1	See note 30 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.
<u>12.1</u>	<u>Section 302 Certification of the Chief Executive Officer.*</u>
<u>12.2</u>	<u>Section 302 Certification of the Administrative Financial Officer.*</u>

- 13.1 Section 906 Certification of the Chief Executive Officer.*
- 13.2 Section 906 Certification of the Administrative Financial Officer.*
- 16.1 Letter from Ernst & Young Terco Auditores Independentes S.S. to the Securities and Exchange Commission, dated April 30, 2012, regarding the change in certifying accountant.
- (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 amendment 1 to our annual report on Form 20-F filed on March 31, 2010.
- (8) 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.

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/ José Antônio de Almeida Filippo

Name: José Antônio de Almeida Filippo

Title: Chief Financial Officer

Dated: April 30, 2012

Consolidated Financial Statements

Companhia Brasileira de Distribuição

December 31, 2011 and 2010

Companhia Brasileira de Distribuição

Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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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 disposition 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, 2011 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, 2011, 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, 2011 has been audited by Ernst & Young Terco Auditores Independentes S.S., the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young Terco'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 Officer
Date: April 20, 2012

/s/ José Antonio de Almeida Filippo
José Antonio de Almeida Filippo
Chief Financial Officer

Report of independent registered public accounting firm

The Board of Directors and Shareholders of

Companhia Brasileira de Distribuição and subsidiaries

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 statements of financial position of Companhia Brasileira de Distribuição and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. 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 audits. We did not audit the financial statements of Globex Utilidades S.A., a consolidated entity as from July 1, 2009, which statements reflect total assets of R\$ 2,462,577 thousand as of December 31, 2009 and total revenues of R\$2,427,324 thousand for the period from July 1 to December 31, 2009. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Globex Utilidades S.A., is based solely on the report of the other auditors.

We conducted our audits 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 audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Companhia Brasileira de Distribuição and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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), Companhia Brasileira de Distribuição and subsidiaries' internal control over financial reporting as of December 31, 2011, 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 30, 2012, expressed an unqualified opinion thereon.

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC2SP015199/O-6

Antonio Carlos Fioravante

Accountant CRC nº 1SP184973/O-0

São Paulo, Brazil

April 30, 2012.

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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 Companhia Brasileira de Distribuição and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Companhia Brasileira de Distribuição and subsidiaries' 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 annual Management's report on internal control over financial reporting. Our responsibility is to express an opinion on Companhia Brasileira de Distribuição and subsidiaries' 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk

that 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, Companhia Brasileira de Distribuição and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, 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 statements of financial position of Companhia Brasileira de Distribuição and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated April 30, 2012 expressed an unqualified opinion thereon.

Report of independent registered public accounting firm

The Board of Directors and Shareholders of

Companhia Brasileira de Distribuição and subsidiaries

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC2SP015199/O-6

Antonio Carlos Fioravante

Accountant

CRC nº 1SP184973/O-0

São Paulo, Brazil

April 30, 2012

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Companhia Brasileira de Distribuição

Consolidated statements of income and comprehensive income
 Years ended December 31, 2011, 2010 and 2009
 (In thousands of reais, except earnings per share)

	Notes	2011	2010
Net sales		46,594,486	32,091,674
Cost of sales		(33,932,964)	(24,241,476)
Gross profit		12,661,522	7,850,198
Operating expenses			
Selling costs	27	(7,936,647)	(4,866,289)
General and administrative	27	(1,683,097)	(950,959)
Depreciation and amortization		(680,547)	(446,129)
Other operating expenses, net	28	(258,693)	(127,867)
Operating profit		2,102,538	1,458,954
Net financial expenses	24	(1,332,708)	(823,001)
Share of profit in na associate	15	34,825	34,499
Profit before income and social contribution taxes		804,655	670,452
Income and social contribution taxes	22	(84,999)	(84,522)
Net income and comprehensive income		719,656	585,930
Attributable to equity holders of the parent		718,219	618,498
Attributable to noncontrolling interest		1,437	(32,568)
Net income and comprehensive income		719,656	585,930
Earnings per ordinary share	30		
Basic earnings per share attributable to ordinary equity holders of the parent		2.61	2.27
Diluted earnings per share attributable to ordinary equity holders of the parent		2.61	2.27
Diluted earnings per share			
Earnings per preferred non-voting share	30		
Basic earnings per share attributable to ordinary equity holders of the parent		2.87	2.50
Diluted earnings per share attributable to ordinary equity holders of the parent		2.85	2.48

See accompanying notes.

Companhia Brasileira de Distribuição

Consolidated statements of financial position

December 31, 2011 and 2010
(In thousands of reais)

	Notes	2011	2010
Assets			
Current assets			
Cash and cash equivalents	7	4,969,955	3,817,994
Marketable securities	8	-	600,613
Trade accounts receivable, net	9	5,437,500	4,047,234
Other accounts receivable, net	10	279,621	269,980
Inventories	12	5,552,769	4,823,768
Recoverable taxes	13	907,702	888,355
Other current		128,845	225,123
Total current assets		17,276,392	14,673,067
Noncurrent assets			
Marketable securities	8	-	7,389
Trade accounts receivable, net	9	555,841	527,939
Other accounts receivable	10	107,013	89,557
Recoverable taxes	13	729,998	213,506
Deferred tax assets	22	1,249,687	1,136,462
Related parties	14	133,415	176,241
Financial instruments	20	304,339	304,339
Restricted deposits for legal proceedings		737,688	645,920
Other noncurrent		36,899	54,986
Investments in associates	15	340,122	319,412
Property and equipment, net	17	7,358,250	6,794,337
Intangible assets	18	4,939,361	4,829,108
Total noncurrent assets		16,492,613	15,099,196
Total assets		33,769,005	29,772,263

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

	Notes	2011	2010
Liabilities and equity			
Current liabilities			
Trade accounts payable		6,278,757	5,368,738
Loans and financing	19	4,415,654	2,394,441
Debentures	19	501,844	520,675
Payroll and related charges		758,663	589,186
Taxes and social contribution payable	21	340,006	345,467
Taxes payable in installments	21	171,212	54,071
Related parties	14	27,878	274,291
Dividends payable	26	103,396	116,287
Payable related to acquisition of noncontrolling interest	16	54,829	297,484
Financing related to acquisition of real estate		14,211	14,211
Rent payable		48,991	68,226
Advertisement payable		89,682	33,614
Deferred revenue	25	81,915	63,021
Other accounts payables		-	201,224
Other current liabilities		614,164	582,501
Total current liabilities		13,501,202	10,923,437
Noncurrent liabilities			
Loans and financing	19	4,103,382	4,524,464
Debentures	19	2,137,518	1,067,472
Deferred tax liability	22	1,114,873	1,028,986
Taxes payable in installments	21	1,291,810	1,377,758
Provision for contingencies	23	680,123	809,337
Payable related to acquisition of noncontrolling interest	15	188,602	215,060
Deferred revenue	25	381,406	187,467
Other non current liabilities		275,664	137,690
Total noncurrent liabilities		10,173,378	9,348,234

Shareholders' equity

Share capital	26	6,129,405	5,579,259
Reserves	26	1,495,868	1,444,063
Equity attributable to owners of the parent		7,625,273	7,023,322
Noncontrolling interest		2,469,152	2,477,270
Total shareholders' equity		10,094,425	9,500,592
Total shareholders' equity and liabilities		33,769,005	29,772,263

See accompanying notes.

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Companhia Brasileira de Distribuição

Consolidated statements of changes in shareholders' equity
 Years ended December 31, 2011, 2010 and 2009
 (In thousands of reais)

	Capital Reserves					Legal
	Share capital	Special goodwill reserve	Other equity instruments	Other reserves	Granted options	
Balances at December 31, 2008	4,450,725	517,331	128,096	-	63,604	146,638
Capitalization of reserves	239,031	(88,780)	-	-	-	-
Private subscription of shares	664,362	-	-	-	-	-
Stock options exercised	20,633	-	-	-	-	-
Paid in capital - Globex	-	(38)	-	7,398	-	-
Treasury shares	-	-	-	-	-	-
Recognized granted option	-	-	-	-	19,621	-
Aquisition of noncontrolling interest	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Appropriation of net income to reserve	-	-	-	-	-	29,579
Dividends	-	-	-	-	-	-
Balances at December 31, 2009	5,374,751	428,513	128,096	7,398	83,225	176,217
Capitalization of reserves	169,388	(83,908)	-	-	-	-
Stock options exercised	35,120	-	-	-	-	-
Treasury shares	-	-	-	-	-	-
Recognized granted option	-	-	-	-	27,920	-
Aquisition of noncontrolling interest-C.Bahia	-	-	-	-	-	-
Aquisition of noncontrolling interest-Sendas	-	-	(128,096)	-	-	-
Paid-In-Capital acquisition NCB	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Appropriation of net income to reserve	-	-	-	-	-	36,122
Dividends	-	-	-	-	-	-
Balances at December 31, 2010	5,579,259	344,605	-	7,398	111,145	212,339
Capitalization of reserves	527,175	(105,675)	-	-	-	-
Stock options exercised	22,971	-	-	-	-	-

Recognized granted option	-	-	-	-	26,869	-
Participation of non-controlling shareholders	-	-	-	-	-	-
Gain/loss in equity interest	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Appropriation of net income to reserve	-	-	-	-	-	35,910
Dividends	-	-	-	-	-	-
Balances at December 31, 2011	6,129,405	238,930	-	7,398	138,014	248,249

See accompanying notes.

Companhia Brasileira de Distribuição

Consolidated statements of cash flows

Year ended December 31, 2010, 2010 and 2009

(In thousands of reais)

	2011	2010	2009
Cash flow provided by operating activities			
Net income for the year	719,656	585,930	606,039
Adjustment to reconcile net income to cash from operating activities			
Deferred income tax	(57,118)	32,470	25,934
Loss on disposal of properties and equipment	48,820	73,517	30,156
Depreciation and amortization	706,494	446,129	459,900
Unrealized financial expenses	965,557	239,473	316,718
Unrealized financial income	-	-	17,928
Adjustment to present value	22,427	(83,950)	-
Share of profit in an associate	(34,825)	(34,499)	(5,412)
Provision for contingencies	(4,798)	298,406	81,326
Bargain purchase gain	-	(351,718)	-
Provision for property and equipment write-offs and losses		-	(7,878)
Stock option	26,869	27,920	19,621
Allowance for doubtful debts	246,385	56,541	-
Other	9,791	(54,311)	-
Decrease (increase) in assets			
Trade accounts receivable, net	(1,925,932)	733,423	(170,835)
Marketable securities	634,978	88,745	-
Inventories	(752,539)	(706,705)	(849,380)
Recoverable taxes	(506,651)	(171,574)	116,392
Related parties	-	-	28,355
Restricted deposits for legal proceedings	(68,116)	(150,314)	(99,419)
Other	114,365	108,404	(62,163)
Increase (decrease) in liabilities			
Trade payables	972,395	245,298	1,052,761
Payroll and related charges	169,477	(170,354)	206,719
Related parties	(189,360)	(941,274)	-
Other taxes	-	-	80,180
Taxes and social contribution paid	-	-	(4,383)
Other	30,188	89,828	214

Net cash flow provided by operating activities	1,128,063	361,385	1,842,773
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Companhia Brasileira de Distribuição

Consolidated statements of cash flows (Continued)

Year ended December 31, 2011, 2010 and 2009

(In thousands of reais)

	2011	2010	2009
Cash flow used in investing activities			
Acquisition of subsidiary net of cash acquired	-	-	(885,113)
Marketable securities	-	58,798	-
Property and equipment	(1,262,640)	(1,296,464)	(700,636)
Intangible assets	(191,635)	(196,714)	(45,987)
Capital increase in subsidiaries	(112)	-	(9,318)
Proceeds from sale of property and equipment	98,004	34,934	4,330
Net cash flow used in investing activities	(1,356,383)	(1,399,446)	(1,636,724)
Cash flow provided by (used in) financing activities			
Capital increase	22,971	35,120	487,144
Net cash increase from acquisition	-	64,957	-
Financings:			
Issuances	6,918,179	3,981,201	736,805
Repayments	(4,772,162)	(1,204,381)	(393,129)
Interest paid	(336,126)	(182,813)	(209,301)
Acquisition of noncontrolling interest	(269,113)	(28,544)	-
Dividends paid	(183,468)	(151,412)	(109,157)
Net cash provided by (used in) financing activities	1,380,281	2,514,128	512,362
Net increase in cash and cash equivalents	1,151,961	1,476,067	718,411
Cash and cash equivalents, beginning of year	3,817,994	2,341,927	1,623,516
Cash and cash equivalents, end of year	4,969,955	3,817,994	2,341,927

See accompanying notes.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

1. Corporate information

Companhia Brasileira de Distribuição, directly or through its subsidiaries ("Company", "GPA" or "CBD") operates in the food retailer, clothing, home appliances and other products segment through its chain of hypermarkets, supermarkets, specialized and department stores principally under the trade names "Pão de Açúcar", "Extra", "Extra Eletro", "Extra Perto", "Extra Fácil", "Assai", "Ponto Frio," "Casas Bahia," "Casas Bahia.com," "Extra.com" and "Ponto Frio.Com". The registered office is located at São Paulo, SP, Brazil.

Founded in 1948, the Company has 149 thousand employees, 1,571 stores in 18 Brazilian states and in the Federal District and a logistics infrastructure comprised of 50 warehouses located in 13 states at December 31, 2011. The Company's shares are traded on the Level 1 Corporate Governance segment of the São Paulo Stock Exchange and its shares are listed at the São Paulo and New York Stock Exchanges (ADR level III).

The Diniz Group and the Casino Group share the Company's control through their ownership of the holding company named Wilkes Participações S.A., pursuant to an agreement entered into in May 2005.

Casino Guichard Perrachon S.A. ("Casino") filed two arbitration requests against Mr. 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 e de Península Participações, one of which includes our Company's as joint defendant, as disclosed in the press release of July 4, 2011.

Arbitration chamber in Paris later unified the two arbitration processes, parties have already indicated their part in the process. Currently, parts are in the process of election of the president for the arbitration.

The terms of the arbitration are confidential.

Restructuring of Globex

On December 14, 2011, the Board of Directors of subsidiary Globex Utilidades S.A. approved a formal plan for the closing of 88 stores of the banner Ponto Frio. Such closing were approved by the Anti-Trust agency (CADE), since the transaction with Globex and NCB is still under analysis. Prior approval of CADE is required by the transaction reversibility agreement (APRO). On December 31, 2011, the Company communicated parties involved (employees, store owners, trade payables, and others) and recorded a provision for closing stores in the amount of R\$ 44,416, being R\$ 20,000 related to the net value of property and equipment, R\$10,416 related to the rights of use ("Fundo de Comércio") written off and R\$ 14,000 related to other

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at 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, 2011 was approved by the Board of Directors at April 17, 2012.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Non financial data included in these financial statements, such as number of employees, number of stores, among others, were not subject to review by our independent auditors.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidationa) Interest in subsidiaries, associates and joint ventures:

	Interest in investees - %			
	12.31.2011		12.31.2010	
Holdings	CBD	Indirect	CBD	Indirect
Subsidiaries:				
Novasoc Comercial Ltda.	10.00	-	10.00	-
Sé Supermercado Ltda.	93.10	0.69	93.10	0.69
Sendas Distribuidora S.A.	18.33	76.04	14.86	39.63
Pão de Açúcar Funod de Investimentos e Direitos Creditórios - PAFIDC	9.04	1.06	9.58	1.12
PA Publicidade Ltda.	100.00	-	99.99	0.01
Barcelona Comércio Varejista e Atacadista S.A.	-	93.79	-	93.79
CBD Holland B.V.	100.00	-	100.00	-
CBD Panamá Trading Corp.	-	100.00	-	100.00
Xantocarpa Participações Ltda.	-	94.36	-	54.49
Vedra Empreend. e Participações S.A.	99.99	0.01	99.99	0.01
Bellamar Empreend. e Participações Ltda.	-	93.10	0.01	93.09
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.	99.00	1.00	99.00	1.00
GPA Malls & Properties Gestão de Ativos e Srvs. Imob. Ltda.	89.42	9.85	99.90	0.10
GPA 2 Empreend. e Participações Ltda.	99.90	0.10	99.90	0.10
GPA 4 Empreend. e Participações S.A.	99.00	1.00	99.00	1.00
GPA 5 Empreend. e Participações S.A.	99.00	1.00	99.00	1.00
GPA 6 Empreend. e Participações Ltda.	99.90	0.10	99.90	0.10
ECQD Participações Ltda.	100.00	-	100.00	-
API SPE Planej. e Desenv. de Empreend. Imobiliários Ltda.	100.00	-	100.00	-
Lake Niassa Empreend. e Participações Ltda.	-	52.41	-	52.41
Globex Utilidades S.A.	52.41	-	52.41	-

Globex Adm e Serviços Ltda.	-	52.41	-	52.41
Nova Casa Bahia S.A.	-	52.41	-	52.41
Ponto Frio Adm e Importação de Bens Ltda.	-	52.40	-	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.	-	52.15	-	52.15
Nova Extra Eletro Comercial Ltda.	0.10	52.36	0.10	52.36
Nova Pontocom Comércio Eletrônico S.A.	39.05	31.11	39.05	31.11
E-HubConsult. Particip. e Com. S.A.	-	70.16	-	70.16
Nova Experiência Pontocom S.A.	-	70.16	99.99	0.01
Sabará S.A.	-	52.41	-	52.41
Casas Bahia Contact Center Ltda.	-	52.41	-	52.41
Globex - Fundo de Investimento em Direitos Creditórios	-	7.86	-	6.55
Ponto Frio Leasing S.A.	-	26.21	-	26.21
Associates and Joint Ventures:				
Financeira Itaú CBD - FIC	-	40.76	-	40.76
Indústria de Móveis Bartira Ltda.	-	13.10	-	13.10
Dunnhumby Brasil Cons. Ltda.	2.00	-	2.00	-
Banco Investcred Unibanco S.A.	-	26.21	-	26.21
FIC Promotora de Vendas Ltda.	-	40.76	-	40.76

All interest in subsidiaries, associates and joint ventures were determined considering the percentage held by the CBD parent or its subsidiaries.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

b) Subsidiaries

The consolidated financial statements include the financial statements of all subsidiaries over which the parent company exercises control either directly or indirectly.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies and generally holds shares of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control. They are de-consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared on the same closing date as those of the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Changes in ownership interest in subsidiaries, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest, even if it results in a deficit balance.

The primary direct or indirect subsidiaries, included in the consolidation and the percentage of the company's interest comprise:

Novasoc

Although the Company's interest in Novasoc Comercial Ltda. ("Novasoc") represents 10% of its shares, Novasoc is included in the consolidated financial statements as the Company controls 99.98% of the Novasoc's voting rights, pursuant to the shareholders' agreement. Moreover, under the Novasoc shareholders' agreement, the appropriation of its net income does not require to be proportional to the shares of interest held in the company.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

b) Subsidiaries

PAFIDC and Globex FIDC

The Company consolidates the financial statements of Pão de Açúcar Fundo de Investimentos em Direitos Creditórios (“PAFIDC”) and Globex Fundo de Investimentos em Direitos Creditórios (“Globex FIDC”), investments funds established for the purpose of conducting the securitization of receivables of the Company and its subsidiaries. The consolidation is justified by the fact that most of the risks and benefits related to the fund’s profitability are linked to subordinated shares owned by the Company and subsidiaries.

Globex

The Company consolidates the financial statements of Globex, a subsidiary that concentrates the Group’s home appliance products, operating under the banners “Ponto Frio”, and since November 2010, “Casas Bahia”. The Company also operates -through its controlled entity Nova Pontocom Comércio Eletronico S.A, in e-commerce of any product for the consumer by the websites: www.extra.com.br, www.pontofrio.com and www.casasbahia.com.br

*Sendas*The Company holds 94.37% equity interest in Sendas Distribuidora, which operates in retail trade segment, mainly in the State of Rio de Janeiro. For further information on the acquisition of non-controlling interest, see Note 15 (a ii).

GPA Malls

In 2011, the Company set up a subsidiary, GPA Malls & Properties Gestão de Ativos e Serviços Imobiliários Ltda. (“GPA M&P”), for the purpose of manage and explore its real estate assets. Through the subsidiary GPA1 Empreendimentos e Participações Ltda, dormant, on December 6, 2011, CBD, approved changes to the corporate bylaws that included, among other points, changing the name to GPA Malls & Properties Gestão de Ativos e Serviços Imobiliários Ltda. and updating its corporate objective to match its purpose.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

b) Subsidiaries (Continued)

GPA Malls (continued)

CBD has entered into 3 (three) private property swap agreements with different developers, all subject to certain conditions. Consequently, CBD transferred 2 (two) lands through a barter transaction properties valued at R\$ 14,000, and R\$ 1,656, to GPA M&P, as a capital increase, on May 18, 2011 and July 5, 2011, respectively.

On December 6, 2011, GPA M&P had signed a Barter Agreement with Cyrela Polinésia Empreendimento Imobiliários Ltda. (“Cyrela”) exchanging the land by 24.2% of the marketable area of the real estate development plus the building of a retail store. Regarding that real estate project, we would point out the following:

- (i) The name of the real estate development is THERA FARIA LIMA | PINHEIROS;
- (ii) The objective of the development is to establish a condominium building, composed of 3 (three) sectors: (a) the “THERA RESIDENCE” residential sector, a 36 (thirty-six) floor building with 397 (three hundred ninety-seven) apartments; (b) the “THERA OFFICE” commercial sector, consisting of a 30 (thirty) floor building with 575 (five hundred seventy-five) offices; and (c) the retail sector, which will house 1 (one) store located on the ground floor;
- (iii) The term for project completion and delivery of the exchanged units is 52 (fifty-two) months from the development sales launch date (that occurred at December 18, 2011);
- (iv) Cyrela is solely and exclusively responsible for execution of the real estate development, as well as for the sale of the independent units, except for the store;
- (v) The barter between Cyrela and GPA M&P is not intended to establish a civil or commercial partnership or association between the companies;

vi) Cyrela will be solely and exclusively responsible for the construction all costs, including approval costs, costs resulting from potential modifications to the original project; and

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

b) Subsidiaries (Continued)

GPA Malls (continued)

(vii) Cyrela is exclusively responsible for approval of the construction project plan and for all other plans necessary for the development of the real estate project.

c) Associates – FIC and BINV

The Company's investments in its associates FIC and BINV, both entities that finance sales directly to GPA customers are result of an association between Banco Itaú Unibanco with GPA and Globex. Such investments are accounted for using the equity method. An associate is an entity in which the Company has significant influence, but not the control.

Prevailing decisions related to the operational and financial management of BINV and FIC belongs to Banco Itaú – Unibanco S.A. (Itaú-Unibanco).

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition charges in the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any 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 associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement as share of profit in an associate. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates. The financial statements of the associates are prepared for the same closing date as the parent company.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

c) Associates – FIC and BINV (Continued)

Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment on the Company's investment in its associates. The Company determines at each balance date whether there is any evidence that the investment in the associate is impaired. If applicable, the Company calculates the impairment amount as the difference between the recoverable amount of the investment of the associate and its carrying amount and recognizes the loss in the statement of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in the income statement for the year.

d) Interest in joint venture – Bartira

The Company has an indirect interest in a joint controlled entity named Indústria de Móveis Bartira Ltda. ("Bartira"), whereby by the ventures (GPA through its subsidiary Nova Casa Bahia S.A. ("NCB"), with 25% and Klein family through Casa Bahia Comercial Ltda. with 75%) entered into a shareholders agreement setting forth the joint control over the entity's operational 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 those of the Company.

The main items of condensed financial statements of the entity jointly controlled by the Company, are as follows:

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

3. Basis of consolidation (Continued)

d) Interest in joint venture – Bartira

	2011	2010
Current assets	130,564	109,120
Noncurrent assets	60,258	64,836
Total assets	190,822	173,956
Current liabilities	87,216	80,288
Noncurrent liabilities	1,177	5,858
Shareholders' equity	102,429	87,810
Total liabilities and shareholders' equity	190,822	173,956
Statements of income (i)		
Net sales and services	473,838	71,188
Income (loss) before income tax	23,387	(2,528)
Net Income (loss) for the year	14,619	(1,880)

(i) The results of operations for December 31, 2010 include only two months.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies

a) Financial instruments

Financial instruments are recognized as of the date on which the Company enters into the contract. When recognized, these are recorded at their fair value plus the transaction costs that are directly attributable to their acquisition or issuance. Their subsequent measurement occurs every balance sheet date according to the rules established for each type of financial asset and liability.

(i) Financial assets

Initial recognition and measurement

Financial assets held by the Company within the scope of IAS 39, are classified as financial assets measured at their fair value through profit or loss, loans, receivables and derivatives financial instruments designated as hedge instruments. The Company determines the classification of its financial assets at inception date.

All financial assets are recognized initially at fair value, and in the case of investments not at fair value through profit or loss, plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market (negotiations under regular conditions) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, trade accounts receivable, related party receivables, restricted advances for legal proceedings and derivatives financial instruments.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(i) Financial assets (continued)

Subsequent measurement

Assets are classified among categories mentioned below, according to the purpose to which they were acquired or issued:

- Financial assets at fair value through profit or loss: these financial assets are measured at their fair value at each balance sheet date. Interest rates, monetary restatement, exchange variation and variations deriving from the valuation at fair value are recognized in the statement of income when incurred as financial revenues or expenses. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance expense in the income statement. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss other than derivatives and cash and cash equivalents.
- 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, these are measured using amortized cost through the effective interest rate method. Interest income, monetary restatement, exchange variation, less impairment losses, where applicable, are recognized in the income statement when incurred as financial revenues or expenses.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

- Assets and liabilities held to maturity: these are financial assets and liabilities which cannot be classified as loans and receivables. In this case, these financial assets are acquired with the intention and financial capacity to their maintenance in the Company portfolio until maturity. They are measured at acquisition cost, plus monetary restatement through income, using the effective interest rate.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; and
- The Company has 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 risks and benefits related to the asset, but has transferred its control.

When the Company has transferred its rights to receive cash flows from 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 nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset.

In that case, the Company also 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.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(i) Financial assets (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(i) Financial assets (continued)

Impairment of Financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(i) Financial assets (continued)

Trade accounts receivable

Trade accounts receivable are non-derivative financial assets with fixed payments or that may be calculated, without quotation on the active market. After initial measurement, these financial assets are subsequently measured at the amortized cost according to the effective interest rate method ("EIR"), less impairment. The amortized cost is calculated taking into account eventual discounts or premiums over the acquisition and tariffs or costs composing the EIR. The EIR amortization is included in the net financial result under the statement of income for the year. Impairment expenses are recognized in the statement of income for the year.

The Company securitizes its accounts receivable through special purpose entities, the PAFIDC and Globex FIDC. (See Note 11).

Accounts receivable deriving from business agreements are related to cash considerations received from vendors, contractually established and calculated over purchase volumes, marketing actions, freight cost reimbursements, etc.

(ii) Financial liabilities

The financial liabilities under the scope of IAS 39 are classified as loans or borrowing or derivatives financial instruments designated as hedge instruments in an effective hedge relationship, where applicable. The Company defines the classification of the financial liabilities in the initial recognition.

All financial liabilities are recognized initially at fair value, and in the case of loans and financing, plus directly attributable transaction cost.

The Company's financial liabilities include trade and other payables, bank overdraft accounts, loans and financing, debentures and derivative financial instruments.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(ii) Financial liabilities (Continued)

Subsequent measurement

The measurement depends on the classification of financial liabilities as follows:

- Loans and financing: After initial recognition, interest bearing loans and financings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income for the year when the liabilities are derecognized as well as through the effective interest rate method amortization process.
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

- Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities designated upon initial recognition at fair value through profit and loss so designated at the initial date of recognition, and only if criteria of IAS 39 are satisfied. The Company has interest rates and cross currency swaps designated at fair value through profit or loss.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities..

Note 20 details the financial instruments fair value on how these are measured.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(ii) Financial liabilities (Continued)

Put options granted to non-controlling shareholders

The classification of instruments issued by the Company in equity or debt depends on each instrument's specific characteristics. An instrument is deemed to be an equity instrument when the following two conditions are met: (i) the instrument does not contain a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; and (ii) in the case of a contract that will or may be settled in the Company's own equity instruments, it is either a non-derivative that does not include a contractual obligation to deliver a variable number of the Company's own equity instruments, or a derivative that should be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Accordingly, instruments that are redeemable at the Company's discretion and for which the remuneration depends on the payment of a dividend are classified in equity.

When the Company has a present ownership interest in the shares subject to an option agreement, no non-controlling interest is recorded and the shares subject to the instrument are accounted for as own shares. The Company's policy is to treat any liability associated with the instrument as a liability under IFRS 3 with changes recognized as contingent consideration against goodwill. Changes to the liability related to the passage of time such as the unwinding of a discount rate or monetary restatement are recognized as financial expense in the income statement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

a) Financial instruments (Continued)

(ii) Financial liabilities (Continued)

Reclassification of debt and equity instruments

In order to reclassify debt and equity instrument, the Company shall record them as follows:

- Reclassify an equity instrument (shareholders' equity) as debt instrument (financial liability) as of the date the instrument no longer shows all its characteristics and conditions necessary to support its recognition. The financial liability shall be measured by fair value of instrument on the reclassification date. The Company shall recognize in shareholders' equity any difference between the carrying amount of equity instrument and the fair value of financial liability on the reclassification date; and
- Reclassify a debt instrument as equity instrument as of the date it shows all the characteristics and meets all the conditions related to its recognition, as set forth by IAS 32. The equity instrument shall be measured by carrying amount of debt instrument on the reclassification date.

b) Hedge accounting

The Company uses derivative financial instruments such as interest rate swaps and cross currency swap. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income statement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

b) Hedge accounting (Continued)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, and its risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine if they actually have been highly effective throughout the periods of the financial reports for which they were designated.

For the purposes of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.

Hedges which meet the criteria for hedge accounting are accounted, for the transactions held by the Company, as fair value hedges, adopting the following procedures:

- The change in the fair value of a derivative financial instrument classified as interest rate hedge is recognized as financial result, changing the carrying amount of the related item;
- For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged; and
- If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

c) Cash and cash equivalents

In accordance with IAS 7, cash and cash equivalents consist of cash, investments that are short-term, highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value

comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. Bank overdrafts are included within current liabilities in the financial statement.

d) 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 to make 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 of completion 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.

e) Present value adjustment of assets and liabilities

Current monetary assets and liabilities, when relevant, and noncurrent assets and liabilities, are adjusted to their present value. The present value adjustment is calculated taking into account contractual cash flows and the respective explicit or implied interest rates.

Embedded interest rates on revenues, expenses and costs associated with said assets and liabilities are adjusted to the appropriate recognition on an accrual basis. The present value adjustment as "financial result".

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

f) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset represented by the weighted average cost of capital ("WACC"). In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation..

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

f) Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)g) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such amount includes the cost of replacing a component of the equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant components of property and equipment are replaced, the Company recognizes such components as individual assets with specific useful lives and depreciation. Likewise, when a major replacement is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

Assets category	Annual depreciation rate %
Buildings	2.50%
Improvements	4.20%
Data processing equipment	10.00 to 50.00%
Facilities	4.20 to 10.00%
Furniture and fixtures	8.30 to 33.30%
Vehicles	20.00%
Machinery and equipment	2.80 to 50.00%

Items of property and equipment and any significant parts are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

h) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale (qualifying asset) are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the year that they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized software development costs, are not capitalized and the expenditure is reflected in the statement of income for the year when incurred.

Intangible assets consist mainly of purchased software acquired from third parties, software developed for internal use and commercial rights (Right to operate the store through the lease agreement), list of customers, advantageous lease agreements, advantageous supply agreements of furniture and trade names.

Intangible assets with finite lives are amortized by the straight-line method. Assets with finite lives include advantageous lease agreement and supply agreement of furniture and are amortized according to the economic benefits raised by agreements and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method are reviewed, at least, at the end of each year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting assumptions. The amortization expense on intangible assets with definite useful lives is recognized in the income statement for the year in the corresponding category consistent with the function of the intangible asset.

Software development costs recognized as assets are amortized over their estimated useful lives, which is 10 years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at each year-end or whenever there is an indication that their carrying amount cannot be recovered, either individually or at the cash generating unit level. The assessment is reviewed annually to determine whether the indefinite useful life continues to be valid. If not, the change in useful life from the indefinite to definite is made on a prospective basis.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

i) Intangible assets (Continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, being recognized in the income statement for the year.

j) Classification of assets and liabilities as current and non-current

Assets (excluding deferred income and social contribution tax) that are expected to be realized in or are intended for sale or consumption within twelve months after the balance sheet date, are classified as current assets. Liabilities (excluding deferred income and social contribution taxes) that are expected to be settled within twelve months as of the balance sheet date are classified as current. All others assets and liabilities (including deferred taxes) are classified as "noncurrent".

All deferred tax assets and liabilities are classified as noncurrent assets or liabilities, net by consolidated entity and considering the appropriate tax jurisdictions.

k) Leasing

The determination of whether an arrangement is, or contains leasing, is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Financial lease agreements, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are allocated between finance charges and reduction of leasing liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

k) Leasing (Continued)

Company as a lessee (continued)

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Lease agreements are classified as operating leasing when there is no transfer of risk and benefits incidental to ownership of the leased item.

The installment payments of leasing (excluding costs of services, such as insurance and maintenance) classified as operating lease agreements are recognized as expenses on a straight-line basis during the lease term.

Company as a lessor

Lease agreements where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the agreement term on the same bases as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

l) Provisions

Provisions are recognized when the Company has a present obligation (legal or not formalized) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement, net of any reimbursement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

m) Dividend distribution

Dividend to the Company's shareholders is recognized as a liability at the year-end, based on the minimum mandatory dividends established by the statutory law. Any amount above of that amount is only recorded at the date on which such incremental dividends are approved by the Company's shareholders.

n) Deferred Revenue

The deferred revenue are recognized by the Company through the receipt of amounts from business partners for exclusivity intermediation service of additional or extended guarantees and recognized in income by the evidence service in the sale of these guarantees with the business partners.

o) Shareholders' equity

Common and preferred shares are classified as shareholders' equity.

When any related party purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from capital of Company's shareholders until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity.

No gain or loss is recognized on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

p) Share-based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

p) Share-based payment (Continued)

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in shareholders' equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity instruments at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. .

The expense or income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognized for awards that will not vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where an equity award instrument is modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the awards are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity settled award instrument is cancelled, it is treated as if vested on the date of cancellation, and any expense not yet recognized for the award is, recognized immediately in the income statement. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if the cancelled award is replaced by another award and designated as a replacement grants on the date that it is granted, the cancelled award and new award are treated as if they were a modification of the original grant date, as described in the previous paragraph. All cancellations of equity-settled transaction are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (See Note 26).

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

q) Earnings per share

Basic earnings per share are calculated based on the weighted average number of shares of each category outstanding during the period, excluding shares issued in payment of dividends and treasury shares.

Diluted earnings per share are calculated by the treasury stock method, as follows:

- numerator: earnings for the year; and
- denominator: the number of shares of each category adjusted to include potential shares corresponding to dilutive instruments (stock options), less the number of shares that could be bought back at market, if applicable.

Equity instruments that will or may be settled in Company's shares are included in the calculation only when their settlement would have a dilutive impact on earnings per share.

r) Determination of net income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements, except for those referring to extended warranty and insurance policy brokerage. Specifically these cases, the Company operates as an agent, and revenue is recognized on a net basis, which reflects the commission received from insurance companies. The following specific recognition criteria must also be met before revenue is recognized:

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

(i) Revenue

a) Sales of goods

Revenues are recognized at the fair value of the consideration received or receivable for the sale of goods and service. 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.

b) Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in the financial result under the statement of income.

(ii) Gross profit

Gross profit corresponds to the difference between net sales and the cost of goods sold. The cost of goods sold comprises the cost of purchases net of discounts and bonuses received from suppliers, changes in inventory and logistics costs.

Cash consideration is measured based on contracts and agreements signed with suppliers.

Cost of sales includes the cost of logistics operations managed or outsourced by the Company, comprising warehousing, handling and freight costs incurred until the availability of goods for sale. Transport costs are included in the purchase costs.

(iii) Selling expenses

Selling expenses consist of all store expenses, such as salaries, marketing, occupancy, maintenance, etc.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

r) Determination of net income (Continued)

(iv) General and administrative expenses

General and administrative expenses correspond to overheads and the cost of corporate units, including the purchasing and procurement, IT and finance functions.

(v) Other operating expenses, net

Other operating income and expense correspond to the effects of major events occurring during the period that do not meet the Company's definition for the other income statement lines.

(vi) Financial result

Finance expenses include, substantially, all expenses generated by net debt and the receivables securitization during the period offset by capitalized interest, losses related to the measurement of derivatives at fair value, losses on disposals of financial assets, finance charges on lawsuits and taxes interest charges on financial lease, and discounting adjustments.

Finance income includes income generated by cash and cash equivalents and cash restricted for legal proceedings, gains related to the measurement of derivatives at fair value, purchase discounts obtained from suppliers, and revenues referring to discounts.

s) Taxation

Current income and social contribution taxes

Current income and social contribution taxes assets and liabilities, for the current and prior periods, are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the tax are those that are enacted or substantially enacted, at the balance sheet dates.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

s) Taxation (Continued)

The taxation on income comprises the Corporate Income Tax (“IRPJ”) and Social Contribution on Net Income (“CSLL”), being calculated based on taxable income (adjusted income), at rates applicable in the prevailing laws – 15% over taxable income and 10% surcharge over the amount exceeding R\$ 240 in taxable income yearly for IRPJ and 9% for CSLL.

Deferred income and social contribution taxes

Deferred income and social contribution taxes are generated by temporary differences at the balance sheet dates, between the tax basis of assets and liabilities and their carrying amounts.

Deferred income and social contribution taxes assets are recognized for all deductible temporary differences, and tax losses carryforward, to the extent that it is probable that taxable profit will be available against which to deduct the temporary differences and unused tax credits and losses except where the deferred income and social contribution taxes assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor tax profit or loss.

Deferred income and social contribution taxes liabilities referring to temporary taxable differences impacts income tax and social contribution lines in the income statement, except when the deferred tax liability arises from the initial recognition of goodwill, which does not impact income statement.

With respect to deductible temporary differences associated with investments in subsidiaries and associates, deferred income and social contribution taxes are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

s) Taxation (Continued)

The carrying amount of deferred income and social contribution taxes assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income and social contribution taxes to be utilized. Unrecognized deferred income and social contribution taxes assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow these assets to be recovered.

Deferred income and social contribution taxes assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred taxes related to items directly recognized in shareholders' equity are also recognized in shareholders' equity and not in the income statement.

Deferred income and social contribution taxes assets and liabilities are offset if there is a legal or contractual right to offset the tax assets against the income tax liabilities and deferred taxes refer to the same taxpayer company and to the same tax authority.

Other taxes

Revenues from sales and services are subject to taxation by State Value-Added Tax ("ICMS"), Services Tax ("ISS"), Social Contribution Tax on Gross Revenue for the Social Integration Program ("PIS") and Social Contribution Tax on Gross Revenue for Social Security Financing ("COFINS") at rates prevailing in each region and are presented as deductions from sales in the income statement.

The amounts recoverable derived from non-cumulative ICMS, PIS and COFINS are deducted from cost of goods sold.

Taxes recoverable or prepaid taxes are shown in the current and noncurrent assets, in accordance with the estimated timing of their realization.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

s) Taxation (Continued)

Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the balance sheets.

t) Business combinations and goodwill

Business combinations are recorded using the acquisition method. The cost of an acquisition is measured as the sum of consideration transferred, measured at fair value on the acquisition date and the remaining amount of non-controlling interest in the acquired company. For each business combination, the acquirer measures the non-controlling interest in the acquired company at fair value or through the proportional interest in acquired company's identifiable net assets. The acquisition costs incurred are treated as expense and included in the administrative expenses.

When the Company acquires a business, it assesses financial assets and liabilities to the appropriate classification and designation according to contractual terms, economic circumstances and relevant conditions on the acquisition date. This includes the separation of derivatives embedded in agreements by the acquiree.

If the business combination occur in phases, the fair value on the acquisition date of interest previously held by acquirer in acquired company is adjusted to fair value on if the acquisition date through income statement.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

t) Business combinations and goodwill (Continued)

Any contingent payment to be transferred by the acquirer will be recognized at fair value on the acquisition date. Subsequent changes in fair value of contingent payment considered as an asset or liability will be recognized under IAS 39 through income statement or as change in other comprehensive income. If the contingent payment is classified as equity, it will not be adjusted until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over net assets acquired and liabilities assumed. If this consideration is lower than the fair value of net assets acquired, the difference is recognized in the income statement as a bargain gain.

After initial recognition, the goodwill is measured at cost, less eventual impairment losses. For the purposes of impairment test, the goodwill acquired in a business combination is, as of the acquisition date, allocated to each one of the Company's cash generating units that are expected to benefit from the business combination, regardless if other assets or liabilities of the acquiree are assigned to these units.

In cases the goodwill forms part of a cash generating unit and part of the operation within that unit is disposed, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss or disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

u) Pension plan

The pension plan is funded through payments to insurance companies, which are classified as defined contribution plan according to IAS 19. A defined contribution plan is a pension plan through which the Company pays fixed contributions to a separate legal entity. The Company has no legal or constructive obligation to pay additional contributions if the fund does not have sufficient assets to pay the benefits to all employees referring to length of service in current and previous years.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

4. Significant accounting policies (Continued)

v) Customer loyalty programs

These are used by the Company to provide incentives to its customers in the sale of products or services. If customer buys products or services, the Company grants them credits. Customer may redeem the credits free of charge as a discount in the amount of products or services.

The Company estimates the fair value of scores granted according to the customer loyalty program, applying statistical techniques, considering the maturity of the plans defined in the terms of the program.

5. Standards issued but not yet effective

Standards issued but not yet effective up to the date of the issuance of the Company's financial statements include the following standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets - The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

5. Standards issued but not yet effective (Continued)

IAS 19 Employee Benefits (Amendment) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The company had made a voluntary change in accounting policy to recognise actuarial gains and losses in OCI in the current period (see note 2.4). The Company is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011) - As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) - As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 - Financial Instruments - Disclosure - The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

5. Standards issued but not yet effective (Continued)

IFRS 9 – Financial Instruments – IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 - Consolidated financial statements - IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 - Joint arrangements - IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Company. This is due to the cessation of proportionate consolidating the joint venture in Showers Limited (see note 6) to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 - Disclosure of Involvement with Other Entities - IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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Notes to the consolidated financial statements (Continued)

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(In thousands of reais)

5. Standards issued but not yet effective (Continued)

IFRS 13 - Fair value measurements - IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 1 – Presentation of Financial Statements: Presentation of items under Other Comprehensive Income;
- IAS 12 – Income Taxes: This standard clarifies the calculation of deferred tax on investment property measured at fair value. It introduces the rebuttable assumption that the deferred tax on investment property measured at the fair value method in accordance with IAS 40 – Investment property should be defined based on the fact that its carrying amount will be recovered through sale;
- IAS 19 – Employee Benefits: It includes from substantial amendments, such as the removal of corridor mechanism and the concept of expected return on plan assets until simple clarifications on valuations, devaluations and reformulation;
- IAS 27 – Consolidated and Separate Financial Statements: As a result of future application of IFRS 10 and 12, what remains in this standard is restricted to the accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements; and
- IAS 28 – Investments in Associates: As a result of future application of IFRS 11 and 12, current standard now is IAS 28 – Investment in associates, joint ventures and describes the application of equity method for investments in joint ventures, in addition to investments in associates.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

6. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Company's consolidated financial statements 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 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. In the process of applying the Company's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

a) Financial lease commitments – Company as lessee -

The Company has entered into commercial property leases on its property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

b) Impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 4 and IAS 36. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations and market quotation. The calculations of value-in-use require the use of estimates.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

6. Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions

a) Income taxes

Given the nature and complexity of the Company's business, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could require future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for consequences, if any, of audits by the tax authorities. The amount of such 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 appropriate tax authority. Such 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 carryforward 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 income and social contribution taxes assets that can be recognized, based upon the profit estimates and the level of future taxable profits, based on the business plan approved by the Board of Directors.

The Company has tax losses carryforward amounting to a tax benefit of R\$ 764,524 at December 31, 2011 (R\$ 720,530 in December 31, 2010). These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support these balances. On December 31, 2010, the Company had a valuation allowance of R\$ 106,196, recorded at the subsidiary Sendas, which was reversed in the year 2011 in accordance with new management's studies.

Further details on taxes are disclosed in the Note 22.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

6. Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions (Continued)

b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are actively traded on organized markets is determined based on the market quotation, 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 the Company and compatible with usual practices on the market. The techniques used include the use of recent market arm's length transactions, fair value of similar financial instruments, discounted cash flows method or other valuation models.

When the fair value of financial assets and liabilities recorded in the balance sheet cannot be observed in active markets, these are determined by valuation techniques, including the discounted cash flow method. These models inputs are collected from the market, where applicable, when these observations are not possible, judgment is required to determine the fair value. This judgment includes considerations on inputs, such as: liquidity risk, credit risk and volatility. Changes in these factors assumptions may affect the financial instruments fair value.

c) Share-based payments

The Company measures 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 stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the Note 26.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

7. Cash and cash equivalents

On December 31, 2011 and 2010 earn interest mainly at the Interbank Deposit Certificate (“CDI”) rate. Securities on hand and in bank accounts are classified as financial assets at fair value through profit or loss.

	CDI(*)	2011	2010
Current			
Banco do Brasil	101.2%	631,620	696,331
Itaú	101.4%	879,271	1,727,488
Itaú – Delta Fund	101.2%	1,738,612	-
Bradesco	100.9%	852,181	674,633
Santander	101.0%	110,996	70,087
Safra	101.1%	156,305	53,750
Unibanco	104.1%	-	4,931
CEF	99.0%	2,812	2,668
Votorantim	103.4%	7,433	104,766
Others	83.7%	68,432	65,779
Total		4,447,662	3,400,433
Cash on hand and in bank accounts		522,293	417,561
Cash and cash equivalents		4,969,955	3,817,994

* Average rate of CDI

8. Marketable securities

	CDI(*)	2011	2010
Banco do Brasil	100,3% and CBD 100,2%	-	315,332
Banco Santander	101.0%	-	190,307
Banco Safra	101.0%	-	102,363
Total		-	608,002
Current			600,613
Noncurrente			7,389

Since June 30, 2011 the marketable securities have not had restrictions for use. These operations were reclassified to cash and cash equivalents.

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Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

9. Trade accounts receivable, neta) Breakdown

	2011	2010
Current		
Resulting from sales through:		
Credit card companies (a)	429,697	425,383
Debit card companies (b)	29,314	17,296
Sales vouchers and others	136,454	162,378
Consumer finance (c)	1,959,768	879,620
Consumer finance - Bradesco (c.1)	25,606	619,541
Credit sales with post-dated checks	4,010	6,492
Accounts receivable from wholesale customers	49,106	13,233
Accounts receivable – FIDCs (d)	2,558,726	1,667,029
Adjustment to present value (e)	(10,823)	(7,061)
Private label credit card – interest-free installment payment	19,214	15,127
Allowance for doubtful accounts (f)	(210,970)	(172,901)
Accounts receivable from vendors (h)	447,398	421,097
	5,437,500	4,047,234
Non-current		
Accounts receivable – Paes Mendonça (g)	445,056	420,570
Consumer financing - direct credit	117,783	115,432
Allowance for doubtful accounts (f)	(6,998)	(8,063)
	555,841	527,939

a) Credit card companies

Credit card sales are receivable from the credit card companies. In the subsidiaries Globex, Nova Casa Bahia and Nova Pontocom, credit card receivables, related to the sale of home appliances, are receivable in installments not exceeding 18 months.

Through its subsidiaries Globex, Nova Casa Bahia and Nova Pontocom, the Company sells or discounts its credit card receivables to banks or credit card management companies, in order to obtain working capital.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

9. Trade accounts receivable, net (Continued)

b) Debit card companies

Debit card receivable are related to sale of home appliance goods and furniture in the stores of Globex and its subsidiary NCB.

The credit card companies pay these receivables on the day after (D+1) completion of sale by debit card at stores.

c) Consumer finance

Refer to consumer direct credit through dealer (CDCI) which can be paid in 24 installments, mainly in subsidiary NCB.

The Company maintains agreements with financial institutions where it is referred to as intervening party of these operations. (See Note 19).

1) Consumer finance – Banco Bradesco

Until November 2010, NCB subsidiary maintained an operating agreement with Banco Bradesco (“Bradesco”), through its subsidiary Finasa, for the granting of credit to its customers aiming at making feasible the acquisition of its goods at stores. As a result of credit granted to customers, NCB receives the principal amount financed by Bradesco on the first business day following the sale date.

According to this agreement, NCB is liable for the extrajudicial collection of defaulting customers, bearing the corresponding expenses. After elapsing 45 days of the initial maturity of overdue installments, the NCB acquires the credit by means of assignment. Within this context, as required by IAS 39 – Financial Instruments: Recognition and Measurement, the risks and benefits related to accounts receivable assigned to Bradesco are not substantially transferred to the counterparty, which is recognized in the NCB’s balance sheet against “Loans and Financing”.

The outstanding balance of these receivables under NCB’s responsibility at December 31, 2011 was R\$ 25,606 (R\$ 649,376 in December 31, 2010).

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

9. Trade accounts receivable, net (Continued)

d) Accounts receivable – FIDCs

The Company and its subsidiaries carry out securitization operations of their credit rights, mainly represented by credit sales with food voucher and credit card company receivables, with the Pão de Açúcar Receivables Securitization Fund (“PAFIDC”) and Globex Receivables Securitization Fund (“Globex FIDC”). The volume of operations was R\$ 9,477,372 at December 31, 2011 (R\$ 9,802,951 in December 31, 2010) for PAFIDC, R\$ 3,948,543 at December 31, 2011 (R\$ 390,682 in December 31, 2010) for Globex FIDC, in which the responsibilities for services rendered and subordinated interests were retained. Securitization costs of such receivables amounted to R\$ 126,781 (R\$ 99,209 in December 31, 2010) for PAFIDC and R\$ 153,373 (R\$ 14,598 in December 31, 2010) for Globex FIDC, recognized as financial expenses in the income statement.

Services rendered, which are not remunerated, include credit analysis and the assistance by the collection department to the fund’s manager.

The outstanding balances of these receivables in PAFIDC and Globex FIDC at December 31, 2011 were R\$ 2,558,726 (R\$ 1,667,029 in December 31, 2010), net of allowance.

e) Adjustment to present value

The discount rate used by subsidiary NCB considers current market valuations as to the cash value over time and asset's specific risks. Credit sales with the same cash value were carried to their present value on

the date of the operation, in view of their terms, adopting the monthly average rate of receivables anticipation with credit card companies. In December 31, 2011 these rates were in average 0.97% (0.86% in December 31, 2010).

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

9. Trade accounts receivable (Continued)f) Allowance for doubtful accounts

The allowance for doubtful accounts is based on average historical losses complemented by Company's estimates of probable future losses:

	2011	2010
At beginning of year	(180,964)	(7,521)
Provision for doubtful accounts	(268,902)	(573,898)
Recoveries and provision written off	231,898	400,455
At end of year	(217,968)	(180,964)
	-	-
Current	(210,970)	(172,901)
Noncurrent	(6,998)	(8,063)
	(217,968)	(180,964)

		Neither past due or impaired	Past due			
	Total		<30 days	30-60 days	61-90 days	>90 days
2011	5,993,341	5,818,401	109,509	31,935	20,776	12,720
2010	4,575,173	4,269,637	229,411	16,497	53,090	6,538

g) Accounts receivable – Paes Mendonça

The accounts receivable from Paes Mendonça relate to amounts deriving from the payment of third party liabilities by the subsidiaries Novasoc and Sendas. Pursuant to contractual provisions, these accounts receivable are monetarily restated (IGPM) and guaranteed by commercial leasing rights of certain stores currently operated by the Company, Novasoc and Sendas. Maturity of accounts receivable is linked to the lease agreements.

h) Accounts receivable from vendors

Accounts receivable from vendors includes rebates and discounts obtained from vendors. These amounts are established contractually and include amounts for volume purchase discounts, joint marketing programs, freight reimbursements, and other similar programs.

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

10. Other accounts receivable

	2011	2010
Accounts receivable related to sale of property and equipment	50,423	57,921
Cooperative advertising with vendors	50,617	20,539
Advances to suppliers	21,345	73,935
Accounts receivable related to tax credits	86,252	56,998
Accounts receivable from internet operations	-	1,099
Receivables from insurance companies	49,927	45,306
Accounts receivable from services rendered	4,706	7,194
Rental receivable	16,545	20,270
Other accounts receivable – PAFIDC	46,466	50,319
Loans to employees	11,925	21,377
Amounts restricted from acquisitions	8,393	-
Cyrella Empreendimentos	14,000	-
Others	26,035	4,579
	386,634	359,537
Current	279,621	269,980
Noncurrent	107,013	89,557
	386,634	359,537

11. Receivables securitization funds – FIDCsa) Pão de Açúcar Receivables Securitization fund – PAFIDC

PAFIDC is a receivable securitization fund created for the purpose of acquiring the Company and its subsidiaries' trade receivables, arising from sales of products and services to their customers, except for receivables from installment sales and post-dated checks. The fund has a defined term until December 7, 2012.

The capital structure of the fund, at December 31, 2011, is composed of 10,295 senior shares held by third parties in the amount of R\$ 1,235,901 (R\$ 1,096,130 in December 31, 2010), which represent 89.90% of the fund's equity (89.30% in 2010) and 2,864 subordinated shares (the same), held by the Company and subsidiaries in the amount of R\$ 138,849, which represent 10.10% of the fund's equity (10.70% in December 31, 2010).

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

11. Receivables securitization funds – FIDCs (Continued)a) Pão de Açúcar Receivables Securitization fund – PAFIDC (Continued)

The interest rates of senior shares are shown below:

Shareholders	Number of shares	CDI Rate	2011		2010	
			Balance	CDI Rate	Balance	CDI Rate
Senior A	5,826	108.0%	758,660	109.5%		672,861
Senior B	4,300	108.0%	207,614	109.5%		184,135
Senior C	169	108.0%	269,627	109.5%		239,134
	10,295		1,235,901			1,096,130

Subordinated shares are registered and non-transferable, and were issued in a single serie. The Company will redeem the subordinated shares only after the redemption of senior shares or at the end of the fund's term. Once the senior share have been remunerated, the subordinated shares will receive the balance of the fund's net assets after absorbing any losses on receivables transferred and any losses attributed to the fund. Their redemption value is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

The holders of senior quotas have no recourse against the other assets of the Company in the event customers' default on the amounts due. As defined in the agreement between the Company and PAFIDC, the transfer of receivables is irrevocable, irreversible and definitive.

b) Globex Receivables Securitization fund – Globex FIDC

Globex FIDC is a receivable securitization fund created to acquire the accounts receivable of Globex and its subsidiaries, including Nova Casa Bahia S.A. and Nova Pontocom Comércio Eletrônico S.A. (mainly through credit card), originated from the sale of products and services to its customers. This fund was created at May 26, 2010 with a defined term, ending on November 11, 2013.

The capital structure at December 31, 2011 is composed of 11,666 senior quotas held by third parties, amounting to R\$ 1,184,522 (R\$ 1,184,387 in December 31, 2010), representing 85% of the fund's equity (87.5% in December 31, 2010) and 1,910 subordinated quotas (1,691 in December 31, 2010), held by the Company and its subsidiaries, amounting to R\$ 209,068 (R\$ 169,332 in December 31, 2010), accounting for 15% of the fund's equity (12.5% in December 31, 2010).

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

11. Receivables securitization funds – FIDCs (Continued)b) Globex Receivables Securitization fund – Globex FIDC (Continued)

The interest rates of senior shares are shown below:

Shareholders	Number of shares	CDI Rate	2011		2010	
			Balance	CDI Rate	Balance	Balance
Senior - 1st Series	11,666	107.75%	1,184,522	107.75%	1,184,387	

Subordinated shares are registered and non-transferable and were issued in a single series. The subsidiary Globex will redeem the subordinated shares after the redemption of senior shares or upon the end of the fund's term. Once remunerated the senior shares seniors, the subordinated shares will receive the fund's net worth balance after absorbing eventual losses in receivables transferred and eventual losses attributed to the fund. Their redemption amount will be subject to credit, prepayment and interest rate risks of financial assets transferred.

The holders of senior quotas are not entitled to recourse against other subsidiary Globex's assets in the event of customers' delinquency. As contractually agreed upon between the subsidiary Globex and PAFIDC, the transfer of receivable is irrevocable, irreversible and definite.

12. Inventories

	2011	2010
Stores	3,489,429	2,638,904
Warehouses	2,292,939	2,299,691
Bonus in inventories	(130,303)	(54,296)
Provision for obsolescence/breakage	(75,757)	(51,892)
Present value adjustment	(23,539)	(8,639)
	5,552,769	4,823,768

The Company records in the statement of income the bonus received from vendors at the same time that inventories is realized. The received unrealized bonus recorded in inventories amounted to R\$ 130,303 (R\$ 54,296 in December 31, 2010). In addition, in December 31, 2011 the Company recorded provision for obsolescence and provision for breakage in the amount of R\$ 75,757 (R\$ 51,892 in December 31, 2010).

Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

12. Inventories (Continued)

The adjustment to present value of inventories refers to the corresponding entry of adjustment to present value of the indirect subsidiary NCB's trade payables.

13. Recoverable taxes

The balances of recoverable taxes refer to credits from Withholding Income Tax, ("IRRF"), Social Contribution Tax on Gross Revenue for the Social Integration Program ("PIS"), Social Contribution Tax on Gross Revenue for Social Security Financing ("COFINS") and recoverable State Value-Added Tax ("ICMS"):

	2011	2010
Current		
Taxes on sales:		
ICMS recoverable	293,329	464,152
PIS/COFINS recoverable	172,288	206,902
	465,617	671,054
Income tax on:		
Marketable securities	193,994	116,656
Other	57,366	24,731
	251,360	141,387
Other		
ICMS recoverable from property and equipment	21,661	16,480
ICMS tax substitution	94,275	28,697
Other	76,029	32,024
	191,965	77,201

Present value adjustment	(1,240)	(1,287)
Total current	907,702	888,355
Noncurrent		
Taxes on sales		
ICMS recoverable	691,344	71,063
PIS/COFINS recoverable	10,830	135,702
	702,174	206,765
Other		
ICMS and other	41,057	19,632
Present value adjustment	(13,233)	(12,891)
Total noncurrent	729,998	213,506
Total taxes recoverable	1,637,700	1,101,861

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

13. Recoverable taxes (Continued)

Management prepared a technical feasibility study on the future realization of the ICMS, considering the expected future off-set of debts from the Globex and subsidiaries operations. This study was prepared based on information extracted from the strategic planning approved by the Board of Directors of the Company.

14. Balances and transactions with related parties

a) Sales and purchases of goods

	2011	2010
Suppliers:		
FIC	10,679	8,879
Globalbev bebidas e alimentos	3,012	-
Bravo Café	231	-
Fazenda da Toca Ltda	254	-
Restaurante FNH Ltda	4	-
Axialent	310	-
	14,490	8,879
Purchases:		
Globalbev bebidas e alimentos	12,640	-
Bravo Café	1,591	-
Companhia Brasileira de Distribuição		360

Sykué Geração de energia Ltda	6,389	-
Fazenda da Toca Ltda	3,383	-
Restaurante FNH Ltda	4	-
	24,007	-

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Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

14. Balances and transactions with related parties (Continued)b) Other transactions

	2011	2010
Assets		
Casino (i)	7,898	5,519
FIC (iv)	3,634	-
Sendas S.A.	-	17,824
Casas Bahia Comercial Ltda. (v)	55,243	120,605
ECQD - sócios (vi)	34,209	-
Audax SP (x)	20,728	-
Audax Rio (x)	9,378	-
Outros	2,325	32,293
	133,415	176,241
Liabilities		
Fundo Península (ii)	(15,772)	(14,894)
FIC (iv)	(11,764)	(6,886)
Casas Bahia Comercial Ltda. (v)	(342)	(231,203)
Other	-	(21,308)
	(27,878)	(274,291)
Income statement		
Casino (i)	(5,061)	(5,225)
Fundo Península (ii)	(148,460)	(142,632)
Diniz Family (iii)	(18,776)	(6,346)
Sendas S.A.	-	(58,566)
Sykué Consultoria em Energia Lt. (viii)	(824)	-
Casas Bahia Comercial Ltda. (v)	(141,183)	(67,416)
FIC (iv)	(3,662)	(13,832)
Axialent	(2,921)	-

Other	(8,400)	(8,400)
	(329,287)	(302,417)

i. Casino: Technical Assistance Agreement, signed between the Company and Casino at July 21, 2005, whereby, through the annual payment of US\$2,727, it provides for the transfer of know-how in the administrative and financial area. This agreement is effective for 7 years, with automatic renewal for an indeterminate term. This agreement was approved at the Special Shareholders' Meeting held at August 16, 2005.

ii. Península Fund: 59 real estate lease agreements with the Company, 1 property with Novasoc, 1 property with Sé and 1 property with Barcelona.

iii. Diniz Family: Leasing of 15 properties for the Company and 2 properties for Sendas Distribuidora.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

14. Balances and transactions with related parties (Continued)

b) Other transactions (Continued)

iv. FIC: The expenses in the income statement related to FIC represents: (i) refund of expenses deriving from the infrastructure agreement, such as expenses related to cashiers payroll, and commissions on the sale of financial products, (ii) financial expenses related to the receivables discount (named “financial rebate”) and (iii) revenues from property rental.

v. Casas Bahia: The subsidiary Nova Casa Bahia maintains lease agreements for warehouses, offices and administrative buildings with Casas Bahia Comercial Ltda.

vi. Nova Pontocom executives (ECQD): On November 2010, in the context of the restructuring of GPA e-commerce business, the Company granted to certain Nova Pontocom’s top executives, a loan amounting in R\$ 10,000 as well as celebrated a barter contract with return in the amount of R\$ 20,000, both maturing on January 8, 2018, duly adjusted.

vii. Sykué Geração de Energia: Purchase of electric energy on the market to supply several consumer units of the Company.

viii. Sykué Consultoria: energy planning services in order to supply electricity, including projection of energy consumption for each consumer unit , during 102 months (economic feasibility study of stores maintenance costs on the captive market or on the free market) and regulatory advisory with regulatory and market agencies.

ix. Other: Expenses paid by the Company to its subsidiaries and other associated companies. Other related parties not described in this Note did not state balances or transactions in the years.

x. Audax: Loan to soccer clubs named Audax SP and Audax RJ, which invests in training of professional athletes.

Related party-transactions shown above mainly result from operations the Company and its subsidiaries maintain among themselves and with other related entities and were substantially accounted for according to the prices, terms and conditions agreed between the parties.

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Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2011 and 2010

(In thousands of reais)

14. Balances and transactions with related parties (Continued)

c) Management Compensation

The expenses related to the compensation of management's key personnel (officers appointed pursuant to Bylaws and the Board of Directors), which were recorded in the income statement at the year ended December 31, 2011, were as follows:

	Board of Directors				%
	Remuneration	(*) Other remuneration	Share based Payment	Total	expense share basis payment
Board of Directors (*) Directors	-	7,574	-	7,574	