BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
April 30, 2018

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, 2017

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)

Christophe Hidalgo, Chief Financial Officer
Phone: +55 11 3886-0421 Fax: +55 11 3884-2677
gpa.ri@gpabr.com
Avenida Brigadeiro Luiz Antonio, 3142
01402-901 São Paulo, SP, Brazil
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
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

166,899,579 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

x 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 x 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.

x 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 x 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 x Accelerated Filer ¨ Non-accelerated Filer ¨

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

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† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 x**	**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

ITEM 19.

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INTRODUCTION

All references in this annual report to (i) “CBD,” “we,” “us,” “our,” “Company,” “Grupo Pão de Açúcar” and “GPA” are refere 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$” are to the Brazilian *real*, the official currency of Brazil. All references to “US$,” “dollars” or “U.S. dollars” are to United States dollars. All references to “€” or “eu are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

Additionally, unless the context indicates otherwise, the following definitions apply throughout this annual report:

Name	**Definition**
Casino	Casino, Guichard Perrachon S.A.
Casino Group	Casino, Guichard Perrachon S.A. and its subsidiaries and, where appropriate, the controlling holding companies of Casino, including Rallye S.A. and Euris S.A.S. which are ultimately controlled by Mr. Jean Charles Naouri.
Cdiscount	Cdiscount S.A. and, where appropriate, its subsidiaries.
Cdiscount Group	Cdiscount Group S.A.S. (formerly Casino Entreprise S.A.S.) and, where appropriate, its subsidiaries.
Cnova Brazil	CNova Comércio Eletrônico S.A., which until October 31, 2016 was a wholly owned subsidiary of Cnova owning the Brazilian non food e-commerce businesses of CBD and Via Varejo. Following the completion of the corporate reorganization of Cnova (as detailed in “Item 4A. History and Development of the Company - Cnova Reorganization”) on October 31, 2016, Cnova Brazil became a wholly owned subsidiary of Via Varejo.
Cnova	CNova N.V. and, where appropriate, its subsidiaries. Cnova was one of our consolidated subsidiaries until October 31, 2016. Since then, we have recorded Cnova’s results of operations as equity pick-up. For further information on the corporate reorganization of Cnova and its consequences on our consolidated financial statements, see Explanatory Note on page 4 and “Item 4A. History and Development of the Company—Cnova Reorganization.”
Diniz Family	Members of the Diniz family who were former shareholders of Wilkes Participações S.A.
Euris	Euris S.A.S.
Éxito	Almacenes Éxito S.A. and, where appropriate, its subsidiaries.
Klein Family	Members of the Klein family who represent the partners of Casa Bahia Comercial Ltda.
Nova HoldCo	Nova Pontocom Comércio Eletrônico S.A., following the completion of the 2014 Reorganization, which was spun off to CBD, Via Varejo and minority holders in 2015 and subsequently liquidated (as detailed in “Item 4A. History and Development of the Company - E-Commerce Business Reorganization”).
Nova Pontocom	Nova Pontocom Comércio Eletrônico S.A. and, where appropriate, its subsidiaries, prior to completion of the 2014 Reorganization.
Península	Fundo de Investimento Imobiliário Península, which is beneficially owned by members of the Diniz Family.
Rallye	Rallye S.A. and, where appropriate, its subsidiaries.
Via Varejo	

Via Varejo S.A. and, where appropriate, its subsidiaries. Via Varejo is one of our subsidiaries and as of December 31, 2016 we have reported its results of operations as discontinued operations. For further information on Via Varejo's discontinued operations and its consequences on our consolidated financial statements, see Explanatory Note on page 4 and "Item 4A. History and Development of the Company—Cnova Reorganization."

We have prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

Our consolidated financial statements are presented in Brazilian *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 as of December 31, 2017 was R$3.308 to US$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2017, 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.

None of the information available on our website or on websites referred to in this annual report is incorporated by reference into this annual report.

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:

- global economic conditions and their impact on consumer spending patterns, particularly 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;
- ability to expand our operations outside of our existing markets; 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.

EXPLANATORY NOTE

Cnova Reorganization

In August 2016, Cnova, Cnova Brazil and Via Varejo entered into a reorganization agreement (the "Reorganization Agreement") providing for the reorganization of Cnova Brazil within Via Varejo (the "Cnova Reorganization"). In connection with the Cnova Reorganization, Casino executed a letter agreement pursuant to which Casino agreed to launch tender offers to purchase any and all outstanding ordinary shares of Cnova at a price of US$5.50 per share, subject only to completion of the Cnova Reorganization.

The Cnova Reorganization was completed on October 31, 2016, and it was the first transaction of a series of two transactions conducted by Casino that together constituted a “going private” transaction of Cnova, as such term is used in Rule 13e-3 of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

As a result of the Cnova Reorganization:

(i) Via Varejo became the sole shareholder of Cnova Brazil, operating the websites Extra.com.br, Pontofrio.com and Casasbahia.com.br, and was no longer a shareholder of Cnova;

(ii) Cnova has continued its e-commerce operations outside of Brazil, focusing entirely on Cdiscount; and

(iii) CBD was no longer a majority shareholder of Cnova which became an associate of CBD.

Consequently, since October 31, 2016, CBD has not consolidated the results of operations of Cnova. Beginning November 1st, 2016, we have recorded Cnova's results of operations related to the e-commerce activities outside of Brazil in our statement of operations through the equity method of accounting.

In December 2016, Casino launched concurrent offers to purchase any and all Cnova ordinary shares for US$5.50 per share in cash in the United States (the "U.S. Offer") and in France (the "French Offer," and together with the U.S. Offer, the "Offers"). The Offers were the second and final transaction of the "going private" transaction of Cnova.

As a result of the Offers, Casino and its controlled affiliates beneficially owned, in the aggregate, as of March 31, 2018, 340,957,246 Cnova ordinary shares, representing approximately 98.97% of Cnova's outstanding ordinary shares.

In accordance with IFRS 5 – non-current assets held for sale and discontinued operations, as a result of the Cnova Reorganization and the "going private" transaction of Cnova carried out by Casino, we presented Cnova's results for the ten-month period ended October 31, 2016 and the year ended December 31, 2015, as follows: (i) the e-commerce segment outside of Brazil in one single line item in our statement of operations in loss from discontinued operations; and (ii) the related balances of assets and liabilities in the line items assets held for sale and liabilities related to assets held for sale, respectively, in the balance sheet as of December 31, 2015. Starting November 1, 2016, we became a minority shareholder in Cnova and we began applying the equity method of accounting in our investment in Cnova. For further information on the Cnova Reorganization, see note 32 to our audited consolidated financial statements as of and for the year ended December 31, 2017 included elsewhere in this annual report.

Discontinued Operations of Via Varejo

Our board of directors, on November 23, 2016, approved the disposal of our equity interest in Via Varejo, in line with our long-term strategy of focusing on the development of the food retail segment.

During 2017, due to certain external factors, out of our control, mainly related to the Brazilian macroeconomic scenario, the process of sale of Via Varejo was not concluded within the expected timetable. The plan to sell Via Varejo remains unchanged, and we revised the next steps and expect, along with our financial advisors, to finalize the process during 2018.

Therefore, as required by IFRS 5, the net results of Via Varejo (and its subsidiary Cnova Brazil) are included in our statement of operations as a single line item, after taxes, and assets and liabilities balances are disclosed in the line items assets held for sale and liabilities related to assets held for sale, respectively, in the balance sheet as of December 31, 2017 and 2016.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

We present in this section summary financial and operating data derived from our audited consolidated financial statements as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 included elsewhere in this annual report and prepared in accordance with IFRS as issued by the IASB.

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, 2017, have been translated into U.S. dollars at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Central Bank, as of December 31, 2017, of R$3.308 to US$1.00 (subject to rounding adjustments).

	As of and for the Year Ended December 31,					
	2013[1]	2014[1]	2015[1]	2016[1]	2017[1]	2017 (millions of US$, except as indicated)
	(millions of R$, except as indicated)					
Statement of operations						
Net operating revenue	31,812	34,741	37,198	41,454	44,634	13,981
Cost of sales	(23,790)	(25,955)	(28,123)	(31,933)	(33,931)	(10,628)
Gross profit	8,022	8,786	9,075	9,521	10,703	3,352
Selling, general and administrative expenses	(5,519)	(6,067)	(6,688)	(7,451)	(7,776)	(2,436)
Depreciation and amortization	(528)	(581)	(650)	(707)	(779)	(244)
Other operating expenses, net	(582)	(306)	(206)	(567)	(579)	(181)
Operating expenses, net	(6,629)	(6,954)	(7,544)	(8,725)	(9,134)	(2,861)
Profit from operations before net financial expenses and share of profit of associates	1,393	1,832	1,531	796	1,569	491
Financial income	376	323	354	231	181	57
Financial expenses	(863)	(921)	(1,122)	(1,134)	(911)	(285)
Financial expenses, net	(487)	(598)	(768)	(903)	(730)	(229)
Share of profit of associates	33	78	81	60	(60)	(19)
Profit (loss) before income tax and social contribution	939	1,312	844	(47)	779	244
Income tax and social contribution	(229)	(348)	(229)	(24)	(297)	(93)
Net income (loss) for the year from continued operations	**710**	**964**	**615**	**(71)**	482	151
Net income (loss) for the year from discontinued operations	**670**	**620**	**(891)**	**(1,005)**	**383**	**120**
Net income (loss) for the year	**1,380**	**1,584**	**(276)**	**(1,076)**	**865**	**271**
Attributed to controlling shareholders from continued operations	710	964	615	(71)	482	151
Attributed to controlling shareholders from discontinued operations	330	243	(350)	(411)	137	43
Total attributed to controlling shareholders	1,040	1,207	265	(482)	619	194
	340	377	(541)	(594)	246	77

Attributed to noncontrolling shareholders from discontinued operations						
Total attributed to noncontrolling shareholders	340	377	(541)	(594)	246	77
Other comprehensive income (loss) for the year, net of income tax	—	4	(222)	231	(18)	(6)
Total comprehensive income (loss) for the year	**1,380**	**1,588**	**(498)**	**(845)**	847	265
Attributed to controlling shareholders..	1,040	1,208	177	(395)	601	188
Attributed to noncontrolling shareholders	340	380	(675)	(450)	246	77
Basic earnings per share (weighted average for the year) (in R$)						
Preferred – Continued and discontinued operations	4.08	4.72	1.03	(1.82)	2.41	0.754
Common – Continued and discontinued operations	3.71	4.30	0.94	(1.82)	2.19	0.685
Preferred – Continued operations	2.79	3.77	2.40	(0.27)	1.87	0.587
Common – Continued operations	2.53	3.42	2.18	(0.27)	1.70	0.534

	As of and for the Year Ended December 31,					
	2013(1)	2014(1)	2015(1)	2016(1)	2017(1)	2017 (millions of US$, except as indicated)
	(millions of R$, except as indicated)					
Diluted earnings per share (weighted average for the year) (in R$)						
Preferred – Continued and discontinued operations	4.06	4.72	1.03	(1.82)	2.39	0.749
Common – Continued and discontinued operations	3.71	4.30	0.94	(1.82)	2.18	0.683
Preferred – Continued operations	2.77	3.76	2.39	(0.27)	1.86	0.583
Common – Continued operations	2.53	3.42	2.18	(0.27)	1.70	0.532
Basic earnings per ADS (in R$)	4.08	4.71	1.03	(1.82)	2.41	0.754
Diluted earnings per ADS (in R$)	4.06	4.71	1.03	(1.82)	2.39	0.749
Weighted average number of shares outstanding (in thousands)						
Preferred	164,325	165,103	165,640	165,852	166,391	166,391
Common	99,680	99,680	99,680	99,680	99,680	99,680
Total	**264,005**	**264,783**	**265,320**	**265,532**	**266,071**	**266,071**
Dividends declared (in R$)						
Preferred	0.98	1.18	0.47	—	0.57	0.17
Common	0.89	1.07	0.42	—	0.52	0.16
Dividends declared and interest on shareholders' equity per ADS (in R$)(2)	0.98	1.18	0.47	—	0.57	0.17
Balance sheet data						
Cash and cash equivalents	8,367	11,149	11,015	5,112	3,792	1,146
Property and equipment, net	9,053	9,699	10,377	9,182	9,138	2,762
Assets held for sale	—	—	15	20,303	22,961	6,941
Total assets	37,989	45,345	47,241	45,217	47,928	14,489
Current borrowings and financing	5,172	6,594	4,869	2,957	1,251	378
Noncurrent borrowings and financing	4,323	3,134	4,164	2,912	3,337	1,009
Liabilities related to assets held for sale	—	—	—	15,632	17,824	5,388
Shareholders' equity	12,601	14,194	13,352	12,597	13,292	4,018
Share capital	6,764	6,792	6,806	6,811	6,822	2,062
Other financial information						
Net cash provided by (used in):						
Operating activities	4,876	4,990	4,632	(1,304)	1,895	573
Investing activities	(1,947)	(1,624)	(1,852)	(2,020)	(1,592)	(481)
Financing activities	(1,648)	(636)	(3,006)	1,475	(2,094)	(633)
Capital expenditures	(2,109)	(1,938)	(2,059)	(1,623)	(1,721)	(520)

(1) As disclosed in note 32 to our audited consolidated financial statements included elsewhere in this annual report operations of Via Varejo and Cnova Brazil are classified as "discontinued operations" in 2017 and all prior periods presented. In addition, our investment in Cnova was also classified as a "discontinued operation" through October 31, 2016 due to the Cnova Reorganization. Starting November 1, 2016, we began recording our investment in Cnova using the equity method of accounting.

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

	As of and for the Year Ended December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2017 (US$, except as indicated)**
	(R$, except as indicated)					
Operating Data						
Number of Employees at period end[(1)]	92,303	93,413	93,176	93,658	91,106	-
Total square meters of selling area at period end	1,574,773	1,659,924	1,719,559	1,740,567	1,743,505	-
Number of stores at period end[(2)]:						
Pão de Açúcar	168	181	185	185	186	-
Extra Hiper	138	137	137	134	117	-
Minimercado Extra and Minuto Pão de Açúcar	164	256	311	284	265	-
Extra Supermercado	213	207	199	194	188	-
Assaí	75	84	95	107	126	-
Total number of stores at period end	758	865	927	904	882	-
Net operating revenue per employee[(1)]:						
Pão de Açúcar	324,689	346,472	371,152	407,463	414,903	129,941
Extra Hiper[(3)]	458,663	496,126	463,212	517,197	570,601	178,704
Minimercado Extra and Minuto Pão de Açúcar	218,461	179,230	232,215	296,698	349,306	109,397
Extra Supermercado	370,867	396,860	388,391	421,094	439,678	137,701
Assaí	548,808	610,144	628,748	687,156	699,146	218,962

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	As of and for the Year Ended December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2017 (US$, except as indicated)**
			(R$, except as indicated)			
CBD average net operating revenue per employee	420,710	450,179	322,753	363,407	489,910	153,433
Net operating revenue by store format:						
Pão de Açúcar	5,761	6,327	6,727	6,979	6,932	2,171
Extra Hiper(3)	14,463	14,490	14,249	14,102	13,652	4,276
Minimercado Extra and Minuto Pão de Açúcar	451	638	946	1,131	1,085	0,340
Extra Supermercado	4,863	4,959	4,822	4,755	4,525	1,417
Assaí	6,273	8,326	10,453	14,487	18,440	5,776
Real Estate Projects	—	—	—	—	—	—
Total net operating revenue	31,812	34,371	37,198	41,454	44,634	13,979
Average monthly net operating revenue per square meter(4):						
Pão de Açúcar	2,213	2,362	2,361	2,420	2,385	0,747
Extra Hiper	1,353	1,341	1,325	1,362	1,536	0,481
Minimercado Extra and Minuto Pão de Açúcar	1,118	1,143	1,109	1,287	1,343	0,420
Extra Supermercado	1,618	1,624	1,648	1,685	1,278	0,400
Assaí	2,257	2,367	2,578	3,107	3,430	1,000
CBD average monthly net operating revenue per square meter	1,634	1,918	1,747	1,928	2,085	0,653
Average ticket amount:						
Pão de Açúcar	45	50	53	57	59	18,478
Extra Hiper(3)	64	70	70	73	80	25,054
Minimercado Extra and Minuto Pão de Açúcar(3)	15	15	17	19	20	6,263
Extra Supermercado	30	33	34	36	36	11,275
Assaí	115	134	146	156	157	49,170
CBD average ticket amount	53	67	61	69	76	23,802
Average number of tickets per month:						
Pão de Açúcar	10,770,189	10,502,201	10,581,845	10,187,388	9,770,687	—
Extra Hiper(3)	18,811,073	17,273,270	17,037,205	16,106,165	14,284,209	—
Minimercado Extra and Minuto Pão de Açúcar	2,575,492	3,463,884	4,725,240	4,929,778	4,425,078	—
Extra Supermercado	13,461,964	12,595,001	11,870,096	11,060,911	10,480,779	—
Assaí	4,527,849	5,164,456	5,949,201	7,717,266	9,792,180	—
CBD average number of tickets per month	50,146,567	48,998,812	50,163,588	50,001,507	48,752,933	—

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

(2) Excludes 85 gas stations and 157 drugstores in 2013, 83 gas stations and 158 drugstores in 2014, 83 gas stations and 157 drugstores in 2015, 76 gas stations and 155 drugstores in 2016 and 72 gas stations and 127 drugstores in 2017.

(3) Includes revenues associated with rentals of commercial spaces. Revenues of gas stations, drugstores, food delivery and in-store pick-up are included in the respective banner.

(4) 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.

Since 1999, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Brazilian currency has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. 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 *real* may depreciate or appreciate against the U.S. dollar substantially in the future.

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

	Exchange Rate of Reais Currency per US$1.00			
Year	**Low**	**High**	**Average(1)**	**Year-End**
2013	1.953	2.446	2.161	2.343
2014	2.197	2.740	2.355	2.656
2015	2.575	4.195	3.339	3.905
2016	3.119	4.156	3.484	3.259
2017	3.051	3.381	3.193	3.308

	Exchange Rate of Reais per US$1.00			
Month	**Low**	**High**	**Average(1)**	**Period-End**
October 2017	3.132	3.280	3.191	3.277
November 2017	3.214	3.292	3.259	3.262
December 2017	3.232	3.333	3.292	3.308
January 2018	3.139	3.270	3.211	3.162
February 2018	3.173	3.282	3.084	3.245
March 2018	3.225	3.338	3.279	3.324
April 2018 (through April 15, 2018)	3.310	3.420	3.368	3.411

Source: Central Bank

(1) Represents the average of the exchange rates of each trading date using the exchange rates from the first and last day of the month.

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 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 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 has frequently intervened in the Brazilian economy and has occasionally made significant changes in policy and regulations. The Brazilian government's actions to control inflation and affect other policies and regulations have often involved, among other measures, increases and decreases in interest rates, changes in tax and social security policies, price controls, currency exchange and remittance controls, devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and the trading price of the ADSs and our preferred shares may be adversely affected by changes in policy or regulations at the federal, state or municipal level involving or affecting factors, such as:

- interest rates;
- monetary policies;
- exchange controls and restrictions on remittances abroad (such as those that were imposed in 1989 and early 1990s);
- currency fluctuations;
- inflation;
- liquidity of domestic capital and lending markets;
- tax and social security policies;
- energy and water shortages and rationing; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation 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 companies.

Since 2011, Brazil's economy has stagnated. Brazil's gross domestic product, or GDP, real growth (contraction) rates since 2011 were 1.0% in 2017, (3.6)% in 2016, (3.8)% in 2015, 0.5% in 2014, 3.0% in 2013, 1.9% in 2012 and 4.0% in 2011.

Our results of operations and financial condition have been, and will continue to be, affected by the weakness of the Brazilian GDP. Developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the use of our products and services which may adversely affect the trading price of the ADSs and our preferred shares.

Ongoing political instability may adversely affect our business, results of operations and the trading price of the ADSs and our preferred shares.

Brazilian markets have been experiencing heightened volatility due to uncertainties derived from the ongoing *Lava Jato* investigation and other investigations which are being conducted by the Federal Prosecutor's Office, and their impact on the Brazilian economy and political environment. Numerous members of the Brazilian government and of the legislative branch, as well as senior officers of large state-owned and private companies have been convicted of political corruption related to bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. Profits of these kickbacks allegedly financed the political campaigns of political parties that were unaccounted for or not publicly disclosed, and served to further the personal enrichment of the recipients of the bribery scheme. As a result, a number of senior politicians, including congressmen and officers of the major state-owned and private companies in Brazil, resigned or have been arrested and numerous senior elected officials and other public officials are being investigated.

The ultimate outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. The development of those unethical conduct cases has and may continue to adversely affect our business, financial condition and results of operations and may adversely affect the trading price of the ADSs and our preferred shares.

In addition, the Brazilian economy continues to be subject to the effects of the impeachment of President Dilma Rousseff on August 31, 2016. Vice-President Michel Temer was sworn in as the new President of Brazil until the next presidential election in October 2018, but political uncertainty has remained. We cannot predict the effects of these recent developments and the current ongoing political uncertainties on the Brazilian economy.

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.

Historically, Brazil has experienced high inflation rates. Inflation and certain actions taken by the Central Bank to curb it have had significant negative effects on the Brazilian economy. Inflation and the Brazilian government's measures to fight it, principally the Central Bank's monetary policy, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates have restricted and may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our business and increase the payments on our indebtedness. In addition, we may not be able to adjust the prices we charge our customers to offset the effects of inflation on our cost structure.

Furthermore, interest rate decreases may affect our ability to maintain interest margins we charge on installment sales, which could have a negative effect on net operating revenue. 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 (*Certificados de Depósito Interbancário*), 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 volatility may adversely affect the Brazilian economy and us.

The *real* has historically experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. The *real* was valued at R$1.67 per US$1.00 in August 2008. Following the onset of the crisis in the global financial markets, the *real* depreciated 31.9% against the U.S. dollar and reached R$2.34 per US$1.00 at the end of 2008. In 2010, the *real* appreciated against the U.S. dollar, reaching R$1.661 per US$1.00 at the end of 2010. Since 2011, the *real* depreciated against the U.S. dollar, reaching R$3.905 per US$1.00 at the end of 2015 with a 47.0% devaluation in 2015. In 2016, the *real* appreciated against the U.S. dollar, reaching R$3.259 per US$1.00 as of December 31, 2016. In 2017, the *real* appreciated against the U.S. dollar in comparison to 2016, reaching R$3.308 per US$1.00 as of December 31, 2017. There can be no assurance that the *real* will not depreciate further against the U.S. dollar.

Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which negatively affects the growth of the Brazilian economy as a whole, curtails access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* against the U.S. dollar has also, including in the context of an economic slowdown, led to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. 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. As a result, we may be materially and adversely affected by exchange rate variations.

Developments and the perception of risk in other countries may adversely affect the market price of Brazilian securities, including the ADSs and our preferred shares.

The market value of securities of Brazilian issuers is affected by economic and market conditions in other countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in other countries may have an adverse effect on the market value 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 trading price of our securities, and could also make it more difficult for us to gain access to the capital markets and finance our operations on acceptable terms, or at all.

Any further downgrading of Brazil's credit rating may adversely affect the trading price of the ADSs and our preferred shares.

Credit ratings affect investors' perceptions of risk and, as a result, the yields required on debt issuances in the financial markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, taking into account a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness and the prospect of change in these factors.

In September 2015, Standard & Poor's lowered Brazil's sovereign credit rating to below investment grade, from BBB-minus to BB-plus, citing, among other reasons, general instability in the Brazilian market caused by the Brazilian government's interference in the economy and budgetary difficulties. Standard & Poor's again downgraded Brazil's credit rating in February 2016, from BB-plus to BB, and maintained its negative outlook on the rating, citing a worsening credit situation from the time of the September 2015 downgrade. In January 2018, Standard & Poor's lowered its rating to BB-minus with a stable outlook in light of doubts regarding this year's presidential election and pension reform efforts. In December 2015, Moody's placed Brazil's Baa3 ratings on review for a downgrade, citing negative macroeconomic trends and a deterioration of the government's fiscal conditions. Subsequently, in February 2016, Moody's downgraded Brazil's ratings to below investment grade, to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's debt service in a negative or low growth environment, in addition to challenging political dynamics. Fitch also downgraded Brazil's credit rating to BB-plus with a negative outlook in December 2015, citing the country's rapidly expanding budget deficit and the worse-than-expected recession, and made a further downgrade in May 2016 to BB with a negative outlook, which it maintained in 2017 and downgraded to BB- in February 2018. As a result, the trading prices of debt and equity securities of Brazilian issuers were negatively affected.

Any further downgrade of Brazil's credit rating could heighten investors' perception of risk and, as a result, increase the cost of debt issuances and adversely affect the trading price of our securities.

Risks Relating to our 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 Brazilian food retail sector, including the cash and carry (*atacado de auto serviço*) segment and the home appliances sector, is highly competitive. 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. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

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

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

Since 2011, Brazil's economy has stagnated. Brazil's GDP real growth (contraction) rates since 2011 were 1.0% in 2017, (3.6)% in 2016, (3.8)% in 2015, 0.5% in 2014, 3.0% in 2013, 1.9% in 2012 and 4.0% in 2011.

Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of the Brazilian GDP. We cannot assure you that the GDP will increase or remain stable. Developments in the Brazilian economy may affect Brazil’s growth rates and, consequently, 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.

Restrictions of credit availability to consumers in Brazil may adversely affect our sales volumes.

Sales in installments are an important component of the result of operations of retail companies in Brazil. The increase in unemployment rate combined with higher interest rates have resulted in an increased restriction of credit availability to consumers in Brazil, which may be further increased if macroeconomic conditions in Brazil deteriorate. The unemployment rate reached 12.7% in 2017, compared to 11.5% in 2016, 8.5% in 2015 and 6.8% in 2014. Moreover, the basic interest rate in Brazil, the SELIC rate, was 14.3%, 13.8% and 7.0% p.a. in 2015, 2016 and 2017, respectively.

Our sales volumes and, consequently, our result of operations may be adversely affected if the credit availability to consumers decreases, or if the policy of the Brazilian government restricts the granting of credit to consumers.

Our business depends on strong brands. We may not be able to maintain and enhance our brands, or we may receive unfavorable customer complaints or negative publicity, which could adversely affect our brands.

We believe that our *Pão de Açúcar*, *Minuto Pão de Açúcar*, *Extra Hiper*, *Extra Supermercado*, *Minimercado Extra* and *Assaí* brands contribute significantly to the success of our business. We also believe that maintaining and enhancing those brands is critical to maintaining and expanding our base of customers. Maintaining and enhancing our brands will also depend largely on our ability to continue to create the best customer experience, based on our competitive pricing and our large assortment of products.

Customer complaints or negative publicity about our product offerings or services could harm our reputation and diminish consumer confidence in us. A diminution in the strength of our brands and reputation could have a material adverse effect on our business, financial condition and operating results.

We may not be able to protect our intellectual property rights.

Our future success depends significantly on our ability to protect our current and future brands and to defend our intellectual property rights, including trademarks, patents, domain names, trade secrets and know-how. We have been granted numerous trademark registrations covering our brands and products and have filed, and expect to continue to file, trademark and patent applications seeking to protect newly developed brands and products. We cannot be sure that trademark and patent registrations will be issued with respect to any of our applications. There is also a risk that we could, by omission, fail to renew a trademark or patent on a timely basis or that our competitors will challenge, invalidate or circumvent any existing or future trademarks and patents issued to, or licensed by, us. Although we have put in place appropriate actions to protect our portfolio of intellectual property rights (including trademark registration and domain names), we cannot be certain that the steps we have taken will be sufficient or that third parties will not infringe upon or misappropriate proprietary rights. If we are unable to protect our proprietary rights against infringement or misappropriation, it could have a material adverse effect on our business, results of operations, cash flows or financial condition, and in particular, on our ability to develop our business.

Our sales depend on the effectiveness of our advertisement and marketing programs, which may adversely affect our revenues and profitability.

To promote increased traffic of customers and attract them to our stores, we use substantial resources in our advertisement and marketing campaigns. Our revenues and profitability depend on our ability to, among other things, identify our target consumers and decide on the marketing message and communication means that we deem adequate to reach them. If we do not conceive, plan or execute well our advertisement and marketing activities, our revenues and profitability may be adversely affected.

We may not be successful in integrating and capturing synergies from acquired companies and corporate reorganization of our subsidiaries.

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 addition, we cannot assure that any corporate reorganization of our subsidiaries that we carry out will generate the expected synergies and that we will be able to profit from them.

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

Most of our stores are leased. The strategic location of our stores is key to the development of our business strategy and, as a result, we may be adversely affected in case a significant number of our lease agreements is terminated and we fail to renew these lease agreements on acceptable terms, or at all. In addition, as per applicable law, landlords may increase rent periodically, usually every three years. A significant increase in the rent of our leased properties may adversely affect us. In addition, we are party to an arbitration proceeding related to lease agreements of 61 stores entered into with Península. We cannot assure you that the outcome of this arbitration proceeding will not cause a material adverse effect on our business and operations. For more information on this arbitration proceeding, see "Item 8A. Financial Information - Legal Proceedings - Península."

We face risks related to our distribution centers.

Approximately 75% of our products are distributed through our 23 distribution centers and depots located in the Southern, Southeastern, Midwestern 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.

Installment sales are widely used in the Brazilian retail market, especially in the home appliances sector. We have a partnership with Itaú Unibanco Holding S.A., or Itaú Unibanco, one of the largest privately owned financial institutions in Brazil. Through this partnership we have established Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, or FIC, which exclusively offers credit cards, financial services and insurance at our stores.

FIC is 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 its customers, which could have a material adverse effect on us.

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

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

- minimum capital requirements;
- requirements for investment in fixed capital;

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- credit limits and other credit restrictions;
- accounting requirements;
- intervention, liquidation and/or temporary special management systems; and
- interest rates.

Failure in our information technology systems may adversely affect our operations.

We are highly dependent on our information technology systems to process, transmit and store electronic data as well as to communicate with customers and suppliers. Our information systems may suffer interruptions due to factors beyond our control, such as natural disasters, hacker attacks, failure in telecommunication, computer virus, among other factors. This type of interruption may adversely affect our operations, thereby impacting our cash generation and our financial condition.

Unauthorized access to, or release or violation of our, our customers', our suppliers' or our service providers' systems and data could cause a material adverse effect on our business and reputation.

We, like all business organizations in the digital world, have been subject to a broad range of cyber threats, including attacks, with varying levels of sophistication. These cyber threats are related to the confidentiality, availability and integrity of our systems and data, including our customers' confidential, classified or personal information.

We maintain extensive technical security controls, policy enforcement mechanisms, monitoring systems and management oversight to address these threats. While these measures are designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks, including cyber-attacks, may occur.

Furthermore, some of our suppliers and service providers have significant access to confidential and strategic information from our system, including confidential information regarding our customers.

Any unauthorized access to, or release or violation of our systems and data or those of our customers, suppliers or service providers could disrupt our operations, particularly our digital retail operations, cause information losses and cause us to incur significant costs, which could have a material adverse effect on our business and reputation.

We depend on the transportation system and infrastructure in Brazil to deliver our products, which may delay or affect our ability to distribute products to our stores and customers.

Products destined for all of our stores are distributed through our distribution centers located in five Brazilian states and the Federal District. The transportation system and infrastructure in Brazil are underdeveloped and need significant investment to work efficiently and to meet our business needs.

Any significant interruptions or reduction in the use of transportation infrastructure or in their operations in the cities where our distribution centers are located, as a result of natural disasters, fire, accidents, systemic failures or other unexpected causes, may delay or affect our ability to distribute products to our stores and may decrease our sales, which may have a material adverse effect on us.

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

We compete with other retailers based on price, product mix, store location and layout and services. Consumer habits are constantly changing and we may not be able to anticipate and quickly respond to these changes.

If we are unable to adapt our store format mix or layout, identify locations and open stores in preferred areas, quickly adjust our product mix or prices under each of our banners and segments or otherwise adjust to changing consumer preferences, such as shopping on mobile devices, our business and results of operation could be materially adversely affected.

Our controlling shareholders have the ability to direct our business and affairs.

Our controlling shareholders, the Casino Group, together with its subsidiary Almacenes Éxito S.A., or Éxito, indirectly through their holding company, Wilkes Participações S.A., or the Holding Company, have the power to, among other things: (i) appoint the majority of the members of our board of directors, who, in turn, appoint our executive officers; (ii) determine the outcome of the vast majority of actions requiring shareholder approval, including the timing and payment of any future dividends, provided that we observe the minimum mandatory dividend established by Law No. 6,404, dated December 15, 1976, as amended, or Brazilian corporate law; (iii) approve corporate reorganizations, acquisitions, dispositions and the transfer of our control to third parties; (iv) enter into new partnerships; and (v) deliberate on financings and similar transactions. Our controlling shareholders may prevail over our other shareholders or holders of ADSs.

Unfavorable decisions in legal or administrative proceedings could have a material adverse effect on us.

We are party to legal and administrative proceedings related to civil, regulatory, tax and labor matters. We cannot assure you that legal proceedings will be decided in our favor. We have made provisions for proceedings in which the chance of loss has been classified by our external legal advisors as probable. Our provisions may not be sufficient to cover the total cost arising from unfavorable decisions in legal or administrative proceedings. If all or a significant number of these proceedings have an outcome unfavorable to us, our business, financial condition and results of operation may be materially and adversely affected. In addition to financial provisions and the cost of legal fees associated with the proceedings, we may be required to post bonds in connection with the proceedings, which may adversely affect our financial condition. See "Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings" and note 21 to our audited consolidated financial statements, included elsewhere in this annual report, for a description of our material litigation contingencies.

We may be unable to attract or retain key personnel.

In order to support and develop our operations, we must attract and retain personnel with specific skills and knowledge. We face various challenges inherent to the administration of a large number of employees over a wide geographical area. Key personnel may leave the Company for a variety of reasons and the impact of these departures is difficult to predict, which may hinder the implementation of our strategic plans and adversely affect our results of operation.

We could be materially adversely affected by violations of the Brazilian Anti-Corruption Law, U.S. Foreign Corrupt Practices Act and similar anti-corruption laws.

Law No. 12,846, of August 1, 2013 (the "Brazilian Anticorruption Law"), introduced the concept of strict liability for legal entities involved in harmful acts against the public administration, subjecting the violator to penalties both in administrative and civil law. Similar to the Foreign Corrupt Practices Act of the United States, to which we are also subject, the Brazilian Anticorruption Law considers that an effective implementation of a compliance program may be used to mitigate the administrative penalties to be applied as a consequence of a harmful act against the public administration. Failure to comply with anti-corruption laws or any investigations of misconduct or enforcement actions against us could subject us to fines, loss of operating licenses and reputational harm as well as other penalties, which may materially and adversely affect us and the trading price of the ADSs and our preferred shares.

We cannot guarantee that our service providers or suppliers do not use irregular practices.

Given the decentralization and outsourcing of our service providers' operations and our suppliers' production chains, we cannot guarantee that they will not have issues regarding working conditions, sustainability, outsourcing of the provision or production chain and improper safety conditions, or that they will not use these irregular practices in order to lower service or product costs. If a significant number of our service providers or suppliers engage in these practices, our reputation may be harmed and, as a consequence, our customers' perception of our products may be adversely affected, causing thereby a reduction in net revenue and results of operations as well as in the trading price of the ADSs and our preferred shares.

Some categories of products that we sell are acquired in large part from few suppliers.

Some categories of products that we sell are acquired in large part from few suppliers. If any supplier is not able to supply the products in the quantity and at the frequency that we normally acquire them, and we are not able to replace the supplier on acceptable terms or at all, we may be unable to maintain our usual level of sales in the affected category of product, which may have a material adverse effect on our business and operations and, consequently, on our results of operations.

We may be held responsible for consumer incidents involving adverse reactions after consumption of our products.

Products sold in our stores may cause consumers to suffer adverse reactions. Incidents involving these products may have a material adverse effect on our operations, financial condition and results of operation. Legal or administrative proceedings related to these incidents may be initiated against us, with allegations, among others, that our products were defective, damaged, adulterated, contaminated, do not contain the properties advertised or do not contain adequate information about possible side effects or interactions with other chemical substances. Any actual or possible health risk associated with these products, including negative publicity related to these risks, may lead to a loss of confidence among our consumers regarding the safety, efficacy, and quality of the products sold in our stores, especially “exclusive” brand products. Any allegation of this nature made against our brands or products sold in our stores may have a material adverse effect on our operations, financial condition and results of operation.

We may be unable to obtain or renew the operational licenses of our stores or distribution centers in a timely manner.

The inability to obtain or renew the operational licenses for our stores and distribution centers may result in the imposition of continuous fines and, as the case may be, the closing of the premises. Given that the discharge of operations in our stores and distribution centers are a critical factor in the success of our business strategy, we may be negatively affected in the case of a closing of these premises as a result of our inability to obtain or renew the necessary operational licenses.

We are subject to environmental laws and regulations.

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

Losses not covered by our insurance policies may result in damages, which could have a material adverse effect on our business.

Some types of losses, such as losses resulting from wars, acts of terrorism, or natural disasters, generally are not insured because they are either uninsurable or it is not economically practical to obtain insurance. Moreover, insurers recently have become more reluctant to insure against these types of events. If a material uninsured loss or a loss in excess of insured limits occur, our business, results of operations and financial condition could be adversely affected.

Consummation of the sale of our shareholdings in Via Varejo may not occur.

On November 23, 2016, our board of directors approved our plan to sell our shareholdings in Via Varejo, in line with our long-term strategy to focus on the development of the food retail segment. While we concluded that the sale of our shareholdings in Via Varejo is likely and expected to occur sometime in 2018, we cannot assure you that the transaction will be consummated under the expected terms and conditions and timing, or at all. If the sale of our shareholdings in Via Varejo does not occur according to our expectations, we may need to reconsider our long-term strategy as we will continue to own and operate Via Varejo, which could cause a material adverse effect on our business, operations, results of operations and financial condition.

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 ability to remit foreign currency abroad.

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

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes. See "Item 10D. Exchange Controls."

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

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

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

Investing in securities that are traded in emerging markets, including in Brazil, often involves greater risk and are generally considered to be more speculative in nature than investing in securities traded in the securities markets of more developed countries. These investments are subject to certain economic and political risks, including (i) changes in the regulatory, tax, economic and political environment that may affect the ability of investors to obtain a total or partial return on their investments; and (ii) restrictions on foreign investment and return of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more volatile and more concentrated than major international securities markets, including the securities market of the United States. The B3 had a market capitalization of R$3.1 trillion as of December 31, 2017. The ten most traded stocks by volume on the B3 during 2017 accounted for approximately 53.1% of total trading on the B3 during that period. Conversely, the New York Stock Exchange had a market capitalization of approximately US$28.0 trillion as of December 31, 2017. Furthermore, the regulations of the B3 may differ from what foreign investors are used to. The characteristics of the Brazilian securities market may substantially limit the capacity of holders of the preferred shares underlying the ADSs to sell them at the time and price they desire and, consequently, may adversely affect the market price of our preferred shares. If a liquid and active trading market is not developed or maintained, the trading price of our preferred shares may be negatively affected.

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 corporate 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 Luiz Antonio, 3142, São Paulo, SP, Brazil (telephone: +55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

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

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

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

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*, *ABC Supermercados*, *Sé Supermercados*, *Sendas* and small chains, such as *São Luiz*, *Nagumo* and *Rosado*. These chains were later and gradually converted into our current banners.

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

In 2007, we acquired a 60% ownership interest in the *Assaí* chain. This acquisition enabled us to enter the cash and carry segment 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 the remaining 40% interest in *Assaí* and became owners of 100% of the chain.

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

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

In April 2013, we and Via Varejo entered into a term of undertaking (*Termo de Compromisso de Desempenho*), or the Term of Undertaking, with the Brazilian antitrust authority (*Conselho Administrativo de Defesa Econômica*), or CADE, for the approval of the Casas Bahia association.

Our main undertaking under the Term of Undertaking was to divest 74 stores, distributed across 54 cities and seven states, representing approximately 3% of Via Varejo's consolidated gross sales in 2013. Of the 74 stores, 32 were not sold. Accordingly, these stores had their activities ended between May and June of 2014, with a fine payment of R$12 million registered in 2014. As approved by CADE, after a period of six months, 16 stores were reopened in November 2014. In 2015, we did not complete the selling process of 19 stores (of a total of 42 stores) due to failed negotiations between lessors and buyers, generating for Via Varejo a fine payment of R$7 million to CADE and a provision for disposal of property and equipment of R$7 million. Of the 19 stores, four were closed in 2014 and 15 were closed in 2016. In 2015, Via Varejo sold and transferred 15 stores, with a gain on the sale of stores of R$8 million, recognized in other operating results. We did not complete the selling process of eight stores due to failed negotiations between lessors and buyers. Of the eight stores, we closed four and reopened four stores, one of which was reopened in 2016 and three in 2017.

On October 17, 2013, we, Via Varejo and Nova Pontocom entered into a stock purchase agreement pursuant to which we acquired 6.2% of Nova Pontocom's capital stock from Via Varejo for R$80.0 million and 1.95% of Nova Pontocom's capital stock from minority shareholders for R$25 million. As a result, Nova Pontocom became our direct subsidiary of which we held 52.06% of the capital stock, Via Varejo held 43.9% and the remaining 4.04% was held by minority shareholders. This transaction had no impact on our consolidation of Nova Pontocom's results of operations and financial condition on our consolidated financial statements, since we previously held, through Via Varejo, the indirect control of Nova Pontocom.

In addition, in October 2013, Via Varejo and Nova Pontocom entered into an operational agreement relating to the terms and conditions of their relationship, synergies and complementary operations (the "Operational Agreement"). Pursuant to the Operational Agreement, Via Varejo and Nova Pontocom would, among other things, share logistics and marketing costs for their mutual benefit as well as an electronic catalog of products from which they would negotiate in good faith purchases between them. Via Varejo and Nova Pontocom also entered into a shareholders' agreement that established the corporate governance framework and other property rights for Nova Pontocom.

On December 27, 2013, Via Varejo concluded its public offering in Brazil with selling efforts to qualified institutional buyers in the United States and to institutions and other investors who were not U.S. persons elsewhere. The offering raised approximately R$3 billion in proceeds. The public offering was structured as a secondary public offering of units, with each unit consisting of one common share and two preferred shares of Via Varejo.

We sold a total of 38.9 million units for approximately R$897 million, which reduced our shareholding at the time in Via Varejo to 62.25% of the common shares and 43.35% of the total capital stock. No gain was recorded as a result of this transaction. The Klein Family sold more than 23.64% of shares of Via Varejo's capital stock. As of the date of this annual report, the Klein Family owns 25.3% of Via Varejo's total capital stock and Via Varejo has 31.4% of its total stock capital in the free float.

The Pão de Açúcar Group has been through a series of corporate transactions and reorganizations since 2014, which we describe below in further detail. The main result of these corporate transactions and reorganizations is that, at the end of 2016, we initiated the process to sell our shareholdings in Via Varejo, which also consolidates the results of Cnova Brazil, thereby focusing our long-term strategy on the development of the food retail and cash and carry segments.

E-Commerce Business Reorganization

On July 11, 2014, Casino, CBD, Via Varejo, Nova Pontocom and Cnova Brazil entered into the Framework and IPO Agreement, to which Cnova became a party on July 24, 2014. The agreement provided for the reorganization of the e-commerce businesses of Casino and its affiliated entities in France, Latin America and Asia under the common ownership and/or control of Cnova for the purpose of Cnova's initial public offering (the "2014 Reorganization"). Following the completion of the 2014 Reorganization, Cnova owned, directly or indirectly, or had the right to use substantially all of the assets that were used, or held for use, in the e-commerce businesses of Casino and its affiliated entities in France, Latin America (including Brazil) and Asia.

Pursuant to the Cnova Framework and IPO Agreement, on July 24, 2014, CBD, Cnova Brazil, Cnova and Via Varejo entered into an amendment to the Operational Agreement, or the Amended Operational Agreement. Pursuant to the Amended Operational Agreement, Via Varejo must procure for Cnova Brazil common products from its suppliers at the same price and on the same commercial terms and conditions as it procured such products for its own business. Additionally, the Amended Operational Agreement required that CBD and Via Varejo conduct any e-commerce related activities in Brazil exclusively through Cnova Brazil, and prohibited CBD and Via Varejo from purchasing any equity interest in any legal entity that operated e-commerce activities in Brazil. Cnova was required to align its prices with Via Varejo with respect to certain products sold under Via Varejo and CBD's brands (i.e., *Casas Bahia*, *Extra* and *Ponto Frio*). For further information related to the Amended Operational Agreement, see "Item 7B. Related Party Transactions—Operational Agreement."

On November 25, 2014, Cnova concluded its initial public offering of ordinary shares on the Nasdaq Global Select Market and raised approximately US$204.1 million in gross proceeds.

2015 Corporate Reorganizations

In 2015, our controlling shareholder, the Casino Group, carried out a reorganization of its activities and businesses in Latin America to consolidate its platform in the region and capture synergies. Pursuant to the reorganization, the Casino Group transferred 50% of the shares of our common stock to Éxito, corresponding to approximately 18.8% of our total capital stock. Éxito is also controlled by the Casino Group and, therefore, after consummation of the transaction, the Casino Group remained as our sole controlling shareholder. For further information on the shareholdings of our principal shareholders and shareholders' agreements, see "Item 7A. Major Shareholders."

In addition, as part of our strategy to simplify our corporate structure to gain efficiencies and thereby reduce costs, in December 2015 we and Via Varejo completed the spin-off of all of Nova HoldCo's assets and liabilities, including its share capital. With respect to Nova HoldCo's assets and liabilities, 53.2% were transferred to us, 43.9% to Via Varejo and 2.9% to minority shareholders of Nova HoldCo. Following the spin-off, Nova HoldCo was liquidated. We also carried out the merger into us of our subsidiary that held the stores *Sé Supermercados* and subsequently thereafter liquidated the subsidiary.

Cnova Reorganization

In August 2016, Cnova, Cnova Brazil and Via Varejo entered into a reorganization agreement (the "Reorganization Agreement") providing for the reorganization of Cnova Brazil within Via Varejo (the "Cnova Reorganization"). In connection with the Cnova Reorganization, Casino executed a letter agreement pursuant to which Casino agreed to launch tender offers to purchase any and all outstanding ordinary shares of Cnova at a price of US$5.50 per share, subject only to completion of the Cnova Reorganization.

The Cnova Reorganization was completed on October 31, 2016, and it was the first transaction of a series of two transactions conducted by Casino that together constituted a "going private" transaction of Cnova, as such term is used in Rule 13e-3 of the Exchange Act. As a result of the Cnova Reorganization, Via Varejo became the sole shareholder of Cnova Brazil, which operates the websites Extra.com.br, Pontofrio.com and Casasbahia.com.br, and is no longer a shareholder of Cnova. Cnova will continue its e-commerce activities outside of Brazil, focusing entirely on Cdiscount. As of December 31, 2017, we held a 43.30% indirect equity participation in Cnova Brazil.

In December 2016, Casino launched concurrent offers to purchase any and all Cnova ordinary shares for US$5.50 per share in cash in the United States (the "U.S. Offer") and in France (the "French Offer," and together with the U.S. Offer, the "Offers"). The Offers were the second and final transaction of the "going private" transaction of Cnova. As a result of the Offers, as of March 31, 2018, Casino and its controlled affiliates beneficially owned, in the aggregate, 340,957,246 Cnova ordinary shares, representing approximately 98.97% of Cnova's outstanding ordinary shares.

Corporate Governance Process for Approval of the Cnova Reorganization

According to the terms of CBD's policy for related party transactions, our board of directors formed a special committee composed by the board members Eleazar de Carvalho Filho and Luiz Aranha Corrêa do Lago (the "CBD Special Committee") to issue a recommendation to our board of directors on the vote to be cast by CBD at Cnova's shareholders' meeting relating to the Cnova Reorganization and the terms and conditions of a new operational agreement between CBD and Via Varejo. The Cnova Reorganization was conditioned upon CBD not selling its shares of Cnova in the tender offer. Thus, our board of directors submitted to the CBD Special Committee the analysis of (i) the Cnova Reorganization, (ii) the condition not to sell CBD's shares of Cnova and (iii) the new operational agreement, all as one single transaction.

In August 2016, the CBD Special Committee, having received the commitment letter from Casino according to the terms described in the following paragraph, submitted its unanimous recommendation to our board of directors in favor of the vote for the approval of the Cnova Reorganization that CBD would cast at Cnova's shareholders' meeting.

Casino and CBD Support Letters. In connection with the Cnova Reorganization, Casino and CBD made certain undertakings to each other pursuant to a letter agreement addressed to the CBD Special Committee and executed by Casino and CBD, dated August 8, 2016 (the "Casino-CBD commitment letter"), and a letter agreement from CBD to Casino, dated August 8, 2016 (the "CBD support letter"). The Casino-CBD commitment letter and the CBD support letter are intended to govern the parties' ongoing relationship to each other in their capacity as shareholders of Cnova following completion of the Cnova Reorganization and the Offers.

The following describes the material provisions of the Casino-CBD commitment letter and the CBD support letter, included as Exhibits 4.(b)(10) and 4.(b)(11) hereto, respectively, and incorporated herein by reference. This summary does not purport to be complete, is qualified in its entirety by reference to the full text of such letters and the summary may not contain all of the information about the Casino-CBD commitment letter and the CBD support letter that may be important to you. You are encouraged to read carefully the Casino-CBD commitment letter and the CBD support letter in their entirety.

1. Casino-CBD Commitment Letter

a. CBD Undertakings

Pursuant to the Casino-CBD commitment letter, CBD agreed (i) not to tender the subject shares directly or indirectly into the Offers and (ii) not to sell the subject shares on the market or transfer the subject shares in any other manner, and represented that it has not performed any of the actions described in clause (ii) since May 12, 2016.

Additionally, in the event that CBD decides to sell any of the subject shares to a third party, it agreed (i) to first offer the subject shares to Casino at the price offered by the third party and (ii) if Casino does not wish to acquire the subject shares or Casino and CBD do not agree on a purchase price for the subject shares, to require the proposed transferee to acquire up to the same portion of Casino's shares in Cnova at approximately the same time and on the same conditions.

b. Casino Undertakings

From and after closing of the Cnova Reorganization and so long as Casino controls Cnova, Casino has agreed to the following:

i. *Director Designation Rights*. Casino will ensure that CBD has the right to designate at least one member to the Cnova board of directors so that the ratio of (i) non-independent members of the Cnova board of directors appointed by CBD divided by (ii) the total number of non-independent directors is at least equal to CBD's economic interest in Cnova's outstanding ordinary shares (such director or directors, the "CBD Directors");

ii. *Information Rights.* Casino will ensure that CBD and/or the CBD Directors have access to the following information with respect to Cnova: (i) audited statutory and consolidated accounts, (ii) annual budget and forecast, (iii) half-year and quarterly accounts, (iv) annual report, (v) details of any material change in business, financial position or affairs and (vi) any other information that may be required for CBD to comply with Brazilian capital markets regulations. Casino also agreed to cause Cnova to make members of Cnova's senior management reasonably available to CBD or the CBD Directors;

iii. *Good Faith Consideration of an IPO.* If, as a result of the Offers, Cnova ordinary shares are no longer listed on NASDAQ or Euronext Paris, Casino has agreed to consider in good faith the opportunity to launch, in due time and depending on Cnova's then-current strategic and financial objectives and then-prevailing market conditions, an initial public offering of Cnova or, as the case may be, any subsidiary thereof, which we refer to as an "IPO;"

iv. *Good Faith Consideration of a Fully Marketed Offering*. If, following the Offers, Cnova ordinary shares continue to be listed on NASDAQ or Euronext Paris, Casino agreed to consider in good faith the opportunity to launch a fully marketed offering, which we refer to as an "FMO," through the sale of a significant portion of Cnova's shares, aimed at increasing the free float and liquidity of Cnova ordinary shares;

v. *IPO or FMO Assessment Right.* CBD may require Casino to engage a first-tier advising bank selected by Casino to assess in good faith the opportunity of an IPO or an FMO and in both cases the opportunity and feasibility of a secondary placement (i.e., through the sale of existing shares of Cnova). CBD may not exercise such right more than once in any two-year period;

vi. *IPO and FMO Priority.* If Casino or Cnova decides to initiate an IPO or FMO (including any secondary offering), CBD has the right to sell all of its shares as part of such offering, with priority over Casino with respect to up to 90% of the total shares to be offered in such secondary offering, subject to certain exceptions;

vii. *Tag Along Rights (Change-in-Control Transaction).* Casino has agreed that, if it intends to transfer any or all of its Cnova ordinary shares to any third party (except for sales among members of the Casino Group or the controlling affiliates of Casino), which transfer will constitute a change-in-control of Cnova, CBD will be entitled to require the transferee to acquire all of its shares in Cnova at approximately the same time and on the same conditions;

viii. *Tag Along Rights (Not a Change-in-Control Transaction).* Casino agreed that if it intends to transfer any or all of its Cnova ordinary shares to any third party (except for sales among members of the Casino Group or the controlling affiliates of Casino), which transfer will not constitute a change-in-control of Cnova, CBD will be entitled to require the transferee to acquire up to the same portion of the subject shares at approximately the same time and on the same conditions; and

ix. *Survival of Rights.* In the case of any reorganization or other corporate transaction involving Cnova resulting in an exchange, redemption or allotment of Cnova ordinary shares (other than in a transaction where CBD would have the right to sell all of its shares on the same conditions as Casino), Casino has agreed to ensure that CBD keeps the rights granted or receives rights similar to those granted by the Casino-CBD commitment letter with respect to the surviving entity.

The undertakings of Casino and CBD in the Casino-CBD commitment letter survive until the earliest of (i) the day when Casino no longer controls, directly or indirectly, Cnova, (ii) the day when CBD is no longer a shareholder of Cnova and (iii) August 8, 2041.

2. CBD Support Letter

Pursuant to the CBD support letter, CBD informed Casino that at the meeting held on August 8, 2016, the CBD board of directors unanimously resolved (i) to cause its voting rights to be exercised at any Cnova shareholders' meeting in favor of the Cnova Reorganization and (ii) not to tender its Cnova ordinary shares (the "subject shares") directly or indirectly into the Offers, nor otherwise dispose of or transfer the subject shares in any other manner or through any other instrument, including any derivative instruments until completion of the Offers. CBD further agreed to stand alongside and cooperate with Casino in subsequent squeeze-out proceedings, if any, following completion of the Offers.

In addition, our board of directors approved, in accordance with the recommendation of the CBD Special Committee, the execution of a new operational agreement between CBD and Via Varejo, which establishes the terms and conditions for the commercial and strategic alignment of their retail and e-commerce activities, especially regarding the joint acquisitions of common products and the e–commerce activities under the brand "Extra," which came into effect as of the implementation of the Cnova Reorganization.

Discontinued Operations of Via Varejo

Our board of directors, on November 23, 2016, approved a process to dispose of our equity interest in Via Varejo's capital stock, in line with our long-term strategy of focusing on the development of the food retail segment.

During 2017, due to certain external factors, out of our control, mainly related to the Brazilian macroeconomic scenario, the process of sale of Via Varejo was not concluded within the expected timetable. The plan to sell Via Varejo remains unchanged. We revised the next steps and expect, along with our financial advisors, to finalize the process during 2018.

As disclosed in note 32 to our audited consolidated financial statements included elsewhere in this annual report, the statement of operations for the years ended December 31, 2017, 2016 and 2015 related to Via Varejo and Cnova Brazil (until October 31, 2016) was classified in a single line item as "discontinued operations," as well as the assets and liabilities for Via Varejo (including Cnova Brazil), which are now classified as held for sale as of December 31, 2017 and 2016. In addition, we also re-presented the financial data as of and for the years ended December 31, 2014 and 2013 in the table for comparative purposes.

Noncurrent assets and liabilities held for sale were, respectively, R$22,961 million as of December 31, 2017 compared to R$20,303 million as of December 31, 2016 and R$17,824 million as of December 31, 2017 compared to R$15,632 million as of December 31, 2016. The net effects on discontinued operations were a gain of R$383 million in 2017 compared to a loss of R$1,005 million in 2016 and a loss of R$891 million in 2015.

Capital Expenditures and Investment Plan

As part of our capital expenditures and investment plan, we have invested approximately R$5,242 million in our operations in the three years ended December 31, 2017. Our capital expenditure and investment plan for 2018 contemplates capital expenditures and investments in the total amount of approximately R$1,600 million relating to (i) the opening of new stores, purchase of real estate and conversion of stores; (ii) the renovation of existing stores;

(iii) improvements to information technology; and (iv) improvements to distribution facilities. 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:

Opening of new stores and purchases of real estate – In the food retail sector, we seek to rent or purchase real estate properties when there is an opportunity to open new stores under one of our banners or local supermarket chain acquisition opportunities that suit one of our formats. We have opened 134 new stores from 2015 through 2017, including those in the food retail sector. The total cost of opening these new stores and the purchase of real estate from 2015 through 2017 was R$1,569 million.

Renovation of existing stores – We usually remodel a number of our stores every year. As per our renovation program, we updated refrigeration equipment in our stores, created a more modern, customer-friendly and efficient environment and outfit our stores with advanced information technology systems. Also, in 2017, we started a special renovation program of the *Pão de Açúcar* banner stores. We completely renovated the layout of eleven stores and implemented key concepts of last-generation stores. In addition, we also improved 39 stores focusing on maintenance, painting, refurnishment and acquisition of new equipment. The total cost of renovating existing stores from 2015 through 2017 was R$1,959 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$822 million from 2015 through 2017. For more information on our information technology, see "Item 4B. Business Overview - Technology."

Improvements to distribution facilities –We own distribution centers in the states of São Paulo, Ceará, Rio de Janeiro, Pernambuco, Bahia and the Federal District. The 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 invested an aggregate of R$892 million in our distribution facilities from 2015 through 2017.

]The following table provides a summary description of our principal capital expenditures for the periods indicated:

	Year Ended December 31,			
	2015	**2016**	**2017**	**2015-2017**
	(in millions of R$)			
Opening of new stores	477	475	590	1,542
Purchases of real estate	9	5	13	27
Renovation of existing stores	909	489	561	1,959
Information technology	334	284	204	822
Distribution facilities	256	291	345	892
Total	**1,985**	**1,544**	**1,713**	**5,242**

4B. Business Overview

The Brazilian Retail Industry

The Brazilian retail food industry represented approximately 5.4% of Brazil's GDP in 2017, in line with 2016. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of approximately R$353 billion in 2017, representing a 4.3% nominal increase compared to approximately R$338.7 billion in 2016.

The Brazilian retail food industry is highly fragmented. According to ABRAS, the five largest supermarket chains represented approximately 39.7% of the retail food industry in 2017, as compared to 40.6% in 2016 and 51.5% in 2015. Our consolidated gross sales represented 13.8% of the gross sales of the entire retail food industry in 2017, as compared to 13.3% in 2016, also according to ABRAS.

The Brazilian GDP growth consistently decreased from 2010 until 2016, declining 3.8% in 2015 and 3.6% in 2016. In 2017, the Brazilian GDP increased 1.0%. The unemployment rate in Brazil has been increasing constantly since 2014 and reached 12.7% in 2017, the highest rate since the Brazilian Institute of Geography and Statistics *(Instituto Brasileiro de Geografia e Estatística),* or IBGE, started divulging the current unemployment rate index, in 2012. Brazil's annual inflation, decreased to - 0.53% in 2017, according to the General Market Price Index (*Índice Geral de Preços - Mercado*), or IGP-M, and to 2.95% according to the IPCA. Inflation has a direct effect on the final prices we charge our consumers when they acquire our products.

According to data published in January 2018 by the IBGE, the volume of sales in the food retail sector increased by 1.8% in 2017 compared to 2016.

The cash and carry segment was created in order to serve customers within a market niche that was neither reached by self-service retail nor by direct wholesale. According to the most recently published data by the Brazilian Association of Wholesalers and Distributors of Industrial Products (*Associação Brasileira de Atacadistas e Distribuidores de Produtos Industrializados*) and Nielsen Holdings N.V., or Nielsen, the wholesale sector in Brazil had gross revenues of approximately R$218.4 billion in 2015, representing a nominal increase of 3.1% over the previous year.

According to the IBGE, the total population of Brazil was approximately 208 million in 2017, representing a 1.5% growth since 2015. 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 survey, in 2017, the city of São Paulo had a population of approximately 12.1 million and the city of Rio de Janeiro had a population of approximately 6.5 million. These are the two largest cities in Brazil. The state of São Paulo has a total population in excess of 45 million, representing 21.7% of the Brazilian population and is our largest consumer market, with 634 stores as of December 31, 2017. The state of Rio de Janeiro is our second largest consumer market, with 97 stores as of December 31, 2017.

During 2017, private consumption in Brazil decreased 4.0% while the country's GDP increased 1.0%. Among the reasons for the GDP increase are the 3.4% increase in average real income and the 6.6% increase in household credit.

According to the Gini index, published by the *Fundação Getúlio Vargas*, or FGV, Brazil worsened its income inequality in the end of 2015, for the first time after 13 consecutive years of improvement. From 2001 to 2014, the index decreased approximately 0.6 basis points per year but in the fourth quarter of 2015 there was an increase of 0.8 basis points compared to the same period in the previous year. The inequality increased due to a reduction in the per capita income, which grew on average 3.3% per year from 2001 to 2014, and decreased 2.2% in the fourth quarter of 2015 when compared to the same period in 2014.

The following table sets forth the different income class levels of Brazilian households, according to the Consumption Potential Index (*Índice de Potencial de Consumo*), or IPC, Maps 2017.

Class Level	**Average Monthly Income (in R$)**
A	20,273
B1	8,696
B2	4,427
C1	2,409
C2	1,446
D/E	640

According to a study by IPC Maps 2017, class A households account for only 2.4% of the urban population and classes B1 and B2 households account for 23.1% of the urban population. Classes C1 and C2, the most representative in Brazil, represent 47.9% and classes D and E collectively represent 26.6% of all urban households. In recent years, the number of class C, D and E households has increased in terms of total urban households and their average purchasing power has increased.

We expect that increased consumption by the lower income class levels will occur over time as a result of gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage increased 1.8% from R$937 in January 2017 to R$954 in January 2018.

Our Company

We are the largest traditional retailer in the food segment in Brazil and the second largest player in the cash and carry segment, with a market share of approximately 13.8% in 2017, as compared to 13.3% in 2016, according to ABRAS. As of December 31, 2017, our total gross sales, taking into account just food business categories, totaled R$48,439 million. On the same date, we operated 882 stores, 72 gas stations and 127 drugstores in 18 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 23 distribution centers and depots located in five Brazilian states and the Federal District.

We operate in the retail segment of food, clothing, home appliances and other products by means of our hypermarkets, supermarkets, specialized stores and department stores, especially under the banners *Pão de Açúcar, Minuto Pão de Açúcar, Extra Hiper, Extra Super, Minimercado Extra, Assaí, Aliados Compre Bem* and neighborhood shopping malls called *Conviva.* We classify our business segments into two operating segments as follows (see note 30 to our audited consolidated financial statements included elsewhere in this annual report):

- *Food retail segment*, which consists of sales of food and non-food products to individual consumers at (i) supermarkets through the banners *Pão de Açúcar* and *Extra Supermercado*;(ii) hypermarkets through the banner *Extra Hiper*; and (iii) neighborhood stores through the banners *Minimercado Extra*, *Minuto Pão de Açúcar* and*Aliados Compre Bem*; and (iv) gas stations, and drugstores through the *Extra*banner.The food retail segment also includes the revenues related to rentals of commercial spaces.

  Food products include non-perishable food products, beverages, fruits, vegetables, meat, bread, cold cuts, dairy products, cleaning products, disposable products and personal care products. In some cases, we sell these goods in the form of our 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, mobile phones, mattresses, pet products, gardening and also electronics products, such as personal computers, software, computer accessories and sound and image systems. We also offer some of the products listed above in the form of our private label products. In addition, we sell our products in the food retail segment through our websites www.paodeacucar.com and www.extra.com.br.

  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 addition, we also provide extended warranties to our customers upon the sale of home appliances at our stores in the food retail segment.

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Cash and carry segment, which consists of sales of food and some non-food products to resellers, intermediate consumers and retail customers through the Assaí banner.

We carry out our discontinued operations through Via Varejo, which is the sole shareholder of Cnova Brazil, and operates in the home appliances and e-commerce segments through stores under the banners *Ponto Frio* and *Casas Bahia,* in addition to the e-commerce platforms *Casasbahia.com, Extra.com, Pontofrio.com, Barateiro.com,* and *Cdiscount.com.*

Segment Revenue and Income Distribution

The table below shows the breakdown of our consolidated gross and net operating revenue by banner for the year ended December 31, 2017.

	Year Ended December 31, 2017			
Operating segment	**Gross Operating Revenue from the Segment (in millions of R$)**	**Percentage of Total Gross Operating Revenue (%)**	**Net Operating Revenue from the Segment (in millions of R$)**	**Percentage of Total Net Operating Revenue (%)**
Extra	17,561	36.3%	16,110	36.1%
Pão de Açúcar	7,249	15.0%	6,659	14.9%
Proximity stores	1,164	2.4%	1,085	2.4%
Others	2,395	4.9%	2,340	5.2%
Food retail	28,369	58.6%	26,194	58.6%
Assaí	20,070	41.4%	18,440	41.3%
Cash and carry	20,070	41.4%	18,440	41.3%
Total	**48,439**	**100.0%**	**44,634**	**100.0%**

We generate all of our operating revenue in Brazil.

The table below shows the breakdown of our consolidated net income (loss) by operating segment. We present results of the operating segments in accordance with IFRS, the measure used by management in evaluating the performance of and strategy for the two segments listed below.

Operating segment	**Year Ended December 31, 2017** Net Income (Loss) from the Segment (in millions of R$)	Percentage of Total Net Income (Loss) (%)
Food retail	33	3.8%
Cash and carry	540	62.4%
Discontinued operations	416	48.1%
Eliminations/Others	(124)	(14.3)%
Total	**865**	**100.0%**

For more information about our net operating revenues and net income (loss) by operating segment, see "Item 5A. Operating Results—Results of Operations for 2017, 2016 and 2015."

For information on net operating revenues and net income (loss) of discontinued operations, see note 32 to our audited consolidated financial statements as of and for the year ended December 31, 2017 included elsewhere in this annual report.

Number of Stores

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

	Pão de Açúcar	***Extra Hiper***	***Extra Super***	***Mini-mercado Extra***	***Minuto Pão de Açúcar***	***Assaí***	**Total**
As of December 31, 2014	**181**						