

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD  
Form 20-F  
July 01, 2011

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

**FORM 20-F**

- 1 REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
OR  
T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2010  
OR  
1 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
OR  
1 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)

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(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

99,679,851 Common Shares, no par value per share  
160,279,858 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.

**T Yes 1 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.

**1 Yes T 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.

**T Yes 1 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).

**1 Yes T 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 T      Accelerated Filer 1      Non-accelerated Filer 1**

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

**U.S. GAAP 1                      International Financial Reporting  
Standards as issued by the  
International Accounting Standards  
Board T    Other 1**

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 1    Item 18 1**

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).

1 Yes **T** No

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## INTRODUCTION

All references in this annual report to (i) “CBD,” “we,” “us,” “our,” “Company” or “Pão de Açúcar Group” are references to Companhia Brasileira de Distribuição and its consolidated subsidiaries, unless the context requires otherwise, (ii) the “Brazilian government” are references to the federal government of the Federative Republic of Brazil, or Brazil, and (iii) “preferred shares” and “common shares” are references to our authorized and outstanding shares of non-voting preferred stock, designated as *ações preferenciais*, and common stock, designated as *ações ordinárias*, respectively, in each case without par value. All references to “ADSs” are to American depositary shares, each representing one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or “ADRs”, issued by The Bank of New York Mellon.

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

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

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts in respect of the year ended December 31, 2010 was R\$1.666 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2010, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate. See “Item 3A. Selected Financial Data—Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

## FORWARD-LOOKING STATEMENTS

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

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



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

Table of Contents**PART I****Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION****3A. Selected Financial Data**

We changed our financial reporting from Brazilian GAAP to IFRS, beginning with the financial statements as of and for the year ended December 31, 2009. Therefore, we present in this section summary financial and operating data derived from our audited financial statements as of and for the years ended December 31, 2008, 2009 and 2010 included in this annual report and prepared in accordance with IFRS.

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2010 have been translated into U.S. dollars at the commercial rate for purchase of U.S. dollars in effect as of December 31, 2010 as reported by the Brazilian Central Bank of R\$1.666 to US\$1.00.

	<b>As of and for the Year Ended December 31,</b>			
	<b>2008</b>	<b>2009 <sup>(1)</sup></b>	<b>2010 <sup>(2)</sup></b>	<b>2010</b>
	<b>(millions of R\$, except share, per share and per ADS amounts)</b>			<b>(millions of US\$, except share, per share and per ADS amounts)</b>
<b>Statement of operations data</b>				
Net sales revenue	18,032.0	23,192.8	32,091.7	19,262.7
Cost of sales	(13,279.5)	(17,493.8)	(24,241.5)	(14,550.7)
Gross profit	4,752.5	5,699.0	7,850.2	4,712.0
Selling, general and administrative expenses	(3,447.9)	(4,179.6)	(5,782.1)	(3,470.6)
Depreciation and amortization	(442.7)	(459.9)	(440.1)	(264.2)
Other operating expenses, net	(19.1)	(77.9)	(26.0)	(15.6)
Operating profit	842.8	981.6	1,602.0	961.6
Financial income	292.1	246.7	331.7	199.1
Financial expense	(623.7)	(501.2)	(1,154.7)	(693.1)
Equity pickup results	(0.5)	5.4	34.5	20.7
Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest	510.7	732.5	813.5	488.3

Income tax expense				
Current	(36.3)	(68.1)	(52.1)	(31.3)
Deferred	(110.9)	(25.9)	(34.5)	(20.7)
Employee profit sharing	(22.2)	(32.5)	(35.1)	(21.1)
Net income	341.3	606.0	691.8	415.2
Attributable to equity holders of the parent	341.3	609.3	722.3	433.6
Attributable to noncontrolling interest	0.0	(3.4)	(30.7)	(18.4)
Basic earnings per 1,000 shares				
Preferred	1.54	2.59	2.92	1.75
Common	1.39	2.34	2.65	1.59
Diluted earnings per 1,000 shares				
Preferred	1.49	2.50	2.89	1.74
Common	1.39	2.34	2.65	1.59
Basic earnings per ADS	1.54	2.59	2.92	1.75
Diluted earnings per ADS	1.49	2.50	2.89	1.74

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	<b>As of and for the Year Ended December 31,</b>			
	<b>2008</b>	<b>2009 <sup>(1)</sup></b>	<b>2010 <sup>(2)</sup></b>	<b>2010</b>
	<b>(millions of R\$, except share, per share and per ADS amounts)</b>			<b>(millions of US\$, except share, per share and per ADS amounts)</b>
Weighted average number of shares outstanding (in thousands)				
Preferred	132,170	145,442	156,873	
Common	99,680	99,680	99,680	
Total	231,850	245,122	256,553	
Dividends declared and interest on equity per 1,000 shares <sup>(3)</sup>				
Preferred	0.28	0.60	0.69	0.42
Common	0.25	0.53	0.63	0.38
Dividends declared and interest on shareholders' equity per ADS <sup>(3)</sup>	0.28	0.60	0.69	0.42
<b>Balance sheet data</b>				
Cash and cash equivalents	1,623.5	2,341.9	3,818.0	2,291.7
Property and equipment, net	4,867.0	5,356.6	6,703.6	4,023.8
Total assets	13,718.6	18,574.1	29,932.7	17,966.8
Short-term debt (including current portion of long-term debt)	334.6	687.6	2,977.5	1,787.2
Long-term debt	3,092.6	3,582.6	5,591.9	3,356.5
Shareholders' equity	5,454.2	6,656.7	9,583.8	5,752.6
Share capital	4,450.7	5,374.8	5,579.3	3,348.9
<b>Other financial information</b>				
Net cash provided by (used in):				
Operating activities	1,256.0	1,842.8	363.3	218.1
Investing activities	(484.7)	(1,636.7)	(1,364.9)	(819.3)
Financing activities	(206.8)	512.4	2,477.7	1,487.2
Capital expenditures	(488.3)	(1,631.7)	(1,521.7)	(913.4)

(1) Includes the result of operations of Globex Utilidades S.A., or Globex, which operates under the brand name *Ponto Frio* as from July 1, 2009. For further information on the acquisition of Globex, see "Item 4A. History and Development of the Company."

(2) Includes the results of operations of Globex and the results of operations of Nova Casa Bahia S.A., or Nova Casa Bahia, which operates under the brand name *Casas Bahia* as from November 1, 2010. For further information on the acquisition of Globex and the association of Globex and Nova Casa Bahia, see “Item 4A. History and Development of the Company.”

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

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	2008	2009	2010	2010 (in millions of US\$, except as indicated)
<b>Operating Data</b>	<b>(in millions of R\$, except as indicated)</b>			
Employees at end of period (1)	70,656	85,244	92,661	
Total square meters of selling area at end of period (1)	1,360,706	1,744,653	1,832,592	
Number of stores at end of period:				
<i>Pão de Açúcar</i>	145	145	149	
<i>CompreBem</i>	165	157	-	
<i>Extra Hipermercados</i> (2)	139	168	178	
<i>Extra Supermercado</i> (3)	-	13	231	
<i>Extra Eletro</i>	47	47	-	
<i>Assaí</i>	28	40	57	
<i>Sendas</i>	73	68	-	
<i>Ponto Frio</i> (4)	-	455	506	
Total number of stores at end of period	597	1,080	1,121	
Net sales revenues per employee (5):				
<i>Pão de Açúcar</i>	229,076	262,276	323,168	193,978
<i>CompreBem</i>	325,737	335,961	-	-
<i>Extra Hipermercados</i> (2)	339,614	356,219	417,281	250,469
<i>Extra Supermercado</i> (3)	-	-	316,028	189,692
<i>Extra Eletro</i>	409,722	548,133	-	-
<i>Assaí</i>	437,538	303,395	418,860	251,417
<i>Sendas</i>	244,060	297,486	-	-
<i>Ponto Frio</i> (4)	-	258,144	644,237	386,697
Average net sales revenues per employee	297,536	315,690	407,732	244,737
Net sales revenues by store format:				
<i>Pão de Açúcar</i>	3,378	3,798	4,287	2,897
<i>CompreBem</i>	2,573	2,585	-	-
<i>Extra Hipermercados</i> (2)	9,120	10,406	11,282	6,772
<i>Extra Supermercado</i> (3)	-	-	4,597	2,759
<i>Extra Eletro</i>	295	386	-	-
<i>Assaí</i>	1,269	1,982	2,943	1,767
<i>Sendas</i>	1,397	1,608	-	-
<i>Ponto Frio</i> (4)	-	2,475	6,158	3,696
Total net sales	18,032	23,240	29,808	17,892
Average monthly net sales revenue per square meter (6):				
<i>Pão de Açúcar</i>	1,481.1	1,637.2	1,890.8	1,134.9

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<i>CompreBem</i>	1,085.4	1,148.7	-	-
<i>Extra Hipermercados (2)</i>	1,025.3	1,138.0	1,281.0	768.9
<i>Extra Supermercado (3)</i>	-	-	1,222.3	733.6
<i>Extra Eletro</i>	881.1	1,154.1	-	-
<i>Assaí</i>	2,486.1	1,395.2	1,552.5	931.9
<i>Sendas</i>	897.1	1,088.6	-	-
<i>Ponto Frio (4)</i>	-	620.4	1,494.8	897.2
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	1,421.8	853.4
Average ticket amount:			37.4	
<i>Pão de Açúcar</i>	26.1	29.8		22.4
<i>CompreBem</i>	19.3	20.7	-	-
<i>Extra Hipermercados (2)</i>	43.7	48.5	51.8	31.1
<i>Extra Supermercado (3)</i>	-	-	23.9	14.3
<i>Extra Eletro</i>	299.1	346.6	-	-
<i>Sendas</i>	21.9	24.2	-	-
<i>Assaí</i>	78.9	74.5	85.0	51.0
<i>Ponto Frio (4)</i>	-	618.4	328.4	197.1
CBD average ticket amount	32.6	41.2	50.3	30.2

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	2008	2009	2010	2010 (in millions of US\$, except as indicated)
<b>Operating Data</b>	<b>(in millions of R\$, except as indicated)</b>			
Average number of tickets per month:				
<i>Pão de Açúcar</i>	10,769,076	10,607,751	10,765,303	
<i>CompreBem</i>	11,128,328	10,387,308	8,958,669	
<i>Extra Hipermercados</i> (2)	17,406,079	17,886,223	16,950,662	
<i>Extra Supermercado</i> (3)				
<i>Extra Eletro</i>	82,185	92,908	76,243	
<i>Sendas</i>	5,315,750	5,537,072	4,562,594	
<i>Assaí</i>	1,340,148	2,218,159	2,885,286	
<i>Ponto Frio</i> (4)	-	333,487	1,486,648	
CBD average number of tickets per month	46,041,566	47,062,907	49,401,310	

(1) In 2010, does not include the employees and the selling area of *Casas Bahia* stores.

(2) In 2010, includes the results of operations of 110 *Extra Hipermercados* stores and 68 *Extra Fácil* stores. In 2009, included the results of operations of 103 *Extra Hipermercados* stores, 13 *Extra Supermercado* stores and 52 *Extra Fácil* stores.

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

(4) Includes the results of operations of Globex (*Ponto Frio*) as from July 1, 2009, and *Extra Eletro* stores, excluding the operations of Nova Casa Bahia. During 2010, we converted the *Extra Eletro* stores into *Ponto Frio* stores. For further information on the acquisition of Globex, see "Item 4A. History and Development of the Company."

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

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

### Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macro-economic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. With the crisis in the global financial markets beginning in mid-2008, the *real* depreciated 33.3% against the U.S. dollar over the year 2008, reaching R\$2.34 per US\$1.00 on December 31, 2008. On December 31, 2009 the exchange rate was R\$1.74 per US\$1.00 and on December 31, 2010 it was R\$1.67 per US\$1.00. The Central Bank has intervened



occasionally to control instability in foreign exchange rates, buying or selling local currency.

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated.

<b>Year</b>	<b>Exchange Rate of Brazilian Currency per US\$1.00</b>			
	<b>Low</b>	<b>High</b>	<b>Average(1)</b>	<b>Year-End</b>
2006	2.059	2.371	2.177	2.138
2007	1.733	2.156	1.948	1.771
2008	1.559	2.500	1.838	2.337
2009	1.702	2.421	1.994	1.741
2010	1.655	1.881	1.759	1.666

<b>Month</b>	<b>Exchange Rate of Brazilian Currency per US\$1.00</b>			
	<b>Low</b>	<b>High</b>	<b>Average(1)</b>	<b>Period-End</b>
November 2010	1.680	1.734	1.713	1.701
December 2010	1.666	1.712	1.695	1.666
January 2011	1.651	1.691	1.675	1.668
February 2011	1.661	1.678	1.668	1.661
March 2011	1.629	1.676	1.659	1.629
April 2011	1.565	1.619	1.586	1.573
May 2011	1.575	1.634	1.613	1.580
June 2011 (through June 15, 2011)	1.575	1.600	1.585	1.600

Source: Central Bank

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

**3B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**3D. Risk Factors**

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

**Risks Relating to Brazil**

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

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

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

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

preferred shares and the ADSs.

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

Brazil has in the past experienced extremely high rates of inflation and has therefore followed monetary policies that have resulted in one of the highest *real* interest rates in the world. Between 2005 and 2010, the base interest rate (SELIC) in Brazil varied between 19.77% p.a. and 10.75% p.a. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, which could negatively affect our business. We may not be able to adjust the prices we charge our customers to offset the effects of inflation on our cost structure. In addition, Brazilian government measures to combat inflation that result in an increase in interest rates may have an adverse effect on us as our indebtedness is indexed to the interbank deposit certificate, or CDI, rate. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm us or adversely affect the market price of our preferred shares and the ADSs.

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

The Brazilian currency fluctuates in relation to the U.S. dollar and other foreign currencies. The Brazilian government has in the past utilized different exchange rate regimes, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, Brazil has adopted a floating exchange rate system with interventions by the Central Bank in buying or selling foreign currency. From time to time there have been significant fluctuations in the exchange rate between the real and the U.S. dollar and other currencies. For example, the real appreciated 11.8%, 8.7% and 17.2% against the U.S. dollar in 2005, 2006 and 2007, respectively. In 2008, as a result of the worsening global economic crisis, the real depreciated 32% against the U.S. dollar, closing at R\$2.34 to US\$1.00 on December 31, 2008. For the year ended December 31, 2009, the real appreciated 25.5% against the U.S. dollar, closing at R\$1.74 to US\$1.00 on December 31, 2009. For the year ended December 31, 2010, the real appreciated 4.2% against the U.S. dollar, closing at R\$1.67 to US\$1.00. The real may substantially depreciate or appreciate against the U.S. dollar in the future. Exchange rate instability may have a material adverse effect on us. Depreciation of the real against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and result in a material adverse effect on us. Depreciation would also reduce the U.S. dollar value of distributions and dividends and the U.S. dollar equivalent of the market price of our preferred shares and the ADSs.

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

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

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

**Risks Relating to the Retail Industry and Us*****We face significant competition, which may adversely affect our market share and net income.***

We operate mainly in the food retail and home appliances sectors. The food retail sector in Brazil, including the cash-and-carry segment (*atacarejo*), a wholesale format in the retail food sector, and the home appliances sector in Brazil are 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. Some of these international competitors have greater financial resources than we have. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

***We are co-controlled by two groups of shareholders.***

The group composed of Mr. Abilio dos Santos Diniz and other members of the Diniz family, or Diniz Family, and the Casino Guichard Perrachon Group, or Casino Group, have shared our control since 2005 through our holding company, Wilkes Participações S.A., which owns 65.6% of our voting shares and also the usufruct of 34.3% of voting shares held by the Casino Group. This holding company is also referred to in this annual report as the Holding Company. See “Item 7A. Major Shareholders.” Consequently, our two indirect co-controlling shareholders have the power to control our Company, including the power to:

- appoint the members to our board of directors, who, in turn, appoint our executive officers,
- determine the outcome of any action requiring shareholder approval, including the timing and payment of any future dividends, provided that we observe the minimum mandatory dividend established by Brazilian corporate law,
- determine corporate reorganizations, acquisitions, dispositions and the transfer of our control to third parties,
- deliberate on related party transactions and enter into new partnerships, and
- deliberate on financings and similar transactions.

Our controlling shareholders may have conflicting interests with those of our other shareholders or holders of ADSs and the interests of our controlling shareholders may prevail over those of our other shareholders or holders of ADSs.

In addition, the co control of our Company could result in deadlocks and disputes between our controlling shareholders with respect to strategic, control and other important issues, which may adversely affect us. On May 30, 2011, the Casino Group and its affiliates Segisor S.A. and Sudaco Participações Ltda. filed a request for arbitration under the International Chamber of Commerce rules against Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D’Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Península Participações Ltda.. We are not a party to the arbitration proceeding and, therefore, are not aware of its content. The arbitration proceeding is subject to confidentiality provisions and is aimed at ensuring compliance with the shareholders’ agreements between the controlling shareholders. We cannot anticipate the effects of the dispute on us. For additional information on shared decision-making, see “Item 7A. Major Shareholders — Conditional Put Option Agreement and Shareholders’ Agreements.”

Since 2003, Mr. Abilio dos Santos Diniz, the controlling member of the Diniz Family, has been the chairman of our board of directors. He has also been the chairman of the board of directors of the Holding Company. He may remain as chairman of our board of directors and that of the Holding Company until 2012. Beginning 2012, the Casino Group will have the right to appoint the chairman of our board of directors and the chairman of the board of directors of the Holding Company, except if Mr. Abilio dos Santos Diniz complies with certain conditions. In this case, the Casino Group will be obligated to appoint him for those positions. For further information, see “Item 7A. Major Shareholders – Conditional Put Option Agreement and Shareholders’ Agreements.”

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

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

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We have recently entered into an association agreement with the partners of Casa Bahia Comercial Ltda., which is still under the analysis of the Brazilian anti-trust authorities. Until these authorities approve the association agreement, we may not fully integrate the assets related to the association with our home appliances retail business nor capture synergies between this business and our Company.

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

***Change in control of the Holding Company may bring changes to our corporate governance structure.***

Mr. Abilio Diniz has been Chairman of both the Holding Company and us since 2003. According to the terms of the Holding Company shareholders' agreement, the Diniz Family granted a purchase option of one common share of the Holding Company to the Casino Group exercisable after June 22, 2012. If exercised, this purchase option will allow the Casino Group to obtain indirect control of our Company, resulting in the alteration in the control of the Holding Company, which may change our corporate governance structure.

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

We are subject to a number of different national, state and municipal laws and regulations relating to the preservation and protection of the environment and specially related to our gas stations. Among other obligations, these laws and regulations establish environmental licensing requirements and standards for the release of effluents, gaseous emissions, management of solid waste and specially protected areas. We incur in costs 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 repair or indemnify the damages caused to the environment and third parties. We cannot ensure that these laws and regulations will not become stricter. In this case, we may be required to increase, perhaps significantly, our capital expenditures and costs to comply with these environmental laws and regulations. Unforeseen environmental investments may reduce available funds for other investments and could materially and adversely affect us and the market price of our preferred shares and the ADSs.

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

Most of our stores operate in leased properties. The strategic location of our stores is key to the development of our business strategy and, as a result, we may be adversely affected in case a significant number of our lease agreements is terminated and we fail to renew these lease agreements on acceptable terms or at all. In addition, our lease agreements contain contractual provisions that allow the landlord to increase the rent periodically, in most cases, every three years. A significant increase in the rent of our leased properties may adversely affect us.

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

Approximately 85% of our products are distributed through our distribution centers located in the southern, southeastern, mid-western and northeastern regions of Brazil. If operations at one of these centers are adversely affected by factors beyond our control, such as fire, natural disasters, power shortages, failures in the systems, among others, and in the event that no other distribution center is able to meet the demand of the region affected, the distribution of products to the stores supplied by the affected distribution center will be impaired, which may



adversely affect us. Our growth strategy includes the opening of new stores which may require the opening of new or the expansion of our existing distribution centers to supply and meet the demand of the additional stores. Our operations may be negatively affected if we are not able to open new distribution centers or expand our existing distribution centers in order to meet the supply needs of these new stores.

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

We have a financial partnership with Itaú Unibanco Holding S.A., or Itaú Unibanco, through which we have established Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, or FIC, which exclusively offers private label and co-branded credit cards, personal and consumer credit, extended warranties and insurance at our stores. See “Item 4A. History and Development of the Company—Amendments to the Partnership with Itaú Unibanco.” In addition, FIC raises funds from financial institutions in order to finance credit sales to our clients. We are subject to the risks normally associated with providing this type of financing, including risk of default on the payment of principal and interest and any mismatch of cost and maturity of our funding in relation to cost and maturity of financing to our customers, which could have a material adverse effect on us.

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

Historically, the retail segment has experienced periods of economic slowdown that led to declines in consumer expenditures. The success of operations in the home appliances retail sector depends on various factors related to consumer expenditures and consumers’ income, including general business conditions, interest rates, inflation, consumer credit availability, taxation, consumer confidence in future economic conditions, employment and salary levels. 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 stringent debt refinancing conditions and more susceptibility to increases in the unemployment rate. These conditions may cause a material adverse effect on us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in more developed markets, and these investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than more developed securities markets. The top 10 stocks in terms of trading volume accounted for approximately 53%, 58% and 49% of all shares traded on the São Paulo stock exchange (*BM&FBovespa S.A. – Bolsa*

*de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, in 2008, 2009 and 2010, respectively. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited.

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

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

## Item 4. INFORMATION ON THE COMPANY

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

We were incorporated in Brazil under Brazilian law on November 10, 1981 as Companhia Brasileira de Distribuição. Our principal executive offices are located at Avenida Brigadeiro Luis Antonio, 3,142, CEP 01402-901 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 2002, we acquired important supermarket chains such as *Coopercitrus*, *Lourenção*, *Barateiro* (we operate these stores under the *CompreBem* and *Extra* banners), *Peralta*, *Paes Mendonça*, *ABC Supermercados*, *Sé Supermercados* and other small chains, such as *São Luiz*, *Nagumo* and *Rosado*.

In December 2003, we entered into an association called Sendas Distribuidora S.A., or the Sendas Association, with Sendas S.A. and investment funds of the AIG Group in order to acquire the *Sendas* chain. The *Sendas* chain operates retail stores in the State of Rio de Janeiro.

In July 2004, we entered into a financial partnership called FIC with Itaú Unibanco. FIC exclusively offers private label and co-branded credit cards, personal and consumer credit and insurance at our stores. For more information, see “— Amendments to the Partnership with Itaú Unibanco.”

In November 2007, we acquired a 60% ownership interest in the *Assaí* chain by purchasing 60% of the capital stock of Barcelona Comércio Varejista e Atacadista S.A., or Barcelona, a company holding all of the operating assets of the *Assaí* chain. This acquisition enabled us to enter the cash-and-carry segment, a wholesale format in the retail food sector, in the State of São Paulo.

In October 2008, we started cash-and-carry operations in the State of Rio de Janeiro through Xantocarpa, a company that assumed the operation of three stores of Sendas Distribuidora, which were converted into *Assaí* stores.

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

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

In December 2009, we consolidated our leading position in the retail segment in Latin America and we believe we became one of the 10 largest companies in the electronic products segment worldwide as a result of the association with the partners of Casa Bahia Comercial Ltda., a Brazilian home appliances retailer. Pursuant to the association agreement, by means of a corporate reorganization, we and the partners of Casa Bahia Comercial Ltda. have integrated our respective businesses in the home appliances retail sector, and have unified the e-commerce operations conducted by our subsidiary, Globex. The agreement was approved by our shareholders at the general shareholders' meeting held on January 11, 2010. For the year ended December 31, 2009, this transaction did not generate any effect on our accounting records. For the year ended December 31, 2010, Nova Casa Bahia's results of operations for the months of November and December were consolidated with our results of operations. For more information, see "—Association Agreement with the Partners of Casa Bahia Comercial Ltda."

Also in December 2010, we entered into a stock purchase agreement with Sendas S.A. related to the acquisition of the remaining shares issued by Sendas Distribuidora S.A., held by Sendas S.A. The acquisition was approved by our shareholders at the general shareholders' meeting held on March 14, 2011. Upon the acquisition of the remaining shares, we and our controlled companies Sé Supermercados Ltda. and Barcelona became holders of 100% of Sendas Distribuidora S.A.'s voting capital.

### **Acquisition of Globex (Ponto Frio)**

On June 7, 2009, we entered into a share purchase agreement with the majority shareholders of Globex Utilidades S.A., a company operating in the Brazilian home appliances sector under the brand name *Ponto Frio* for over 60 years, for 70.2% of its total voting shares. We paid a portion of the purchase price, R\$373.4 million, in cash on July 7, 2009 and the majority shareholders of Globex had the option of receiving the remaining R\$451.1 million either in cash, at the fourth anniversary of the closing, or by subscribing for class B preferred shares issued at R\$40.00 per share. In the latter case, the majority shareholders of Globex were to receive the shares in the amount due in cash plus 10%.

We also offered the minority shareholders of Globex the right to sell us their shares under the share purchase agreement for 80% of the purchase price paid to the majority shareholders of Globex under the same conditions. One hundred and twenty (120) minority shareholders of Globex agreed to sell us their shares, corresponding to approximately 25% of the total voting shares of Globex, for R\$236.8 million.

Pursuant to the Globex share purchase agreement, we increased our capital stock through the issuance of 16,609,046 class B preferred shares at a price of R\$40.00 per share. This capital increase triggered the preemptive rights of our shareholders to subscribe for the new class B preferred shares, in accordance with Brazilian law. Wilkes Participações S.A., our controlling shareholder, transferred its right to subscribe for class B preferred shares to the Globex shareholders. Due to the increase in the trading price of our shares, a larger than expected number of our minority shareholders subscribed for the class B preferred shares. As a result of the unexpected demand for class B preferred shares, the preemptive rights transferred to the Globex shareholders were not sufficient to settle our entire purchase price payment obligations. The Globex shareholders were only able to subscribe to 4,673,600 class B preferred shares and we paid them the remaining outstanding balance of the purchase price for their Globex shares, R\$451.8 million, in cash, on October 2, 2009. The total amount we paid in cash and class B preferred shares was R\$1,155.8 million.



On December 22, 2009, we launched a tender offer for the remaining approximately 5% voting capital in Globex, in accordance with Brazilian regulation, under the same terms as the offer accepted by the initial 120 Globex minority shareholders. The tender offer was concluded on February 3, 2010 and we acquired approximately 3.3% of Globex's capital stock for R\$28.4 million and 137,014 class B preferred shares, resulting in us becoming holders of 98.8% of Globex's capital stock.

Pursuant to the terms and conditions for the acquisition of Globex, the class B preferred shares were mandatorily convertible into class A preferred shares according to a pre-established schedule. The last conversion date was January 7, 2011 and there was no outstanding class B preferred share. On March 31, 2011, our shareholders approved at a general shareholders' meeting the termination of the class B preferred shares and the change in the designation of class A preferred shares to preferred shares, without any alteration in the rights, preference, privileges or terms of the securities.

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For further information on the acquisition of Globex, see note 16 (b) to our financial statements included in this annual report.

**Amendments to the Partnership with Itaú Unibanco S.A.**

In October 2004, we entered into a partnership agreement with Itaú Unibanco S.A., or Itaú Unibanco, for the creation of a financial institution named FIC to exclusively offer to our customers financial products and services, such as private label credit cards to be used exclusively at our stores, widely accepted card brands, direct consumer credit and personal loans. The initial term of duration of the partnership was 20 years.

In December 2009, we amended the partnership agreement with Itaú Unibanco to include the financial subsidiary of Globex into the partnership and to extend its term to an additional five years. Itaú Unibanco paid us R\$600.0 million, of which, R\$550.0 million related to Itaú Unibanco's right to enter into similar partnerships with other retailers and R\$50.0 million related to the term of the partnership until August 28, 2029. For further information on our partnership with Itaú Unibanco, see note 15 (a) to our financial statements included in this annual report.

**Association Agreement with the Partners of Casa Bahia Comercial Ltda.**

We entered into an association agreement with the partners of Casa Bahia Comercial Ltda., a Brazilian home appliances retailer, pursuant to which our Company and they will integrate their respective businesses in the home appliances sector, including their e-commerce activities. For further information on the e-commerce business, see “—Nova Pontocom.”

On December 4, 2009 we, Globex, Casa Bahia Comercial Ltda. and the partners of Casa Bahia Comercial Ltda., who are members of the Klein family, entered into a certain association agreement, aiming at combining the operations of Globex, of certain assets of Casa Bahia Comercial Ltda. and of Extra Eletro (CBD) into one company, or the Association Agreement.

On July 1, 2010, certain provisions of the Association Agreement were amended: (i) the consolidation of Globex and certain assets of Casa Bahia Comercial Ltda. businesses into our home appliances sector, including home appliances retail activities performed by CBD at its *Extra Eletro* stores, and (ii) the consolidation of home appliances e-commerce activities carried out by Globex, Casa Bahia Comercial Ltda. and CBD, or the Association. The amendment to the Association Agreement also provided for the necessary phases for the implementation of the Association.

In the Association preparatory stage, on October 1, 2010, the partners of Casa Bahia Comercial Ltda. partially spun-off Casa Bahia Comercial Ltda., or the Partial Spin-Off, which consisted mainly of certain operating assets and liabilities, rights and obligations related to the home appliances retail business of Casa Bahia Comercial Ltda., the lease agreements related to these assets and 25% of the capital stock of Indústria de Móveis Bartira Ltda., or Bartira, a furniture manufacturer company controlled by Casa Bahia Comercial Ltda. The valuation of the assets of the Partial Spin-Off was based on the audited balance sheet of Casa Bahia Comercial Ltda. as of June 30, 2010. The partners of Casa Bahia Comercial Ltda. transferred the assets of the Partial Spin-Off to a new and recently incorporated company, Nova Casa Bahia S.A. Also, on November 9, 2010, Globex's shareholders approved the capital stock increase by R\$755,519,802.42 at the issue price of R\$16.00 per share, fully paid-in by us through the transfer of all the assets and liabilities referring to the home appliances business related to our *Extra Eletro* stores, Bank Deposit Certificates and CBD receivables against companies under its control.

At the same shareholders' meeting held on November 9, 2010, Globex's shareholders approved the merger of 100% shares issued by Nova Casa Bahia into Globex, by means of the issue of new shares on behalf of the partners of Casa Bahia Comercial Ltda.'s partners, or the Merger of Shares. The partners of Casa Bahia Comercial Ltda. became the holders of Globex shares representing 47.56% of Globex's capital stock and CBD became the holder of shares representing 52.41% of Globex's capital stock.

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According to the terms of the Association Agreement, Casa Bahia Comercial Ltda., CBD and Globex will be liable for the obligations resulting from events prior to the date of the Merger of Shares, except for those recorded on the date of the Merger of Shares.

We, Globex, Casa Bahia Comercial Ltda. and the partners of Casa Bahia Comercial Ltda. entered into a shareholders' agreement with a six-year term, renewable upon request of any of the parties for an additional term of two years. The renewal is only valid if at the expiration of the original term, there are no outstanding shares corresponding to, at least, 20% of Globex's capital stock and the partners of Casa Bahia Comercial Ltda. have sold a percentage lower than 23.64% of Globex shares that they held on the date of the Merger of Shares. For further information on the shareholders' agreement, see "Item 10C. Material Contracts."

The parties to the Association Agreement jointly submitted the conditions of the Association to the Brazilian anti-trust authorities. On February 3, 2010, they executed a Provisional Agreement for Reversibility of the Operation with the Brazilian Administrative Council of Economic Defense – CADE, which establishes mainly that Globex and Nova Casa Bahia shall maintain:

- their brands *Casas Bahia* and *Ponto Frio* separate as well as carry out separate promotional campaigns, ensuring that advertisement and marketing investments remain at levels compatible with previous years, except in the case of exceptional macroeconomic conditions;
- in operation their current stores located in 146 municipalities where these two companies operate;
- their respective distribution centers and Bartira furniture factory;
- their respective credit granting policies; and
- separate their procurement structures and commercial contracts.

Except for these specific conditions, the companies may adopt the measures they deem necessary to integrate their operations and businesses and capture the synergies resulting from this operation.

In addition, the companies undertake to maintain the same overall employment levels at the distribution centers and stores.

The transaction is subject to the approval of the Brazilian anti-trust authorities.

### **Reorganization of E-Commerce Operations**

As part of the Association with the partners of Casa Bahia Comercial Ltda., the parties to the Association Agreement agreed to concentrate all e-commerce assets of the Pão de Açúcar Group and Casa Bahia Comercial Ltda. into PontoFrio.Com Comércio Eletrônico S.A., or Nova Pontocom, an e-commerce company controlled by Globex. On November 8, 2010, at the special shareholders' meeting of Nova Pontocom, Globex approved a capital stock increase of Nova Pontocom. As a result of the capital increase, the new common shares to be issued will be paid-in by CBD and Globex, as follows: (i) the common shares subscribed by Globex will be fully paid-in through the transfer of assets, liabilities, rights and obligations related to its wholesale activity, and (ii) the common shares subscribed by CBD will be fully paid-in through the transfer of assets, liabilities, rights and obligations related to the home appliances e-commerce activities performed by Extra.Com.

Nova Casa Bahia licensed to Nova Pontocom the right to use all the intellectual property rights related to its e-commerce business, including the domain [www.casasbahia.com.br](http://www.casasbahia.com.br).

In addition, on November 8, 2010, Globex and Nova Pontocom acquired the remaining equity interest of 55% in E-Hub, a service company in the e-commerce segment, which was a joint venture recorded as investment in affiliated companies. Former owners of E-Hub transferred their 55% equity interest to Globex and Nova Pontocom and paid R\$20.0 million maturing on January 8, 2013 in exchange of 6% of Nova Pontocom. For further information on the acquisition of E-Hub, see note 16(c) to our consolidated financial statements included in this annual report.

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After completion of the reorganization of our e-commerce operations, Nova Pontocom has an experienced management team, a platform integrated with state-of-the-art e-commerce technology, a broad portfolio of assets – www.pontofrio.com.br, www.extra.com.br; www.casasbahia.com.br; wholesale activities and E-Hub – and a strong connection with our physical locations, all supported by our large size, logistics and IT infrastructure. Globex is the controlling shareholder of Nova Pontocom, holding common shares representing 50.1% of its capital stock, CBD holds shares representing 43.9% and certain executive officers of Nova Pontocom hold the remaining shares, representing 5.53%.

**Proposal Letter from Gama 2 SPE Empreendimentos e Participações S/A**

On June 28, 2011, we received a proposal from Gama 2 SPE Empreendimentos e Participações S/A, a special purpose company held by BTG Pactual Principal Investments Fundo de Investimento em Participações. The proposal contemplates a business combination of the Pão de Açúcar Group with the Carrefour Group, the second largest retailer worldwide, headquartered in France. We attach the proposal in its entirety as Exhibit 15.(a)(1) to this annual report.

The proposed business combination is subject to approval in accordance with the terms of the shareholders' agreements filed in the Company's head offices, by Wilkes Participações S.A. and, as the case may be, by the relevant corporate bodies of our Company, as well as the competent authorities, in Brazil and abroad, including the Brazilian Securities and Exchange Commission - CVM and the administrative counsel for economic defense *Conselho Administrativo de Defesa Econômica - CADE*.

We will publicly disclose any material further development related to the proposed business combination.

**Capital Expenditures and Investment Plan**

As part of our capital expenditures and investment plan, we have invested approximately R\$3,641.8 million in our operations for the three years ended December 31, 2010. Our investments included:

*Acquisitions of retail chains* – In the food retail sector, when entering new geographic markets, we have generally sought to acquire local supermarket chains to benefit from existing know-how in the geographic region. For expansion within urban areas where we already have a presence, our preference has been to open new stores. To enter the home appliances retail sector, we acquired Globex and entered into an Association with Casa Bahia Comercial Ltda. Our main focus in both sectors, the food and home appliances retail sectors, is to expand organically, but we may continue carrying out strategic acquisitions, to the extent that they result in synergies and add value to our business. Since 2008, we have acquired 1,015 stores in the home appliances retail sector. We have spent an aggregate of R\$3,641.8 million on acquisitions from 2008 through 2010.

The following table presents information regarding our acquisitions and the regional distribution of the stores we acquired since 2008:

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<b>Year</b>	<b>Chains Acquired</b>	<b>Stores</b>	<b>Geographic Distribution</b>
2009	Ponto Frio <sup>(1)</sup>	457	São Paulo, Rio de Janeiro, Distrito Federal, Espírito Santo, Minas Gerais, Mato Grosso, Paraná, Bahia, Goiás, Rio Grande do Sul and Santa Catarina
2010	Casas Bahia <sup>(2)</sup>	526	São Paulo, Rio de Janeiro, Distrito Federal, Espírito Santo, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, Bahia, Goiás, Sergipe and Santa Catarina
	Total	983	

(1) Acquired in July 2009.

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

*Opening of new stores and purchases of real estate* – In the food retail sector, we usually seek real estate properties to open new stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities that suit one of our formats. We have opened 125 new stores from 2008 through 2010. The total cost of opening these new stores and purchases of real estate was R\$833.5 million.

*Renovation of existing stores* – We usually remodel some of our *Pão de Açúcar*, *Extra*, *Assaí* stores every year. Through our renovation program we add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information technology systems. In 2010, we focused on the conversion of 50 *Sendas* stores and 43 *CompreBem* stores into *Extra Supermercado* stores and also on the conversion of *Extra Eletro* stores into *Ponto Frio* stores. The total cost of renovating stores from 2008 through 2010 was R\$1,256.2 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\$382.4 million from 2008 through 2010. For more information on our information technology, see “Item 4B. Business Overview—Technology.”

*Expansion of distribution facilities* – Since 2008, we have opened distribution centers in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. The increase and improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have spent an aggregate of R\$59.4 million on our distribution facilities from 2008 through 2010.

The following table provides a summary description of our principal capital expenditures for the three years ended December 31, 2010:

	Year Ended December 31,		
	2008	2009	2010
	(millions of reais)		
Opening of new stores	R\$ 138.3	R\$ 228.3	R\$ 335.3
Acquisition of retail chain	–	885.1	225.2
Purchases of real estate	94.9	36.2	0.5
Renovations	143.0	334.3	778.9
Information technology	101.8	144.2	136.4
Distribution centers	10.3	3.7	45.4
Total	R\$ 488.3	R\$ 1,631.8	R\$ 1,521.7

#### 4B. Business Overview

##### The Brazilian Retail Industry

The Brazilian retail food industry represented approximately 5.5% of Brazil's GDP (gross domestic product) in 2010. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of R\$201.6 billion in 2010, representing a 7.5% increase compared with 2009.



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The Brazilian retail food industry is highly fragmented. Despite consolidation within the industry, according to ABRAS, the three largest supermarket chains represented approximately 43.4% of the retail food industry, in 2010, as compared to 40.4% in 2009. Our gross sales represented 17.9% of the gross sales of the entire retail food industry in 2010, also according to ABRAS.

The cash-and-carry segment (*atacarejo*), a wholesale segment in the retail food industry, was created in order to serve customers within a market niche that was neither reached by self-service retail nor by wholesale. According to a Kantar World Panel study published on April 7, 2011, sales in the cash-and-carry segment increased 24% in 2010 compared to 2009 mainly due to the competitiveness in the market and the attractiveness caused by lower prices and promotions.

The home appliances retail sector was the second most important segment in the retail business, after the food retail segment, which is explained by the favorable economic context in 2010, highlighted by the social ascension of an important portion of the Brazilian consumer market. The migration of lower income classes to lower-middle income classes drove consumption of higher value-added products.

According to the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the total population of Brazil was approximately 190.7 million in 2010, a 12.3% growth compared to 2000. Given that more than 83% 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. The city of São Paulo has a population of approximately 11.2 million and the city of Rio de Janeiro has a population of approximately 6.3 million. These are the two largest cities in Brazil. The State of São Paulo has a total population in excess of 41.2 million, representing approximately 21.6% of the Brazilian population and is our largest consumer market. The State of Rio de Janeiro is our second largest consumer market.

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

The Precedent Sales Index (*Índice Antecedente de Vendas – IAV*) is an index based on information furnished by retailers that allows the Institute for the Development of Retail (*Instituto para Desenvolvimento do Varejo – IDV*) to analyze recent results of operations and project expectations of sales of retailers in the short term. According to the Precedent Sales Index, the sales in food retail industry, which is composed of supermarkets, hypermarkets, drugstores, cosmetic shops and eating out stores, increased 13.2% in December 2010 compared to December 2009, while the sales in the home appliances retail industry (furniture, electronics, durable goods, construction materials, among others) increased 9.2% in December 2010 compared to December 2009. The growth in both sectors was mainly due to favorable macroeconomic conditions that benefited consumption, such as lower interest rates in loans to individuals, increased consumer confidence and the lowest monthly unemployment rate of 5.7%, according to IBGE.

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

	<b>Class Level</b>	<b>Monthly Income (average) (in reais)</b>
A1		13,100

A2	9,100
B1	4,900
B2	2,750
C1	1,650
C2	1,100
D	710
E	490

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

We expect that increased consumption by the lower income class levels will occur over time as a result of the gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage has increased to R\$545.00 in the middle of 2011. As seen in the years immediately following the introduction of the *real*, even small increments in purchasing power generally result in significant increases in consumption in absolute terms as well as increased expenditures in premium priced food products and other non-food items, including home appliances and consumer electronics.

In 2010, as a result of favorable macroeconomic conditions, there has been a migration of the population from lower income classes to lower-middle income classes, which has positively affected us. The Brazilian lower income population has been consuming products with higher added value in the retail food segment, such as yogurt and frozen food. In addition, they have gained access to products such as laptops, new furniture and flat screen TVs in the home appliances retail industry. In terms of social mobility in urban areas, there is still a significant growth in the population from B2 and C1 income classes, evidencing Brazil's middle class consumption is powering up. This quantitative increase in the number of people usually derives from C2 and D income classes, which in 2011 also presents higher consumption levels. Higher growth is expected in B2 income class, which covers 20.9% of urban households in 2011 (compared to 19.3% in 2010) and will account for 25.4% of Brazil's consumption (compared to 23.7% in 2010).

## **Our Company**

We are the largest retailer in Brazil in the food retail sector based on both gross sales and number of stores. In 2010, we had a market share of approximately 17.9% in the Brazilian food retail sector, according to ABRAS, with gross sales of R\$36,144.4 million. As of December 31, 2010, we operated 1,647 stores, 81 gas stations and 153 drugstores in 19 States and the Federal District, in addition to a logistics infrastructure supported by 50 distribution centers located in 14 States.

We classify the various business segments in which we operate in four operating segments as follows:

- *Food retail segment*, which consists of sales of food and non-food products to individual consumers at (i) supermarkets through the banners *Pão de Açúcar*, *Extra Supermercado*, *CompreBem* and *Sendas*, (ii) hypermarkets through the banner *Extra Hipermercados*, and (iii) convenience stores through the banner *Extra Fácil*.

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

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

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

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

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- *Home appliances segment*, which consists of sale of durable goods, i.e., electronics, home appliances, furniture and other items for the home, and provision of products and services, such as specialized and convenient sales and after-sales service through *Casas Bahia* and *Ponto Frio* stores.
- *E-commerce segment*, which consists of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br, CasasBahia.com.br, wholesale activities and E-Hub, owned by Nova Pontocom.

The following table sets forth the number of our stores by region as of December 31, 2010:

	City of São Paulo	State of São Paulo (excluding the City of São Paulo) <sup>(1)</sup>	State of Rio de Janeiro	South and Southeast Regions (excluding the States of São Paulo and Rio de Janeiro) <sup>(2)</sup>	North and Northeast Regions <sup>(3)</sup>	Middle-West Region <sup>(4)</sup>
<i>Pão de Açúcar</i>	58	40	13	4	21	13
<i>Extra Hipermercado</i>	23	37	15	7	17	11
<i>CompreBem</i>	68	45	0	0	0	0
<i>Sendas</i>	-	-	17	0	0	0
<i>Extra Fácil</i>	58	10	0	0	0	0
<i>Extra Supermercado</i>	5	45	43	0	8	0
<i>Assaí</i>	18	19	10	0	7	3
<i>Ponto Frio</i>	60	102	96	156	53	39
<i>Casas Bahia</i>	86	177	94	97	28	44
Total	376	475	288	264	134	110

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

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

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

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

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

	<i>Pão de Açúcar</i>	<i>CompreBem</i>	<i>Extra Hiper</i>	<i>Extra Eletro</i>	<i>Sendas</i>	<i>Extra Fácil</i>	<i>Extra Super</i>	<i>Assaí</i>	<i>Ponto Frio</i>	<i>Casas Bahia</i>	<i>Total</i>
As of December 31, 2008	145	165	102	47	73	32	5	28	-	-	597
During 2009											

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Opened	5	-	2	-	-	21	-	7	11	-	46
Closed	(2)	(1)	-	-	(2)	(1)	(1)	-	(13)	-	(20)
Transferred (from)/to	(3)	(7)	(1)	-	(3)	-	9	5	-	-	-
Acquired	-	-	-	-	-	-	-	-	457	-	457
											-
As of December 31, 2009	145	157	103	47	68	52	13	40	455		1,080
During 2010											
Opened	1	-	8	-	-	23	2	13	8	-	55
Closed	-	(1)	-1	(3)	(1)	(7)	-	-	(1)	-	(14)
Transferred (from)/to	3	(43)	-	(44)	(50)	-	86	4	44	-	-
Acquired	-	-	-	-	-	-	-	-	-	526	526
As of December 31, 2010	149	113	110	0	17	68	101	57	506	526	1,647

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

	<b>Year ended December 31, 2010</b>	
	<b>Net Revenues from the Segment</b>	<b>Percentage of Total Net Revenues</b>
<b>Operating segment</b>	<b>(in millions of R\$)</b>	<b>Total Net Revenues</b>
Food retail	20,562.7	64.1%
Cash-and-carry	2,922.9	9.1%
Home appliances	6,902.2	21.5%
E-commerce	1,703.8	5.3%
<b>Pão de Açúcar Group</b>	<b>32,091.7</b>	<b>100.0%</b>

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

	<b>Year Ended December 31, 2010</b>	
	<b>Net Income from the Segment</b>	<b>Percentage of Total Net Income</b>
<b>Operating segment</b>	<b>(in millions of R\$)</b>	<b>Total Net Income</b>
Food retail	724.7	104.7%
Cash-and-carry	13.5	2.0%
Home appliances	(49.0)	(7.1)%
E-commerce	2.6	0.4%
<b>Pão de Açúcar Group</b>	<b>691.8</b>	<b>100.0%</b>

**Operations**

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats as of December 31, 2010:

**Store Format**

		<b>Number of Stores</b>	<b>Total Selling Area (in square meters)</b>	<b>Average Selling Area Per Store (in square meters)</b>	<b>Total Number of Employees (<sup>1</sup>)</b>	<b>Percentage of Our Net Sales Revenues</b>
<i>Pão de Açúcar</i>	Supermarket	149	198,253	1,331	14,946	13.4%
<i>CompreBem</i> <sup>(3)</sup>	Supermarket	113	131,066	1,160	8,428	-
<i>Extra Hipermercado</i>	Hypermarket	110	765,672	6,961	26,535	35.2% <sup>(2)</sup>
<i>Extra Fácil</i>	Convenience store	68	14,933	220	477	14.3%
<i>Extra Supermercado</i>	supermarket	101	137,265	1,359	2,174	9.2%
<i>Assaí</i>	Cash and carry	57	176,710	3,100	9,253	-
<i>Sendas</i> <sup>(3)</sup>	Supermarket	17	45,380	2,669	6,401	26.8%
<i>Ponto Frio</i> <sup>(4)</sup>	Home appliances store	506	363,313	718	11,429	-
<i>Casas Bahia</i>	Home appliances store	526	978,511	1,860	51,891	-
Head office & distribution center		-	-	-	13,380	-
<b>Total</b>		<b>1,647</b>	<b>2,811,103</b>	<b>2,153</b>	<b>144,914</b>	<b>100.0%</b>

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

(2) *Extra Fácil* sales included in *Extra Hipermercado* sales.

(3) *CompreBem* and *Sendas* sales included in *Extra Supermercado* sales.



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(4) *Extra Eletro* and *Nova Casa Bahia* sales included in *Globex (Ponto Frio)* sales since November, 2010. *Nova Ponto.com* sales included in *Ponto Frio* sales (*Extra.com* as of May 2010 and *CasasBahia.com* as of November 2010)

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

***Food Retail Operating Segment***

*Pão de Açúcar Stores*

*Pão de Açúcar* operates convenient neighborhood stores, which are predominantly located in large urban areas (with over one-third located in the greater São Paulo city area). We believe that the locations of our *Pão de Açúcar* stores are a competitive advantage since available sites in those urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and high level of customer service, with an average of 75.4 employees per 1,000 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments. Many stores have shopping advisors that assist customers with inquiries about their particular needs, prices, special discounts and brand information.

As of December 31, 2010, we had 149 *Pão de Açúcar* stores. The *Pão de Açúcar* stores range in size from 120 to 4,670 square meters and as of December 31, 2010, had an average of 1,331 square meters of selling space. Food products represented 94.0% of gross sales revenue attributable to *Pão de Açúcar* in 2010 and non-food products represented 6.0%.

The *Pão de Açúcar* banner recorded gross sales of R\$4,762.1 million in 2010, representing an increase of 12.1% relative to 2009. This increase was a result of the strong performance of the *Pão de Açúcar* banner in the Northeast and Midwest regions and the consolidation of the management of the *Pão de Açúcar* banner that helped to create a single identity for this banner in Brazil while respecting regional characteristics.

*CompreBem Stores*

*CompreBem* supermarkets offer competitive prices and services. *CompreBem* stores target the Brazilian classes C, D and E household consumers. Generally, products offered at our *CompreBem* stores are more competitively priced than products offered at our *Pão de Açúcar* stores. With an average of 64.3 employees per 1,000 square meters of store space, *CompreBem* stores are characterized by a lower level of personalized services and different products and assortment of products, compared to *Pão de Açúcar* stores.

As of December 31, 2010, we had 113 *CompreBem* stores. *CompreBem's* stores range in size from 316 to 3,125 square meters and had an average of 1,160 square meters of selling space as of December 31, 2010. Food products represented 90.6% of gross sales revenue attributable to *CompreBem* stores in 2010 and non-food products represented 9.4%.

*CompreBem* sales are included in *Extra Supermercado*. We expect to convert the *CompreBem* stores into *Extra Supermercado* stores by the end of 2011.

*Sendas Stores*

In December 2003, we formed the Sendas Association through which we subsequently acquired the *Sendas* chain. Similarly to our *CompreBem* banner, the *Sendas* banner offers competitively priced products and targets middle and lower income consumers (i.e., the Brazilian classes C, D and E). *Sendas* stores are all located in lower income neighborhoods in the State of Rio de Janeiro.

As of December 31, 2010, we had 17 *Sendas* stores. *Sendas's* stores range in size from 308 to 3,894 square meters and had an average of 2,669 square meters of selling space as of December 31, 2010. Food products represented 90.1% of gross sales revenue attributable to *CompreBem* stores in 2010 and non-food products represented 9.9%.

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*Sendas* sales are included in *Extra Supermercado*. We expect to convert the *Sendas* stores into *Extra Supermercado* stores by the end of 2011.

Below we summarize the stock purchase agreement entered into between *Sendas S.A.* and the subsidiary *Barcelona*.

*Sendas S.A.* and its subsidiary *Barcelona* entered into a Stock Purchase Agreement and Other Covenants, to transfer the *Sendas Distribuidora*'s shares held by *Sendas S.A.* to *Barcelona*. This non-controlling interest acquisition was approved by our Board of Directors and approved in our shareholders' general meeting.

*Sendas S.A.* transferred to *Barcelona* its entire interest in *Sendas Distribuidora*, corresponding to 42.57% of the capital stock for R\$ 377.0 million to be paid as follows: R\$ 59.0 million upon the transfer of shares and the remaining amount of R\$ 318.0 million in six annual and consecutive installments of R\$ 53.0 million, the first installment is due in July 2011, adjusted by IPCA (Extended Consumer Price Index) as of the fourth installment, and as from July to December 2010. This present value of obligation assumed at December 31, 2010 was R\$ 324.3 million.

*Extra Hipermercados Stores*

*Extra* hypermarkets are our largest stores. We introduced the hypermarket format in Brazil with the opening of our first 7,000 square meter store in 1971. The *Extra* hypermarkets offer the widest assortment of products of any of our store formats and have an average selling area of 6,961 square meters as of December 31, 2010. The *Extra* stores target the Brazilian classes B, C, D and E. As of December 31, 2010, we had 110 *Extra* stores, including stores that opened in 2010. The sale of food products and non-food products represented 61.6% and 38.4% of *Extra Hipermercado*'s gross sales in 2010, respectively.

Gross sales of the *Extra* banner in 2010, including *Extra Fácil* sales, reached R\$12,641.3 million, a 8.4% increase compared to 2009. This increase was due to the opening of seven *Extra Hipermercados* and 16 *Extra Fácil* stores.

*Extra Supermercado Stores*

As of December 31, 2010, we operated 101 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by stores with sales area of up to 464 square meters and a complete mix of food products and general merchandise. Our *Extra Supermercado* stores are complete neighborhood supermarkets with exceptional meat and bakery products, where families can stock up their pantries rapidly and economically and also acquire a wide range of household items, in an easily accessible, pleasant environment with exemplary customer service. The sale of food products and non-food products represented 92.3% and 7.7% of *Extra Supermercado*'s gross sales in 2010, respectively.

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

Gross sales of the *Extra Supermercado* format in 2010, including *CompreBem* and *Sendas* sales, reached R\$5,066.7 million, a 6.1% increase compared to 2009. This increase was due to improvements in the shopping environment of the stores and assortment adjustments that delivered higher sales per store, specially at *CompreBem* and *Sendas*.

*Extra Fácil Stores*

With the establishment of the *Extra Fácil* banner in July 2007, we significantly increased our presence in the convenience store segment, where we had already been operating through our *Extra Supermercado* stores. We opened 16 new stores in 2010, bringing the total of *Extra Fácil* stores to 68 units as of December 31, 2010. *Extra Fácil* is characterized by small retail stores with up to four check-outs and offers convenience, proximity and facility. The sale of food products and non-food products represented 95.3% and 4.7% of *Extra Fácil*'s gross sales in 2010, respectively.

### *Gas Stations*

As of December 31, 2010, we were operating 81 gas stations, two of which were opened in 2010. Our gas stations are located within the parking area of certain of our stores. The location of our gas stations allows our customers to both go shopping and refuel their car while they are on our premises. Our strategy for gas stations is based on competitive prices and the reliability and quality of fuel, which is assured by the brand. We expect to increase the number of gas station units, especially in connection with the *Extra* and *Assaí* banners, and increase synergies with drugstores and *Extra Fácil* stores.

### *Drugstores*

With 153 units in operation, we operate one of the largest drugstore chains in Brazil's retail food industry. We opened a total of three new stores in 2010. In addition, we recently launched a series of initiatives that we believe contribute to the success of our drugstores, including: (i) reorganization of management, (ii) successful renegotiation of prices with suppliers and (iii) strategic adjustments to the assortment and services offered at our drugstores.

### *Pão de Açúcar Delivery*

The Pão de Açúcar Delivery, or PA Delivery, is an extension of our *Pão de Açúcar* banner. Through the PA Delivery, our clients order products through the Internet. As of December 31, 2010, we had nine PA Delivery units in Brazil, three located in the Greater São Paulo area, one in each of the cities of Indaiatuba (interior of the State of São Paulo), Bertioga (in the coastal region of the state of São Paulo), Rio de Janeiro, Brasília, Curitiba and Fortaleza.

### ***Cash-and-Carry Operating Segment***

#### *Assaí Stores*

The cash-and-carry segment (atacarejo segment), a wholesale segment in the retail food industry, is one of the fastest growing market segments in Brazil in terms of new store openings. This segment was created in order to serve institutional consumers like processors, retailers and users, offering highly competitive prices and quality products.

Assaí has been operating in the cash-and-carry segment for 37 years and as of December 31, 2010, Assaí had 9,253 employees and 57 stores. In 2010, we opened 17 new *Assaí* stores. Out of the 17 new *Assaí* stores, 13 stores were newly opened and four stores were converted into Assaí format from other banners. In 2010, the *Assaí* banner recorded gross sales of R\$3,255.2 million.

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

##### *Ponto Frio Stores*

Our *Ponto Frio* stores are specialized in home appliances such as consumer electronics and furniture. As of December 31, 2010, we were operating 506 *Ponto Frio* stores as a result of our acquisition of Globex in July of 2009. In 2010, *Ponto Frio* stores had gross sales of R\$7,040.7 million. For more information on the acquisition of Globex, see "Item 4A. History and Development of the Company — Acquisition of Globex (*Ponto Frio*)."

Through our *Ponto Frio* stores, we seek to provide our customers with the best purchasing experience for electronics, appliances, and household products. Our *Ponto Frio* stores have a large variety of products and services and offer

personalized and specialized services during and after sales.

*Casas Bahia Stores*

Our *Casas Bahia* stores are specialized in electronics/household appliances and furniture. As of December 31, 2010, we were operating 526 stores as a result of the Association with Casa Bahia Comercial Ltda. In November and December 2010, *Casas Bahia* stores' gross sales totaled R\$2,972.3 million. For more information on the Association with Casa Bahia Comercial Ltda., see "Item 4A. History and Development of the Company — Association Agreement with the Partners of Casa Bahia Comercial Ltda.."

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Our *Casas Bahia* stores have a business and management model based on simplicity in the relationship with customers. This relationship allows *Casas Bahia* to provide easy and simple access to credit to customers, as well as respect and dedication to customers, suppliers and business partners.

***E-commerce Operating Segment***

In line with our strategy of expanding our share in the sales of home appliances through e-commerce, we consolidated our e-commerce operations by creating a new company called Nova Pontocom. This segment consists of sale of home appliances, i.e., electronics, furniture and other items for the home through the websites: Extra.com.br, PontoFrio.com.br and CasasBahia.com.br

***Seasonality***

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

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

**Our Products**

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

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

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

We purchase our products in the home appliances retail sector from suppliers and resell them to our end-user consumers.

**Suppliers**

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

The purchasing of our products for our *Ponto Frio* and *Casas Bahia* stores and for our e-commerce operating segment is separated and we purchase from a small number of suppliers.



## **Distribution and Logistics**

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 51 distribution centers (including those of Nova Casa Bahia and Globex) strategically located in 14 States with a total storage capacity of approximately 1,366,814 square meters. We were the first retailer in Brazil to have a centralized distribution center. The locations of our distribution centers enable us to make frequent shipments to stores, which reduces the need of in-store inventory space, and limits non-productive store inventories.

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

In 2010, we focused on the following tasks: (i) opening of seven distribution centers, which we believe will support our growth through mid-2012; (ii) investment in technological advances, which provided us with accuracy, assertiveness and productivity gains; and (iii) advances in our distribution platform as a result of the implementation of a new system and our adoption of the software Oracle – Retail, which were key to our improvement in the management of the demand. For 2011, our strategy is to review our entire logistics network to include all of our businesses and optimize the use of our different sites, while assuring that the particularities of each business is respected. The expectation is to capture gains through the reduction of losses and working capital.

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

### *Stores, Supermarkets and Hypermarkets*

As of December 31, 2010, the logistic process to supply our stores, supermarkets and hypermarkets (excluding *Ponto Frio*, *Casas Bahia*, our e-commerce business, drugstores and gas stations) included 23 distribution centers located in the States of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 397,000 square meters area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet that, on December 31, 2010, totaled more than 1,300 vehicles exclusively dedicated to this activity, all of which are tracked via GPS. As of December 31, 2010, our centralization rate (the percentage of the products supplied at our stores that come directly from our distribution centers) was 85%.

Orders made for our non-centralized products are made directly by the stores and delivered by the suppliers following the supply model known as “Direct Entry.” As of December 31, 2010, 15% of our stores sales corresponded to “Direct Entry” products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines.

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

Our logistics process associated with our *Casas Bahia* and *Ponto Frio* stores involve an examination of Ponto Frio’s stores’ forecast for sales, which we use to submit orders to our suppliers. Once these orders are issued, the delivery of products is managed by Globex supply chain area, which analyzes inventory levels, sales estimates by store and other variables and schedules the delivery of the requested products with our suppliers. The products are delivered and distributed among Globex’s distribution centers, which as of December 31, 2010 totaled 16 distribution centers located in 11 States (Rio de Janeiro, São Paulo, Minas Gerais, Paraná, Bahia, Espírito Santo, Goiás, Mato Grosso, Mato Grosso do Sul, Santa Catarina and the Federal District.)

*PA Delivery*

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

*Nova Pontocom*

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

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*Drugstores*

Our drugstores are supplied with medications and similar products, the latter following the same distribution logistic used for our supermarkets and hypermarkets. Medications are delivered by specialized distributors who intermediate the process between our Company and the respective drug manufacturers. As of December 31, 2010, we maintained agreements with three major distributors as well as with some regional distribution companies. We do not maintain drug inventories. Medications are requested to distributors through purchase orders that are made according to the needs of our drugstores.

In 2010, through a dedicated logistics operator, BOMI – Farma, located in São Paulo, we have made direct purchases from the pharmaceutical industry. The distribution center operates in the interior of the State of São Paulo and currently serves our drugstores located in this State.

*Gas Stations*

Our gas stations are supplied by exclusive suppliers. As of December 31, 2010, we used five suppliers. Supply orders are made individually by each station, and fuel is requested through purchase orders or pre-agreed daily supplies, pursuant to the respective services agreement entered into with each gas station. Fuel transportation is carried out exclusively by our supplier while unloading operations being closely followed by our employees for safety and quality control reasons. The process for compressed natural gas, or GNV is different. GNV is delivered by regional suppliers directly to the gas stations, through dealers and using pipelines connected to the entrance boxes located at the gas stations and holding fuel meters installed and controlled by the dealers themselves. This equipment regularly measures the GNV volumes supplied. GNV is sold through dispensers attached to these entrance box, using specific pipelines.

**Marketing**

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

In 2008, 2009 and 2010 we spent approximately R\$180.2 million, R\$266.4 million and R\$281.0 million, respectively, on advertising (approximately 1.0%, 1.0% and 0.9% of total net sales revenues in each year, respectively). Also, 28.0%, 26.3% and 28.1% of our total marketing expenditures in 2008, 2009 and 2010, respectively, were spent on radio, newspaper and magazine advertising. Television advertisements accounted for 38.2%, 39.2% and 35.8% of advertising expenses in 2008, 2009 and 2010, respectively. We spent 33.8% in 2008, 35.6% in 2009 and 36.1% in 2010 on other promotional activities.

**FIC and Investcred**

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

FIC operates service kiosks in our stores that have exclusive rights to offer private label and co-branded credit cards, personal and consumer credit and insurance. FIC has been operating for six years and has 7.8 million customers (including the customer base of Investcred), which represents approximately one third of our customers. Each of our Company and Itaú Unibanco holds 50% of FIC's capital stock. Our Company holds 36% and Globex holds 14%. Itaú Unibanco is responsible for managing FIC and appointing the majority of its officers.

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FIC's share of our total gross sales amounted to 14.0% as of December 31, 2010. In 2010, FIC had an equity income of R\$47.4 million – a significant improvement compared to the R\$15.2 million in 2009. This performance was in line with our strategy to increase the FIC card's share of sales, making it the best payment option in the stores and e-commerce operations, with exclusive benefits and advantages for card-holders.

The table below sets forth the breakdown of FIC's customers in 2008, 2009 and 2010.

<b>Total number of clients (in thousands)</b>	<b>2008</b>	<b>2009<sup>(1)</sup></b>	<b>2009<sup>(2)</sup></b>	<b>2010</b>
Private label cards	4,422	4,262	4,262	5,172
Co-branded cards	780	979	685	789
Direct consumer credit agreements	135	358	38	70
Extended warranty	678	-	-	-
Personal loans	53	57	9	24
Flex cards	-	1,249	-	1,710
<b>Total</b>	<b>6,068</b>	<b>6,905</b>	<b>4,994</b>	<b>7,765</b>

(1) Including Globex (Ponto Frio).

(2) Excluding Globex (Ponto Frio).

### Credit Sales

In 2010, 54.3% of our net sales revenue were represented by credit sales in the form of credit card sales, installment sales, post-dated checks and purchase vouchers. The allowance for doubtful accounts is based on average historical losses complemented by the Company's estimates of probable future losses:

*Credit card sales.* All of our store formats accept payment for purchases with MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 40.6%, 43.6% and 45.8% of our net sales revenue in 2008, 2009 and 2010 respectively. From this total, sales through private label and co-branded credit cards accounted for 15.5% of our net sales revenue in 2010. An allowance for doubtful accounts is not required as credit risks are substantially assumed by credit card companies or issuing banks.

*Purchase vouchers.* We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 1.0%, 7.5% and 5.9% of our net sales revenue in 2008, 2009 and 2010 respectively. An allowance for doubtful accounts is not required as credit risks are substantially assumed by the companies that issue the vouchers.

*Credit sales.* Our *Extra* hypermarkets, *Ponto Frio* and *Casas Bahia* stores offer attractive consumer financing conditions to our customers who frequently purchase home appliances on an installment basis. The installment sales accounted for 1.5%, 1.0% and 2.6% of our total net sales revenue in 2008, 2009 and 2010 respectively. These sales are split in:

*Post-dated checks.* Post-dated checks are used as financial instruments in Brazil to make purchases. Post-dated checks are executed by a consumer with a future date (up to 60 days) instead of the date of the purchase. The retailer typically deposits the check only as of this future date, and interest for the time elapsed is included in the amount of the check. We currently have post-dated check programs in which interest is computed on the settlement amount based upon a

fixed monthly rate of interest (to a lesser extent, for certain promotional programs no interest is charged). We limit the availability of post-dated checks to customers who meet our credit criteria and who hold our identification card. Sales to customers using post-dated checks accounted for 1.5%, 0.7% and 0.2% of our net sales revenue in 2008, 2009 and 2010, respectively.

*Installment sales (“Crediário”).* Our *Casas Bahia* stores offer easy access to credit through payment slips (“*cartões*”) to our customers to finance their purchases. Sales to customers using payment slips accounted for 2.4% in 2010.

## **Technology**

We invested R\$101.8 million in information technology in 2008, R\$144.2 million in 2009 and R\$136.4 million in 2010. Our information technology department is interconnected with our other departments, streamlining our strategic initiatives.

During 2010, we focused on continuing the projects that were initiated in 2009. We completed the project Oracle – Retail, the Company’s largest technology investment in recent years. During 2010, we concluded all stages of deployment. In 2011, we will commence the roll-out, by category, to the distribution centers and all of our stores. Oracle – Retail is expected to reduce the levels of inventory and breakage in the stores, maximizing employee work and minimizing consumers’ perception of lack of products on the shelves.

Other main projects developed during 2010 include:

*SAP* – SAP will be the platform used to integrate all of the companies in the Group. SAP is already operating in all areas of our financial back-office. In 2011, we will introduce the system in our cash-and-carry and home appliances segments. We believe that adopting a single platform will lead to better control, integrity and uniformity of processes among the companies.

*DemandTec* – We implemented DemandTec in all of the Company’s supermarkets, hypermarkets and proximity retail outlets. The tool facilitated the studies of price elasticity of products sold. The studies allowed us to maximize supply at the best price and improved margin.

## **Intellectual Property**

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

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

As of December 31, 2010, our most important trademarks (*Pão de Açúcar, Companhia Brasileira de Distribuição, Barateiro, Extra, Qualitá, CompreBem, Sendas, Taelq, Ponto Frio, Casas Bahia* and *Assaí*, among others) were duly registered with INPI and we had approximately 2,419 trademarks registered or in the process of being registered in Brazil. We did not have any registered patents as of December 31, 2010.

Regarding Casa Bahia Comercial Ltda.’s trademarks, the parties executed the “Trademark Assignment and Transfer Agreement,” through which Casa Bahia Comercial Ltda. assigned and transferred the property of its trademarks registered in Brazil to Nova Casa Bahia.

We own the following domain names, among others: [www.extra.com.br](http://www.extra.com.br), [www.paodeacucar.com.br](http://www.paodeacucar.com.br), [www.comprebem.com.br](http://www.comprebem.com.br), [www.assaiaacadista.com.br](http://www.assaiaacadista.com.br), [www.pontofrio.com.br](http://www.pontofrio.com.br), [www.sendas.com.br](http://www.sendas.com.br) and [www.casasbahia.com.br](http://www.casasbahia.com.br). Note that these domain names are for informative purposes only and the information

contained in these websites is not incorporated by reference in this annual report.

### **Competition**

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



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Recently, leading retail food companies, including our Company, have acquired various chains. One recent trend in the retail food industry is the migration of large chains to smaller formats, such as neighborhood banners. We believe that hypermarkets should increase their share in the clothing, general goods, electronic products, furniture and construction materials markets as well as in other categories of non-food products, in order to take advantage of the growth in department stores and stores specializing in this segment in Brazil.

Despite operating in various Brazilian regions, the dimension, wealth and importance of the State of São Paulo drive the concentration of our stores into this market, with the State of Rio de Janeiro being the second largest consumer market for our operations.

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

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

*Assaí* chain competes with Atacadão, a wholesale chain with 34 stores purchased by Carrefour in 2007, Roldão, Tenda, Makro and Maxxi.

In the State of São Paulo, our *CompreBem* stores face strong competition from various smaller regional chains. In the State of Rio de Janeiro, the main competitors of ABCCompreBem and Sendas are Guanabara, Prezunic, Zona Sul and Mundial.

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

In the home appliances market, the principal competitors of our *Extra Eletro*, *Casas Bahia* and *Ponto Frio* stores are Magazine Luiza, Pernambucanas, Ricardo Eletro and Lojas Insinuante.

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

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

## **Regulatory Matters**

We are subject to a wide range of governmental regulation and supervision generally applicable to companies engaged in business in Brazil, including federal, state and municipal regulation, such as labor laws, public health and environmental laws. In order to open and operate our stores, we need a business permit and site approval, an inspection certificate from the local fire department as well as health and safety permits. Our stores are subject to inspection by city authorities. We believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business.

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

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As a result of significant inflation during long periods in the past, it was common practice in Brazil not to label individual items. However, a recently enacted federal regulation established that products exposed to consumers must contain information about prices (for instance price tags, signs or bar codes which can be read with scanners) in order to facilitate the identification of prices of each product by the consumer. Pursuant to these new rules, the pricing information must be physically attached or adjacent to the product. When bar codes are used, the commercial establishment is required to provide easily accessible scanners. We believe that we are in compliance with these new provisions in all material aspects.

The Brazilian Congress is discussing a bill requiring a prior assessment of the impact of the construction of a hypermarket in excess of 1,000 square meters on the relevant neighborhood. The proposed regulation is intended to protect traditional family-owned retailers that have increasingly lost market share in Brazil to the larger chains and hypermarkets. Regulations of this type already exist at the municipal level. For example, governmental authorities in the city of Porto Alegre in the State of Rio Grande do Sul issued a city ordinance in January 2001 prohibiting the construction of food retail stores with a selling area greater than 1,500 square meters, which in May 2005, was amended as to increase from 1,500 to 2,500 squares meters the selling area of food retail stores. Other jurisdictions may adopt similar laws, and, if the bill pending before the Brazilian Congress becomes law, our future expansion and growth may be subject to significant constraints.

### **Environmental Matters**

In 2008, we initiated a new policy of sustainable operations by structuring our actions in a single manner, aligned with our goals and business, thus strengthening our sustainability practices, which are now measured and improved on a regular basis. We also incorporated sustainability into our operations company-wide, encompassing every sector of the organization. As a result, we created an internal working group and the Sustainable Development Committee, which is linked to our board of directors. The internal committee is organized by the sustainability department comprising representatives of different areas of our Company.

In 2002, we launched the “Caras do Brasil” (Faces of Brazil) program, which aims at enabling the selling of products made by small organizations and communities that demonstrate socio-environmental responsibility, but which would otherwise find it difficult to access large markets in which to trade their production. The program opens a sales channel for sustainable products and encourages conscientious consumption.

We offer approximately 1,000 sustainable items, including groceries, meat, fruit, greens and vegetables. The result of this type of product in our stores accounted for growth of 30% between 2008 and 2009, encouraging us to enhance these product lines in the years to come.

We have also adapted a program for tracking meat, fruit and vegetables, which enables us to offer products incorporating sustainable practices in their production process so as to ensure the health of our clients, proper treatment of livestock and environmental preservation.

In respect to environmental management, we have enhanced control of our consumption of water and energy resources, in addition to the volume of waste generated and proper disposal thereof. To that end we have installed flow reducers on the taps at most of our stores, so as to permit maximum efficiency in water usage, in addition to implementing daily monitoring of consumption at our stores located in the states of São Paulo, Rio de Janeiro and Brasília, in order to rapidly detect leaks. In the future we intend to adopt this control at our other stores. In regard to

energy consumption, 26% of our consumption comes from renewable sources (9.5 10<sup>14</sup> joules or 262.466.841,41 KWh), and this energy is acquired on the free electrical power market. This measure strengthens alternative energy production, reduces the environmental impact of electricity consumption and does not overload the national electricity transmission system.

In regard to gas emissions, our refrigeration systems (cold stores, air conditioning, refrigerators and freezers) use R-22 gas, a variation of refrigeration gas which is less damaging to the ozone layer, in substitution of R-12 gas. In our green stores, we use R-410 gas in the air conditioning system and R-404 gas in the refrigeration system, which have a minimum impact on the ozone layer and represent a new trend in refrigeration and air conditioning installations.

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Six years ago we initiated the Top Log program to certify our suppliers who employ the best policies and practices in logistics and supply ascertained during the year. In 2010, 144 suppliers participated in the Top Log Program, and were evaluated regarding their service level, suitability to the client and integration. Sixteen questions related to sustainability, such as pollutant emissions' reduction, route optimization and reverse logistics – focused on the disposal of packaging materials, were also applied.

We also aim to rationalize resources, while our operations adopt measures to mitigate their impacts, such as:

*Waste generation:* On-going study of the waste generated in our stores, with the aim of identifying environmentally correct disposal methods, where the focus is on applying the concept of the 3 Rs – reduce, re-use, recycle. Based on this assumption, we have adopted actions that seek to optimize re-usage of our recyclable and organic garbage, thereby reducing the volume of material discharged in landfills. This study resulted in the application of a system in the Green Store at Indaiatuba, creating a volume of disposable garbage close to zero. The same system can be found in over 20 stores and is being adapted for the others, covering all our banners throughout Brazil.

*Use of materials:* Replacement of equipment or introduction of more efficient new technologies with lower consumption, especially lighting, compressors and air conditioning systems.

*Grease trap:* The application of a natural biological product for degrading organic compounds.

*Recycling stations:* A pioneering initiative in Brazil, the program first appeared in 2001 at the *Pão de Açúcar* banner in partnership with Unilever, and was expanded in subsequent years to the *Extra* banner in partnership with H2OH!, and *CompreBem*. The program seeks to make our clients aware of the importance of properly disposing of garbage, while also making available deposits for voluntary delivery of recyclable materials at our stores. In addition to reducing the environmental impact through correct disposal of garbage, this initiative benefits 27 recycling cooperatives while generating income for around 900 workers. As of December 31, 2010, we had recycling stations at 110 *Pão de Açúcar* stores, 110 *Extra* stores and seven *CompreBem* stores in 31 cities in the states of São Paulo, Ceará, Rio de Janeiro, Paraíba, Pernambuco, Piauí, Paraná and Goiás, in addition to the Federal District. Since this initiative began more than 40 thousand tons of garbage have been collected.

*CompreBem Oil Collection:* In 2010, oil collectors installed at 18 *CompreBem* stores collected more than 17,443 liters of oil. Since its beginnings in 2008, more than 41,800 liters have been collected. All collected oil is donated to recycling cooperatives, which resell to companies that produce biofuels.

*Caixa Verde (Green Checkout):* A program that enables our clients to dispose of packaging at the time of purchase, the first retail pre-consumption recycling program. In 2010 we had 67 stores already with the project in operation.

*Re-usable bags:* This encourages our clients to use plastic bags in a conscientious manner by offering re-usable bags in our stores while developing alternative programs, such as offering purchase vouchers (once a certain number of points is achieved) to clients participating in the *Programa Mais* (a loyalty scheme) and who use re-usable bags. In 2010, 659 thousand re-usable bags were sold at *Pão de Açúcar* stores, of the 7 models one of them has part of the income donated to SOS Mata Atlantica, 668 thousand at *CompreBem* (one of the models being developed in partnership with *Associação de Apoio à Criança Deficiente* – (the Association for Children with Disabilities) or AACD), 835 thousand at *Extra* stores (with part of the income raised from sales being donated to *Casa Hope*, which supports children with cancer). Lastly, yet another initiative we have adopted for reducing the volume of plastic bags

used in purchases at our stores involves the use of more resistant bags that take up to 6 kilos.

We currently do not incur any costs with environmental regulations compliance, notwithstanding those costs associated with the implementation of the sustainability practices described above (among them the construction of a green store in the Vila Clementino, city of São Paulo), resulting in expenditures of approximately R\$17 million for the year ended December 31, 2010.

#### **4C. Organizational Structure**

We conduct our operations through Companhia Brasileira de Distribuição. We invest in subsidiaries primarily to acquire the share capital of other retail chains from third parties. In most cases, the retail operations are transferred to retail stores under existing banners or the stores acquired begin operating under our banners. We conduct our food retail segment operations under the *Pão de Açúcar*, *CompreBem*, *Sendas*, *Extra Hipermercado*, *Extra Fácil*, *Extra Supermercado* banner and for cash-and-carry retail segment operations, under the *Assaí* brand. We conduct our home appliances retail segment operations through our *Ponto Frio* and *Casas Bahia* brands. The chart below sets forth a summary of our organizational structure:

For further information on our subsidiaries see note 1 to our financial statements included in this annual report.

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

We own 117 stores, 18 distribution centers and a portion of the real estate property where our headquarters are located. The remaining 1,530 stores and 32 distribution centers we operate and the remaining portion of the real estate property where our headquarters are located are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 27 leases expiring by the end of 2011. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31, 2010, we leased 17 properties from members of the Diniz Family and 61 stores from Fundo de Investimento Imobiliário Península, which is owned by the Diniz Family. In addition, all of the 526 *Casas Bahia* stores are leased, of which 292 were leased as of the December 31, 2010 from members of the Klein family. Our management believes that the leases follow market standards, and are on an arm's length basis. See "Item 7B. Related Party Transactions—Leases" and note 21 to our audited consolidated financial statements included in this annual report.

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The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that we own and lease as of December 31, 2010:

	<b>Owned</b>		<b>Leased</b>		<b>Total</b>	
	<b>Number</b>	<b>Area (in square meters)</b>	<b>Number</b>	<b>Area (in square meters)</b>	<b>Number (*)</b>	<b>Area (in square meters)</b>
<i>Pão de Açúcar</i>	29	37,700	120	160,553	149	198,253
<i>Extra Hipermercados</i>	29	186,247	81	579,425	110	765,672
<i>Extra Supermercado</i>	17	24,787	84	112,478	101	137,265
<i>Extra Fácil</i>	9	1,608	59	13,325	68	14,933
<i>CompreBem</i>	10	17,918	103	113,148	113	131,066
<i>Sendas</i>	-	-	17	45,380	17	45,380
<i>Assaí</i>	-	-	57	176,710	57	176,710
<i>Ponto Frio</i>	23	31,405	483	331,908	506	363,313
<i>Casas Bahia</i>	-	-	526	978,511	526	978,511
<i>Warehouses</i>	18	957,188	32	405,574	50	1,362,762
<i>Headquarters</i>	1	35,948	1	59,327	2	95,275

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

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.



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**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

## 5A. Operating Results

The following table demonstrates certain operation data as of and for the years ended December 31, 2008, 2009 and 2010:

	2008	2009	2010	2010 (in millions of US\$, except as indicated)
<b>Operating Data</b>	<b>(in millions of R\$, except as indicated)</b>			
Employees at end of period	70,656	85,244	127,406	
Total square meters of selling area at end of period	1,360,706	1,744,653	1,832,592	
Number of stores at end of period				
<i>Pão de Açúcar</i>	145	145	149	
<i>CompreBem</i>	165	157	-	
<i>Extra Hipermercados</i> (1)	139	168	178	
<i>Extra Supermercado</i> (2)	-	13	231	
<i>Extra Eletro</i>	47	47	-	
<i>Assaí</i>	28	40	57	
<i>Sendas</i>	73	68	-	
<i>Ponto Frio</i> (3)	-	455	506	
Total number of stores at end of period	597	1,080	1,121	
Net sales revenues per employee (4):				
<i>Pão de Açúcar</i>	229,076	262,276	323,168	193,978
<i>CompreBem</i>	325,737	335,961	-	-
<i>Extra Hipermercados</i> (1)	339,614	356,219	417,281	250,469
<i>Extra Supermercado</i> (2)	-	-	316,028	189,692
<i>Extra Eletro</i>	409,722	548,133	-	-
<i>Assaí</i>	437,538	303,395	418,860	251,417
<i>Sendas</i>	244,060	297,486	-	-
<i>Ponto Frio</i> (3)	-	258,144	644,237	386,697
Average net sales revenues per employee	297,536	315,690	407,732	244,737
Net sales revenues by store format:				
<i>Pão de Açúcar</i>	3,378	3,798	4,287	2,897
<i>CompreBem</i>	2,573	2,585	-	-
<i>Extra Hipermercados</i> (1)	9,120	10,406	11,282	6,772
<i>Extra Supermercado</i> (2)	-	-	4,597	2,759
<i>Extra Eletro</i>	295	386	-	-
<i>Assaí</i>	1,269	1,982	2,943	1,767
<i>Sendas</i>	1,397	1,608	-	-
<i>Ponto Frio</i> (3)	-	2,475	6,158	3,696
Total net sales	18,032	23,240	29,808	17,892

Average monthly net sales revenue per square meter

(5):				
<i>Pão de Açúcar</i>	1,481.1	1,637.2	1,890.8	1,134.9
<i>CompreBem</i>	1,085.4	1,148.7	-	-
<i>Extra Hipermercados (1)</i>	1,025.3	1,138.0	1,281.0	768.9
<i>Extra Supermercado (2)</i>	-	-	1,222.3	733.6
<i>Extra Eletro</i>	881.1	1,154.1	-	-
<i>Assaí</i>	2,486.1	1,395.2	1,552.5	931.9
<i>Sendas</i>	897.1	1,088.6	-	-
<i>Ponto Frio (3)</i>	-	620.4	1,494.8	897.2
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	1,421.8	853.4

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	2008	2009	2010	2010 (in millions of US\$, except as indicated)
<b>Operating Data</b>	<b>(in millions of R\$, except as indicated)</b>			
Average ticket amount:			37.4	
<i>Pão de Açúcar</i>	26.1	29.8		22.4
<i>CompreBem</i>	19.3	20.7	-	-
<i>Extra Hipermercados</i> (1)	43.7	48.5	51.8	31.1
<i>Extra Supermercado</i> (2)	-	-	23.9	14.3
<i>Extra Eletro</i>	299.1	346.6	-	-
<i>Sendas</i>	21.9	24.2	-	-
<i>Assaí</i>	78.9	74.5	85.0	51.0
<i>Ponto Frio</i> (3)	-	618.4	328.4	197.1
			50.3	
CBD average ticket amount	32.6	41.2		30.2
Average number of tickets per month:				
<i>Pão de Açúcar</i>	10,769,076	10,607,751	10,765,303	
<i>CompreBem</i>	11,128,328	10,387,308	8,958,669	
<i>Extra Hipermercados</i> (1)	17,406,079	17,886,223	16,950,662	
<i>Extra Supermercado</i> (2)				
<i>Extra Eletro</i>	82,185	92,908	76,243	
<i>Sendas</i>	5,315,750	5,537,072	4,562,594	
<i>Assaí</i>	1,340,148	2,218,159	2,885,286	
<i>Ponto Frio</i> (3)	-	333,487	1,486,648	
CBD average number of tickets per month	46,041,566	47,062,907	49,401,310	

(1) In 2010, includes the results of operations of 110 *Extra Hipermercados* stores and 68 *Extra Fácil* stores. In 2009, included the results of operations of 103 *Extra Hipermercados* stores, 13 *Extra Supermercado* stores and 52 *Extra Fácil* stores.

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

(3) Includes the results of operations of Globex (*Ponto Frio*) as from July 1, 2009, and *Extra Eletro* stores, excluding the operations of Nova Casa Bahia. During 2010, we converted the *Extra Eletro* stores into *Ponto Frio* stores. For further information on the acquisition of Globex, see “Item 4A. History and Development of the Company.”

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

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

## **Brazilian Economic Environment and Factors Effecting Our Results of Operations**

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

For the period from 2007 through 2010, Brazilian GDP increased by an average of 4.5% annually (6.1% in 2007, 5.1% in 2008 and -0.6% in 2009). Inflation, as measured by the IPCA, was 4.5%, 5.9% and 4.3%, in 2007, 2008 and 2009, respectively. From January 2007 through December 2010, the *real* appreciated 21.7% against the U.S. dollar. Unemployment decreased from 9.3% in January 2007 to 5.3% in December 2010. International reserves increased from US\$91.1 billion to US\$275.2 billion, and the ratio of net public debt to GDP decreased from 46.7% to 40.3% during the same period.

In 2008, Brazil received investment grade long-term debt ratings from Standard & Poor's and Fitch and, in September 2009, from Moody's. The upgraded long-term debt ratings were understood to reflect a favorable medium-term economic environment for Brazil due to the maturity of its financial institutions and the political structure of the country, as well as advances in fiscal policy and control over public debt. In the following months the Brazilian government promoted a series of measures to stimulate consumption, including reducing interest rates, expanding credit through federal public banks and cutting taxes on durable goods, such as vehicles and refrigerators. In April 2011, FITCH upgraded Brazil's rating on Brazil's local and foreign currency debt to BBB from BBB-, and its country ceiling to BBB+ from BBB.

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

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After these initial effects, the Brazilian economy resumed its prior growth trend, with rising income levels, stable employment rates and controlled inflation. The increase in GDP in the first semester of 2010, announced in September by IBGE, was 9.0% as compared to the same period in 2009 and 2.7% as compared to the fourth quarter of 2009. The average real income of Brazil's workforce increased by 6.9% in the 12-month period ended September 30, 2010, while the unemployment rate was at 6.2% in September, according to IBGE. As of September 30, 2010, the accumulated inflation rate as measured by the IPCA was 3.6%. The Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM, limited the increases in the base interest rate (SELIC) and had left it unchanged at 10.66% until December 31, 2010. The SELIC increased in 2011 and as of June 20, 2011 it was 12.17%.

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

	<b>2008</b>	<b>December 31 2009</b>	<b>2010</b>
GDP Growth <sup>(1)</sup>	5.1%	(0.2)%	7.5%
Inflation (IGP-M) (%) <sup>(2)</sup>	9.8%	(1.7)%	11.3%
Inflation (IPCA) (%) <sup>(3)</sup>	5.9%	4.3%	5.9%
CDI (%) <sup>(4)</sup>	12.4%	9.9%	9.8%
TJLP (%) <sup>(5)</sup>	6.3%	6.0%	6.0%
SELIC rate (%) <sup>(6)</sup>	13.7%	8.7%	10.7%
Appreciation (depreciation) of real before USD (%)	(24.2)%	34.2%	4.5%
Exchange rate (closing) R\$ per USD 1.00 <sup>(7)</sup>	2.3	1.7	1.7
Average exchange rate R\$ per USD 1.00 <sup>(8)</sup>	1.8	2.0	1.8

(1) Source: IBGE.

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

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

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

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

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

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

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

## **Financial Presentation and Accounting Policies**

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

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

***Critical Accounting Policies***

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

*Operating lease commitments—Company as lessor*

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

*Estimated impairment of goodwill and intangibles*

We test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4 to our financial statements and IAS 36. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations and market quotes. The calculations of value-in-use require the use of estimates.

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

*Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the nature and complexity of our business, differences arising between the actual results and the assumptions made, or future changes to those assumptions, could require future adjustments to tax income and expense already recorded. We establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which we operate. The amount of the provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. The differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company’s domicile.

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

We have tax loss carry forwards amounting to a tax benefit of R\$720.5 million (R\$578.1 million in 2009). These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support a portion of these balances. We recorded a valuation allowance against these deferred tax assets in the amount of R\$106.2 million in 2010 and 2009.

*Fair value of derivatives and other financial instruments*

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

The fair value of financial instruments that are actively traded on organized markets is determined based on the market quotes, on the balance sheet dates, without any deduction for transaction costs. For financial instruments that are not actively traded, the fair value is based on valuation techniques defined by us and compatible with usual market practices. If there is no active market, then the market value is determined through valuation techniques. These techniques include the use of recent market transactions between independent parties, benchmarks to the fair value of similar financial instruments, analysis of discounted cash flows or other valuation models.



*Share-based payments*

We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. We disclose the assumptions and models used for estimating fair value for share-based payment transactions in note 25 to our financial statements included in this annual report.

*Review of the useful life of property and equipment items*

We have reviewed the useful life of our fixed assets as of January 1, 2010. As a consequence, our income statement reflected non comparative amounts of depreciation.

Changes have been applied prospectively in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

**Business Combinations**

*Globex Acquisition*

We have consolidated the results of operations of Globex into our financial statements since July 7, 2009. The acquisition was accounted for under the acquisition method consistent with IFRS 3.

We had used provisional amounts of net assets acquired in 2009 and 2010. We carried out a final valuation that resulted in adjustments to net assets, which we recorded retroactively in the year ended December 31, 2009:

- (i) Restricted advances: these refer to adjustment to recoverable value of restricted deposits existing on the business combination date;
- (ii) Provision for contingencies: non-recorded provisions on the acquisition date (contingent liabilities), as they do not meet the IAS 37 requirements, recorded in business combination according to IFRS 3 requirement (see note 19 to our financial statements);
- (iii) “Ponto Frio” and “Pontofrio.com” trademarks: Ponto Frio and Pontofrio.com are traditional and well-known trademarks in Brazilian retail industries. In light of the strength and recognition of the brand, a player in the market should not discontinue to use it. The value of the brand was based on how much royalties would be paid according to market standards for the use of the brand, if we had not acquired it.
- (iv) Commercial Rights “Fundo de Comércio”: one of Globex’s strengths is its points-of-sale, most of which are located in busy shopping centers. Shopping centers and street stores usually charge fees related to the assignment for the right to use the point-of-sale when it is transferred. The value of the fees is calculated based on comparable transactions in the market;
- (v) Customer relationship: relates to the customer base held by Banco Investcred, mainly through private label cards, corporate clients and e-commerce channel and is Brazil’s 7<sup>th</sup> largest e-commerce web site.
- (vi) Fair value of property and equipment: the Company evaluated the fair value of property and equipment acquired, identifying an adjustment of R\$99.1 million, fully recognized in the opening balance sheet.
- (vii) Deferred income tax and social contribution over differences between the taxable basis of tax and accounting goodwill, under IAS 12;

As of December 31, 2010 we recorded goodwill in the amount of R\$279.9 million (R\$703.0 million provisionally calculated in 2009), in “intangible assets” based on the total consideration related to the acquisition of Globex and net assets we identified at fair value.

For further information on the acquisition of Globex see “Item 4A. Development of the Company— Acquisition of Globex (Ponto Frio)” and see note 16 to our financial statements included in this annual report.

***Casa Bahia Comercial Ltda. Association***

We have consolidated the results of operations of Casa Bahia Comercial Ltda. into our financial statements since November 1, 2010. The business combination was accounted for under the acquisition method consistent with IFRS 3. We have not yet obtained a final valuation for the fair value of the net assets, in order to conclude the valuation of the goodwill related to the Association. We will conclude the collection of the necessary data required to complete the valuation of the fair value of the net assets acquired and consideration transferred during 2011 within 12 months from the date of the business combination.

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For further information on the Association, see “Item 4A. History and Development of the Company – Association Agreement with the Partners of Casa Bahia Comercial Ltda.,” “Item 7B. Related Party Transactions – Leases,” “Item 10C. Material Contracts” and note 16(a) to our financial statements included in this annual report.

**Overview**

In 2010, we consolidated our leading position as one of the largest retail companies in Latin America. We concluded the negotiation of the Association with the partners of Casa Bahia Comercial Ltda. and we believe we became one of the 10 largest companies worldwide in the home appliances segment. While remaining primarily a food distribution company, our strong position in the home appliances retail segment enabled us to diversify the mix of products we offer to our customers.

Since 2008, we have reorganized our management model. During 2010, we ceased to be a multi-format company and became a multi-business group. We have segregated each of our business segments into separate operating units: food retail, cash-and-carry, home appliances retail and e-commerce. Our new management model ensures that each operating unit keeps its individual business characteristics and is managed by professionals that are specialized in each unit’s business segment. In addition, under our new management model, each operating unit benefits from a single administrative and operating structure that includes market strategy, commercial strategy, corporate relations, supply chain, corporate services (finance and IT), human resources and management control. Through our new management model we gain synergies and integrate our business segments without jeopardizing the specificity and expertise that is necessary to generate positive results in each of the segments.

In the food retail operating segment, as part of our strategy to increase our operations in this segment and take advantage of the migration of the Brazilian population from the lower income class to the lower-middle income class, we have been converting *CompreBem* and *Sendas* stores into *Extra Supermercado* stores to unify our banners that are targeted at lower to middle income consumers. Through this conversion process, we intend to strengthen our position in this increasingly growing segment of the Brazilian population and streamline our operations.

In the cash-and-carry operating segment, we fostered strong organic growth and strengthened our position in this segment. Our *Assaí* stores increased from 14 stores in 2007 to 57 stores in 2010.

In the e-commerce operating segment, we incorporated Nova Pontocom in the beginning of 2010. For further information on the incorporation of Nova Pontocom, see “Item 4A. History and Development of the Company – Association Agreement with the Partners of Casa Bahia Comercial Ltda.” and “– Reorganization of E-commerce Operations.”

We believe that our good results of operations during 2010 stemmed from favorable macroeconomic conditions in Brazil. The migration of the Brazilian population from the lower income class to the lower-middle income class increased consumption of higher value-added products. In addition, the competitive environment has also become more balanced as the informal segment of the Brazilian economy has increasingly reduced. We expect that important events, such as the FIFA World Cup in 2014 and the Olympic Games in 2016, the strength of the real estate sector and infrastructure programs sponsored by the Brazilian government will continue to increase consumption in Brazil, particularly in the low-middle income class.

**Results of Operations for 2010, 2009 and 2008**

We measure the results of our operating segments in IFRS using, among other measures, each segment's operating profit. At times, our Company revises the measurement of each segment's operating profit, as dictated by the information regularly reviewed by the chief operating decision-maker. When revisions are made, the results of operating for each segment affected by the revisions are restated for all periods presented to maintain comparability. Information for the segments is included in the following table:

Segments	(in millions of R\$)				Total
	As of December 31, 2010				
Statement of operations data	Food Retail	Cash-and-Carry	E-commerce	Home Appliances <sup>(1)</sup>	
<b>Net sales revenue</b>	20,562.8	2,922.9	1,703.8	6,902.2	32,091.7
<b>Gross profit</b>	5,524.1	422.4	278.0	1,625.7	7,850.2
Depreciation and amortization	(336.3)	(24.3)	(2.2)	(77.3)	(440.1)
Operating profit	1,244.8	67.9	215.7	73.6	1,602.0
Financial expenses	(646.2)	(53.6)	(73.5)	(381.4)	(1,154.7)
Financial income	290.2	7.2	0.4	33.9	331.7
<b>Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest</b>	865.1	21.5	(2.7)	(70.4)	813.5
Income and social contribution taxes	(105.3)	(8.0)	5.3	21.4	(86.6)

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

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(in millions of R\$)

Segments	As of December 31, 2009					Total
	Food Retail	Cash-and-Carry	E-commerce	Home Appliances <sup>(1)</sup>	Elimination <sup>(2)</sup>	
<b>Net sales revenue</b>	18,524.2	1,981.8	625.5	2,118.8	(57.5)	23,192.8
<b>Gross profit</b>	4,965.2	291.3	102.2	397.8	(57.5)	5,699.0
Depreciation and amortization	(415.5)	(12.1)	(2.4)	(25.5)	(4.4)	(459.9)
Operating profits	989.8	39.5	(17.6)	(42.5)	12.4	981.6
Financial expenses	(432.6)	(10.6)	(14.7)	(43.3)	-	(501.2)
Financial income	238.0	1.4	-	10.6	(3.3)	246.7
<b>Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest</b>	795.9	30.3	(18.4)	(95.4)	20.1	732.5
Income and social contribution taxes	(119.8)	(14.3)	3.4	102.1	(65.4)	(94.0)

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

(2) Accounts for inter-company transactions.

(in millions of R\$)

Segments	As of December 31, 2008			
	Retail	Cash-and-Carry	Elimination <sup>(1)</sup>	Total in IFRS
<b>Statement of operations data</b>				
<b>Net sales revenue</b>	16,769.2	1,262.8	-	18,032.0
<b>Gross profit</b>	4,557.6	194.9	-	4,752.5
Depreciation and amortization	(437.4)	(5.3)	-	(442.7)
Operating profit	799.5	43.3	-	842.8
Financial expenses	(618.8)	(4.9)	-	(623.7)
Financial income	291.0	1.1	-	292.1
<b>Income before income and social contribution taxes and employees' profit sharing and noncontrolling</b>	497.1	39.5	(26.0)	510.7

**interest**

Income and social contribution taxes	(133.6)	(13.6)	-	(147.2)
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(1) Accounts for inter-company transactions.

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

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**(in millions of R\$)**

<b>Results of Operation</b>	<b>As of and for the Year Ended December 31,</b>					
	<b>2010</b> <sup>(1)</sup>	<b>%</b>	<b>2009</b> <sup>(2)</sup>	<b>%</b>	<b>2008</b>	<b>%</b>
Net sales revenue	32,091.7	100.0	23,192.8	100.0	18,032.0	100.0
Cost of sales	(24,241.5)	(75.5)	(17,493.8)	(75.4)	(13,279.5)	(73.6)
Gross profit	7,850.2	24.5	5,699.0	24.6	4,752.5	26.4
Selling, general and administrative expenses	(5,782.1)	(18.0)	(4,179.6)	(18.0)	(3,447.9)	(19.1)
Depreciation and Amortization	(440.1)	(1.4)	(459.9)	(2.0)	(442.7)	(2.5)
Other operating expenses, net	(26.0)	(0.1)	(77.9)	(0.3)	(19.1)	(0.1)
Operating profit	1,602.0	5.0	981.6	4.2	842.8	3.6
Financial income	331.7	1.0	246.7	1.1	292.1	1.6
Financial expense	(1,154.7)	(3.6)	(501.2)	(2.2)	(623.7)	(3.5)
Equity pickup results	34.5	0.1	5.4	0.0	(0.5)	0.0
Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest	813.5	2.5	732.5	3.2	510.7	2.8
Income tax expense						
Current	(52.1)	(0.2)	(68.1)	(0.3)	(36.3)	(0.2)
Deferred	(34.5)	(0.1)	(25.9)	(0.1)	(110.9)	(0.6)
Employee profit sharing	(35.1)	(0.1)	(32.5)	(0.1)	(22.2)	(0.1)
Net income	691.8	2.2	606.0	2.6	341.3	1.9
Attributable to equity holders of the parent	722.3	2.3	609.3	2.6	341.3	1.9
Attributable to noncontrolling interest	(30.7)	(0.1)	(3.4)	0.0	0.0	0.0

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

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

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

#### ***Consolidated***

*Net sales revenue.* Net sales revenue increased by 38.4%, or R\$8,898.9 million, from R\$23,192.8 million in 2009 to R\$32,091.7 million in 2010, as explained below. Our same stores sales increased by 13.2% in the period.

- *Food retail segment (includes the banners Pão de Açúcar, CompreBem, Sendas and Extra)* net sales revenue increased due to the opening of 47 stores and conversion of 93 *CompreBem* and *Sendas* stores into *Extra*



*Supermercado* stores. Our same-store sales in the food retail segment increased by 10.5% in the period due to growth resulting from good sales performance of beverages, personal care & household cleaning products, electronics/household appliances and textile products.

- *Cash-and-Carry segment (Assaí)* net sales revenue increased due to organic growth, the opening of new stores and conversion of existing ones from other banners into *Assaí* banner, and the *Assaí* stores' improved operating result. Our same-store sales in the cash-and-carry segment increased by 10.8 % in the period.
- *Home appliances segment (Casas Bahia and Globex - Ponto Frio)* net sales revenue increased by 225.8% principally due to the consolidation of Nova Casa Bahia's results of operations as from November 1, 2010.
- *E-commerce segment (www.extra.com.br, www.pontofrio.com.br, www.casasbahia.com.br)* net sales revenue totaled R\$1,704.0 million in 2010.

*Gross Profit* increased by 37.7%, or R\$ 2,151.2 million, from R\$5,699.0 million in 2009 (margin of 24.6%), to R\$7,850.2 million (margin of 24.5%) due to more advantageous negotiations with suppliers, improved operational and sales management and implementation of DemandTec, which helped us in the studies of price elasticity for many of the products sold, and thus allowed us to to maximize the supply at the best price and improved margin.

*Selling, General and Administrative Expenses* increased by 38.3%, or R\$1,602.5 million, from R\$4,179.6 million in 2009 to R\$5,782.1 million in 2010 due to higher personnel and social benefit expenses, increased expenses with IT to support business expansion, and 53 new stores opened in the year.

*Depreciation* decreased by 4.3%, or R\$19.8 million, from R\$459.9 million in 2009 to R\$440.1 million in 2010. This positive impact was due to the review of depreciation useful lives of certain specific fixed assets during 2010.

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*Other operating expenses, net* decreased by 66.6%, or R\$51.9 million, from R\$77.9 million in 2009 to R\$26.0 million in 2010. The decrease is due to (i) payment of R\$600 million from Itaú Unibanco in connection with the amendment of the FIC partnership, (ii) revenue for extemporaneous tax credit of R\$107.0 million, (iii) expenses related to business combinations of R\$53.0 million, (iv) losses due to write-off of taxes and tax installment program of R\$747.0 million and (v) R\$39.0 million of other losses. In 2009, the loss is related to a gain resulting from favorable terms of the negotiation of the Association with Nova Casa Bahia of R\$454.0 million, (ii) losses due to write-off of taxes, probable claims and tax installment program of R\$415.0 million, (iii) losses in the sales of fixed assets of R\$73.0 million and (iv) R\$8.0 million of other gains.

*Financial Income* increased by 34.5%, or R\$85.0 million, from R\$246.7 million in 2009 to R\$331.7 million in 2010 due to higher interest-earning income from restated judicial deposits and certain financial investment plus increase in other financial income.

*Financial Expenses* increased by 130.4%, or R\$653.5 million, from R\$501.2 million in 2009 to R\$1,154.7 million in 2010. This increase was mainly a result of the increase in our net debt to finance acquisitions, our expansion and opening of stores. In addition, the increase in the SELIC base interest rate caused an increase in the cost to service our net debt. To a lesser extent, the increase in financial expenses was also due to an increase in our installment payment receivables transferred to third parties at a discount (or referred to in this annual report as "receivables sold") and other assets and liabilities adjusted by the increase in the CDI rate.

*Equity pickup results* increased from R\$5.4 million in 2009 to R\$34.5 million in 2010, due to an increase in the number of FIC's customers and the beginning of Globex's credit cards operations since the third quarter of 2009.

*Income (Expense) Before Income Taxes, Employee Profit Sharing and Noncontrolling Interest* increased by 11.1%, or R\$81.0 million, from R\$732.5 million in 2009 to R\$813.5 million in 2010 due to increase in our sales and a non-taxable gain resulting from favorable terms of the negotiation of the Association with Nova Casa Bahia. The increase was partially offset by financial expenses.

*Income Tax Benefits (Expense)* decreased by 7.9%, or R\$7.4 million from R\$(94.0) million in 2009 to R\$(86.6) million in 2010 due primarily to a non-taxable gain resulting from favorable terms of the negotiation of the Association with Nova Casa Bahia.

*Employee Profit Sharing* increased by 8.0%, or R\$2.6 million, from R\$32.5 million in 2009 to R\$35.1 million in 2010 mainly due to increase in the number of our company's employees.

*Net Income* increased by 14.2%, or R\$85.8 million, from R\$606.0 million in 2009 to R\$691.8 million in 2010 due to the factors discussed above.

**Segment Information**

We present the results of our operating segments in IFRS, which is the measure used by management in evaluating the performance of and strategy for the four segments listed below. For further information on the segments, see note 26 to our financial statements included in this annual report.

*Food Retail Segment*

As of December 31, 2010, the food retail segment was comprised of the banners *Pão de Açúcar*, *Comprebem*, *Sendas* and *Extra*.

*Net sales revenue* increased by 11.0%, or R\$2,038.6 million, from R\$18,524.2 million in 2009 to R\$20,562.8 million in 2010 due to the good sales performance, especially of beverages and personal care & household cleaning products.

*Gross profit* increased by 11.3%, or R\$558.9 million, from R\$4,965.2 million in 2009 to R\$5,524.1 million in 2010 due to the increase in sales as a result of the opening of new stores.

*Depreciation and amortization* decreased by 19.1%, or R\$79.2 million, from R\$415.5 million in 2009 to R\$336.3 million in 2010. This positive impact was the result of the review in the useful life of fixed assets, according to which the useful life of certain specific fixed assets was extended.

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*Operating profit* increased by 25.8%, or R\$255.0 million, from R\$ 989.8 million in 2009 to R\$1,244.8 million in 2010 due to higher sales and a decrease in operating expenses due to more strict budget control.

*Financial expenses* increased by 49.4%, or R\$213.6 million, from R\$ 432.6 million in 2009 to R\$646.2 million in 2010 as a result of a more leveraged capital structure to support our expansion.

*Financial income* increased by 21.9%, or R\$52.2 million, from R\$ 238.0 million in 2009 to R\$290.2 million in 2010 due to higher interest earned on cash and cash equivalents resulting from higher interest rates.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* increased by 8.7%, or R\$69.2 million, from R\$795.9 million in 2009 to R\$865.1 million in 2010 due to gain resulting from favorable terms of the negotiation of the Association with Nova Casa Bahia.

*Cash -and-Carry Segment*

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

*Net sales revenue* increased by 47.5%, or R\$941.1 million, from R\$1,981.8 million in 2009 to R\$2,922.9 million in 2010 principally due to organic growth, the opening of 13 new stores and conversion of four stores from other banners into *Assaí* banner, and the format's improved operating result.

*Gross profit* increased by 45.0%, or R\$131.1 million, from R\$291.3 million in 2009 to R\$422.4 million in 2010 due to 17 new stores in the year.

*Depreciation and amortization* increased by 100.8%, or R\$12.2 million, from R\$12.1 million in 2009 to R\$24.3 million in 2010 due to the opening of new stores and conversion of stores into *Assaí* banner.

*Operating profit* increased by 71.9%, or R\$28.4 million, from R\$ 39.5 million in 2009 to R\$67.9 million in 2010 due to higher sales level than in 2009.

*Financial expenses* increased by 405.7%, or R\$43.0 million, from R\$10.6 million in 2009 to R\$53.6 million in 2010 due to a greater amount of receivables discounted to support our working capital needs.

*Financial income* increased 414.3% or R\$5.8 million, from R\$1.4 million in 2009 to R\$7.2 million in 2010 due to higher interest earned on cash and cash equivalents and on taxes and judicial deposits as a result of higher interest rates.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* decreased by 29.0%, or R\$8.8 million, from R\$30.3 million in 2009 to R\$21.5 million in 2010 due to higher financial expenses, as explained above.

*Home Appliances Segment*

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

*Net sales revenue* increased by 225.8%, or R\$4,783.4 million, from R\$2,118.8 million in 2009 to R\$6,902.2 million in 2010 principally due to the consolidation of Nova Casa Bahia results of 526 stores as from November 1, 2010.

*Gross profit* increased by 308.7%, or R\$1,227.9 million, from R\$397.8 million in 2009 to R\$1,625.7 million in 2010. This increase was the result of the beginning of the integration of Nova Casa Bahia and capture of synergies.

*Depreciation and amortization* increased by 203.1%, or R\$51.8 million, from R\$25.5 million in 2009 to R\$77.3 million in 2010 due to more 526 *Casas Bahia* stores and conversion of *Extra Eletro* stores into *Ponto Frio* stores.

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*Operating profit* increased by 273.2%, or R\$116.1 million, from R\$(42.5) million in 2009 to R\$73.6 million in 2010. This result was due to sales growth, improved gross margin as a result of the integration with Nova Casa Bahia, and our continued expenses control and management.

*Financial expenses* increased by 780.8%, or R\$338.1 million, from R\$43.3 million in 2009 to R\$381.4 million in 2010 primarily due to increased amount of receivables sold, the increase in CDI rate, which impacts the court deposits included in the balance sheet and other assets and liabilities, such as contingencies.

*Financial income* increased by 219.8% or R\$23.3 million, from R\$10.6 million in 2009 to R\$33.9 million in 2010 due to a greater amount of financial investments and discounts on advance repayments to suppliers.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* increased by 26.2%, or R\$25.0 million, from R\$(95.4) million in 2009 to R\$(70.4) million in 2010 due to sales growth, improved gross margin as a result of the integration with Nova Casa Bahia, and our continued expenses control and management. This increase was partially off-set by the decrease in our financial result.

*E-commerce Segment*

As of December 31, 2010, our e-commerce segment consisted of our e-commerce operations through the websites: Extra.com.br, PontoFrio.com.br and CasasBahia.com.br, wholesale activities and E-Hub, owned by Nova Pontocom.

*Net sales revenue* increased by 172.4%, or R\$1,078.3 million, from R\$625.5 million in 2009 to R\$1,703.8 million in 2010 mainly due to organic growth and the consolidation of www.casasbahia.com.br to our company's portfolio.

*Gross profit* increased by 172.0%, or R\$175.8 million, from R\$102.2 million in 2009 to R\$278.0 million in 2010 due to the increase in sales.

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

*Operating profit* increased by 1,325.6%, or R\$233.3 million, from R\$(17.6) million in 2009 to R\$215.7 million in 2010 due to the restructuring within the Pão de Açúcar Group related to the e-commerce segment that caused three websites (Extra.com, PontoFrio.com, CasasBahia.com) and the wholesale operation to become part of this segment.

*Financial expenses* increased by 400.0%, or R\$58.8 million, from R\$14.7 million in 2009 to R\$73.5 million in 2010 due to increased working capital needs driven by the growth in sales.

*Financial income* increased to R\$0.4 million in 2010 due to financial investments.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* decreased by 85.3%, or R\$15.7 million, from R\$(18.4) million in 2009 to R\$(2.7) million in 2010 due to the restructuring within the Pão de Açúcar Group related to the e-commerce segment that caused three websites and the wholesale operation to become part of this segment and the increase in financial expenses.

**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

***Consolidated***

*Net sales revenue.* Net sales revenue increased by 28.6%, or R\$5,160.8 million, from R\$18,032.0 million in 2008 to R\$23,192.8 million in 2009, as explained below. Our same stores sales increased by 12.7% in the period.

- *Food Retail segment (includes the banners Pão de Açúcar, CompreBem, Sendas, Extra and Extra Eletro)* net sales revenue increased due to the consolidation of our new marketing program (sales pillars) which was implemented into our operations in 2008. This program focuses on increasing the assortment of products in our stores, improving negotiating strategies to attain better prices from our suppliers, increasing advertising and offering improved service. Our same stores sales in the traditional retail segment increased by 12.5% in the period due to growth resulting from the good sales performance of both food and non-food products and an increase in credit availability and good payment conditions.

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- *Cash-and-Carry segment (Assaí)* net sales revenue increased due to the opening of seven new stores and the conversion of five existing stores into the *Assaí* format, most of which are in Rio de Janeiro, due to this format's low investment and high return characteristic. Our same stores sales in the cash and carry segment increased by 18.0% in the period, driven by the optimization of over the counter sales.
- *Home appliances segment (Globex - Ponto Frio)* net sales revenue totaled R\$2,118.8 million in 2009. The acquisition of Globex took effect for accounting purposes on July 1, 2009, increasing our net sales.

*Gross Profit* increased by 19.9%, or R\$ 946.5 million, from R\$4,752.5 million in 2008 to R\$5,699.0 due to more advantageous negotiations with suppliers, the consolidation of a more profitable product mix, including seasonal products and the increased participation of Assaí and Ponto Frio in our sales.

*Selling, General and Administrative Expenses* increased by 21.2%, or R\$731.7 million, from R\$3,447.9 million in 2008 to R\$4,179.6 million in 2009 due to the consolidation of Globex's selling, general and administrative expenses and our overall growth, but it remained below the net sales revenue increase of 28.9% as a result of continuing efforts to control expenses.

*Depreciation and Amortization* increased by 3.9%, or R\$17.2 million, from R\$442.7 million in 2008 to R\$459.9 million in 2009 primarily due to the acquisition of Globex in July of 2009, which added 455 stores to our Group.

*Other operating expenses*, net increased by 307.9%, or R\$58.8 million, from R\$19.1 million in 2008 to R\$77.9 million in 2009 due to the exclusion of un-realizable tax write-offs resulting from changes in Brazilian tax legislation amounting to R\$359.0 million, the net effect of the tax installment program (REFIS) in the amount of R\$342.6 million, see "Item 8A. Consolidated Statements and Other Financial Information —Legal Proceeding —Federal Tax Installment Payment Program (REFIS)" and business combination expenses amounting to R\$76.0 million, offset by R\$600.0 million in revenue as a result of the renegotiation of the FIC association agreement with Itaú Unibanco, see "Item 4A. History and Development of the Company —Amendments to the Partnership with Itaú Unibanco" and the reversal of provision for contingencies in the amount of R\$107.5 million.

*Financial Income* decreased by 15.5%, or R\$45.4million, from R\$292.1 million in 2008 to R\$246.7 million in 2009 due to a reduction in net debt resulting in less interest to be paid and lower CDI interbank rate.

*Financial Expenses* decreased by 19.6%, or R\$122.5 million, from R\$623.7 million in 2008 to R\$501.2 million in 2009 as a result mainly of fair value of financial instruments and swap operations.

*Equity* increased from R\$(0.5) million in 2008 to R\$5.4 million in 2009. On September 30, 2009, FIC took over the management of Banco Investcred – BINVI, Globex's financing arm, aiming to boost Ponto Frio's sales and increase profitability through the adoption of a strict credit policy and differentiated payment conditions, as well as the pursuit of synergies. The increase was mainly due to initiatives implemented throughout 2008, which generated important portfolio gains, kept default under control thanks to a rigorous credit granting policy and led to a differentiated positioning in regard to the competition.

*Income (Expense) Before Income Taxes, Employee Profit Sharing and Noncontrolling Interest* increased by 43.4%, or R\$221.8 million, from R\$510.7 million in 2008 to R\$732.5 million in 2009 due to our strategy of expanding our participation in new businesses and growing in a sustainable manner, while retaining firm control over expenses and



investing in competitive prices to leverage sales as well as ensuring cash margin gains.

*Income Tax Benefits (Expense)* decreased by 36.1%, or R\$53.2 million from R\$(147.2) million in 2008 to R\$(94.0) million in 2009 due to the partial inclusion of some lawsuits in the Tax Installments Program of Law 11,941/09. This Law, among others, amends the federal tax laws related to the tax debt payment by installments, granting a reduction of fines and interest rates in specific cases. This decision was made to reduce the Company's tax exposure, with the benefit of reducing fines and interest rates, and implementing a financing plan of up to 180 months. The law also allows that remaining tax losses and judicial deposits related to lawsuits to be included in the installment program and deducted from the outstanding balance to be paid in installments.

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*Employee Profit Sharing* increased by 46.4%, or R\$10.3 million, from R\$22.2 million in 2008 to R\$32.5 million in 2009 due to a change in our profit sharing plan, in which, some employees in positions below management, such as coordinators, supervisors and specialists began to benefit from profit sharing.

*Net Income* increased by 78.5%, or R\$268.0 million, from R\$341.3 million in 2008 to R\$609.3 million in 2009 due to the factors discussed above.

***Segment Information***

We present the results of our operating segments in IFRS, which is the measure used by management in evaluating the performance of and strategy for the four segments listed below.

***Food Retail Segment***

As of December 31, 2009, our retail segment was comprised of the banners *Pão de Açúcar*, *Comprebem*, *Sendas*, *Extra* and *Extra Eletro*.

*Net sales revenue* increased by 10.5%, or R\$1,755.0 million, from R\$16,769.2 million in 2008 to R\$18,524.2 million in 2009. Among the factors that accounted for this performance was the consolidation of the sales strategy introduced into our daily activities in 2008 which focused on assortment, pricing, communication and services. Our group's solid capital structure also played a crucial role in increasing our market share.

*Gross profit* increased by 8.9%, or R\$407.6 million, from R\$4,557.6 million in 2008 to R\$4,965.2 million in 2009 due to the increase in sales as a result of the opening of new stores.

*Depreciation and amortization* decreased by 5.0%, or R\$21.9 million, from R\$437.4 million in 2008 to R\$415.5 million in 2009 due to the non-amortization of goodwill as from 2009 in compliance with Law 11,638/07 and to the decrease in amortization related to improvements on the property of third-parties and the renewal of leasing contracts resulting in less investments being amortized over the leasing contract period.

*Operating profit* increased by 23.8%, or R\$190.3 million, from R\$799.5 million in 2008 to R\$989.8 million in 2009 due to higher sales and a decrease in operating expenses due to more strict budget control.

*Financial expenses* decreased by 30.1%, or R\$186.2 million, from R\$618.8 million in 2008 to R\$432.6 million in 2009 as a result of a decrease in CDI interest rate, which represents our biggest exposure, from 12.3% in the end of 2008 to 9.8% in the end of 2009 and a decrease in the interest received in the amount of R\$15 million.

*Financial income* decreased by 18.2%, or R\$53.0 million, from R\$291.0 million in 2008 to R\$238.0 million in 2009 due to a decrease in CDI interest rate, which represents our biggest exposure, from 12.3% in the end of 2008 to 9.8% in the end of 2009.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* increased by 60.1%, or R\$298.8 million, from R\$497.1 million in 2008 to R\$795.9 million in 2009 due to higher operating profit and decrease in expenses due to strict budget control.

*Income and social contribution taxes* decreased by 10.3%, or R\$13.8 million from R\$133.6 million in 2008 to R\$119.8 million in 2009 due to the changes resulting from Law No. 11,941/09 relating to REFIS (tax paid in installments) which resulted in certain incomes not being subject to taxation.

*Cash-and -Carry Segment*

As of December 31, 2009, our cash-and-carry segment was comprised of the *Assaí* banner.

*Net sales revenue* increased by 56.9%, or R\$719.0 million, from R\$1,262.8 million in 2008 to R\$1,981.8 million in 2009 principally due to the inauguration of seven new stores and the conversion of five existing stores into the *Assaí* format, most of which were in Rio de Janeiro, in a format that is characterized by low investment and high returns.

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*Gross profit* increased by 49.5%, or R\$96.4 million, from R\$194.9 million in 2008 to R\$291.3 million in 2009 due to an increase in sales and opening of new stores and as a result of improved negotiations with suppliers and gains in economies of scale.

*Depreciation and amortization* increased by 128.3%, or R\$6.8 million, from R\$5.3 million in 2008 to R\$12.1 million in 2009 due to the opening of new stores in 2009.

*Operating profit* decreased by 8.8%, or R\$3.8 million, from R\$43.3 million in 2008 to R\$39.5 million in 2009 due to the inauguration of seven new stores and the conversion of five existing stores into the *Assaí* format, most of which were in Rio de Janeiro. Although these units recorded higher sales while maintaining total operating expenses, they have not yet reached maturity.

*Financial expenses* increased by 116.3%, or R\$5.7 million, from R\$4.9 million in 2008 to R\$10.6 million in 2009 due to the increase of finance leases.

*Financial income* increased 27.3% or R\$0.3 million, from R\$1.1 million in 2008 to R\$1.4 million in 2009. It remained almost stagnant due to the Company not investing any funds principally due to the reinvestment of funds into opening new stores.

*Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest* decreased by 23.3%, or R\$9.2 million, from R\$39.5 million in 2008 to R\$30.3 million in 2009 due to the increase in the number of employees, and due to the new stores not having reached their expected levels of profitability as a result of not having reached their maturity period.

*Income and social contribution taxes* increased by 5.1%, or R\$0.7 million from R\$13.6 million in 2008 to R\$14.3 million in 2009.

#### *Home Appliances Segment*

As of December 31, 2009, our home appliances segment was comprised of the banner *Ponto Frio*, including the web site *pontofrio.com*.

Net sales revenue totaled R\$2,118.8 million as from July 1, 2009, when the acquisition of Globex (*Ponto Frio*) took effect for accounting purposes, factors that contributed to the net sales revenue were result of the Christmas campaign carried out jointly with GPA, which mobilized the commercial, operational and logistics areas, ensuring more competitive promotions, as well as greater media presence throughout Brazil and (differentiated consumer payment conditions during the Christmas season. Our opportunities to implement some synergies, as well as, efficiency gains still exist.

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

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

As of December 31, 2010, we had R\$3,818.0 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents to respond to short-term liquidity requirements.

Our main cash requirements include:

- the servicing of our indebtedness;

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

Our primary sources of liquidity have historically been cash flow from our operating activities and borrowings. Net cash from operating activities was R\$363.3 million in 2010, R\$1,842.8 million in 2009 and R\$1,256.0 million in 2008. Net cash provided by (used in) financing activities was R\$1,365.0 million in 2010, R\$1,636.8 million in 2009 and R\$484.7 million in 2008 (after payment of R\$109.2 million in dividends). In 2010, these cash flows were primarily used for investments in the capital expenditures program, totaling R\$1,521.7 million.

As of December 31, 2010, our total outstanding debt was R\$8,569.4 million, consisting of:

- R\$7,431.7 million in *real*-denominated loans, and
- R\$1,137.7 million in U.S. dollar-denominated debt.

We have adopted a treasury policy to manage financial market risk, principally by entering into swaps in *reais* for more than 95% of our U.S. dollar denominated liabilities. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party that provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, pursuant to which we are then effectively liable for amounts in *reais* and interest at a percentage of the CDI rate. The reference amounts and maturity periods of these swaps generally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

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

Total debt as of December 31, 2010 increased by 100.7% or R\$4,299.2 million, from R\$4,270.2 million in 2009 to R\$8,569.4 million in 2010. The most significant part of our debt was incurred in connection with the acquisition and construction of new stores, and with the remodeling of the existing stores. Our cash interest expense was R\$182.8 million in 2010 and R\$209.3 million in 2009.

We have entered into four lines of credit with BNDES, which are denominated in *reais* and subject to indexation, based on the TJLP plus an annual spread. Amortizations will be in monthly installments after a grace period. BNDES has been historically an important source of financing for new stores and the acquisition of supermarket chains. For further information on our lines of credit with BNDES, see note 17(b) to our financial statements included in this annual report.

Under the lines of credit with BNDES, we are prohibited from offering assets as collateral in loans entered into with third parties without the prior comment of BNDES. We also have to comply with the maintenance of negative

covenants measured in accordance with Brazilian GAAP: capitalization ratio (shareholders' equity/total assets) equal to or in excess of 0.40 and current ratio (current assets/current liabilities) equal to or in excess of 1.05.

We issued a number of non-convertible debentures between 1997 and 2010. As of December 31, 2010, there were 777,965 debentures in circulation.

On March 1, 2007, the shareholders approved the sixth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$779.6 million, for 77,965 non-convertible debentures issued as the first (54,000) and second (23,965) series of the sixth issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 0.5%, which is payable semi-annually. The principal amount will be repaid in three equal installments on March 1, 2010, 2011 and 2012.

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On June 15, 2009, the shareholders approved the seventh issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$200 million, for 200 non-convertible debentures issued as the first series of the seventh issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 19% which will be payable on the maturity date.

On December 4, 2009, the shareholders approved the eighth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$500 million, for 500 non-convertible debentures issued as the first series of the eighth issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 9.5%, payable on the thirty-sixth month after the issue date and annually thereafter.

As of December 31, 2010, we had 777,965 non-convertible debentures outstanding, totaling R\$1,588.1 million. We have to comply with certain negative covenants: net debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity, and maintenance of net debt to EBITDA ratio less than or equal to 3.25.

For further information on our non-convertible debentures, see note 17(d) to our financial statements included in this annual report.

On September 19, 2003, we concluded the structuring of *Pão de Açúcar Fundo de Investimento em Direitos Creditórios*, or PAFIDC, a receivables securitization fund, with a term of duration until 2012. We transferred to PAFIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R\$9,803.0 in 2010 and R\$9,051.2 million in 2009. The outstanding balance of these receivables as of December 31, 2010 was R\$1,667.0 million and R\$1,125.8 million as of December 31, 2009. For all securitizations, we retained servicing responsibilities and subordinated interests. The default credits will be collected by PAFIDC's administrator, which will be assisted by our collection department. We do not receive fees for collection services. The quota holders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us. PAFIDC is consolidated into our financial statements.

On May 25, 2010, we organized *Globex Fundo de Investimento em Direitos Creditórios*, or Globex FIDC, a receivables securitization fund created to acquire the accounts receivable of Globex (mainly credit card), originated from the sale of products and services to its customers, with an indefinite term. The fund equity structure as of December 31, 2010 was composed of 11,666 senior equity interests held by third parties, amounting to R\$1,167.0 million, representing 87.5% of the fund equity and 1,667 subordinated equity interests held by Globex and its subsidiaries, amounting to R\$166.7 million, accounting for 12.5% of the fund's net assets. The subordinated equity interests are held by Globex and recorded in non-current assets as interest in the securitization fund, the balance of which as of December 31, 2010 was R\$166.7 million. The interest held in subordinated equity interests represents the maximum exposure to losses in securitization operations.

In 2010, our capital expenditures totaled R\$1,521.7 million. These investment projects were financed primarily with our operating cash flow and, to a lesser extent funded by third parties. Our capital expenditures were R\$1,631.8 million in 2009. For specific use of our capital expenditures in 2010, see "Item 4A. History and Development of the Company — Capital Expenditure and Investment Plan."



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

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

We do not have any significant research and development policies.

**5D. Trend Information**

Based on our good performance and strategic acquisitions in 2010, we expect 2011 to be a year of continued growth for the Company.

For 2011, the Pão de Açúcar Group intends to invest in the opening of new stores, remodeling and renovating stores and acquiring land in strategic locations. We also intend to invest in infrastructure related to information technology and our distribution.

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

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

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

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

The following table summarizes significant contractual obligations and commitments as of December 31, 2010:

Contractual Obligations	Total	Payment Due by Period			
		Less than one year	One to three years	Three to five years	After five years
		(in millions of reais)			
Long-term debt	6,796.5	2,385.6	3,827.2	583.7	-
Debentures	1,588.2	520.7	511.7	555.8	-
Estimated interest payments (1)	107.0	43.9	63.1	-	-
Taxes, other than on income	1,431.8	55.0	183.6	183.6	1,009.7
Financial Leasing	184.6	71.3	53.2	10.1	50.0
Operating lease (2)	3,812.8	489.0	686.4	686.4	1,951.1
<b>Total contractual obligations</b>	<b>13,920.9</b>	<b>3,565.5</b>	<b>5,325.1</b>	<b>2,019.5</b>	<b>3,010.8</b>

(1) Estimated interest payments include unrealized losses on cross-currency and interest rate swap contracts. Estimated interest payments and foreign currency losses were determined considering the interest rate and exchange rate as of December 31, 2010. However, our long-term debt is subject to variable interest rates and inflation indices, and these estimated payments may differ significantly from the payments actually made.

(2) Operating leases include minimum rental obligations.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6A. Directors and Senior Management****Board of Directors**

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

Name	Position	Since	Date of Birth
Abilio dos Santos Diniz	Chairman	2003	12/28/1936
Ana Maria Falleiros dos Santos Diniz D'Avila	Director	2003	7/28/1961
João Paulo Falleiros dos Santos Diniz	Director	1999	1/5/1961

Pedro Paulo Falleiros dos Santos Diniz	Director	2003	7/6/1969
Geyze Marchesi Diniz	Director	2005	12/5/1958
Jean-Charles Henri Naouri	Director	2005	2/25/1954
Candido Botelho Bracher	Director	2005	4/11/1972
Fábio Schvartsman	Director	2007	5/9/1951
Guilherme Affonso Ferreira	Director	2008	11/17/1947
Jean Louis Bourgier	Director	2009	3/8/1949
Antoine Marie Remi Lazars Giscard D'Estaing	Director	2009	9/19/1963
Pedro Henrique Chermont de Miranda	Director	2009	8/24/1973
Arnaud, Daniel, Charles, Walter, Joachim Strasser	Director	2010	5/22/1970
Ulisses Kameyama	Director	2010	10/11/1972

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*Mr. Abilio dos Santos Diniz* is the chairman of our board of directors since 2003 and a member of our board of directors since 1995. His professional career was entirely dedicated to the Grupo Pão de Açúcar, from his initial position as sales manager to the position he currently occupies. He was responsible for our Company's major business upturn and, as chief executive officer, promoted the implementation of corporate governance policies and management professionalization. Since 1999, he is also a member of the board of directors of the Casino Group. Mr. Diniz is one of the founders of both the São Paulo and Brazilian Supermarket Associations, the APAS (Associação Paulista de Supermercados), and the ABRAS (Associação Brasileira de Supermercados). He was also member of the Brazilian Monetary Council for ten years, and is currently a member of the Federal Government Economic and Social Development Council. Mr. Abilio Diniz holds a bachelor's degree in Business Administration from Fundação Getúlio Vargas and has attended Columbia University in New York and the University of Ohio in Dayton.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Executive Officers**

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

<b>Name</b>	<b>Position</b>	<b>First Year Elected</b>	<b>Date of Birth</b>
Enéas César Pestana Neto	Chief Executive Officer	2010	2/27/1963
José Roberto Coimbra Tambasco		2010	3/23/1968

	Executive Vice-President of Retail Business		
Hugo Antonio Jordão Bethlem	Executive Vice-President of Corporate Relations	2010	12/27/1961
Antonio Ramatis Fernandes Rodrigues	Executive Vice-President of Commercial Strategy, Supply Chain and IT	2011	10/16/1958
Claudia Elisa de Pinho Soares	Executive Vice-President of Market Strategy	2010	11/4/1956
José Antônio de Almeida Filippo	Corporate and Finance Services Officer	2011	5/25/1957
Caio Racy Mattar	Executive Vice-President of Specialized Businesses	2010	1/25/1960
Sylvia de Souza Leão Wanderley	People Officer	2010	10/27/1960
Marcelo Lopes	Supply Chain Officer	2010	3/9/1963
Paulo Gualtieri	Control and Management Officer	2011	9/1/1967
Andelaney Carvalho dos Santos	IT Officer	2011	4/23/1975
Vitor Fagá de Almeida	Investor Relations Officer	2010	11/5/1967

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

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

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

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

*Mrs. Claudia Elisa de Pinho Soares* is our Executive Vice-President of Market Strategy. Prior to joining our Company, she worked for Ambev for 17 years in managerial and director positions in Human Resources, Finance, Distribution and Logistics. She also worked for Laticínios Morrinhos (Leitbom) as Director of Finance, IT and Human Resources. Mrs. Soares holds a degree in Business Administration from Pontifícia Universidade Católica do Rio de Janeiro – PUC, an MBA in General Management from INSEAD and in Human Resources from FIA – University of São Paulo – USP.

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

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



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

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

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

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

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

## **6B. Compensation**

For the year ended December 31, 2010, the aggregate compensation paid in cash to the directors, executive officers and members of the committees of CBD was R\$61.2 million. Non-cash benefits in 2010 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. Under a new CVM rule, listed companies are now required to publicly disclose the lowest, highest and average compensation paid to executive officers and board members. However, our Company, together with other listed companies, has not disclosed this information, based on an injunction obtained by IBEF-RJ on March 2, 2010, that, according to our legal department, supersedes the CVM requirement.

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees and retained the financial institution *Brasilprev Seguros e Previdência S.A.* for management purposes. When establishing the plan, the Company provides monthly contributions on behalf of its employees on account of services rendered to the Company. Contributions made by the Company in the year ended December 31, 2010, amounted to R\$ 1.4 million and employees' contributions amounted to R\$2.0 million with 842 participants.

### **Compensation of the Board of Directors, Executive Officers and Fiscal Council of CBD for 2010 and 2011**

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

	<b>Board of Directors</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>	<b>Total</b>
		<i>(In R\$, when applicable)</i>		
Number of members <sup>(1)</sup>	14	11	3	28
Fixed Annual Compensation	0	13,033,027	432,000	13,465,027

Benefits	0	1,875,566	0	1,875,566
Base Compensation	0	0	0	0
Others	0	0	0	0
<b>Variable Compensation</b>				
Bonus	0	0	0	0
Profit Sharing	0	23,789,333	0	23,789,333
Participation in Meetings	7,198,600	0	0	7,198,600
Participation in Committee Meetings	0	0	0	0
Commissions	0	0	0	0
Others (Invitees' Compensation)	101,000	0	0	101,000
<b>Post-Employment Benefit</b>	0	0	0	0
<b>Benefits on ceasing to exercise the position</b>	0	0	0	0
<b>Share-based compensation <sup>(2)</sup></b>	0	14,742,400	0	14,742,400
<b>Total Compensation</b>	<b>7,299,600</b>	<b>53,440,326</b>	<b>432,00</b>	<b>61,171,926</b>

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

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

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

	<b>Board of Directors</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>	<b>Total</b>
		<i>(In R\$, when applicable)</i>		
Number of members	14	11	3	28
Fixed Annual Compensation	0	14,335,150	432,000	14,767,150
Benefits	0	2,397,990	0	2,397,990
Base Compensation	0	0	0	0
Others	0	0	0	0
<b>Variable Compensation</b>				
Bonus	0	0	0	0
Profit Sharing	0	22,301,500	0	22,301,500
Participation in Meetings	7,541,400	0	0	7,541,400
Commissions	0	0	0	0
Others (Invitees' Compensation)	234,200	0	0	234,200
<b>Post-Employment Benefit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Benefits on ceasing to exercise the position</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Share-based compensation <sup>1</sup></b>	<b>0</b>	<b>14,742,400</b>	<b>0</b>	<b>14,742,400</b>
<b>Total Compensation</b>	<b>7,775,600</b>	<b>53,777,040</b>	<b>432,000</b>	<b>61,984,640</b>

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

**Variable Compensation 2010 and 2011**

With the exception of the compensation based on the hours actually worked, the members of our board of directors and our fiscal council receive no variable compensation in the exercise of their functions. Below we present the variable compensation of our executive officers paid in 2010 and expected to be paid in 2011.

*Amounts referring to the year 2010*

	<b>Executive Officers</b>
	<i>(In R\$, when applicable)</i>
Number of members <sup>1</sup>	11
<b>Bonus</b>	
Minimum expected amount	0
Maximum expected amount	0
Expected amount– goals achieved	0
Amount actually recognized	0
<b>Profit sharing</b>	
Minimum expected amount	0
Maximum expected amount	27,000,000

Expected amount – goals achieved	18,000,000
Amount actually recognized	24,963,425

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

Table of Contents*Amounts projected for the year 2011*

	<b>Executive Officers</b> <i>(In R\$, when applicable)</i>	
Number of members		11
<b>Bonus</b>		0
Minimum expected amount		0
Maximum expected amount		0
Expected amount – goals achieved		0
<b>Profit sharing</b>		
Minimum expected amount		0
Maximum expected amount		33,452,250
Expected amount– goals achieved		22,301,500

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

As of December 31, 2010, we had two stock option plans in effect. The first plan was approved by our shareholders at the general shareholders' meeting held on April 28, 1997, or First Plan, and the second plan was approved by our shareholders at the general shareholders' meeting held on December 20, 2006, or Second Plan, or Options Plans when together with the First Plan.

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

The Option Plans cover only the preferred shares issued by our Company.

***General Terms and Conditions***

Our stock option plan management committee usually undertakes annual option granting cycles. Each granting cycle is allocated a serial number, whereby the grants from the First Plan are numbered as from "Series I" and the grants from the Second Plan are numbered beginning with the letter A, that is, as from "Series A1." For the year ended December 31, 2010, the options granted under the Series X of the First Plan and Series A1 to A4 of the Second Plan were in effect.

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

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

(a) Accelerator: after 3%, for every 1% more than ROIC, increase by 0.5% the number of shares granted, classified as "Gold".

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

That is:

***Principal Objectives of the Plan***

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

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

The maximum number of shares covered by the Option Plans is 11,617,748 preferred shares. The number of shares covered by the Option Plans must always be within our Company's approved capital limit, which may be amended at any time upon determination of our board of directors. When stock options are exercised, we issue the beneficiaries new shares, with the right to use our treasury shares.

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

### ***Exercise Price***

*First Plan:* The price of each preferred share is determined in the respective adhesion agreement, and is always determined by the stock option plan disbursement committee on Fridays at a price between 100% and 60% of the weighted average market price of our preferred shares at the close of business on the BM&FBOVESPA during the four days prior to that Friday, adjusted for the inflation rate the IGP-M.

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

### ***Vesting***

As a general rule the options will vest as follows:

*First Plan:* At the end of the last month of the third year as from the date of execution of the adhesion agreement, the beneficiary will be entitled to acquire 50% of the total number of shares under the option granted to them, with the remaining portion exercisable at the end of the last month of the fifth year.

*Second Plan:* As from the 36<sup>th</sup> month to the 48<sup>th</sup> month following the date of execution of the adhesion agreement, the beneficiary will be entitled to acquire 100% of the Silver-type shares. The exercise of the Gold-type options will occur in the same period, but the percentage of these options subject to exercise will be determined by the stock option plan disbursement committee in the 35<sup>th</sup> month following the date of execution of the adhesion agreement.

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

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

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



In the First Plan, part of the shares acquired in the fifth year following the date of execution of the adhesion agreement, will be encumbered with non-transferability, which will terminate after the beneficiary retires. The quantity of encumbered shares will be calculated as follows:

$$Q = [Q1 \times Pm] - (Q1 \times Pe) / Pm$$

Where:

Q = the quantity of shares to be encumbered with non-transferability;

Q1 = 50% of the total shares initially established in the beneficiary's option agreement;

Pm = market price of the preferred shares issued by us on the option exercise date; and

Pe = exercise price initially established in the beneficiary's options agreement.

Table of Contents**Outstanding Stock Options for Senior Management**

The members of our board of directors are not eligible for our stock option plans. Below are the outstanding options for the members of our senior management, as of December 31, 2010.

**Senior Management**

Number of members benefiting from the granting of stock options	Senior Management									
	Series X	Series A1 – Gold	Series A1 – Silver	Series A2 – Gold	Series A2 – Silver	Series A3 – Gold	Series A3 – Silver	Series A4 – Gold	Series A4 – Silver	
In relation to options not yet exercisable:										
Quantity (in thousand)	50.4	0	0	132.0	140.0	218.0	218.0	235.0	59.0	
Vesting date	06/30/2011							05/31/2011 and 05/31/2011	05/31/2011 and 05/31/2013	
Maximum deadline for exercising the options		N/A	N/A	03/31/2011	03/31/2011	05/31/2012	05/31/2012	05/31/2013	05/31/2013	
Weighted average exercise price (in R\$, per share)	40.38	0.01	24.63	0.01	26.93	0.01	27.47	N/A	N/A	
Fair value of the options on the last day of the year (in R\$, per share)	42.43	N/A	N/A	0.01	26.93	0.01	27.47	0.01	46.49	
In relation to exercisable options:										
Quantity	11,000	35,787	80,800	26,953	28,750	19,681	24,594	0	0	
Maximum deadline for	09/30/2011	04/29/2011	04/29/2011	03/30/2012	03/30/2012	05/31/2013	05/31/2013	N/A	N/A	

exercising the options Weighted average exercise price (in R\$, per share)	40.38	0.01	24.63	0.01	26.93	0.01	27.47	N/A	N/A
Fair value of the options on the last day of the business year (in R\$, per share)	42.43	0.01	24.63	0.01	25.93	0.01	27.47	N/A	N/A
Fair value of the options on the last day of the year (in thousand R\$)	466.7	0.4	1,990.1	0.3	745.5	0.2	675.6	0	0.1

### Stock Options Exercised and Shares Delivered for Senior Management

The table below shows the options exercised and the shares delivered to the members of our senior management in 2010.

Number of members benefiting from  
the granting of stock options

In relation to the options exercised and the shares delivered:	Series A1		Series A2		Series A3		
	Series IX – Gold (2 <sup>nd</sup> tranche)	– Silver (2 <sup>nd</sup> tranche)	– Gold (5 <sup>th</sup> tranche)	– Silver (5 <sup>th</sup> tranche)	– Gold (1 <sup>st</sup> tranche)	– Silver (1 <sup>st</sup> tranche)	
Number of shares (in thousand)	61.3	40,0	91.0	29.4	31.4	27.3	34.1
Weighted average exercise price (in R\$, per share)	30.52	0.01	24.63	24.63	24.63	0.01	27.47
Total amount of the difference between the exercise price and the market price of the shares referring to the options exercised (in R\$, per share)	26.71	57.22	32.60	42.87	42.87	59.14	31.68

### Insurance

We have an insurance policy with Itaú Seguros S.A., effective from November 23, 2010 through November 23, 2011, covering all our managers against damages attributed to them in the exercise of their functions. Coverage is limited to US\$50 million, with deductibles of US\$200,000 for all losses and damages arising from one and the same damaging act involving the capital markets, and US\$50,000 for all losses and damages arising from one and the same damaging act of a different nature. The policy is automatically extended to the management of our new subsidiaries, with

liability limited to 30% of the total assets of the new subsidiary.

### **6C. Board Practices**

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

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

Our board of executive officers is composed of at least two and up to 14 members, being one the Chief Executive Officer, five Vice Presidents and one Chief Financial Officer, elected by our board of directors. The general responsibilities of our executive officers are determined pursuant to our by-laws and their specific duties and titles are established by our board of directors. Until May 5, 2011, our board of executive officers was composed of 12 members.

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

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

## **Committees**

Pursuant to our by-laws, we currently have the following three special committees: (i) Human Resources and Compensation Committee; (ii) Financial Committee; and (iii) Sustainable Development Committee. The attributions of each committee are established by our board of directors. The members of each committee are appointed by our board of directors, solely among its members, and the board of directors also designates the chairman of each special committee. Each special committee is composed of three and up to five members for a term of office of three years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.

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

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

***Financial Committee***

The financial committee holds meetings at least once every two months and has the following duties: (i) to review the financial/economic viability of our investment plans and programs; (ii) to review and recommend actions for the negotiation of any merger and acquisition or of any similar transaction involving us or any of our controlled companies; (iii) to follow up any such transaction and negotiation referred to in item (ii); (iv) to review our cash flow, indebtedness policy and capital structure; (v) to monitor the implementation and accomplishment of our annual investment plan; (vi) to monitor the average cost of our capital structure and to make suggestions for modifications whenever deemed necessary; and (vii) to review and recommend opportunities related to financing transactions that may improve our capital structure. Our financial committee is currently composed of Ana Maria Falleiros dos Santos Diniz D'Avila, João Paulo Falleiros dos Santos Diniz, Antonie Marie Remi Lazars Giscard d'Estaing and Arnaud Strasser.

***Sustainable Development Committee***

The sustainable development committee holds meetings at least once every three months and has the following duties: (i) to increase the value of our business by expanding our sustainable development and environmental matters; (ii) to establish sustainable practices, based on economic, environmental and social elements in order to promote sustainable development and disseminate these practices throughout all of our strategic activities and relationships; (iii) to evaluate and approve projects, proposals and institutional campaigns related to environmental or social issues, including the allocation of resources; (iv) to evaluate investment opportunities and projects from a sustainable perspective; and (v) to approve the social and sustainable development reports. Our sustainability committee is composed of Jean Louis Bourcier, Maria Silvia Bastos Marques, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Ulisses Kameyama and Guilherme Affonso Ferreira.

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

***Fiscal Council and Audit Committee***

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

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

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



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

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

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year First Elected</b>	<b>Date of Birth</b>
Fernando Maida Dall Acqua	62	Chairman	2009	3/1/1949
Mario Probst	58	Member	2009	5/30/1953
Raimundo Lourenço Maria Christians	53	Member	2011	8/8/1957
John Michel Pimenta de Moraes Streithorst	41	Alternate	2009	2/9/1970
Antonio Luiz de Campos Gurgel	70	Alternate	2009	11/12/1940
Eduardo Cysneiros de Morais	36	Alternate	2011	9/21/1974

*Fernando Maida Dall'Acqua*, born in 1949, he has been Chairman of the Fiscal Council since 2009. He is currently the chairman of the Fiscal Council of Globex, Board member and Audit Committee member at ISA-CTEEP and Audit Committee member at the O Estado de São Paulo newspaper, in addition to providing consulting services to major companies on mergers and acquisitions, economic and financial valuation and tax advisory services. He was Finance Secretary to the São Paulo state government, has held financial, tax, budget and strategic management positions, besides serving as a member of the São Paulo State Privatization Council. He was also member of the Board of Directors and the Sarbanes-Oxley Audit Committee at Sabesp, and member of the Boards of CESP, PRODESP, DERSA, Banco Nossa Caixa and Banespa, besides serving on the Advisory Board of Grupo Pão de Açúcar. He holds a master's degree in business administration from the Getulio Vargas Foundation, a PhD in Economic Development from the University of Wisconsin-Madison, USA, and received the post-doctoral title of "Livre Docente" in Business Administration from the Getulio Vargas Foundation, and Professor of the School of Administration of São Paulo (Getulio Vargas Foundation). He was also a Fellow at Michigan State University, U.S.A.

*Mario Probst*, born in 1953, he has been a member of the Fiscal Council since 2009. Mr. Probst was partner of KPMG Auditores Independentes and is currently a member of the Fiscal Council of Globex, Odontoprev S.A. and Ultrapar Participações S.A. He graduated in Business Administration from the Getulio Vargas Foundation and in Accounting

Sciences from the College of Political and Economic Sciences of Rio de Janeiro.

*Raimundo Lourenço Maria Christians*, born in 1957, begun his career at PricewaterhouseCoopers from 1979 to March 25, 2011, when he retired. In 32 years, worked on accounting and financial areas and afterwards on tax matters. Became partner in 1994 and was elected member of the Global Governance Board (2001 to 2005) and Oversight Board to South America (2000 to 2005) of PwC. He is currently a board member of General Shopping Brasil S.A., member of the fiscal council of Kroton Educacional S.A. and Globex Utilidades S.A. He is also officer at Holland-Brazil Commerce Chamber and member of Finance, Accounting and Financial markets commission at Brazilian Corporate Governance Institute. He holds a bachelor's degree in accounting of Universidade Católica de Campinas - PUC.

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

*Antonio Luiz de Campos Gurgel*, born in 1940, has been an alternate member of the Fiscal Council since 2009. Currently, he is an alternate member of the Fiscal Council of Globex. He served as Fiscal Auditor of the Brazilian Internal Revenue Service, and, as advisor, he worked with companies such as Cargill Agrícola S.A., Companhia Energética do Estado de São Paulo - CESP, Hewlett-Packard Brasil Ltda., IBM Brasil Indústria, Máquinas e Serviços Ltda., TELESP - Telecomunicações de São Paulo S.A., Volkswagen do Brasil Indústria de Veículos Automotores Ltda., Banco Bradesco S.A., Banco Itaú Unibanco and Banco Real ABN Amro S.A. He worked as associate professor in the Accounting, Finance and Control Department of FGV/EAESP. He graduated in Business Administration from FGV/EAESP and holds an MBA from the Michigan State University, U.S.A.

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

Our board of directors has determined that we do not need to appoint an audit committee financial expert (as defined under the rules and regulations of the SEC). We believe that the combined knowledge, skills and experience of the members of our fiscal council enable them, as a group, to act effectively in the fulfillment of their tasks. In addition, the members of our fiscal council have the power and authority to engage outside experts as they deem appropriate to provide them with advice on matters related to their responsibilities.

***Stock Option Plan Management Committee***

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

Mattar, José Antônio Almeida Filippo, Sylvia de Souza Leão Wanderley and Antonio Ramatis Fernandes Rodrigues.

### **Advisory Board**

In addition to the committees aforementioned, our by-laws provide for a non-permanent *ad hoc* advisory board, which whenever installed, must consist of up to 13 members, shareholders or not, elected by our annual shareholders' meeting, whose purpose is to make recommendations to our board of directors on measures to be taken in order to ensure the development of our businesses and activities, as well as render opinion on any matters submitted by our board of directors. Our advisory board meets semi-annually and, in extraordinary circumstances, whenever called by the chairman of our board of directors. The current term of all members of our advisory board is three years, reelection being permitted, and the members may receive a compensation established by our general shareholders' meeting. Our currently installed advisory board was (first) elected by our shareholders in the shareholders' meeting held on April 30, 2008 and is comprised of the following members, most of them economists or former ministers of economy of Brazil: Luiz Carlos Bresser Gonçalves Pereira, Mailson Ferreira da Nóbrega, Roberto Teixeira da Costa, José Roberto Mendonça de Barros, Manuel Carlos Teixeira de Abreu, Luiz Felipe Chaves D'Ávila, Luiz Marcelo Dias Sales and Yoshiaki Nakano.

**6D. Employees**

As of December 31, 2010, we had 144,914 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management believes that our relations with our employees and their unions are good. We have not had strikes in our history.

The following table sets forth the number of our employees as of December 31, 2006, 2007, 2008, 2009 and 2010:

	<b>As of December 31<sup>(1)</sup></b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010<sup>(2)</sup></b>
Operational	53,495	55,494	60,605	73,617	131,534
Administrative	10,112	10,671	10,051	11,627	13,380
Total	63,607	66,165	70,656	85,244	144,914

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

(2) Includes *Casas Bahia's* employees.

**6E. Share Ownership**

As of December 31, 2010, our board members directly owned an aggregate amount of 426,975 preferred shares. The members of our board of directors and our executive officers, on an individual basis and as a group, own directly less than 1% of our common stock. For further information on direct and indirect share ownership of our board members, see "Item 7A. Major Shareholders." As of June 30, 2011, our management and some of our employees also owned options to purchase an aggregate amount of 1,991,260 preferred shares at per-share weighted average purchase price of R\$16.83. None of the members of our management and our employees holds any options to purchase our common shares. See "Item 6B. Compensation" for a description of our stock option plan applicable to our management and employees, including those of our subsidiaries.

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

The following table sets forth information relating to the beneficial ownership of our capital stock as of June 30, 2011, by each person known by us to beneficially own 5% or more of our common shares or preferred shares and all our directors and officers as a group.



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Shareholder	Common Shares		Preferred Shares		Total Shares	
	Number	%	Number	%	Number	%
Wilkes Participações S.A (1)	65,400,000	65.61	-	-	65,400,000	25.16
Península Participações Ltda (2)	-	-	2,622,182	1.64	2,622,182	1.01
Sudaco Participações Ltda (3)	28,619,178	28.71	3,091,566	1.93	31,710,744	12.20
Segisor S.A. (3)	-	-	5,091,754	3.18	5,091,754	1.96
Casino Guichard Perrachon S.A (3)	5,600,052	5.62	16,144,083	10.07	21,744,135	8.36
Bengal LLC (3)	-	-	6,828,461	4.26	6,828,461	2.63
Oregon LLC (3)	-	-	1,750,300	1.09	1,750,300	0.67
Abílio dos Santos Diniz	100	-	-	-	100	-
João Paulo F. dos Santos Diniz	-	-	17,893	0.01	17,893	0.01
Ana Maria F. dos Santos Diniz D'Avila	1	-	-	-	1	-
Pedro Paulo F. dos Santos Diniz	-	-	724	-	724	-
Jean-Charles Naouri	-	-	1	-	1	-
PAIC Participações Ltda (4)	-	-	652,140	0.41	652,140	0.25
Onyx 2006 Participações Ltda (5)	-	-	20,635,313	12.87	20,635,313	7.94
Rio Plate Empreendimentos e Participações Ltda (6)	-	-	4,076,494	2.54	4,076,494	1.57
Stanhore Trading Internacional S.A. (6)	-	-	7,398,417	4.62	7,398,417	2.85
Directors and Officers (7)	-	-	664,888	0.41	664,888	0.26
Others	60,520	0.06	91,305,642	56.97	9,366,162	35.15
<b>TOTAL</b>	<b>99,679,851</b>	<b>100.0</b>	<b>160,279,858</b>	<b>100.0</b>	<b>259,959,709</b>	<b>100.00</b>

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

(2) Abilio Diniz, Ana Maria Diniz, João Paulo Diniz, Pedro Paulo Diniz and Adriana Diniz own 61.48%, 9.63%, 9.63%, 9.63% and 9.63%, respectively, of the capital stock of Península Participações Ltda.

(3) Sudaco Participações Ltda., Segisor S.A., Casino Guichard Perrachon S.A., Bengal LLC and Oregon LLC are part of the Casino Group.

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

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

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

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

As of the date of this annual report, Abilio Diniz is the beneficial owner of 10.28% of the total common shares, 13.71% of the total preferred shares and 12.38% of the total capital stock. Ana Maria Diniz, João Paulo Diniz and Pedro Paulo Diniz are the beneficial owners of 1.61% of the total common shares, 2.14% of the total preferred shares and 1.94% of the total capital stock. As of the date of this annual report, the Casino Group is the beneficial owner of 44.19% of the total capital stock of CBD.

On June 22, 2011, 47,469,227 of our preferred shares were held in the form of ADSs, representing 29.6 % of the total of our preferred shares. None of our common shares are held in the form of ADSs.

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

On May 3, 2005, the Diniz Family and the Casino Group formed Vieri Empreendimentos e Participações S.A., or Vieri, which became our parent company. The control of Vieri is shared by the Diniz Family and the Casino Group. The group was reorganized and restructured in 2006, resulting in our current ownership structure.

Under the terms of the corporate reorganization, the resulting tax benefit reverts to the benefit of the controlling shareholder that originated the goodwill without, however, causing any negative effects to our profitability or the flow of dividends to our minority shareholders. On December 31, 2010, the value of the resulting tax benefit related to both our income taxes and our social contribution tax on profits was R\$ 104.9 million (R\$208.0 million in 2009 and R\$414.2 million in 2008). This is shown in the balance sheet as part of deferred taxes.

The offsetting entry to the initial recognition of the tax benefit balance is recognized directly in shareholders` equity as a capital reserve (goodwill special reserve), as it represents a realizable asset contribution by the shareholders. Also under the terms of the corporate reorganization, the effective tax benefit realized in each fiscal year will subsequently be capitalized in the name of the controlling shareholder, and minority shareholders are ensured the right to preference in the acquisition of a proportional amount of new capital from the controlling shareholder.



In 2010, the economic benefits generated by the amortization of shareholder's premium was R\$105.7 million, which was capitalized on March 31, 2011. The remaining goodwill reserve balance as of December 31, 2010 is R\$344.6 million. See note 25 to our financial statements included in this annual report.

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

Since May 2005, the Diniz Family and the Casino Group share our control through our Holding Company, which owns 65.6% of our voting shares. On November 27, 2006, the Diniz Family and the Casino Group entered into a conditional put option agreement, or the Conditional Put Option Agreement, which contemplates the conditional transfer of indirect equity interest in us from the Diniz Family to the Casino Group. At the same date, the Diniz Family and the Casino Group entered into a shareholders' agreement, or the Holding Company Shareholders' Agreement, that outlines the rules for the exercise of our co-control, corporate governance and restrictions on transfer of the Holding Company's shares. Furthermore, the Holding Company has a right of first refusal of 34.3% of our common shares held by the Casino Group through Casino Guichard Perrachon S.A. and Sudaco Participações Ltda.

In addition, the Holding Company, the Diniz Family and the Casino Group entered into a separate shareholders' agreement, or the CBD Shareholders' Agreement, that contains rules on, among other matters, the transfer of our shares that are held by either of the Diniz Family and the Casino Group other than through the Holding Company. As of June 15, 2010, the Casino Group, through Sudaco Participações Ltda. and Casino Guichard Perrachon S.A., held an aggregate of 34,219,230 of our common shares, representing approximately 34.33% of our outstanding common shares. At the same date, the Diniz Family did not hold common shares other than through the Holding Company.

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

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

The Conditional Put Option Agreement grants, among other rights: (i) a first put option, or the First Put Option, and a second put option, or the Second Put Option, to the Diniz Family and (ii) a distressful call option, or the Distressful Call Option, to the Casino Group.

- **First Put Option:** in the event that the Casino Group elects the Chairman of the Holding Company from June 22, 2012, the Diniz Family will be entitled to cause the Casino Group to purchase a direct equity interest in the Holding Company corresponding to 1,000,000 shares of our issued and outstanding common shares.
- **Distressful Call Option:** in the event that CBD experiences a distressful situation as defined in the Conditional Put Option Agreement, the Casino Group will be entitled to cause the Diniz Family to sell a direct equity interest in the Holding Company corresponding to 1,000,000 shares of our issued and outstanding common shares.
- **Second Put Option:** in the event that either of the First Put Option or the Distressful Call Option is exercised, the Diniz Family will be entitled to cause the Casino Group to purchase a direct equity interest in the Holding Company corresponding to 19,375,000 shares of our issued and outstanding common shares. The Second Put Option may be exercised through the exercise of the First Put Option or through the exercise of the Distressful Call Option during the period of eight years commencing on June 22, 2014.

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

Should the Diniz Family not be allowed under the terms of the Put Option Agreement to exercise the First Put Option and the Second Put Option, the Diniz Family will be entitled at any time within a period starting on June 22, 2014 and ending on June 21, 2022 to convert or, at the Casino Group's sole discretion, to exchange the common shares that would have been subject to the First Put Option and the Second Put Option into preferred shares of CBD at the ratio of 915 preferred shares for 1,000 common shares

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

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

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

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

- appoint (i) two directors of the board of directors of the Holding Company composed of four directors, and (ii) two executive officers of the Holding Company;
- exercise (i) the option, with an exercise period from June 22, 2012 to June 21, 2014, to appoint the Chairman of the board of directors of the Holding Company for the remaining term of the Holding Company Shareholders' Agreement and (ii) after June 22, 2014, the option to appoint the Chairman of the Holding Company if the Diniz Family transfers common shares of the Holding Company to a third party; the appointment by the Casino Group of the Chairman of the Holding Company in accordance with items (i) or (ii) above will entitle the Diniz Family to exercise the First Put Option;
- appoint five directors to our board of directors; and
- appoint the Chairman of our board of directors if, after June 22, 2014, the Diniz Family transfers any common shares of the Holding Company to a third party.

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

The Diniz Family may not sell its shares of the Holding Company until June 21, 2014 (or, if the Casino Group exercises the Distressful Call Option or appoints the Chairman of the board of directors of the Holding Company at an earlier date, until the date of such appointment or exercise of the Distressful Call Option). Both the Casino Group and the Diniz Family have a right of first offer with respect to shares or convertible securities of the Holding Company

that any of them wishes to sell or otherwise dispose of.

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

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

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

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

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

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

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

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

From time to time we have entered into transactions with the Diniz Family, Casino Group and other related parties for the provision of certain services. The following discussion summarizes certain of the significant agreements and arrangements among us and certain of our affiliates.

#### **Leases**

We currently lease properties from some members of the Diniz family, some of whom are our shareholders, and also lease properties from Fundo de Investimento Imobiliário Península, which is controlled by members of the Diniz Family. These properties include two stores from Mrs. Floripes Pires Diniz, four stores from Mr. Arnaldo dos Santos Diniz, four stores from Mrs. Vera Lúcia dos Santos Diniz and seven stores from Mrs. Sonia Maria dos Santos Diniz Bernandini, 57 stores from the Sendas family, four stores from former Assaí shareholders and 60 stores from the Fundo de Investimento Imobiliário Península.

Aggregate payments in 2010 under those leases equaled approximately R\$13.0 million to the Diniz family, R\$37.5 million to the Sendas family and R\$138.3 million to the Fundo de Investimento Imobiliário Península. We believe that all the leases are on terms at least as favorable to us as those which could be obtained from unrelated parties on an arm's-length basis (market conditions). For further information on these leases, see note 21 (b) to our financial statements included in this annual report.

The spun-off portion of Casa Bahia Comercial Ltda. that was merged by Nova Casa Bahia does not include real estate properties; Casa Bahia Comercial Ltda. and Nova Casa Bahia entered into operating lease agreements for Casa Bahia Comercial Ltda. properties where some of the stores, distribution centers and buildings of Nova Casa Bahia are

located.

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

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

Within the scope of the Association, on October 1, 2010, a furniture supply agreement was entered into between Globex and Nova Casa Bahia, on the one hand and Indústria de Móveis Bartira Ltda., a furniture manufacturer company controlled by Casa Bahia Comercial Ltda., on the other hand, to exclusively supply furniture to Nova Casa Bahia. The agreement will have a six-year term. Nova Casa Bahia will hold 25% of Bartira's capital stock for the purpose of safeguarding its rights in the furniture supply agreement. On November 9, 2010, an agreement was entered into between Nova Casa Bahia and Casa Bahia Comercial Ltda., pursuant to which a purchase option of 75% of Bartira's capital stock was granted to Nova Casa Bahia, exercisable for a 30-day term as of November 9, 2013. If Nova Casa Bahia does not exercise its option, Casa Bahia Comercial Ltda. will have the obligation to buy Nova Casa Bahia's equity interest in Bartira.

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

In July 2005, we entered into a technical assistance service agreement with Casino Group. Pursuant to the agreement, Casino Group provides us with technical assistance in the areas of human resources, trademarks, marketing and communication, global campaigns and administrative assistance, among others. In exchange, we pay to Casino Group a fixed annual fee in *reais* corresponding to US\$2.7 million. The agreement will be automatically renewed in 2012 and will thereafter remain in force for an undetermined period of time.

### **Consultancy Agreement with Galeazzi & Associados**

In July 2007, we hired the consultancy firm Galeazzi & Associados to implement a restructuring plan to improve the Sendas' operational performance in the state of Rio de Janeiro.

In light of the favorable impact of the services provided by Galeazzi & Associados on the performance of the *Sendas* banner, in December 2007 we amended the Consultancy Agreement to include all of the Company's banners and operations. In addition, as part of these changes, Mr. Cláudio Galeazzi was appointed as our CEO until March 2010, and resigned from his day-to-day roles with Galeazzi & Associados before accepting the appointment. Currently Galeazzi & Associados has a team of 12 professionals, lead by its partner Mr. André Pimentel, assigned on a full-time basis to render services to the Company. Mr. Cláudio Galeazzi continues to be a principal of Galeazzi & Associados.

The scope of the Consultancy Agreement involves: 1) the development of a Strategic and Operational Diagnosis Program, with a view to assessing all the business profitability opportunities, 2) Action Plan in order to take advantage of opportunities identified and 3) business management derived from the development of the Action Plan, aiming at making our operations more competitive, efficient and profitable.

The timeframe to carry out the project was initially estimated to be 14.5 months. However, the conclusion of the project was postponed to the end of 2010 when the term of the agreement expired. The parties have not renewed the agreement.

The fees payable to Galeazzi & Associados are divided into a monthly fixed amount of R\$350,000 and a variable amount calculated by multiplying our operational performance by a percentage which varies up or down according to a range of projected performance scenarios. See also note 21 (b) to our audited consolidated financial statements included in this annual report.

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

Not applicable.

**Item 8. FINANCIAL INFORMATION**

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

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



**Legal Proceedings**

We are a party to administrative proceedings and lawsuits that are incidental to the normal course of our business. These include general civil, tax and labor litigation and administrative proceedings. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimated losses in the event of unfavorable court decisions to us and to ensure that the outcomes of these legal proceedings have no material effect on our financial condition or results of operations. We cannot estimate the amount of all potential costs that we may incur or penalties that may be imposed on us other than those amounts for which we have made provisions. For further information on our legal proceedings, see note 19 to our financial statements included in this annual report.

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

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<b>(millions of reais)</b>		
COFINS and PIS tax claims	1,096.4	161.3	104.5
Labor claims	-	45.9	27.6
Civil claims	116.0	119.9	127.7
Other claims	31.7	251.1	438.1
Total accrued liabilities for legal proceedings	1,244.1	578.2	697.9

*Tax-related claims*

Tax-related claims are indexed to the SELIC rate, which was 9.50% on December 31, 2009 and 9.37% on December 31, 2010, and are also subject, in certain cases, to fines. We have made provisions for interest charges and fines, when applicable.

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

*COFINS and PIS taxes*

We pay contribution for social integration, (*Programa de Integração Social*), or PIS tax, and social security contribution (*Contribuição para o Financiamento da Seguridade Social*), or COFINS tax, at the rates of 1.65% and 7.6% on gross sales revenue, respectively. We adopt the non-cumulative system whereby these tax liabilities can be offset by credits we accrue from taxes previously paid on products we purchase and other expenses. As a result of our application of the non-cumulative system, we and our subsidiaries have requested the right to exclude certain tax credit amounts from the calculation basis of these two taxes.

The amount of the claims for PIS and COFINS taxes as of December 31, 2010 was R\$104.5 million, compared to R\$161.3 million as of December 31, 2009.

*Labor*

We are a party to various labor proceedings, primarily arising from layoffs in the ordinary course of business. As of December 31, 2010, we had provisioned R\$88.1 million (R\$82.6 million as of December 31, 2009) for proceedings in which the risk of loss was deemed probable. We are also a party to lawsuits with risk of loss deemed to be possible in the amount of R\$92.7 million in 2010 (R\$39.8 million in 2009). Our management, based on the opinion of our external legal counsel, evaluates these claims and records provisions for losses when they are reasonably estimable, taking into account our past experience in relation to the amounts sought. Labor claims are indexed to the Referential Interest Rate ("TR") (cumulatively 0.69% in 2010 and 0.7% in 2009) plus monthly interest of 1%. The balance of the net provision for the judicial deposits was R\$6.8 million as of December 31, 2010 (R\$26.9 million as of December 31, 2009).

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We recognized provisions for contingent labor liabilities relating to our subsidiary Globex at the time of the business combination, in the amount of R\$20.8 million in 2010 (R\$19.1 million in 2009).

For further information on our tax-related claims, see note 19(b) to our financial statements included in this annual report.

*Civil claims*

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

- We file and respond to various lawsuits requesting the review of lease amounts. In these lawsuits, the judge determines a provisional lease amount, which is then paid by the stores until the final lease amount is defined in a report and award. We set up a provision for the difference between the amount originally paid by the stores and that established temporarily in these lawsuits. In other lawsuits, we recorded a provision for the difference between the amount paid as provisional rent and that pleaded by the adversary party, based on a report prepared by the technical assistant of the adversary party. As of December 31, 2010, the amount of the provision for these lawsuits was R\$33.3 million (R\$25.7 million as of December 31, 2009), for which there are no judicial deposits.
- The balance of Globex's civil actions as of December 31, 2010 was mainly composed of: (i) consumer lawsuits in the amount of R\$11.5 million (R\$21.0 million as of December 31, 2009), (ii) provisions relating to the reassessment of the risk of actions for damages amounting to R\$8.1 million (R\$7.4 million as of December 31, 2009), resulting from contract termination proposed by a former service provider; (iii) recording a provision of R\$20.3 million (R\$23.7 million as of December 31, 2009) in view of the contractual premise of the obligation to pay a fee in favor of the managers of shopping centers, as a result of the change in Globex's share control; (iv) a provision of R\$8.0 million (R\$7.4 million as of December 31, 2009) relating to indemnification risks deriving from potential contract terminations with service providers.
- Civil provisions were recorded at the subsidiary Globex relating to contingent liabilities recognized at the time of the business combination in the amount of R\$10.7 million (R\$9.5 million as of December 31, 2009).

As of December 31, 2010, we had provisioned for civil actions in the amount of R\$127.7 million (R\$119.9 million as of December 31, 2009), net of judicial deposits.

*Other Claims*

We have other tax liabilities for which we deem losses to be probable and have made provisions.

We recorded an amount for these claims of R\$ 55.5 million in 2010 and R\$35.0 million in 2009.

We are also disputing our right not to pay the contributions provided for by Complementary Law 110/2001, relating to financing the Government Severance Indemnity Fund for Employees (*Fundo de Garantia por Tempo de Serviço*), or FGTS. The amount we provisioned as of December 31, 2010 was R\$31.1 million (R\$33.5 million as of December 31, 2009); the Company made a judicial deposit of R\$9.6 million in connection with this claim.

Furthermore, our external legal counsel reassessed certain tax-related claims from possible to probable loss. As of December 31, 2010, we had provisioned R\$198.6 million, which includes judicial and administrative claims related to various tax matters.

We recognize tax provisions for contingent liabilities relating to our subsidiary Globex at the time of the business combination in accordance with the requirements of Brazilian accounting rules (CPC 15). We reassessed Globex's claims on the date we acquired it (July 6, 2009). In 2010 we recognized, with retroactive effects in 2009, R\$159.2 million (R\$179.4 million in 2009) for contingent tax liabilities. The main contingent tax liabilities are R\$70 million for administrative proceedings related to offsetting PIS taxes under Decrees 2445/88 and 2449/88 resulting from credits from legal proceedings, and R\$51 million related to offsetting tax debits with contribution credits incident on coffee exports.

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In short, our provision for contingencies related to other claims in 2010 was R\$438.1 million (R\$251.1 in 2009).

For further information on our tax-related claims, see note 19(a) to our financial statements included in this annual report.

*Other contingent liabilities for which there are no provisions*

As of December 31, 2010, we were a party to certain legal proceedings and for which the chances of loss were deemed possible and, therefore, we have not made provisions for these proceedings. See note 19 to our audited consolidated financial statements included in this annual report for detailed information on these proceedings.

*Tax-Related Claims*

We are a party to several tax-related legal proceedings with various governmental agencies related to social security taxes, federal income tax (*Imposto de Renda da Pessoa Jurídica*), or IRPJ, withholding tax (*Imposto de Renda Retido na Fonte*), or IRRF, social contribution on net profits (*Contribuição Social Sobre o Lucro Líquido*), or CSLL, COFINS, PIS, contribution tax on financial transactions, (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, state value added tax (*Imposto Sobre Circulação de Mercadorias e Serviços*), or ICMS, municipal service tax (*Imposto Sobre Serviços*), or ISS, municipal property tax (*Imposto Predial e Territorial Urbano*), or IPTU and property transfer tax (*Imposto sobre transferência de bens imóveis*), or ITBI. As of December 31, 2010, the aggregate amount of the possible loss regarding these tax-related legal proceedings was R\$2,844.2 million.

*Other Legal Proceedings*

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

*Globex's Claims*

Our subsidiary Globex is a party to certain legal proceedings for which chances of loss are deemed possible. As of December 31, 2010, the aggregate amount of the possible loss regarding these proceedings was R\$21.5 million.

Any adverse changes in our assessment of the risk involved in these proceedings may require that we make provisions for judicial contingencies. We have not included the aforementioned legal proceedings in the REFIS.

*Federal Tax Installment Payment Program (REFIS)*

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

Previously, we maintained provisions for judicial proceedings related to certain social security contributions and income taxes. During the third quarter of 2009, our management and legal counsel, adhering to the federal tax installment payment program introduced by Law No. 11,941/09, decided to include tax and social security liabilities from proceedings, in particular those related to the COFINS tax rate, which at the time totaled approximately

R\$987.0 million, and other applicable tax liabilities in the federal tax installment payment program. The balance of the consolidated installments on December 31, 2010 was R\$1,281.1 million resulting in a reduction in contingencies that would have been attributable to these tax and social security liabilities.

**Dividend Policy and Dividends*****General***

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

For the fiscal year ended 2010, we have not changed the dividend distribution period. Pursuant to our dividend policy created by our board of directors on August 3, 2009, we anticipate our dividend distribution on a quarterly basis. For further information see "Item 10B. Memorandum and Articles of Association — Allocation of Net Profits and Distribution of Dividends – Distribution of Dividends." According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval.

On February 23, 2011, our board of directors approved the anticipation of the dividends payment for the fiscal year ending 2011. Interim dividend payments will be made quarterly in the amount of R\$0.09 per preferred share and R\$0.081818181818 per common share. The payment dates of quarterly dividends will be determined by our board of directors after publication of our quarterly results.

We calculate our dividends in accordance with Brazilian GAAP, which does not differ from IFRS.

***Dividend Policy and History of Dividend Payments***

The following table sets forth the distributions paid to holders of our common shares and preferred shares since 2006:

<b>Period</b>	<b>Description</b>	<b>First payment date</b>	<b>R\$ per class A preferred share</b>	<b>R\$ per class B preferred share</b>	<b>R\$ per common share</b>	<b>Total amount in dividends and interest on shareholders' equity (in R\$ millions)</b>
2006	Dividends	June 2007	0.0930	-	0.0845	20.3
2007 <sup>(1)</sup>	Dividends	June 2008	0.2288	-	0.2080	50.1
2008	Dividends	June 2009	0.2735	-	0.2486	61.8
2009	Dividends	August 24, 2009	0.13558	-	0.12326	30.9
2009	Dividends	November 30, 2009	0.06614	-	0.06013	15.5

2009	Dividends	June 28, 2010	0.39372	0.01	0.35793	94.1
2010	Dividends	May 31, 2010	0.08	-	0.0727272	19.2
2010	Dividends	August 17, 2010	0.08	-	0.0727272	19.6
2010 <sup>(2)</sup>	Dividends	December 1, 2010	0.08	-	0.0727272	19.6
2010	Dividends	May 30, 2011	0.45827	-	0.40955	113.2

(1) Taking into account the 500:1 reverse stock split that became effective on September 1, 2007. The dividend accrued on December 31, 2009 was approved at the annual shareholders' meeting held on April 29, 2010 and paid in June 2010. According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval.

(2) The dividend accrued on December 31, 2010 was approved at the annual shareholders' meeting held on March 31, 2011 and was paid on May 30, 2011. On October 18, 2010, the ratio of our ADR (American Depositary Receipt) program changed, whereby one ADR (CBD) represented one preferred share of CBD (PCAR5). This ratio change resulted in a 2 for 1 split (one additional ADR for each ADR held).

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



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Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the custodian on behalf of the depositary, which will then convert the payments in Brazilian currency into U.S. dollars and thereafter will cause the U.S. dollars to be delivered to the depositary for distribution to holders of ADSs as described above. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends and/or interest on shareholders' equity into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that occur before the distributions are converted and remitted. See "Item 3A. Selected Financial Data — Exchange Rates." Dividends and interest on shareholders' equity in respect of the preferred shares paid to shareholders, including holders of ADSs, are subject to the tax treatment outlined in "Item 10E. Taxation — Brazilian Tax Considerations."

**8B. Significant Changes**

**Proposal Letter from Gama 2 SPE Empreendimentos e Participações S/A**

On June 28, 2011, we received a proposal from Gama 2 SPE Empreendimentos e Participações S/A, a special purpose company held by BTG Pactual Principal Investments Fundo de Investimento em Participações. The proposal contemplates a business combination of the Pão de Açúcar Group with the Carrefour Group, the second largest retailer worldwide, headquartered in France. We attach the proposal in its entirety as Exhibit 15.(a)(1) to this annual report.

The proposed business combination is subject to approval in accordance with the terms of the shareholders' agreements filed in the Company's head offices, by Wilkes Participações S.A., and, as the case may be, by the corporate bodies of our Company, as well as the competent authorities, in Brazil and abroad, including the Brazilian Securities and Exchange Commission - CVM and the administrative counsel for economic defense *Conselho Administrativo de Defesa Econômica - CADE*.

We will publicly disclose any material further development related to the proposed business combination.

**Arbitration Proceeding filed by Casino Group**

On May 30, 2011, the Casino Group and its affiliates Segisor S.A. and Sudaco Participações Ltda. filed a request for arbitration under the International Chamber of Commerce rules against Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Península Participações Ltda.. We are not a party to the arbitration proceeding and, therefore, are not aware of its content. The arbitration proceeding is subject to confidentiality provisions and is aimed at ensuring compliance with the shareholders' agreements between the controlling shareholders. We cannot anticipate the effects of the dispute on us. For further information on the shareholders' agreements, see "Item 7A. Major

Shareholders – Conditional Put Option Agreement and Shareholders’ Agreements.” We will publicly disclose any significant development in the dispute between our controlling shareholders of which we become aware that may adversely affect us.

## **Item 9. THE OFFER AND LISTING**

### **9A. Offer and Listing Details**

Our preferred shares are traded on the BM&FBOVESPA under the trading symbol PCAR4. Our preferred shares in the form of ADSs also trade on the New York Stock Exchange, or NYSE, under the trading symbol “CBD” and on the Luxembourg Stock Exchange.

Our ADSs commenced trading on the NYSE in May 1997. As of December 31, 2010, the ADSs represented 27.3% of our preferred shares. Each ADS represents one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York Mellon.

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

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Calendar Period	High	Low	High	Low	R\$ Average Daily Trading Volume
	R\$		US\$( <sup>1</sup> )		
2006 <sup>(2)</sup>	49.39	27.98	23.10	13.09	11,242,224
2007 <sup>(2)</sup>	40.72	27.03	23.00	15.27	19,440,718
2008:					
1st quarter	37.12	27.79	21.22	15.89	25,714,873
2nd quarter	40.67	33.88	25.55	21.28	21,096,954
3rd quarter	37.97	32.48	19.84	16.96	16,590,815
4th quarter	37.97	24.68	16.25	10.56	19,690,418
2009:					
1st quarter	32.68	27.97	14.12	12.09	13,215,496
2nd quarter	38.26	31.98	19.61	16.39	22,381,980
3rd quarter	50.00	38.00	28.13	21.38	30,036,014
4th quarter	65.02	50.00	37.36	28.73	36,724,383
2010:					
1st quarter	68.17	57.63	38.27	32.35	42,694,323
2nd quarter	64.09	54.40	35.51	30.14	46,772,924
3rd quarter	64.48	56.13	38.21	33.27	64,902,605
4th quarter	71.18	59.31	42.84	35.70	49,312,169

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

(2) As restated due to the reverse stock split of the shares.

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

	High	Low	High	Low
	R\$		US\$( <sup>1</sup> )	
December 2010	70.67	66.68	42.54	40.14
January 2011	70.21	61.69	42.12	37.01
February 2011	62.18	58.93	37.36	35.41
March 2011	67.10	60.95	41.12	37.35
April 2011	70.00	65.35	44.43	41.48
May 2011	72.49	63.21	45.88	40.00

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

On June 15, 2011, the closing sale price for the preferred shares on the BM&FBOVESPA was R\$66.60 per preferred share, equivalent to US\$41.62 per ADS translated at the exchange rate of R\$1.60 per US\$1.00, the commercial market rate on that date. On the same date, the closing sale price for our ADSs on the NYSE was US\$42.60.

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

Calendar Period	High	Low	High	Low	US\$ Average Daily Trading Volume
	US\$ ADSs		R\$ ADSs <sup>(1)</sup>		
2006 <sup>(2)</sup>	46.01	25.54	98.33	54.59	9,505,171
2007	43.77	27.50	77.39	50.57	12,177,425
2008 <sup>(2)</sup>	49.41	22.18	89.99	51.83	14,603,734
2009	37.78	11.63	65.91	20.29	11,633,266
2010:					
1st quarter	38.87	31.90	69.24	56.83	20,101,111
2nd quarter	36.50	29.15	65.88	52.60	22,684,079
3rd quarter	37.05	32.00	62.51	53.99	31,911,583
4th quarter	42.26	35.43	70.21	58.86	26,967,500

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

(2) As restated due to the reverse stock split of the shares.

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

Calendar Period	High	Low	High	Low	US\$ Average Daily Trading Volume
	US\$ ADSs		R\$ ADSs <sup>(1)</sup>		
December 2010	42.26	39.57	70.21	65.74	19,370,578
January 2011	43.40	37.12	72.35	61.88	26,974,013
February 2011	38.06	35.99	63.34	59.90	21,589,203
March 2011	41.93	37.13	68.42	60.59	17,667,033
April 2011	45.46	41.81	71.62	65.87	25,948,626
May 2011	46.02	40.50	72.72	63.99	34,120,692

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

## 9B. Plan of Distribution

Not applicable.

## 9C. Markets

### Trading on the BM&FBOVESPA

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

As of May 16, 2011, there were 461 companies listed on the BM&FBOVESPA.

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

In 2000, the São Paulo Stock Exchange was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the São Paulo Stock Exchange, with the exception of electronically traded public debt securities and privatization auctions, which are

traded on the Rio de Janeiro Stock Exchange.

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

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

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, the National Monetary Council (*Conselho Monetário Nacional*), or CMN and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

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Under the Brazilian corporate law, a company is either public, a *companhia aberta*, such as we are, or private, a *companhia fechada*. All public companies are registered with the CVM, and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on the BM&FBOVESPA or in the Brazilian over-the-counter market. The shares of a company listed on the BM&FBOVESPA may also be traded privately, subject to certain limitations. To be listed on the BM&FBOVESPA, a company must apply for registration with the CVM and with the BM&FBOVESPA. Trading of securities of a public company on the BM&FBOVESPA may be suspended at the request of such company in anticipation of a material announcement. Trading may also be suspended on the initiative of the BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the BM&FBOVESPA.

The Brazilian securities law, Brazilian corporate law and the laws and regulations issued by the CVM, the CMN, and the Central Bank provide for, among other things, disclosure requirements applicable to issuers of traded securities, restrictions on insider trading and price manipulation, and protection of minority shareholders.

**Corporate Governance Practices**

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

To become a Level 1 (*Nível 1*) company, in addition to the obligations imposed by current Brazilian law, it must agree to (a) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading (at least 25% must be free float), (b) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (c) comply with minimum quarterly disclosure standards including cash flow statements, (d) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the respective company; (e) submit any existing shareholders' agreements and stock option plans to the BM&FBOVESPA and (f) make a schedule of corporate events available to shareholders.

On May 10, 2011 the differentiated Corporate Governance Practices and New Market (*Novo Mercado*) rules were amended. The new provisions include new pecuniary sanctions for companies that do not comply with rules. In addition to that, according to the amended rules, a company's CEO cannot cumulate the position of chairman of the board as well as all board members shall be elected for a unified two-year term mandate.

We are a Level 1 listed company since March 31, 2003. As a result, we must comply with the corporate governance standards described in the previous paragraph in addition to other obligations imposed by Brazilian law.

**Disclosure Requirements**

According to the CVM regulation, a public company must submit to the CVM and BM&FBOVESPA certain periodic information, including financial statements accompanied by the management report and independent audit report,

annual and quarterly information and quarterly management reports and independent audit reports. This legislation also requires us to file with the CVM and the BM&FBOVESPA our shareholders' agreements, notices of shareholders' meetings and copies of the related minutes and communication regarding material acts or facts.

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



Such requirements include provisions that:

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

**9D. Selling Shareholders**

Not applicable.

**9E. Dilution**

Not applicable.

**9F. Expenses of the Issue**

Not applicable.

**Item 10. ADDITIONAL INFORMATION**

**10A. Share Capital**

As of December 31, 2010, our capital stock consisted of a total of 257,773,669 non-par shares, of which 99,679,851 were common shares, 154,745,007 were class A preferred shares and 3,348,811 were class B preferred shares. As of the same date, our Company held 232,586 class A preferred shares in treasury.

As of January 7, 2011, we converted our remaining class B preferred shares into class A preferred shares, according to our by-laws. On March 31, 2011, our shareholders approved the cancellation of the class B preferred shares and the modification of the designation of “class A preferred shares” to “preferred shares.”

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As of June 20, 2011, our capital stock consisted of a total of 259,959,709 non-par shares, of which 99,679,851 were common shares and 160,279,858 were preferred shares. As of the same date, 232,586 preferred shares were held in treasury and no common shares were held in treasury.

### **Share Buy-back**

On January 16, 2009, our board of directors approved a share buy-back program for our class A preferred shares, including those traded in the form of ADRs. We were authorized to acquire up to an aggregate of 3,000,000 class A preferred shares, representing approximately 2.2% of the Company's outstanding preferred stock as of December 31, 2008.

The program was terminated on April 18, 2009. The acquisition of the class A preferred shares was made on the BM&FBOVESPA. A total of 369,600 class A preferred shares were purchased at an average price of R\$29.49 per share. See "Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers."

As of April 30, 2010, class A preferred shares were held in treasury and no common shares were held in treasury. The reduction of assets held in treasury from 369,600 to 232,586 is a result of the tender offer in connection with the acquisition of Globex see "Item 4A. History and Development of the Company — Acquisition of Globex (Ponto Frio)." We intend to use these shares for subsequent sale and/or cancellation with no capital decrease.

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

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

#### **Corporation Objects and Purposes**

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

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

#### **Preferred Shares and Common Shares**

Pursuant to the Brazilian corporate law and our by-laws, each common share entitles the holder thereof to one vote at our shareholders' meetings. Holders of common shares are not entitled to any preference relating to our dividends or other distributions or any preference upon our liquidation, provided that they may convert their common shares into class A preferred shares at any time. See "—Conversion of Common Shares into class A Preferred Shares." All of our class B preferred shares have been converted into class A preferred shares. See "— Conversion of Class B Preferred Shares into Class A Preferred Shares, Termination of Class B Preferred Shares and Designation Change of Class A Preferred Shares into Preferred Shares."

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

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

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

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

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

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

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

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

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

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

- amounts allocated to the formation of a legal reserve account;
- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years;
- amounts allocated to the formation of a tax incentives reserve account;
- amounts allocated to the statutory reserve, if any;
- amounts allocated to the unrealized profit reserve;
- amounts allocated to the retained profit reserve; and

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

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

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

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

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

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

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

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

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

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

The balance of the profits reserve accounts, except for the contingency reserve account and unrealized income reserve account, may not exceed our share capital. If this occurs, a shareholders' meeting must resolve if the excess will be applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed share capital or to distribute dividends.

### ***Distribution of Dividends***

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

- our “net profits” earned in a given fiscal year, which is our result of the relevant fiscal year, reduced by: accumulated losses from prior fiscal years; provisions for income tax and social contribution for such fiscal year; and amounts allocated to employees’ and managers’ participation in the results in such fiscal year pursuant to our Profit Sharing Program (*participações estatutárias*). Furthermore, our by-laws allows us to implement a profit sharing plan for employees and managers and a stock option plan. The amount to be paid in connection with both plans is set forth by our board of directors and must not exceed an amount equal to 15% of our net profits. Under Brazilian corporate law, this profit sharing may only be paid to managers with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders.
- our net profits accrued in previous fiscal years or in any six-month and/or quarterly interim periods of a fiscal year; or



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- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, “profit reserves” means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by our shareholders’ resolution or unrealized income reserve account, not including the legal reserve account.

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

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

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

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

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

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

Our calculation of “net profits” and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with Brazilian GAAP.

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

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

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

### ***Conversion of Class B Preferred Shares into Class A Preferred Shares, Termination of Class B Preferred Shares and Designation Change of Class A Preferred Shares into Preferred Shares***

All of our class B preferred shares have been converted into class A preferred shares in accordance with a pre-established schedule: (i) 50% of the class B preferred shares were mandatorily converted into class A preferred shares on July 7, 2010; and (ii) 50% of the class B preferred shares were mandatorily converted into class A preferred shares on January 7, 2011. On March 31, 2011, our shareholders approved at a general shareholders' meeting the termination of the class B preferred shares and the change in the designation of class A preferred shares to preferred shares, without any alteration in the rights, preference, privileges or terms of the securities.

### **Interest on Shareholders' Equity**

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

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

### **Board of Directors**

Under the Brazilian corporate law, the members of a company's board of directors must be shareholders of the company. There is no requirement as to the number of shares an individual must own in order to act as a member of the board of directors.

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

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

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

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

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

### **Voting Rights**

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

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

In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle the holder thereof to one vote.

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority or preference over the existing preferred shares, would require, in addition to the affirmative vote of shareholders holding the majority of our common shares in a shareholders’ meeting, the prior approval or the ratification by holders of a majority of the concerned outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares. This meeting would be called by notice published at least three times in the Diário Oficial do Estado de São Paulo, as well as in a newspaper of wide circulation in São Paulo, at least 15 days prior to the meeting, but would not generally require any other form of notice. We have designated newspapers Folha de São Paulo, Valor Econômico, Estado de S. Paulo or Brasil Econômico for this purpose. In addition to these newspapers, we also have to publish the notice on the website of CVM or BM&FBOVESPA and our website.

According to the Brazilian corporate law, (i) shareholders that jointly hold preferred shares that represent, at least, 10% of the total capital stock, and (ii) holders of common shares that are not controlling shareholders and represent, at least, 15% of the total voting stock, will have the right to elect one member of the board of directors and an alternate. In case non-controlling shareholders do not achieve the aforementioned percentage, they may combine their participation and, if they jointly hold at least 10% of the total capital, they may elect a member of the board of directors and an alternate director. Only shareholders that prove they have been holding the shares for at least 3 continuous months may exercise such rights.

### **Shareholders’ Meetings**

Under the Brazilian corporate law, at an annual general meeting of shareholders, or an extraordinary general meeting, convened and held in accordance with such law and our by-laws, the shareholders are empowered to decide all matters relating to our business purposes.

In accordance with Brazilian corporate law, shareholders voting at our general meeting have the power, among others, to:

- amend our by-laws;
- delisting from CVM (to become a closely held company);
- approve the issuance of convertible debentures and secured debentures;
- elect or dismiss members of the board of directors and of the fiscal council, at any time;

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- receive the management's accounts and approval of the financial statements, including the allocation of net profits;
- suspend the rights of a shareholder who has violated Brazilian corporate law or our by-laws;
- approve the valuation of assets offered by a shareholder in consideration for the subscription of shares of our capital stock;
- approve the transformation of the corporate form or a merger with or into another company, spin-off, consolidation or split; and
- authorize the management to petition for bankruptcy, to declare our company insolvent and to request procedures involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code.

In addition, our by-laws also establish that a general meeting of our shareholders will have the following duties:

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review the reports;
- appointment and removal of the Chairman of our board of directors;
- approval of the annual global compensation of the members of our management, including benefits;
- approval of or amendment to our annual investment program;
- approval of any issuance of common or preferred shares up to the limit of our authorized capital (400,000,000 shares), and/or any bonuses, debentures convertible into our shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for our shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which we are or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and the terms and conditions of subscription and payment;
- approval of any agreement or amendment to any agreement, directly or indirectly, between us and/or our affiliates and any of our controlling shareholders or their relatives, members of our management or any of our controlled companies and affiliates, except those agreements executed in ordinary course of business, which should be contracted on an arm's-length basis (market conditions);
- approval of any delisting from trading on any stock exchange or filings for new listings;
- approval of any change in our dividend policy;
- approval of any joint venture between us and third parties involving an individual investment or investments aggregated over a fiscal year in excess of the amount equivalent in *reais* to US\$100,000,000 or in excess of an amount equal to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher, provided that the joint venture was previously approved by our board of directors;

- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or amounts aggregated over a fiscal year in excess of the amount in *reais* equivalent to US\$100,000,000, or in excess of an amount equal to 6% of our shareholders equity as determined in our latest annual balance sheet, whichever is higher; and
- approval of any financial arrangement, including the lending or borrowing by us of funds and the issuance of non-convertible debentures in excess of an individual amount equal to two times our EBITDA of the preceding 12 months.



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In relation to the matters described in the last two bullet points above, according to our by-laws, our board of directors has the following duties:

- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or cumulated over a fiscal year in excess of the amount in *reais* equivalent to US\$20,000,000 or in excess of an amount equal to 1% and up to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher; and
- approval of any financial arrangement in excess of an individual amount equivalent to one half and up to two times our EBITDA of the preceding 12 months.

According to Brazilian corporate law, neither a company's by-laws nor actions taken at a shareholders' meeting may deprive a shareholder of some specific rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under the Brazilian law described under “—Preemptive Rights”;
- the right to withdraw from the company in the cases specified under Brazilian corporate law, see “—Withdrawal Rights”; and
- the right to supervise, pursuant to Brazilian corporate law, the management of the company.

***Quorum***

Generally, Brazilian corporate law provides that a quorum at a shareholders' meeting consists of shareholders representing at least 25% of a company's issued and outstanding voting capital on the first call and, if that quorum is not reached, any percentage on the second call. If the shareholders are called to amend our by-laws, a quorum at a shareholders' meeting consists of shareholders representing at least two-thirds of our issued and outstanding voting capital on the first call and any percentage on the second call.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders' meeting is required to ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing more than one-half of our issued and outstanding voting capital is required to:

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or create a new class with greater privileges than the existing classes of preferred shares;
- reduce the percentage of mandatory dividends;

- change our corporate purpose;
- merge us into or with another company;
- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in the Brazilian corporate law);
- apply for cancellation of any voluntary liquidation;

- merge all our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company; and
- approve our dissolution.

### *Notice of our shareholders' meetings*

Notice of our shareholders' meetings must be published at least three times in the Diário Oficial do Estado de São Paulo, and the newspapers Folha de São Paulo, Valor Econômico, Estado de S. Paulo or Brasil Econômico. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, the CVM may require that the first notice be published 30 days in advance of the meeting.

### *Conditions of admission*

Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares they intend to vote. A shareholder may be represented at a shareholders' meeting by a proxy appointed less than a year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. Investment funds must be represented by their manager.

### **Preemptive Rights on Increase in Preferred Share Capital**

Under the Brazilian corporate law, each shareholder has a general preemptive right to subscribe for shares in any capital increase, in proportion to its shareholding, except in the event of the grant and exercise of any option to acquire shares of our capital stock under our stock option program. A shareholder has a general preemptive right to subscribe for debentures convertible into our shares and subscription warrants that we may issue. A minimum period of 30 days following the publication of the notice of a capital increase must be respected to exercise such right, except if otherwise determined by the by-laws or the shareholder meeting, and the right is negotiable.

According to Brazilian corporate law, capital increases that do not change the proportion between the existing classes and types of shares entitle the shareholders to exercise their preemptive rights solely with respect to shares of equal class and type as the shares they already hold. However, if an issuance of shares changes the existing proportion of classes and types of shares, then (i) the shareholders may exercise their preemptive rights with respect to shares of equal class and type as the shares they already hold and, (ii) if necessary to maintain such shareholders' ownership proportional with regard to the total capital stock, they may subscribe for other classes or types of shares.

Our board of directors is authorized to eliminate preemptive rights with respect to the issuance of shares, debentures convertible into shares and subscription warrants, provided that the distribution of such shares is effected (i) through a stock exchange or in a public offering or (ii) through an exchange of shares in a public offering, the purpose of which is to acquire control of another company.

In the event of a capital increase, that maintains or increases the proportion of capital represented by preferred shares, holders of ADSs, may, under certain circumstances described above, exercise preemptive rights to subscribe newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs, may under certain circumstances described above, have preemptive rights to

subscribe for preferred shares, in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see “Item 3D. Risk Factors — Risks Relating to the Preferred Shares and ADSs — You might be unable to exercise preemptive rights with respect to the preferred shares underlying the ADSs.”

### **Withdrawal Rights**

Neither the common shares nor the preferred shares are redeemable. Any of our shareholders who dissent from certain actions taken by our shareholders in a shareholders’ meeting have the right to withdraw from our company and to receive the value of their shares. According to the Brazilian corporate law, the withdrawal rights of a dissenting shareholder may be exercised in the event that our shareholders representing at least one-half of our issued and outstanding voting capital authorizes:

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- i. the creation of preferred shares or the disproportional increase of an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;
- ii. the modification of a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or the creation of a new class with greater privileges than the existing classes of preferred shares;
- iii. a reduction in the mandatory distribution of dividends;
- iv. a change in our corporate purposes;
- v. the transfer of all of our shares to another company in order to make us a wholly owned subsidiary of such company or vice versa;
- vi. our merger into or with another company, including if we are merged into one of our controlling companies, or are consolidated with another company;
- vii. our participation in a group of companies as defined under the Brazilian corporate law and subject to the conditions set forth therein;
- viii. a spin-off of our company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a centralized group of companies; or
- ix. the transformation of us into another type of company.

Dissenting shareholders also have a right of withdrawal in the event that the entity resulting from (a) a transfer of all of our shares to another company in order to make us a wholly owned subsidiary of such company or vice versa, (b) a spin-off or, (c) a merger or a consolidation of a Brazilian publicly listed company, fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken.

The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting. In items (i) and (ii) above, the resolution will be effective only upon the prior approval or confirmation within one year by the preferred shareholders, which must be made at a special meeting, in which case the 30-day term is counted from the date the minutes of the special meeting are published. In any event, we are entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of the 30-day term mentioned above, if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

In addition, the rights of withdrawal in items (iv), (v), (vii) and (viii), above, may not be exercised by holders of shares if such shares have (a) liquidity, when such shares are part of the BM&FBOVESPA Index, or part of any other stock exchange index in Brazil or in the world, as defined by the CVM, and (b) dispersion, when the controlling shareholder or other companies under the same control has less than 50% of the shares or class of shares.

Our preferred shares may be withdrawn at their book value, determined on the basis of the last balance sheet approved by the shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs more than sixty days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a special

balance sheet that is of a date within sixty days of such shareholders' meeting. In this case, we must immediately pay 80% of the book value of the shares according to the most recent balance sheet approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the relevant shareholders' meeting.

### **Form and Transfer of Shares**

Our shares are in book-entry form, and the transfer of such shares is made by the registrar in our books, by debiting the share account of the transferor and crediting the share account of the transferee. We maintain book entry form services with Banco Itaú Corretora de Valores S.A., or the registrar, which performs all the services of safekeeping and transfer of our shares and related services.

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Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to Resolution 2,689 of CMN, the foreign investor should also seek amendment through its local agent, if necessary, of the electronic registration to reflect the new ownership.

BM&FBOVESPA operates a clearing house through CBLC. CBLC is also responsible for settlement and custody of the shares. The payment of dividends, bonuses and other corporate events is managed by "Central Depositária", a branch of BM&FBOVESPA.

### **Other Dispositions**

In addition to the provisions already described in this annual report, the Brazilian corporate law and current regulations set forth, among others:

- x. upon a sale of control, the acquirer is required to launch a tender offer to purchase all minority voting shares at a price equal to at least 80% of the control price;
- xi. if provided for in the by-laws, disputes among our shareholders will be subject to arbitration; our by-laws currently do not provide for arbitration;
- xii. upon the occurrence of a tender offer aiming at delisting our company or through which our controlling shareholders acquire more than one-third of the float shares, the purchase price will be equal to the fair value of the shares considering the total number of outstanding shares;
- xiii. members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent accountant of the controlling shareholders; and
- xiv. the chairman of any shareholders' or board of directors' meeting will disregard any vote that is rendered against provisions of any shareholders' agreement if that shareholders' agreement has been duly filed with us.

### **10C. Material Contracts**

#### **Casas Bahia**

Below we summarize the shareholders' agreement entered into between us, Casa Bahia Comercial Ltda., Globex and the partners of Casa Bahia Comercial Ltda. The summary is qualified by reference to the agreements that are filed as exhibits to this annual report.

Pursuant to the shareholders' agreement CBD will have the right to elect the majority of members of Globex's board of directors and the partners of Casa Bahia Comercial Ltda. will have the right to elect a certain number of members corresponding to their ownership interest in Globex's capital stock if Casa Bahia Comercial Ltda. holds, at least, 25% of shares bound to the shareholders' agreement. The partners of Casa Bahia Comercial Ltda. shall appoint, at least, two members of Globex's board of directors if they hold, at least, 20% of the shares bound to the shareholders' agreement. The shareholder's agreement also provides for veto rights regarding certain matters. Currently, the board of directors is composed of five members elected by CBD and four members elected by partners of Casa Bahia Comercial Ltda.

In addition, during the period in which the partners of Casa Bahia Comercial Ltda. hold shares bound to the shareholders' agreement representing, at least, 29% of Globex's total capital stock (excluding treasury shares from this calculation), Mr. Michael Klein will be appointed chairman of the board of directors.

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



## **10D. Exchange Controls**

The ownership of preferred or common shares by individuals or legal entities domiciled outside Brazil is subject to certain conditions established under Brazilian Law.

The right to convert dividend payments and proceeds from the sale of common shares or preferred shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires, among other things, obtaining an electronic registration with the Central Bank.

Resolution No. 1,927 of the CMN, which is the restated and amended Annex V to Resolution No. 1,289 of the CMN, or the Annex V Regulations, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. We filed an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we received final approval before the offering of the preferred shares underlying the ADSs in May 1997.

An electronic registration, which replaced the amended certificate of registration, was issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary.

This electronic registration was carried on through the *Sistema do Banco Central*—SISBACEN, a database of information provided by financial institutions to the Central Bank. Pursuant to the electronic registration, the custodian is able to convert dividends and other distributions with respect to the preferred shares represented by the ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges those ADSs for preferred shares, that holder will be entitled to continue to rely on the depositary's electronic registration for only five business days after that exchange, following which that holder must seek to obtain its own electronic registration. Thereafter, unless the preferred shares are held pursuant to Resolution No. 2,689 of CMN, dated as of January 26, 2000, as amended, a holder of preferred shares who applies for and obtains a new electronic registration may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon disposal of the preferred shares, or distributions with respect thereto, and generally will be subject to a less favorable tax treatment on the proceeds arising from any sale of the preferred shares. In addition, if the foreign investor is domiciled in a Low or Nil Taxation Jurisdiction (as defined under "Brazilian Tax Considerations"), the investor will also be subject to a less favorable tax treatment, even if its registry before the Central Bank is in accordance with the provisions of Resolution 2,689. See "Item 10E. Taxation — Brazilian Tax Considerations."

Under Resolution 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that the requirements described below are fulfilled. In accordance with Resolution 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities domiciled or headquartered outside Brazil.

Pursuant to Resolution 2,689, foreign investors must fulfill the following requirements before engaging in financial transactions:

xv. appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;

- xvi. appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM;
- xvii. complete the appropriate foreign investor registration form;
- xviii. register as a foreign investor with the CVM; and
- xix. register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out on stock exchanges or through organized over the counter markets licensed by the CVM, except for subscription, bonification, conversion of debentures into shares, securities indexes, purchase and sale of investment funds quotas and, if permitted by the CVM, going private transactions, canceling or suspension of trading. Moreover, the offshore transfer or assignment of the securities or other financial assets held by foreign investors pursuant to Resolution 2,689 are prohibited, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Investors under Resolution 2,689 who are not resident in a tax haven jurisdiction (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See “Item 10E. Taxation — Brazilian Tax Considerations.”

## **10E. Taxation**

This summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposal of preferred shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to these matters based upon the particular circumstances of a holder.

This summary is based upon tax laws of Brazil and the federal income tax laws of the United States in effect as of the date hereof, which laws are subject to change (possibly with retroactive effect) and differing interpretations. This summary is also based upon the representations of the depositary and on the assumption that each obligation in the Amended and Restated Deposit Agreement, dated as of May 28, 1997, among us, the depositary and the Owners from time to time of American Depositary Receipts, and any related documents, will be performed in accordance with its terms.

Although there is presently no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how such a treaty would affect a U.S. holder of preferred shares or ADSs.

### **Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposal of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Brazilian Holder”). It is based on Brazilian law as currently in effect, which is subject to change, possibly with retroactive effect, and to differing interpretations. Any change in such law may change the consequences described below. Each Non-Brazilian Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in preferred shares or ADSs.

#### ***Taxation of Dividends***

Dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us to the depositary in respect of preferred shares underlying ADS or to a Non-Brazilian Holder in respect of preferred shares, are exempt from withholding income tax.

#### ***Distribution of Interest on Shareholders’ Equity***

In accordance with the Law No. 9,249, dated December 26, 1995, as amended, Brazilian corporations may make payments to shareholders characterized as distributions of interest on shareholder’s equity as an alternative to making dividend distributions. Such interest is calculated by reference to the TJLP (long term interest rate) as determined by the Central Bank from time to time and cannot exceed the greater of:

xx. 50% of the net income (after the deduction of social contribution on net profits and before taking such distribution and the provision for corporate income tax into account) for the period in respect of which the payment is made; or

xxi. 50% of the sum of retained profits and profits reserves, as of the date of the beginning of the period in respect of which the payment is made.

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Payments of interest on shareholder's equity to a Non-Brazilian Holder may be deducted for purposes of calculating Brazilian corporate income tax and social contribution on net profits as far as the limits described above are observed. Such payments are subject to withholding income tax at the rate of 15%, or 25% if the Non-Brazilian Holder is domiciled in a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% ("Low or Nil Taxation Jurisdiction"). These payments may be included, at their net value, as part of any mandatory dividend. To the extent that such payments are accounted for as part of the mandatory dividend, under current Brazilian law, we are obliged to distribute to shareholders an additional amount sufficient to ensure that the net amount received by the shareholders, after payment by us of applicable Brazilian withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend. The distribution of interest on shareholders' equity is proposed by our board of directors and subject to subsequent declaration by the shareholders at the general meeting.

***Taxation of Gains***

According to Law No. 10,833 of December 29, 2003, capital gains realized on the disposal of assets located in Brazil by a Non-Brazilian Holder, whether to other non-Brazilian resident or to a Brazilian resident are subject to taxation in Brazil. In this sense, on the disposal of the preferred shares, as they are assets located in Brazil, the Non-Brazilian Holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the disposal is conducted in Brazil or abroad and with a Brazilian resident or not.

Regarding the ADSs, although the matter is not free from doubt, arguably the gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident are not taxed in Brazil, based on the argument that ADSs would not constitute assets located in Brazil for purposes of Law No. 10,833/03. However, we cannot assure you of how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident. As a result, gains on a disposal of ADSs by a Non-Brazilian Holder to Brazilian resident, or even to a non-Brazilian resident in the event that courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described below.

The withdrawal of ADSs in exchange for preferred shares is not subject to Brazilian income tax as long as registration rules for the preferred shares are appropriately observed with the Central Bank. The deposit of preferred shares in exchange for ADSs may be subject to Brazilian income tax on capital gains at the rate of 15% or 25%, in case of a resident in a Low or Nil Taxation Jurisdiction, if the acquisition cost of the preferred shares is lower than (1) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the fifteen trading sessions immediately preceding such deposit. In this case, the difference between the acquisition cost and the average price of the preferred shares, calculated as above, will be considered a capital gain subject to taxation. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a Non-Brazilian Holder that is a 2,689 Holder (as defined below) and is not a resident in a Low or Nil Taxation Jurisdiction.

Under Brazilian law, income tax rules on such gains can vary, depending on the domicile of the Non-Brazilian Holder, the type of registration of the investment by the Non-Brazilian holder before the Central Bank and how the disposal is carried out, as described below.

Capital gains assessed by a Non-Brazilian Holder on a disposal of preferred shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

xxii. exempt from income tax when assessed by a Non-Brazilian Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 2,689, of January 26, 2000, (“2,689 Holder”) and (2) is not a resident in a Low or Nil Taxation Jurisdiction; or

xxiii. subject to income tax at a rate of 15% in any other case, including a case of gains assessed by a Non-Brazilian Holder that is not a 2,689 Holder, or is a resident in a Low or Nil Taxation Jurisdiction.

In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain.

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Any other gains assessed on a disposal of the preferred shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, except for a resident in a Low or Nil Taxation Jurisdiction or yet where the local legislation imposes restrictions on the disclosure of the shareholding composition, of the ownership of the investment or of the identity of the effective beneficiary of the income attributed to non-residents, which, in this case, is subject to income tax at the rate of 25%. If these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the Non-Brazilian Holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

As a general rule, the gains realized as a result of a disposal of preferred shares or ADSs is the positive difference between the amount realized on the sale or exchange of the shares and their acquisition cost.

There is no assurance that the current preferential treatment for Non-Brazilian Holder of ADSs and 2,689 Holder of preferred shares will continue or that it will not be changed in the future.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the preferred shares or ADSs by a Non-Brazilian Holder will be subject to Brazilian taxation at the same rate applicable to the sale or disposal of preferred shares.

***Discussion on Low or Nil Taxation Jurisdictions***

In certain circumstances, the Brazilian tax legislation imposes higher taxation on transactions that are carried out with entities located in jurisdictions considered to maintain favorable tax regimes (the above mentioned Low or Nil Taxation Jurisdiction).

On June 24, 2008, Law No. 11,727 enlarged the scope of Low or Nil Taxation Jurisdiction (by adding the fourth paragraph to article 24 of Law no. 9,430/96 and introduced a new concept of “Privileged Tax Regime.” According to the enacted article 24-A of Law no. 9,430/96 it is considered as such the tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; or (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; or (iii) does not tax or taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

The recent enactment of the Normative Ruling no. 1,037/10, which sets forth the updated list of countries or jurisdictions deemed by Brazilian tax authorities to provide Favorable Taxation and Privileged Tax Regimes, made evident the acknowledgement by tax authorities that tax legislation does not provide for a singular concept for “tax haven.” Rather, there are cases of Low or Nil Taxation Jurisdiction and there are cases of Privileged Tax Regime, which must be analyzed separately. The provisions of Law No. 11,727/08 that refer to the “Privileged Tax Regime” came into effect on January 1, 2009.

In principle, the best interpretation of Law No. 11,727/08 lead us to conclude that the new concept of “privileged tax regime” should be solely applied for purposes of transfer pricing rules in export and import transactions (Law no. 9,430/96) and thin capitalization rules (Law no. 12,249/10).

Thus, to income and gains realized by foreign investors that invest in the Brazilian financial and capital markets (2,689 Holder), the relevant concept is the one that makes reference to “countries that tax income at a rate lower than 20%,” as provided under Law no. 9,959/00 (i.e. only Low or Nil Taxation Jurisdiction) and the countries listed in the article one of the Normative Ruling No. 1,037/10.



***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of preferred shares or ADSs by a Non-Brazilian Holder, except for gift and inheritance taxes, which are levied by some states of Brazil on gifts made or inheritances bestowed by the Non-Brazilian Holder within such states to individuals or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by a Non-Brazilian Holder of preferred shares or ADSs.

***Taxation of Foreign Exchange Transactions (“IOF/Exchange”)***

Pursuant to Decree No. 6,306/07, the conversion into foreign currency or the conversion into Brazilian currency of the proceeds received or remitted by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment by a non-Brazilian holder in the preferred shares and ADSs may be subject to the Tax on Foreign Exchange Transactions, or IOF/Exchange. Although the current applicable rate for almost all foreign currency exchange transactions is 0.38%, the exchange transactions for the inflow and the outflow of funds by non-Brazilian holders for investment in the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at the respective rates of 2% and 0%. In any case, the Brazilian Government is permitted to increase at any time the rate to a maximum of 25%, but only in relation to future transactions.

***Tax on Bonds and Securities Transactions (“IOF/Bonds”)***

Pursuant to Decree 6,306/07, the Tax on Bonds and Securities Transactions (“IOF/Bonds”) may be imposed on any transactions involving bonds and securities even if the transactions are performed on a Brazilian stock exchange. As a general rule, the rate of this tax is currently 0% but the Brazilian government may increase such rate up to 1.5% per day, but only with respect to future transactions. On November 19, 2009, the Brazilian government increased the IOF/Bonds from zero to 1.5% on the issuance of depositary receipts traded outside of Brazil which underlying shares are issued by a Brazilian company and listed on a Brazilian stock exchange. Any increase in the rate would not apply retroactively.

**U.S. Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relating to the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. holder (as defined below) holding such preferred shares or ADSs as capital assets (generally, property held for investment). This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the “IRS”) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any implications under state, local or non-U.S. tax law, or any aspect of U.S. federal tax law (such as the estate tax, gift tax or the Medicare tax on net investment income) other than U.S. federal income taxation.

This summary does not purport to address all the material U.S. federal income tax consequences that may be relevant to the holders of the preferred shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable

for the alternative minimum tax, partnerships and other pass-through entities, U.S. expatriates, investors that own or are treated as owning 10% or more of our voting stock, investors that hold the preferred shares or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction and persons whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used below, a “U.S. holder” is a beneficial owner of preferred shares or ADSs that is, for U.S. federal income tax purposes:

xxiv. an individual citizen or resident of the United States;

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xxv. a corporation (or an entity taxable as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

xxvi. an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

xxvii. a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership or other entity taxable as a partnership holds preferred shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners of partnerships holding preferred shares or ADSs should consult their tax advisors.

In general, for U.S. federal income tax purposes, holders of American Depositary Receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs.

***Taxation of Distributions***

In general, distributions with respect to the preferred shares or ADSs (which likely include distributions of interest on shareholders' equity, as described above under “—Brazilian Tax Considerations—Interest on Shareholders' Equity”) will, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our current and accumulated earnings and profits, as so determined under U.S. federal income tax principles, the excess will be treated first as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. holders should assume all distributions are made out of earnings and profits and constitute dividend income. As used below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to the preferred shares or ADSs generally will be subject to U.S. federal income taxation as ordinary income and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in Brazilian currency will be included in the gross income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are actually or constructively received by the U.S. holder, or in the case of dividends received in respect of ADSs, on the date the dividends are actually or constructively received by the depository, whether or not converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt by the U.S. holder or disposition, as the case may be, and any gain or loss recognized upon a subsequent disposition of such Brazilian currency generally will be foreign currency gain or loss that is treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the day they are received by the U.S. holder or the depository, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the depository or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for short-term and hedged positions, under current law, the U.S. dollar amount of dividends received in taxable years beginning on or before December 31, 2010 by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends represent “qualified dividend income.” Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The ADSs are listed on the New York Stock Exchange, and should qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Based on our audited financial statements as well as relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2010 taxable year. Because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future) tax year.

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Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares (to the extent not represented by ADSs) will be treated as qualified dividend income, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Dividends paid by us generally will constitute foreign source “passive category” income and will be subject to various other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian income tax imposed or withheld on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder’s U.S. federal income tax liability (or at a U.S. holder’s election if it does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. holder’s taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian income tax on dividends could be affected by future actions that may be taken by the IRS. The rules with respect to the U.S. foreign tax credit are complex, and U.S. holders of preferred shares or ADSs are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

***Taxation of Capital Gains***

Deposits and withdrawals of preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

In general, gain or loss, if any, realized by a U.S. holder upon a sale, exchange or other taxable disposition of preferred shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition and such U.S. holder’s adjusted tax basis in the preferred shares or ADSs. Such capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other taxable disposition the preferred shares or ADSs have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gain of certain U.S. holders (including individuals) is eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations under the Code.

Gain, if any, realized by a U.S. holder on the sale, exchange or other taxable disposition of preferred shares or ADSs generally will be treated as U.S. source gain for U.S. foreign tax credit purposes. Consequently, if a Brazilian income tax is imposed on the sale or disposition of preferred shares, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian income tax. Alternatively, a U.S. holder may take a deduction for all foreign income taxes paid during the taxable year if it does not elect to claim a foreign tax credit for any foreign taxes paid or accrued during the taxable

year. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

***Passive Foreign Investment Company Rules***

Based upon our current and projected income, assets and activities, we do not expect the preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year or for future fiscal years. However, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income, assets and the nature of our business, as well as the income, assets and business of entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or “excess distributions” allocable to prior years in the U.S. holder’s holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our preferred shares or ADSs would not be “qualified dividend income” eligible for preferential rates of U.S. federal income taxation. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules to the preferred shares or ADSs.

***U.S. Information Reporting and Backup Withholding***

A U.S. holder of preferred shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends paid by our company or the proceeds of a sale of preferred shares or ADSs, unless such U.S. holder (i) is an exempt recipient and demonstrates this fact when so required, or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is a U.S. person and that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder’s U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

Recently enacted legislation requires certain U.S. holders to report information with respect to their investment in certain “foreign financial assets” not held through a custodial account with a U.S. financial institution to the IRS. U.S. holders who fail to report required information could become subject to substantial penalties. U.S. holders are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment.

**10F. Dividends and Paying Agents**

Not applicable.

**10G. Statement by Experts**

Not applicable.

**10H. Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549, and at the Commission’s Regional Offices at 233 Broadway, New York, New York

10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. You may also inspect these reports and other information at the offices of the New York Stock Exchange Inc., 120 Broad Street, New York, New York 10005, on which our ADSs are listed.

We also file financial statements and other periodic reports with the CVM, including the *Formulário de Referência* in accordance with CVM Instruction No. 480/09, which can be accessed through [www.cvm.gov.br](http://www.cvm.gov.br). Information from that website is not incorporated by reference into this document.



Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our headquarters at: Avenida Brigadeiro Luiz Antônio, no. 3,142, CEP 01402-901, São Paulo, SP, Brazil.

## **10I. Subsidiary Information**

Not required.

## **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See note 18 to our financial statements included in this annual report for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk.

Since late 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial part of our U.S. dollar-denominated liabilities to obligations denominated in *reais*. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in *reais* and interest at a percentage of the CDI rate. Amounts are normally consummated with the same financial institutions and for the same maturity periods. See “Item 5B. Liquidity and Capital Resources.”

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. We realized and unrealized gains and losses on these contracts which are included within “financial income” and “financial expense,” respectively.

We use interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements.

We have a policy of entering into contracts only with parties that have high credit ratings. The counter-parties to these contracts are major financial institutions. We do not anticipate a credit loss from counter-party non performance.

### **Interest Rate Risk**

We are exposed to interest rate volatility with regard to our cash and cash equivalents, fixed and floating rate debt. For cash and cash equivalents, we generally swap the fixed interest rate for a floating rate, the CDI rate. The interest rate in our cash and cash equivalents denominated in *reais* is based on the CDI rate, the benchmark interest rate set by the interbank market on a daily basis.

We are exposed to interest rate volatility with regard to future issuances of fixed rate debt, foreign currency fluctuations and existing issuances of fixed rate debt, foreign currency fluctuations and existing issuances of variable rate debt. We manage our debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, and using derivative financial instruments. Among other facilities, we also use bank loans to meet our financing requirements, originally denominated in U.S. dollars and swapped to obligations in *reais* accruing interest based on the CDI rate.

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2010. See notes 17 and 18 to our financial statements included in this annual report.

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	As of December 31, 2010						Total	Fair Value	Annual Average Interest Rate
	Expected Maturity Date								
	2011	2012	2013	2014	2015	Thereafter			
<b>Assets:</b>									
Cash and banks in <i>reais</i>	417.6	-	-	-	-	-	417.6	417.6	
Cash equivalents									
denominated in <i>reais</i>	3,400.4	-	-	-	-	-	3,400.4	3,400.4	98.7% of CDI
Total cash and cash equivalents	3,818.0	-	-	-	-	-	3,818.0	3,818.0	
Marketable securities in <i>reais</i>	608.0						608.0	608.0	100.9% of CDI
	608.0						608.0	608.0	
<b>Liabilities:</b>									
Loans and financing									
Floating rate, denominated in US dollars...	457.3	81.8	444.8	27.6	27.7	98.3	1,137.5	1,137.5	102.8%
Floating rate, denominated in <i>reais</i>	-	1,096.1	1,184.4	-	-	-	2,280.5	2,280.5	106.4% of CDI
Floating rate, denominated in <i>reais</i>	1,847.3	128.4	698.7	43.3	43.5	154.5	2,915.7	2,915.7	11.0%
Floating rate, denominated in <i>reais</i>	80.9	119.0	74.0	65.0	65.0	59.0	462.9	469.6	4% over TJLP
Floating rate, denominated in <i>reais</i>	71.3	37.4	15.8	8.9	1.2	50.0	184.6	184.6	108% of CDI
Total loans and financing	2,456.8	1,462.7	2,417.7	144.8	137.4	361.8	6,981.2	6,987.9	
Debentures									
Floating rate, denominated in <i>reais</i>	520.7	251.8	259.9	555.8	-	-	1,588.2	1,580.3	0.5% over CDI

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

Based on a basket of foreign currencies to reflect BNDES's funding portfolio, the annual TJLP, which is modified quarterly, was as follows:

**Three months ended March 31, 2011**

	2008	2009	2010	2011
IGP-M(1)	9.8%	-1.5%	11.3%	2.4%
CDI (2)	12.4%	9.9%	9.8%	10.4%
TR (3)	1.6%	0.7%	0.7%	0.7%

(1) *Índice Geral de Preços – Mercado* (General Price Index) compiled by the Fundação Getúlio Vargas.

(2) *Certificado de Depósito Interbancário* (Interbank Variable Interest Rate), annualized rate at the end of each period.

(3) *Taxa Referencial* (Reference Rate)

We have not experienced, and we do not expect to experience, difficulty obtaining financing or refinancing existing debt. See “Item 5B. Liquidity and Capital Resources” for a discussion of our credit agreements.

### Foreign Currency Exchange Rate Risk

We are exposed to fluctuations in foreign currency cash flows related to certain short-term and long-term debt payments. We are principally exposed to fluctuations of the exchange rate with the U.S. dollar. Additionally, certain lines of credit agreements entered into with BNDES are subject to indexation based on a basket of foreign currencies to reflect BNDES’s funding portfolio.

Since January 1, 2005 and through December 31, 2010, the U.S. dollar depreciated by 37.5% against the real, and as of December 31, 2010, the commercial market rate for purchasing U.S. dollars was R\$1.66 to U.S.\$ 1.00. In the first quarter of 2011, the *real* appreciated 1.8% against the U.S. dollar, and as of March 31, 2011, the commercial market rate for purchasing U.S. dollars was R\$1.63 to U.S.\$1.00.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency-denominated liabilities as of December 31, 2010 included debt denominated mainly in U.S. dollars. Our net foreign currency exposure (U.S. dollar-denominated debt less our cross-currency interest rate swaps in our U.S. dollar-denominated debt) was R\$8.3 million as of December 31, 2010 compared to R\$2.9 million as of December 31, 2009. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially protect our exposure arising from our U.S. dollar-denominated debt.

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The table below provides information on our debt outstanding as of December 31, 2010.

	Expected Maturity Date						Total	Fair Value	
	2011	2012	2013	2014	2015	Thereafter			
	(millions of <i>reais</i> )								
Loans and financing									
US dollars (*)	457.3	81.8	444.8	27.6	27.7	98.3	1,137.5	1,137.5	
<i>reais</i>	1,999.5	1,380.9	1,972.9	117.2	109.7	263.5	5,843.7	5,857.2	
Total loans and financing	2,456.8	1,462.7	2,417.7	144.8	137.4	361.8	6,981.2	6,994.7	
Debentures									
<i>reais</i>	520.7	251.8	259.9	555.8	-	-	1,588.2	1,580.3	
Total Debentures	520.7	251.8	259.9	555.8	-	723.6	1,588.2	1,580.3	

(\*) Originally US dollar-denominated and swapped to CDI.

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar-denominated short-term and long-term debt for Brazilian real-denominated floating rate debt, based on the CDI rate variation. See notes 17 and 18 to our financial statements included in this annual report. As of December 31, 2010, the originally U.S. dollar-denominated debt of R\$1,137.8 million and R\$800.8 million as of December 31, 2009, which were covered by floating rate swaps in *reais*, based on the CDI rate, has been treated on a combined basis as if these loans had been originally denominated in *reais* and accrued CDI. In addition, the swap agreements do not provide for collateral.

The table below provides information about our cross-currency interest rate swaps:

	Expected Maturity Date						Total	Average Fair Value of (Assets) Liabilities	Average Paying Rate in <i>reais</i>	Average Receiving Rate
	2011	2012	2013	2014	2015	Thereafter				
Cross currency and interest rate swap contracts notional amount	365.2	67.9	567.6	-	-	-	1,000.7	(106.9)	105.6%	4.2% over over CDI U.S. dollar

US dollars to *reais*

## **Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **12D. American Depositary Shares**

In the United States, our preferred shares trade in the form of ADS. The ADSs commenced trading on the NYSE on May 29, 1997.

We do not treat ADR holders as our shareholders and ADR holders have no shareholder rights. Brazilian law governs shareholder rights. The depositary is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights.

#### **Fees and Expenses**

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

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<p><b>Persons depositing or withdrawing shares must pay:</b></p> <p>US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p> <p>US\$.02 (or less) per ADS</p> <p>A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs</p> <p>Registration or transfer fees</p> <p>Expenses of the depository</p> <p>Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</p> <p>Any charges incurred by the depository or its agents for servicing the deposited securities</p>	<p><b>For:</b></p> <ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li>   <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> <li>• Any cash distribution to ADS registered Holders</li> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS registered holders</li> <li>• Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares</li> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li>   <li>• Converting foreign currency to U.S. dollars</li> <li>• As necessary</li>   <li>• As necessary</li> </ul>
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**Fees Incurred Since January 1, 2010**

From January 1, 2010 until December 31, 2010, the Company received from the depository US\$ 644,297.94, for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of reimbursement of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

**Fees to be Paid in the Future**

The Bank of New York Mellon, as depository, has agreed to reimburse the Company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depository has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depository has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depository has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which

the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.



## **PART II**

### **Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

No matters to report.

### **Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

### **Item 15. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 under Rules 13a-15(e) and 15d-15(e) as required by paragraph (b) of the Securities Exchange Act of 1934 Rules 13a-15 or 15d-15) as of the end of the period covered by this annual report, has concluded that, as of December 31, 2010, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Therefore, our management does not expect that the controls will prevent all errors and all frauds.

*Management’s Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management believes that, as of December 31, 2010, our internal control over financial reporting is effective based on those criteria. For our management’s report on internal control over financial reporting, see page F-1 of this annual report.

The effectiveness of internal controls over financial reporting as of December 31, 2010 has been audited by Ernst & Young Terco Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report appearing on page F-3 of this annual report.



**Item 16. [RESERVED]****16A. Audit Committee Financial Expert**

Our board of directors has determined that we do not appoint an audit committee financial expert (as defined under the rules and regulations of the SEC). We believe that the combined knowledge, skills and experience of the members of our fiscal council enable them, as a group, to act effectively in the fulfillment of their tasks. In addition, the members of our fiscal council have the power and authority to engage outside experts as they deem appropriate to provide them with advice on matters related to their responsibilities.

**16B. Code of Ethics**

In 2000, our board of directors adopted a code of ethics for our directors, officers and employees, including our chief executive officer and chief financial officer and controller. The code of ethics is available at our website [www.gpa-ri.com.br](http://www.gpa-ri.com.br). We intend to make publicly available on this website any amendments to our code of ethics. Information from that website is not incorporated by reference into this document.

**16C. Principal Accountant Fees and Services**

Ernst & Young Terco Auditores Independentes acted as our independent registered public accounting firm for the fiscal year ended December 31, 2009 and 2010. The chart below sets forth the total amount billed to us by Ernst & Young Terco Auditores Independentes for services performed in 2009 and 2008, and a breakdown of these amounts by category of service:

	<b>2009</b>	<b>2010</b>
	<b>(millions of reais)(1)</b>	
Audit Fees	7.1	4.9
Audit-Related Fees	0.4	0.9
<b>Total</b>	<b>7.5</b>	<b>5.8</b>

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

**Audit Fees**

Audit fees are fees billed for the audit of our annual financial statements and for the reviews of our quarterly financial statements in connection with statutory and regulatory filings or engagements.

**Audit-Related Fees**

Audit-related fees were comprised of assurance and related services that are related to the performance of the audit or review of the financial statements, including due diligence related to mergers and acquisitions, audit in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, consultations concerning financial accounting and reporting standards and tax compliance review.

### **Pre-Approval Policies and Procedures**

The Fiscal Council approves all audit, audit-related, tax and other services provided by Ernst & Young Terco Auditores Independentes. Any services provided by Ernst & Young Terco Auditores Independentes that are not specifically included within the scope of the audit must be pre-approved by the fiscal council prior to any engagement. The fiscal council is permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception before the completion of the engagement. In 2010, none of the fees paid to Ernst & Young Terco Auditores Independentes were approved pursuant to the *de minimis* exception.

### **16D. Exemptions from the Listing Standards for Audit Committees**

Under the listed company audit committee rules of the NYSE and the SEC, effective July 31, 2005, we were required to comply with Exchange Act Rule 10A-3, which requires that we either establish an audit committee composed of members of the board of directors that meets specified requirements or designate and empower our fiscal council to perform the role of the audit committee in reliance on the exemption set forth in Exchange Act Rule 10A-3(c)(3). In our assessment, our fiscal council is able to act independently in performing the responsibilities of an audit committee under the Sarbanes-Oxley Act of 2002 and to satisfy the other requirements of Exchange Act Rule 10A-3. For a further discussion of our fiscal council and the audit committee exemption, see “Item 6C. Board Practices — Committees — Fiscal Council and Audit Committee.”

**16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table shows the results of the share buy-back program for the Company's preferred shares which was completed on April 18, 2009 for a total amount of US\$5.6 million.

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share (2)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program (3)</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Program</b>
January 19-30, 2009	177,400	US\$15.08	177,400	Not applicable
February 2-27, 2009	128,300	US\$15.28	128,300	Not applicable
March 2-19, 2009	63,900	US\$15.41	63,900	Not applicable
April 1-18, 2009	-	-	-	Not applicable

(1) All shares were purchased through a publicly announced program, in open-market transactions on the BM&FBOVESPA and on the NYSE.

(2) For the purposes of this calculation, the purchases made on the BM&FBOVESPA were translated from nominal *reais* into U.S. dollars at the commercial selling rate of June 9, 2009 (R\$1.9385 to US\$ 1.00).

(3) The share buyback program was approved by our board of directors on January 19, 2009, in accordance with applicable Brazilian legislation. We were authorized to buy back up to an aggregate of 3,000,000 preferred shares, including those traded in the form of ADRs, representing approximately 2.21% of our outstanding preferred capital as of December 31, 2008. The program was terminated on April 18, 2009. A total of 369,600 preferred shares were purchased at an average price of US\$15.21 per share. The shares held in treasury were reduced from 369,600 to 232,586 as a result of the tender offer in connection with the acquisition of Globex, see "Item 4A. History and Development of the Company — Acquisition of Globex." We intend to use these shares for subsequent sale and/or cancellation with no capital decrease.

**16F. Change in Registrant's Certifying Accountant**

None.

**16G. Corporate Governance****Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we must disclose any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards. As a Brazilian company listed on BM&FBOVESPA, we are required

to comply with the corporate governance standards set forth in the Brazilian corporate law, and the rules of CVM. The following is a summary of those differences.

***Independence of Directors and Independence Tests***

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both the Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors.

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While our directors meet the qualification requirements of the Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. The Brazilian corporate law requires that our directors be elected by our shareholders at a general shareholders' meeting. Currently our board of directors consists of fourteen members elected by our shareholders, consisting of five representatives of the Diniz Group, five representatives of the Casino Group, and four external directors.

***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. The Brazilian corporate law does not have a similar provision. According to the Brazilian corporate law, up to one-third of the members of the board of directors can be elected from management. There is no requirement that non-management directors meet regularly without management. As a result, the non management directors on our board do not typically meet in executive session.

Our board of directors consists of fourteen members elected by our shareholders, all of whom are non management directors.

***Nominating/Corporate Governance Committee***

NYSE rules require that listed companies have a nominating/corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company.

We are not required under applicable Brazilian corporate law to have, and accordingly we do not have, a Nominating Committee and a Corporate Governance Committee.

***People Management Policies Committee***

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive compensation and equity-based plans.

We are not required under applicable Brazilian law to have a compensation committee. Under the Brazilian corporate law, the total amount available for compensation of our directors and executive officers and for profit sharing payments to our executive officers is established by our shareholders at the annual general meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such determinations, the board reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation.

We do, however, have a Human Resources and Compensation Committee, which, among other assignments, reviews management compensation. For further information on our Human Resources and Compensation Committee, see “Item 6C. Board Practices — Committees — Human Resources and Compensation Committee.”

*Audit Committee and Audit Committee Additional Requirements*

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee’s required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporate law.



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The Brazilian corporate law requires companies to have a permanent or non permanent Fiscal Council composed of three to five members who are elected at the general shareholders' meeting. If a non-permanent Fiscal Council is established, meetings of such Fiscal Council shall be convened upon request of shareholders representing a certain percentage of the share capital of the company, as set forth in the Brazilian corporate law. The Fiscal Council operates independently from management and from a company's external auditors. Its main function is to monitor the activities of management, examine the financial statements of each fiscal year and provide a formal report to our shareholders.

We have a permanent Fiscal Council that consists of three members and three alternates and which has ordinary meetings at least every three months. In order to comply with the exemption requirements that allow our Fiscal Council to act as an audit committee pursuant to SEC rules, our board of directors approved the delegation to the Fiscal Council of certain additional responsibilities and the Fiscal Council and the board of directors adopted an additional charter that delegates to the Fiscal Council the duties and responsibilities of a U.S audit committee to the extent permitted under Brazilian corporate law. For further information on our Fiscal Council, see "Item 6C. Board Practices — Committees — Fiscal Council and Audit Committee."

***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under the Brazilian corporate law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval.

Our board of directors is responsible for voting on the issuance of new equity in connection with our existing stock option plans, provided that the limit of our authorized capital is respected. However, any issuance of new shares that exceeds such authorized capital is subject to shareholder approval.

***Corporate Governance Guidelines***

Under NYSE listing standards, a listed U.S. company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We have adopted and observed corporate governance guidelines in accordance with Brazilian legislation, including a disclosure policy which requires, among other things, the disclosure of our corporate governance guidelines, material facts and annual Financial Reports. In addition, we have adopted and observed a policy on business conduct and ethics.

***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement.

Although we were not required to adopt a code of ethics, we implemented a code of ethics in 2000 to regulate our employee's conduct with us and our customers, suppliers, competitors and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act and NYSE rules, we implemented rules applicable to our managers' conduct in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data in 2005. For more information about our code of ethics, see "Item 16B.

Code of Ethics.”

***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the fiscal council / audit committee with ongoing assessments of the company’s risk management processes and system of internal control. Our internal audit department and our internal control department are responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal control over financial reporting. The internal audit department reports to our Board of Directors and Fiscal Council / Audit Committee and our internal control department reports to our chief financial officer.

***Sarbanes Oxley Act of 2002***

We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. We have filed the relevant officer certifications under Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal controls over financial reporting as Exhibits 12.1 and 12.2 to this annual report.

**PART III****Item 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this item.

**Item 18. FINANCIAL STATEMENTS**

The consolidated financial statements, together with the Reports of Independent Registered Public Accounting Firms, are filed as part of this annual report.

**Item 19. EXHIBITS****Exhibit**

<b>Number</b>	<b>Description</b>
<u>1.1</u>	<u>English translation of our <i>Estatuto Social</i> (by-laws), as amended.</u>
2.(a)	Form of Amended Deposit Agreement, among us, The Bank of New York Mellon, as depository, and each Owner and Beneficial Owner from time to time of ADRs issued thereunder, including the form of American Depositary Receipt. <sup>(1)</sup>
4.(b)(1)	Joint Venture Agreement dated as of May 3, 2005 among Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda., Casino Guichard Perrachon S.A., and Companhia Brasileira de Distribuição. <sup>(2)</sup>
4.(b)(2)	Private Instrument of Institution of Usufruct dated as of July 8, 2005 among Vieri Participações S.A., Casino Guichard Perrachon, Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda. and Companhia Brasileira de Distribuição. <sup>(2)</sup>
4.(b)(3)	Technical Assistance Agreement dated as of July 8, 2005 by and between us and Casino Guichard Perrachon. <sup>(3)</sup>
4.(b)(4)	Real Estate Structure Agreement dated as of October 3, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. <sup>(4)</sup>
4.(b)(5)	First Amendment to the Real Estate Structure Agreement dated as of December 30, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. <sup>(4)</sup>
4.(b)(6)	Wilkes' Shareholders' Agreement dated as of November 27, 2006 among Sudaco Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda. <sup>(5)</sup>

- 4.(b)(7) Companhia Brasileira de Distribuição Shareholders' Agreement dated as of December 20, 2006 among Wilkes Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda.<sup>(5)</sup>
- 4.(b)(8) Conditional Put Option Agreement dated as of November 27, 2006 by and between Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda., AD Península Empreendimentos e Participações Ltda. and Casino Guichard Perrachon S.A. and Segisor.<sup>(6)</sup>
- 4.(b)(9) Operational and Administrative Management Services Agreement dated as of June 27, 2007.<sup>(7) +</sup>
- 4.(b)(10) First Amendment to Operational and Administrative Management Services Agreement, dated as of December 10, 2007.<sup>(7) +</sup>
- 4.(b)(11) Second Amendment to Operational and Administrative Management Services Agreement, dated as of October 1, 2008.<sup>(7) +</sup>
- 4.(b)(12) Third Amendment to Operational and Administrative Management Services Agreement, dated as of December 31, 2009.<sup>(7)</sup>
- 4.(b)(13) Shareholders' Agreement dated as of July 1, 2010 among Companhia Brasileira de Distribuição, Samuel Klein, Michael Klein, Eva Lea Klein, Globex Utilidades S.A. as intervening party, Casa Bahia Comercial Ltda. and Wilkes Participações S.A.\*
- 6.1 See note 4(q) to our financial statements for information explaining how earnings per share information was calculated.\*
- 8.1 List of Subsidiaries. See note 3(a) to our financial statements for information regarding our subsidiaries.\*
- 12.1 Section 302 Certification of the Chief Executive Officer.\*
- 12.2 Section 302 Certification of the Administrative Financial Officer.\*
- 13.1 Section 906 Certification of the Chief Executive Officer.\*
- 13.2 Section 906 Certification of the Administrative Financial Officer.\*
- 15.(a)(1) Proposal Letter from Gama 2 SPE Empreendimentos e Participações S/A to Companhia Brasileira de Distribuição, dated June 27, 2011.\*
- (1) Incorporated herein by reference to our registration statement on Form F-6 (No. 333-145679).
- (2) Incorporated herein by reference to our annual report on Form 20-F filed on September 15, 2005.
- (3) Incorporated herein by reference to our 6-K filed on August 1, 2005.
- (4) Incorporated herein by reference to our annual report on Form 20-F filed on June 27, 2006.
- (5) Incorporated herein by reference to our annual report on Form 20-F filed on June 28, 2007.
- (6) Incorporated herein by reference to our annual report on Form 20-F filed on June 23, 2009.
- (7) Incorporated herein by reference to amendment 1 to our annual report on Form 20-F filed on March 31, 2010.
- \* Filed herewith.
- + Confidential treatment has been requested and granted for portions of this exhibit and submitted separately to the Securities and Exchange Commission.



**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

By: /s/ Enéas César Pestana Neto

Name: Enéas César Pestana Neto

Title: Chief Executive Officer

By: /s/ José Antônio de Almeida Filippo

Name: José Antônio de Almeida Filippo

Title: Chief Financial Officer

Dated: July 1, 2011

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**Consolidated Financial Statements**

**Companhia Brasileira de Distribuição**

December 31, 2010 and 2009



## Companhia Brasileira de Distribuição

Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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**Management’s Report on Internal Control over Financial Reporting**

The management of Companhia Brasileira de Distribuição is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Nova Casa Bahia S.A., which is included in the 2010 consolidated statements of financial position of Companhia Brasileira de Distribuição and subsidiaries and constituted R\$ 2,916,499 thousand, R\$ (34,416) thousand and R\$ 5,300,180 thousand of revenues net losses and assets, respectively, as of December 31, 2010.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2010 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management's assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. Based on that assessment, management believes that, as of December 31, 2010, the Company’s internal control over financial reporting is effective based on those criteria.

The effectiveness of internal controls over financial reporting as of December 31, 2010 has been audited by Ernst & Young Terco Auditores Independentes S.S., the independent registered public accounting firm who also audited the Company’s consolidated financial statements. Ernst & Young Terco’s attestation report on the Company’s internal controls over financial reporting is included herein.

/s/ Enéas César Pestana Neto.	/s/ José Antonio de Almeida Filippo
Enéas César Pestana Neto	José Antonio de Almeida Filippo
Chief Executive Officer	Chief Financial Officer
Date: June 30, 2011	

## **Report of independent registered public accounting firm**

The Board of Directors and Shareholders of

### **Companhia Brasileira de Distribuição and subsidiaries**

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Companhia Brasileira de Distribuição and subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with International Financial Reporting Standards - IFRS, issued by the International Accounting Standards Board - IASB.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Companhia Brasileira de Distribuição and subsidiaries' internal control over financial

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reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 30, 2011, expressed an unqualified opinion thereon.

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC-2SP015199/O-6

Sergio Citeroni

Accountant CRC1SP170652/O-1

São Paulo, Brazil

June 30, 2011

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**Report of independent registered public accounting firm**

The Board of Directors and Shareholders of

**Companhia Brasileira de Distribuição and subsidiaries**

We have audited Companhia Brasileira de Distribuição and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Companhia Brasileira de Distribuição and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying annual Management's report on internal control over financial reporting. Our responsibility is to express an opinion on Companhia Brasileira de Distribuição and subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's report on internal control over financial reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Nova Casa Bahia S.A., which is included in the 2010 consolidated statements of of Companhia Brasileira de Distribuição and subsidiaries as from November 1, 2010 and constituted R\$ 2,916,499 thousand, R\$ (34,416) of revenues and net losses, respectively, for the period from November 1, 2011 to December 31, 2010; and assets of R\$5,300,180 thousand as of , December 31, 2010. Our audit of internal control over financial reporting of Companhia Brasileira de Distribuição and subsidiaries also did not include an evaluation of the internal control over financial reporting of Nova Casa Bahia S.A.

In our opinion, Companhia Brasileira de Distribuição and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Companhia Brasileira de Distribuição and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated June 30, 2011 expressed an unqualified opinion thereon.

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC2SP015199/O-6

Sergio Citeroni

Accountant CRC1SP170652/O-1

São Paulo, Brazil

June 30, 2011

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Table of Contents**Companhia Brasileira de Distribuição**

Consolidated statements of income and comprehensive income

Years ended December 31, 2010, 2009 and 2008

(In thousands of reais, except earnings per share)

	Notes	2010	2009
Gross sales		36,144,368	29,842,100
Taxes on sales		(4,052,694)	(3,842,100)
Net sales		32,091,674	26,000,000
Cost of sales		(24,241,476)	(19,842,100)
Gross profit		7,850,198	6,157,900
Operating expenses			
Selling costs		(4,869,462)	(4,869,462)
General and administrative		(912,676)	(912,676)
Depreciation and amortization		(440,139)	(440,139)
Other operating expenses, net	27	(26,016)	(26,016)
Operating profit		1,601,905	1,089,507
Net finance expenses	28	(823,001)	(823,001)
Equity pickup results	15	34,499	34,499
Profit before income and social contribution taxes and employees' profit sharing		813,403	220,905
<b>Income and social contribution taxes</b>	24	(86,558)	(86,558)
Profit before employees' profit sharing		726,845	134,347
Employees' profit sharing		(35,110)	(35,110)
Net income and comprehensive income		691,735	100,000
Attributable to equity holders of the parent		722,422	100,000
Attributable to noncontrolling interest		(30,687)	(30,687)
<b>Net income and comprehensive income</b>		691,735	100,000
<b>Earnings per ordinary share</b>	30		
Basic earnings per share attributable to ordinary equity holders of the parent		2.65	2.65
Diluted earnings per share attributable to ordinary equity holders of the parent		2.65	2.65
Diluted earnings per share			

<b>Earnings per preferred non-voting share</b>	30	
Basic earnings per share attributable to ordinary equity holders of the parent		<b>2.92</b>
Diluted earnings per share attributable to ordinary equity holders of the parent		<b>2.89</b>

See accompanying notes.

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**Companhia Brasileira de Distribuição**

## Consolidated statements of financial position

December 31, 2010 and 2009

(In thousands of reais)

	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	3,817,994	2,341,927
Marketable securities	8	608,002	-
Trade accounts receivable, net	9	4,047,234	2,475,373
Inventories	11	4,823,768	2,827,463
Recoverable taxes	12	888,355	416,550
Other current		531,012	338,435
<b>Total current assets</b>		<b>14,716,365</b>	<b>8,399,748</b>
<b>Noncurrent assets</b>			
Trade receivable	9	611,630	419,191
Recoverable taxes	12	213,506	255,194
Deferred tax assets	24	1,392,509	1,207,712
Related parties	21	176,241	118,650
Financial instruments	16	416,004	-
Restricted deposits for legal proceedings	19	534,389	383,046
Other noncurrent		54,204	19,911
Investments in associates	15	232,540	194,227
Property and equipment, net	13	6,703,595	5,356,601
Intangible assets	14	4,881,765	2,219,773
<b>Total noncurrent assets</b>		<b>15,216,383</b>	<b>10,174,305</b>
<b>Total assets</b>		<b>29,932,748</b>	<b>18,574,053</b>



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	Notes	2010	2009
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade accounts payable		5,306,349	4,004,395
Loans and financing	17	2,456,829	668,226
Debentures	17	520,675	19,386
Payroll and related charges		595,558	428,188
Taxes and social contribution payable	23	400,508	351,694
Related parties	21	274,291	31,734
Dividends payable		116,287	98,052
Financing related to acquisition of real estate		14,211	14,212
Rent payable		68,226	60,834
Advertisement payable		33,614	32,333
Provision for restructuring		-	84,701
Other accounts payables		201,224	5,862
Payable related to acquisition of noncontrolling interest	16	297,484	-
Other current liabilities		531,642	234,108
<b>Total current liabilities</b>		<b>10,816,898</b>	<b>6,033,725</b>
<b>Noncurrent liabilities</b>			
Loans and financing	17	4,524,464	2,101,243
Debentures	17	1,067,472	1,481,356
Taxes payable in installments	23	1,376,788	1,205,579
Deferred tax liability	24	1,325,333	208,182
Provision for contingencies	19	697,806	578,343
Payable related to acquisition of noncontrolling interest	16	215,060	154,401
Other non current liabilities		325,157	154,499
<b>Total noncurrent liabilities</b>		<b>9,532,080</b>	<b>5,883,603</b>
<b>Shareholders' equity</b>			
Share capital	25	5,579,259	5,374,751
Reserves	25	1,519,330	1,249,469
<b>Equity attributable to owners of the parent</b>		<b>7,098,589</b>	<b>6,624,220</b>
Noncontrolling interest		2,485,181	32,505
<b>Total shareholders' equity</b>		<b>9,583,770</b>	<b>6,656,725</b>
<b>Total shareholders' equity and liabilities</b>		<b>29,932,748</b>	<b>18,574,053</b>

See accompanying notes.

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**Companhia Brasileira de Distribuição**

## Consolidated statements of changes in shareholders' equity

Years ended December 31, 2010, 2009 and 2008

(In thousands of reais)

	Share Capital	Special Goodwill Reserve	Capital Reserves Other equity instruments	Other reserves	Granted options	Legal	Profit reserves Expansion	Retained earnings	Equity attributable to owners of the parent	Noncontrolling interest
Balances at January 1, 2008	4.149.858	517.331	128.096	-	27.570	133.617	54.842	(112.648)	4.898.666	-
Capitalization of reserves	60.936	-	-	-	-	-	(54.842)	(6.094)	-	-
Private subscription of shares	217.861	-	-	-	-	-	-	-	217.861	-
Stock options exercised	22.070	-	-	-	-	-	-	-	22.070	-
Recognized granted option	-	-	-	-	36.034	-	-	-	36.034	-
Net income for the year	-	-	-	-	-	-	-	341.346	341.346	-
Appropriation of net income to legal reserve	-	-	-	-	-	13.021	-	(13.021)	-	-
Dividends	-	-	-	-	-	-	-	(61.756)	(61.756)	-
Balances at December 31, 2008	4.450.725	517.331	128.096	-	63.604	146.638	-	147.827	5.454.221	-
Capitalization of reserves	239.031	(88.780)	-	-	-	-	-	(150.251)	-	-
	664.362	-	-	-	-	-	-	-	664.362	-

Private subscription of shares											
Stock options exercised	20.633	-	-	-	-	-	-	-	-	20.633	-
Paid in capital - Globex	-	-	-	7.360	-	-	-	-	-	7.360	-
Treasury shares	-	-	-	-	-	-	-	-	(10.908)	(10.908)	-
Recognized granted option	-	-	-	-	19.621	-	-	-	-	19.621	-
Aquisition of noncontrolling interest	-	-	-	-	-	-	-	-	-	-	35.897
Net income for the year	-	-	-	-	-	-	-	-	609.431	609.431	(3.392)
Appropriation of net income to legal reserve	-	-	-	-	-	29.579	379.350	(408.929)	-	-	-
Dividends	-	-	-	-	-	-	-	-	(140.500)	(140.500)	-
<b>Balances at December 31, 2009</b>	<b>5.374.751</b>	<b>428.551</b>	<b>128.096</b>	<b>7.360</b>	<b>83.225</b>	<b>176.217</b>	<b>379.350</b>	<b>46.670</b>	<b>6.624.220</b>	<b>6.624.220</b>	<b>32.505</b>
<b>Capitalization of reserves</b>	<b>169.388</b>	<b>(83.908)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(85.480)</b>	<b>-</b>	<b>-</b>
<b>Stock options exercised</b>	<b>35.120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35.120</b>	<b>-</b>
<b>Treasury shares</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.040</b>	<b>4.040</b>	<b>-</b>
<b>Recognized granted option</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27.920</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27.920</b>	<b>-</b>
<b>Aquisition of noncontrolling interest-C. Bahia</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.483.363</b>
<b>Aquisition of noncontrolling interest-Sendas</b>	<b>-</b>	<b>-</b>	<b>(128.096)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(229.860)</b>	<b>(357.956)</b>	<b>-</b>
<b>Paid-In capital acquisition NCB</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>214.398</b>	<b>214.398</b>	<b>-</b>
<b>Net income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>722.422</b>	<b>722.422</b>	<b>(30.687)</b>
<b>Appropriation of net income to reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36.122</b>	<b>463.253</b>	<b>(499.375)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Dividends</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(171.575)</b>	<b>(171.575)</b>	<b>-</b>
<b>Balances at December 31, 2010</b>	<b>5.579.259</b>	<b>344.643</b>	<b>-</b>	<b>7.360</b>	<b>111.145</b>	<b>212.339</b>	<b>842.603</b>	<b>1.240</b>	<b>7.098.589</b>	<b>7.098.589</b>	<b>2.485.181</b>

See accompanying notes.



Table of Contents**Companhia Brasileira de Distribuição**

Consolidated statements of cash flows

Year ended December 31, 2010, 2009 and 2008

(In thousands of reais)

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash flow provided by operating activities			
Net income for the year	<b>691,735</b>	606,039	341,346
Adjustment to reconcile net income to cash from operating activities			
Deferred income tax	<b>34,506</b>	25,934	110,893
Loss on disposal of properties and equipment	<b>81,825</b>	30,156	11,125
Depreciation and amortization	<b>440,139</b>	459,900	442,714
Unrealized financial expenses	<b>249,053</b>	316,718	539,117
Unrealized financial income	-	17,928	(39,725)
Equity pickup results	<b>(34,499)</b>	(5,412)	486
Provision for contingencies	<b>298,406</b>	81,326	115,996
Bargain purchase gain	<b>(453,569)</b>	-	-
Provision for property and equipment write-offs and losses	-	(7,878)	6,162
Stock option	<b>27,920</b>	19,621	36,034
Decrease (increase) in assets			
Trade accounting receivable	<b>733,423</b>	(170,835)	(60,566)
Inventories	<b>(706,705)</b>	(849,380)	(36,621)
Recoverable taxes	<b>(171,574)</b>	116,392	(77,741)
Related parties	<b>(31,536)</b>	28,355	(20,849)
Restricted deposits for legal proceedings	<b>(150,314)</b>	(99,419)	(20,905)
Other	<b>169,740</b>	(62,163)	(31,646)
Increase (decrease) in liabilities			
Trade payables	<b>245,298</b>	1,052,761	70,239
Payroll and related charges	<b>(146,633)</b>	206,719	51,050
Related parties	<b>(941,274)</b>	-	-
Other taxes	-	80,180	(72,961)
Taxes and social contribution paid	<b>(23,836)</b>	(4,383)	(43,695)



Other	<b>51,182</b>	214	(64,452)
Net cash flow provided by operating activities	<b>363,287</b>	1,842,773	1,256,001

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Table of Contents**Companhia Brasileira de Distribuição**

Consolidated statements of cash flows (Continued)

Year ended December 31, 2010, 2009 and 2008

(In thousands of reais)

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash flow used in investing activities			
Acquisition of subsidiary net of cash acquired	-	(885,113)	-
Acquisition of noncontrolling interest	<b>(28,544)</b>	-	-
Marketable securities	<b>58,798</b>	-	-
Property and equipment	<b>(1,296,464)</b>	(700,636)	(485,418)
Intangible assets	<b>(196,714)</b>	(45,987)	(2,900)
Capital increase in subsidiaries	<b>64,957</b>	(9,318)	-
Proceeds from sale of property and equipment	<b>33,032</b>	4,330	3,592
Net cash flow used in investing activities	<b>(1,364,935)</b>	(1,636,724)	(484,726)
Cash flow provided by (used in) financing activities			
Capital increase	<b>35,120</b>	487,144	88,196
Financings:			
Issuances	<b>3,981,201</b>	736,805	680,154
Repayments	<b>(1,204,381)</b>	(393,129)	(607,079)
Interest paid	<b>(182,813)</b>	(209,301)	(318,001)
Dividends paid	<b>(151,412)</b>	(109,157)	(50,084)
Net cash provided by (used in) financing activities	<b>2,477,715</b>	512,362	(206,814)
Net increase in cash and cash equivalents	<b>1,476,067</b>	718,411	564,461
Cash and cash equivalents, beginning of year	<b>2,341,927</b>	1,623,516	1,059,055
Cash and cash equivalents, end of year	<b>3,817,994</b>	2,341,927	1,623,516

See accompanying notes.

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## **1. Corporate information**

Companhia Brasileira de Distribuição and Subsidiaries ("Company" or "GPA") operates primarily as a retailer of food, clothing, home appliances and other products through its chain of hypermarkets, supermarkets, specialized and department stores principally under the trade names "Pão de Açúcar", "Comprebem", "Extra", "Extra Eletro", "Extra Perto", "Extra Fácil", "Sendas", "Assai", "Ponto Frio", "Casas Bahia", "Casa Bahia.Com", "Extra.com" and "Ponto Frio.Com". The registered office is located in São Paulo, SP, Brazil. Founded in 1948, the Company has 145,614 employees, 1,647 stores in 20 Brazilian states and the Federal District and a logistics infrastructure comprised of 28 warehouses located in seven states as of December 31, 2010.

The Company's shares trade on the Level 1 Special Corporate Governance segment of the São Paulo Stock Exchange and its shares are listed at the São Paulo and New York Stock Exchanges (ADR level III).

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

The consolidated financial statements for the year ended December 31, 2010, were authorized by the Board of Directors on June 30, 2011.

## **2. Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in Brazilian reais.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The

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consolidated financial statements are presented in Brazilian Real, which is the company's functional and presentation currency. All the subsidiaries have the Brazilian Real as their functional currencies.

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## **2. Basis of preparation** (Continued)

### a) Statement of compliance

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

## **3. Basis of consolidation**

### a) Subsidiaries

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

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

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the noncontrolling interest even if that results in a deficit balance.

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

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## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements

December 31, 2010 and 2009

(In thousands of reais)

### **3. Basis of consolidation** (Continued)

#### a) Subsidiaries (Continued)

##### *Novasoc*

Although the Company's interest in Novasoc represents 10% of its shares, Novasoc is included in the consolidated financial statements as the Company effectively has voting control over a 99.98% beneficial interest in Novasoc, pursuant to a shareholders' agreement. Under the Bylaws of Novasoc, the appropriation of its net income does not need to be proportional to the shares of interest held in the company.

##### *Globex*

The Company consolidates the financial statements of Globex, a subsidiary that concentrates the Group's home appliance products, operating under the banners "Ponto Frio" and "Extra-Eleto", and "Casas Bahia" as of November 2010.



*Sendas*

The Company consolidates the financial statements of Sendas Distribuidora S.A. (“Sendas Distribuidora”), a wholly-owned subsidiary, which operates in the retail and cash-and-carry segments. Further details on acquisition of Sendas Distribuidora noncontrolling interest, are disclosed in Note 15.

*PAFIDC and Globex FIDC*

The Company consolidates PAFIDC’s and Globex FIDC’s financial statements, two special purpose entities, organized with exclusive purpose of conducting the securitization of receivables of the Company and its subsidiaries. The consolidation is justified by the fact that most of the risks and benefits related to the fund’s profitability are linked to subordinated shares owned by the Company and subsidiaries.

The table below shows the legal interest of the parent company in each of the subsidiaries and associates.

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**3. Basis of consolidation** (Continued)a) Subsidiaries (Continued)

Companies	Investor's interest (%) – as of December 31, 2010									
	CBD	Novasoc	Sé	CBD Holland	Sendas Distrib.	Bellamar	ECQD	Lake Niassa	Globex Utilidades	Nova Casa Bahia
<b><u>Subsidiaries:</u></b>										
Novasoc Comercial Ltda.	10.00	-	-	-	-	-	-	-	-	-
Sé Supermercados Ltda.	93.10	6.90	-	-	-	-	-	-	-	-
Sendas Distribuidora	14.86	-	85.14	-	-	-	-	-	-	-
PAFIDC P.A. Publicidade Ltda.	9.58	0.75	0.37	-	-	-	-	-	-	-
Barcelona Com. Varej. e Atacadista S.A.	-	-	100.00	-	-	-	-	-	-	-
CBD Holland CBD Panamá	100.00	-	-	-	-	-	-	-	-	-

	-	-	-	100.00	-	-	-	-	-	-
Xantocarpa Empreend.e Partic. Ltda.	-	-	-	-	100.00	-	-	-	-	-
Vedra Empreend.e Partic. Ltda.	99.00	-	-	-	-	-	-	-	-	-
Bellamar Empreend.e Partic. Ltda.	0.01	-	99,99	-	-	-	-	-	-	-
Vancouver Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-	-	-	-
Dallas Empreend.e Partic. Ltda.	99.99	-	-	-	-	-	-	-	-	-
Bruxellas Empreend.e Partic. Ltda.	99.99	-	-	-	-	-	-	-	-	-
Monte Tardelli	99.00	-	-	-	-	-	-	-	-	-
GPA 1	99.99	-	-	-	-	-	-	-	-	-
GPA 2	99.99	-	-	-	-	-	-	-	-	-
GPA 4	99.00	-	-	-	-	-	-	-	-	-
GPA 5	99.00	-	-	-	-	-	-	-	-	-
GPA 6	99.99	-	-	-	-	-	-	-	-	-
ECQD API SPE	100.00	-	-	-	-	-	-	-	-	-
Imobiliários Lake Niassa Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	99.99	-
Globex Utilidades S.A.	52.41	-	-	-	-	-	-	-	-	-
Globex Adm. e Serviços Ltda.	-	-	-	-	-	-	-	-	99.99	-
Nova Casa Bahia S.A.	-	-	-	-	-	-	-	-	100.00	-
CBD Contact Center Ltda	-	-	-	-	-	-	-	-	-	100.00
Ponto Frio Adm. e Import. de Bens Ltda.	-	-	-	-	-	-	-	-	99.99	-

Rio Expresso Comércio Atacadista de Eletrodomésticos Ltda.	-	-	-	-	-	-	-	-	100.00	-
Globex Adm. de consórcio Ltda.	-	-	-	-	-	-	-	-	99.99	-
Pontocred Negócios de varejo Ltda.	-	-	-	-	-	-	-	-	99.95	-
Nova Extra Eletro PontoFrio.com Comércio Eletrônico S.A.	0.01	-	-	-	-	-	-	-	99.99	-
E-HUB Consult.Particip. e Com. S.A.	39.05	-	-	-	-	-	4.85	-	50.10	-
	-	-	-	-	-	-	-	-	-	-
<b><u>Associates and jointly controlled entities</u></b>										
Financeira Itaú CBD-FIC	-	-	-	-	-	35.76	-	14.24	-	-
Indústria de Móveis Bartira Ltda	-	-	-	-	-	-	-	-	-	25.00
Banco Investcred Unibanco	-	-	-	-	-	-	-	50.00	-	-

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**3. Basis of consolidation (Continued)**

<u>Companies</u>	Investor's interest (%) – as of December 31, 2009						
	CBD	Novasoc	Sé	Holland	CBD Sendas Distrib. Bellamar	Lake Niassa	Globex Utilidades
<b>Companies:</b>							
Comercial Ltda.	10.00	-	-	-	-	-	-
Comercados Ltda.	93.10	6.90	-	-	-	-	-
Distribuidora	14.86	-	42.57	-	-	-	-
	8.87	0.69	0.35	-	-	-	-
Utilidade Ltda.	99.99	-	-	-	-	-	-
Com. Varej. e Atacadista S.A.	-	-100.00	-	-	-	-	-
Holland	100.00	-	-	-	-	-	-
Amamá	-	-	-	100.00	-	-	-
Empreend.e Partic. Ltda.	-	-	-	-	99.99	-	-
Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-
Empreend.e Partic. Ltda.	-	-100.00	-	-	-	-	-
Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-
Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-
Empreend.e Partic. Ltda.	100.00	-	-	-	-	-	-
Niassa Empreend.e Partic. Ltda.	-	-	-	-	-	-	100.00
Utilidades S.A.	95.46	-	-	-	-	-	-
Adm. e Serviços Ltda.	-	-	-	-	-	-	100.00
Adm. e Import. de Bens Ltda.	-	-	-	-	-	-	100.00

esso Comércio Atacadista de Eletrodomésticos Ltda.	-	-	-	-	-	-	-	100.00
adm. de consórcio Ltda.	-	-	-	-	-	-	-	100.00
d Negócios de varejo Ltda.	-	-	-	-	-	-	-	100.00
o.com Comércio Eletrônico S.A.	-	-	-	-	-	-	-	100.00
<b><u>Subsidiaries and jointly controlled entities:</u></b>								
	-	-	-	-	-	35.64	14.36	
consult.Particip. e Com. S.A.	-	-	-	-	-	-	-	45.00
investcred Unibanco	-	-	-	-	-	-	50.00	

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## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **3. Basis of consolidation (Continued)**

#### **(b) Associates – FIC and BINV**

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

Prevailing decisions related to the operational and strategic management of FIC and BINV lies with Itaú Unibanco, therefore, the Company does not have control to allow the consolidation of FIC in its consolidated financial statements.

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

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and

losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement as equity pickup results. This is the profit attributable to equity holders of the associate and therefore is profit after tax and noncontrolling interests in the subsidiaries of the associates. The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**3. Basis of consolidation** (Continued)

(b) Associates – FIC and BINV

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

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

(i) Interest in a joint venture - Bartira

The Company has an interest in a joint venture which is a jointly controlled entity called Industria de Moveis Bartira Ltda (Bartira), whereby the venturers (CBD through Nova Casa Bahia with 25% interest and Klein Family with 75% interest) have a shareholders' agreement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Company recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated

financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Company. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies**

#### a) Financial instruments

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

##### (i) *Financial assets*

#### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans receivables, held to maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Company determines the classification of its financial assets at initial recognition.

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

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

The Company's financial assets include cash and cash equivalents, trade and other receivables, related party receivables and restricted advances for legal proceedings. The Company does not have any available-for-sale investments as of December 31, 2010 and 2009.

*Subsequent measurement*

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

#### Subsequent measurement (Continued)

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

- Loans and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, these are measured using amortised cost through the effective interest rate method. Interest income, monetary restatement,

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exchange variation, and impairment losses, where applicable, are recognized in the statement of income when incurred as financial revenues or expenses.

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## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies** (Continued)

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

##### Trade receivables

The Company securitizes its accounts receivable with two special purpose entities, the PAFIDC (Pão de Açúcar Fundo de Investimentos Creditórios) and Globex FIDC (Globex Fundo de Investimentos Creditórios). (See also Note 10).

Accounts receivable deriving from business agreements are related to bonus and rebates granted by vendors, contractually established and calculated over purchase volumes, marketing actions, freight cost reimbursements, etc.

##### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement,

held-to-maturity investments are measured at amortised cost using the effective interest method (EIR) , less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

#### Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards

of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies** (Continued)

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

#### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if,

and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated

future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial

difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the

estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial

assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### a) Financial instruments (continued)

##### (i) *Financial assets* (continued)

##### Impairment of financial assets (continued)

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

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

##### (ii) *Financial liabilities*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans or borrowing, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

a) Financial instruments (Continued)

(ii) *Financial liabilities* (Continued)

#### Subsequent measurement

The measurement depends on the classification of liabilities as follows:

- Financial liabilities measured at fair value through profit or loss: these include financial liabilities that are usually traded before maturity, liabilities designated in their initial recognition at fair value through income and derivatives, except for those designated as hedge instruments. These are measured by their fair value at each balance sheet date. Interest expense, monetary restatement, exchange variation and variations deriving from fair value valuation, where applicable, are recognized in the statement of income when incurred.

- Loans and borrowings: After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortisation process.

Derecognition of financial liabilities

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

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



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

a) Financial instruments (Continued)

(ii) *Financial liabilities* (Continued)

#### *Put options granted to noncontrolling shareholders*

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

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

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies** (Continued)

a) Financial instruments (Continued)

(ii) *Financial liabilities* (Continued)

#### Offsetting of financial instruments

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 18.

Reclassification of debt and equity instruments

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

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies** (Continued)

#### b) Hedge accounting

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

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

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to

changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for fair value hedges:

*Fair value hedges*

The change in the fair value of an interest rate hedging derivative is recognized in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement in finance costs.

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies (Continued)**

b) Hedge accounting (Continued)

*Fair value hedges* (continued)

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortised fair value is recognized immediately in the income statement.

c) Cash and cash equivalents

In accordance with IAS 7, cash and cash equivalents consist of cash, investments that are short-term, highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of change in value with an original maturity of three months or less. Bank overdrafts are included within current liabilities on the statements of financial position.

d) Inventories

Inventories are carried at the lower of cost or net realizable value. The cost of inventories purchased is recorded at average cost, including warehouse and handling costs, as these costs are necessary to put the inventory in conditions for transfer to the stores for sale.

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

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



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### e) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. When impairment indicators exist, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use; the recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies** (Continued)

e) Impairment of non-financial assets (Continued)

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill*

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Recoverable value is the higher of a cash generating unit's fair value less costs to sell and its value in use.

*Intangible assets*

The intangible assets with indefinite useful lives are not amortized, but tested annually in relation to impairment losses, individually or at the level of the CGU. The evaluation of indefinite useful life is reviewed annually in order to determine if this evaluation is still justifiable. Otherwise, the change in the indefinite useful life to definite useful life occurs prospectively.

Gains and losses resulting from the disposal of an intangible asset are measured as the difference between the net amount obtained from the sale and the asset's carrying amount and are recognized in the income statement.

f) Property and equipment

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

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies (Continued)**

f) Property and equipment (Continued)

The useful lives are as follows:

<b>Asset Category:</b>	<b>Annual Depreciation rate % - Prior to January 1, 2010</b>	<b>Annual Depreciation rate % - From January 1, 2010</b>
Buildings	3.3	2.5
Improvements	6.7	4.2
Equipment	10.0 to 33.0	10.0 to 50.0
Installations	20.0 to 25.0	4.2 to 10.0
Furniture and fixtures	10.0	8.33 to 33.3
Machinery and equipment	10.0	2.8 to 50.0
Vehicles	20.0	20.0

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss

arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

As part of the process of periodically reviewing the useful life of its fixed assets, the Company hired external appraisers to prepare an appraisal report on the useful life of the Company's fixed assets. The Company applied the new useful lives prospectively from January 1, 2010, since the new lives represent a change of estimate. The application of the new useful life from January 1, 2010, impacted the depreciation expense by reducing in the amount of R\$ 90,916 for the year ended December 31, 2010.

g) Borrowing costs

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized software development costs, are not capitalized and the expenditure is reflected in the income statement when incurred.

Intangible assets consist mainly of purchased software, software developed for internal use and commercial rights (right to use), customer list, advantageous lease agreements, advantageous supply agreements of furniture and trademarks.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the

income statement in the expense category consistent with the function of the intangible asset.

Computer software development costs recognized as assets are amortised over their estimated useful lives. Software is amortised over five years.

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

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



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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies** (Continued)

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

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

All deferred tax assets and liabilities are classified as noncurrent assets or liabilities.

j) Leases

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

*Company as a lessee*

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

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

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

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies** (Continued)

j) Leases (Continued)

*Company as a lessee* (Continued)

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

*Company as a lessor*

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

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

k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

l) Dividend distribution

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### m) Pension plan

The pension plan is funded through payments to insurance companies, determined by periodic actuarial calculations which are classified as defined contribution plans according to IAS 19. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

#### n) Shareholders' equity

Ordinary and preference shares are classified as equity.

When any related party purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When such shares are subsequently

reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders. No gain or loss is recognized on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

o) Share-based payment

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

In situations where equity instruments are issued and some or all of the goods or services received by the Company as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies** (Continued)

o) Share-based payment (continued)

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for

equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the

market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies (Continued)**

o) Share-based payment (Continued)

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 30).

p) Customer loyalty programs

These are used by the Company in order provide incentives to its customers on the sale of products or services. If customer buys products or services, the Company grants credits thereto. Customer may redeem the credits free of charge or discounting from the amount of products or services.

The Company estimates the fair value of points granted according to the “Programa Mais” loyalty plan, applying statistical techniques, considering the maturity of plans defined in the terms of the program.

q) Earnings per share

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

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

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

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**4. Significant accounting policies** (Continued)

q) Earnings per share (continued)

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

r) Determination of net income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except as it relates to certain product warranties. The Company operates as an agent related to product warranties and records amounts related to extended product warranties on a net basis in revenues, which relate to the commission received from the insurance companies. The following specific

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recognition criteria must also be met before revenue is recognized.

(i) *Revenue*

(a) *Sales of goods*

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

r) Determination of net income (Continued)

(i) *Revenue*

(b) Interest income

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

(ii) *Gross profit*

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

Cash consideration received from vendors is measured based on contracts signed with suppliers.

Cost of sales includes the cost of logistics operations managed or outsourced by the Company, comprising all warehousing, handling and freight costs incurred after goods are first received at one of the Company stores or warehouses. Transport costs (e.g. for goods purchased on a “delivery duty paid” or “DDP” basis) are included in the cost of purchases.

(iii) *Selling expenses*

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

(iv) *General and administrative expenses*

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

r) Determination of net income (Continued)

(v) *Other operating expenses, net*

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

(vi) *Net finance expenses*

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

Finance income includes income generated by cash and cash equivalents and tax and judicial deposits, gains related to the remeasurement of derivatives at fair value and purchase discounts obtained from

vendors.

s) Taxation

*Current income and social contribution taxes*

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

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

*Deferred income and social contribution taxes*

Deferred tax is provided using the liability basis method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

s) Taxation (Continued)

#### *Deferred income and social contribution taxes (continued)*

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

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

Deferred tax items relating to items recognized outside of profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### s) Taxation

##### *Deferred income and social contribution taxes – (Continued)*

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

##### *Other taxes*

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

The amounts recoverable derived from non-cumulative ICMS, PIS and COFINS are deducted from cost of goods sold. The PIS and COFINS payable related to financial income and PIS and COFINS recoverable derived from financial expenses are also included in these line items of the statement of income.

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

### *Sales tax*

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

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### t) Business combinations and goodwill

##### *Business combinations from January 1, 2007*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **4. Significant accounting policies (Continued)**

#### t) Business combinations and goodwill

##### *Business combinations from 1 January 2007 (continued)*

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when

determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

##### *Business combinations prior to January 1, 2007*

In comparison to the above-mentioned requirements, the following differences apply to business combinations prior to January 1, 2007:

Business combinations are accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly know as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

## **5. Standards issued but not yet effective**

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



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

### **5. Standards issued but not yet effective (Continued)**

#### IFRS 9 Financial Instruments: Classification and Measurement (continued)

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### IFRS 10 Consolidate financial statements

IFRS 10 as issued reflects the replacement of SIC 12 and IAS 27 and applies to consolidated financial statements when an entity controls one or more other entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 11 Joint arrangements

IFRS 11 as issued reflects the replacement of SIC 13 and IAS 31 and applies to Joint controlled entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 12 Disclosure of interests in other entities

IFRS 12 as issue applies to Disclosure of interests in other entities, which is intended to enable users to know the risks, the nature, and the effects in the financial statements of the interest in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 13 Fair value measurements

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. If this cannot be reliably measured, the

## **Companhia Brasileira de Distribuição**

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instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

### Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments are listed below:

- ü IFRS 3 Business Combinations
- ü IFRS 7 Financial Instruments: Disclosures
- ü IAS 1 Presentation of Financial Statements
- ü IAS 27 Consolidated and Separate Financial Statements
- ü IFRIC 13 Customer Loyalty Programs

The Company does not expect significant effects on its consolidated financial statements due to the application of such amendments.

## **6. Significant accounting judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions and judgments concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(a) Operating lease commitments—Company as lessor*

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

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

#### *b) Estimated impairment of goodwill*

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 4 and IAS 36. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations and market quotes. The calculations of value-in-use require the use of estimates.(see note 14).

#### *c) Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the nature and complexity of Company's business, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

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

The Company has tax loss carry forwards amounting to a tax benefit of R\$ 720,530 (R\$ 578,101 in 2009). These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support a portion of these balances. The Company recorded a valuation allowance against these deferred tax assets in the amount of R\$ 106,196 in 2010 and 2009.

Further details on taxes are disclosed in Note 24.

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

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

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

The fair value of financial instruments that are actively traded on organized markets is determined based on the market quotes, on the balance sheet dates, without any deduction for transaction costs. For financial instruments that are not actively traded, the fair value is based on valuation techniques defined by the Company and compatible with usual practices on the market. If there is no active market, then the market value is determined through valuation techniques. These techniques include the use of recent market transactions between independent parties, benchmarks to the fair value of similar financial instruments, analysis of discounted cash flows or other valuation models.





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

#### e) Share-based payments

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

#### f) Review of the useful life of property and equipment items

The Company has reviewed the useful life of its fixed assets as at January 1, 2010. As a consequence, the Company's statement of financial position reflected non comparative amounts of depreciation.

Changes have been applied prospectively in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

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**7. Cash and cash equivalents**

The financial instruments at December 31, 2010 and 2009 earn interest mainly at the Interbank Deposit Certificate ("CDI") rate. Securities on hand and in bank accounts are classified as financial assets at fair value through profit or loss.

	CDI(*)	2010	2009
<b>Current</b>			
Banco do Brasil	94.4%	<b>696,331</b>	705,608
Itaú	100.6%	<b>1,727,488</b>	555,657
Bradesco	97.4%	<b>674,633</b>	564,768
ABN AMRO	101.5%	-	161,941
Santander	101.0%	<b>70,087</b>	70,324
Safra	101.3%	<b>53,750</b>	-
Unibanco	104.1%	<b>4,931</b>	15,079
CEF	98.0%	<b>2,668</b>	2,436
Votorantim	101.1%	<b>104,766</b>	11,612
Others	100.1%	<b>65,779</b>	22,859
Total		<b>3,400,433</b>	2,110,284
Cash on hand and in bank accounts		<b>417,561</b>	231,643
<b>Cash and cash equivalents</b>		<b>3,817,994</b>	2,341,927

\* Average rate of CDI

## 8. Marketable securities

	CDI(*)	2010
Banco do Brasil	101.0%	<b>315,332</b>
Banco Santander	100.5%	<b>190,307</b>
Banco Safra	101.25%	<b>102,363</b>
Total		<b>608,002</b>

The NCB subsidiary is restricted to use the balance of R\$ 163,301 invested in Banco do Brasil, referring to Consumer Credit through Dealer (“CDCI”). In addition, R\$ 155,912 will be available for use by means of payment of restricted loan during 2011.

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**9. Trade accounts receivable, net**a) Breakdown

	2010	2009
<b>Current</b>		
Resulting from sales through:		
Credit card companies	418,519	727,623
Sales vouchers and others	158,166	129,903
Credit sales with post-dated checks	6,294	8,246
Consumer financing - direct credit	1,520,670	10,774
Trade accounts receivable from wholesale customers	13,233	64,942
Private label credit card - interest free installment	15,127	11,491
Allowance for doubtful accounts	(172,901)	(17,237)
Accounts receivable from vendors	421,097	413,794
	<b>2,380,205</b>	<b>1,349,536</b>
Accounts receivable – FIDCs	<b>1,667,029</b>	<b>1,125,837</b>
	<b>4,047,234</b>	<b>2,475,373</b>
<b>Non-current</b>		
Accounts receivable - Paes Mendonça	420,570	376,155
Consumer financing - direct credit	101,503	-
Others	105,859	43,036

Allowance for doubtful accounts	<b>(16,302)</b>	-
	<b>611,630</b>	419,191

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

b) Credit card companies

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

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

## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

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(In thousands of reais)

### **9. Trade accounts receivable (Continued)**

#### c) Consumer financing – direct credit

The outstanding balance of these receivables refer to consumer direct credit through dealer (CDCI) which can be paid in 24 installments.

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

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

The outstanding balance of these receivables under NCB's responsibility as of December 31, 2010 was R\$ 657,097.

d) Accounts receivable from vendors

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



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

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### **9. Trade accounts receivable (Continued)**

#### e) Accounts receivable – FIDCs

The Company carries out securitization of its credit rights, represented by credit sales with food voucher and credit card company receivables, to PAFIDC and Globex FIDC. The volume of operations was R\$ 9,802,251 for the year ended December 31, 2010 (R\$ 9,051,236 for 2009 and R\$ 8,057,146 for 2008), in which the responsibility for services rendered and subordinated interests were retained by the Company. The securitization costs of such receivables amounted to R\$ 113,807 in 2010 (R\$ 125,180 in 2009 and R\$ 135,111 in 2008), as mentioned in Note 29, are recognized as financial expenses in the statement of income for 2010, 2009 and 2008, respectively.

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

The outstanding balances of these receivables at December 31, 2010, were R\$ 1,667,029, (R\$ 1,125,837 in 2009), respectively, net of allowance.

f) Accounts receivable – Paes Mendonça

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

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Notes to the consolidated financial statements (Continued)

December 31, 2010 and 2009

(In thousands of reais)

**9. Trade accounts receivable** (Continued)g) Allowance for doubtful accounts

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

	2010	2009
At beginning of year	(17,237)	(10,520)
Provision for doubtful accounts	(596,885)	(214,165)
Recoveries and provision written off	424,919	207,448
At end of year	(189,203)	(17,237)
Credit sales with post-dated checks	-	-
Corporate sales	(172,901)	(1,269)
Other accounts receivable	(16,302)	(15,968)
	(189,203)	(17,237)

	Total	Neither past due or impaired	Past due but not impaired			
			<30 days	30-60 days	61-90 days	>90 days
<b>2010</b>	<b>4,658,864</b>	<b>4,353,328</b>	<b>229,411</b>	<b>16,497</b>	<b>53,090</b>	<b>6,538</b>
<b>2009</b>	<b>2,894,564</b>	<b>2,781,513</b>	<b>76,364</b>	<b>4,873</b>	<b>2,995</b>	<b>28,819</b>

## 10. Receivables Securitization funds – FIDCs

### a) Pão de Açúcar Receivables Securitization fund – PAFIDC

PAFIDC is a receivables securitization fund formed for the purpose of acquiring the Company and some subsidiaries' trade receivables, arising from sales of products and services to their customers. Initially, the fund would acquire credit rights derived from credit cards sales, meal tickets, installment system or post-dated checks. The fund had its due date extended on May 25, 2010, and has a defined term until December 7, 2012.

The capital structure of the fund, at December 31, 2010, is composed of 10,295 senior shares held by third parties in the amount of R\$ 1,096,130, which represent 89.3% of the fund's equity (90.1% in 2009) and 2,864 subordinated shares, held by the Company and subsidiaries in the amount of R\$ 131,374, which represent 10.7% of the fund's equity (9.9% in 2009).

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**10. Receivables Securitization funds – FIDCs**a) Pão de Açúcar Receivables Securitization fund – PAFIDC

The interest rates of senior shares are shown below:

Shareholders	Amount	CDI Rate	2010	CDI Rate	2009
			Balance		Balance
Senior A	5,826	109.5%	<b>672,861</b>	105%	694,858
Senior B	4,300	109.5%	<b>184,135</b>	105%	166,560
Senior C	169	109.5%	<b>239,134</b>	105%	216,309
	10,295		<b>1,096,130</b>		1,077,727

Subordinated shares are non-transferable and registered, and were issued in a single series. The Company will redeem the subordinated shares only after the redemption of senior shares or at the end of

the fund's term. Once the senior shares have been remunerated, the subordinated shares will receive the balance of the fund's net assets after absorbing any losses on receivables transferred and any losses attributed to the fund. Their redemption value is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

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

b) Globex Receivables Securitization fund – Globex FIDC

Globex FIDC is a receivables securitization fund formed for the purpose of acquiring Globex's trade receivables (mainly credit card), arising from sales of products and services to their customers. The fund was set up on May 25, 2010 and has a indefinite term.

The capital structure of the fund, at December 31, 2010, is composed of 11,666 senior shares held by third parties in the amount of R\$ 1,166,600, which represent 87.5% of the fund's equity and 1,667 subordinated shares, held by the Company and subsidiaries in the amount of R\$ 166,700, which represent 12.5% of the fund's equity.

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Notes to the consolidated financial statements (Continued)

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**10. Receivables Securitization funds – FIDCs (Continued)**

a) Globex Receivables Securitization fund – Globex FIDC

The interest rates of senior shares are shown below:

Subordinated shares and senior quotas have the same conditions than the described for PAFIDC.

<b>Shareholders</b>	<b>Amount</b>	<b>CDI Rate</b>	<b>2010</b>	<b>Balance</b>
Senior - 1st Series	11,666	107.75%		<b>1,184,387</b>

**11. Inventories**

**2010**

**2009**

Stores	<b>2,630,265</b>	1,991,114
Warehouses	<b>2,291,445</b>	935,323
Provision for obsolete inventories	<b>(97,942)</b>	(98,974)
	<b>4,823,768</b>	2,827,463

Provisions on inventories are mainly composed of provisions for unrealized bonuses in inventories amounting to R\$ 51,344 (R\$ 54,186 in 2009), and obsolescence provisions in Globex amounting to R\$ 25,422 (R\$ 32,526 in 2009).

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**12. Recoverable taxes**

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

	<b>2010</b>	<b>2009</b>
Current		
Taxes on sales	<b>612,956</b>	276,244
Income tax and others	<b>275,946</b>	140,508
Present value adjustment	<b>(547)</b>	(202)
	<b>888,355</b>	416,550
Noncurrent		
Taxes on sales	<b>189,097</b>	244,067
ICMS and others	<b>33,320</b>	14,404
Present value adjustment	<b>(8,911)</b>	(3,277)
	<b>213,506</b>	255,194
Total of recoverable taxes	<b>1,101,861</b>	671,744

**13. Property and equipment, net**

	<b>Balance as of 12/31/2009</b>	<b>Additions</b>	<b>Depreciation</b>	<b>2010 Acquisition of subsidiary</b>	<b>Disposals</b>	<b>Trans</b>
Lands	980,469	536	-	-	(5,420)	
Buildings	1,842,073	11,146	(66,433)	-	(18,629)	
Leasehold improvements	1,179,101	44,826	(108,084)	72,090	(21,278)	3
Equipments	423,588	248,647	(65,865)	57,420	(20,206)	(
Installations	99,738	66,774	24,452	96,460	(7,398)	(
Furniture and fixtures	221,043	94,335	(63,048)	131,655	(18,045)	
Vehicles	21,445	14,278	(7,195)	139,292	(2,508)	
Construction in progress	361,346	779,352	-	17,644	-	(5
Other	105,553	33,233	(9,405)	-	12,093	
	5,234,356	1,293,127	(295,578)	514,561	(81,391)	(1
<b>Finance Leases:</b>						
Machinery and equipment	35,273	2,944	(4,410)	41,693	(155)	