

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD  
Form 20-F  
June 30, 2010

**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, 2009  
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 two Preferred Shares	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  
143,878,318 Preferred Shares A, no par value per share

11,293,819 Preferred Shares B, no par value per share

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

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

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

Item 17  Item 18

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

1 Yes  No

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**INTRODUCTION**

All references in this annual report to (i) CBD, we, us, our or Company are references to Companhia Brasileira de Distribuição and its consolidated subsidiaries, (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 two preferred shares. 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 prepare Brazilian GAAP financial information for certain purposes, included for the calculation of dividends and certain segment information.

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, 2009 was R\$1.741 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2009, 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 such rates 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. Key Information Risk Factors, Item 4B. Information on the Company 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 food industry,
- 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. Key Information Risk Factors.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify 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



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performance could differ substantially from those anticipated in our forward-looking statements.

**PART I**

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

Not applicable.

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

Not applicable.

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

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

For a reconciliation of net income and shareholders' equity of our audited financial statements in Brazilian GAAP to our audited financial statements in IFRS at January 1, 2008 and December 31, 2008 and for the year then ended, see note 31 under the caption "Reconciliation between IFRS and BR GAAP" to our financial statements included in this annual report.

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, 2009 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2009 as reported by the Brazilian Central Bank of R\$1.741 to US\$1.00.

We prepare Brazilian GAAP financial information for certain purposes, included for the calculation of dividends and certain segment information.

	<b>At and for the Year Ended December 31,</b>		
	<b>2008</b>	<b>2009 (1)</b>	<b>2009 (1)</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>(millions of US\$, except share, per share and per ADS amounts)</b>
<b>Statement of operations data</b>			
Net sales revenue	18,032.0	23,240.5	13,348.9
Cost of sales	(13,279.5)	(17,493.8)	(10,048.1)
Gross profit	4,752.5	5,746.7	3,300.8
Selling, general and administrative expenses	(3,447.9)	(4,176.3)	(2,398.8)
Depreciation and amortization	(442.7)	(461.6)	(265.1)
Other operating expenses, net	(19.1)	(77.8)	(44.7)
Operating profit	842.8	1,030.3	591.8
Financial income	292.1	290.4	166.8
Financial expense	(623.7)	(590.2)	(339.0)
Equity results	(0.5)	7.0	4.0
Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest	510.7	738.2	424.0

Income tax (expense) benefit:			
Current	(36.3)	(68.1)	(39.1)
Deferred	(110.9)	(27.8)	(16.0)
Employee profit sharing	(22.2)	(32.5)	(18.7)
Net income	341.3	609.8	350.3
Attributable to equity holders the parent	341.3	609.0	349.8
Attributable to noncontrolling interest	0.0	0.8	0.5
Basic earnings per 1,000 shares			
Preferred	1.54	2.59	1.49
Common	1.39	2.34	1.34
Diluted earnings per 1,000 shares			
Preferred	1.49	2.50	1.44
Common	1.39	2.34	1.34
Basic earnings (loss) per ADS			
	1.39	2.59	1.48
Diluted earnings (loss) per ADS			
	1.49	2.50	1.44
Weighted average number of shares outstanding (in thousands)			
Preferred	132,170	145,442	145,442
Common	99,680	99,680	99,680
Total	227,690	245,122	245,122
Dividends declared and interest on equity per 1,000 shares (2)			
Preferred	0.28	0.60	0.34
Common	0.25	0.53	0.31
Dividends declared and interest on shareholders' equity per ADS (2)			
	0.28	0.60	0.34
<b>Balance sheet data</b>			
Cash and cash equivalents	1,623.5	2,341.9	1,345.1
Property and equipment, net	4,867.0	5,252.7	3,017.1
Total assets	13,718.6	18,030.1	10,356.2
Short-term debt (including current portion of long-term debt)	334.6	529.7	304.3
Long-term debt	3,092.6	3,582.6	2,057.8
Shareholders' equity	5,454.2	6,643.2	3,815.7
Capital stock	4,450.7	5,374.8	3,087.2
<b>Other financial information</b>			
Net cash provided by (used in):			
Operating activities	1,256.0	1,842.8	1,058.5
Investing activities	(484.7)	(1,636.8)	(940.1)
Financing activities	(206.8)	512.4	294.3
Capital expenditures	(488.3)	(1,631.8)	(937.3)

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(1) Includes the result of operations of Globex Utilidades S.A., or Globex (Ponto Frio), from July 1, 2009. For further information on the acquisition of Globex (Ponto Frio) see Item 4A. History and Recent Development of the Company Acquisition of Globex (Ponto Frio).

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

	At and for the Year Ended December 31,		
	2008	2009(7)	2009(7)
	(in millions of R\$, except as indicated)		(in millions of US\$, except as indicated)
<b>Operating Data</b>			
Employees at end of period	70,656	85,244	85,244
Total square meters of selling area at end of period	1,360,706	1,744,653	1,744,653
Number of stores at end of period:			
Pão de Açúcar	145	145	145
CompreBem	165	157	157
Extra (1)	139	168	168
Extra Eletro	47	47	47
Assaí (6)	28	40	40
Sendas (2)	73	68	68
Ponto Frio (3)(7)	-	455	455
Total number of stores at end of period	597	1,080	1,080
Net sales revenues per employee (4):			
Pão de Açúcar	229,076	262,276	150,647
CompreBem	325,737	335,961	192,970
Extra (1)	339,614	356,219	204,606
Extra Eletro	409,722	548,133	314,838
Assaí (6)	437,538	303,395	174,265
Sendas (2)	244,060	297,486	170,871
Ponto Frio (3)(7)	-	258,144	148,274
Average net sales revenues per employee	297,536	315,690	181,327
Net sales revenues by store format:			
Pão de Açúcar	3,378	3,798	2,182
CompreBem	2,573	2,585	1,485
Extra (1)	9,120	10,406	5,977
Extra Eletro	295	386	222
Assaí	1,269	1,982	1,138
Sendas (2)	1,397	1,608	923
Ponto Frio (3)(7)	-	2,475	1,422
Total net sales	18,032	23,240	13,349
Average monthly net sales revenue per square meter (5):			
Pão de Açúcar	1,481.1	1,637.2	940.4
CompreBem	1,085.4	1,148.7	659.8
Extra (1)	1,025.3	1,138.0	653.7
Extra Eletro	881.1	1,154.1	662.9
Assaí (6)	2,486.1	1,395.2	801.4
Sendas (2)	897.1	1,088.6	625.3
Ponto Frio (3)(7)	-	620.4	356.3
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	637.6
Average ticket amount:			

Pão de Açúcar	26.1	29.8	17.1
CompreBem	19.3	20.7	11.9
Extra (1)	43.7	48.5	27.9
Extra Eletro	299.1	346.6	199.1
Sendas (2)	21.9	24.2	13.9
Assaí (6)	78.9	74.5	42.8
Ponto Frio (3)(7)	-	618.4	355.2
CBD average ticket amount	32.6	41.2	23.6

Average number of tickets per month:

Pão de Açúcar	10,769,076	10,607,751	10,607,751
CompreBem	11,128,328	10,387,308	10,387,308
Extra (1)	17,406,079	17,886,223	17,886,223
Extra Eletro	82,185	92,908	92,908
Sendas (2)	5,315,750	5,537,072	5,537,072
Assaí (6)	1,340,148	2,218,159	2,218,159
Ponto Frio (3)(7)	-	333,487	333,487
CBD average number of tickets per month	46,041,566	47,062,907	47,062,907

(1) Includes 52 *Extra Fácil* convenience stores and 13 *Extra Supermercado* stores.

(2) Sendas stores, which are part of Sendas Distribuidora.

(3) Includes the result of operations of Globex (Ponto Frio) from July 1, 2009. For further information on the acquisition of Globex (Ponto Frio) see Item 4A. History and Recent Development of the Company Acquisition of Globex (Ponto Frio).

(4) Based on the average of the full-time equivalent number of employees calculated by dividing the total number of hours worked by all employees at the end of each month in the period presented by 220 hours.

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

(6) In 2008, the figure were calculated based on the Assaí stores in operation under the Assaí banner.

(7) Includes the result of operations of Globex (Ponto Frio) from July 1, 2009.

### 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. The Central Bank has intervened occasionally to control instability in foreign exchange rates.

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

Year	Exchange Rate of Brazilian Currency per US\$1.00			
	Low	High	Average(1)	Year-End
2005	2.163	2.762	2.413	2.341
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
Month	Exchange Rate of Brazilian Currency per US\$1.00			
	Low	High	Average(1)	Year-End
December 2009	1.709	1.787	1.750	1.740
January 2010	1.723	1.875	1.780	1.875
February 2010	1.805	1.877	1.842	1.811
March 2010	1.764	1.823	1.786	1.781
April 2010	1.731	1.781	1.757	1.731
May 2010	1.732	1.835	1.787	1.805
June 2010 (through June 25)	1.766	1.863	1.808	1.778

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.*

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**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;
- εξηχανγε ρατε φλυχτυατιον;
- currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- tax and regulatory policies;
- presidential elections will be held in Brazil in October 2010 and speculation about the new government's economic, monetary and tax policies may create market instability and volatility; and
- other political, social and economic developments in or affecting Brazil.

Although the Brazilian government has implemented sound economic policies over the last few years, 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.

***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 2009, the base interest rate (SELIC) in Brazil varied between 19.77% p.a. and 8.64% 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 affect on us as our indebtedness is indexed to the 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 our business or adversely affect the market price of our preferred shares and, as a result, 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. Our imports, which represent approximately 3.5% of our gross sales are indexed to the U.S. dollar. A depreciation of the *real* in relation to the U.S. dollar may result in a decrease in our net income as result of the increase in the price of imports. The *real* may substantially depreciate or appreciate against the U.S. dollar in the future. We cannot assure you that the appreciation trend of the real will persist. Exchange rate instability may have a material adverse effect on us.

***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 value of securities of Brazilian issuers is affected by economic and market conditions in other countries, including the United States, the European Union 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 value of securities of Brazilian issuers. Crises in the United States, the European Union or emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the trading price of the ADSs or our preferred shares, 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 which began during the second half of 2008 has had significant consequences, including in Brazil, such as stock and credit market volatility, higher interest rates, a general economic slowdown, volatile exchange rates and inflationary pressure, among others, which may, directly or indirectly, adversely affect us and the market price of Brazilian securities, including the ADSs and our preferred shares. Although the scenario has improved significantly since the second half of 2009, it is still not clear that the global economy has efficiently recovered.

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

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

The food retail industry in Brazil, including the cash and carry segment (*atacarejo*), a wholesale format in the retail food sector, is highly competitive. We face intense competition from small food retailers that often benefit from inefficiencies in the Brazilian tax collection system. These small food retailers also frequently have access to merchandise from informal distribution channels at lower prices than those charged by manufacturers and stores in the conventional supply chain of the organized retail food sector. In addition, in our markets, and particularly in the São Paulo and Rio de Janeiro city areas, we compete 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. 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 who may have different interests than other shareholders.***

The group composed of Mr. Abilio dos Santos Diniz and other members of the Diniz family, or Diniz Group, and the Casino Guichard Perrachon Group, or Casino Group, share our control through our holding company, Wilkes Participações S.A., which owns 65.6% of our voting shares. This holding company is also referred to herein as the

Holding Company. See Item 7A. Major Shareholders and Related Party Transactions 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, and

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- transfer our control.

Although you are entitled to tag-along rights in connection with a change of control of our Company and you will have specific protections in connection with transactions between our controlling shareholders and related parties, our controlling shareholders may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with your interests as a holder of the ADSs or our preferred shares. In addition, the co-control of our Company could result in deadlocks with respect to certain important issues, which may negatively affect our operations, financing and reputation. For additional information on shared decision-making, see Item 7A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Transactions.

***We may not be able to successfully implement our acquisition strategy.***

We intend to grow partially through acquisitions. However, we may not be able to successfully identify, negotiate or conclude acquisitions. Additionally, the integration of acquired companies may be more expensive and complicated than expected.

Moreover, we may not be able to successfully integrate the acquired companies or their assets into our business. This may result in loss of resources and time spent by senior management and other employees analyzing and implementing an unsuccessful acquisition. We also may not be able to identify potential liabilities in the acquired companies even through proper diligence. The failure of our acquisition strategy could have an adverse effect on our growth perspectives, financial condition and results.

In addition, any large acquisitions may be subject to approval by Brazilian antitrust authorities and other government agencies, and we may be unable to obtain this approval, or to obtain it on a timely basis.

***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 Group 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.

***Our operations are subject to environmental risks.***

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. Costs are incurred for 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. A violation of applicable environmental laws 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. The increase in environmental protection and control costs related to our gas station operation and other potentially polluting activities could adversely affect us and the market value of our preferred shares and the ADSs.

*We may not be able to renew or maintain our stores lease agreements.*

Most of our stores operate in leased properties. The strategic location of our stores is highly relevant for the development of our commercial strategy and, as a result, we may be adversely affected in case a significant number of our lease agreements is terminated or fail to be renewed.

***Problems with our distribution centers, which are a vital part of our operations, that result in the disruption of our operations may adversely affect our business.***

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 affected, and in the event that no other distribution center is able to meet the demands of the region affected, the distribution of products to the stores supplied by the affected distribution center will be impaired, which may adversely affect our Company. Our growth strategy includes the opening of new stores which may require the opening of new or the expansion of our current distribution centers to supply and meet the demands 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 subject to the risks normally associated with providing financing.***

We maintain 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 Recent Development of the Company Restructuring of our Association 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 clients, either of which could adversely affect our cash flow and have a material adverse affect on us.

### **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 pay for future acquisitions, like the acquisition of Globex (Ponto Frio) in 2009, through the issuance a substantial number of preferred shares which could negatively affect the market price of the preferred shares and dilute your shareholdings in us, for which preemptive rights may not be extended 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 such 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. 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. There is also significantly greater concentration in the Brazilian securities market than in more developed securities markets. The top ten stocks in terms of trading volume accounted for approximately, 50%, 53% and 58% of all shares traded on the São Paulo Stock Exchange (*BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, in 2007, 2008 and 2009, respectively.

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

According to our by-laws, we must generally 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 capitalized, 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 Recent 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 in terms of the expectations, consumption patterns and purchasing power of the different income levels in Brazil. 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* banner), *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.* (of which we currently hold 57.4%) 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. For further information on the *Sendas* Association, see Item 10C. Additional Information Material Contracts The *Sendas* Shareholders Agreement.

On July 27, 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, extended warranties and insurance at our stores. For more information, see Restructuring of our Association 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 of all 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.

On October 16, 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.

On July 7, 2009, we purchased a 70.2% ownership interest in Globex (Ponto Frio), a company which operates in the non-food durable goods retail sector under the brand name Ponto Frio. In a tender offer triggered by the acquisition, our Company increased its ownership interest in Globex (Ponto Frio) to 98.8%. For more information see Acquisition of Globex (Ponto Frio).

On July 25, 2009, we purchased Barcelona's remaining stock, equivalent to 40% of its capital stock and accordingly, we currently own 100% of the Assaí chain. The total amount for this acquisition was R\$175 million, of which we have already paid R\$50 million and we will pay R\$125 million on January 15, 2011 in cash. Subject to certain conditions, we will pay to the sellers an additional amount of R\$25 million on January 15, 2011.

On December 4, 2009, we entered into a business combination agreement with Casas Bahia Comercial Ltda., or Casas Bahia, a Brazilian durable goods retailer. Pursuant to the agreement, by means of a re-organization we and Casas Bahia will integrate our respective businesses in the durable goods retail sector, and unify the e-commerce durable goods operations currently conducted by our subsidiary, Globex (Ponto Frio). The agreement was approved by our shareholders at our General Shareholders Meeting held on January 11, 2010. Our Company and Casas Bahia are in the process of reviewing the agreement in order to reach an understanding on certain terms of the agreement. For the year ended December 31, 2009, this transaction did not generate any impact on our accounting records, with the exception of expenses related to the transaction, or cause any material changes in our ownership structure. Until the conclusion of the re-organization, we cannot determine the effects of this transaction in the results for the year ended December 31, 2010. For more information, see Business Combination Agreement with Casas Bahia.

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

On June 7, 2009, we entered into a share purchase agreement with the majority shareholders of Globex (Ponto Frio), a company operating in the Brazilian non-food retail 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 (Ponto Frio) 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 (Ponto Frio) were to receive the shares in the amount due in cash plus 10%.

We also offered the minority shareholders of Globex (Ponto Frio) 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 (Ponto Frio) under the same conditions. One hundred and twenty (120) minority shareholders of Globex (Ponto Frio) agreed to sell us their shares, corresponding to approximately 25% of the total voting shares of Globex (Ponto Frio), for R\$236.8 million.

Pursuant to the Globex (Ponto Frio) share purchase agreement, we increased our capital stock through the issuance of 16,609,046 class B preferred shares at a price of \$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. Our controlling shareholders transferred their rights to subscribe for class B preferred shares to the Globex (Ponto Frio)

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 (Ponto Frio) shareholders were not sufficient to settle our entire purchase price payment obligations. The Globex (Ponto Frio) shareholders were only able to subscribe to 4,673,600 class B preferred shares and were paid the remaining outstanding balance of the purchase price for their Globex (Ponto Frio) shares, R\$451.8 million, in cash, on October 2, 2009. The total amount paid in cash and class B preferred shares were R\$1,155.8 million.

On December 22, 2009, we launched a tender offer for the remaining approximately 5% interest in Globex (Ponto Frio), in accordance with Brazilian regulation, under the same terms as the offer accepted by the initial 120 Globex (Ponto Frio) minority shareholders. The tender offer was concluded on February 3, 2010 and we acquired approximately 3.3% of Globex's (Ponto Frio) 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 (Ponto Frio) capital stock.

For further information on the acquisition of Globex (Ponto Frio), see note 15 (b) to our financial statements included in this annual report.

### ***Restructuring of our Business Combination with Itaú Unibanco***

On October 27, 2004, we entered into a partnership agreement with Banco Itaú Holding Financeira S.A., or Partnership, for the creation of a financial institution named FIC, with the aim of structuring and making available to our clients exclusive 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, through financial service units installed within our stores. The Partnership has an initial term of 20 years. Initially, the Partnership did not result in relevant investments by our Company. When we acquired Globex (Ponto Frio), it had a similar association agreement with Unibanco União de Bancos Brasileiros S.A., or Unibanco, which resulted in the creation of Banco Investcred Unibanco S.A., or Investcred. On February 18, 2009, the Central Bank approved the merger between Banco Itaú S.A. and Unibanco, which created Itaú Unibanco.

In this context, we restructured the Partnership and the association of Globex (Ponto Frio) with Unibanco on December 30, 2009, extending the partnership for another five years and amending certain other aspects of our Partnership, which resulted in the payment of R\$600.0 million by Itaú Unibanco to our Company. See note 14 to our financial statements included in this annual report.

### ***Business Combination Agreement with Casas Bahia***

On December 4, 2009, we entered into a business combination agreement with Casas Bahia, a Brazilian durable goods retailer, whereby our Company and Casas Bahia will integrate their respective business in the durable goods retail sector, including their e-commerce activities. The transaction is subject to the approval of Brazilian antitrust authorities.

As of the date of this annual report, this transaction did not generate any impact on our accounting records, with the exception of expenses related to the transaction, or cause any material changes in our ownership structure.

### **Capital Expansion and Investment Plan**

As part of our capital expansion and investment plan, we have invested approximately R\$ 1,631.8 million in our operations for the three years ended December 31, 2009. Our investments included:

*Acquisitions of retail chains* 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. Our main focus is to expand organically, but we may continue carrying out strategic acquisitions, to the extent that they result in synergies and added value. Since 2007, we have acquired 476 stores. We have spent an aggregate of R\$ 3,414.0 million on acquisitions from 2007 through 2009.

The following table presents information regarding our acquisitions and the regional distribution of the stores we acquired since 2007:

<b>Number of Year</b>	<b>Chains Acquired</b>	<b>Stores</b>	<b>Geographic Distribution</b>
2007	Rossi	5	São Paulo
2007	Assaí	14	São Paulo
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
	Total	476	

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(1) acquired in July 2009.

*Opening of new stores* 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 77 new stores from 2007 through 2009, including six *Pão de Açúcar* stores, one *CompreBem* store, four *Extra Hipermercado* stores, 35 *Extra Fácil* convenience stores, six *Extra Eletro* stores, 11 *Ponto Frio* stores and 14 *Assaí* stores. The total cost of opening these new stores was R\$716.8 million.

*Renovation of existing stores* We usually remodel some of our *Pão de Açúcar*, *CompreBem*, *Extra* stores, *Sendas* and *Extra Eletro* stores every year. Through our renovation program we add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information technology systems. The total cost of renovating stores from 2007 through 2009 was R\$857.6 million.

*Improvements to information technology* We are committed to technology as an important component in our pursuit of greater efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. The information technology area has received significant investments in new technological solutions aimed at modernization, simplicity and reliability. We have spent an aggregate of R\$387.7 million on information technology from 2007 through 2009. For more information on our information technology, see Item 4B. Business Overview Technology.

*Expansion of distribution facilities* Since 2007, 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\$29.9 million on our distribution facilities from 2007 through 2009.

The following table provides a summary description of our principal capital expenditures disbursed for the three years ended December 31, 2009:

	Year Ended December 31,		
	2009	2008	2007
	(millions of reais)		
Opening of new stores	R\$ 228.3	R\$ 138.3	R\$ 350.2
Acquisition of retail chain	885.1		284.8
Purchases of real estate	36.2	94.9	121.0
Renovations	334.3	143.0	380.3
Information technology	144.2	101.8	141.7
Distribution centers	3.7	10.3	15.9
Total	R\$ 1,631.8	R\$ 488.3	R\$ 1,293.9

## 4B. Business Overview

### The Brazilian Retail Food Industry

The Brazilian retail food industry represented approximately 5.6% of Brazil's GDP (gross domestic product) in 2009. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of R\$177.0 billion in 2009, representing a 11.7% increase compared with 2008.

The Brazilian retail food industry is highly fragmented. Despite consolidation within the Brazilian retail food industry, in 2009, the three largest supermarket chains represented only approximately 40.4% of the retail food industry, as compared to 38.1% in 2008. We believe that future acquisitions will mainly involve smaller sized-stores. Another trend in the retail food industry is large chains migrating to smaller formats such as neighborhood banners, like Tesco Express and Sainsbury's Local. According to ABRAS, our gross sales represented 14.8% of the gross sales of the entire retail food industry in 2009.

The cash and carry segment (*atacarejo*), 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 customers within a market niche that was neither reached by self-service retail nor by wholesale.

According to the Brazilian Institute of Geography and Statistics, or IBGE, the total population of Brazil was approximately 191.4 million in 2009, making Brazil the fifth most populous country in the world, with a population growing at a rate of 2% per year. 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 11.1 million and the city of Rio de Janeiro has a population of approximately 6.2 million. These are the two largest cities in Brazil. The State of São Paulo has a total population in excess of 41.4 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 following table sets forth the different income class levels of Brazilian households, according to the (Consumption Potential Index) (*Índice de Potencial de Consumo*), or IPC Target 2010.

Class Level	Monthly Income (average) (in reais)
A1	14,550
A2	9,850
B1	5,350
B2	2,950
C1	1,650
C2	1,100
D	750
E	410

Classes A1 and A2 households account for only 5% of the urban population and classes B1 and B2 households account for 24% of the urban population. Classes C1, C2, D and E collectively represent 71% 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.

Salary levels in Brazil have generally increased at a slower rate compared to increases in interest and exchange rates and increasing consumer prices. 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. 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.

### **Our Company**

We are one of the largest food retailers in Brazil based on both gross sales and number of stores. In 2009, we had a market share of approximately 14.8% in the Brazilian food retailing business, according to ABRAS, with gross sales of R\$26.2 billion (including Globex - Ponto Frio) and R\$23.3 billion (excluding Globex - Ponto Frio). As of December 31, 2009, we operated 1,080 stores, 79 gas stations and 150 drugstores in 19 States and the Federal District, in addition to a logistics infrastructure supported by 28 distribution centers located in 13 States. These figures already include Globex (Ponto Frio) stores that we purchased in July 2009, but do not include Casas Bahia's 508 stores, given that this business combination is still under negotiation.

To guarantee a diversified market performance and meet the various needs and expectations of our consumers, we maintain a multi-format structure encompassing supermarkets (Pão de Açúcar, Extra Supermercado, CompreBem and Sendas), hypermarkets (Extra), durable goods stores (Ponto Frio and Extra Eletro), convenience stores (Extra Fácil) and cash-and-carry chains (Assaí). We also operate e-commerce activities in the food (Pão de Açúcar Delivery - <http://www.paodeacucar.com.br>) and non-food (Extra.com.br - <http://www.extra.com.br> and PontoFrio.com - <http://www.pontofrio.com.br>) sectors. We also own gas stations located at the parking lots of or nearby our stores, where we offer quality products at competitive prices, drugstores located in the shopping areas of our supermarkets and hypermarkets.

The following table sets forth the number of our stores by region, as of December 31, 2009:

	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 (excluding the States of São Paulo and Rio de Janeiro) <sup>(2)</sup>	Northeast <sup>(3)</sup>	Center-West <sup>(4)</sup>
<i>Pão de Açúcar</i>	57	41	9	32	4	2
<i>Extra Hipermercado</i>	24	34	15	20	7	3
<i>CompreBem</i>	70	84	-	3	-	.
<i>Sendas</i>	-	-	68	-	-	.
<i>Extra Eletro</i>	23	24	-	-	-	.
<i>Extra Fácil</i>	46	6	-	-	-	.
<i>Extra Supermercado</i>	4	3	-	6	-	.
<i>Assaí</i>	14	15	8	3	-	.
<i>Ponto Frio</i>	38	79	93	133	90	22
Total	276	286	193	197	101	27

(1) Consists of stores in 39 cities, including Campinas, Ribeirão Preto and Santos.

(2) This area comprises the states of Minas Gerais and Paraná.

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

(4) This area comprises the following states: Mato Grosso do Sul, 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 and the activity in our stores:

	<i>Pão de Açúcar</i>	<i>CompreBem</i>	<i>Hipermercado</i>	<i>Eletro</i>	<i>Sendas</i>	<i>Fácil</i>	<i>Supermercado</i>	<i>Assaí</i>	<i>Frio</i>	Total
At December 31, 2006	164	186	83	50	62	4				549
Opened	1	5	7			13		10	15	51
Closed	(5)	(11)		(8)		(1)				(25)
Transferred (from)/to	(7)	(2)	1	-		3		5		-
At December 31, 2007	153	178	91	42	62	19		15	15	575
Opened	1	1	2	6		14			7	31
Closed	(2)	(4)		(1)	(1)	(1)				(9)
Transferred (from)/to	(7)	(10)	9		12		(10)	6		
At December 31, 2008	145	165	102	47	73	32		5	28	597
Opened	5		2			21		7	11	46
Closed	(2)	(1)			(2)	(1)		(1)	(13)	(20)

Transferred (from)/to Acquired At December 31, 2009	(3)	(7)	(1)	(3)			9	5	457	457
	145	157	103	47	68	52	13	40	455	1,080

**Our Operating Segments**

Our activities are divided into the following segments:

***Retail***

Sales of food and non-food items to individual consumers. Food and non-food products are defined as:

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*Food products* includes non-perishable food items, 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 products with our brand.

*Non-food products* includes 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 own brands. Non-food products also include electronics and durable goods, such as household appliances, personal computers, software, computer accessories, and sound and image systems. The items sold at our drugstores, such as medications and dermocosmetics, are also considered non-food products. This segment also includes products and services sold at our gas stations.

*Services* that we provide to our clients includes extended warranties on the sale of electronics and durable goods 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***

Sales of food and some non-food products to intermediate consumers and retail customers through our Assaí banner.

### ***Electronics and Home Appliances (Globex - Ponto Frio)***

Sale of durable goods (specifically electronics, home appliances and furniture) through our subsidiary Globex (Ponto Frio).

### ***Segment Revenue and Income Distribution***

The table below shows our revenues from our operating segments and their participation in our net revenues. Results of the operating segments are presented in Brazilian GAAP, the measure used by management in evaluating the performance of and strategy for the three segments listed below. Financial data prepared in accordance with IFRS and Brazilian GAAP is not comparable. See note 31 to our financial statements included in this annual report for a description of the key differences between IFRS and Brazilian GAAP.

	<b>Year ended</b>	
	<b>December 31, 2009</b>	
	<b>Net Revenues from the Segment</b>	<b>Percentage of</b>
<b>Operating segment</b>	<b>(in millions of R\$)</b>	<b>Total Net Revenues</b>
Traditional retail	18,787.6	80.9%
Cash-and-carry	1,981.8	8.5%
Electronics and Home Appliances - Globex <sup>1</sup>	2,484.7	10.7%
IFRS Adjustments	(13.6)	(0.1)%
<b>Grupo Pão de Açúcar (GPA)</b>	<b>23,240.5</b>	<b>100.0%</b>

(1) Refers to the period from July 2009, when we consolidated Globex (Ponto Frio) into our Company.

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 Brazilian GAAP, the measure used

by management in evaluating the performance of and strategy for the three segments listed below. Financial data prepared in accordance with IFRS and Brazilian GAAP is not comparable. See note 31 to our financial statements included in this annual report for a description of the key differences between IFRS and Brazilian GAAP.

Operating segment	Year Ended December 31, 2009	
	Net Income from the Segment  (in millions of R\$)	Percentage of  Total Net Income
Traditional retail	604.9	99.1%
Cash-and-carry	16.0	2.6%
Home Appliances - Globex <sup>1</sup>	(6.4)	(1.0)%
Elimination	(9.3)	(1.5)%
IFRS Adjustments	4.6	0.8%
<b>Grupo Pão de Açúcar (GPA)</b>	<b>609.8</b>	<b>100.0%</b>

(1) Refers to the period from July 2009, when we consolidated Globex (Ponto Frio) into our Company.

### Our Competitive Strengths

Our main competitive strengths are (i) our different retail food store formats; (ii) our extensive network of distribution centers; and (iii) our economies of scale.

#### *Different retail food store formats*

We conduct our retail food operations under different store formats, namely *Pão de Açúcar*, *CompreBem/Sendas*, *Extra*, *Extra Fácil*, *Extra Supermercado* and *Assaí*. Each of these store formats has a distinct merchandising strategy and a strong brand name. The variety of our formats enables us to effectively target and earn the loyalty of different consumer segments. Our deep understanding of the Brazilian consumer allows us to meet diverse customer needs. The Brazilian consumer associates with each of our brand concepts a specific combination of goods, services and price level. For example, the *Pão de Açúcar* format serves the higher income consumers through a combination of prime store locations, appealing store design and wide range of quality products and services. The *CompreBem* and *Sendas* banners, in turn, target the middle and lower income consumers and are usually located in lower income class neighborhoods. Our hypermarket format *Extra* offers the widest assortment of our store formats and allows us to target potential customers along the entire income spectrum. Our *Extra* format has the additional advantage of benefiting from the general lack of department stores and specialized stores in Brazil and offers a combination of food products and non-food products such as household appliances, consumer electronic products, general merchandise, clothing and textiles that is particularly appealing to Brazilian consumers. Through our *Extra Supermercado* and *Extra Fácil* banners, we operate in the supermarket and convenience store models, respectively and our *Assaí* banner has allowed us to enter the cash-and-carry segment.

#### *Extensive network of distribution centers*

We operate distribution centers strategically located in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. Our distribution centers have a total storage capacity of approximately 570,000 square meters. Our management believes that our network of distribution centers is the most extensive one in the Brazilian retail food industry. We believe that our facilities are capable of servicing substantially all of our distribution requirements, both for our existing stores and for the stores that we plan to open in the near future. Approximately 85% of our inventory in 2009 was sourced from our distribution centers, and only 15% came directly from suppliers,

which resulted in (i) increased bargaining power with suppliers, (ii) fewer inventory shortages, (iii) lower shrinkage and, (iv) improved working capital management. Many of the functions of our distribution centers are automated, allowing for quicker and more efficient handling of products. 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.

*Economies of scale*

We benefit from significant economies of scale resulting from our position as one of the largest food retailers in Brazil. Our size gives us increased bargaining power with suppliers, resulting in lower prices for consumers, higher operating margins and more favorable payment terms. Our size also allows us to benefit from important marketing channels including prime time television advertising, one of the most effective means to promote sales in Brazil, which is prohibitively expensive for smaller retail chains. Our scale also enables us to make major operational investments that increase our efficiency, for instance extensive technology investments. We believe that we are at the forefront of the Brazilian retail industry in terms of using information technology and continually improving our sophisticated management information systems.

## **Our Strategy**

Our strategy is focused on: (i) efficient use of capital employed through the maximization of existing assets; (ii) pursuit of market share; and (iii) sustained growth with profitability.

### *Efficient Use of Capital*

We intend to efficiently use our capital through: (i) the maintenance of our financial health by keeping a strong cash position; (ii) the use of low cost methods to gain market share; and (iii) the maintenance of strict control of expenses and cashflow.

### *Pursuit of Market Share*

We aim at developing initiatives that will enhance our competitiveness, including the adoption of pricing policies and increasing our consumer flow and consumer loyalty. In addition, we aim at increasing the participation of non-food revenues as well as the expansion of our FIC financial services and private label products. We also intend to achieve higher sales levels through the expansion of our sales area as a result of new store openings in our different formats, as well as increasing sales in our existing stores through improvements in assortment, pricing, communication and service. We have a M&A (*Merger and Acquisition*) department focused on (i) improving the profitability of our acquisitions; (ii) ensuring synergy between our acquired businesses and our existing businesses; and (iii) assessing the market and seeking opportunities to acquire businesses.

### *Sustained Growth with Profitability*

We intend to grow while increasing our profitability through: (i) improving the control of our expenses; (ii) improving our logistics structure; (iii) investing heavily in the continued education of our personnel at all levels; (iv) achieving better price conditions with our suppliers; and (v) consolidating our multi-format structure by expanding e-commerce, convenience stores and cash and carry stores. In order to increase profitability, we also plan to invest in reducing breakage and shrinkage, improving the purchase process, increasing the store productivity index and strengthening our management model.

## **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 at December 31, 2009:



	Store Format	Number of Stores	Total Selling Area (in square meters)	Average Selling Area Per Store (in square meters)	Total Number of Employees <sup>(1)</sup>	Percentage of Our Net Sales Revenues
<i>Pão de Açúcar</i>	Supermarket	145	193,325	1,333	14,481	16.3%
<i>CompreBem</i>	Supermarket	157	187,551	1,195	7,695	11.1%
<i>Extra Hipermercado</i>	Hypermarket	103	731,189	7,099	27,891	44.8% <sup>(2)</sup>
<i>Extra Eletro</i>	Home appliance store	47	27,902	594	705	1.7%
<i>Extra Fácil</i>	Convenience store	52	11,638	224	364	
<i>Extra Supermercado</i>	supermarket	13	19,171	1,475	958	
<i>Assaí</i>	Cash and carry	40	118,371	2,959	6,532	8.5%
<i>Sendas</i>	Supermarket	68	123,063	1,810	5,404	6.9%
<i>Ponto Frio</i>	Electronics / Home appliance store	455	332,443	731	9,587	10.7%
Head office & distribution center		-	-	-	11,627	-
Total		1,080	1,744,653	1,615	85,244	100.0%

(1) Based on the full-time equivalent number of employees calculated by dividing the total number of hours worked by all employees in December 2008 by 220 hours.

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

For a detailed description of net sales revenue for each of our store formats, see Item 5A. Operating and Financial Review and Prospects Operating Results Certain Operating Data.

### ***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 significant 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 74.9 employees per 1,000 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments. Many stores have shopping advisors that assist customers with inquiries about their particular needs, prices, special discounts and brand information.

At December 31, 2009, we had 145 *Pão de Açúcar* stores. The *Pão de Açúcar* stores range in size from 120 to 4,670 square meters and at December 31, 2009, averaged 1,333 square meters of selling space. Food products represented 94.0% of gross sales revenue attributable to *Pão de Açúcar* in 2009 and non-food products represented 6.0%.

The *Pão de Açúcar* banner recorded gross sales of R\$4.2 billion in 2009, representing an increase of 8.8% relative to 2008. 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, which collectively make up approximately 71% of all urban households in Brazil. Generally, products offered at our *CompreBem* stores are more competitively priced than products offered at our *Pão de Açúcar* stores. With an average of 41 employees per 1,000 square meters of store space, *CompreBem* stores are characterized by a lower level of personalized services than the *Pão de Açúcar* stores.

At December 31, 2009, we had 157 *CompreBem* stores. *CompreBem* stores range in size from 301 to 3,125 square meters and averaged 1,195 square meters of selling space at December 31, 2009. Food products represented 91.0% of gross sales revenue attributable to *CompreBem* stores in 2009 and non-food products represented 9.0%.

Gross sales revenue of the *CompreBem* banner in 2009 amounted to R\$2.8 billion, representing a decrease of 3.5% compared to 2008. This decrease was a result of the transfer of 14 ABC *CompreBem* stores to *Sendas* and the conversion of six stores from the *CompreBem* banner into the *Extra Supermercado* format and one store into *Assaí*.

### ***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.

*Sendas* gross sales in 2009 totaled R\$1.8 billion, equivalent to 7.0% of our total sales, representing an increase of 12.5% compared to 2008. This increase was mainly due to an increase of our customer base and a series of actions including clustering, which enabled better assortment of our products, improved communication with the diverse socio-economic classes in the State of Rio de Janeiro, improved cash control, reduced dependence of sales on offers and the consolidation of partnerships with regional suppliers.

### ***Extra Hypermarkets***

*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 7,099 square meters at December 31, 2009. The *Extra* stores target the Brazilian classes B, C, D and E. At December 31, 2009, we had 103 *Extra* stores, including stores that opened in 2009 (one store that was converted from *Extra Hipermercado* to *Extra Supermercado*). The sale of food products and non-food products represented 62.0% and 38.0% of *Extra* gross sales in 2009, respectively.

Gross sales of the *Extra* banner in 2009, including *Extra Supermercado* and *Extra Fácil* sales, reached R\$11.8 billion, a 11.1% increase compared to 2008. This increase was a result of the new management model implemented by our former CEO, Claudio Galeazzi, in 2008, which gave greater autonomy to different regions where we operate and contributed to the integrated management of the banners, focusing on results in each region. The new positioning resulted in adjustments to headcount at stores, employee training, improvements in operations, revision of the destination categories, increase in customer flow and a more efficient pricing policy.

### ***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 21 new stores in 2009, bringing the total of *Extra Fácil* stores to 52 units at December 31, 2009. *Extra Fácil* is characterized by small retail stores with up to four check-outs and offers convenience, proximity and facility.

### ***Extra Supermercado Stores***

At December 31, 2009, we operated 13 *Extra Supermercado* stores (six conversions from *CompreBem* banners and three from *Pão de Açúcar* banner). Our *Extra Supermercado* banner is characterized by stores with sales area of up to 1,100 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.

***Extra-Eleto Stores***

*Extra-Eleto* stores sell a broad range of home appliances and consumer electronic products. These stores had an average selling area of 537 square meters at December 31, 2009. Customers place orders in the stores, and products are shipped from a central warehouse. At December 31, 2009, we operated 47 *Extra-Eleto* stores.

In 2009, Extra-Eleto had gross sales of R\$442.2 million, an increase of 18.7%, compared to gross sales in 2008. This increase was a result of the increase in our overall non-food sales, especially consumer electronics, operational improvements and a new credit policy with a closer partnership with FIC.

### ***Extra.com.br***

In line with our strategy to restructure our e-commerce operations initiated in 2006, we consolidated our e-commerce performance through *Extra.com.br*, which focuses on the sale of non-food products. Gross sales of *Extra.com.br* in 2009 increased by 52.7%, compared to gross sales in 2008, and corresponded to 2.1% of our gross sales in 2009. This performance is the result of a series of recently implemented initiatives to consolidate our presence in this important market niche, including the establishment of a broader assortment.

### ***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 customers within an untapped market niche that was covered by neither self-service retailers nor wholesales.

Assaí has been operating in the cash and carry segment for 36 years and at December 31, 2009, Assaí had 6,532 employees and 40 stores. In 2009, we opened 12 new Assaí stores. Out of the 12 new Assaí stores, seven stores were newly opened and five stores were converted into Assaí format from other banners. In 2009, the Assaí banner recorded gross sales of R\$2.2 billion.

### ***Ponto Frio Stores***

Our Ponto Frio stores specialize in durable goods such as consumer electronics and furniture. At December 31, 2009, we were operating 455 Ponto Frio stores as a result of our acquisition of Globex (Ponto Frio) in July of 2009. In 2009, Ponto Frio stores had gross sales of R\$2,888.5 million as from July 7, 2009, when our acquisition of Globex (Ponto Frio) took effect. For more information on the acquisition of Globex (Ponto Frio), see Item 4A. History and Recent Development of the Company Acquisition of Globex (Ponto Frio).

### ***Gas Stations***

At December 31, 2009, we were operating 79 gas stations, five of which were opened in 2009. 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 150 units in operation, we operate one of the largest drugstore chains in Brazil's retail food industry. We opened a total of seven new stores in 2009. 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.

### ***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 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.

### **Suppliers**

The purchasing of our products for our *Pão de Açúcar*, *CompreBem*, *Sendas*, *Extra*, *Extra Eletro*, *Extra Supermercado*, *Extra Fácil*, *Assaí* and *Ponto Frio* stores is centralized. We purchase substantially all of our food products 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.

### **Distribution and Logistics**

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 28 distribution centers (including Ponto Frio) strategically located within the cities of São Paulo, Brasília, Fortaleza, Curitiba, Rio de Janeiro, Salvador and Recife with a total storage capacity of approximately 570,000 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.

We currently focus on four main tasks to further improve our supply and distribution system: (1) ensuring the full availability of products and services, to indirectly contribute to our expansion; (2) improving the level of service to our stores; (3) enhancing the inventory management; and (4) reducing costs in our supply chain.

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

#### *Stores, Supermarkets and Hypermarkets*

At December 31, 2009, the logistic process to supply our stores, supermarkets and hypermarkets (excluding Ponto Frio, our e-commerce business, drug stores and gas stations) included 18 distribution centers located in the States of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 400,000 square meters area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet that, on December 31, 2009, totaled more than 1,100 vehicles exclusively dedicated to this activity, all of which are tracked via GPS. At December 31, 2009, 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. At December 31, 2009, 15% of our stores sales corresponded to Direct Entry products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines.



*Electronic products and durable goods Ponto Frio stores*

Our logistics process associated with our Ponto Frio stores involve an examination of Globex's (Ponto Frio) commercial sector's 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's (Ponto Frio) 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 (Ponto Frio) distribution centers, which at December 31, 2009 totaled 8 distribution centers located in the States of Rio de Janeiro, São Paulo, Minas Gerais, Paraná, Rio Grande do Sul, Bahia and the Federal District.

*PA Delivery*

Through the Pão de Açúcar delivery system, or PA Delivery, our clients are able to purchase food products on the Internet. Upon entering the required delivery information, our system directs that information to the closest PA Delivery unit to initiate the order process. At December 31, 2009, we had seven PA Delivery units in Brazil, two located in the Greater São Paulo area, and the others are located in the cities of Indaiatuba (interior of the State of São Paulo), Rio de Janeiro, Brasília, Curitiba and Fortaleza. These units are installed at strategically located stores, so as to cover a wider and more profitable delivery area. These units share their inventory with the respective store in order to take advantage of synergies.

*Extra.com.br, PontoFrio.com and Televentas*

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 used 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.

*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 intermedate the process between our Company and the respective drug manufacturers. At December 31, 2009, 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.

*Gas Stations*

Our gas stations are supplied by exclusive suppliers. At December 31, 2009, 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 supplied by a single supplier directly to the gas stations, through regional 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 2009 and 2008, we spent approximately R\$266.4 million and R\$180.2 million, respectively, on advertising (approximately 1.0% of total net sales revenues in each year). Also, 26.3% and 28.0% of our total marketing expenditures in 2009 and 2008, respectively, were spent on radio, newspaper and magazine advertising. Television advertisements accounted for 39.2% and 38.2% of advertising expenses in 2009 and 2008, respectively. We spent 34.5% in 2009 and 33.8% in 2008 on other promotional activities.

**FIC and Banco Investcred**

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 five years and has 6.9 million clients (including Banco Investcred), which represents approximately one third of our customers. We and Itaú Unibanco each indirectly hold 50% of FIC's capital stock. Itaú Unibanco holds 50%, our Company holds 36% and Globex (Ponto Frio) holds 14%. Itaú Unibanco is responsible for managing FIC and appoints the majority of its officers.

With a receivables portfolio of R\$3.0 billion (including Banco Investcred), FIC's share of our total gross sales amounted to 15.0% at December 31, 2009. In 2009, FIC had an equity income of R\$15.2 million—a significant improvement compared to the R\$2.9 million in 2008. The positive performance is the result of a series of recently implemented actions, including the granting of special benefits to users of private label and co-branded cards.

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

<b>Total of clients (in thousands)</b>	<b>2009<sup>(1)</sup></b>	<b>2009<sup>(2)</sup></b>	<b>2008</b>
Private label cards	4,262	4,262	4,422
Co-branded cards	979	685	780
CDC agreements	358	38	135
Extended guarantee	-	-	678
Personal loan	57	9	53
Flex cards	1,249	-	-
<b>Total</b>	<b>6,905</b>	<b>4,994</b>	<b>6,068</b>

(1) Including Globex (Ponto Frio).

(2) Excluding Globex (Ponto Frio).

**Credit Sales**

In 2009 and 2008, 52.2% (including Banco Investcred) 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.

*Credit card sales.* All of our store formats accept payment for purchases with MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 43.6% and 40.6% of our net sales revenue in 2009 and 2008, respectively. From this total, sales through private label and co-branded credit cards accounted for 14.5% of our net sales revenue in 2009. An allowance for doubtful accounts is not required as credit risks are substantially assumed by credit card companies or issuing banks.

*Installment sales.* Our *Extra Eletro* stores and *Extra* hypermarkets offer attractive consumer financing conditions to our customers who frequently purchase electronic goods or home appliances, respectively, on an installment basis. The installment sales accounted for 1.0% and 0.5% of our total net sales revenue in 2009 and 2008, respectively.

*Post-dated checks.* Post-dated checks are used as financial instruments in Brazil to make purchases. Postdated 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 0.7% and 1.0% of our net sales revenue in 2009 and 2008 respectively.

*Purchase vouchers.* We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 7.5%, and 7.8% of our net sales revenue in 2009 and 2008, respectively. An allowance for doubtful accounts is not required as credit risks are substantially assumed by the companies that issue the vouchers.

## Technology

We invested R\$144.2 million in information technology in 2009 and R\$101.8 million in 2008. We consider information technology one of our pillars. Our information technology department interacts with our other departments, thereby streamlining our several strategic initiatives.

During 2009, the information technology area received significant investments in new technological solutions aimed at modernization, simplicity and reliability. These initiatives included the following ones:

- **SAP** on January 1, 2009, the SAP system started up in the financial back office and real estate management and maintenance areas, ensuring greater quality and speed in regard to the closure of results and reducing costs.
- **Oracle - Retail** this tool is the basis for transforming the commercial management process (Future Retail Program), which has already set goals for the end of 2010 regarding inventory and stockout reductions, as well as the adoption of an integrated sales, margin and inventory plan. All of the stages planned for 2009, involving 150 people from the program itself and other business areas, were successfully carried out.
- **DemandTec** this tool was fully implemented in the commercial area, generating impressive results in all optimizable areas by aligning pricing with category strategy, thereby improving product elasticity.
- **Datacenter** IBM was selected to manage the Company's data center, speeding up the expansion of infrastructure to support business growth while reducing expenses without investments and complying with Sox guidelines, thanks to Cobit, SAS70 and ITIL certification, as well as ensuring greater information security and operational contingency.
- **Ponto Frio** We assumed the management of Ponto Frio's IT system in September of 2009, in order to increase system availability for stores and distribution centers, reduce operating risks and speed up integration with our IT system.

## 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, Extra-Eleto, Pão de Açúcar, CompreBem, Sendas, Ponto Frio* 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, one can only acquire a brand by officially registering it with *Instituto Nacional de Propriedade Industrial* (National Industrial Property Institute), or INPI, which registers trademarks and patents. This registration gives the owner the exclusive right to use the trademark throughout Brazil for a determined renewable period.

At December 31, 2009, our most important trademarks (*Pão de Açúcar, Companhia Brasileira de Distribuição, Barateiro, Extra, Qualidade, CompreBem, Sendas, Tael, Ponto Frio* and *Assaí*, among others) were duly registered with INPI and we had approximately 2,314 other trademarks registered or in the process of being registered in Brazil. We did not have any registered patents at December 31, 2009.

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) and [www.sendas.com.br](http://www.sendas.com.br). Please 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 leading 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, we believe the Brazilian retail food industry is highly competitive. Nonetheless this, supermarket penetration levels in Brazil, in terms of the number of supermarkets in terms to the country's population and area, is estimated to be lower than the levels recorded in the United States, several Western European countries and some South American countries.

Recently, leading retail food companies, including our Company, have acquired various chains. However, we believe that acquisition activities should slow down, since the major chains have already been purchased. We also believe that future acquisitions will involve smaller stores. Another 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.

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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 durable goods market, the principal competitors of our Extra Eletro 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 Curitiba, and Sonda, in the city of São Paulo.

In non food products e-commerce our competitors are Brazilian and foreign companies. However, competition from foreign companies is irrelevant for this market. According to a study by Exame magazine in the beginning of March 2010, our electronic stores *Extra.com.br* and *PontoFrio.com*, and taking into account our business combination with *CasasBahia.com*, now hold 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*, Dell 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.

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 square 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 socio-environmental responsibility area 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 (which represent 70% of our total stores), 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 (43.4 10<sup>13</sup> joules or 120,113,133 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 store in Indaiatuba (the first sustainable concept store in Latin America), 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.

Five 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 2009, as part of the development of this program, we included sustainability-related criteria in the Top Log evaluation, encouraging our suppliers to use less packaging and fuel and to make lower emissions, in addition to encouraging their involvement in actions intended to educate and disseminate responsible management.

In order to further contribute to sustainability we created teams for monitoring possible leaks in our refrigeration systems. Referred to as the *Caça Vazamentos* (Leak Busters), the program uses precise electronic detection equipment with minimum interference on the premises.

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 50 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 33 garbage collection and recycling cooperatives while generating income for around 550 workers. At December 31, 2009, we had recycling stations at 110 *Pão de Açúcar* stores, 104 *Extra* stores and 11 *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. The program also includes cooking oil, with monthly collection of over 10 thousand liters which are converted to biofuel, no longer contaminating rivers and springs.

*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.

*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 2009, 315 thousand re-usable bags were sold at *Pão de Açúcar* stores, 540 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), 180 thousand at *Extra* stores (with part of the income raised from sales being donated to *Casa Hope*, which supports children with cancer) and 190 thousand at *CompreBem* and *Sendas* stores in the São Paulo ABC region together. In 2010, clients will be able to choose between using their *Programa Mais* points as purchase vouchers, or converting them into donations to sustainable investments or in the social and environmental programs we are pursuing. 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 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\$30 million for the year ended December 31, 2009.

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

Companhia Brasileira de Distribuição conducts our operations. 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. All of our operations are conducted under the *Pão de Açúcar*, *CompreBem*, *Sendas*, *Extra*, *Extra Eletro*, *Extra Fácil*, *Extra Supermercado* and *Assaí* banners. The chart below displays 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 118 stores, eight warehouses and a part of our headquarters. The remaining 962 stores and 20 warehouses we operate and the remainders of our headquarters 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 12 leases expiring by the end of 2010. 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. At December 31, 2009, 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 Group. Our management believes that these leases are based on normal market conditions. See Item 7B. Major Shareholders and Related Party Transactions Related Party Transactions Leases and note 19 to our audited consolidated financial statements included in this annual report.

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that is owned and leased at December 31, 2009:

	Owned		Leased		Total	
	Number	Area (in square meters)	Number	Area (in square meters)	Number (*)	Area (in square meters)
Pão de Açúcar	30	40,954	115	152,371	145	193,325
Extra Hipermercados	25	163,809	78	567,380	103	731,189
Extra Eletro	2	2,671	45	25,231	47	27,902
Extra Supermercado	5	7,848	8	11,323	13	19,171
Extra Fácil	1	209	51	11,429	52	11,638
CompreBem	17	24,994	140	162,557	157	187,551
Sendas	4	5,729	64	117,334	68	123,063
Assaí	11	33,655	29	84,716	40	118,371
Ponto Frio	23	28,088	432	304,355	455	332,443
Warehouses	8	291,803	20	251,540	28	543,343
Headquarters	-	-	-	5,364	-	5,364

(\*) 23 of our stores have been subject to liens as a result of judicial proceedings.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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

*You should read this discussion in conjunction with our consolidated financial statements prepared in accordance with IFRS and the related notes and the other financial information included elsewhere in this annual report, with the exception of certain segment information prepared in accordance with Brazilian GAAP.*



**5A. Operating Results**

The following table demonstrates certain operation data at and for the year ended December 31, 2008 and 2009:

<b>Operating Data</b>	<b>At and for the Year Ended December 31,</b>		
	<b>2008</b>	<b>2009(7)</b>	<b>2009(7)</b>
	<b>(in millions of R\$, except as indicated)</b>		<b>(in millions of US\$, except as indicated)</b>
Employees at end of period	70,656	85,244	85,244
Total square meters of selling area at end of period	1,360,706	1,744,653	1,744,653
Number of stores at end of period:			
Pão de Açúcar	145	145	145
CompreBem	165	157	157
Extra (1)	139	168	168
Extra Eletro	47	47	47
Assaí (6)	28	40	40
Sendas (2)	73	68	68
Ponto Frio (3)(7)	-	455	455
Total number of stores at end of period	597	1,080	1,080
Net sales revenues per employee (4):			
Pão de Açúcar	229,076	262,276	150,647
CompreBem	325,737	335,961	192,970
Extra (1)	339,614	356,219	204,606
Extra Eletro	409,722	548,133	314,838
Assaí (6)	437,538	303,395	174,265
Sendas (2)	244,060	297,486	170,871
Ponto Frio (3)(7)	-	258,144	148,274
Average net sales revenues per employee	297,536	315,690	181,327
Net sales revenues by store format:			
Pão de Açúcar	3,378	3,798	2,182
CompreBem	2,573	2,585	1,485
Extra (1)	9,120	10,406	5,977
Extra Eletro	295	386	222
Assaí	1,269	1,982	1,138
Sendas (2)	1,397	1,608	923
Ponto Frio (3)(7)	-	2,475	1,422
Total net sales	18,032	23,240	13,349
Average monthly net sales revenue per square meter (5):			
Pão de Açúcar	1,481.1	1,637.2	940.4
CompreBem	1,085.4	1,148.7	659.8
Extra (1)	1,025.3	1,138.0	653.7
Extra Eletro	881.1	1,154.1	662.9
Assaí (6)	2,486.1	1,395.2	801.4
Sendas (2)	897.1	1,088.6	625.3



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Ponto Frio (3)(7)	-	620.4	356.3
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	637.6

Average ticket amount:39

Pão de Açúcar	26.1	29.8	17.1
CompreBem	19.3	20.7	11.9
Extra (1)	43.7	48.5	27.9
Extra Eletro	299.1	346.6	199.1
Sendas (2)	21.9	24.2	13.9
Assaí (6)	78.9	74.5	42.8
Ponto Frio (3)(7)	-	618.4	355.2
CBD average ticket amount	32.6	41.2	23.6

Average number of tickets per month:

Pão de Açúcar	10,769,076	10,607,751	10,607,751
CompreBem	11,128,328	10,387,308	10,387,308
Extra (1)	17,406,079	17,886,223	17,886,223
Extra Eletro	82,185	92,908	92,908
Sendas (2)	5,315,750	5,537,072	5,537,072
Assaí (6)	1,340,148	2,218,159	2,218,159
Ponto Frio (3)(7)	-	333,487	333,487
CBD average number of tickets per month	46,041,566	47,062,907	47,062,907

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- (1) Includes 52 *Extra Fácil* convenience stores and 13 *Extra Supermercado* stores.
  - (2) Sendas stores, which are part of Sendas Distribuidora.
  - (3) We entered into an agreement to acquire Globex (Ponto Frio), in July, 2009. For further information on the acquisition of Globex (Ponto Frio) see Item 4A. History and Recent Development of the Company Acquisition of Globex (Ponto Frio).
  - (4) Based on the average of the full-time equivalent number of employees calculated by dividing the total number of hours worked by all employees at the end of each month in the period presented by 220 hours.
  - (5) Calculated using the average of square meters of selling area on the last day of each of the months in the period.
  - (6) In 2008, the figures were calculated based on the Assaí stores in operation under the Assaí banner.
  - (7) Includes the result of operations of Globex (Ponto Frio) from July 1, 2009.

### **Brazilian Economic Environment**

The Brazilian economy has experienced moderate growth during the last five years. According to the IBGE (*Instituto Brasileiro de Geografia e Estatística*), which uses a new methodology for national accounting, Brazil's GDP grew 2.3% in 2005, 2.9% in 2006, 5.4% in 2007 and 5.1% in 2008. In 2009, however, Brazil's GDP did not show growth and, in fact, declined. The decrease is a consequence of the worldwide economic downturn that commenced in the last quarter of 2008, generating a carry-over effect of 1.4% from 2008 for 2009. Even if Brazil's GDP had sustained the same level of growth registered by the end of 2008 without further decreases, the GDP for 2009 would have decreased by 1.4% in comparison to 2008 due to the carry-over effect.

Consumer prices, as measured by the Broad Consumer Price Index, or the IPCA, published by the IBGE, registered an increase of 4.3% in 2009. Accordingly, growth in consumer prices was below the inflation target of 4.5% established by the National Monetary Council. In 2007 and 2008, the increase had been of 4.5% and 5.9%, respectively. Inflation, as measured by the General Price Index, or the IGP-DI, calculated by the Fundação Getúlio Vargas, which includes wholesale retail and home-building prices, decreased 1.44% in 2009, compared to increases of 9.1% in 2008 and 7.9% in 2007.

As a result of the deceleration of inflation and of the economic activity, the Central Bank decreased interest rates during 2009, and as a result, the SELIC rate - the Central Bank's overnight lending rate - decreased from 13.67% to 8.65%, which is the lowest level experienced since the creation of the inflation target system in 1999. At June 15, 2010, the SELIC rate has increased to 10.15%.

Brazil ended the year of 2009 with a trade balance surplus of US\$25.3 billion, compared to US\$24.8 billion in 2008. Exports decreased by 22.7% to US\$153.0 billion, while imports decreased by 26.2% to US\$127.6 billion. Financial inflows into the country decreased significantly, with foreign direct investments of US\$25.9 billion, compared to US\$45.1 billion in 2008. Portfolio investments increased by US\$46.7 billion in 2009 in comparison to the increase of US\$6.3 billion in 2008. The good performance of external accounts allowed international reserves to increase by US\$32.2 billion to a record level of US\$239.1 billion.

The *real* appreciated against the U.S. dollar by 25.5% in 2009. The exchange rate on December 31, 2009 was R\$1.74 to US\$1.00. After the crisis in 2008, when the exchange rate reached R\$2.50 to US\$1.00, the appreciation trend that had been observed since 2004 was a consequence of the decrease in country risk. In the previous years, the exchange rate was R\$1.77 to US\$1.00 as of December 31, 2007 compared to R\$2.14 to US\$1.00 as of December 31, 2006 and R\$2.34 to US\$1.00 as of December 31, 2005. The appreciation of the *real* in this context is also related to the devaluation of the U.S. dollar against other currencies. For further information on exchange rates, see Item 3A. Selected Financial Data Exchange Rate, and Item 3D. Risk Factors Risks Relating to Brazil Exchange rate instability may have a material adverse effect on the Brazilian economy and us.

### **Factors Affecting our Results of Operations**

The conditions that influence our sales are primarily the patterns of consumer purchases through the year and the effects on consumer disposable income of such factors as economic conditions, consumer confidence, level of employment and credit conditions. We are primarily affected by the following factors:

- performance of the Brazilian economy, including inflation rates, interest rates, Brazilian gross domestic product growth and growth in internal consumption;
- our performance;

- performance and position of the Brazilian retail food industry, such as the availability and price of merchandise and competition existing within the sector at the time; and
- maintenance of conditions whereby individuals have access to credit.

The following table shows inflation, the change in real gross domestic product and the variation of the *real* against the U.S. dollar for the years ended December 31, 2009, 2008 and 2007.

	Year ended December 31,		
	2009	2008	2007
Inflation (IGP-DI) <sup>(1)</sup>	(1.4)%	9.1%	7.9%
Inflation (IPCA) <sup>(2)</sup>	4.3%	5.9%	4.5%
Growth (contraction) in real gross domestic product	(0.2)%	5.1%	5.4%
Depreciation (appreciation) of the <i>real</i> vs. U.S. dollar	(25.5)%	31.9%	(17.2)%
Period-end exchange rate US\$1.00	R\$ 1.741	R\$ 2.337	R\$ 1.771
Average exchange rate US\$1.00 <sup>(3)</sup>	R\$ 1.993	R\$ 1.838	R\$ 1.948

Sources: *Fundação Getúlio Vargas*, the *Instituto Brasileiro de Geografia e Estatística* and the Central Bank.

- (1) Inflation (IGP-DI) is the general price index measured by the Fundação Getúlio Vargas.
- (2) Inflation (IPCA) is a broad consumer price index measured by the Instituto Brasileiro de Geografia e Estatística, the official inflation rate index in Brazil and reference for inflation targets set forth by the Brazilian Monetary Council.
- (3) Represents the average of the commercial selling exchange rates on the last day of each month during the period.

## Financial Presentation and Accounting Policies

### *Presentation of Financial Statements*

Management strives to report the financial results of our Company in a clear and understandable manner, even though in some cases accounting and disclosure rules are complex and require us to use technical terms. The preparation of our 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 regarding these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying our Company's accounting policies, management has made the following judgments, which have most significant effect on the amounts recognized in the consolidated financial statements:

#### *Critical Accounting Policies*

The key assumptions concerning the future and other sources of uncertainty related to our 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 fiscal year are:

*Estimated impairment of goodwill:* The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3 to our financial statements for the year ended December 31, 2009 included in this annual report and International Accounting Standard (IAS) 36. The recoverable amounts of cash-generating units have been determined based on fair value and value-in-use calculations. These calculations require the use of estimates, see note 13 to our financial statements included in this annual report.

*Income taxes:* Deferred tax 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 significant amounts of tax loss carry forwards. These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support these balances. For further information on deferred taxes, see note 23 to our financial statements included in this annual report.

*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 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, benchmark to the fair value of similar financial instruments, analysis of discounted cash flows or other valuation models.

*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. For more information on the assumptions and models used for estimating fair value for share-based payment transactions see note 25 to our financial statements included in this annual report.

## **Business Combination**

### *Globex (Ponto Frio) Acquisition*

Globex (Ponto Frio) has been consolidated into our financial statements since July 7, 2009. The acquisition 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 Globex (Ponto Frio) acquisition. We will conclude the collection of the necessary data required to complete the valuation of the fair value of the net assets acquired during 2010, consistent with the IFRS 3's allocation period of 12 months to complete the purchase price allocation. The provisional purchase price allocation is based on an initial balance under IFRS. We do not expect significant changes in the valuation of accounts, with the exception of the valuation of property and equipments and the identification of intangibles.

For more information on acquisition of Globex (Ponto Frio) see Item 4A. Information on the Company History and Recent Development of the Company Acquisition of Globex (Ponto Frio) and see note 15 to our financial statements included in this annual report.

## **2009 Overview**

Despite the financial market wariness in the beginning of 2009, we began the year with real growth in same-store sales, higher customer traffic and an increase in the average ticket. These indicators continued to increase throughout the year.

In 2009, we exceeded all of our annual guidance targets, excluding Globex's (Ponto Frio) operations. Gross sales totaled R\$23.3 billion (guidance was greater than R\$23.0 billion); same-store sales increased by 4.5% in real terms (guidance real growth in excess of 2.5%).

Including the acquisition of Globex (Ponto Frio) in July 2009, we finished the year with nominal gross sales of R\$26.2 billion, a 25.7% increase as compared to 2008. We also gained market share, mainly in non-food sales, which recorded same-store growth of 13.5%.

We also strengthened our position in the non-food segment through two important initiatives; the acquisition of Globex (Ponto Frio) and the business combination with Casas Bahia. These transactions complemented our

positioning in the durable goods segment, allowing us to serve consumers from across the income spectrum. In addition, we broadened our knowledge of the segment, capturing synergies, pursuing service excellence and offering a series of benefits to consumers, including greater product assortment, more attractive prices and easier access to credit.

The synergies captured so far from the acquisition of Globex (Ponto Frio) are above initial expectations, representing gains in several areas, including information technology, logistics, marketing, purchasing and the granting of credit. In addition, the Brazilian government's initiatives to increase sales of durable goods, including the IPI (Federal VAT) tax on white goods and furniture and the adoption of the ICMS (state VAT) tax substitution regime, where ICMS previously recorded as recoverable by the Company becomes part of the Company's costs as a result of the Company not having to pay ICMS on the sale of its products, have enabled greater formalization of the segment, leading to fairer competition.

Our non-food operations will be further strengthened by the integration and segmentation of Ponto Frio and Extras and e-commerce operations, which we expect will create a business with annual turnover of more than R\$1.0 billion.

Other annual highlights included the acquisition of the remaining 40% of Assaí, which should lead to greater dynamism and further synergies in 2010.

### Results of Operations for 2009 and 2008

Results of the operating segments are presented in Brazilian GAAP, the measure used by management in evaluating the performance of and strategy for the three segments listed below. Financial data prepared in accordance with IFRS and Brazilian GAAP is not comparable. See note 31 to our financial statements included in this annual report for a description of the key differences between IFRS and Brazilian GAAP.

### Segments

Statement of operations data	At December 31, 2009					
	Retail	Cash & Carry	Electronics and Home Appliances (Globex - Ponto Frio) (1)	Elimination(2)	IFRS Adjustments	Total in IFRS
Net sales revenue	18,787.6	1,981.8	2,484.7	-	(13.6)	23,240.5
Gross profit	5,011.5	291.3	457.5	-	(13.6)	5,746.7
Depreciation and amortization	(415.9)	(12.1)	(26.0)	-	(7.6)	(461.6)
Operating profits	944.2	39.5	(72.4)	-	119.0	1,029.9
Financial income	239.7	1.4	10.6	-	38.7	290.4
Financial expenses	(475.1)	(10.6)	(50.6)	-	(53.9)	(590.2)
<b>Income before income and social contribution taxes and employees profit sharing and noncontrolling interest</b>	733.2	30.3	(110.0)	(9.3)	94.0	738.2
Income and social contribution taxes	(95.7)	(14.3)	103.6	-	(89.5)	(95.9)

(1) Includes the result of operations of Globex (Ponto Frio) beginning from July 1, 2009.

(2) Accounts for inter-company transactions.





**Segments****At December 31, 2008****Electronics  
and Home  
Appliances**

<b>Statement of operations data</b>	<b>Retail</b>	<b>Cash &amp; Carry</b>	<b>(Globex - Ponto Frio)</b>	<b>Elimination(1)</b>	<b>IFRS Adjustments</b>	<b>Total in IFRS</b>
<b>Net sales revenue</b>	16,770.3	1,262.8	-	-	(1.1)	18,032.0
<b>Gross profit</b>	4,558.7	194.9	-	-	(1.1)	4,752.5
Depreciation and amortization	(599.4)	(5.3)	-	-	162.0	(442.7)
Operating profit	663.5	43.3	-	-	136.0	842.8
Financial income	291.0	1.1	-	-	-	292.1
Financial expenses	(604.0)	(4.9)	-	-	(14.8)	(623.7)
<b>Income before income and social contribution taxes and employees profit sharing and noncontrolling interest</b>	379.3	39.5	-	(25.9)	117.8	510.7
Income and social contribution taxes	(97.4)	(13.6)	-	-	(36.2)	(147.2)

(1) Accounts for inter-company transactions.

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

**Consolidated****Results of Operation**

	<b>At and for the Year Ended December 31,</b>			
	<b>2009 (1)</b>	<b>%</b>	<b>2008</b>	<b>%</b>
Net sales revenue	23,240.5	100.0	18,032.0	100.0
Cost of sales	(17,493.8)	(75.3)	(13,279.5)	(73.6)
Gross profit	5,746.7	24.7	4,752.5	26.4
Selling, general and administrative expenses	(4,176.3)	(18.0)	(3,447.9)	(19.1)
Depreciation and Amortization	(461.6)	(2.0)	(442.7)	(2.5)
Other operating expenses, net	(77.8)	(0.3)	(19.1)	(0.1)
Operating profit	1,030.3	4.4	842.8	3.6
Financial income	290.4	1.2	292.1	1.6
Financial expense	(590.2)	(2.5)	(623.7)	(3.5)
Equity	7.0	0.0	(0.5)	0.0
	738.2	3.2	510.7	2.8

Income before income and social contribution taxes and employees' profit sharing and noncontrolling interest

Income tax (expense) benefit:

Current	(68.1)	(0.3)	(36.3)	(0.2)
Deferred	(27.8)	(0.1)	(110.9)	(0.6)
Employee profit sharing	(32.5)	(0.1)	(22.2)	(0.1)
Net income	609.8	2.6	341.3	1.9
Attributable to equity holders of the parent	609.0	2.6	341.3	1.9
Attributable to noncontrolling interest	0.8	0.0	0.0	0.0

(1) Includes the result of operations of Globex (Ponto Frio) beginning from July 1, 2009.

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

***Consolidated***

*Net sales revenue.* Net sales revenue increased by 28.9%, or R\$5,208.5 million, from R\$18,032.0 million in 2008 to R\$23,240.5 million in 2009, as explained below. Our same stores sales increased by 12.7% in the period.

- *Traditional 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.*
- *Cash & 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 14.7% in the period, driven by the optimization of over the counter sales.*
- *Electronics and Home appliances segment (Globex - Ponto Frio) net sales revenue totaled R\$2,484.7 million in 2009. The acquisition of Globex (Ponto Frio) took effect for accounting purposes on July 1, 2009, increasing our net sales.*

*Gross Profit* increased by 20.9%, or R\$ 994.2 million, from R\$4,752.5 million in 2008 to R\$5,746.7 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 21.1%, or R\$728.4 million, from R\$3,447.9 million in 2008 to R\$4,176.3 million in 2009 due to the consolidation of Globex's (Ponto Frio) 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 4.3%, or R\$18.9 million, from R\$442.7 million in 2008 to R\$461.6 million in 2009 primarily due to the acquisition of Globex (Ponto Frio) in July of 2009, which added 455 stores to our Group.

*Other operating expenses, net* increased by 307.3%, or R\$58.7 million, from R\$19.1 million in 2008 to R\$77.8 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 Restructuring of our Association with Itaú Unibanco and the reversal of provision for contingencies in the amount of R\$107.5 million.

*Financial Income* decreased by 0.6%, or R\$1.7 million, from R\$292.1 million in 2008 to R\$290.4 million in 2009 due to a reduction in net debt resulting in less interest to be paid and lower CDI interbank rate.

*Financial Expenses* increased by 5.7%, or R\$33.5 million, from R\$590.2 million in 2008 to R\$623.7 million in 2009 as a result of the interest due to the increased volume of discounts on receivables.

*Equity* increased from R\$(0.5) million in 2008 to R\$7.0 million in 2009. On September 30, 2009, FIC took over the management of Banco Investcred BINVI, Globex's (Ponto Frio) 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 44.6%, or R\$227.6 million, from R\$510.7 million in 2008 to R\$738.3 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 34.9%, or R\$51.3 million from R\$(147.2) million in 2008 to R\$(95.9) 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.

*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 78.7%, or R\$268.6 million, from R\$341.3 million in 2008 to R\$609.8 million in 2009 due to the factors discussed above.

### ***Segment Information***

Results of the operating segments are presented in Brazilian GAAP, the measure used by management in evaluating the performance of and strategy for the three segments listed below. Financial data prepared in accordance with IFRS and Brazilian GAAP is not comparable. See note 31 to our financial statements included in this annual report for a description of the key differences between IFRS and Brazilian GAAP.

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

At 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 12.0%, or R\$2,017.3 million, from R\$16,770.3 million in 2008 to R\$18,787.6 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 9.9%, or R\$452.8 million, from R\$4,558.7 million in 2008 to R\$5,011.5 million in 2009 due to the increase in sales as a result of the opening of new stores.

*Depreciation and amortization* decreased by 30.6%, or R\$183.5 million, from R\$599.4 million in 2008 to R\$415.9 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 42.3%, or R\$280.7 million, from R\$663.5 million in 2008 to R\$944.2 million in 2009 due to higher sales and a decrease in operating expenses due to more strict budget control.

*Financial expenses* decreased by 21.3%, or R\$128.9 million, from R\$604.0 million in 2008 to R\$475.1 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 17.6%, or R\$51.3 million, from R\$291.0 million in 2008 to R\$239.7 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 93.3%, or R\$353.9 million, from R\$379.3 million in 2008 to R\$733.2 million in 2009 due to higher operating profit and decrease in expenses due to strict budget control.

*Income and social contribution taxes* decreased by 1.7%, or R\$1.7 million from R\$97.4 million in 2008 to R\$95.7 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 & Carry Segment*

At December 31, 2009, our Cash & 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.

*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.

### *Electronics and Home Appliances Segment*

At December 31, 2009, our Electronics and Home Appliances Segment was comprised of the banner *Ponto Frio*, including the web site *pontofrio.com*.

Net sales revenue totaled R\$2,484.7 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 operating cash flows, loans obtained from the Brazilian National Bank for Economic and Social Development, or BNDES, issuances of debentures and loans from banks. In addition, we fund our working capital needs through a receivables securitization investment fund (PAFIDC).

At December 31, 2009, we had R\$2,341.9 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents in order to be in a position to respond to short-term liquidity requirements.

Our main cash requirements include:

- the servicing of our indebtedness;
- capital expenditures, including the construction and remodeling of new stores and investments in our infra-structure;
- 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 flows from our operating activities and borrowings. Net cash from operating activities was 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\$(1,636.8) million in 2009 and R\$484.7 million in 2008 (after payment of R\$109.2 million in dividends). In 2009, these cash flows were primarily used for investments in the capital expenditures program, totaling R\$1,631.8 million.

At December 31, 2009, our total outstanding debt was R\$4,112.3 million, consisting of:

- R\$3,311.5 million in real-denominated loans,
- R\$800.1 million in U.S. dollar-denominated debt, and
- R\$0.7 million in debt linked to a basket of foreign currencies to reflect BNDES' funding portfolio, plus an annual spread.

At December 31, 2009, R\$800.1 million of our debt was U.S. dollar denominated. In addition, we have R\$0.7 million of debt in favor of BNDES that is linked to a basket of foreign currencies, for which we have swap agreements to mitigate foreign currency risk. During the last years we have adopted a treasury policy to manage financial market risk, principally by entering into swaps into *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, under 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 normally 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 designed to manage our remaining exposure to foreign currency liabilities, namely our import-finance credit lines.

Total debt at December 31, 2009 increased by 20.0% or R\$685.1 million, from R\$3,427.2 million in 2008 to R\$4,112.3 million in 2009. Our most significant 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\$209.3 million in 2009 and R\$318.0 million in 2008.

We have entered into five lines of credit agreements with BNDES, which are either denominated in *reais* and subject to indexation, based on the TJLP plus an annual spread, or are denominated based on a basket of foreign currencies to reflect BNDES funding portfolio, 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 more information regarding our lines of credit with BNDES, see note 16(b) to our financial statements included in this annual report.

We cannot offer any assets as collateral for loans to third parties without the prior authorization of BNDES and must comply with the following negative covenants measured in accordance with Brazilian GAAP: (i) maintain a capitalization ratio (shareholders equity/total assets) equal to or in excess of 0.40 and (ii) maintain a 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 2009, some of which have since been converted into our non-voting preferred shares. At December 31, 2009, there were 777,965 debentures in circulation.

On March 1, 2007, the shareholders approved the sixth issuance and public placement 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.

On June 15, 2009, the shareholders approved the seventh issuance and public placement 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 is payable on the maturity date.

On December 4, 2009, the shareholders approved the eighth issuance and public placement 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.

At December 31, 2009, we had 777,965 non-convertible debentures outstanding, totaling R\$1,500.7 million. We are required to comply with the following negative covenants: (i) net debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity; and (ii) maintenance of a ratio between net debt and EBITDA less than or equal to 3.25.

For more information on our non-convertible debentures, see note 36(b) to our financial statements included in this annual report.

On September 19, 2003, we concluded the structure of *Pão de Açúcar Fundo de Investimento em Direitos Creditórios*, or PAFIDC, a receivables securitization fund, with a term of duration until 2012. In 2008, we transferred to PAFIDC customer credit financing and accounts receivable from credit card companies, in securitization transactions totaling R\$9,051.2 million in 2009 and R\$8,057.1 million in 2008. The outstanding balance of these receivables at December 31, 2009 was R\$1,125.8 million and R\$983.5 million in 2008. 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.

In 2009, our capital expenditures totaled R\$1,631.8 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\$488.3 in 2008. For specific use of our capital expenditures in 2009, see Item 4A. Information on the Company History and Development of the Company Capital Expansion and Investment Plan.

We believe that existing resources and operating income will be sufficient to complete the capital expansion and investment program described above and meet our liquidity requirements. However, our capital expansion 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 expansion and investment plan. In addition, we may participate in acquisitions not

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budgeted in the capital expansion and investment plan, and we may modify these plans.

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

We do not have any significant research and development policies.

**5D. Trend Information**

Based on our strong performance and strategic acquisitions in 2009, we expect 2010 to be a year of continued growth for the Company, allowing us to substantially accelerate our organic expansion plan based on a solid capital structure.

We have in 2009 approved our biggest ever three-year investment plan, totaling approximately R\$5 billion through 2012, most of which we intend to allocate to the opening of new stores. In particular, we will be investing in *Assaí*, *Extra Fácil* and *Extra Supermercado* formats, which we expect will contribute to stronger returns to us.

We believe we are well positioned and prepared to maintain our growth targets. Our investment plan reflects the positive outlook for the Brazilian economy and confirms our commitment to the creation of jobs and the development of the country as a whole. While we will prioritize organic growth through the inauguration 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 at December 31, 2009:

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	2,488.7	471.6	2,010.6	6.5	-
Debentures	1,500.8	19.4	821.5	659.9	-
Estimated interest payments (1)	153.7	130.3	23.4	-	-
Taxes, other than on income	1,264.2	58.6	160.7	160.7	884.1
Financial Leasing	122.9	38.7	40.0	5.3	38.9
Operating lease (2)	4,119.3	467.0	734.0	734.0	2,184.3
<b>Total contractual obligations</b>	<b>9,649.6</b>	<b>1,185.6</b>	<b>3,790.2</b>	<b>1,566.4</b>	<b>3,107.3</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 at December 31, 2009. 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**

Our board of directors is currently composed of the following members:

<b>Name</b>	<b>Position</b>	<b>Since</b>
Abilio dos Santos Diniz	Chairman	2003
Ana Maria Falleiros dos Santos Diniz D Avila	Director	2003
João Paulo Falleiros dos Santos Diniz	Director	1999
Pedro Paulo Falleiros dos Santos Diniz	Director	2003
Geyze Marchesi Diniz	Director	2005
Jean-Charles Henri Naouri	Director	2005
Candido Botelho Bracher	Director	2005
Fábio Schvartsman	Director	2007
Guilherme Affonso Ferreira	Director	2008
Jean Louis Bourgier	Director	2009
Antoine Marie Remi Lazars Giscard D Estaing	Director	2009
Pedro Henrique Chermont de Miranda	Director	2009
Arnaud, Daniel, Charles, Walter, Joachim Strasser	Director	2010
Ulisses Kameyama	Director	2010

*Mr. Abilio dos Santos Diniz* is the chairman of our board of directors since 2003. His professional career was entirely dedicated to the Pão de Açúcar Group, 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 the São Paulo Supermarket Association (Associação Paulista de Supermercados), or APAS, and ABRAS. He was also member of the Brazilian Monetary Council for ten years. He 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 Avila* is a member of our board of directors since 2003. Previously, 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 the daughter of Mr. Abilio Diniz.

*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 business and director responsible for our affiliated companies and international division. 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 the son of Mr. Abilio Diniz.

*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 found companies in the gastronomy and leisure sector. Mr. Pedro Paulo Diniz is son of Mr. Abilio Diniz.

*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 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 BADESP Banco de Desenvolvimento do Estado de São Paulo S.A. Mr. Bracher is CEO of Banco Itaú BBA S.A. Mr. Bracher has a degree in Business Administration from Fundação Getúlio Vargas.

*Mr. Fábio Schvartsman* is a member of our board of directors since 2007. Mr. Schvartsman was the chief executive officer of Telemar Participações and member of the board of directors of the companies Telemar Norte Leste, Contax Participações S.A. and Gafisa S.A, where 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 of 2007. Mr. Schvartsman has a degree in Engineering and has post-graduation degrees in Production Engineering from Escola Politécnica da Universidade de São Paulo USP and in Business Administration from Fundação Getúlio Vargas.

*Mr. Guilherme Affonso Ferreira* 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 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>
Enéas César Pestana Neto	Chief Executive Officer	2010
José Roberto Coimbra Tambasco	Executive Vice-President of Retail Business	2010
Hugo Antonio Jordão Bethlem	Executive Vice-President of Corporate Relations	2010
Antonio Ramatis Fernandes Rodrigues	Executive Vice-President of Commercial Strategy	2010
Claudia Elisa de Pinho Soares	Executive Vice-President of Market Strategy	2010
José Antônio de Almeida Filippo	Corporate, Finance and IT Services Officer	2010
Caio Racy Mattar	Executive Vice-President of Specialized Businesses	2010
Sylvia de Souza Leão Wanderley	People and Management Officer	2010
Marcelo Lopes	Supply Chain Officer	2010
Paulo Gualtieri	Commercial Food and Loss Prevention Officer	2010
Daniela Sabbag	Investor Relations Officer	2006

*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, and 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 Almeida Filippo* has been our Corporate, Finance and IT Services Officer since 2010. Prior to joining our Company in 2010, he worked for Gafisa S.A, Reynolds 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 Investor Relations at CPFL Energia. Mr. Filippo graduated from the UFRJ with a degree in civil engineering, earned a finance post-graduate degree at IAG/PUC-RJ, and a specialization in management from IBMEC and Harvard Business School.

*Mr. Caio Racy Mattar* is our Executive Vice-President of Specialized Businesses. He previously served as a member of the executive office of Reúne Engenharia e Construções Ltda. 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 and Management Officer. In 2000, Mrs. Leão began working at our Company as a commercial director and she 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.

*Mr. Paulo Gualtieri* has been our Commercial Food and Loss Prevention 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.

*Ms. Daniela Sabbag* is our Investor Relations Officer. Ms. Sabbag has worked in our Investor Relations area since 2000, and in recent years was the Investor Relations Manager. Ms. Sabbag has a degree in business administration and holds an MBA from Fundação Getúlio Vargas, with supplementary courses and post-graduate studies in business administration from Fipecafi at the Universidade de São Paulo. Previously, Ms. Sabbag worked at Deutsche Bank and at *Sé Supermercados*. Ms. Sabbag began her career with us in 2000 and has been our executive officer since 2006.

## **6B. Compensation**

For the year ended December 31, 2009, the aggregate compensation paid in cash to all of our directors and executive officers and members of our committees as a group was R\$56.5 million. Non-cash benefits in 2009 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. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers, and we do not otherwise publicly disclose this information.

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees by retaining 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, 2009, amounted to R\$2.0 million and employees' contributions amounted to R\$3.0 million with 861 participants.

**Compensation of the Board of Directors, Executive Officers and Fiscal Council for 2010 and 2009**

The table below indicates the estimated compensation amount for members of the Board of Directors, Executive Officers and Fiscal Council for 2010:

	<b>Board of Directors</b>	<b>Advisory Board</b>	<b>Executive Board</b>	<b>Fiscal Council</b>	<b>Total</b>
			<i>(In R\$, when applicable)</i>		
Number of members	14	8	11	3	36
<b>Fixed Annual Compensation</b>	-	-	<b>15.0</b>	<b>0.4</b>	<b>15.4</b>
Benefits	-	-	1.9	-	1.9
Base Compensation	-	-	13.1	0.4	13.5
Others	-	-	-	-	-
<b>Variable Compensation</b>	<b>7.7</b>	<b>0.2</b>	<b>23.9</b>	-	<b>31.8</b>
Bonus	-	-	-	-	-
Profit Sharing	-	-	23.9	-	23.9
Participation in Meetings	7.1	0.2	-	-	7.3
Participation in Committee Meetings	0.4	-	-	-	0.4
Commissions	-	-	-	-	-
Others (Invitees Compensation)	0.2	-	-	-	0.2
<b>Post-Employment Benefit</b>	-	-	-	-	-
<b>Benefits on ceasing to exercise the position</b>	-	-	-	-	-
<b>Share-based compensation <sup>1</sup></b>	-	-	<b>14.2</b>	-	<b>14.2</b>
<b>Total Compensation</b>	<b>7.7</b>	<b>0.2</b>	<b>53.1</b>	<b>0.4</b>	<b>61.4</b>

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

The table below indicates the compensation amount for members of the Board of Directors, Executive Officers and Fiscal Council for 2009:

	<b>Board of Directors</b>	<b>Advisory Board</b>	<b>Executive Board</b>	<b>Fiscal Council</b>	<b>Total</b>
			<i>(In R\$, when applicable)</i>		
Number of members <sup>1</sup>	13.83	8	10.17	2.25	34.25
<b>Fixed Annual Compensation</b>	-	-	<b>12.7</b>	<b>0.3</b>	<b>13.0</b>
Benefits	-	-	1.1	-	1.1
Base Compensation	-	-	11.6	0.3	11.9
Others	-	-	-	-	-
<b>Variable Compensation</b>	<b>7.5</b>	<b>0.2</b>	<b>25.0</b>	-	<b>32.7</b>
Bonus	-	-	-	-	-
Profit Sharing	-	-	25.0	-	25.0
Participation in Meetings	6.9	0.2	-	-	7.1
Participation in Committee Meetings	0.5	-	-	-	0.5
Commissions	-	-	-	-	-
Others (Invitees Compensation)	0.1	-	-	-	0.1

<b>Post-Employment Benefit</b>	-	-	-	-	-
<b>Benefits on ceasing to exercise the position</b>	-	-	-	-	-
<b>Share-based compensation</b>	-	-	<b>10.8</b>	-	<b>10.8</b>
<b>Total Compensation</b>	<b>7.5</b>	<b>0.2</b>	<b>48.5</b>	<b>0.3</b>	<b>56.5</b>

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(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 as per the following table.

**Variable Compensation 2010 and 2009**

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 positions. Below we present the variable compensation of members of our Executive Board expected to be paid in 2010 and paid in 2009.



*Amounts projected for the year 2010*

	<b>Executive Board</b> <i>(In R\$, when applicable)</i>	
Number of members		11
<b>Bonus</b>		
Minimum expected amount		-
Maximum expected amount		-
Expected amount goals achieved		-
<b>Profit sharing</b>		
Minimum expected amount		-
Maximum expected amount		35.8
Expected amount goals achieved		23.9

*Amounts referring to the year 2009*

	<b>Executive Board</b> <i>(In R\$, when applicable)</i>	
Number of members <sup>1</sup>		10.17
<b>Bonus</b>		
Minimum expected amount		-
Maximum expected amount		-
Expected amount goals achieved		-
Amount actually recognized		-
<b>Profit sharing</b>		
Minimum expected amount		-
Maximum expected amount		27.0
Expected amount goals achieved		18.0
Amount actually recognized		25.0

(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 as per the following table:

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

As of December 31, 2009, we had two stock option plans in effect. The first plan, approved at the General Shareholders Meeting held on April 28, 1997, or First Plan, and the second plan, approved at the General Shareholders Meeting held on December 20, 2006, or Second Plan, together the Option Plans.

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 in between three to five members and determines which employees are to benefit from the stock options based on their duties, responsibilities and performance.

The Option Plans covers only the class A preferred shares issued by our Company.

*General Terms and Conditions*

Our Stock Option 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, 2009, the options granted under the Series VIII, IX and X of the First Plan and Series A1 to A3 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.

*Principal Objectives of the Plan*

The aim of the Options Plan is to (i) attract and retain highly qualified executives and professionals; (ii) enable our managers and employees to participate in our capital and in the equity increases arising from the results these managers, employees and service providers have contributed to; and (iii) to align the interests of our managers and employees with those of our shareholders, encouraging these professionals in their performance 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 class A 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 should our board of directors so decide. 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 fixed by the Stock Options 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, restated using 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 Committee decides to grant the option. After this average price has been ascertained, 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 respective 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 respective 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 Committee in the 35<sup>th</sup> month following the date of execution of the respective adhesion agreement.

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

### *Restrictions on Transferring Shares*

The Stock Option Committee may set restrictions on the transfer or circulation of the shares obtained from exercising the options.

In the first plan, part of the shares acquired in the fifth year following the date of execution of the respective adhesion agreement, will be encumbered with non-transferability, being extinguished after the beneficiary retires. The quantity of shares under said encumbrance will be ascertained as follows:

$$Q = \frac{(Q1 \times Pm) - (Q1 \times Pe)}{Pm}$$

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;

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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.

### 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.

		<b>Executive Management</b>							
Number of members benefiting from the granting of stock options		11							
		Series IX	Series X	Series A1 Gold	Series A1 Silver	Series A2 Gold	Series A2 Silver	Series A3 Gold	Series A3 Silver
<b>In relation to options not yet exercisable:</b>									
Quantity		50,700	50,840	80,616	185,540	140,801	149,715	305,169	305,153
Vesting date		5/31/10	6/30/11	4/30/10	4/30/10	3/31/11	3/31/11	5/31/12	5/31/12
Maximum deadline for exercising the options		6/30/10	9/30/11	4/29/11	4/29/11	3/31/12	3/31/12	5/31/13	5/31/13
Weighted average exercise price (in R\$, per share)		29.86	38.85	0.01	24.63	0.01	26.93	0.01	27.47
Fair value of the options on the last day of the year (in R\$, per share)		14.46	17.23	65.01	16.98	65.01	41.46	65.01	37.98
<b>In relation to exercisable options:</b>									
Quantity		22,400	11,000	0	0	58,607	62,514	19,681	24,594
Maximum deadline for exercising the options		5/31/10	9/30/11	N/A	N/A	3/30/12	3/30/12	5/31/13	5/31/13
Weighted average exercise price (in R\$, per share)		29.86	38.85	N/A	N/A	0.01	26.93	0.01	27.47
Fair value of the options on the last day of the business year (in R\$, per share)		14.46	17.23	N/A	N/A	65.01	41.46	65.01	37.98
Fair value of the options on the last day of the year (in thousand R\$)		323.9	189.5	N/A	N/A	3,810.0	2,591.8	1,279.5	934.1

### 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 2009.

		<b>Executive Management</b>									
Number of members benefiting from the granting of stock options		11									
In relation to the options exercised and the shares delivered:	Series VIII	Series IX	Series X	Series A1 Silver (1 <sup>st</sup> batch)	Series A1 Silver (2 <sup>nd</sup> batch)	Series A1 Silver	Series A2 Gold (1 <sup>st</sup> )	Series A2 Gold (2 <sup>nd</sup> )	Series A2 Gold (3 <sup>rd</sup> )	Series A2 Silver (1 <sup>st</sup> )	Series A2 Silver (3 <sup>rd</sup> batch)

	batch)				(3 <sup>rd</sup> batch)	batch)	batch)	batch)	batch)	(2 <sup>nd</sup> batch)		
Number of shares (in thousand)	192	11	223	5	3	2	30	91	47	45	96	52
Weighted average exercise price (in R\$, per share)	32.75	29.62	38.54	24.63	24.63	24.63	0.01	0.01	0.01	26.93	26.93	26.93
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)	13.60	20.70	11.78	7.35	21.72	25.69	31.97	46.34	50.31	5.05	19.42	23.39

## Insurance

We have an insurance policy with Itaú Seguros S.A., effective from November 23, 2009 to November 23, 2010, covering all our managers against damages attributed to them in the exercise of their respective 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 subsidiary companies, with liability limited to 20% of the total assets of the company in question.

## 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 Group, four independent directors and five representatives of the Casino Group, whose terms of office expire in 2011. We are managed by our board of directors (*Conselho de Administração*) and by our board of executive officers (*Diretoria*). None of our directors is party to an employment agreement providing for benefits upon termination of employment.

Mr. Abilio Diniz acts as the Chairman of our board of directors and 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, four 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. Up to June 6, 2010, there were 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 February 5, 2009, our directors elected our current executive officers. The current term of all executive officers expires in April 2011.

## **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 set forth 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 president of each special committee. Each special committee is composed of three and up to five members for a term of office of three years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.

### *Human Resources and Compensation Committee*

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

### *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, Geyze Marchesi Diniz, Antonie Marie Remi Lazars Giscard d Estaing and Arnaud Strasser.



*Sustainable Development Committee*

The sustainability committee holds meetings at least once every three months and has the following assignments: (a) leverage our business by expanding our sustainable development and environmental aspects; (b) establish sustainable practices, based on economic, environmental and social elements in order to promote sustainable developments and disseminate these practices throughout all of our strategic activities and relationships; (c) evaluate and approve projects, proposals and institutional campaigns related to environmental or social issues, including the allocation of resources; (d) evaluate investment opportunities and projects from a sustainable perspective; and (e) approve the social balance sheets and sustainability reports. Our sustainability committee is composed of Arnaud Strasser, Jean Louis Bourgier, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Guilherme Affonso Ferreira.

In addition, to the three special committees aforementioned, we implemented a Fiscal Council that serves as our audit committee and a Stock Option Plan Management Committee. The following section describes 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 board of auditors 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 new 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 decided 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 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 management and the board.

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 this 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. 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. Set forth below are 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 April 29, 2010, the date of the last annual shareholders meeting.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year First Elected</b>
Miguel Roberto Gherrize	71	Chairman	2009
Oswaldo Orsolin	67	Alternate	2009
Fernando Maida Dall Acqua	61	Effective member	2009
Antonio Luiz de Campos Gurgel	69	Alternate	2009
Mario Probst	57	Effective member	2009
John Michel Pimenta de Moraes Streithorst	40	Alternate	2009

*Mr. Miguel Roberto Gherrize* is the chairman of the Fiscal Council. Previously, Mr. Gherrize was partner of Arthur Andersen and a member of the Fiscal Council of Companhia Siderúrgica de Tubarão, VCP Votorantim Celulose e Papel and Arcelor Brasil S.A. Today he serves as a member of the Fiscal Council of TIM Participações S.A. and a technical advisor to Terco Grant Thornton Auditoria e Consultoria. He holds Bachelor's degrees in Economics, Accounting Sciences and Business Administration.

*Mr. Oswaldo Orsolin* is an alternate member of the Fiscal Council. Previously, Mr. Orsolin was the CEO of Spal Indústria Brasileira de Bebidas S.A., a member of the Fiscal Council of Rhodia Ster S.A. and of the Audit Committee of the American Chamber of Commerce and Magazine Luiza S.A. Today he serves as a member of the Board of Directors of Refrigerantes de Manaus Ltda. (Coca Cola da Amazônia), and of the Fiscal Council and Audit Committee of TIM Participações S.A. He graduated in Economics and Accounting Sciences.

*Mr. Fernando Maida Dall'Acqua* is a Master of Business Administration from Fundação Getúlio Vargas, PhD in Economic Development from the University of Wisconsin-Madison (USA), Free Professor of Administration from Fundação Getúlio Vargas and a fellowship at Michigan State University (USA). He was Treasury Secretary of the State of São Paulo and held positions in the areas of financial, tax, budget and strategic management, in addition to being a member of the State Privatization Council of the State of São Paulo. He was also a member of the Board of Directors and of SoX Audit Committee of Companhia de Saneamento Básico do Estado de São Paulo (SABESP), of the Board of Directors of Companhia Energética do Estado de São Paulo (CESP), Companhia de Processamento de Dados do Estado de São Paulo (PRODESP), DERSA Desenvolvimento Rodoviário S.A., Banco do Estado de São Paulo (BANESPA) and Nossa Caixa S.A and a member of the Advisory Council of Grupo Pão de Açúcar. Today he serves as a member of the Board of Directors and of the Audit Committee of Companhia de Transmissão de Energia

Elétrica Paulista (ISA-CTEEP), of the Audit Committee of the São Paulo State newspaper O Estado de São Paulo and a member of the Fiscal Council of Grupo Pão de Açúcar. He is an Incumbent Professor at the School of Administration of São Paulo - Fundação Getúlio Vargas, and provides advisory services to major companies in the areas of mergers and acquisitions, economic, financial and tax valuation.

*Mr. Antonio Luiz de Campos Gurgel* is an alternate member of the Fiscal Council. Previously, Mr. Gurgel served as Fiscal Auditor of the Brazilian Internal Revenue Service. Today he serves as advisor to companies such as Cargill Agricola S.A., Companhia Energética do Estado de São Paulo (CESP), Hewlett-Packard Brasil Ltda., IBM Brasil Indústria, Máquinas e Serviços Ltda., Telecomunicações de São Paulo S.A. (TELESP), Volkswagen do Brasil Indústria de Veículos Automotores Ltda., Banco Bradesco S.A., Itaú Unibanco. and Banco ABN Amro S.A. Currently, he works as associate professor in the Accounting, Finance and Control Department of Fundação Getúlio Vargas. He graduated in Business Administration from Fundação Getúlio Vargas and holds an MBA from the Michigan State University USA.

*Mr. Mario Probst* is a member of the Fiscal Council. Previously, Mr. Probst was partner of KPMG Auditores Independentes. Today he serves as a member of the Fiscal Council of Odontoprev S.A. and Ultrapar Participações S.A. He graduated in Business Administration from the Getúlio Vargas Foundation and in Accounting Sciences from the College of Political and Economic Sciences of Rio de Janeiro.

*Mr. John Michel Pimenta de Moraes Streithorst* is an alternate member of the Fiscal Council. Previously, Mr. Streithorst was a member of the Investment Committee and director of Icatu Equity Partners and a member of the Investment Committee of AIG Latin American Equity Partners. Today he serves as a member of the Investment Committee of Capital Mezanino FIP. He graduated in Computer Engineering from UNICAMP.

Our board of directors has determined 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.

#### *Stock Option Plan Management Committee*

Our Stock Option Plan Management Committee has the following objectives: (a) deliberate matters relating to granting, prices, dates and the amount granted in each plan; (b) decide when each stock option plan will be granted, considering the possibility of not granting the plan in our Company's interest; (c) take into account all the necessary measures in order to appropriately manage the stock option plan, including the interpretation of the general guidelines; (d) guide the Company on when to issue new shares or when to use the shares held in treasury; (e) 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; (f) 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; (g) establish, for each beneficiary, the alternatives, terms and conditions for each exercise, the share acquisition price and payment; (h) extend, generally or in specific cases, the termination date for each stock option plan; (i) 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 (j) modify unilaterally the terms and conditions of the option granted freely as well adapting them to amendments in corporate law.

#### **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 president of our board of directors. The current term of all members of our advisory board is three years, reelection being permitted, and such members may receive a compensation set forth by our general shareholders meeting. Our currently installed advisory board was 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**

Our workforce at December 31, 2009 consisted of 85,244 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 considers our relations with our employees and their unions to be good. We have not had strikes in our history.

The following table sets forth the number of our employees at December 31, for each of the five years ended December 31, 2009, 2008, 2007, 2006 and 2005:

	At December 31 <sup>(1)</sup>				
	2009	2008	2007	2006	2005
Operational	73,617	60,605	55,494	53,495	53,187
Administrative	11,627	10,051	10,671	10,112	9,616
Total	85,244	70,656	66,165	63,607	62,803

(1) Based on the full-time equivalent number of employees calculated by dividing the total number of hours worked by all employees in the final month of each period presented by 220 hours.

**6E. Share Ownership**

At December 31, 2009, the board members owned an aggregate amount of 4,371 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. See Item 7A. Major Shareholders and Related Party Transactions Major Shareholders. At April 29, 2010, our management and some of our employees also owned options to purchase an aggregate amount of 3,432 preferred shares at per-share weighted average purchase price of R\$17.82. None of the members of our management and our employees holds any options to purchase our common shares. See Item 6B. Directors, Senior Management and Employees 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 15, 2010, 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.

	Common Shares		Preferred Shares Class A		Preferred Shares Class B		Total Shares	
	Number	%	Number	%	Number	%	Number	%
Wilkes Participações S.A	65,400,000	65.61	1,107,913	0.73	-	-	66,507,913	25.83

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Peninsula Participações Ltda	-	-	2,608,467	1.73	-	-	2,608,467	1.01
Sudaco Participações Ltda	28,619,178	28.71	1,357,294	0.90	-	-	29,976,472	11.65
Segisor S.A.	-	-	4,027,409	2.67	1,064,345	15.89	5,091,754	1.97
Casino Guichard Perrachon S.A	5,600,052	5.62	-	-	-	-	5,600,052	2.18
Abilio dos Santos Diniz	100	-	-	-	-	-	100	-
João Paulo F. dos Santos Diniz	-	-	17,800	0.01	-	-	17,800	0.01
Ana Maria F. dos Santos Diniz D Avila	1	-	-	-	-	-	1	-
Pedro Paulo F. dos Santos Diniz	-	-	721	-	-	-	721	-
Jean-Charles Naouri	-	-	1	-	-	-	1	-
PAIC Participações Ltda	-	-	648,729	0.43	-	-	648,729	0.25
Onyx 2006 Participações Ltda	-	-	20,527,380	13.59	-	-	20,527,380	7.97
Rio Plate Empreendimentos e Participações Ltda	-	-	4,055,172	2.68	-	-	4,055,172	1.58
Swordfish Investments Limited	-	-	252,662	0.17	360,945	5.39	613,607	0.24
Marlin Investments Ltd.	-	-	32,000	0.02	-	-	32,000	0.01
Stanhore Trading Internacional S.A.	-	-	6,078,592	4.02	660,788	9.87	6,739,380	2.62
Directors and Officers	-	-	540,435	0.36	2,689	0.04	543,124	0.21
Others	60,520	0.06	109,821,515	72.69	4,609,172	68.81	114,491,207	44.47
TOTAL	99,679,851	100.0	151,076,090	100.0	6,697,939	100.0	257,453,880	100.00



On June 15, 2010, 43,223,974 of our preferred shares were held in the form of ADSs, representing 28.61 % of the total of outstanding preferred shares class A. 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 Group 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 Group and the Casino Group. The group was reorganized and restructured in 2006, resulting in our current ownership structure.

On December 31, 2009 the value of the resulting tax benefit related to both our income taxes and our social contribution tax on profits was R\$208.0 million (R\$414.2 million in 2008). This is shown in the balance sheet as part of deferred taxes.

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. The effect of the reorganization on our balance sheet was R\$208.0 million and R\$414.2 million at December 31, 2009 and 2008, respectively.

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 2009 the capitalization of the economic benefits generated by the amortization of shareholder's premium was R\$88.8 million, with R\$428.6 million remaining as reserve balance. See note 24(d) to our financial statements included in this annual report.

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

Since May, 2005, the Diniz Group 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 Group 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 Group to the Casino Group. At the same date, the Diniz Group 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 Group 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 Group and the Casino Group other than through the Holding Company. At 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 Group 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 Group and (ii) a distressful call option, or the Distressful Call Option, to the Casino Group.

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- **First Put Option:** in the event that the Casino Group elects the Chairman of the Holding Company from June 22, 2012, the Diniz Group 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 Group 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 Group 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 Group not be allowed under the terms of the Put Option Agreement to exercise the First Put Option and the Second Put Option, the Diniz Group 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 Group is entitled to:

- appoint: (i) two directors of the board of directors of the Holding Company composed of four directors, and (ii) two executive officers of the Holding Company;
- appoint the Chairman of the board of directors of the Holding Company 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 Group 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 Group 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 Group transfers any common shares of the Holding Company to a third party.

Both the Casino Group and the Diniz Group 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 Group.

The Diniz Group 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 Group 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 Group'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 Group 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 Group. 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 Group 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 Group, 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 Group. 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 2009 under those leases equaled approximately R\$13.5 million to the Diniz family, R\$36.5 million to the *Sendas* family and R\$135.0 million to the Fundo de Investimento Imobiliário Península. We believe that all such 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 notes 19 and 21 to our financial statements included in this annual report.

#### **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.

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. In 2009 payments to Galeazzi & Associados amounted to R\$4.6 million. See also note 21 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.

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**Legal Proceedings**

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business. These include general civil, tax and labor litigation and administrative proceedings. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimated losses in the event of unfavorable court decisions and to ensure that the outcome 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 provisioned for. For further information on our legal proceedings, see note 18 to our financial statements included in this annual report.

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

	<b>2009</b>	<b>2008</b>
	<b>(millions of reais)</b>	
COFINS and PIS Tax claims	161.4	1,096.4
Labor claims	26.9	-
Civil and other claims	178.9	147.7
Total accrued liabilities for legal proceedings	367.2	1,244.1

*Taxes*

Tax-related claims are indexed to the SELIC rate, which was 9.50% at December 31, 2009, and are subject, when applicable, to fines.

*COFINS and PIS:* The Company obtained a favorable final judgment on the constitutionality of the change in the basis of taxation of the Social Integration Program Tax, or PIS, and the increase in the rate and basis of calculation of the Social Security Tax, or COFINS. As a result of this and other favorable decisions rendered by the Federal Supreme Court, the Company reversed the litigation provision in the amount of R\$107.5 million. The Company had no judicial deposits related to this lawsuit.

As the calculation of the PIS and COFINS started to be based on the non-cumulative system (Law 10,637/02 to PIS and Law 10,833/03 to COFINS), we began applying the new rules but challenged the new tax base and the appropriation of credits as being unlawful. The Company filed a lawsuit relating to the exclusion of default charges from the calculation of debt related to the COFINS rate. The provision recorded for these claims were R\$161.4 million at December 31, 2009 and R\$ 1,096.4 at December 31, 2008. The decrease in the provision is related to the inclusion of these claims in the federal tax installment program discussed below.

*Other:* The Company and its subsidiaries have other tax liabilities, which, after analysis of our legal counsel, were deemed to be probable losses or issues likely to be booked. These include:

- tax deficiency notices concerning the difference between inflation indexes used when determining income tax;
- notices related to purchase, manufacturing and sales transactions for export purposes of soybean and its byproducts;

- a 1% increase in the Imposto Sobre Circulação de Mercadorias e Serviços, Brazil's excise tax rate, enacted by the State of Rio de Janeiro; and
- other ISS (services tax)-related claims.

The amount recorded for these potential claims at December 31, 2009 amounted to R\$35.0 million.

The Company is also claiming in court, its right to not pay contributions provided for by Complementary Law 110/2001, relating to financing the Government Severance Indemnity Fund for Employees. The amount accrued on December 31, 2009 was R\$33.5 million; the Company made a judicial deposit of R\$9.7 million in connection with its claim.

*Social Security Contributions*

The Social Security Institute (*Instituto Nacional do Seguro Social*), or INSS filed several assessment tax notices charging social security contributions on payments that we do not believe should be included in the calculation of those contribution, representing R\$112.9 million as of December 31, 2009. We have presented an administrative defense and are awaiting a decision. In addition, R\$99.3 million of the social security contribution amount being charged is subject to lawsuits and are guaranteed by real estate seizure or bank letters of guarantee. We did not accrue any provisions for this contingency.

*ICMS - State Value-Added Tax on Sales and Services*

We were served notice by the state tax authorities for the non-payment and appropriation of undue credits related to the ICMS, in connection with, among others, (i) the appropriation of electricity credits, (ii) the acquisition of goods from suppliers considered to be disreputable, (iii) the return of goods to our stores, and (iv) the tax refunds without due compliance with ancillary obligations. On December 31, 2009, the total amount of these assessments classified as probable and remote awaiting a final decision at the administrative and court levels amounted to R\$1,328.3 million, compared to R\$1,193.3 million on December 31, 2008.

*Other Tax-Related Matters*

In June 1990, we filed an injunction seeking protection for non-payment of the Brazilian social contribution on profits, which we claimed to be unconstitutional based on the fact that this tax should have been enacted by a complementary law to the Brazilian Constitution. We obtained a favorable decision from the lower court in March 1991. Although no appeal was presented by the Federal government, pursuant to Brazilian law, this lawsuit was submitted to mandatory review of the Regional Federal Court, which in February 1992, confirmed the lower court's decision. Based on the opinion of our legal counsel, we believe that the federal tax authorities have no further legal appeal available to collect this contribution on a retroactive basis, resulting in an unlikely chance of an unfavorable ruling.

Corporate Income Tax ( IRPJ ) Social Contribution on Net Income ( CSLL ) Withholding Income Tax, ( IRRF ) The Company has several assessment notices regarding offsetting proceedings, rules on the deductibility of provisions and tax payment discrepancies, all of them awaiting a final decision in the administrative level, amounting to R\$244.7 million on December 31, 2009 and R\$146.6 million on December 31, 2008.

COFINS, PIS and we are involved in administrative proceedings regarding a motion for offsetting tax payment discrepancies, in addition to the aforementioned collection of taxes on soybean export operations. These proceedings await administrative decisions. The amount involved in these assessments is R\$632.9 million on December 31, 2009 and R\$498.4 million on December 31, 2008.

ISS, Municipal Real Estate Tax ( IPTU ), Property Transfer Tax ( ITBI ) and others These proceeding relate to assessments on third parties retention, tax payment discrepancies, fines due to non-compliance of ancillary obligations and sundry taxes. These amounted to R\$68.2 million on December 31, 2009 and R\$34.6 million on December 31, 2008, and await administrative and court decisions. The increase from 2008 to 2009 is a result of new administrative and legal proceeding against the Company.

Other contingencies These contingencies relate to administrative lawsuits and lawsuits under the civil court, special civil court, Consumer Protection Agency ( PROCON ) (in many states), Weight and Measure Institute ( IPEM ), National Institute of Metrology, Standardization and Industrial Quality ( INMETRO ) and the National Health Surveillance Agency ( ANVISA ). A majority of these suits relate to damages being sought, amounting to R\$79.5

million on December 31, 2009 and R\$69.1 million on December 31, 2008.

*Labor Claims*

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of our business. At December 31, 2009 and 2008 we had a provision of R\$82.6 million and R\$53.6 million, respectively, for labor related loss contingencies whose risk of loss was considered probable, and R\$39.8 million at December 31, 2009 for labor related contingencies whose risk of loss was considered possible. The balance of the provision for labor claims, net of judicial deposits, is R\$ 26.9 million at December 31, 2009.

### *Globex (Ponto Frio)*

Possible labor, civil and tax proceedings in relation to Globex (Ponto Frio) amounted to R\$127.3 million on December 31, 2009. Occasional adverse changes in the expectation of risk of these claims may require that additional provision for contingencies be made. These claims were not included in the federal tax installment payment program.

### *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, 2009 is R\$1,043.0 million resulting in a reduction in contingencies that would have been attributable to these tax and social security liabilities.

### *Other Proceedings*

In addition to the legal proceedings mentioned above, we are defendants, at several judicial levels, in various civil and other lawsuits. We have recorded provisions in amounts that our internal and external legal counsel considered to be sufficient to cover probable losses. For further information on these lawsuits, see note 18 to our financial statements included in this annual report. At December 31, 2009, we had a provision of R\$178.9 million for liabilities in connection with civil and other lawsuits.

## **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 that established 50% of the net profits adjusted 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 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.

According to our extraordinary general meeting held on July 6, 2009, our class B preferred shares were created holding the following rights:

- Preference in right of payment in the event of liquidation, calculated by dividing our capital stock by the number of outstanding shares, without premium; and
- Receiving fix annual dividends amounting R\$0.01 per class B preferred share.

The remaining rights weren t altered.

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For the fiscal year ended 2009, there were no alterations in the dividend distribution period when compared to 2007, with the exception of our new dividend policy created in our Board of Directors Meeting, and market announcement, held on August 3, 2009, in which we now anticipate our dividend distribution on a quarterly basis. For further information see Item 10B. Additional Information Memorandum and Articles of Association Allocation of Net Profits and Distribution of Dividends Distribution of Dividends.

We calculate our dividends in accordance with Brazilian GAAP, which differs significantly from IFRS, see Item 3A. Selected Financial Data and note 31 to our financial statements included in this annual report.

#### *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 2005:

<b>Period</b>	<b>Description</b>	<b>First payment date</b>	<b>R\$ per class A preferred share <sup>(1)</sup></b>	<b>R\$ per class B preferred share <sup>(1)</sup></b>	<b>R\$ per common share <sup>(1)</sup></b>	<b>Total amount in dividends and interest on shareholders equity (in R\$ millions)</b>
2005	Dividends	June 2006	0.3101	-	0.2819	62.0
2006	Dividends	June 2007	0.0930	-	0.0845	20.3
2007	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

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

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.

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. Key Information 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

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outlined in Item 10E. Additional Information Taxation Brazilian Tax Considerations.

**8B. Significant Changes**

We are not aware of any significant changes bearing upon our financial condition since the date of the consolidated financial statements included in this annual report.

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

Our preferred shares are traded on the BM&FBOVESPA under the trading symbol PCAR5. 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, 2009, the ADSs represented 28.0% of our preferred shares. Each ADS represents two preferred shares, without par value. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York Mellon.

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

Calendar Period	High	Low	High	Low	R\$ Average Daily Trading Volume
	R\$		US\$( <sup>1</sup> )		
2005 <sup>(2)</sup>	38.50	28.40	16.45	12.13	5,841,394
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

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

	High	Low	High	Low
	R\$		US\$	
December 2009	65.02	56.55	37.36	32.49
January 2010	68.19	62.15	36.39	33.16
February 2010	65.34	60.15	36.10	33.23
March 2010	64.05	57.65	35.98	32.38
April 2010	64.11	56.96	37.06	32.93
May 2010	60.76	54.42	33.46	29.97
June 2010 (through June 15)	60.75	57.04	33.80	31.74

(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. Key Information Selected Financial Data Exchange Rates. (2) As restated due to the reverse stock split of the shares.

On June 15, 2010, the closing sale price for the preferred shares on the BM&FBOVESPA was R\$60.75 per preferred share, equivalent to US\$67.63 per ADS translated at the exchange rate of R\$1.7963 per US\$1.00, the commercial market rate on such date. On the same date, the closing sale price for our ADSs on the NYSE was US\$68.37.

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		
2005	34.61	25.53	81.01	59.76	5,421,717
2006	46.01	25.54	98.33	54.59	9,505,171
2007	43.77	27.50	77.39	50.57	12,177,425
2008	49.41	22.18	89.99	51.83	14,603,734
2009:					
1st quarter	28.56	23.26	66.11	53.84	8,544,418
2nd quarter	39.39	27.98	76.83	54.59	8,979,127
3rd quarter	56.30	38.96	100.06	69.24	10,296,232
4th quarter	75.57	55.86	131.51	97.21	18,591,622

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

December 2009	75.57	67.46	131.51	117.40	18,856,415
January 2010	77.74	66.72	145.68	125.03	23,810,913
February 2010	73.32	63.81	132.72	115.50	20,742,024
March 2010	72.08	64.92	128.31	115.56	16,500,348
April 2010	73.01	64.72	126.29	111.95	24,614,980
May 2010	70.43	58.30	127.89	105.86	26,274,956
June 2010 (through June 15)	68.37	60.59	122.81	108.84	15,901,589

## 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.

At June 11, 2010, there were 375 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.

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.

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;
- σπεχιφσ εξαμπλεσ οφ αχτσ ορ φαχτσ τηατ αρε χονσιδερεδ το βε ματεριαλ, ωηιχη ινχλυδε, αμονγ οτηερσ, τηε εξεχυτιον οφ αγρεεμεντσ προωιδινγ φορ τηε τρανσφερ οφ χοντρολ οφ α πυβλιχ χομπανψ, τηε εντρψ ορ ωιτηδραωαλ οφ σηαρεηολδερσ τηατ μαινταιν ανψ μαναγινγ, φινανχιαλ, τεχηνολογιχαλ ορ αδμινιστρατιωε φυνχτιον ωιτη ορ χοντριβυτιον το τηε χομπανψ, ανδ ανψ χορπορατε ρεστρυχτυρινγ υνδερτακεν αμονγ ρελατεδ χομπανιεσ;
- 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**

At December 31, 2009, our capital stock consisted of a total of 254,851,988 non-par shares, of which 99,679,851 were common shares, 143,878,318 were class A preferred shares and 11,293,891 were class B preferred shares . As of the same date, our Company held 369,600 class A preferred shares in treasury.

At June 15, 2010, our capital stock consisted of a total of 257,453,880 non-par shares, of which 99,679,851 were common shares and 151,076,090 were class A preferred shares and 6,697,939 were class B preferred shares. As of the same date, 232,586 preferred shares were held in treasury and no common shares were held in treasury. The reduction of assets held in treasury is a result of the tender offer in connection with the acquisition of Globex (Ponto Frio), see Item 4A. History and Recent Development of the Company Acquisition of Globex (Ponto Frio).



## **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 (Ponto Frio), see Item 4A. History and Recent 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 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 below. All of our class B preferred shares will be converted into class A preferred shares observing the schedule bellow. See Conversion of Class B Preferred Shares into Class A Preferred Shares below.

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

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

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

- right to participate in the distribution of the mandatory dividend of 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.

- 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; or
- tag-along right of at least 80% of the price paid to the controlling shareholder in case of transfer of control.

Our by-laws sets forth that the class A preferred shares are entitled to the following advantages and preferences:

- priority in receiving a minimum non-cumulative annual preferred dividend equal to R\$0.08 per class A preferred share that is accounted for as a portion of the mandatory dividends (as mentioned below);
- priority in the reimbursement of capital, which its value will be calculated by the division of the corporate capital by the number of trading shares, without premium, in the event of our liquidation;
- participation under equal conditions with common shares, in the distribution of bonus shares resulting from capitalization of reserves or retained earnings; and
- each preferred share will be entitled to a mandatory dividend 10% higher than the dividend amount attributed to each common share (including, for purposes of such calculation, in the sum of the total amount of dividends paid to the preferred shares, the amount paid pursuant to item (i) above).

Furthermore, our by-laws sets forth that the class B preferred shares are entitled to the following advantages and preferences:

- priority in receiving a fixed non-cumulative annual preferred dividend equal to R\$0.01 per preferred share that is accounted for as a portion of the mandatory dividends (as mentioned below);
- conversion into class A preferred shares in a one-to-one ratio on the following dates as follows: (a) 32% of shares were converted on September 30, 2009; (b) 28% of class B preferred shares were converted on January 7, 2010; (c) 20% of shares will be converted on July 7, 2010; and (d) 20% of shares will be converted on January 7, 2011.
- priority in the reimbursement of capital, which its value will be calculated by the division of the corporate capital by the number of trading shares, without premium, in the event of our liquidation; and
- participation under equal conditions with common shares, in the distribution of bonus shares resulting from capitalization of reserves or retained earnings.

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:

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*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, in which we now anticipate our dividend distribution on a quarterly basis; no further alterations in the dividend distribution period were made.

*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 to the approval by 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 net profits adjusted 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 one or more 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

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resulting from government donations or subventions for investment purposes.

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*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 that 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 the 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.

If our board of directors determines prior to a general shareholders' meeting that payment of mandatory dividends with respect to the prior fiscal year would be incompatible in view of our financial condition, we are not required to pay the mandatory dividend. This determination must be reviewed by the fiscal council/audit committee, and our management must report to the CVM within five days of the relevant general shareholders meeting. The amount of mandatory dividends not distributed because of a Brazilian corporation's financial condition will be registered on a special account and, if not offset against losses in future years, will be distributed as mandatory dividends as soon as the corporation's financial condition permits.

#### *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
- 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 class A 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.

Under our by-laws, the class B preferred shares are not entitled to vote, non-negotiable and have no par value, which will entitle its holders to (i) an annual fixed dividend of R\$0.01 per share and (ii) preemptive right in the reimbursement in the event CBD is liquidated. class B preferred shares are converted into class A preferred shares as described below.



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. Additional information 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 Class A 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*

Our entire class B preferred shares currently issued will be converted to class A preferred shares in accordance with the schedule established within the scope of the acquisition of control of Globex (Ponto Frio), namely: (i) 50% of the class B preferred shares currently issued will be mandatorily converted on July 7, 2010; and (ii) 50% of the class B preferred shares currently issued will be mandatorily converted on January 7, 2011.

**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 so-called tax haven - that is, 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. Additional information Taxation Brazilian Tax Considerations 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.

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, Senior Management and Employees Directors and Senior Management Board of Directors and "Item 6C. Directors, Senior Management and Employees Board Practices."

**Voting Rights**

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

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The Brazilian corporate law provides that non-voting or restricted voting shares (such as the 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.

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;
- receive the management's accounts and approval of the financial statements, including the allocation of net profits;
- suspend the rights of a shareholder who has violated Brazilian corporate law or our by-laws;

- approve the valuation of assets offered by a shareholder in consideration for the subscription of shares of our capital stock;
- approve the transformation of the corporate form or a merger with or into another company, spin-off, consolidation or split; and
- authorize the management to petition for bankruptcy, to declare our company insolvent and to request procedures involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code.

In addition, our by-laws also establish that a general meeting of our shareholders will have the following duties:

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review the reports;
- appointment and removal of the Chairman of our board of directors;
- approval of the annual global compensation of the members of our management, including benefits;
- approval of or amendment to our annual investment program;
- approval of any issuance of common or preferred shares up to the limit of our authorized capital (400,000,000 shares), and/or any bonuses, debentures convertible into our shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for our shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which we are or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and the terms and conditions of subscription and payment;
- approval of any agreement or amendment to any agreement, directly or indirectly, between us and/or our affiliates and any of our controlling shareholders or their relatives, members of our management or any of our controlled companies and affiliates, except those agreements executed in ordinary course of business, which should be contracted on an arm's-length basis (market conditions);
- approval of any delisting from trading on any stock exchange or filings for new listings;
- approval of any change in our dividend policy;
- approval of any joint venture between us and third parties involving an individual investment or investments aggregated over a fiscal year in excess of the amount equivalent in *reais* to US\$100,000,000 or in excess of an amount equal to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher, provided that the joint venture was previously approved by our board of directors;
- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or amounts aggregated over a fiscal year in excess of the amount in *reais* equivalent to US\$100,000,000, or in excess of an amount equal to 6% of our shareholders equity as determined in our latest annual balance sheet, whichever is higher; and
- approval of any financial arrangement, including the lending or borrowing by us of funds and the issuance of non-convertible debentures in excess of an individual amount equal to two times our EBITDA of the preceding 12 months.

In relation to the matters described in the last two bullet points above, according to our by-laws, our board of directors has the following duties:

- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us in an individual amount or cumulated over a fiscal year in excess of the amount in *reais* equivalent to US\$20,000,000 or in excess of an amount equal to 1% and up to 6% of our shareholders equity as determined in its latest annual balance sheet, whichever is the higher; and

- approval of any financial arrangement in excess of an individual amount equivalent to one half and up to two times our EBITDA of the preceding 12 months.

According to Brazilian corporate law, neither a company's by-laws nor actions taken at a shareholders' meeting may deprive a shareholder of some specific rights, such as:

- the right to participate in the distribution of profits;



- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under the Brazilian law described under [Preemptive Rights](#) ;
- the right to withdraw from the company in the cases specified under Brazilian corporate law, see [Withdrawal rights](#) ; and
- the right to supervise, pursuant to Brazilian corporate law, the management of the company.

### *Quorum*

Generally, Brazilian corporate law provides that a quorum at a shareholders' meeting consists of shareholders representing at least 25% of a company's issued and outstanding voting capital on the first call and, if that quorum is not reached, any percentage on the second call. If the shareholders are called to amend our by-laws, a quorum at a shareholders' meeting consists of shareholders representing at least two-thirds of our issued and outstanding voting capital on the first call and any percentage on the second call.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders' meeting is required to ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing more than one-half of our issued and outstanding voting capital is required to:

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or create a new class with greater privileges than the existing classes of preferred shares;
- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge us into or with another company;
- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in the Brazilian corporate law);
- apply for cancellation of any voluntary liquidation;
- merge all our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company; and
- approve our dissolution.

### *Notice of our shareholders' meetings*

Notice of our shareholders' meetings must be published at least three times in the *Diário Oficial do Estado*, the official newspaper of the state where our headquarters are located and another newspaper widely published, currently *Folha*

de São Paulo, Gazeta Mercantil, 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. Key Information Risk Factors.

**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:

- 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;

- 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;
- a reduction in the mandatory distribution of dividends;
- a change in our corporate purposes;
- 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;

- our merger into or with another company, including if we are merged into one of our controlling companies, or are consolidated with another company;
- our participation in a group of companies as defined under the Brazilian corporate law and subject to the conditions set forth therein;
- 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
- 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.

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.

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**Other Dispositions**

In addition to the provisions already described in this annual report, the Brazilian corporate law and current regulations set forth, among others:

- 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;
- 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;
- 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;
- 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
- 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**

The two sections below summarize our material contracts. They are qualified by reference to the agreements that are filed as exhibits to this annual report.

***The Sendas Shareholders Agreement***

On September 16, 2005, *Sendas S.A.*, our subsidiary *Sé Supermercados Ltda.*, or *Sé Supermercados*, we and investment funds of the AIG Group entered into an amended and restated shareholders agreement, or the *Sendas Shareholders Agreement*, establishing our respective rights and obligations in the *Sendas Association*. *Sendas S.A.* and we hold 50% of the voting capital of the *Sendas Association*, each. *Sendas S.A.* has exercised its right to exchange all of its paid-in shares in the *Sendas Association* for preferred shares of our capital stock, pursuant to the *Sendas Shareholders Agreement*.

Among other provisions, the *Sendas Shareholders Agreement* provides for the following rights and obligations among the parties:

- της βoαρδ oφ διρεχτορσ oφ τησ Σενδασ Αςσοχιατιον ισ μαδε υπ oφ 13 ρεγυλαρ μεμβερσ ανδ φιωε αλτερνατεσ; ας λoγγ ας εαχη oφ υσ ανδ Σενδασ Σ.Α. χoντινυεσ το oων σηαρεσ ρεπρεσεντινγ 50% oφ τησ ποτινγ χαπιταλ oφ τησ Σενδασ Αςσοχιατιον, Σενδασ Σ.Α. ισ εντιτλεδ το απποιντ φιωε μεμβερσ ανδ τωo αλτερνατεσ ανδ ωε αρε εντιτλεδ το απποιντ σεωεν μεμβερσ ανδ τωo αλτερνατεσ;
- in order to establish a quorum, a majority of the members of the board must be present; resolutions are approved by the majority vote of the board members present; however, any two directors appointed by *Sendas S.A.* can veto resolutions of the board of directors that are not covered by the business purpose of the *Sendas Association*;

- we have the right to appoint all executive officers of the *Sendas* Association, which enables us to be fully responsible for the operating and administrative management of the *Sendas* Association;
- as long as each of us and *Sendas S.A.* continues to own shares representing 50% of the voting capital of the *Sendas* Association, shareholders' resolutions must be supported by both of *Sendas S.A.* and us; if the voting capital participation of any of us falls below 50%, the shareholders' resolutions will be taken by simple majority; in such case, however, the minority shareholder will be given the right to veto certain major corporate decisions, such as amendments to the by-laws of the *Sendas* Association regarding its capital stock, the issuance of securities and dividend policies, mergers, spin-offs and other corporate actions; such veto right will exist provided that the minority shareholder continues to own more than 25% of the voting capital of the *Sendas* Association;



- each of Sendas S.A. and us has a right of first refusal in the event that the other party wishes to dispose of its shares;
- in the event that PAIC Participações Ltda., or PAIC, Península Participações Ltda. or Península, and Mr. Abilio Diniz decide to transfer, either directly or indirectly, our equity control or the equity control of our subsidiary *Sé Supermercados, Sendas S.A.* will be entitled to cause us to purchase all of its shares of the *Sendas* Association; on October 19, 2006, *Sendas* notified its put option exercise to us based on a transaction with the Casino Group in 2005, which would have constituted a change of control of CBD. We responded to the notification informing that the option is not exercisable on grounds that the transaction between Diniz Group and Casino Group did not constitute a transfer of our control and therefore it should not constitute a trigger to the put option right. On October 31, 2006, we were notified by the Fundação Getúlio Vargas Arbitration Chamber (*Câmara de Conciliação e Arbitragem da Fundação Getúlio Vargas - FGV*) of the arbitration proceeding initiated by *Sendas*. On March 13, 2007, we and *Sendas* executed the arbitration submission agreement, which marked the initiation of the arbitration proceeding. During the proceeding, we and *Sendas* submitted petitions and documents to the arbitral tribunal and a preliminary hearing was held on October 4, 2007. On April 29, 2008, the Fundação Getúlio Vargas Arbitration Chamber, ultimately expressed an opinion, which is favorable to CBD, that the transaction with the Casino Group in 2005 did not constitute a change of control of CBD as claimed by *Sendas*. Accordingly, the claims formalized by *Sendas* in the arbitration proceeding were denied, specifically the request for the recognition of its alleged right to exercise the put of its shares in *Sendas Distribuidora* and promptly receive the total amount in cash.
- in the event that the controlling shareholder of Sendas S.A. receives from a third party an offer for disposal of the equity control of (i) Sendas S.A. and/or (ii) the controlling shareholder of Sendas S.A., we are entitled to either exercise a right of first refusal with regard to the shares being offered or we may acquire, at a price to be determined in accordance with the provisions of the Sendas S.A. Shareholders Agreement, all of the shares of the Sendas Association held by Sendas S.A.;
- *Sendas S.A.* may at any time exercise the right to exchange all or a portion of its paid-in shares in the *Sendas* Association for preferred shares of our capital stock; in such case, we may either (i) agree to the share exchange; or (ii) purchase in cash, at a transfer price to be determined in accordance with the provisions of the *Sendas S.A.* Shareholders Agreement, the shares upon which the right of share exchange has been exercised; or (iii) exchange the shares through a capital increase, merger or other corporate action.

#### ***Barcelona Comércio Shareholders Agreement***

Within the scope of our acquisition of 60% of the total voting capital of Barcelona, we entered into a shareholders agreement with *Assaí*'s former controlling shareholders that established a put and call option related to the 40% ownership interest in Barcelona owned by these former controlling shareholders. On July 25, 2009, we exercised the put option, purchasing the remaining 40% interest in Barcelona. As a result, the put-option agreement is no longer enforceable.

According to the shareholders agreement, in case the call or put options were to be exercised, the purchase or sales price should have been calculated as follows:

- 1) The highest amount of seven times EBITDA and 35.16% of net sales over the last 12 months immediately prior to the Option exercise date, deducting net indebtedness and contingencies with probable unfavorable outcome; if the EBITDA margin is lower than 4.625%, only the seven times EBITDA criterion will be taken into account; or

2) The initial purchase value net of distributed dividend, restated by IPCA plus 6.5% p.a. The exercise of the put and call options is subject to the following conditions:

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- if the chairman of Barcelona Comércio does not meet certain parameters set forth in the shareholders' agreement, the put and call options may be exercised by calculating the sales price pursuant to criterion 1 mentioned above;
- if the chairman of Barcelona Comércio resigns or if the chairman fails to attend more than 1/3 of the Board meetings held during a given fiscal year, the put and call options may be exercised by calculating the sales price pursuant to the lower value of criterion 1 or 125% of the sales price resulting pursuant to criterion 2 mentioned above;
- at any moment, until December 31, 2011, the put and call options may be exercised by calculating the sales price pursuant to the higher value of criterion 1 or 125% of the sales price calculated pursuant to criterion 2 mentioned above;
- from January 1 to January 15 of each calendar year between 2012 and 2014, the put and call options may be exercised by calculating the sales price pursuant to the higher value of criterion 1 or criterion 2 mentioned above; or
- if the chairman of Barcelona decesses or becomes disabled, the put and call options may be exercised by calculating the sales price pursuant to criterion 1 mentioned above.

In addition, the former controlling shareholders of *Assaí* may exercise the put option as of January 1, 2012 pursuant to the conditions set forth in criterion 1 mentioned above.

#### **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, that holder 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 be also 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. Additional Information 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:

- appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM;
- complete the appropriate foreign investor registration form;
- register as a foreign investor with the CVM; and
- 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. Additional Information 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:

- 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
- 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.

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:

- 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
- subject to income tax at a rate of 15% in any other case, including a case of gains assessed by a Non-Brazilian Holder that is not a 2,689 Holder, or is a resident in a Low or Nil Taxation Jurisdiction.

In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain.

Any other gains assessed on a disposal of the preferred shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, except for a resident in a Low or Nil Taxation Jurisdiction or yet where the local legislation imposes restrictions on the disclosure of the shareholding composition, of the ownership of the investment or of the identity of the effective beneficiary of the income attributed to non-residents, which, in this case, is subject to income tax at the rate of 25%. If these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the Non-Brazilian Holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

As a general rule, the gains realized as a result of a disposal of preferred shares or ADSs is the positive difference between the amount realized on the sale or exchange of the shares and their acquisition cost.

There is no assurance that the current preferential treatment for Non-Brazilian Holder of ADSs and 2,689 Holder of preferred shares will continue or that it will not be changed in the future.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the preferred shares or ADSs by a Non-Brazilian Holder will be subject to Brazilian taxation at the same rate applicable to the sale or disposal of preferred shares.

*Discussion on Low or Nil Taxation Jurisdictions*

In certain circumstances, the Brazilian tax legislation imposes higher taxation on transactions that are carried out with entities located in jurisdictions considered to maintain favorable tax regimes (the above mentioned Low or Nil Taxation Jurisdiction).

On June 24, 2008, Law No. 11,727 enlarged the scope of Low or Nil Taxation Jurisdiction (by adding the fourth paragraph to article 24 of Law no. 9,430/96 and introduced a new concept of Privileged Tax Regime. According to the enacted article 24-A of Law no. 9,430/96 it is considered as such the tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; or (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; or (iii) does not tax or taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

The recent enactment of the Normative Ruling no. 1,037/10, which sets forth the updated list of countries or jurisdictions deemed by Brazilian tax authorities to provide Favorable Taxation and Privileged Tax Regimes, made evident the acknowledgement by tax authorities that tax legislation does not provide for a singular concept for tax haven. Rather, there are cases of Low or Nil Taxation Jurisdiction and there are cases of Privileged Tax Regime, which must be analyzed separately. The provisions of Law No. 11,727/08 that refer to the Privileged Tax Regime came into effect on January 1, 2009.

In principle, the best interpretation of Law No. 11,727/08 lead us to conclude that the new concept of privileged tax regime should be solely applied for purposes of transfer pricing rules in export and import transactions (Law no. 9,430/96) and thin capitalization rules (Law no. 12,249/10).

Thus, to income and gains realized by foreign investors that invest in the Brazilian financial and capital markets (2,689 Holder), the relevant concept is the one that makes reference to countries that tax income at a rate lower than 20%, as provided under Law no. 9,959/00 (i.e. only Low or Nil Taxation Jurisdiction) and the countries listed in the article one of the Normative Ruling No. 1,037/10.

#### *Other Brazilian Taxes*

There are no Brazilian 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:

- an individual citizen or resident of the United States;
- 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;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership or other entity taxable as a partnership holds preferred shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners of partnerships holding preferred shares or ADSs should consult their tax advisors.

In general, for U.S. federal income tax purposes, holders of American Depositary Receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs.

### *Taxation of Distributions*

In general, distributions with respect to the preferred shares or ADSs (which likely include distributions of interest on shareholders equity, as described above under Brazilian Tax Considerations Interest on Shareholders Equity) will, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our

current and accumulated earnings and profits, as so determined under U.S. federal income tax principles, the excess will be treated first as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. holders should assume all distributions are made out of earnings and profits and constitute dividend income. As used below, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to the preferred shares or ADSs generally will be subject to U.S. federal income taxation as ordinary income and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in Brazilian currency will be included in the gross income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are actually or constructively received by the U.S. holder, or in the case of dividends received in respect of ADSs, on the date the dividends are actually or constructively received by the depositary, 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 depositary, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for short-term and hedged positions, under current law, the U.S. dollar amount of dividends received in taxable years beginning on or before December 31, 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.

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.

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### *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 (which rates are scheduled to increase on January 1, 2011). 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 17 to our financial statements included in this annual report for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk.

We use derivative financial instruments for purposes other than trading and do so to manage and reduce our exposures to market risk resulting from fluctuations in interest rates and foreign currency exchange rates. These instruments do not qualify for deferral, hedge, accrual or settlement accounting, with the resulting gains and losses reflected in the statement of operations within financial income and financial expense, respectively.

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. Operating and Financial Review and Prospects 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 do not hold or issue financial instruments for trading purposes.

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.

In order to minimize credit risk from our investments, we have adopted policies restricting cash and/or investments that may be allocated among financial institutions, which take into consideration monetary limits and financial institution credit ratings.

### **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 will 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, 2009. See notes 16 and 17 to our financial statements included in this annual report.

	As of December 31, 2009						Total	Fair Value	Annual Average Interest Rate
	Expected Maturity Date								
	2010	2011	2012	2013	2014	There-after			
	(millions of reais)								
<b>Assets:</b>									
Cash and banks in reais	231.6	-	-	-	-	-	231.6	231.6	
Cash equivalents denominated in reais	2,111.6	-	-	-	-	-	2,111.6	2,111.6	100.6% of CDI
Total cash and cash equivalents	2,343.2	-	-	-	-	-	2,343.2	2,343.2	
<b>Liabilities:</b>									
Loans and financing									
Floating rate, denominated in US dollars	0.7	-	-	-	-	-	0.7	0.7	4,1% over basket of foreign currencies (2)
Floating rate, denominated in US dollars (1)	299.6	277.9	223.0	-	-	-	800.5	800.5	102.8% of CDI
Floating rate, denominated in US dollars (1)	0.9	-	-	-	-	-	0.9	0.9	95.4% of CDI
Floating rate, denominated in reais	-	-	1,077.7	-	-	-	1,077.7	1,077.7	105% of CDI
Floating rate, denominated in reais	27.6	390.5	14.1	4.6	-	-	436.8	436.8	11% fixed rate
Floating rate, denominated in reais	142.8	23.1	4.1	1.9	-	-	171.9	172.8	3.1% over TJLP
Floating rate, denominated in reais	38.7	27.0	13.1	4.4	0.9	38.9	123.0	123.0	108% of CDI
Total loans and financing	510.3	718.5	1,332.0	10.9	0.9	38.9	2,611.5	2,612.4	
<b>Debentures</b>									
Floating rate, denominated in reais	19.4	459.6	361.9	459.9	200.0	-	1,500.8	1,481.9	96.1% over CDI

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

(2) Based on a basket of foreign currencies to reflect BNDES's funding portfolio The annual TJLP, which is modified quarterly, was as follows:

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
IGP-M(1)	2.8%	-1.7%	9.8%	7.8%
CDI (2)	2.0%	9.9%	12.4%	11.8%
TR (3)	0.1%	0.7%	1.6%	1.5%

(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. Operating and Financial Review and Prospects 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, 2009, the U.S. dollar depreciated by 34.8% against the real, and as of December 31, 2009, the commercial market rate for purchasing U.S. dollars was R\$1.7404 to U.S.\$ 1.00. In the first three months of 2010, the real depreciated by 2.3% against the U.S. dollar, and as of March 31, 2010, the commercial market rate for purchasing U.S. dollars was R\$1.7802 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 at December 31, 2009 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\$2.9 million at December 31, 2009 compared to R\$19.3 million at December 31, 2008. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially protect our exposure arising from our U.S. dollar-denominated debt.

The table below provides information on our debt outstanding as of December 31, 2009.

	Expected Maturity Date						Total	Fair Value
	2010	2011	2012	2013	2014	Thereafter		
	(millions of <i>reais</i> )							
Loans and financing								
Foreign currencies (**)	0.7-	-	-	-	-	-	0.7	0.7
US dollars (*)	300.5	277.9	223.0	-	-	-	801.4	801.4
<i>reais</i>	209.1	440.6	1,109.0	10.9	0.9	38.9	1,809.4	1,810.3
Total loans and financing	510.3	718.5	1,332.0	10.9	0.9	38.9	2,611.5	2,612.4
Debentures								
<i>reais</i>	19.4	459.6	361.9	459.9	200.0	-	1,500.8	1,481.9
Total Debentures	19.4	459.6	361.9	459.9	200.0	77.8	1,500.8	1,481.9

(\*) Originally US dollar-denominated and swapped to CDI.

(\*\*) Based on a basket of foreign currencies to reflect BNDES's funding portfolio.

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 16 and 17 to our financial statements included in this annual report. As of December 31, 2009, the originally U.S. dollar-denominated debt of R\$800.1 million and R\$934.5 million as of December 31, 2008, 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					There after	Total	Fair Value of (Assets) Liabilities	Average Paying Rate in <i>reais</i>	Average Receiving Rate
	2010	2011	2012	2013	2014					
Cross currency and interest rate swap contracts notional amount (US dollars to <i>reais</i> )	197.5	348.2	67.9	-	-	-	-613.6	664.2	102.4% over CDI	5.2% over U.S. dollar



**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 depository is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights.

**Fees and Expenses**

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares must pay: For:**

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US\$.02 (or less) per ADS	Any cash distribution to ADS registered Holders
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	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
US\$.02 (or less) per ADSs per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying	As necessary

an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities As necessary

### **Fees Incurred Since December 31, 2008**

From January 1, 2009 to June 15, 2010, the Company received from the depositary US\$457,517, for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of reimbursement of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

### **Fees to be Paid in the Future**

The Bank of New York Mellon, as depositary, has agreed to reimburse the Company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.

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 deduction 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.

## **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, 2009, 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 fraud.

*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, 2009. 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, 2009, our internal control over financial reporting is effective based on those criteria. Our management's report on internal control over financial reporting is included in this annual report as

Exhibit 15.2.

The effectiveness of internal controls over financial reporting as of December 31, 2009 has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements. Ernst & Young's attestation report on our internal controls over financial reporting is included herein as Exhibit 15.1.

**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). Information from that website is not incorporated by reference into this document.

**16C. Principal Accountant Fees and Services**

Ernst & Young Auditores Independentes acted as our independent registered public accounting firm for the fiscal year ended December 31, 2009 and 2008. The chart below sets forth the total amount billed to us by Ernst & Young Auditores Independentes for services performed in 2009 and 2008, and a breakdown of these amounts by category of service:

	<b>2009</b>	<b>2008</b>
	<b>(millions of reais)(1)</b>	
Audit Fees	7.1	5.7
Audit Related Fees	0.4	0.2
<b>Total</b>	<b>7.5</b>	<b>5.9</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 Auditores Independentes. Any services provided by Ernst & Young 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 2009, none of the fees paid to Ernst & Young 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. Directors, Senior Management and Employees Board Practices Fiscal Council.

**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 (Ponto Frio), see Item 4A. History and Recent 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.

**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.

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. Directors, Senior Management and Employees Board Practices Committees.

*Audit Committee and Audit Committee Additional Requirements*

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporate law.

The Brazilian corporate law requires companies to have a permanent or non permanent Fiscal Council composed of three to five members who are elected at the general shareholders meeting. If a non-permanent Fiscal Council is established, meetings of such Fiscal Council shall be convened upon request of shareholders representing a certain percentage of the share capital of the company, as set forth in the Brazilian corporate law. The Fiscal Council operates independently from management and from a company's external auditors. Its main function is to monitor the activities of management, examine the financial statements of each fiscal year and provide a formal report to our shareholders.

We have a permanent Fiscal Council that consists of three members and three alternates and which has ordinary meetings at least every three months. In order to comply with the exemption requirements that allow our Fiscal Council to act as an audit committee pursuant to SEC rules, our board of directors approved the delegation to the Fiscal Council of certain additional responsibilities and the Fiscal Council and the board of directors adopted an additional charter that delegates to the Fiscal Council the duties and responsibilities of a U.S audit committee to the extent permitted under Brazilian corporate law. For further information on our Fiscal Council, see Item 6C. Directors, Senior Management and Employees Board Practices.

#### *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 employees' 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.

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*Sarbanes Oxley Act of 2002*

We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. We have filed the relevant officer certifications under Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal controls over financial reporting as Exhibits 12.1 and 12.2 to this annual report.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this item.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements, together with the Reports of Independent Registered Public Accounting Firms, are filed as part of this annual report.

**ITEM 19. EXHIBITS****Exhibit****Number****Description**

- |          |   |
|----------|---|
| 1.1      | <u>English translation of our <i>Estatuto Social</i> (by-laws), as amended. *</u>   |
| 2.(a)    | Form of Amended Deposit Agreement, among us, The Bank of New York Mellon, as depository, and each Owner and Beneficial Owner from time to time of ADRs issued thereunder, including the form of American Depositary Receipt.(1)   |
| 4.(b)(1) | Partnership Agreement dated February 5, 2004, among us, <i>Sendas S.A., Sé Supermercados Ltda., Novasoc Comercial Ltda., Arthur Antonio Sendas, Sendas Empreendimentos e Participações Ltda., Pão de Açúcar S.A. Indústria e Comércio, Península Participações Ltda., Nova Península Participações S.A.</i> and Abilio dos Santos Diniz.(2)   |
| 4.(b)(2) | 2nd Addendum to and Restatement of the Shareholders Agreement of <i>Sendas Distribuidora S.A.</i> dated September 16, 2005, among us, <i>Sendas S.A., Sé Supermercados Ltda., Novasoc Comercial Ltda., Arthur Antonio Sendas, Sendas Empreendimentos e Participações Ltda., Pão de Açúcar S.A. Indústria e Comércio, Península Participações Ltda., Nova Península Participações S.A.</i> and Abilio dos Santos Diniz.(4) |
| 4.(b)(3) | Joint Venture Agreement dated as of May 3, 2005 among Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda., Casino Guichard Perrachon S.A., and Companhia Brasileira de Distribuição.(2)   |
| 4.(b)(4) | 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.(8)

4.(b)(5) Private Instrument of Institution of Usufruct dated as of July 8, 2005 among Vieri Participações S.A., Casino Guichard Perrachon, Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, Península Participações Ltda. and Companhia Brasileira de Distribuição.(2)

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4.(b)(6)	Technical Assistance Agreement dated as of July 8, 2005 by and between us and Casino Guichard Perrachon.(3)
4.(b)(7)	Real Estate Structure Agreement dated as of October 3, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. (4)
4.(b)(8)	First Amendment to the Real Estate Structure Agreement dated as of December 30, 2005 by and between us, Zabaleta Participações, and Rio Plate Empreendimentos e Participações Ltda. (4)
4.(b) (9)	Wilkes Shareholders Agreement dated as of November 27, 2006 among Sudaco Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda. (5)
4.(b) (10)	CBD Shareholders Agreement dated as of December 20, 2006 among Wilkes Participações S.A., Segisor, Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz, and Península Participações Ltda. (5)
4.(b) (14)	English translation of <i>Acordo de Acionistas</i> (Stockholders Agreement) of Barcelona Comércio Varejista e Atacadista S.A., as amended.* (7)
4.(b)(11)+	Operational and Administrative Management Services Agreement dated as of June 27, 2007. (9)
4.(b)(12)+	First Amendment to Operational and Administrative Management Services Agreement, dated as of December 10, 2007. (9)
4.(b)(13)+	Second Amendment to Operational and Administrative Management Services Agreement, dated as of October 1, 2008. (9)
4.(b)(14)	Third Amendment to Operational and Administrative Management Services Agreement, dated as of December 31, 2009. (9)
5.1	English translation of <i>Acordo de Acionistas</i> (Stockholders Agreement) of Barcelona Comércio Varejista e Atacadista S.A., as amended. (7)
6.1	See notes 4(o) 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.*
11.1	Code of Ethics and Conduct. (6)
<u>12.1</u>	<u>Section 302 Certification of the Chief Executive Officer.*</u>
<u>12.2</u>	<u>Section 302 Certification of the Administrative Financial Officer.*</u>
<u>13.1</u>	<u>Section 906 Certification of the Chief Executive Officer.*</u>



13.2                    Section 906 Certification of the Administrative Financial Officer.\*

15.1                    Report of Independent Registered Public Accounting Firm.\*

15.2                    Management's Report on Internal Control over Financial Reporting.\*

- (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 21, 2004.
- (7)                    Incorporated herein by reference to our annual report on Form 20-F filed on May 16, 2008
- (8)                    Incorporated herein by reference to our annual report on Form 20-F filed on June 23, 2009
- (9)                    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.

**Consolidated Financial Statements**

**Companhia Brasileira de Distribuição**

December 31, 2009 and 2008

## Companhia Brasileira de Distribuição

Consolidated Financial Statements

Years ended December 31, 2009 and 2008

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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 Globex Utilidades S.A., which is included in the 2009 consolidated statements of financial position of Companhia Brasileira de Distribuição and subsidiaries and constituted R\$ 2,427,324 thousand, R\$ (629) thousand and R\$ 2,462,577 thousand of revenues net losses and assets, respectively, as of December 31, 2009.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009 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, 2009, 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, 2009 has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on the Company's internal controls over financial reporting is included in Exhibit 15.1.

/s/ Enéas César Pestana Neto.  
Enéas César Pestana Neto  
Chief Executive Officer

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

Date: June 30, 2010



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 January 1, 2008, December 31, 2009 and 2008, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the two years ended December 31, 2009. These 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 of 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, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Companhia Brasileira de Distribuição and subsidiaries at January 1, 2008, December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the two years ended December 31, 2009, in conformity with International Financial Reporting Standards, issued by the International Accounting Standards Board.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Companhia Brasileira de Distribuição's internal control over financial reporting as of December 31, 2009, 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 28, 2010, expressed an unqualified opinion thereon.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC2SP015199/O-6

Sergio Citeroni  
Accountant CRC1SP170652/O-1

São Paulo, Brazil  
June 28, 2010

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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, 2009, 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 Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting,



assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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.

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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 Globex Utilidades S.A., which is included in the 2009 consolidated statements of financial position of Companhia Brasileira de Distribuição and subsidiaries and constituted R\$ 2,427,324 thousand, R\$ (629) thousand and R\$ 2,462,577 thousand of revenues net losses and assets, respectively, as of December 31, 2009. 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 Globex Utilidades 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, 2009, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Companhia Brasileira de Distribuição and subsidiaries as of January 1, 2008, December 31, 2009 and 2008, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the two years ended December 31, 2009 and our report dated June 28, 2010 expressed an unqualified opinion thereon.

ERNST & YOUNG

Auditores Independentes S.S.

CRC2SP015199/O-6

Sergio Citeroni

Accountant CRC1SP170652/O-1

São Paulo, Brazil

January 28, 2010

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Index to Financial Statements**Companhia Brasileira de Distribuição**

Consolidated statements of comprehensive income  
 Years ended December 31, 2009, and 2008  
 (In thousands of reais, except earnings per share)

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
Gross sales		<b>26,209,379</b>	20,855,674
Taxes on sales		<b>(2,968,839)</b>	(2,823,659)
Net sales		23,240,540	18,032,015
Cost of sales		<b>(17,493,806)</b>	(13,279,497)
Gross profit		<b>5,746,734</b>	4,752,518
Operating expenses			
Selling costs		<b>(3,496,743)</b>	(2,857,312)
General and administrative		<b>(679,581)</b>	(590,620)
Depreciation and amortization		<b>(461,611)</b>	(442,714)
Other operating expenses, net	27	<b>(77,803)</b>	(19,061)
Operating profit		<b>1,030,996</b>	842,811
Net finance expenses	28	<b>(299,752)</b>	(331,566)
Equity pickup results	14	<b>7,016</b>	(486)
Profit before income and social contribution taxes and employees' profit sharing		<b>738,260</b>	510,759
Income and social contribution taxes	23.a	<b>(95,840)</b>	(147,240)
Profit before employees' profit sharing		642,420	363,519
Employees' profit sharing		<b>(32,505)</b>	(22,173)
Net income and comprehensive income		<b>609,915</b>	341,346
Attributable to equity holders of the parent		<b>609,091</b>	341,346
Attributable to noncontrolling interest		<b>824</b>	-
Net income and comprehensive income		<b>609,915</b>	341,346
<b>Earnings per ordinary share</b>	<b>30</b>		

Basic earnings per share attributable to ordinary equity holders of the parent		<b>2.3391</b>	1.3891
Diluted earnings per share attributable to ordinary equity holders of the parent		<b>2.3391</b>	1.3891
<b>Earnings per preferred non-voting share</b>	30		
Basic earnings per share attributable to ordinary equity holders of the parent		<b>2.5848</b>	1.5350
Diluted earnings per share attributable to ordinary equity holders of the parent		<b>2.5010</b>	1.4947

See accompanying notes.

**Companhia Brasileira de Distribuição**

## Consolidated statements of financial position

December 31, 2009 and 2008  
(In thousands of reais)

	Notes	2009	2008	1/1/2008
Assets				
Current Assets				
Cash and cash equivalents	7	<b>2,341,927</b>	1,623,516	1,059,055
Trade receivable, net	8	<b>2,109,406</b>	1,519,966	1,362,473
Inventories	10	<b>2,827,463</b>	1,570,863	1,534,242
Recoverable taxes	11	<b>416,550</b>	322,368	379,935
Accounts receivable from vendors	8	<b>255,845</b>	356,962	453,889
Other current		<b>293,158</b>	155,343	115,322
Total current assets		<b>8,244,349</b>	5,549,018	4,904,916
Noncurrent assets				
Trade receivable	8	<b>419,191</b>	374,618	371,221
Recoverable taxes	11	<b>255,194</b>	283,861	141,791
Deferred tax assets	23b	<b>1,087,365</b>	1,045,301	1,151,332
Related parties	21	<b>118,650</b>	76,472	58,232
Restricted deposits for legal proceedings		<b>428,255</b>	250,595	205,000
Other noncurrent		<b>19,911</b>	15,847	14,858
Investments in associates	14	<b>197,247</b>	92,724	93,210
Property and equipment, net	12	<b>5,252,720</b>	4,867,042	4,828,717
Intangible assets	13	<b>2,008,485</b>	1,163,123	1,137,280
Total noncurrent assets		<b>9,787,018</b>	8,169,583	8,001,641
Total assets		<b>18,031,367</b>	13,718,601	12,906,557

**Companhia Brasileira de Distribuição**

## Consolidated statements of financial position

December 31, 2009 and 2008  
(In thousands of reais)

	Notes	2009	2008	1/1/2008
Liabilities and equity				
Current liabilities				
Trade accounts payable		<b>4,004,395</b>	2,409,501	2,339,262
Loans and financing	16	<b>510,322</b>	297,699	1,439,066
Debentures	16	<b>19,386</b>	36,861	29,765
Payable related to private equity	15a	-	-	165,440
Payroll and related charges		<b>428,188</b>	224,103	173,053
Taxes and social contribution payable	22	<b>351,694</b>	110,234	102,418
Related parties	21	<b>31,734</b>	12,433	13,106
Dividends payable		<b>98,052</b>	67,994	50,084
Financing to purchase of real estate		<b>14,212</b>	45,747	15,978
Rent payable		<b>60,834</b>	42,130	44,159
Provision for restructuring		<b>84,701</b>	-	-
Deferred revenue		-	67,906	44,474
Payable related to acquisition of noncontrolling interest	15c	-	157,192	144,719
Other current liabilities		<b>272,303</b>	156,989	146,817
Total current liabilities		<b>5,875,821</b>	3,628,789	4,708,341
Noncurrent liabilities				
Loans and financing	16	<b>2,101,243</b>	2,314,756	960,081
Debentures	16	<b>1,481,356</b>	777,868	777,024
Taxes payable in installments	22	<b>1,205,579</b>	200,827	250,837
Deferred tax liability	23b	<b>46,794</b>	4,863	-
Provision for contingencies	18	<b>367,165</b>	1,244,125	1,216,189
Payable related to acquisition of noncontrolling interest		<b>155,671</b>	-	-
Other non current liabilities		<b>154,499</b>	93,152	95,419
Total noncurrent liabilities		<b>5,512,307</b>	4,635,591	3,299,550
Shareholders' equity				

Share Capital	24	<b>5,374,751</b>	4,450,725	4,149,858
Reserves	24	<b>1,249,446</b>	1,003,496	748,808
Equity attributable to owners of the parent		<b>6,624,197</b>	5,454,221	4,898,666
Noncontrolling interest		<b>19,042</b>	-	-
Total shareholders' equity		<b>6,643,239</b>	5,454,221	4,898,666
Total shareholders' equity and liabilities		<b>18,031,367</b>	13,718,601	12,906,557

See accompanying notes



**Companhia Brasileira de Distribuição**

Consolidated statements of changes in shareholders' equity  
 Years ended December 31, 2009 and 2008  
 (In thousands of reais)

	Share Capital	Special Goodwill Reserve	Capital Reserves Other equity instrum.	Other reserves	Granted options	Legal	Profit reserves Expansion	Retained earnings
Balances at January 1, 2008	4,149,858	517,331	128,096	-	27,570	133,617	54,842	(1,000,000)
Capitalization of reserves	60,936	-	-	-	-	-	(54,842)	-
Private subscription of shares	217,861	-	-	-	-	-	-	-
Stock options exercised	22,070	-	-	-	-	-	-	-
Recognized granted option	-	-	-	-	36,034	-	-	-
Net income for the year	-	-	-	-	-	-	-	-
Appropriation of net income to legal reserve	-	-	-	-	-	13,021	-	-
Dividends	-	-	-	-	-	-	-	-
Balances at December 31, 2008	4,450,725	517,331	128,096	-	63,604	146,638	-	-
<b>Capitalization of reserves</b>	<b>239,031</b>	<b>(88,780)</b>	-	-	-	-	-	(1,000,000)
<b>Private subscription of shares</b>	<b>664,362</b>	-	-	-	-	-	-	-
<b>Stock options exercised</b>	<b>20,633</b>	-	-	-	-	-	-	-
<b>Paid in capital - Globex</b>	-	-	-	<b>7,677</b>	-	-	-	-

<b>Treasury shares</b>	-	-	-	-	-	-	-
<b>Recognized granted option</b>	-	-	-	-	<b>19,621</b>	-	-
<b>Aquisition of noncontrolling interest</b>	-	-	-	-	-	-	-
<b>Net income for the year</b>	-	-	-	-	-	-	-
<b>Appropriation of net income to legal reserve</b>	-	-	-	-	-	<b>29,579</b>	-
<b>Dividends</b>	-	-	-	-	-	-	-
			-				
<b>Balances at December 31, 2009</b>	<b>5,374,751</b>	<b>428,551</b>	<b>128,096</b>	<b>7,677</b>	<b>83,225</b>	<b>176,217</b>	<b>-</b>
See accompanying notes.							

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**Companhia Brasileira de Distribuição**

Consolidated statements of cash flow

Year ended December 31, 2009 and 2008

(In thousands of reais)

	<b>2009</b>	<b>2008</b>
Cash flow provided by operating activities		
Net income for the year	<b>609,915</b>	341,346
Adjustment to reconcile net income to cash from operating activities		
Deferred income tax	<b>27,759</b>	110,893
Loss on disposal of property and equipment	<b>82,730</b>	11,125
Depreciation and amortization	<b>461,611</b>	442,714
Unrealized financial income	<b>316,718</b>	539,117
Unrealized financial expenses	<b>17,928</b>	(39,725)
Equity pickup results	<b>(7,016)</b>	486
Provision for contingencies	<b>81,326</b>	115,996
Provision for property and equipment write-offs and losses	<b>(7,878)</b>	6,162
Stock options	<b>19,621</b>	36,034
Decrease (increase) in assets		
Trade accounts receivable	<b>(170,835)</b>	(60,566)
Inventories	<b>(849,380)</b>	(36,621)
Recoverable taxes	<b>116,392</b>	(77,741)
Related parties	<b>28,355</b>	(20,849)
Restricted deposits for legal proceedings	<b>(99,419)</b>	(20,905)
Other	<b>(61,933)</b>	(31,646)
Increase (decrease) in liabilities		
Trade payables	<b>1,052,761</b>	70,239
Payroll and related charges	<b>206,719</b>	51,050
Other taxes	<b>21,638</b>	(72,961)
Income tax and social contribution paid	<b>(4,383)</b>	(43,695)
Other	<b>214</b>	(64,452)
Net cash flow provided by operating activities	<b>1,842,843</b>	1,256,001

See accompanying notes.



**Companhia Brasileira de Distribuição**

Consolidated statements of cash flow (Continued)

Year ended December 31, 2009 and 2008

(In thousands of reais)

	<b>2009</b>	<b>2008</b>
Cash flow used in investing activities		
Acquisition of subsidiary net of cash acquired	<b>(885,113)</b>	-
Property and equipment	<b>(700,706)</b>	(485,418)
Increase in intangible assets	<b>(45,987)</b>	(2,900)
Capital increase in subsidiaries	<b>(9,318)</b>	-
Proceeds from sale of property and equipment	<b>4,330</b>	3,592
Net cash flow used in investing activities	<b>(1,636,794)</b>	(484,726)
Cash flow provided by (used in) financing activities		
Capital increase	<b>487,144</b>	88,196
Issuances	<b>736,805</b>	680,154
Repayments	<b>(393,129)</b>	(607,079)
Interest paid	<b>(209,301)</b>	(318,001)
Dividends paid	<b>(109,157)</b>	(50,084)
Net cash provided by (used in) financing activities	<b>512,362</b>	(206,814)
Net increase in cash and cash equivalents	<b>718,411</b>	564,461
Cash and cash equivalents, beginning of year	<b>1,623,516</b>	1,059,055
Cash and cash equivalents, end of year	<b>2,341,927</b>	1,623,516

See accompanying notes.



## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements

December 31, 2009 and 2008

(In thousands of reais)

### **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 and Ponto Frio.Com . The registered office is located at São Paulo, SP, Brazil. Founded in 1948, the Company has 85,000 employees, 1,080 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, 2009.

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, 2009, were authorized by the Board of Directors on June 28, 2010.

### **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 consolidated financial statements are presented in Brazilian Real, which is the company's functional and Company's presentation currency. All the subsidiaries have Brazilian Real as their functional currencies.

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).

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## **Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

### **2. Basis of preparation (Continued)**

#### b) First time adoption of IFRS

For all periods up to and including the year ended December 31, 2008, the Company prepared its consolidated financial statements in accordance with the accounting practices adopted in Brazil, Brazilian GAAP (BRGAAP). These financial statements, for the year ended December 31, 2009, are the first the Company has prepared in accordance with IFRS.

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2009 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as of January 1, 2008, the Company's date of transition to IFRS. Note 31 explains the adjustments made by the Company in restating its BR GAAP statement of financial position at January 1, 2008 and its previously published BR GAAP financial statements for the year ended December 31, 2008.

### **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.

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**3. Basis of consolidation** (Continued)

a) *Subsidiaries (Continued)*

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

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:

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.

Sendas

The subsidiary Sendas Distribuidora was fully consolidated, in accordance with the shareholders agreement, which establishes the operating and administrative management by the Company, and ability to acquire the remaining voting rights.

PAFIDC

The Company consolidates PAFIDC's financial statements, a special purpose entity, 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.

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**3. Basis of consolidation (Continued)**

The table below shows the legal interest of the parent company in each of the subsidiaries and associates.

Companies	Investor s interest (%) as of December					
	CBD	Novasoc	Sé	Holland	Distrib. Bellamar	Sendas
<b><u>Subsidiaries:</u></b>						
Novasoc Comercial Ltda.	10.00	-	-	-	-	-
Sé Supermercados Ltda.	93.10	6.90	-	-	-	-
Sendas Distribuidora	14.86	-	42.57	-	-	-
PAFIDC	8.87	0.69	0.35	-	-	-
P.A. Publicidade Ltda.	99.99	-	-	-	-	-
Barcelona Com. Varej. e Atacadista S.A.	-	-100.00	-	-	-	-
CBD Holland	100.00	-	-	-	-	-
CBD Panamá	-	-	-	100.00	-	-
Xantocarpa Empreend.e Partic. Ltda.	-	-	-	-	99.99	-
Vedra Empreend.e Partic. Ltda.	100.00	-	-	-	-	-
Bellamar Empreend.e Partic. Ltda.	-	-100.00	-	-	-	-
Vancouver Empreend.e Partic. Ltda.	100.00	-	-	-	-	-
Dallas Empreend.e Partic. Ltda.	100.00	-	-	-	-	-
Bruxellas Empreend.e Partic. Ltda.	100.00	-	-	-	-	-
Lake Niassa Empreend.e Partic. Ltda.	-	-	-	-	-	-
Globex Utilidades S.A.	95.46	-	-	-	-	-
Globex Adm. e Serviços Ltda.	-	-	-	-	-	-
Ponto Frio Adm. e Import. de Bens Ltda.	-	-	-	-	-	-
Rio Expresso Comércio Atacadista de Eletrodomésticos Ltda.	-	-	-	-	-	-
Globex Adm. de consórcio Ltda.	-	-	-	-	-	-
Pontocred Negócios de varejo Ltda.	-	-	-	-	-	-
PontoFrio.com Comércio Eletrônico S.A.	-	-	-	-	-	-

**Equity Investees:**

FIC	-	-	-	-	-	<b>35.64</b>
E-HUB Consult.Particip. e Com. S.A.	-	-	-	-	-	-
Banco Investcred Unibanco	-	-	-	-	-	-

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**3. Basis of Consolidation (Continued)**

Companies	Investor s interest (%)			as of December 31, 2008		
	CBD	Novasoc	Sé	CBD Holland	Sendas Distrib.	Total Interest
<b><u>Subsidiaries:</u></b>						
Novasoc Comercial Ltda.	10.00	-	-	-	-	10.00
Sé Supermercados Ltda.	93.10	6.90	-	-	-	100.00
Sendas Distribuidora	14.86	-	42.57	-	-	57.43
PAFIDC	8.50	0.66	0.33	-	-	9.49
P.A. Publicidade Ltda.	99.99	-	-	-	-	99.99
Barcelona Com. Varej.e Atacadista S.A.	-	-	60.00	-	-	60.00
CBD Holland	100.00	-	-	-	-	100.00
CBD Panamá	-	-	-	100.00	-	100.00
Xantocarpa Empreendim.e Participações Ltda.	-	-	-	-	99.99	99.99
<b><u>Equity Investees:</u></b>						
<u>Miravalles</u>	-	-	50.00	-	-	50.00

**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.



**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**4. Significant accounting policies** (Continued)

a) Financial instruments (Continued)

(i) *Financial assets* (Continued)

Initial recognition and measurement (Continued)

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 deposit from legal proceedings. The Company does not have any available-for-sale or held-to-maturity investments as of December 31, 2009 and 2008.

Subsequent measurement

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

- Financial assets at fair value through profit or loss: these financial assets are measured at their fair value at each balance sheet date. Interest rates, monetary restatement, exchange variation and variations

deriving from the valuation at fair value are recognized in the statement of income when incurred as financial revenues or expenses. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance expense in the income statement. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss other than derivatives.

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## Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

### 4. Significant accounting policies (Continued)

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

##### Subsequent measurement (Continued)

- Loans granted and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, these are measured using amortized cost through the effective interest rate method. Interest income, monetary restatement, exchange variation, less impairment losses, where applicable, are recognized in the statement of income when incurred as financial revenues or expenses.

##### 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.



**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**4. Significant accounting policies** (Continued)

a) Financial instruments (Continued)

(i) *Financial assets* (Continued)

Derecognition of financial assets (Continued)

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.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event

(or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

## Companhia Brasileira de Distribuição

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

### 4. Significant accounting policies (Continued)

#### a) Financial instruments (Continued)

##### (i) *Financial assets* (Continued)

##### Impairment of financial assets (Continued)

- the Company, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession to the borrower that the Company would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced through the use of an allowance and the amount of the loss is recognized in the consolidated income statement. Interest income is recorded as part of the finance income in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

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**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**4. Significant accounting policies (Continued)**

a) Financial instruments (Continued)

(i) *Financial assets* (Continued)

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for collectability. The provision is calculated based on historical average losses, and includes a review of specific accounts deemed uncollectable.

The Company securitizes its accounts receivable with a special purpose entity, the PAFIDC (Pão de Açúcar Fundo de Investimentos Creditórios). (See also Note 9).

(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 borrowings and derivative financial instruments.

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.

**Companhia Brasileira de Distribuição**

Notes to the consolidated financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

**4. Significant accounting policies** (Continued)

a) Financial instruments (Continued)

(ii) *Financial liabilities* (Continued)

Subsequent measurement (Continued)

Loans and borrowings: After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized 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) amortization 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 mod