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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

Commission File Number 1-14626

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

(Exact Name of Registrant as Specified in its Charter)

BRAZILIAN DISTRIBUTION COMPANY

(Translation of Registrant's name into English)

THE FEDERATIVE REPUBLIC OF BRAZIL
(Jurisdiction of incorporation or organization)

José Antônio de Almeida Filippo, Chief Financial Officer

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Avenida Brigadeiro Luiz Antonio, 3,142

01402-901 São Paulo, SP, Brazil

(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

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

160,558,750 Preferred Shares, no par value per share

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

x Yes ¨ No

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

¨ Yes x No

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

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

x Yes ¨ No

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

¨ Yes x No

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

Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨

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

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

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

Item 17 ¨ Item 18 ¨

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

¨ **Yes** x No

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INTRODUCTION

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

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

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

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts in respect of the year ended December 31, 2011 was R$1.876 to US$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2011, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate. See “Item 3A. Selected Financial Data—Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

We changed our financial reporting from Brazilian GAAP to IFRS, beginning with the financial statements as of and for the year ended December 31, 2009. Therefore, we present in this section summary financial and operating data derived from our audited financial statements as of and for the years ended December 31, 2008, 2009, 2010 and 2011 included in this annual report and prepared in accordance with IFRS.

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2011 have been translated into U.S. dollars at the commercial rate for purchase of U.S. dollars in effect as of December 31, 2011 as reported by the Brazilian Central Bank of R$1.876 to US$1.00

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

Weighted average number of shares outstanding (in thousands)					
Preferred	132,170	145,442	156,873	159,775	159,775
Common	99,680	99,680	99,680	99,680	99,680
Total	231,850	245,122	256,553	259,455	259,455
Dividends declared and interest on equity per 1,000 shares [(3)]					
Preferred	0.28	0.60	0.69	0.68	0.36
Common	0.25	0.53	0.63	0.62	0.33
Dividends declared and interest on shareholders' equity per ADS[(3)]	0.28	0.60	0.69	0.68	0.36
Balance sheet data					
Cash and cash equivalents	1,623.5	2,341.9	3,818.0	4,970.0	2,649.3
Property and equipment, net	4,867.0	5,356.6	6,794.3	7,358.3	3,922.3
Total assets	13,718.6	18,574.1	29,772.3	33,769.0	18,000.5
Short-term debt (including current portion of long-term debt)	334.6	687.6	2,915.1	4,917.5	2,621.3
Long-term debt	3,092.6	3,582.6	5,591.9	6,240.9	3,326.7
Shareholders' equity	5,454.2	6,656.7	9,500.6	10,094.4	5,380.8
Share capital	4,450.7	5,374.8	5,579.3	6,129.4	3,267.3
Other financial information					
Net cash provided by (used in):					
Operating activities	1,256.0	1,842.8	361.4	1,128.1	601.3
Investing activities	(484.7)	(1,636.7)	(1,428.0)	(1,625.5)	(866.5)
Financing activities	(206.8)	512.4	2,542.7	1,649.4	879.2
Capital expenditures	(488.3)	(1,631.7)	(1,521.7)	(1,723.4)	(918.7)

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

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

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

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

Average monthly net sales revenue per square meter[7]:					
Pão de Açúcar	1,481.1	1,637.2	1,835.1	1,944.6	1,036.6
CompreBem	1,085.4	1,148.7	-	-	-
Sendas	897.1	1,088.6	-	-	-
Extra Hipermercados[1]	1,025.3	1,138.0	1,219.4	1,275.4	679.9
Extra Supermercado[2]	-	-	1,187.5	1,331.1	709.5
Extra Eletro	881.1	1,154.1	-	-	-
Assaí	2,486.1	1,395.2	1,790.3	1,777.7	947.6
Ponto Frio[3]	-	620.4	1,032.6	1,072.9	571.9
Casas Bahia[4]	-	-	N/A	1,122.2	598.2
Nova Pontocom[5]	-	-	N/A	N/A	N/A
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	1,287.2	1,282.8	683.8
Average ticket amount:					
Pão de Açúcar	26.1	29.8	33.2	36.3	19.3
CompreBem	19.3	20.7	-	-	-
Sendas	21.9	24.2	-	-	-
Extra Hipermercados[1]	43.7	48.5	53.3	53.9	28.8
Extra Supermercado[2]	-	-	23.9	25.1	13.4
Extra Eletro	299.1	346.6	-	-	-
Assaí	78.9	74.5	85.0	88.6	47.2
Ponto Frio[3]	-	618.4	563.9	451.2	240.5
Casas Bahia[4]	-	-	361.3	372.2	198.4
Nova Pontocom[5]	-	-	538.3	485.6	258.8
CBD average ticket amount	32.6	41.2	54.1	73.4	39.1
Average number of tickets per month:					
Pão de Açúcar	10,769,076	10,607,751	10,765,303	10,882,640	
CompreBem	11,128,328	10,387,308	-	-	
Sendas	5,315,750	5,537,072	-	-	
Extra Hipermercados[1]	17,406,079	17,886,223	18,237,819	19,380,583	
Extra Supermercado[2]			16,026,255	14,588,413	
Extra Eletro	82,185	92,908	-	-	
Assaí	1,340,148	2,218,159	2,885,286	3,671,405	
Ponto Frio[3]	-	333,487	658,275	835,446	
Casas Bahia[4]	-	-	564,626	2,978,613	
Nova Pontocom[5]	-	-	263,747	547,328	
CBD average number of tickets per month	46,041,566	47,062,907	49,401,310	52,884,427	

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

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

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

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

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

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

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

Exchange Rates

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

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between mid 2003 and 2008 the *real* appreciated significantly against the U.S. dollar and in August 2008 reached R$1.559 per US$1.00. Primarily as a result of the crisis in the global financial markets, the *real* depreciated 31.9% against the U.S. dollar and reached R$2.337 per US$1.00, at year end 2008. In 2009 and 2010, the *real* appreciated against the U.S. dollar and reached R$1.666 per US$1.00 at year end 2010. During 2011 the *real* depreciated and on December 31, 2011, the exchange rate was R$1.876 per US$1.00.

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

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

	Exchange Rate of Brazilian Currency per US$1.00			
Year	**Low**	**High**	**Average(1)**	**Year-End**
2007	1.733	2.156	1.948	1.771
2008	1.559	2.500	1.838	2.337
2009	1.702	2.421	1.994	1.741
2010	1.655	1.881	1.759	1.666
2011	1.535	1.902	1.675	1.876

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

Source: Central Bank

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

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

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

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

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

Brazil has in the past experienced extremely high rates of inflation and has therefore followed monetary policies that have resulted in one of the highest real interest rates in the world. Between 2005 and 2011, the base interest rate (SELIC) in Brazil varied between 19.75% p.a. and 8.75% p.a. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, which could negatively affect our business. We may not be able to adjust the prices we charge our customers to offset the effects of inflation on our cost structure. In addition, Brazilian government measures to combat inflation that result in an increase in interest rates may have an adverse effect on us as our indebtedness is indexed to the interbank deposit certificate, or CDI, rate. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm us or adversely affect the trading price of the ADSs and our preferred shares.

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

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

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

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

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

Risks Relating to the Retail Industry and Us

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

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

We are controlled by two groups of shareholders.

We are controlled by two groups of shareholders through their shared ownership of our holding company, Wilkes Participações S.A., which owns 65.6% of our voting shares and also the usufruct of 34.3% of our voting shares that are held by the Casino Guichard Perrachon Group (or "Casino Group") and the group composed of Mr. Abílio dos Santos Diniz and other members of the Diniz family (or "Diniz Family"). This holding company is also referred to in this annual report as the "Holding Company." The Casino Group and the Diniz Family have shared control of our Company since 2005. See "Item 7A. Major Shareholders." Our two major shareholders have the power to control our Company, including the power to:

- appoint the members to our board of directors, who, in turn, appoint our executive officers,

- determine the outcome of any action requiring shareholder approval, including the timing and payment of any future dividends, provided that we observe the minimum mandatory dividend established by Brazilian corporate law,

- determine corporate reorganizations, acquisitions, dispositions and the transfer of our control to third parties,

- deliberate on related party transactions and enter into new partnerships, and

- deliberate on financings and similar transactions.

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

In addition, the co-control of our Company could result in deadlocks and disputes between our controlling shareholders with respect to strategic, control and other important issues, which may adversely affect us. On May 30, 2011, the Casino Group filed a request for arbitration under the International Chamber of Commerce rules against Abílio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Península Participações Ltda. On July 1, 2011, the Casino Group filed another request for arbitration under the International Chamber of Commerce rules, naming as respondents all the parties listed above and us. The two arbitrations have been consolidated into a single proceeding and a three-member arbitral tribunal has been constituted to decide the dispute. The consolidated arbitration proceeding is subject to confidentiality provisions and is aimed at ensuring compliance with the shareholders' agreements concluded between the controlling shareholders. We cannot predict the effects of the dispute on us. For additional information on shared decision-making, see "Item 7A. Major Shareholders — Conditional Put Option Agreement and Shareholders' Agreements."

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

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

Mr. Abilio dos Santos Diniz has been our chairman since 2003 and the Holding Company's chairman since 2006. According to the terms of the Holding Company shareholders' agreement, upon the election by Casino of the Chairman of the Board of Directors of the Holding Company there will be a change in our corporate governance structure, resulting in Casino becoming, through the Holding Company, the sole controlling shareholder of the Company, while Mr. Abilio dos Santos Diniz will be entitled to certain veto rights and other rights pursuant to the terms of the Shareholders' Agreements (for further information, see "Item 7A. Major Shareholders – Conditional Put Option Agreement and Shareholders' Agreements). On March 21, 2012, Casino informed us that it had sent a notice to the Diniz Family exercising its right to appoint, for compulsory election, as from June 22, 2012, the chairman of the board of directors of the Holding Company. We cannot predict the effects of such changes on us.

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

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

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

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

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

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

We are subject to environmental laws and regulations.

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

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

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

We face risks related to our distribution centers.

Approximately 85% of our products are distributed through our 52 distribution centers located in the southern, southeastern, mid-western and northeastern regions of Brazil. If operations at one of these centers are adversely affected by factors beyond our control, such as fire, natural disasters, power shortages, failures in the systems, among others, and in the event that no other distribution center is able to meet the demand of the region affected, the distribution of products to the stores supplied by the affected distribution center will be impaired, which may adversely affect us. Our growth strategy includes the opening of new stores which may require the opening of new or the expansion of our existing distribution centers to supply and meet the demand of the additional stores. Our operations may be negatively affected if we are not able to open new distribution centers or expand our existing distribution centers in order to meet the supply needs of these new stores.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Preferred Shares and ADSs

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

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

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

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

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

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in more developed markets, and these investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than more developed securities markets. The top 10 stocks in terms of trading volume accounted for approximately 58%, 49% and 47% of all shares traded on the São Paulo stock exchange (*BM&FBovespa S.A. – Bolsa de Valores*, *Mercadorias e Futuros*), or BM&FBOVESPA, in 2009, 2010 and 2011 respectively. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited.

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

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

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

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

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

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

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

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

In 2007, we acquired a 60% ownership interest in the *Assaí* chain by purchasing 60% of the capital stock of Barcelona Comércio Varejista e Atacadista S.A., or Barcelona, a company holding all of the operating assets of the *Assaí* chain. This acquisition enabled us to enter the cash-and-carry segment, a wholesale format in the retail food sector, in the State of São Paulo. In 2008, we started cash-and-carry operations in the State of Rio de Janeiro through *Xantocarpa*, a company that assumed the operation of three Sendas stores, which were converted into *Assaí* stores.

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

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

In 2010, we consolidated our leading position in the retail segment in Brazil and we believe we became the largest home appliance retailer in the country as a result of the association with the partners of Casa Bahia Comercial Ltda., a Brazilian home appliances retailer. Pursuant to the association agreement, by means of a corporate reorganization, we and the partners of Casa Bahia Comercial Ltda. have integrated our respective businesses in the home appliances retail sector, and have unified the e-commerce operations conducted by our subsidiary, Viavarejo. We own 53% of Viavarejo. We have been consolidating Nova Casa Bahia's results of operations into our results of operations since November 2010. The association agreement remains subject to the approval of the Brazilian anti-trust authorities.

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

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

Reorganization of E-Commerce Operations

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

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

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

Capital Expenditures and Investment Plan

As part of our capital expenditures and investment plan, we have invested approximately R$4,876.9 million in our operations in the three years ended December 31, 2011. The Company's capital expenditure and investment plan for 2012 was proposed and is still subject to shareholder approval at the general shareholders' meeting to be held on April 27, 2012. The plan contemplates capital expenditures and investments for 2012 in the total amount of up to R$1.9 billion relating to (i) the opening of new stores, purchase of real estate and conversion of stores, (ii) the renovation of existing stores, and (iii) improvements to information technology, logistic and other infrastructure-related capital expenditures and investments. The Company has historically financed its capital expenditures and investments mainly with cash flow generated from its operations and, to a lesser extent, funded by third parties. The Company plans to continue financing its capital expenditures and investments principally with cash flow from its operations. Our investments in the last three years have included:

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

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

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

(1) Acquired in July 2009.

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

Opening of new stores and purchases of real estate – In the food retail sector, we usually seek real estate properties to open new stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities that suit one of our formats. We have opened 142 new stores from 2009 through 2011, including those in the food retail sector and those in the home appliances retail sector. The total cost of opening these new stores and the purchase of real estate was R$992.0 million.

Renovation of existing stores – We usually remodel a number of our stores every year. Through our renovation program we add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information technology systems. In 2011, we focused on the conversion of 17 *Sendas* stores and 111 *CompreBem* stores into *Extra Supermercado, Extra Hipermercado* and *Pão de Açúcar* stores. The total cost of renovating stores from 2009 through 2011 was R$1,733.8 million.

Improvements to information technology – We view technology as an important tool for efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We have made significant investments in information technology in an aggregate amount of R$410.7 million from 2009 through 2011. For more information on our information technology, see "Item 4B. Business Overview—Technology."

Expansion of distribution facilities – Since 2009, we have opened distribution centers in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. The increase and improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have spent an aggregate of R$169.4 million on our distribution facilities from 2009 through 2011.

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

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

4B. Business Overview

The Brazilian Retail Industry

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

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

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

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

According to the IBGE, the total population of Brazil was approximately 192.4 million in 2011, a 13.2% growth since 2000. Given that more than 84% of the population lives in urban areas (where most of our operations are located) and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from Brazil’s urban growth and economies of scale related to urban growth. According to an IBGE estimate for 2011, the city of São Paulo has a population of approximately 11.3 million and the city of Rio de Janeiro has a population of approximately 6.4 million. These are the two largest cities in Brazil. The State of São Paulo has a total population in excess of 41 million, representing 21.6% of the Brazilian population and is our largest consumer market. The State of Rio de Janeiro is our second largest consumer market.

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

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

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

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

Class Level	Average Monthly Income (in R$)
A1	13,100
A2	9,100
B1	4,900
B2	2,750
C1	1,650
C2	1,100
D	710
E	490

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

We expect that increased consumption by the lower income class levels will occur over time as a result of the gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage was increased to R$622.73 in January 2012. Our management believes based on internal data for the years immediately following the introduction of the *real*, that even small purchasing power increments generally result in significant increases in consumption in absolute terms, as well as increased expenditures in premium-priced food products and other non-food items, including home appliances and consumer electronics.

Our Company

We are the largest retailer in Brazil in the food retail sector based on both gross sales and number of stores and we believe we are the largest home appliance retailer in Brazil. In 2011, we had a market share of approximately 23.5% of the Brazilian food retail sector, according to ABRAS. As of December 31, 2011, our total gross sales, including the food and non-food retail segments, totaled R$52,681 million. On the same date, we operated 1,571 stores, 78 gas stations and 154 drugstores in 19 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 52 distribution centers located in 14 Brazilian states.

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

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

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

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

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

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

• *Home appliances segment*, which consists of sales of durable goods, i.e., electronics, home appliances, furniture and other items for the home, and the provision of products and services, such as specialized and convenient sales and after-sales service through *Casas Bahia* and *Ponto Frio* stores.

• *E-commerce segment*, which consists of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br, CasasBahia.com.br, wholesale activities and E-Hub, owned by Nova Pontocom.

Segment Revenue and Income Distribution

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

	Year Ended December 31, 2011	
Operating segment	**Net Revenues from the Segment (in millions of R$)**	**Percentage of Total Net Revenues**
Food retail	21,675.8	46.5%
Cash-and-carry	3,902.0	8.4%
Home appliances	17,827.5	38.3%
E-commerce	3,189.2	6.8%
Pão de Açúcar Group	46,594.5	100.0%

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

Year Ended December 31, 2011

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

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

Number of Stores

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

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

Geographic Distribution of Stores

The Company operates mainly in the Southeast region of Brazil, which consists of the states of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo. The Southeast region accounted for 83.1% of the Company's consolidated net sales for the year ended December 31, 2011, while the other Brazilian regions (North, Northeast, Center West and

South regions) in the aggregate accounted for the remaining consolidated net sales for the year ended December 31, 2011. In addition, none of these regions represents individually more than 10% of the consolidated net sales.

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

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

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

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

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

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

Operations

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats as of December 31, 2011:

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

Total	1,571	2,821,091	1,796	149,070	100.0%

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

(2) Mini Mercado Extra sales are included in Extra Hipermercado sales.

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

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

Food Retail Operating Segment

Pão de Açúcar Stores

Pão de Açúcar operates convenient neighborhood stores, which are predominantly located in large urban areas (with over one-third located in the greater São Paulo metropolitan area). We believe that the locations of our *Pão de Açúcar* stores are a competitive advantage since available sites in these urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and high level of customer service, with an average of 77.9 employees per 1,000 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments. Many stores have shopping advisors that assist customers with inquiries about their particular needs, prices, special discounts and brand information.

As of December 31, 2011, we had 159 *Pão de Açúcar* stores. The *Pão de Açúcar* stores have an average of 1,328 square meters of selling space. Food products represented 93.8% of gross sales revenue attributable to *Pão de Açúcar* in 2011 and non-food products represented 6.2%.

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

Extra Hipermercados Stores

Extra hypermarkets are our largest stores. We introduced the hypermarket format in Brazil with the opening of our first 7,000 square meter store in 1971. The *Extra* hypermarkets offer the widest assortment of products of any of our store formats and had an average selling area of 6,369 square meters as of December 31, 2011. The Extra stores target the Brazilian classes B, C, D and E classes. As of December 31, 2011, we had 132 Extra stores. The sale of food products and non-food products represented 61.5% and 38.5% of *Extra* Hipermercados' gross sales in 2011, respectively.

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

Extra Supermercado Stores

As of December 31, 2011, we operated 204 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by stores with an average sales area of 1,137 square meters and a complete mix of food products and general merchandise. Our *Extra Supermercado* stores are complete neighborhood supermarkets with exceptional meat and bakery products, where families can stock up their pantries rapidly and economically and also acquire a wide range of household items in an easily accessible and pleasant environment with exemplary customer service. The sale of food products and non-food products represented 91.5% and 8.5% of *Extra Supermercado*'s gross sales in 2011, respectively.

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

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

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Mini Mercado Extra Stores

With the establishment of the *Extra Fácil* banner in July 2007, we significantly increased our presence in the convenience and neighborhood store segment, where we had already been operating through our *Extra Supermercado* stores. In 2011, we began to re-brand the banner to *Mini Mercado Extra* (Extra Mini Market), keeping our "umbrella brand" in the name, but specifically emphasizing the neighborhood concept behind these stores. Through this process, the model was improved with some changes to the products and services mix, including a larger offer of customized services on perishable goods such as bakery products, sliced cheese/meat and butchery products. The mean sales area also increased to 300 square meters, with more check-outs and employees. These changes are a response to consumer demand, specifically the demand for healthier food, comfort and convenience.

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

Gas Stations

As of December 31, 2011, we operated 78 gas stations. The vast majority of our gas stations are located within the parking area of certain of our stores. The location of our gas stations allows our customers to both shop and refuel their car while they are on our premises. Our strategy for gas stations is based on competitive prices and the reliability and quality of fuel, which is assured by the brand. We expect to increase the number of gas station units, especially in connection with the *Extra* and *Assaí* banners, and increase synergies with drugstores and *Mini Mercado Extra* stores.

Drugstores

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

Pão de Açúcar Delivery

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

Cash-and-Carry Operating Segment

Assaí Stores

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

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

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Home Appliances Operating Segment

Ponto Frio Stores

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

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

Casas Bahia Stores

Our *Casas Bahia* stores are specialized in furniture and home appliances. As of December 31, 2011, we operated 544 stores as a result of the association with Casa Bahia Comercial Ltda. In 2011, *Casas Bahia* stores' gross sales totaled R$15,570.8 million.

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

E-commerce Operating Segment

In line with our strategy of expanding our share of the sales of home appliances through e-commerce, in 2010 we consolidated our e-commerce operations by creating a new company called Nova Pontocom. This segment consists of remote sales of a broad product mix through the websites: *Extra.com.br*, *PontoFrio.com.br* and *CasasBahia.com.br*. In 2011, the e-commerce segment's gross sales totaled R$3,468.7 million.

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

Seasonality

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

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

Our Products

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

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

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

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

Suppliers

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

The purchasing of products for our *Ponto Frio* and *Casas Bahia* stores and for our e-commerce operating segment is separate and we purchase from a small number of suppliers, mostly Brazilian. We do not depend on any single supplier in our home appliance and e-commerce segments. In 2011, our largest supplier in the home appliance and e-commerce segments represented 14.7% and 13.2% of their respective sales and the ten largest suppliers in these segments represented 66.1% and 63.4% of its respective sales.

Distribution and Logistics

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 52 distribution centers (including those of Nova Casa Bahia and Viavarejo) strategically located in 14 Brazilian states with a total storage capacity of approximately 1,372,423 square meters. We were the first retailer in Brazil to have a centralized distribution center. The locations of our distribution centers enable us to make frequent shipments to stores, which reduces the need of in-store inventory space, and limits non-productive store inventories.

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

In 2011, we focused on the following tasks: (i) in order to obtain better performance for our logistics network in the next few years we have redefined it, opening or changing warehouse formats by using new concepts such as CDA (Advanced Distribution Center) which aims to bring our store operation and distribution units closer and increase regionalization and products organization by turn-over. We are also beginning a synergies study to (i) better use the physical structure within the supply operations of our different businesses; (ii) increase technological investment, prioritizing productivity and operational efficiency increases such as picking by voice; (iii) implement an Oracle-Retail system that guarantees an advanced purchase planning platform with global stock reports of the entire supply chain, reducing inventory and increasing product availability in stores. In 2012, our strategy is to apply a new supply synergy concept to our logistics network and, therefore, to share the use of physical areas between our different businesses in lower density regions, addressing the specificities of each business. The expectation is to capture gains through the reduction of losses and working capital.

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

Stores, Supermarkets and Hypermarkets

As of December 31, 2011, the logistic process to supply our stores, supermarkets and hypermarkets (excluding *Ponto Frio*, *Casas Bahia*, our e-commerce business, drugstores and gas stations) included 20 distribution centers located in the states of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 421,168 square meters area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet that, on December 31, 2011, totaled more than 1,500 vehicles exclusively dedicated to this activity, all of which are tracked via GPS. As of December 31, 2011, our centralization rate (the percentage of the products supplied at our stores that come directly from our distribution centers) was 85%, excluding our cash and carry operation. Including our cash and carry operation, our centralization rate was 76%.

Orders made for our non-centralized products are made directly by the stores and delivered by the suppliers following the supply model known as "Direct Entry." As of December 31, 2011, 15% of our stores sales, excluding our cash and carry operation, corresponded to "Direct Entry" products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines. Including our cash and carry operation, 24% of our stores' sales corresponded to "Direct Entry" products.

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

The logistics process associated with our *Casas Bahia* and *Ponto Frio* stores involves an examination of Ponto Frio's stores' forecast for sales, which we use to submit orders to our suppliers. Once these orders are issued, the delivery of products is managed by Viavarejo supply chain area, which analyzes inventory levels, sales estimates by store and other variables, and schedules the delivery of the requested products with our suppliers. The products are delivered and distributed among Viavarejo's distribution centers, which as of December 31, 2011 totaled 26 distribution centers located in 13 Brazilian states (São Paulo, Rio de Janeiro, Minas Gerais, Paraná, Bahia, Espírito Santo, Goiás, Mato Grosso, Mato Grosso do Sul, Santa Catarina, Ceará, Rio Grande do Sul and the Federal District.)

PA Delivery

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

Nova Pontocom

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

Drugstores

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

Gas Stations

Our gas stations are supplied by exclusive suppliers. In 2011, we used five suppliers. Supply orders are made individually by each station, and fuel is requested through purchase orders or pre-agreed daily supplies, pursuant to the service agreements entered into by each gas station. Fuel transportation is carried out exclusively by our suppliers while unloading operations are closely followed by our employees for safety and quality control reasons. The process for compressed natural gas, or GNV, is different. GNV is delivered by regional suppliers directly to the gas stations, through dealers and using pipelines connected to the entrance boxes located at the gas stations and holding fuel meters installed and controlled by the dealers themselves. This equipment regularly measures the GNV volumes supplied. GNV is sold through dispensers attached to these entrance boxes, using specific pipelines.

Marketing

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

In 2009, 2010 and 2011 we spent approximately R$266.4 million, R$281.0 million and R$973.9 million respectively, on advertising (approximately 1.0%, 0.9% and 2.1% of total net sales revenues in each year, respectively). Also, 26.3%, 28.1% and 18.2% of our total marketing expenditures in 2009, 2010 and 2011, respectively, were spent on radio, newspaper and magazine advertising. Television advertisements accounted for 39.2%, 35.8% and 54.1% of advertising expenses in 2009, 2010 and 2011, respectively. We spent 35.6% in 2009, 36.1% in 2010, and 27.2% in 2011 on other promotional activities.

FIC and Investcred

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

FIC operates service kiosks in our stores that have exclusive rights to offer private label and co-branded credit cards, personal and consumer credit and insurance. FIC has been operating for seven years and has 8.4 million customers (including the customer base of Investcred). Our Company and Itaú Unibanco each hold 50% of FIC's capital stock. Our Company holds 36% and Viavarejo holds 14%. Itaú Unibanco is responsible for managing FIC and appointing the majority of its officers.

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

We maintain our strategy to increase the FIC card's share of sales, making it the best payment option in the stores and e-commerce operations, with exclusive benefits and advantages for card-holders.

The table below sets forth the breakdown of FIC's customers in 2009, 2010 and 2011.

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

(1) Including Viavarejo (Ponto Frio).

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Credit Sales

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

Credit card sales. All of our store formats accept payment for purchases with MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 43.6%, 45.8% and 48.7% of our net sales revenue in 2009, 2010 and 2011 respectively. Of this total, sales through private label and co-branded credit cards accounted for 12.3% of our net sales revenue in 2011. An allowance for doubtful accounts is not required as credit risks are assumed by credit card companies or issuing banks.

Installment credit card sales. Our *Extra* hypermarkets, *Ponto Frio* and *Casas Bahia* stores offer attractive consumer financing conditions to our customers to purchase home appliances on an installment basis through our co-branded and private label credit cards, as well as third-party credit cards. Sales to customers using credit cards on an installment basis accounted for 38%, 50% and 62% of our total credit card sales (mentioned above) in 2009, 2010 and 2011 respectively. An allowance for doubtful accounts is not required as credit risks for all installments are assumed by credit card companies or issuing banks.

Installment sales ("*Crediário*"). Our *Casas Bahia* stores offer easy access to credit through payment slips ("*carnês*") to our customers to finance their purchases. Sales to customers using payment slips accounted for 6.8% in 2011. Installment sales are widely used in the Brazilian home appliance market. We usually discount certain receivables in connection with these installments to meet working capital needs of the home appliance segment. These discounts are considered as a financial expense.

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

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

Technology

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

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

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

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Intellectual Property

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

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

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

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

Competition

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

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

- acquire smaller chains;

- migrate large stores to smaller formats, such as neighborhood banners; and

- increase share of supermarkets in sales of clothing, general goods, electronic products, furniture and construction materials as well as in other categories of non-food products.

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

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

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

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

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

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

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

Regulatory Matters

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

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

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

Environmental Matters

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

The sustainability measures we have adopted in the last few years include:

• control of our water and energy consumption, in addition to controlling the volume of waste generated and proper disposal thereof, including offering our customers recycling stations at 114 *Pão de Açúcar* stores and 121

Extra stores;

• we have 40 stores that optimize the re-usage of our recyclable and organic garbage, re-using approximately 85% of the waste volume (including recycling, composting, etc.) The same system is being adapted for additional store throughout all our banners;

• *Caixa Verde* (Green Checkout) program that since 2008 enables our clients to dispose of paper and plastic packaging at the time of purchase, the first retail pre-consumption recycling program in Brazil. *Green Checkout* is currently available in 71 Pão de Açúcar and 66 Extra stores;

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

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

Seven years ago we initiated the Top Log program to certify our suppliers who employ the best policies and practices in logistics and supply ascertained during the year. In 2011, 148 suppliers participated in the Top Log Program, and were evaluated with respect to their service level, suitability to the client and integration. Twenty questions related to sustainability, such as pollutant emissions' reduction, route optimization and reverse logistics were also applied.

We currently do not incur any costs associated with environmental regulations compliance.

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4C. Organizational Structure

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

(*) Viavarejo is a publicly traded company listed on the BM&FBovespa and its free float on December 31, 2011, was equivalent to 0.59% of its capital.

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

4D. Property, Plants and Equipment

We own 130 stores, eight distribution centers and a portion of the real estate property where our headquarters are located. The remaining 1,441 stores and 44 distribution centers we operate and the remaining portion of the real estate property where our headquarters are located are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 16 leases expiring by the end of 2012. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31, 2011, we leased 17 properties from members of the Diniz Family and 62 stores from Fundo de Investimento Imobiliário Península, which is owned by the Diniz Family. In addition, all of the 544 *Casas Bahia* stores are leased, of which 272 were leased as of the December 31, 2011 from members of the Klein family. Our management believes that the leases follow market standards, and are on an arm's length basis, except for stores leased from the Klein family. See "Item 7B. Related Party Transactions—Leases" and note 14 to our audited consolidated financial statements included in this annual report.

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that we own and lease as of December 31, 2011:

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

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5A. Operating Results

Brazilian Economic Environment and Factors Affecting Our Results of Operations

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

For the period from 2009 through 2011, Brazilian GDP increased by an average of 3.3% annually ((0.3)% in 2009, 7.5% in 2010 and 2.7% in 2011). Inflation, as measured by the IPCA, was 4.3%, 5.9% and 6.5% in 2009, 2010 and 2011, respectively. From January 2009 through December 2011, the *real* appreciated 19.5% against the U.S. dollar. Unemployment decreased from 8.2% in January 2009 to 4.7% in December 2011. International reserves increased from US$193.8 billion to US$352.1 billion.

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

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

After these initial effects, the Brazilian economy resumed its prior growth trend, with rising income levels, stable employment rates and controlled inflation. The increase in GDP in 2010 was 7.5%. In 2011, GDP growth totaled 2.7%, below initial estimates, mainly due to the debt crisis in the Eurozone, which forced the Brazilian government and the Central Bank to adjust its economic policy during the second half of the year, lowering the base interest rate. According to IBGE, the average real income of Brazil's workforce in 2011 increased 2.7%, reaching R$1,625.46. Between 2003 and 2011, the purchasing power from this income increased 22.2%, while unemployment fell from 10.9% in December 2003 to 4.7% in December 2011. The accumulated inflation rate as measured by the IPCA was 6.5% in December 2011, at the top of the targeted range. The Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM, began to decrease the SELIC in a controlled manner, which resulted in an average SELIC rate of 11.7% during 2011. In March 2012, COPOM had lowered it to 9.75% in an effort to stimulate consumption and credit.

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

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

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

(1) Source: IBGE.

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

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

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

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

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

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

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

Financial Presentation and Accounting Policies

Presentation of Financial Statements

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

Critical Accounting Policies

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

Operating lease commitments–Company as lessor

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

Estimated impairment of goodwill and intangibles

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

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

Income taxes

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

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

We have tax loss carry forwards amounting to a tax benefit of R$764.5 million (R$720.5 million in 2010). These losses do not expire and relate to subsidiaries that have tax planning opportunities available to support these balances.

Fair value of derivatives and other financial instruments

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

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

Share-based payments

We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. We disclose the assumptions and models used for estimating fair value for share-based payment transactions in note 26(f) to our financial statements included in this annual report.

Revenue – Sales of goods

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

Inventories

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

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

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

Business Combinations

Casa Bahia Comercial Ltda. Association

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

Fair Value of Identifiable Assets and Liabilities

We used provisional amounts of net assets acquired in 2010. The fair value, net of income taxes, of identifiable assets and liabilities acquired from NCB on the date of the business combination amounted to R$1,763.9 million, divided as follows:

(i) fair value of investment held in Bartira, a furniture maker that sells exclusively to *Casas Bahia*, equivalent to 25% of its capital stock, in the amount of R$57.1 million, measured based on the income approach method considering the present value of future benefits generated, directly or indirectly measured, and quantified in the form of cash flow;

(ii) "*Casas Bahia*" tradename, a well-known trademark that is not going to be discontinued, in the amount of R$1,066.2, million, measured based on the royalties relief method considering market compensation for the brand if it had not been acquired by us;

(iii) right of use of points-of-sale, several of which are located in large, busy shopping malls, in the amount of R$264.7 million, measured based on the market approach method considering comparable market transactions;

(iv) fair value of property and equipment in the amount of R$60.9 million, measured based on the market approach method considering market value prices published by FIPE (*Fundação Instituto de Pesquisas Econômicas*) minus a 10% discount;

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

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

Allocation of the Purchase Price

In 2010, we recorded a provisional purchase price allocation as of December 31, 2010 of a bargain purchase gain of R$453.6 million.

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

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

For further information on the association, see “Item 7B. Related Party Transactions – Leases,” “Item 10C. Material Contracts” and note 16(a) to our financial statements included in this annual report.

Overview

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

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

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

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

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

Results of Operations for 2011, 2010 and 2009

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

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

(1) Accounts for inter-company transactions.

Segments	As of December 31, 2010					
Statement of operations data	**Food Retail**	**Cash-and-Carry**	**E-commerce**	**Home Appliances** [(1)]	**Elimination** [(2)]	**Total**
	(in millions of R$)					
Net sales	20,542.7	2,943.0	1,702.3	6,903.7	-	32,091.7
Gross profit	5,524.7	421.7	276.6	1.627.1	-	7,850.2
Depreciation and amortization	(354.8)	(24.7)	(2.2)	(64.4)	-	(446.1)
Operating profits	1,106.3	62.6	77.4	212.7	-	1,459.0
Financial expenses	(660.0)	(53.6)	(73.5)	(376.2)	8.5	(1,154.7)
Financial income	298.8	7.2	0.3	34.0	(8.5)	331.7
Equity pickup	21.7	-	-	12.8	-	34.5
Income before income and social contribution taxes and noncontrolling interest	766.7	16.2	4.2	(116.6)	-	670.5
Income and social contribution taxes	(123.1)	(8.0)	(5.3)	51.8	-	(84.6)
Net income (loss)	643.6	8.2	(1.1)	(64.8)	-	585.9

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

(2) Accounts for inter-company transactions.

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

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

(2) Accounts for inter-company transactions.

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

Results of Operation	**As of and for the Year Ended December 31,**					
	2011	**%**	**2010 (1)**	**%**	**2009 (2)**	**%**
	(in millions of R$)					
Net sales	46,594.5	100.0	32,091.7	100.0	23,192.8	100.0
Cost of sales	(33,933.0)	(72.8)	(24,241.5)	(75.5)	(17,493.8)	(75.4)
Gross profit	12,661.5	27.2	7,850.2	24.6	5,699.0	24.6
Selling, general and administrative expenses (3)	(9,619.7)	(20.6)	(5,817.2)	(18.1)	(4,212.1)	(18.2)
Depreciation and Amortization	(680.5)	(1.5)	(446.1)	(1.4)	(459.9)	(2.0)
Other operating expenses, net	(258.7)	(0.6)	(127.9)	(0.4)	(77.9)	(0.3)
Operating profit	2,102.6	4.5	1,459.0	4.5	949.1	4.1
Financial income	593.3	1.3	331.7	1.0	246.7	1.6
Financial expense	(1,926.0)	(4.1)	(1,154.7)	(3.6)	(501.2)	(3.5)
Equity pickup	34.8	0.1	34.5	0.1	5.4	-
Income before income and social contribution taxes and noncontrolling interest	804.7	1.7	670.5	2.1	700.0	3.0
Income tax expense						
Current	(142.1)	(0.3)	(52.1)	(0.2)	(68.1)	(0.3)

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

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

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

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

Consolidated

Net sales. Net sales increased by 45.2%, or R$14,502.8 million, from R$32,091.7 million in 2010 to R$46,594.5 million in 2011, due to R$10,855,9 million from the consolidation of Nova Casas Bahia's results of operations for the full fiscal year, while in 2010 only two months were consolidated. Besides the effect of this consolidation, the increase in net sales was mainly due to increased same-stores sales in all business segments in the amount of R$2,479.5 million.

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

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

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

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

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

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

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

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

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

Segment Information

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

Food Retail Segment

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

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

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

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

Operating profit increased by 7.8%, or R$86.8 million, from R$1,106.3 million in 2010 to R$1.193,1 million in 2011 mainly due to sales growth and more advantageous negotiations with suppliers.

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

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

Cash -and-Carry Segment

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

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

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

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

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

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

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

Home Appliance Segment

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

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

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

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

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

Net financial expenses increased by 64.2%, or R$219.7 million, from R$342.2 million in 2010 to R$561.9 million in 2011. Financial expenses increased by 117.0%, or R$440.0 million, from R$376.2 million in 2010 to R$816.2 million in 2011, mainly due to the anticipation of receivables to meet working capital needs in the home appliance segment. We expect the home appliance segment to continue financing their operations through the discount of receivables.

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

E-commerce Segment

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

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

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

Depreciation and amortization increased by 236.4%, or R$5.2 million, from R$2.2 million in 2010 to R$7.4 million in 2011 due to the consolidation of Nova Casas Bahia,com.br, wholesales activities and the investment activities during 2011.

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

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

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

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

Consolidated

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

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

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

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

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

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

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

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

Profit before income taxes and noncontrolling interest decreased by 4.2%, or R$29.5 million, from R$700.0 million in 2009 to R$670.5 million in 2010 due to the decrease in other operating expenses, net and the effect of the change in the useful life of certain assets on depreciation, partially offset by the increase in net financial expenses primarily as a result of the consolidation of the results of operations of *Ponto Frio* stores and PontoFrio.com.br and Nova Casa Bahia, as mentioned above.

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

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

Segment Information

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

Food Retail Segment

As of December 31, 2010, the food retail segment was comprised of the banners *Pão de Açúcar, Comprebem, Sendas* and *Extra* (including *Mini Mercado Extra, Extra Supermercado* and *Extra Hipermercado*).

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

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

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

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

Net financial expenses increased by 85.6%, or R$166.6 million, from R$194.6 million in 2009 to R$361.2 million in 2010. The increase was mainly due to an increase in financial expenses of 49.4%, or R$213.6 million, from R$432.6 million in 2009 to R$660.0 million in 2010, primarily as a result of an increase in our net debt to support our expansion. Net debt interest expenses increased R$169.0 million, caused by (i) a R$500.0 million increase in the average notional amount of net debt, combined with an increase of 0.05% in the base interest rate and (ii) an increase of R$24.0 million in the sale of receivables.

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

Cash -and-Carry Segment

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

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

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

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

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

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

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

Home Appliance Segment

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

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

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

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

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

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

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

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

E-commerce Segment

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

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

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

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

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

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

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

5B. Liquidity and Capital Resources

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

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

Our main cash requirements include:

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

Our primary sources of liquidity have historically been cash flow from our operating activities and borrowings. Net cash from operating activities was R$1,128.1 million in 2011, R$361.4 million in 2010 and R$1,842.8 million in 2009. Net cash provided by financing activities was R$1.649,4 million in 2011, R$2,542.7 million in 2010 and R$512.4 million in 2009. In 2011, these cash flows were primarily used for investments in the capital expenditures program, totaling R$1,631.8 million.

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

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

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

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

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

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

Under the lines of credit with BNDES, we are prohibited from offering assets as collateral in loans entered into with third parties without the prior consent of BNDES. We also have to comply with the maintenance of covenants measured in accordance with the relevant BNDES agreements: capitalization ratio (shareholders' equity/total assets) equal to or in excess of 0.40 and current ratio (current assets/current liabilities) equal to or in excess of 1.05.

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

On March 27, 2007, the shareholders approved the sixth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$779.6 million, for 77,965 non-convertible debentures issued as the first (54,000) and second (23,965) series of the sixth issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 0.5%, which is payable semi-annually. The principal amount was repaid in three equal installments on March 1, 2010, 2011 and 2012.

On June 08, 2009, the shareholders approved the seventh issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$200 million, for 200 non-convertible debentures issued as the first series of the seventh issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 19% which will be payable on the maturity date.

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

On January 5, 2011, the shareholders approved the ninth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$610 million, for 610 non-convertible debentures issued as the first series of the ninth issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 7.75% which will be payable on the maturity date.

On December 14, 2011, the shareholders approved the tenth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$800 million, for 80,000 non-convertible debentures issued as the first series of the tenth issuance. The debentures are indexed to the average CDI rate and accrue an annual spread of 8.5% which will be payable on the maturity date.

As of December 31, 2011, we had 133,087 non-convertible debentures outstanding, totaling R$2,639.4 million. We have to comply with certain negative covenants: net debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity, and maintenance of net debt to EBITDA ratio less than or equal to 3.25.

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

Securitization Funds

On September 19, 2003, we concluded the structuring of *Pão de Açúcar Fundo de Investimento em Direitos Creditórios*, or PAFIDC, a receivables securitization fund, with a term of duration until December 7, 2012. We transferred to PAFIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R$9,477.4 million in 2011, R$9,803.0 million in 2010. . For all securitizations, we retained servicing responsibilities and subordinated shares interests. The default credits will be collected by PAFIDC's administrator, which will be assisted by our collection department. We do not receive fees for collection services. The quota holders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us. PAFIDC is consolidated into our financial statements.

On May 25, 2010, we organized *Globex Fundo de Investimento em Direitos Creditórios*, or Globex FIDC, a receivables securitization fund, with a term of duration until November 11, 2013 created to acquire the accounts receivable of Viavarejo (mainly credit card), originated from the sale of products and services to its customers, with an indefinite term. We transferred to Globex FIDC customer credit financing and accounts receivable from credit card companies in securitization transactions totaling R$3,948.5 million in 2011 and R$390.7 million in 2010. The fund equity structure as of December 31, 2011 was composed of 11,666 senior equity interests held by third parties, amounting to R$1,184.5 million, representing 85% of the fund equity and 1,910 subordinated equity interests held by Viavarejo and its subsidiaries, amounting to R$209.1 million, accounting for 15% of the fund's net assets.

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

Capital expenditures

In 2011, our capital expenditures totaled R$1,723.4 million. These investment projects were financed primarily with our operating cash flow and, to a lesser extent funded by third parties. Our capital expenditures were R$1,521.7 million in 2010. For specific use of our capital expenditures in 2011, see "Item 4A. History and Development of the Company — Capital Expenditure and Investment Plan."

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

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

We do not have any significant research and development policies.

5D. Trend Information

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

For 2012, the Pão de Açúcar Group intends to invest in the opening of new stores, remodeling and renovating stores and acquiring land in strategic locations. We also intend to invest in infrastructure related to information technology and distribution.

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

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

5E. Off-balance sheet arrangements

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

5F. Tabular disclosure of contractual obligations

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

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

(1) Estimated interest payments include unrealized losses on cross-currency and interest rate swap contracts. Estimated interest payments and foreign currency losses were determined considering the interest rate and exchange rate as of December 31, 2011. However, our long- term debt is subject to variable interest rates and inflation index, and these estimated payments may differ significantly from the payments actually made.

(2) Operating leases include minimum rental obligations.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6A. Directors and Senior Management

Board of Directors

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

Name	**Position**	**Since**	**Date of Birth**
Abilio dos Santos Diniz	Chairman	2003	12/28/1936
Ana Maria Falleiros dos Santos Diniz D'Avila	Director	2003	7/28/1961
João Paulo Falleiros dos Santos Diniz	Director	1999	09/19/1963
Pedro Paulo Falleiros dos Santos Diniz	Director	2003	05/22/1970
Geyze Marchesi Diniz	Director	2005	04/11/1972
Jean-Charles Henri Naouri	Director	2005	03/08/1949
Candido Botelho Bracher	Director	2005	12/05/1958
Fábio Schvartsman	Director	2007	02/25/1954
Guilherme Affonso Ferreira	Director	2008	05/09/1951
Jean Louis Bourgier	Director	2009	11/17/1947
Antoine Marie Remi Lazars Giscard D'Estaing	Director	2009	01/05/1961
Pedro Henrique Chermont de Miranda	Director	2009	8/24/1973
Arnaud Strasser	Director	2010	07/06/1969
Ulisses Kameyama	Director	2010	10/11/1972

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

6B. Compensation

For the year ended December 31, 2011, the aggregate compensation paid in cash to the directors, executive officers and members of the committees of CBD was R$69.8 million. Non-cash benefits in 2011 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. Under a new CVM (*Comissão de Valores Mobiliários*) rule, listed companies are now required to publicly disclose the lowest, highest and average compensation paid to executive officers and board members. However, our Company, together with other listed companies, has not disclosed this information, based on an injunction obtained by IBEF-RJ on March 2, 2010, that, according to our legal department, supersedes the CVM requirement.

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees and retained the financial institution *Brasilprev Seguros e Previdência S.A.* for management purposes. When establishing the plan, the Company provides monthly contributions on behalf of its employees on account of services rendered to the Company. Contributions made by the Company in the year ended December 31, 2011, amounted to R$2,791 million and employees' contributions amounted to R$3,990 million with 881 participants.

We have established a profit sharing plan for our management, including our executive officers. The plan and its rules have been approved by our board of directors. The plan does not apply to our board of directors. Under the terms of the plan, each member of our management (including our executive officers) who is beneficiary of the plan is assigned annually a base amount for computation of payments under the profit sharing plan. The final amount of the profit sharing payment to an individual is based on the consolidated results of the Pão de Açúcar Group, the results of the business segment or the department, as the case may be, to which the individual belongs and the individual's performance. This individual amount is determined by multiplying the base amount by an index applicable to all participants. This index depends on our operating performance.

Compensation of the Board of Directors, Executive Officers and Fiscal Council of CBD for 2010, 2011, and 2012

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

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

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

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

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

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

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

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

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

	Board of Directors	**Executive Officers**