BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
April 26, 2013

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, 2012

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

Commission File Number 1-14626

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

(Exact Name of Registrant as Specified in its Charter)

BRAZILIAN DISTRIBUTION COMPANY

(Translation of Registrant's name into English)

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

Christophe Hidalgo, Chief Financial Officer

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(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

163,771,484 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

	Page
PART I.	2
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS	2
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	2
ITEM 3. KEY INFORMATION	2
3A. Selected Financial Data	2
3B. Capitalization and Indebtedness	6
3C. Reasons for the Offer and Use of Proceeds	6
3D. Risk Factors	6
ITEM 4. INFORMATION ON THE COMPANY	12
4A. History and Development of the Company	12
4B. Business Overview	14
4C. Organizational Structure	28
4D. Property, Plants and Equipment	29
ITEM 4A. UNRESOLVED STAFF COMMENTS	30
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	30
5A. Operating Results	30
5B. Liquidity and Capital Resources	44
5C. Research and Development, Patents and Licenses, Etc	48
5D. Trend Information	48
5E. Off-balance sheet arrangements	48
5F. Tabular disclosure of contractual obligations	48
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	48
6A. Directors and Senior Management	48
6B. Compensation	52
6C. Board Practices	57
6D. Employees	62
6E. Share Ownership	62
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	63
7A. Major Shareholders	63
7B. Related Party Transactions	66
7C. Interests of Experts and Counsel	67
ITEM 8. FINANCIAL INFORMATION	67
8A. Consolidated Statements and Other Financial Information	67
8B. Significant Changes	71
ITEM 9. THE OFFER AND LISTING	72
9A. Offer and Listing Details	72
9B. Plan of Distribution	73
9C. Markets	73
9D. Selling Shareholders	76
9E. Dilution	76
9F. Expenses of the Issue	76
ITEM 10. ADDITIONAL INFORMATION	76
10A. Share Capital	76
10B. Memorandum and Articles of Association	76
10C. Material Contracts	86
10D. Exchange Controls	86
10E. Taxation	88

10F.	Dividends and Paying Agents	94
10G.	Statement by Experts	94

10H. Documents on Display. 94

10I. Subsidiary Information 95

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK..

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES. 97

12A. American Depositary Shares 97

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

ITEM 15. CONTROLS AND PROCEDURES

ITEM 16. [RESERVED]

16A. Audit Committee Financial Expert

16B. Code of Ethics

16C. Principal Accountant Fees and Services

16D. Exemptions from the Listing Standards for Audit Committees

16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

16F. Change in Registrant’s Certifying Accountant:

16G. Corporate Governance

16H. Mine Safety Disclosure

PART III

ITEM 17. FINANCIAL STATEMENTS

ITEM 18. FINANCIAL STATEMENTS

ITEM 19. EXHIBITS

INTRODUCTION

All references in this annual report to (i) "CBD," "we," "us," "our" and "Company" 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, 2012 was R$2.044 to US$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2012, 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 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, 2011 and 2012 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, 2012 have been translated into U.S. dollars at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Brazilian Central Bank, as of December 31, 2012, of R$2.044 to US$1.00 (subject to rounding adjustments).

	As of and for the Year Ended December 31,					
	2008	**2009**[1]	**2010**[2]	**2011**	**2012**	**2012**
	(millions of R$, except as indicated)					(millions of US$, except as indicated)
Statement of income data						
Net sales revenue	18,032.0	23,192.8	32,091.7	46,594.5	50,924.4	24,914.1
Cost of sales	(13,279.5)	(17,493.8)	(24,241.5)	(33,933.0)	(37,120.7)	(18,160.8)
Gross profit	4,752.5	5,699.0	7,850.2	12,661.5	13,803.7	6,753.3
Selling, general and administrative expenses	(3,470.1)	(4,212.1)	(5,817.2)	(9,619.7)	(10,114.0)	(4,948.1)
Depreciation and amortization	(442.7)	(459.9)	(446.1)	(680.5)	(798.4)	(390.6)
Other operating expenses, net	(19.1)	(77.9)	(127.9)	(258.7)	(33.0)	(16.1)
Operating profit	820.6	949.1	1,459.0	2,102.6	2,858.3	1,398.5
Financial income	292.1	246.7	331.7	593.3	593.3	290.3
Financial expense	(623.7)	(501.2)	(1,154.7)	(1,926.0)	(1,786.2)	(873.9)
Share of profit in an associate	(0.5)	5.4	34.5	34.8	10.8	5.3
Income before income and social contribution taxes	488.5	700.0	670.5	804.7	1,676.2	820.2
Income and social contribution taxes	(147.2)	(94.0)	(84.5)	(85.0)	(519.8)	(254.4)
Net income and comprehensive income	341.3	606.0	585.9	719.7	1,156.4	566.0

Attributable to equity holders of the parent.	341.3	609.3	618.5	718.2	1,051.2	514.2
Attributable to noncontrolling interest	0.0	(3.4)	(32.6)	1.4	105.2	51.5
Basic earnings per shares						
Common	1.39	2.34	2.27	2.61	3.78	1.85
Preferred	1.54	2.59	2.50	2.87	4.15	2.03
Diluted earnings per shares						
Common	1.39	2.34	2.27	2.61	3.78	1.85
Preferred	1.49	2.50	2.48	2.85	4.12	2.02
Basic earnings per ADS	1.54	2.59	2.50	2.87	4.15	2.03
Diluted earnings per ADS	1.49	2.50	2.48	2.85	4.12	2.02
Weighted average number of shares outstanding (in thousands)						
Common	99,680	99,680	99,680	99,680	99,680	99,680
Preferred	132,170	145,442	156,873	159,775	162,417	162,417

2

	As of and for the Year Ended December 31,					
	2008	2009(1)	2010(2)	2011	2012	2012
	(millions of R$, except as indicated)					(millions of US$, except as indicated)
Total	231,850	245,122	256,553	259,455	262,097	262,097
Dividends declared and interest on equity per share						
Common	0.25	0.53	0.63	0.62	0.59	0.29
Preferred	0.28	0.60	0.69	0.68	0.65	0.32
Dividends declared and interest on shareholders' equity per ADS(3)	0.28	0.60	0.69	0.68	0.65	0.32
Balance sheet data						
Cash and cash equivalents	1,623.5	2,341.9	3,818.0	4,970.0	7,086.3	3,466.9
Property and equipment, net	4,867.0	5,356.6	6,794.3	7,358.3	8,114,5	3,969.9
Total assets	13,718.6	18,574.1	29,772.3	33,769.0	35,396.2	17,317.1
Short-term debt (including current portion of long-term debt	334.6	687.6	2,915.1	4,917.5	4,211.1	2,060.3
Long-term debt	3,092.6	3,582.6	5,591.9	6,240.9	6,281.1	3,072.9
Shareholders' equity	5,454.2	6,656.7	9,500.6	10,094.4	11,068.0	5,414.9
Share capital	4,450.7	5,374.8	5,579.3	6,129.4	6,710.0	3,282.8
Other financial information						
Net cash provided by (used in):						
Operating activities	1,256.0	1,842.8	361.4	1,128.1	5,299.3	2,592.6
Investing activities	(484.7)	(1,636.7)	(1,399.4)	(1,356.4)	(1,306.2)	(639.0)
Financing activities	(206.8)	512.4	2,514.1	1,380.3	(1,876.8)	(918.2)
Capital expenditures	(488.3)	(1,631.7)	(1,521.7)	(1,723.4)	(1,426.1)	(697.9)

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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 *Pontofrio* 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."

As of and for the Year Ended December 31,

Operating Data	**2008**	**2009**	**2010**	**2011**	**2012**	**2012**
	(millions of R$, except as indicated)				(millions of US$, except as indicated)	
Employees at period end[(1)]	70,656	85,244	144,914	149,070	151,037	151,037
Total square meters of selling area at period end	1,360,706	1,744,653	2,811,103	2,855,851	2,962,009	2,962,009
Number of stores at period end:						
Pão de Açúcar	145	145	149	159	163	163
CompreBem	165	157	-	-	-	-
Sendas	73	68	-	-	-	-
Extra Hiper	139	103	110	132	138	138
Minimercado Extra	-	52	68	72	107	107
Extra Supermercado	-	13	231	204	207	207
Extra Eletro	47	47	-	-	-	-
Assaí	28	40	57	59	61	61
Pontofrio	-	455	506	401	397	397
Casas Bahia	-	-	526	544	568	568
Nova Pontocom	-	-	-	-	-	
Total number of stores at period end	597	1,080	1,647	1,571	1,641	1,641

3

	As of and for the Year Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2012**
Net sales revenues per employee[1]:						
Pão de Açúcar	229,076	262,547	287,016	288,256	243,825	119,317
CompreBem	325,737	336,011	-	-	-	-
Sendas	244,060	297,414	-	-	-	-
Extra Hiper [2]	339,614	356,092	431,185	457,355	442,813	216,693
Minimercado Extra [3]	-	N/A	N/A	270,466	195,418	95,629
Extra Supermercado[4]	-	N/A	316,028	256,486	338,644	165,718
Extra Eletro	409,722	548,748	-	-	-	-
Assaí	437,538	303,361	418,860	486,356	545,787	267,084
Pontofrio[5]	-	253,219	466,002	365,954	542,007	265,235
Casas Bahia[6]	-	-	N/A	464,689	474,760	232,327
Nova Pontocom[7]	-	-	-	-	-	-
CBD average net sales revenues per employee	297,536	315,055	382,182	393,595	445,366	217,943
Net sales revenues by store format:						
Pão de Açúcar	3,378	3,802	4,287	4,740	5,161	2,526
CompreBem	2,573	2,585	-	-	-	-
Sendas	1,397	1,608	-	-	-	-
Extra Hiper [2]	9,120	10,402	11,658	12,364	13,504	6,608
Minimercado Extra [3]	-	N/A	N/A	182	241	118
Extra Supermercado[4]	-	N/A	4,597	4,390	4,381	2,144
Extra Eletro	295	386	-	-	-	-
Assaí	1,269	1,982	2,943	3,902	4,639	2,270
Pontofrio[5]	-	2,428	4,455	4,524	4,872	2,384
Casas Bahia[6]	-	-	2,448	13,304	14,566	7,128
Nova Pontocom[7]	-	-	1,704	3,189	3,409	1,668
Malls and Properties[8]	-	-	-	-	152	74
Total net sales	18,032	23,193	32,092	46,594	50,924	24,920
Average monthly net sales revenue per square meter[9]:						
Pão de Açúcar	1,481.1	1,637.2	1,835.1	1,944.6	2,041.7	999.1
CompreBem	1,085.4	1,148.7	-	-	-	-
Sendas	897.1	1,088.6	-	-	-	-
Extra Hiper [2]	1,025.3	1,138.0	1,219.4	1,280.0	1,310.6	641.3
Minimercado Extra [3]	-	N/A	N/A	1,027.2	1,149.4	562.5
Extra Supermercado[4]	-	N/A	1,187.5	1,331.1	1,483.5	726.0
Extra Eletro	881.1	1,154.1	-	-	-	-
Assaí	2,486.1	1,395.2	1,790.3	1,777.7	2,036.2	996.4
Pontofrio[5]	-	620.4	1,032.6	1,072.9	1,245.6	609.5
Casas Bahia[6]	-	-	N/A	1,122.2	1,193.5	584.0
Nova Pontocom[7]	-	-	-	-	-	-
CBD average monthly net sales revenue per square meter	1,104.3	1,110.1	1,287.2	1,282.8	1,377.3	674.0

Average ticket amount:						
Pão de Açúcar	26.1	29.8	33.2	36.3	39.6	19.4
CompreBem	19.3	20.7	-	-	-	-
Sendas	21.9	24.2	-	-	-	-
Extra Hiper [2]	43.7	48.5	53.3	64.0	59.3	29.0
Minimercado Extra [3]	-	N/A	N/A	12.0	12.8	6.3
Extra Supermercado[4]	-	N/A	23.9	25.1	26.7	13.0
Extra Eletro	299.1	346.6	-	-	-	-
Assaí	78.9	74.5	85.0	88.6	103.6	50.7
Pontofrio[5]	-	618.4	563.9	451.2	432.6	211.7
Casas Bahia[6]	-	-	361.3	372.2	391.5	191.6
Nova Pontocom[7]	-	-	538.3	485.6	428.2	209.6
CBD average ticket amount	32.6	41.2	54.1	73.4	79.3	38.8

4

	As of and for the Year Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2012**
Average number of tickets per month (Brazilian *reais* – R$):						
Pão de Açúcar	10,769,076	10,607,751	10,765,303	10,882,640	10,862,968	10,862,968
CompreBem	11,128,328	10,387,308	-	-	-	-
S*enda*s	5,315,750	5,537,072	-	-	-	-
Extra Hiper (2)	17,406,079	17,886,223	18,237,819	18,025,561	18,966,815	18,966,815
Minimercado Extra (3)	-	N/A	N/A	1,355,022	1,563,405	1,563,405
Extra Supermercado(4)		N/A	16,026,255	14,588,413	13,693,582	13,693,582
Extra Eletro	82,185	92,908	-	-	-	-
Assaí	1,340,148	2,218,159	2,885,286	3,671,405	3,732,878	3,732,878
Pontofrio(5)	-	333,487	658,275	835,446	938,511	938,511
Casas Bahia(6	-	-	564,626	2,978,613	3,100,208	3,100,208
Nova Pontocom(7)	-	-	263,747	547,328	663,300	663,300
CBD average number of tickets per month	46,041,566	47,062,907	49,401,310	52,884,427	53,521,666	53,521,666

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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 employees) and the ratio of the average monthly hours of all retail employees to the average monthly hours of full-time employees.

(2) In 2009, includes the results of operations of *Extra Hiper* stores, *Extra Supermercado* stores and *Minimercado Extra* stores. In 2010, includes the results of operations of *Extra Hiper* stores and *Minimercado Extra* stores.

(3) In 2009 and 2010, the results of operations of *Minimercado Extra* are included in *Extra Hiper* banner.

(4) In 2010, includes the results of operations of *Sendas* and *CompreBem* stores. During 2010 and 2011, we converted the *Sendas* and *CompreBem* stores into *Extra Supermercado* stores.

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

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

(7) Includes all e-commerce assets of the Company. For further information, see "Item 4B. Business Overview — Our Company — E-commerce Operating Segment."

(8) In 2012, R$152 million net sales revenue (R$153 gross sales) was recognized from real estate projects through a land swap. The land swap revenue is the net result of the book value of the assets swapped.

(9) 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 years 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 and 2012 the *real* depreciated and on December 31, 2012, the exchange rate was R$2.044 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**
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
2012	1.702	2.112	1.955	2.044

	Exchange Rate of Brazilian Currency per US$1.00			
Month	**Low**	**High**	**Average(1)**	**Period-End**
October 2012	2.022	2.038	2.030	2.031
November 2012	2.031	2.107	2.068	2.107
December 2012	2.044	2.112	2.078	2.044
January 2013	1.988	2.047	2.031	1.988
February 2013	1.957	1.989	1.973	1.975
March 2013	1.953	2.019	1.983	2.014
April 2013 (through April 17, 2013)	1.974	2.024	1.966	1.994

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

6

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 2012, the base interest rate (SELIC) in Brazil varied between 19.75% p.a. and 7.25% 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. Furthermore, interest rate decreases may affect our ability to maintain interest margins we charge on installment sales, especially in connection with our home appliance segment, which could have a negative effect on our financial income. 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%, respectively, 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 years ended December 31, 2011 and 2012, the *real* depreciated 12.6% and 8.9%, respectively, against the U.S. dollar, closing at R$1.876 and R$2.044 to US$1.00, respectively. 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, investors' 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 self-service wholesale segment (*atacado de auto serviço*) 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 self-service wholesale chains, as well as local supermarkets and independent grocery stores. In the home appliances sector, we also compete with large multinational chains and large or specialized Brazilian companies. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

In the e-commerce segment we compete with other large well established players that, similar to us, offer a wide range of products, as well as with specialized retailers that focus on one or a few products. Because barriers to entry are much lower than in traditional retail, competition in the e-commerce market in Brazil is even more intense and if we are unable to respond to changes in that market our market share and net income may be adversely affected.

Disagreements between our controlling shareholder and our principal minority shareholder could adversely affect us.

We are currently controlled by the Casino Guichard Perrachon Group, or Casino Group, through our holding company, Wilkes Participações S.A., or the Holding Company, 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 Group.

Between 2005 and June 2012, the Casino Group and a group composed of Mr. Abilio dos Santos Diniz and other members of the Diniz family, or Diniz Family, shared equal voting power in the Holding Company and were our co-controlling shareholders. In June 2012, according to the terms of the Holding Company shareholders' agreement, the Casino Group chose to elect Mr. Jean-Charles Naouri as the chairman of the board of directors of the Holding Company, which caused the so called co-control rearrangement, as provided for in the Holding Company shareholders' agreement, and since then the Casino Group, as per Brazilian Corporate Law, is our sole controlling shareholder inasmuch as it has the right to elect the majority of the members of both our board of directors and the Holding Company's and to direct our business. Accordingly, the Casino Group has elected the majority of the members of the board of directors of the Holding Company on July 2, 2012, and the majority of the members of our Board of Directors on June 22, 2012. In addition, by means of the exercise of a put option by the Diniz Family, the Casino Group became the largest voting shareholder of our Holding Company. Pursuant to the terms of the Holding Company shareholders' agreement, the Diniz Family is entitled to certain veto rights and other minority shareholder rights for as long as it holds at least 10% of the Holding Company voting shares and Mr. Abilio dos Santos Diniz, who has been our chairman since 2003, has the right to maintain this position for as long as he is mentally and physically fit for the functions and we have a good performance track record. For further information on the terms of the Holding Company shareholders' agreement, see "Item 7A. Major Shareholders – Shareholders' Agreements and Conditional Put Option Agreement."

Since mid 2011, there have been disagreements between the Casino Group and the Diniz Family. On May 30, 2011, the Casino Group filed a request for arbitration under the International Chamber of Commerce rules, or the ICC rules, against Abilio dos Santos Diniz, Ana Maria Falleiros dos Santos Diniz D'Avila, Adriana Falleiros dos Santos Diniz, João Paulo Falleiros dos Santos Diniz, Pedro Paulo Falleiros dos Santos Diniz and Península Participações Ltda. On July 1, 2011, the Casino Group filed another request for arbitration under the ICC rules, naming as respondents all the parties listed above and us. The two arbitrations were consolidated into a single proceeding and a three-member arbitral tribunal constituted to decide the dispute. On April 5, 2013, the arbitral tribunal dismissed us from the arbitration. However, on December 12, 2012 the Diniz Family filed a request for arbitration under the ICC rules against the Casino Group. The arbitration proceedings are subject to confidentiality provisions and aim at ensuring compliance with the terms of the shareholders' agreements entered into by and between the Casino Group and the Diniz Family. We cannot predict the effects of the dispute on us.

8

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.

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

We face risks related to our distribution centers.

Approximately 85% of our products are distributed through our 55 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.

9

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 credit cards, financial services and insurance at our stores. 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, specifically 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 effect on us.

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

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

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

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

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

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

We compete with other retailers based on price, product mix, store location and layout and services. Consumer habits are constantly changing and we may not be able to anticipate and quickly respond to these changes. If we are unable to adapt our store format mix or layout, identify locations and open stores in preferred areas, quickly adjust our product mix or prices under each of our banners and segments or otherwise adjust to changing consumer preferences our business and results of operation could be materially adversely affected.

Our controlling shareholder has the ability to direct our business and affairs.

Our controlling shareholder has the power to, among other things, appoint the majority of 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 shareholder may prevail over our other shareholders or holders of ADSs. For a description of our ownership structure, see "Item 7A. Major Shareholders."

Risks Relating to the Preferred Shares and ADSs

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

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

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

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

You will not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933, or the Securities Act, is effective with respect to those rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement or to take any action to make preemptive rights available to holders of ADSs. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. In addition, we may issue a substantial number of preferred shares as consideration for future acquisitions 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 49%, 47% and 43% of all shares traded on the São Paulo stock exchange (*BM&FBovespa S.A. – Bolsa de Valores*, *Mercadorias e Futuros*), or BM&FBOVESPA, in 2010, 2011 and 2012, 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, SP, Brazil (telephone: +55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

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

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

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

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

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

In 2007, we acquired a 60% ownership interest in the *Assaí* chain. This acquisition enabled us to enter the self service wholesale segment in the State of São Paulo. In 2008, we started self-service wholesale operations in the State of Rio de Janeiro through *Xantocarpa*, a company that assumed the operation of three Sendas stores, which were converted into *Assaí* stores. In July 2009, we purchased the remaining 40% interest in *Assaí* and became owners of 100% of the chain.

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

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

In April 2013, we and Viavarejo entered into a term of undertaking (*Termo de Compromisso de Desempenho*), or TCD, with the Administrative Council for Economic Defense, or CADE, for the approval of the association agreement between CBD and Casa Bahia Comercial Ltda.

Our main undertaking under the TCD is to divest 74 stores, distributed across in 54 cities and seven states, representing approximately 3% of Viavarejo's consolidated gross sales in 2012.

The approval of the association terminates the obligations assumed by us, Casa Bahia Comercial Ltda. and Viavarejo under the provisional agreement (*Acordo de Preservação de Reversibilidade da Operação – APRO*) entered into with CADE on February 3, 2010, allowing Viavarejo to capture all the synergies deriving from the association.

Capital Expenditures and Investment Plan

As part of our capital expenditures and investment plan, we have invested approximately R$4,671.2 in our operations in the three years ended December 31, 2012. Our capital expenditure and investment plan for 2013 contemplates capital expenditures and investments for 2013 in the total amount of up to R$2.0 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:

13

Opening of new stores and purchases of real estate – In the food retail sector, we 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 184 new stores from 2010 through 2012, 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 from 2010 through 2012 was R$1,110.1 million.

Acquisition of retail chains – We have paid an aggregate of R$803.1 million from 2010 through 2012 for the acquisition of interests in Globex, Sendas, Barcelona, Assaí and Rede Duque.

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. The total cost of renovating stores from 2010 through 2012 was R$1,963.4 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$520.0 million from 2010 through 2012. 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 capitalized an aggregate of R$274.6 million on our distribution facilities from 2010 through 2012.

The following table provides a summary description of our principal capital expenditures for the three years ended December 31, 2012:

	Year Ended December 31,		
	2010	**2011**	**2012**
		(in millions of R$)	
Opening of new stores	335.3	391.5	285.6
Purchases of real estate	0.5	0.2	97.0
Acquisition of retail chains	225.2	460.7	117.2
Renovation of existing sotres	778.9	620.6	563.9
Information technology	136.4	130.1	253.5
Distribution centers	45.4	120.3	108.9
Total	**1,521.7**	**1,723.4**	**1,426.1**

When significant components of property and equipment are replaced, they are recognized as individual assets with specific useful lives and depreciation. Likewise, when a major replacement is performed, its cost is recognized at the carrying amount of the equipment as a replacement, if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss for the year as incurred. Leasehold improvements are amortized using the shorter of the lease term and the useful life of the assets.

4B. Business Overview

The Brazilian Retail Industry

The Brazilian retail food industry represented approximately 5.7% of Brazil's GDP (gross domestic product) in 2012. According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the food retail industry in Brazil had gross revenues of approximately R$250 billion in 2012, representing an 11.03% increase compared with 2011.

The Brazilian retail food industry is highly fragmented. Despite consolidation within the industry, according to ABRAS, the three largest supermarket chains represented approximately 45.9% of the retail food industry in 2012, as compared to 46.8% in 2011. Our consolidated gross sales represented 22.9% of the gross sales of the entire retail food industry in 2012, also according to ABRAS.

The self-service wholesale segment (*atacado de auto serviço*) was created in order to serve customers within a market niche that was neither reached by self-service retail nor by direct wholesale. According to the Brazilian Wholesalers Association (*Associação Brasileira de Atacadistas e Distribuidores de Produtos Industrializados*), or ABAD, this segment in Brazil had gross revenues of R$164.5 billion in 2011, representing an 8.8% increase compared with 2010.

According to data published in February 2013 by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the volume of sales in the food retail sector increased by 8.4% in 2012 compared to 2011. This data mainly reflects the increase in the Brazilian population's purchasing power, mostly driven by the rise in the salaries and number of people employed.

According to the IBGE, the volume of sales in furniture and house appliances sector in Brazil increased 12.3% in relation to the previous year. This performance occurred due to the maintenance of the employment and income growth and credit availability, as well as price reduction, mostly in house appliances, stimulated by the Federal VAT (IPI) reduction imposed by the government since December 2011 to the "white goods" segment and, starting in March 2012, to furniture.

According to the IBGE, the total population of Brazil was approximately 193.9 million in 2012, a 14.2% 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 2012, the city of São Paulo has a population of approximately 11.4 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 42 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%.

According to FGV, 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 poorest 50% 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 gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage increased 9.0% from R$622.00 in January 2012 to R$678.00 in January 2013. 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, with a market share of approximately 22.9%, according to ABRAS. As of December 31, 2012, our total gross sales, including the food and non-food retail segments, totaled R$57,234 million. On the same date, we operated 1,641 stores, 84 gas stations and 157 drugstores in 19 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 55 distribution centers located in 13 Brazilian states and the Federal District.

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 Hiper* and (iii) neighborhood stores through the banner *Minimercado Extra.* The food retail segment also includes GPA Malls & Properties transactions.

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, gardening and also electronics products, such as personal computers, software, computer accessories, and sound and image systems. 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 websites www.paodeacucar.com.br and www.extra.com.br.

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.

- *Self-service wholesale segment*, which consists of sales of food and some non-food products to resellers, 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 *Pontofrio* stores.

• *E-commerce segment*, which consists of our e-commerce operations through the websites Extra.com.br, PontoFrio.com.br, CasasBahia.com.br, Barateiro.com.br, PartiuViagens.com.br, wholesale activities and E Hub, owned by Nova Pontocom Comércio Eletrônico S.A., or Nova Pontocom, and its subsidiaries.

16

Segment Revenue and Income Distribution

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

	Year Ended December 31, 2012			
Operating segment	**Gross Revenues from the Segment** (in millions of R$)	**Percentage of Total Net Revenues**	**Net Revenues from the Segment** (in millions of R$)	**Percentage of Total Net Revenues**
Food retail	26,016.9	45.5%	23,439.0	46.0%
Self-service wholesale	5,080.1	8.9%	4,639.2	9.1%
Home appliances	22,387.0	39.1%	19,437.7	38.2%
E-commerce	3,749.7	6.6%	3,408.5	6.7%
Consolidated	57,233.7	100.0%	50,924.5	100.0%

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

	Year Ended December 31, 2012	
Operating segment	**Net Profit from the Segment** (in millions of R$)	**Percentage of Total Net Income**
Food retail	773.5	66.9%
Self-service wholesale	60.8	5.3%
Home appliances	319.3	27.6%
E-commerce	2.9	0.3%
Consolidated	1,156.4	100.0%

For more information about our revenues and net income from our operating segments, see “Item 5A. Operating Results—Results of Operations for 2012, 2011 and 2010.”

Number of Stores

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

	Pão de Açúcar	***Extra Hiper***	***Extra Super***(1)	***Mini-mercado Extra***	***Assaí***	***Pontofrio***(2)	***Casas Bahia***	***Total***
As of December 31, 2009	146	103	238	52	40	502	-	1,081
During 2010								
Opened	1	8	2	23	13	8	-	55
Closed	-	(1)	(2)	(7)	-	(4)	-	(14)

Transferred (from)/to	3	-	(7)	-	4	-	-	-
Acquired	-	-	-	-	-	-	526	526
As of December 31, 2010	150	110	231	68	57	506	526	1,648
During 2011								
Opened	3	3	1	6	2	6	20	41
Closed	-	-	(2)	(2)	-	(111)	(2)	(117)
Transferred (from)/to	7	19	(26)	-	-	-	-	-
Acquired	-	-	-	-	-	-	-	-
As of December 31, 2011	160	132	204	72	59	401	544	1,572
During 2012								
Opened	4	6	3	39	3	8	25	88
Closed	(1)	-	-	(4)	(1)	(12)	(1)	(19)
Transferred (from)/to								
Acquired	-	-	-	-	-	-	-	-
As of December 31, 2012[3]	163	138	207	107	61	397	568	1,641

17

(1) In 2009, the *Sendas* and *CompreBem* stores were included in *Extra Supermercado* stores. During 2010 and 2011, we converted the *Sendas* and *CompreBem* stores into other formats.

(2) In 2009, the *Extra Eletro* stores were included in *Pontofrio* stores. During 2010, we converted the *Extra Eletro* into *Pontofrio* stores.

(3) Excludes 84 gas stations and 157 drugstores.

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 84.2% of the Company’s consolidated net revenue for the year ended December 31, 2012, 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, 2012. In addition, none of these regions represents individually more than 7.4% of the consolidated net sales.

The following table sets forth the number of our stores by region as of December 31, 2012:

	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	45	19	4	22	14
Extra Hiper	28	46	24	7	20	13
Extra Supermercado	69	84	46	-	8	-
Minimercado Extra	89	18	-	-	-	-
Assaí	19	22	10	-	7	3
Pontofrio	50	97	93	125	-	32
Casas Bahia	87	181	98	102	51	49
Total (5)	401	493	290	238	108	111

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

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

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

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

(5) Excludes 84 gas stations and 157 drugstores.

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, 2012:

	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	163	213,560	1,310	21,166	10.2%
Extra Hiper	Hypermarket	138	883,243	6,400	30,496	26.6%
Minimercado Extra	Neighborhood store	107	26,308	246	1,234	0.5%
Extra Supermercado	Supermarket	207	248,188	1,199	12,936	8.6%
Assaí	Self-service wholesale	61	196,795	3,226	8,500	9.1%
Pontofrio	Home appliances store	397	341,610	860	8,969	9.6%
Casas Bahia	Home appliances store	568	1,052,304	1,853	30,680	28.7%
Nova Pontocom (2)	E-commerce	-	-	-	-	6.7%
Head office & distribution center		55	-	-	37,036	-
Total(3)		**1,641**	**2,962,009**	**1,805**	**151,037**	**100.0%**

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

(3) Excludes 84 gas stations and 157 drugstores.

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 selling area of 1,310 square meters as of December 31, 2102. 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, 2012, we had 163 *Pão de Açúcar* stores. The *Pão de Açúcar* stores have an average of 1,310 square meters of selling space. Food products represented 93.5% of gross sales revenue attributable to *Pão de Açúcar* in 2012 and non-food products represented 6.5%.

The *Pão de Açúcar* banner recorded gross sales of R$5,741 million in 2012, representing an increase of 8.7% relative to 2011. This increase was mainly a result of our expansion (four new stores were opened), as well as growth in certain categories, such as general merchandise and perishables, particularly sea food.

Extra Hiper Stores

Extra Hiper stores 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 Hiper* stores offer the widest assortment of products of any of our store formats and had an average selling area of 6,400 square meters as of December 31, 2012. The *Extra Hiper* stores target the Brazilian classes B, C, D and E classes. As of December 31, 2012, we had 138 *Extra Hiper* stores. The sale of food products and non-food products represented 62.5% and 37.5% of *Extra Hiper*'s gross sales in 2012, respectively.

Gross sales of the *Extra Hiper* banner in 2012 reached R$15,076.7 million, an 8.9% increase compared to 2011. This increase was mainly due to our expansion (six new *Extra Hiper* stores were opened in 2012), as well as to better assortment of products.

Extra Supermercado Stores

As of December 31, 2012, we operated 207 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by stores with an average sales area of 1,199 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 91.6% and 8.4%, respectively, of *Extra Supermercado*'s gross sales in 2012.

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 2012 reached R$4,788, a 0.8% decrease compared to 2011. This decrease was mainly due to the conversion of 26 stores in 2011 from the supermarket format into *Extra Hiper* and *Pão de Açúcar* stores.

Minimercado Extra Stores

In 2011, we began to re-brand this banner to *Minimercado Extra* (Extra Minimarket), 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 246 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. The sale of food products and non-food products represented 95.5% and 4.5%, respectively, of *Minimercado Extra*'s gross sales in 2012.

Gross sales of the *Minimercado Extra* banner in 2012 reached R$258 million, a 32.4% increase compared to 2011, mainly due to our expansion (we opened 39 new stores in 2012), bringing the total of *Minimercado Extra* stores to 107 units as of December 31, 2012. We expect to continue growing this banner in the next couple of years.

Gas Stations

As of December 31, 2012, we operated 84 gas stations. The vast majority of our gas stations are located within the parking area of certain of our stores, mainly in *Extra Hiper* stores. The location of our gas stations allows our customers to both shop and refuel their cars 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 *Minimercado Extra* stores. We opened six new stores in 2012.

Drugstores

As of December 31, 2012, we operated 157 units in 17 states and in the Federal District. Our strategy, in relation to our drugstores, is to provide greater convenience to our customers by providing additional products, mainly in our *Extra Hiper* stores. We opened ten new drugstores in 2012.

Food Delivery

Our food delivery has become another sales channel of the Company, including Pão de Açúcar Delivery, or PA Delivery, and the Extra Delivery, launched in 2012. We have consolidated our leadership in food e-commerce through our food delivery formats. Using our food delivery formats, our customers can order their products online and receive them at home (within 24 hours for conventional delivery, or 4 hours for express delivery).

On December 31, 2012, we operated six PA Delivery units (conventional delivery) in Brazil, two of which are located in the Greater São Paulo area and the others of which are located in Rio de Janeiro, Brasilia, Curitiba and Fortaleza. We operated sixteen PA Express Delivery units, twelve of which are located in the Greater São Paulo area and four of which are located in the countryside of São Paulo state.

In the Extra Delivery (conventional delivery) we operated three units, two of which are located in São Paulo and one of which is located in Rio de Janeiro. We operated one Extra Express Delivery unit, located in the Greater São Paulo area.

Self-Service Wholesale Operating Segment

Assaí Stores

The self-service wholesaler Assaí has been operating in the self-service wholesale segment for 40 years. In 2012, the format continued to undergo some changes as a result of a strategic decision to focus more on food distributors and processors, which led to a move to larger stores (from an average sales area of approximately 3,100 square meters in 2011 to new stores larger than 5,000 square meters opened in 2012) with a more robust layout, a reduced and more profitable product mix and certain other operational efficiencies, including greater use of technology, generating scale gains and permitting more advantageous negotiations with suppliers. We also introduced dual pricing, through which products our offered both at a standard price for unitary purchase and at a lower price per unit for higher quantity purchases.

In 2012, we opened three new *Assaí* stores, all with the new format, for a total of 61 stores as of December 31, 2012, and we expect to continue growing this segment in the next couple of years. In 2012, the *Assaí* banner recorded gross sales of R$5,080, an increase of 18.5% compared to 2011.

Home Appliances Operating Segment

Pontofrio Stores

Our *Pontofrio* stores are specialized in home appliances such as consumer electronics. As of December 31, 2012, we operated 397 *Pontofrio* stores as a result of our acquisition of Globex (now called Viavarejo) in July of 2009. In 2012, *Pontofrio* stores had gross sales of R$5,561 million.

Our Pontofrio 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, 2012, we operated 568 stores as a result of the association with Casa Bahia Comercial Ltda. In 2012, *Casas Bahia* stores' gross sales totaled R$16,825 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 *Pontofrio* 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 addition, we have begun to offer a marketplace e-commerce solution, *E-hub*, to provide our customers the possibility of purchasing products from a large number of partners through a single purchase experience from our websites. We also seek to offer other e-commerce related services, such as *E-plataforma*, our e-commerce solution that we sell to specialized retailers, and B2B solutions. In 2012, we launched *PartiuViagens.com*, an online travel agency that focuses especially on travel packages, a higher value added product as compared to current players, who mostly focus on sales of airline tickets. We also launched *Barateiro.com*, a website dedicated to selling phased-out products and products with small flaws.

In 2012, the e-commerce segment's gross sales totaled R$3,750 million. Nova Pontocom currently has a market share of slightly less than 20% of the Brazilian e-commerce market, as measured by e-Bit, and is the second largest e-commerce company in Brazil.

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 months of March or 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) does 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 us, 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 Hiper*, *Extra Supermercado*, *Minimercado 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 *Pontofrio* 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 2012, our largest supplier in the home appliance and e-commerce segments represented 14.0% and 19.4% of our respective sales and the ten largest suppliers in these segments represented 63.0% and 58.1% of our respective sales.

Distribution and Logistics

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 55 distribution centers (including those of Viavarejo) strategically located in 13 Brazilian states and the Federal District with a total storage capacity of approximately 1.52 million square meters.   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 2012, we focused on applying a new supply synergy concept to our logistics network and, therefore, sharing the use of physical areas between our different businesses in lower density regions, addressing the specificities of each business with increased focus on reducing losses and working capital through the full implementation of demand planning processes under the Oracle retail platform. In 2013, our strategy is to (i) apply a new supply solution to avoid the increase in freight costs in cities that have imposed circulation restrictions to medium- and large-sized trucks, such as “U.L.A” (Advanced Logistic Units) that are located close to smaller format stores to reduce the “last mile” cost; (ii) increase the automation of our facilities with Picking by Voice, Put to Light and RFID pilot to control logistic assets; and (iii) review organization and processes to meet the needs of all banners and business units to increase the response speed to meet the singularities of each banner while maintaining and using synergy opportunities by sharing physical areas, distribution costs and working capital.

Eight 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 2012, 147 suppliers participated in the Top Log Program, and were evaluated with respect to their service level, suitability to the client and integration. This program has led to several efficiency gains and better interaction between our logistics and that of our suppliers.

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

Stores, Supermarkets and Hypermarkets

As of December 31, 2012, the logistic process to supply our stores, supermarkets, hypermarkets and our self service wholesale operation, excluding drugstores and gas stations, included 24 distribution centers located in the states of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia, Paraná and the Federal District, corresponding to a 502,124 square meter area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet. As of December 31, 2012, our centralization rate (the percentage of revenue from the products supplied at our stores that comes directly from our distribution centers) was 85% excluding our self service wholesale operation. Including our self-service wholesale 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 Delivery." As of December 31, 2012, 15% of our stores sales, excluding our self-service wholesale operation, corresponded to "Direct Delivery" products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines. Including our self-service wholesale operation, 24% of our stores' sales corresponded to "Direct Delivery" products.

Electronic Products and Home Appliances – Casas Bahia and Pontofrio Stores

The logistics process associated with our *Casas Bahia* and *Pontofrio* stores involves an analysis of forecast sales, which we use to submit orders to our suppliers. Once these orders are issued, the delivery of products is managed by Viavarejo's 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, 2012 totaled 23 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), corresponding to an 898,745 square meter area.

Delivery

Our PA Delivery and Extra Delivery e-commerce operations share the same inventories with our stores and are strategically located to take advantage of a larger delivery area and to optimize logistics.

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 other 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 2012, we used four 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. We recognize marketing campaign expenses on sales expenses as they are incurred.

In 2012 we implemented a series of marketing actions designed to attract even more customers, especially to our *Extra* banners. These actions included a number of scheduled clearance sales, called *alerta vermelho* (red alert), and a Black Friday sale, as well as partnerships with suppliers in joint campaigns to promote specific products.

In 2010, 2011 and 2012, we spent approximately R$281.0 million, R$973.9 million and R$1,006.4, respectively, on advertising (approximately 0.9%, 2.1% and 2.0%, respectively, of total net sales revenues in each year) accounted for as sales expenses. Marketing expenses of Casa Bahia were included only as from November 1, 2010. Also, 28.1%, 18.2% and 17.7% of our total marketing expenditures in 2010, 2011 and 2012, respectively, we spent on radio, newspaper and magazine advertising. Television advertisements accounted for 35.8%, 54.1% and 56.1% of advertising expenses in 2010, 2011 and 2012, respectively. We spent 36.1% in 2010, 27.2% in 2011 and 26.2% in 2012 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 breach of the exclusivity clause, which allowed it to obtain the 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 credit cards, financial services and insurance, except for extended warranties. FIC has been operating for eight years and has 8.7 million customers (including the customer base of Investcred). Our Company and Itaú Unibanco each hold 50% of FIC's capital stock. The retail segment holds 36% of FIC through CBD, and the home appliance segment holds 14% through Viavarejo. Itaú Unibanco is responsible for the financial and operational policies of FIC, appointing the majority of its officers.

FIC's share of our total gross sales amounted to 6% as of December 31, 2012. In 2012, FIC had a share of profit in an associate of R$10.8 million, a decrease compared to R$34.8 million in 2011, due to a decrease in FIC's results. We maintain our strategy to increase the FIC card's share of sales, making it the best payment option in our 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 2010, 2011 and 2012.

Total number of clients (in thousands)	**2010**	**2011**	**2012**
Credit cards	7,671	8,350	8,773
Direct consumer credit agreements and personal loans	94	33	-
Total	**7,765**	**8,382**	**8,773**

Credit Sales

In 2012, 58.6% of our net sales revenue was represented by credit sales, principally in the form of credit card sales, installment sales and food vouchers, as described below:

Credit card sales. All of our store formats accept payment for purchases with main credit cards, such as MasterCard, Visa, Diners Club, American Express and our co-branded credit cards. Sales to customers using credit cards accounted for 45.8%, 48.7% and 47.9% of our consolidated net sales revenue in 2010, 2011 and 2012, respectively. Of this total, sales through our co-branded credit cards accounted for 6% of our net sales revenue in 2012. 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 and *Pontofrio* 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 50%, 62% and 59.5% of our total credit card sales (mentioned above) in 2010, 2011 and 2012, 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 access to credit through payment slips ("*carnês*") to our customers to finance their purchases. Sales to customers using payment slips accounted for 6.3% of our consolidated net sales revenue in 2012. Installment sales are widely used in the Brazilian home appliance market. We usually sell the receivables in connection with these installments to meet working capital needs of the home appliance segment. The cost of sales of receivables is considered as a financial expense.

Food vouchers. We accept as payment in our food stores vouchers issued by third-party agents to participating companies who provide them to their employees as a fringe benefit. Food vouchers accounted for 5.9%, 3.6% and 4.3% of our consolidated net sales revenue in 2010, 2011 and 2012, respectively. We record allowance for doubtful accounts based on average historical losses complemented by our estimates of probable future losses.

Technology

We invested R$136.4 million, R$130.1 million and R$253.5 million in information technology in 2010, 2011 and 2012, respectively. Our information technology department is interconnected with our other departments, streamlining our strategic initiatives.

In 2012, we continued to implement Oracle Retail, with the adoption of BAM (Business Activity Monitoring), a tool to track and manage supply chain processes and the TMS module (Transportation Management System), a tool to optimize the process of goods transportation, which will contribute to efficiency gains and reduced freight costs. We also started the Client Comes First program, which will allow us, through the SAP Hana software, to have a customized approach to our customers, creating loyalty programs and campaigns for a targeted audience.

Through the adoption of training, awareness and preventive maintenance in the stores processes throughout the year, we improved the availability and useful life of our checkout equipment. In addition, we invested R$32 million to renew more than 10,500 pieces of equipment in 680 stores. This modernization process was also extended to the largest distribution center of the group, through the introduction of picking-by-voice technology, with a focus on efficiency in the picking operation.

We defined the strategic roadmap for IT evolution for the next three years, considering the technological trends and business needs in four areas: architecture and information systems, infrastructure, information security and governance. In 2013 our plans include, among other initiatives, the continued modernization of our technology, considering the renewal of over 10,000 pieces of equipment in approximately 350 stores; the implementation of the Demantec Markdown module in order to optimize inventory turnover in stores and reduce margin loss; the completion of the Client Comes First program; and the introduction of electronic issuance of coupon tax in stores to meet the requirement of SAT-Fiscal.

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*, *Minimercado Extra, Pão de Açúcar*, *Pontofrio*, *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 the *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, 2012, our most important trademarks (Pão de Açúcar, Extra, Qualitá, Taeq, Pontofrio, Casas Bahia, Assaí, and Barateiro, among others) were duly registered with INPI and we had approximately 2,930 trademarks registered or in the process of being registered in Brazil. We did not have any registered patents as of December 31, 2012.

26

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.assai.com.br, www.pontofrio.com.br, www.casasbahia.com.br, www.barateiro.com.br and www.partiuviagens.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 the 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 other 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 hypermarkets 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 food retail 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 self-service 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 *Pontofrio* 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 and Extra 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 of *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*, *Fast Shop* and, more recently, *Amazon*.

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 and 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. In addition, we have internal policies that in some instances go beyond what is required by law, particularly with respect to environmental and sustainability requirements and social and community matters.

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.

Environmental and Social Matters

We have been engaged in sustainability for years. For example, we initiated our innovative recycling program in 2001. We incorporate sustainability into our operations on a company-wide level, encompassing every sector of the organization. In 2009, we created an internal working group and the Sustainable Development Committee, which is linked to our board of directors. In 2010, the concept of sustainability was incorporated into our strategic management.

Sustainable projects that 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 124 *Pão de Açúcar* stores and 126 *Extra* stores;

- we have 40 stores that optimize the re-usage of our recyclable and organic garbage, re-using approximately 83% of the waste volume (including recycling, composting, etc.). The same system is being adapted for additional stores throughout all our banners; and

- monitoring fruit, vegetables, eggs and meat suppliers to ensure their compliance with environmental, social and economic criteria.

We support small communities and organizations that show socio-environmental responsibility by promoting their products since 2002 through our "Caras do Brasil" (Faces of Brazil) program. This program allows these communities and organizations to access a wider public through our stores without having to comply, at first, with all operational requirements we generally ask from our suppliers. We currently do not incur any material costs associated with environmental regulations compliance.

4C. Organizational Structure

We conduct our operations through Companhia Brasileira de Distribuição. We invest in subsidiaries primarily to acquire the share capital of other retail chains from third parties. In most cases, the retail operations are transferred to retail stores under existing banners or the stores acquired begin operating under our banners. We conduct our food retail segment operations under the *Pão de Açúcar*, *Extra Hiper*, *Minimercado Extra*, *Extra Supermercado* banner and for self-service wholesale retail segment operations, under the *Assaí* brand. We conduct our home appliances retail segment operations through our *Pontofrio* 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 January 1, 2013, 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 119 stores, twelve distribution centers and a portion of the real estate property where our headquarters are located. The remaining 1,522 stores and 43 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 21 leases expiring by the end of 2013. 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, 2012, we leased 16 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 568 *Casas Bahia* stores are leased, of which 274 were leased from members of the Klein family as of December 31, 2012. Our management believes that our leases follow at least market standards. See "Item 7B. Related Party Transactions—Leases" and note 13 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, 2012:

	Owned		Leased		Total (1)	
	Number	Area (in square meters)	Number	Area (in square meters)	Number	Area (in square meters)
Pão de Açúcar	35	44,789	128	165,277	163	210,066
Extra Hiper	43	244,222	95	560,480	138	804,702
Extra Supermercado	28	38,541	179	197,275	207	235,816
Minimercado Extra	1	172	106	25,326	107	24,498
Assaí	9	31,154	52	165,641	61	196,725
Pontofrio	3	1,055	394	340,555	397	341,610
Casas Bahia	-	-	568	1,052,304	568	1,052,304
Warehouses	12	390,864	43	1,131,797	55	1,558,661
Headquarters	3	4,648	10	94,316	13	98,964

(1) Excludes 84 gas stations and 157 drugstores.

For further information on Capital Expenditures, see “Item 4A. History and Development of the Company – Capital Expenditures and Investment Plan.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5.   OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5A.   Operating Results

Brazilian Economic Environment and Factors Affecting Our Results of Operations

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

For the period from 2010 through 2012, Brazilian GDP increased by an average of 3.7% annually (7.5% in 2010, 2.7% in 2011 and 0.9% in 2012). Inflation, as measured by the IPCA, was 5.9%, 6.5% and 5.8% in 2010, 2011 and 2012, respectively. From January 2010 through December 2012, the *real* appreciated 18.5% against the U.S. dollar. Unemployment decreased from 6.1% in January 2011 to 4.6% in December 2012. International reserves increased from US$352.1 billion to US$378.6 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 2012 was estimated at R$1,793,96, the highest since 2003, with a 4.1% growth over 2011. Between 2003 and 2012, the purchasing power related to the average real income of Brazil's workforce increased 27.2% (in 2003 the figure was R$1,409.84), while unemployment fell from 10.9% in December 2003 to 4.6% in December 2012. The accumulated inflation rate as measured by the IPCA was 5.8% in December 2012, 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 SELIC rate of 7.25% at the end of 2012.

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		
	2010	**2011**	**2012**
GDP Growth(1)	7.5%	2.7%	0.9%
Inflation (IGP-M) (%)(2)	11.3%	5.1%	7.6%
Inflation (IPCA) (%)(3)	5.9%	6.5%	5.8%
CDI (%)(4)	9.8%	11.6%	8.4%
TJLP (%)(5)	6.0%	6.0%	5.5%
SELIC rate (%)(6)	10.75%	11.00%	7.25%
Appreciation (depreciation) of *real* before USD (%)	4.5%	(12.6)%	(8.9)%
Exchange rate (closing) R$ per USD 1.00(7)	1.666	1.876	2.044
Average exchange rate R$ per USD 1.00(8)	1.759	1.675	1.955

(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 the period. Source: Central Bank.

(8) Average of exchange rates (for sale) of the period. Source: Central Bank.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

The preparation of our consolidated financial statements, under the International Financial Reporting Standards – IFRS as issued by IASB, 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 impact 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. Other intangible assets, the useful lives of which are indefinite, such as tradenames and commercial rights were submitted to impairment tests according to the same calculation criteria used for goodwill.

As of December 31, 2012, the Company calculated the recoverable amount of goodwill arising from past acquisitions, which balance ceased to be amortized as of January 1, 2008, for the purpose of evaluating if there were changes in the assets' value resulting from events or changes in economic, operating and technological conditions that might indicate impairment for all cash generating units ("CGU").