

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

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

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**FORM 20-F**

- .. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
OR  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017  
OR  
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
OR  
.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

**Commission File Number 1-14626**

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**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**  
(Exact Name of Registrant as Specified in its Charter)

**BRAZILIAN DISTRIBUTION COMPANY**  
(Translation of Registrant's name into English)

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

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

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

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

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\*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:

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None

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

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

166,899,579 Preferred Shares, no par value per share

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

**Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer**

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

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

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

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

X

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  No

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	<u>Page</u>
<u>PART I</u>	<u>5</u>
<u>ITEM 1.</u>	
<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	<u>5</u>
<u>ITEM 2.</u>	
<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>5</u>
<u>ITEM 3.</u>	
<u>KEY INFORMATION</u>	<u>5</u>
<u>3A.</u>	
<u>Selected Financial Data</u>	<u>6</u>
<u>3B.</u>	
<u>Capitalization and Indebtedness</u>	<u>9</u>
<u>3C.</u>	
<u>Reasons for the Offer and Use of Proceeds</u>	<u>9</u>
<u>3D.</u>	
<u>Risk Factors</u>	<u>9</u>
<u>ITEM 4.</u>	
<u>INFORMATION ON THE COMPANY</u>	<u>19</u>
<u>4A.</u>	
<u>History and Development of the Company</u>	<u>19</u>
<u>4B</u>	
<u>Business Overview</u>	<u>25</u>
<u>4C.</u>	
<u>Organizational Structure</u>	<u>40</u>
<u>4D.</u>	
<u>Property, Plants and Equipment</u>	<u>41</u>
<u>4E.</u>	
<u>Unresolved Staff Comments</u>	<u>42</u>
<u>ITEM 5.</u>	
<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>42</u>
<u>5A.</u>	
<u>Operating Results</u>	<u>42</u>
<u>5B.</u>	
<u>Liquidity and Capital Resources</u>	<u>54</u>
<u>5C.</u>	
<u>Research and Development, Patents and Licenses, Etc.</u>	<u>57</u>
<u>5D.</u>	
<u>Trend Information</u>	<u>57</u>
<u>5E.</u>	
<u>Off-Balance Sheet Arrangements</u>	<u>57</u>
<u>5F.</u>	
<u>Tabular Disclosure of Contractual Obligations</u>	<u>58</u>
<u>5G.</u>	
<u>Safe Harbor</u>	<u>58</u>
<u>ITEM 6.</u>	
<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>58</u>
<u>6A.</u>	
<u>Directors and Senior Management</u>	<u>58</u>
<u>6B.</u>	
<u>Compensation</u>	<u>62</u>
<u>6C.</u>	
<u>Board Practices</u>	<u>66</u>

<u>6D.</u>	<u>Employees</u>	<u>72</u>
<u>6E.</u>	<u>Share Ownership</u>	<u>72</u>
	<u>MAJOR SHAREHOLDERS AND RELATED PARTY</u>	
<u>ITEM 7.</u>	<u>TRANSACTIONS</u>	<u>72</u>
<u>7A.</u>	<u>Major Shareholders</u>	<u>72</u>
<u>7B.</u>	<u>Related Party Transactions</u>	<u>73</u>
<u>7C.</u>	<u>Interests of Experts and Counsel</u>	<u>76</u>
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	<u>76</u>
<u>8A.</u>	<u>Consolidated Statements and Other Financial Information</u>	<u>76</u>
<u>8B.</u>	<u>Significant Changes</u>	<u>83</u>
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>	<u>83</u>
<u>9A.</u>	<u>Offer and Listing Details</u>	<u>83</u>
<u>9B.</u>	<u>Plan of Distribution</u>	<u>84</u>
<u>9C.</u>	<u>Markets</u>	<u>85</u>
<u>9D.</u>	<u>Selling Shareholders</u>	<u>87</u>
<u>9E.</u>	<u>Dilution</u>	<u>87</u>
<u>9F.</u>	<u>Expenses of the Issue</u>	<u>87</u>
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	<u>87</u>
<u>10A.</u>	<u>Share Capital</u>	<u>87</u>
<u>10B.</u>	<u>Memorandum and Articles of Association</u>	<u>87</u>
<u>10C.</u>	<u>Material Contracts</u>	<u>96</u>
<u>10D.</u>	<u>Exchange Controls</u>	<u>97</u>
<u>10E.</u>	<u>Taxation</u>	<u>98</u>
<u>10F.</u>	<u>Dividends and Paying Agents</u>	<u>105</u>

<u>10G.</u>	<u>Statement by Experts</u>	<u>105</u>
<u>10H.</u>	<u>Documents on Display</u>	<u>105</u>
<u>10I.</u>	<u>Subsidiary Information</u>	<u>105</u>
<u>ITEM</u>		
<u>11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>105</u>
<u>ITEM</u>		
<u>12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>109</u>
<u>12A.</u>	<u>American Depositary Shares</u>	<u>109</u>
<u>ITEM</u>		
<u>13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>110</u>
<u>ITEM</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF</u>	
<u>14.</u>	<u>PROCEEDS</u>	<u>110</u>
<u>ITEM</u>		
<u>15.</u>	<u>CONTROLS AND PROCEDURES</u>	<u>110</u>
<u>ITEM</u>		
<u>16.</u>	<u>[RESERVED]</u>	<u>111</u>
<u>16A.</u>	<u>Audit Committee Financial Expert</u>	<u>111</u>
<u>16B.</u>	<u>Code of Ethics</u>	<u>111</u>
<u>16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>111</u>
<u>16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>112</u>
<u>16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>112</u>
<u>16F.</u>	<u>Change in Registrant s Certifying Accountant</u>	<u>112</u>
<u>16G.</u>	<u>Corporate Governance</u>	<u>112</u>
<u>16H.</u>	<u>Mine Safety Disclosure</u>	<u>115</u>
<u>PART II</u>		<u>115</u>
<u>ITEM</u>		
<u>17.</u>	<u>FINANCIAL STATEMENTS</u>	<u>115</u>
<u>ITEM</u>		
<u>18.</u>	<u>FINANCIAL STATEMENTS</u>	<u>115</u>
	<u>EXHIBITS</u>	<u>115</u>

ITEM

19.

ii

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## INTRODUCTION

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

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

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

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

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

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Our consolidated financial statements are presented in Brazilian *reais*. We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts as of December 31, 2017 was R\$3.308 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2017, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate. See “Item 3A. Selected Financial Data—Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

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

## FORWARD-LOOKING STATEMENTS

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

- global economic conditions and their impact on consumer spending patterns, particularly in Brazil;
- our ability to sustain or improve our performance;
- competition in the Brazilian retail industry in the sectors in which we operate;
- government regulation and tax matters;
- adverse legal or regulatory disputes or proceedings;
- credit and other risks of lending and investment activities;
- ability to expand our operations outside of our existing markets; and
- other risk factors as set forth under “Item 3D. Risk Factors.”

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

## EXPLANATORY NOTE

### Cnova Reorganization

In August 2016, Cnova, Cnova Brazil and Via Varejo entered into a reorganization agreement (the “Reorganization Agreement”) providing for the reorganization of Cnova Brazil within Via Varejo (the “Cnova Reorganization”). In

connection with the Cnova Reorganization, Casino executed a letter agreement pursuant to which Casino agreed to launch tender offers to purchase any and all outstanding ordinary shares of Cnova at a price of US\$5.50 per share, subject only to completion of the Cnova Reorganization.

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

As a result of the Cnova Reorganization:

4

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- (i) Via Varejo became the sole shareholder of Cnova Brazil, operating the websites Extra.com.br, Pontofrio.com and Casasbahia.com.br, and was no longer a shareholder of Cnova;
- (ii) Cnova has continued its e-commerce operations outside of Brazil, focusing entirely on Cdiscount; and
- (iii) CBD was no longer a majority shareholder of Cnova which became an associate of CBD.

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

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

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

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

### **Discontinued Operations of Via Varejo**

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

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

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

## **PART I**

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

5

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**3A. Selected Financial Data**

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

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2017, have been translated into U.S. dollars at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Central Bank, as of December 31, 2017, of R\$3.308 to US\$1.00 (subject to rounding adjustments).

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

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



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

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

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

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

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

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

- (2) Excludes 85 gas stations and 157 drugstores in 2013, 83 gas stations and 158 drugstores in 2014, 83 gas stations and 157 drugstores in 2015, 76 gas stations and 155 drugstores in 2016 and 72 gas stations and 127 drugstores in 2017.
- (3) Includes revenues associated with rentals of commercial spaces. Revenues of gas stations, drugstores, food delivery and in-store pick-up are included in the respective banner.
- (4) Calculated using the average of square meters of selling area on the last day of each month in the period.

### **Exchange Rates**

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

Since 1999, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Brazilian currency has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. The Central Bank has intervened occasionally to combat instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future.

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

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

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

Source: Central Bank

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

### 3B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### 3D. Risk Factors

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

### Risks Relating to Brazil

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

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

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

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies.

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

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

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

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

The ultimate outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. The

development of those unethical conduct cases has and may continue to adversely affect our business, financial condition and results of operations and may adversely affect the trading price of the ADSs and our preferred shares.

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



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

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

Furthermore, interest rate decreases may affect our ability to maintain interest margins we charge on installment sales, which could have a negative effect on net operating revenue. Brazilian government measures to combat inflation that result in an increase in interest rates may have an adverse effect on us, as our indebtedness is indexed to the interbank deposit certificate (*Certificados de Depósito Interbancário*), or CDI, rate. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm us or adversely affect the trading price of the ADSs and our preferred shares.

***Exchange rate volatility may adversely affect the Brazilian economy and us.***

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

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

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

The market value of securities of Brazilian issuers is affected by economic and market conditions in other countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in the United States, the European Union or emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the trading price of our

securities, and could also make it more difficult for us to gain access to the capital markets and finance our operations on acceptable terms, or at all.

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

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

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

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

### **Risks Relating to our Industry and Us**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Approximately 75% of our products are distributed through our 23 distribution centers and depots located in the Southern, Southeastern, Midwestern and Northeastern regions of Brazil. If operations at one of these centers are adversely affected by factors beyond our control, such as fire, natural disasters, power shortages, failures in the systems, among others, and in the event that no other distribution center is able to meet the demand of the region affected, the distribution of products to the stores supplied by the affected distribution center will be impaired, which may adversely affect us. Our growth strategy includes the opening of new stores which may require the opening of new or the expansion of our existing distribution centers to supply and meet the demand of the additional stores. Our operations may be negatively affected if we are not able to open new distribution centers or expand our existing distribution centers in order to meet the supply needs of these new stores

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

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

FIC is subject to the risks normally associated with providing these types of financing, including risk of default on the payment of principal and interest and any mismatch of cost and maturity of our funding in relation to cost and maturity of financing to its customers, which could have a material adverse effect on us.

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We may be unable to attract or retain key personnel.***

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

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

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

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

Given the decentralization and outsourcing of our service providers’ operations and our suppliers’ production chains, we cannot guarantee that they will not have issues regarding working conditions, sustainability, outsourcing of the

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

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

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

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

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

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

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

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

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

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

Some types of losses, such as losses resulting from wars, acts of terrorism, or natural disasters, generally are not insured because they are either uninsurable or it is not economically practical to obtain insurance. Moreover, insurers recently have become more reluctant to insure against these types of events. If a material uninsured loss or a loss in

excess of insured limits occur, our business, results of operations and financial condition could be adversely affected.

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

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

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

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

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

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

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

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

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

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

The Brazilian securities market is substantially smaller, less liquid, more volatile and more concentrated than major international securities markets, including the securities market of the United States. The B3 had a market capitalization of R\$3.1 trillion as of December 31, 2017. The ten most traded stocks by volume on the B3 during 2017 accounted for approximately 53.1% of total trading on the B3 during that period. Conversely, the New York Stock Exchange had a market capitalization of approximately US\$28.0 trillion as of December 31, 2017. Furthermore, the regulations of the B3 may differ from what foreign investors are used to. The characteristics of the Brazilian securities

market may substantially limit the capacity of holders of the preferred shares underlying the ADSs to sell them at the time and price they desire and, consequently, may adversely affect the market price of our preferred shares. If a liquid and active trading market is not developed or maintained, the trading price of our preferred shares may be negatively affected.



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

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

**ITEM 4. INFORMATION ON THE COMPANY**

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

We were incorporated in Brazil under Brazilian law on November 10, 1981, as Companhia Brasileira de Distribuição. Our principal executive offices are located at Avenida Brigadeiro Luiz Antonio, 3142, São Paulo, SP, Brazil (telephone: +55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **E-Commerce Business Reorganization**

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

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

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

## **2015 Corporate Reorganizations**

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

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

## **Cnova Reorganization**

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

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

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

### ***Corporate Governance Process for Approval of the Cnova Reorganization***

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

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

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

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

#### **1. Casino-CBD Commitment Letter**

##### ***a. CBD Undertakings***

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

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





b. Casino Undertakings

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

- i. *Director Designation Rights.* Casino will ensure that CBD has the right to designate at least one member to the Cnova board of directors so that the ratio of (i) non-independent members of the Cnova board of directors appointed by CBD divided by (ii) the total number of non-independent directors is at least equal to CBD's economic interest in Cnova's outstanding ordinary shares (such director or directors, the "CBD Directors");
- ii. *Information Rights.* Casino will ensure that CBD and/or the CBD Directors have access to the following information with respect to Cnova: (i) audited statutory and consolidated accounts, (ii) annual budget and forecast, (iii) half-year and quarterly accounts, (iv) annual report, (v) details of any material change in business, financial position or affairs and (vi) any other information that may be required for CBD to comply with Brazilian capital markets regulations. Casino also agreed to cause Cnova to make members of Cnova's senior management reasonably available to CBD or the CBD Directors;
- iii. *Good Faith Consideration of an IPO.* If, as a result of the Offers, Cnova ordinary shares are no longer listed on NASDAQ or Euronext Paris, Casino has agreed to consider in good faith the opportunity to launch, in due time and depending on Cnova's then-current strategic and financial objectives and then-prevailing market conditions, an initial public offering of Cnova or, as the case may be, any subsidiary thereof, which we refer to as an "IPO;"
- iv. *Good Faith Consideration of a Fully Marketed Offering.* If, following the Offers, Cnova ordinary shares continue to be listed on NASDAQ or Euronext Paris, Casino agreed to consider in good faith the opportunity to launch a fully marketed offering, which we refer to as an "FMO," through the sale of a significant portion of Cnova's shares, aimed at increasing the free float and liquidity of Cnova ordinary shares;
- v. *IPO or FMO Assessment Right.* CBD may require Casino to engage a first-tier advising bank selected by Casino to assess in good faith the opportunity of an IPO or an FMO and in both cases the opportunity and feasibility of a secondary placement (i.e., through the sale of existing shares of Cnova). CBD may not exercise such right more than once in any two-year period;
- vi. *IPO and FMO Priority.* If Casino or Cnova decides to initiate an IPO or FMO (including any secondary offering), CBD has the right to sell all of its shares as part of such offering, with priority over Casino with respect to up to 90% of the total shares to be offered in such secondary offering, subject to certain exceptions;
- vii. *Tag Along Rights (Change-in-Control Transaction).* Casino has agreed that, if it intends to transfer any or all of its Cnova ordinary shares to any third party (except for sales among members of the Casino Group or the controlling affiliates of Casino), which transfer will constitute a change-in-control of Cnova, CBD will be entitled to require the transferee to acquire all of its shares in Cnova at approximately the same time and on the same conditions;
- viii. *Tag Along Rights (Not a Change-in-Control Transaction).* Casino agreed that if it intends to transfer any or all of its Cnova ordinary shares to any third party (except for sales among members of the Casino Group or the controlling affiliates of Casino), which transfer will not constitute a change-in-control of Cnova, CBD will be entitled to require the transferee to acquire up to the same portion of the subject shares at approximately the same time and on the same conditions; and
- ix. *Survival of Rights.* In the case of any reorganization or other corporate transaction involving Cnova resulting in an exchange, redemption or allotment of Cnova ordinary shares (other than in a transaction where CBD would have the right to sell all of its shares on the same conditions as Casino), Casino has agreed to ensure that CBD keeps the rights granted or receives rights similar to those granted by the Casino-CBD commitment letter with respect to the surviving entity.



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

## 2. CBD Support Letter

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

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

### *Discontinued Operations of Via Varejo*

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

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

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

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

### **Capital Expenditures and Investment Plan**

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

(iii) improvements to information technology; and (iv) improvements to distribution facilities. The Company has historically financed its capital expenditures and investments mainly with cash flow generated from its operations and, to a lesser extent, funded by third parties. The Company plans to continue financing its capital expenditures and investments principally with cash flow from its operations. Our investments in the last three years have included:

24

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

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

*Improvements to information technology* – We view technology as an important tool for efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We have made significant investments in information technology, in an aggregate amount of R\$822 million from 2015 through 2017. For more information on our information technology, see “Item 4B. Business Overview - Technology.”

*Improvements to distribution facilities* – We own distribution centers in the states of São Paulo, Ceará, Rio de Janeiro, Pernambuco, Bahia and the Federal District. The improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have invested an aggregate of R\$892 million in our distribution facilities from 2015 through 2017.

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

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

#### **4B. Business Overview**

##### **The Brazilian Retail Industry**

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

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

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

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

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

According to the IBGE, the total population of Brazil was approximately 208 million in 2017, representing a 1.5% growth since 2015. Given that more than 84% of the population lives in urban areas (where most of our operations are located) and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from Brazil's urban growth and economies of scale related to urban growth. According to an IBGE survey, in 2017, the city of São Paulo had a population of approximately 12.1 million and the city of Rio de Janeiro had a population of approximately 6.5 million. These are the two largest cities in Brazil. The state of São Paulo has a total population in excess of 45 million, representing 21.7% of the Brazilian population and is our largest consumer market, with 634 stores as of December 31, 2017. The state of Rio de Janeiro is our second largest consumer market, with 97 stores as of December 31, 2017.

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

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

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

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

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

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



## Our Company

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

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

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

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

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

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

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

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

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

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

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

27

We generate all of our operating revenue in Brazil.

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

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

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

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

### *Number of Stores*

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

	<i>Pão de Açúcar</i>	<i>Extra Hiper</i>	<i>Extra Super</i>	<i>Mini-mercado Extra</i>	<i>Minuto Pão de Açúcar</i>	<i>Assaí</i>	<b>Total</b>
<b>As of December 31, 2014</b>	<b>181</b>	<b>137</b>	<b>207</b>	<b>240</b>	<b>16</b>	<b>84</b>	<b>865</b>
During 2015							
Opened	5	—	1	46	27	11	90
Closed	(1)	—	(9)	(18)	—	—	(28)
Converted (from)/to	—	—	—	(19)	19	—	—
<b>As of December 31, 2015</b>	<b>185</b>	<b>137</b>	<b>199</b>	<b>249</b>	<b>62</b>	<b>95</b>	<b>927</b>
During 2016							
Opened	2	—	—	1	14	13	30
Closed	(2)	(3)	(5)	(41)	(1)	(1)	(53)
Converted (from)/to	—	—	—	(2)	2	—	—
<b>As of December 31, 2016</b>	<b>185</b>	<b>134</b>	<b>194</b>	<b>207</b>	<b>77</b>	<b>107</b>	<b>904</b>
During 2017							
Opened	3	0	0	0	6	5	14
Closed	(2)	(2)	(6)	(24)	(1)	(1)	(36)

Converted (from)/to	0	(15)	0	0	0	15	0
<b>As of December 31, 2017<sup>(1)</sup></b>	<b>186</b>	<b>117</b>	<b>188</b>	<b>183</b>	<b>82</b>	<b>126</b>	<b>882</b>

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(1) Excludes 72 gas stations and 127 drugstores.

**Geographic Distribution of Stores**

The Company operates mainly in the Southeast region of Brazil, in the states of São Paulo, Rio de Janeiro and Minas Gerais. The Southeast region accounted for 71.0% of the Company's consolidated net revenue for the year ended December 31, 2017, while the other Brazilian regions (North, Northeast, Midwest and South), in the aggregate, accounted for the remaining consolidated net operating revenue for the year ended December 31, 2017. In addition, none of these regions represents individually more than 17.6% of the consolidated net operating revenue.

The following table sets forth the number of our stores by region as of December 31, 2017:

	City of São Paulo	State of São Paulo (excluding the city of São Paulo) <sup>(1)</sup>	State of Rio de Janeiro	South and Southeast Regions (excluding the States of São Paulo and Rio de Janeiro) <sup>(2)</sup>	North and Northeast Regions <sup>(3)</sup>	Midwest Region <sup>(4)</sup>
<i>Pão de Açúcar</i>	66	53	21	5	25	16
<i>Extra Hiper</i>	24	33	22	6	20	12
<i>Extra Supermercado</i>	58	79	39	0	12	0
<i>Minimercado Extra and Minuto</i>						
<i>Pão de Açúcar</i>	182	76	0	0	7	0
<i>Assaí</i>	24	39	15	4	31	13
<b>Total<sup>(5)</sup></b>	<b>354</b>	<b>280</b>	<b>97</b>	<b>15</b>	<b>95</b>	<b>41</b>

(1) Consists of stores in 75 cities, including Campinas, Ribeirão Preto and Santos.

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

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

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

(5) Excludes 72 gas stations and 127 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 operating revenue as a percentage of our total net operating revenue for each of our store formats as of December 31, 2017:

Store Format	Number of Stores	Total Selling Area	Average Selling Area Per Store	Total Number of Employees	Percentage of Our Net Operating
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					(1)	Revenue
		(in square meters)	(in square meters)			
<i>Pão de Açúcar</i>	Supermarket	186	240,185	1,291	16,708	15.5%
<i>Extra Hiper</i>	Hypermarket	117	717,490	6,132	23,926	30.6%
<i>Minimercado Extra and Minuto</i>	Proximity					
<i>Pão de Açúcar</i>	Store	265	65,379	247	3,105	2.4%
<i>Extra Supermercado</i>	Supermarket	188	214,714	1,142	10,292	10.1%
	Cash and					
<i>Assaí</i>	Carry	126	505,736	4,014	26,375	41.3%
<b>Total<sup>(2)</sup></b>		<b>882</b>	<b>1,743,505</b>	<b>1,977</b>	<b>80,405</b>	<b>100%</b>

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

(2) Excludes 72 gas stations and 127 drugstores.

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

### ***Food Retail Operating Segment***

Due to the deteriorating economic conditions in Brazil since 2015, there was a slowdown in household consumption. In spite of this scenario, the food retail operating segment had significant margin levels. Our food retail operating segment operates under different formats and banners, which is also known as *Multivarejo* or *Multi-retail*. We highlight below the differences in the behavior of our customers in the food retail formats and banners:

#### ***Pão de Açúcar Stores***

Our *Pão de Açúcar* banner is the premium supermarket chain of our Company. This banner is deemed to be a reference for innovation in the retail industry and promotes concepts of healthy life and sustainability.

*Pão de Açúcar* stores are supermarkets, 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. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments.

As of December 31, 2017, we had 186 *Pão de Açúcar* stores. The *Pão de Açúcar* stores have an average of 1,291 square meters of selling space. Food products represented 96.4% of gross sales revenue attributable to *Pão de Açúcar* in 2017 and non-food products represented 3.6%.

The year of 2017 was marked by a strong deflation in the prices of food and by the migration of customers of *Pão de Açúcar* stores to alternative segments due to the negative economic scenario. The *Pão de Açúcar* banner recovered sales volumes during 2017 as a result of commercial initiatives we implemented starting in the second quarter of the year, such as: (i) reinforcing the loyalty program with the “My Discount” program at *Multivarejo*, which consists of a mobile app that provides personalized discounts to customers who are members of the loyalty programs of the *Pão de Açúcar* and *Extra* banners; (ii) the promotional action “Collect & Win;” and (iii) the strengthening of iconic products with more attractive pricing. The *Pão de Açúcar* banner recorded gross sales of R\$7,249 million in 2017, which represented a decrease of 0.7% compared to 2016, mainly due to (i) the increase in food deflation; and (ii) the renovation of 50 stores in the fourth quarter of 2017, representing approximately 35% of the sales of the *Pão de Açúcar* banner.

#### ***Extra***

*Extra* is our banner focused on meeting our clients’ demands related to different needs and occasions, with the formats of hypermarkets, supermarkets, drugstores and gas stations. The *Extra* banner offers food, home appliances, clothing and products for the homes and cars of our clients.

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

As of December 31, 2017, we operated 188 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by supermarkets focused on middle-class customers, with an average sales area per store of 1,142 square meters and a complete mix of food products and general merchandise. Our *Extra Supermercado* stores offer quality 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. The sale of food products and non-food products represented 96.1% and 3.9%, respectively, of *Extra Supermercado*’s gross sales in 2017.

Gross sales of the *Extra Supermercado* banner in 2017 reached R\$4,601 million, a 4.6% decrease compared to 2016, mainly explained by strong food deflation, especially affected by the basic perishables category, which registered the greatest deflation, as well as the closing of six stores during 2017.

*Extra Hiper 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 6,132 square meters as of December 31, 2017. The *Extra Hiper* stores target the Brazilian classes B, C, D and E classes. As of December 31, 2017, we had 117 *Extra Hiper* stores. The sale of food products and non food products represented 65.4% and 34.6% of *Extra Hiper*'s gross sales in 2017, respectively.



Gross sales of the *Extra Hiper* banner in 2017 reached R\$12,960 million, a 3.9% decrease compared to 2016, mainly due to the increase in food deflation and the closing of 17 stores during the year (15 of them converted into Assaí banner).

In 2017 the *Extra* banner increased its market share as a result of the continuity of the commercial strategy implemented in 2016 which offered customers discounts on completed purchases through the following promotional actions: (i) “1,2,3 Savings Steps;” (ii) “Hyper Fair;” and (iii) “The Lowest Price.” Furthermore, despite the strong food deflation in 2017, the hypermarkets registered continued sales recovery and delivered the best performance among all of our banners, mainly due to the performance of non-food categories, such as home appliances, general merchandise and apparel.

#### *Proximity Stores (Minimercado Extra and Minuto Pão de Açúcar)*

In 2011, we began to re-brand the proximity stores banner to *Minimercado Extra*, emphasizing the neighborhood concept of 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 for perishable goods such as bakery products, sliced cheese/meat and butchery products. These changes were a response to consumer demand for healthier food, comfort and convenience.

In 2014, we opened the first *Minuto Pão de Açúcar*, another proximity store banner, which offers a differentiated assortment of products and services to meet the needs of high income customers, while *Minimercado Extra* is focused on middle-class customers.

As of December 31, 2017, the *Minimercado Extra* and *Minuto Pão de Açúcar* stores had an average of 247 square meters of selling space. The sale of food products and non-food products represented 98.5% and 1.5%, respectively, of proximity stores gross sales in 2017.

Gross sales of the proximity stores in 2017 totaled R\$1,164 million, a 4.2% decrease compared to 2016, mainly due to the closing of 25 stores during the year and the migration of *Minimercado Extra*'s commercial model, which now focuses on simplification by reducing the assortment and reviewing its pricing strategy. Proximity format reached 265 stores as of December 31, 2017, of which 183 were *Minimercado Extra* and 82 were *Minuto Pão de Açúcar*.

We simplified the concept of proximity stores, particularly the *Minimercado Extra* and reviewed the assortment of products, prices, processes and operation, in order to gain productivity and change the value proposition. The more selective approach of the growth plan prioritizes *Minuto Pão de Açúcar*, which delivers better returns consistently.

In 2016, GPA launched the ‘*Aliados Compre Bem*’ project, a business model for neighborhood stores that consists of a partnership between GPA and independent retailers, in which GPA provides its operational expertise to reach and increase the sales potential of this market segment by supplying products to these stores under this project. GPA was the first major Brazilian retailer to offer this type of service and ended 2017 supplying approximately 624 neighborhood stores.

#### *Other Businesses*

Other businesses include gas stations, drugstores, food delivery and revenues related to rentals of commercial property. Gross sales from other businesses decreased by 0.7% in 2017, totaling R\$2,395 million, mainly due to the closing of 30 drugstores and six gas stations.

#### *Gas Stations*

As of December 31, 2017, we operated 72 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.

### *Drugstores*

As of December 31, 2017, we operated 127 drugstores in 16 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.

### *Food Delivery and In-Store Pick-Up*

We have consolidated our leadership in food e-commerce through our food delivery platforms, including *Pão de Açúcar* Delivery, or PA Delivery, launched in 1995, and *Extra* Delivery, launched in 2012, through which our customers can order their products online and receive them at home (within 24 hours for “conventional” delivery and four hours for “express” delivery).

In January 2013 we launched our “In-Store Pick-Up” service, a new purchasing option through which our customers are able to order online and choose the best time to pick up their food order at selected *Pão de Açúcar* stores. In November 2013, we launched our “In-Store Pick-Up” service at our *Extra* stores.

As of December 31, 2017, we operated three “conventional” PA Delivery units, one located in the greater São Paulo region and one in each of Rio de Janeiro and Brasília, as well as 46 “express” PA Delivery units, 39 of which are located in the greater São Paulo region, one in Curitiba, two in Rio de Janeiro, one in Goiás and three in the Northeast region of Brazil. As of December 31, 2017, our “In-Store Pick-Up” service was available at one distribution center located in the greater São Paulo region.

As of December 31, 2017, we operated three *Extra* Delivery units (one located in São Paulo, one in Rio de Janeiro and one in Brasília). As of December 31, 2017, our “In-Store Pick-Up” service was available at one distribution center located in the greater São Paulo region.

### *“My Discount” Program*

The “My Discount” program consists of a mobile app that provides personalized discounts to customers who are members of the loyalty programs of the *Pão de Açúcar* and *Extra* banners. In the six-month period from July to December 2017, the platform reached 3.9 million downloads. During 2017, the total base of loyal customers in the “My Discount” program increased from 12 million to 14.4 million people. Our strategy, in relation to the “My Discount” program, is to develop a closer relationship with our clients which will allow us to know and better meet their needs and convenience.

### *GPA Malls*

GPA Malls is our real estate business unit, which is responsible for the creation and management of commercial spaces. As of December 31, 2017, GPA Malls managed approximately 233 commercial galleries in Brazil and had a total of 258,000 square meters of gross leasable area.

### *Cash and Carry Operating Segment*

Our cash and carry segment is focused on small and mid-sized companies and also on final consumers who seek to purchase products in greater quantity at more competitive prices. It offers more than 7,000 items of grocery, food, perishable, beverage, wrapping, hygiene and cleaning products, among others.

### *Assaí Stores*

*Assaí* has been operating in the cash and carry segment for 40 years. Beginning in 2012, *Assaí* launched a new format for its stores, which operate as mini distribution centers without a logistics infrastructure, as deliveries are made directly by the suppliers, being, therefore, less subject to logistics risks. These standard stores are characterized by wide aisles, high ceilings and larger cold rooms, which facilitate the loading and increase up to six times the capacity of storage of goods. In addition, other characteristic features of these standard stores include a larger assortment of goods and improved ambiance, including covered parking, air conditioning and natural lighting.

This set of initiatives resulted in a more convenient experience for our customers, which, consequently, increased our customer flow and loyalty. *Assaí*'s customers include individual consumers and corporations, such as prepared food retailers (such as restaurants, pizzerias and snack bars), conventional retailers (such as grocery stores and neighborhood supermarkets) and end users (such as schools, small businesses, churches and hospitals).

In 2017, we expanded our cash and carry business and invested in organic growth by opening five new *Assaí* stores strengthening the *Assaí* banner's national footprint, besides generating sufficient cash to fund its own growth during 2017. We also started a conversion plan of *Extra* hypermarkets into *Assaí*, stores, opening 15 stores during 2017 that registered sales growth of over 2.5x, exceeding expectations. In 2017, the *Assaí* banner totaled 126 stores in 18 Brazilian states, and reached gross sales of R\$20,070 million, an increase of 27.5% compared to 2016. In 2018, we expect the *Assaí* banner will continue to focus on the conversion plan of around five *Extra Hiper* stores and ten stores through organic expansion being funded by its own cash generation and efficient management of working capital.

### ***Discontinued Operating Segments***

#### ***Ponto Frio and Casas Bahia Stores***

Our *Ponto Frio* and *Casas Bahia* stores are specialized in sales of home appliances, such as consumer electronics and furniture. As of December 31, 2017, we operated 971 stores (751 *Casas Bahia* and 220 *Ponto Frio* stores). In 2017, our stores had net gross sales of R\$20,841 million, an increase of 11.5% compared to 2016.

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

Our *Ponto Frio* stores target middle and higher-income customers, but also provides flexible payment alternatives, including installment plans. 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. In 2017, we opened six new home appliance stores, of which one is *Casas Bahia* and five are *Ponto Frio* stores and we closed eleven stores, of which three are *Casas Bahia* and eight are *Ponto Frio* stores, mainly due to CADE requirements (Anti-trust regulatory government body).

#### ***Cnova Brazil***

According to Buscapé Company Informação e Tecnologia Ltda., or E-Bit, a source of market information related to the e-commerce industry, we were the second largest e-commerce company in Brazil, in terms of gross sales in 2016. As of December 31, 2017, we offered approximately 1.5 million products through our direct sales and marketplace businesses. Our main websites are *Casasbahia.com.br*, *Pontofrio.com.br* and *Extra.com.br*. We also have eHub, which offers e-commerce solutions to third-party retailers, including Nike and Hewlett-Packard. We ended 2017 with 971 "In-Store Pick-Up" locations with the opportunity for significant expansion based on agreements with third-party retailers. For the year ended December 31, 2017, Cnova Brazil's net sales were R\$4,849 million, which represented a 7.1% increase as compared to 2016.

### **Seasonality**

We have historically experienced seasonality in our results of operations, principally due to traditionally stronger sales in the fourth quarter holiday season and "Black Friday" promotions, which are relatively new in Brazil and helped to boost fourth quarter sales of mainly non-food categories. Average sales revenues during the fourth quarter are

typically approximately 18% above average sales revenues during the other quarters.

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 FIFA 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 to 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, which are 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 operating segment, 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 operating segment under our own brands, but we offer value-added services, such as extended warranties.

In the e-commerce operating segment, we offer approximately 1.4 million products on our websites through our direct sales and marketplace businesses across a variety of categories, such as: (i) consumer electronics category, mainly televisions, mobile phones, tablet computers, DVD/CD players, MP3 players, cameras and stereo systems, under third-party brands and our private labels (Continental Edison and Oceanic); (ii) home appliances category, which focuses on small and large electric household appliances; (iii) home furnishings category, principally furniture and accessories, home décor, gardening equipment and tools, under third-party brands and our private labels (Bartira and Finlandek); (iv) computers category, which focuses on desktop and laptop computers, computer screens, printers, scanners, copiers and computer components; (v) personal goods category, which includes apparel, shoes, childcare products, sporting goods, bags and luggage, watches and jewelry; (vi) leisure category, which includes toys, games, video games, video game systems, books and DVDs; and (vii) other categories, which include non-perishable groceries, wines, automotive products and personal care products.

## **Suppliers**

The purchasing of food products for all of our banners, excluding *Assaí*, is centralized and we purchase substantially on the spot or on a short-term basis from a large number of unrelated suppliers. As a result, we are not dependent on any single supplier.

The purchasing of electronic products for *Pontofrio*, *Casas Bahia*, *Extra-Hypermarket* and for our Brazilian e-commerce operating segment is made by *Via Varejo*, which purchases from a small number of primarily Brazilian suppliers. We do not depend on any single supplier in our home appliance and e-commerce operating segments. In 2017, our largest supplier in the home appliance segment represented 32.43% of our sales in this segment. The ten largest suppliers in the home appliance segment represented 87.80% of our respective sales. Products supplied by *Indústria de Móveis Bartira Ltda.*, which is a wholly owned subsidiary of *Via Varejo*, or *Bartira*, represented 34.38%

of our sales in the home appliance segment in 2017. In addition, in 2017, our largest supplier in the e-commerce operating segment represented approximately 8.0% of our net sales in this sales channel.

### **Distribution and Logistics**

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 23 distribution centers and depots strategically located in five Brazilian states and the Federal District with a total storage capacity of approximately 603 thousand 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 2015, we opened our first distribution center focused on our home appliances and food retail segments. The 75,000 square meter distribution center is located in the city of Cabo de Santo Agostinho, which is in a seven kilometers distance from the Port of Suape, an important economic center in the state of Pernambuco, in the Northeast region of Brazil.

This distribution center in Cabo de Santo Agostinho has helped us reduce costs and expedite the supply of products to local stores, the delivery to our customers and the import process. It also allows us to support part of the growing logistics demands in the nine states in the Northeast region.

We organize our logistics and distribution processes in accordance with the products and services sold under our banners. Accordingly, we guide our distribution processes by the procedures described below.

### **Stores, Supermarkets and Hypermarkets**

As of December 31, 2017, the logistic process to supply our stores, supermarkets and hypermarkets, excluding drugstores and gas stations, included 15 distribution centers located in the states of São Paulo, Rio de Janeiro, Ceará, Pernambuco, Bahia and the Federal District, corresponding to a 561,000 square meter area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet. As of December 31, 2017, our centralization rate (the percentage of revenue from the products supplied at our stores that comes directly from our distribution centers) was 72% excluding our cash and carry operation.

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, 2017, 13% of our stores sales, excluding our cash and carry operation, corresponded to “Direct Delivery” products, especially ornamental plants, cigarettes, ice creams, yogurts and magazines.

### ***Cash and Carry***

To support the growth of the cash and carry business and ensure the efficient supply of stores that work with high sales volume, we operate with nine distribution centers in five different states of Brazil. The distribution centers are strategically located within these states to allow us to work with a high-frequency supply reducing the need for inventory space, improving the stock coverage and assuring better stock out rates in stores. These advantages are also sustained by the distribution center’s total storage area of 103,000 square meters, storage capacity of 121,000 pallet positions and a system which improves the operation management of the distribution centers.

In 2017, we expanded our logistics operation to meet our business requirements. We nearly doubled our warehousing and shipping capacity in the state of Rio de Janeiro and opened our first distribution center in the state of Bahia improving the service to the stores in the Northeast region.

### ***Food Delivery***

Our PA Delivery and Extra Delivery units share the same inventories with the retail stores where these units are strategically located in order to optimize logistics and attend to a greater delivery area. We completed construction of the dedicated distribution center in the city of São Paulo, which will be responsible for large and complex orders while the stores operations guarantee fast deliveries for smaller orders.



### ***Drugstores***

Our drugstores are supplied with medications and other products, such as cosmetics. The logistics system varies between centralized deliveries through our distribution centers and decentralized deliveries. We have supply agreements with the main pharmaceutical distributors in the country, as well as regional distributors across Brazil.

### ***Gas Stations***

Our gas stations are supplied by exclusive suppliers. In 2017, 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 (*gás natural veicular*), 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**

We aim our marketing policy 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 2017, our marketing efforts were focused on adapting to changing consumers' needs in light of the economic downturn, notably making adjustments to the assortment of products and increasing competitiveness, supported by initiatives to improve operating efficiency and the introduction of new strategies in the loyalty programs such as personalized offers and prizes provided by digital tools and development of news apps.

In 2015, 2016 and 2017, we spent approximately R\$305 million, R\$267 million and R\$282 million, respectively, in advertising, representing approximately 0.80%, 0.60% and 0.60%, respectively, of total net operating revenue in each year.

### **FIC and Investcred**

Before our acquisition of Via Varejo, Via Varejo 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 FIC's term for an additional five years. Itaú Unibanco paid us R\$600 million in 2009, of which R\$550 million was due 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 million was related to the extension of the term through August 28, 2029.

FIC operates financial services kiosks in our stores with exclusive rights to offer credit cards, financial services and insurance policies (except for extended warranties). FIC has been operating for more than ten years and as of December 31, 2017 had a portfolio of 3.2 million credit card accounts from customers (including the portfolio of

*Cartão Extra, Cartão Pão de Açúcar, Cartão Passaí and Cartão Ponto Frio*). Each of our Company and Itaú Unibanco holds 50% of FIC's capital stock. The retail segment holds 36% of FIC through CBD, and the home appliances segment holds 14% through Via Varejo. Itaú Unibanco is responsible for the financial and operational policies of FIC and appoints the majority of its officers.

The year of 2017 was challenging in the credit card business because of the new regulation of the Central Bank regarding revolving credit. The new rules affected 2017 interest revenues and net profit which reached R\$186 million compared to R\$236 million in 2016.

We maintain our strategy to increase the share of FIC's credit cards and financial services at our stores as an important loyalty tool, as a mechanism to increase sales and additional profitability. FIC's credit cards offer payment options for the cardholders' at the stores intending to provide the cardholders with benefits and convenience.

The table below sets forth the breakdown of FIC's customers in 2015, 2016 and 2017:

<b>Total number of clients</b>	<b>2015</b>	<b>2016</b> <b>(in thousands)</b>	<b>2017</b>
Credit cards	3,920	3,013	3,162
Retail	2,542	1,974	2,160
Home appliances	1,378	1,040	1,062

### **Agreement with Bradesco**

In 2016, Via Varejo entered into amendments with Banco Bradesco S.A. and Banco Bradescard S.A., collectively referred to in this annual report as Bradesco, to (i) the operational agreement which regulates the offer by Bradesco of co-branded credit cards and other financial products related thereto for the brand *Casas Bahia*, and (ii) the agreement relating to the provisions of services by Via Varejo to Bradesco as a correspondent bank (*correspondente bancário*), which is a type of service in the Brazilian banking industry that is regulated by the National Monetary Council (*Conselho Monetário Nacional*), or CMN. As a correspondent bank of Bradesco, Via Varejo is responsible for promoting, selling and marketing Bradesco's products, obtaining all of the necessary documentation and supplying all information required for the approval of loans by Bradesco. Pursuant to the agreement, Bradesco pays Via Varejo, as its correspondent bank, a commission based on the amount of the loan that Bradesco disburses to each of our customers.

On December 4, 2015, Bradesco made a payment to Via Varejo of R\$550 million as an advance of fees that will be payable by Bradesco to Via Varejo under the agreements. This payment may be used by Bradesco to offset the fees that will be due by Bradesco to Via Varejo in the subsequent nine years. We recognized the payment related to advance of fees as deferred income in our consolidated financial statements. Bradesco also paid Via Varejo R\$153.8 million related to additional fees provided for in the agreements.

In 2016, Cnova Brazil became a party to the operational agreement and the corresponding service agreement between Via Varejo and Bradesco. Cnova Brazil received from Bradesco R\$60 million as an advance of fees that will be due by Bradesco to Cnova Brazil under the agreement.

The term of the operational agreement and the correspondent services agreement have been extended until August 28, 2029.

### **Credit Sales**

In 2017, 49.1% of our net operating revenue was represented by credit sales, principally in the form of credit card sales, installment sales and food vouchers, as compared to 48.2% in 2016, as described below:

*Credit card sales.* All of our store formats and our e-commerce operations accept payment for purchases with main credit cards, such as MasterCard, Visa, Diners Club, American Express and co-branded credit cards issued by FIC. Sales to customers using credit cards accounted for 38.2%, 39.3% and 38.2% of our consolidated net operating revenue in 2015, 2016 and 2017, respectively. Of this total, sales through our FIC co-branded credit cards accounted for 13.7% of our net operating revenue in 2017. 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 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 11.8%, 10.4% and 13.7% of our total credit card sales in the food retail segment in 2015, 2016 and 2017, respectively. An allowance for doubtful accounts is not required as credit risks for all installments are assumed by credit card companies or issuing banks.

## Food Vouchers

We accept as payment at our food stores vouchers issued by third-party agents to participating companies that provide them to their employees as a fringe benefit. Food vouchers accounted for 9.7%, 9.9% and 10.4% of our consolidated net operating revenue in 2015, 2016 and 2017, respectively. The voucher-issuing companies assume the credit risk associated with these sales.

## Information Technology

We invested R\$334 million, R\$284 million and R\$204 million in information technology in 2015, 2016 and 2017, respectively. We are identifying opportunities and mapping efficiency gains by integrating our various operating segments, focusing on governance and our customers. Since 2014, our information technology department has been negotiating with suppliers of services and software reduction of costs on projects and contracts, because of sharing services between our subsidiaries and GPA's that created economies of scale.

## 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 Hiper*, *Extra Supermercado*, *Minimercado Extra*, *Pão de Açúcar*, *Minuto Pão de Açúcar* and *Assaí*) with respect to the expectations, consumption patterns and purchasing power of the different types of clients and 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 National Industrial Property Institute (*Instituto Nacional de Propriedade Industrial*), 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, 2017, our most important trademarks (*Pão de Açúcar*, *Extra*, *Conviva*, *Qualitá*, *Taeq*, *Assaí* and *Barateiro*, among others) were duly registered with INPI and we had approximately 2,997 trademarks registered or in the process of being registered in Brazil and abroad (2,654 trademarks in Brazil alone). We did not have any registered patents as of December 31, 2017.

Our business relies on intellectual property that includes the content of our sites, our registered domain names and our registered and unregistered trademarks. We believe that the *Pão de Açúcar*, *Extra* and other domain names we use in our e-commerce business are valuable assets and essential to the identity of our business.

We own the following domain names, among others: *www.extra.com.br*, *www.gpabr.com*, *www.paodeacucar.com.br*, *www.paodeacucar.com*, *www.deliveryextra.com.br*, *www.assai.com.br* and *www.barateiro.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 1995, the U.S. chain *Walmart* 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

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other South American countries.

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

- development of cash and carry and discount format stores;
- migration of large stores to smaller format stores, such as neighborhood stores;
- expansion of cash and carry stores and smaller format stores;

38

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- investment in store renovations and in asset quality generally;
- focus on fidelity programs for deeper understanding of consumer habits; and
- increased promotional activities for hypermarkets and supermarkets, which have been the most affected by customer migration.

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 the city of 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 cash and carry 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 relation to our food products e-commerce, through the *Pão de Açúcar* and *Extra* banners, we are market leaders. However, there are competitors in local markets, such as *Zona Sul*, in the city of Rio de Janeiro, and *Sonda*, in the city of São Paulo.

### **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 Matters**

In line with the Casino Group policies, we are committed to sustainability at various levels of our organizational structure. In 2017, we reinforced such commitment by implementing our energy efficient project measures at 115 hypermarkets and supermarket stores and two convenience stores and also by purchasing four solar plants with up to 2,2 MW of installed capacity for use by the *Assaí* banner.

In 2017, GPA has committed itself to only supply cage-free eggs for its private-labels by 2025 being the first Brazilian retailer to make this commitment. In July 2017, GPA and some of its collaborators introduced the first cage-free category tray. Since 2016, GPA has been mapping its supply chain, from slaughterhouses/processors to direct farmers, to enroll its suppliers in GPA's responsible beef sourcing policy.

Additionally, we have a corporate sustainability and responsibility department, or the CSR department, which acts across our businesses aimed at stimulating a better working environment for our employees and mitigating compliance and environmental risks in our activities. To mitigate the risk of environmental impact in our activities, the CSR department focuses on actions to foster conscious consumption in local communities and to encourage our suppliers to reduce impacts to the environment.

Our objective is to change, improve and innovate the way of doing business towards the development of a more responsible and inclusive society. We also want to keep fostering sustainability in our business to bring an effective change in society. We rely on GPA's various training and communication programs to reach these objectives.

## **Social Matters**

In line with our commitment with the promotion of diversity, we developed and distributed, to our employees and suppliers, a material with guidelines on how to communicate in a more inclusive way, respecting our priority audiences and diversity, aimed at eradicating prejudice as well as providing tips on working in multicultural teams. In addition to that, we are members of the Business Coalition for Racial and Gender Equity, of the LGBT Business and Rights Forum, Women 360 Movement Forum and we have signed the UN Women's Empowerment Principles.

In 2017, we held a one week open to the public event on diversity, in which the theme was discussed in all of our business units. At the event, we signed a letter in which we committed to promote equality amongst the employees of GPA regardless of gender or sexual orientation. These initiatives remain closely aligned with the principles of the United Nations Global Compact. Furthermore, our executive women committee continued in its efforts to develop an action plan with measures to encourage gender equality in leadership positions across the Company.

We were leaders in food donation in the Casino Group's "Solidarity Day" in which all stores under the *Assaí, Extra, Pão de Açúcar* and convenience stores banners donated about 765 ton of non-perishable food items to partner institutions.

Additionally, in 2017, *Assaí* developed the *Academia Assaí Bons Negócios* program, through the GPA Institute, which provides small entrepreneurs with business management training to improve their management skills. The online platform of the program had more than 40,000 accesses and 3,000 registers since its creation.

## **4C. Organizational Structure**

The chart below sets forth a summary of our organizational structure based on total capital stock as of December 31, 2017:

40

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For further information on our subsidiaries, see note 3 to our audited consolidated financial statements included elsewhere in this annual report.

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

We own 135 stores, five distribution centers (warehouses) and a portion of the real estate property where our headquarters are located. We lease the remaining 754 stores and 18 distribution centers we operate in Brazil and the remaining portion of the real estate property where our headquarters are located. 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 31 contracts expiring by the end of 2018. 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. In addition, as of December 31, 2017, Via Varejo had lease agreements with the Klein Family regarding one property (distribution center). Based on our management's experience and knowledge of the Brazilian market, our management believes that our leases follow market standards. See "Item 7B. Related Party Transactions—Lease Agreements with the Klein Family" and note 12.2(v) to our audited consolidated financial statements included elsewhere 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 owned and leased as of December 31, 2017:

	Owned		Leased		Total <sup>(1)</sup>	
	Number	Area (in square meters)	Number	Area (in square meters)	Number	Area (in square meters)
<i>Pão de Açúcar</i>	43	56,104	143	184,146	186	240,250
<i>Extra Hiper</i>	32	203,193	85	514,229	117	717,492
<i>Extra Supermercado</i>	28	37,284	160	177,556	188	214,840
<i>Proximity stores</i>	2	448	263	64,931	265	65,379
<i>Assaí</i>	29	119,814	97	385,922	126	505,736
Total Stores	134	416,843	748	1,326,854	882	1,743,507
Warehouses	5	435,518	18	559,301	23	994,819
Headquarters	3	34,543	5	18,306	8	52,849
<b>Total</b>	<b>143</b>	<b>886,904</b>	<b>772</b>	<b>1,904,461</b>	<b>915</b>	<b>2,791,175</b>

(1) Excludes 72 gas stations and 127 drugstores.

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

#### 4E. Unresolved Staff Comments

None.

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

*You should read this discussion in conjunction with our audited 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 most of our operations are in Brazil, our results of operations are affected by macroeconomic conditions in Brazil, including inflation rates, interest rates, Brazilian GDP growth, employment rates, wage levels, consumer confidence and credit availability.

Although the Brazilian economy has shown signs of recovery, the economic environment remained challenging for our operations in 2017.

Inflation continued to decrease in Brazil in 2017, having reached an annual rate of (0.53)%, according to the IGP-M, compared to 10.54%, in 2015 and 7.19% in 2016. The inflation decrease was also registered according to the IPCA,

which displayed an annual inflation of 2.95% in 2017 compared to 10.67%, in 2015, and 6.29%, in 2016.

The interest rates established by the Brazilian Committee of Monetary Policy also declined in 2017 reaching 7.00% p.a. in the end of 2017 and an all-time low of 6.75% p.a. in February 2018. The interest rates had been 14.25% 2015 p.a. at the end of 2015 and 13.75% at the end of 2016.

After reaching a *real*/U.S. dollar exchange rate of R\$3.905 per US\$1.00 in December 31, 2015, the *real* appreciated 16.3% against the U.S. dollar in 2016, and closed the year at a conversion rate of R\$3.259 per US\$1.00. In 2017, the *real* appreciated against the U.S. dollar and on December 31, 2017, the *real*/U.S. dollar exchange rate was R\$3.308 per US\$1.00. On April 15, 2018, the *real*/U.S. dollar exchange rate was R\$3.411 per US\$1.00.

Foreign exchange reserves held by the Brazilian government slightly increased from US\$365.02 billion as of January 2017 to US\$373.97 billion as of January 2018.

While these factors were encouraging, we have not yet seen an impact on the indicators that matter most to our operations. The Brazilian GDP growth rate was of only 1.00% in 2017 after two years of economic recession. The unemployment rate in Brazil has been increasing constantly since 2014 and reached 12.7% in 2017, the highest rate since the IBGE started divulging the current unemployment rate index, in 2012. These two indicators have direct impact on the purchasing power of the Brazilian workforce. According to ABRAS, the sales of the sector, in real terms, grew by only 1.25% in 2017.

A return of economic recession and the persistence of the growth of the unemployment rate could lead to a decline in household consumption which could adversely affect our results of operations and financial condition. In order to mitigate this risk, we are currently adapting our stores' portfolio with conversion to our low-cost format.

On the other hand, the persistence of the recent trend of decrease in inflation and interest rates could have a positive effect on our results of operations and financial condition, as many of our rental contracts are partially indexed to Brazil's national inflation index and the majority of our financial revenues and financial expenses have variable interest rates.

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

	<b>December 31,</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
GDP Growth <sup>(1)</sup>	2.7%	0.1%	(3.8)%	(3.6)%	1.0%
Inflation (IGP-M) (%) <sup>(2)</sup>	5.5%	3.7%	10.5%	7.1%	(0.5)%
Inflation (IPCA) (%) <sup>(3)</sup>	5.9%	6.4%	10.7%	6.3%	2.9%
CDI (%) <sup>(4)</sup>	8.1%	10.8%	13.2%	14.0%	9.9%
TJLP (%) <sup>(5)</sup>	5.0%	5.0%	7.0%	7.5%	7.4%
SELIC rate (%) <sup>(6)</sup>	10.0%	11.8%	14.3%	14.1%	10.0%
Appreciation (depreciation) of <i>real</i> to USD (%)	(14.6)%	(13.4)%	47.0%	17.0%	1.5%
Exchange rate (closing) R\$ per USD 1.00 <sup>(7)</sup>	R\$2.343	R\$2.656	3.905	3.259	3.308
Average exchange rate R\$ per USD 1.00 <sup>(8)</sup>	R\$2.161	R\$2.355	3.339	3.484	3.193

(1) Source: IBGE.

(2) The General Market Price Index (*Índice Geral de Preços-Mercado*), or IGP-M, is measured by FGV.

(3) Inflation (IPCA) is a broad consumer price index measured by IBGE.

(4) The CDI is the accumulated rate of interbank deposits in Brazil during each year.

(5) The official long-term interest rate (*taxa de juros de longo prazo*), or TJLP, is charged by Brazil's National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, on 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, in accordance with IFRS as issued by the IASB, requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures as well as 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 assets or liabilities 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 or liabilities within the next financial year. They are:



*Annual impairment test of goodwill and intangibles*

We test annually whether goodwill is impaired, in accordance with the accounting policy stated in note 4.9 to our audited consolidated financial statements included elsewhere in this annual report and international accounting standard, or IAS, 36 - Impairment of Assets. Other intangible assets, the useful lives of which are indefinite, such as brands and commercial rights, are submitted to impairment tests on the same basis as goodwill.

As of December 31, 2017, the Company calculated the recoverable amount of goodwill arising from past acquisitions, for the purpose of evaluating if there were decreases in the assets' value resulting from events or changes in economic, operating and technological conditions that might indicate impairment.

For impairment testing purposes, the carrying amount of goodwill arising from business combinations and our trade names with indefinite useful lives are allocated to cash generating units, which are not larger than either of our two operating segments, food retail and cash and carry.

The recoverable amount allocated to each segment was defined by means of a calculation based on the value in use of the assets based on cash flow projections arising from financial budgets approved by senior management for the next three years. The discount rate applied to cash flow projections was 9.9% p.a. and cash flows exceeding three years are extrapolated by the expected long-term growth rate of each cash generating unit. Based on this analysis, no impairment loss was identified, as the value in use was substantially greater than the carrying amount of the assets allocated to the cash generating units.

Commercial rights are intangible assets which are amounts paid to former owners of commercial locations. To test for impairment of these assets, we allocated the amounts of identifiable commercial rights by store and we test them together with the fixed assets of the store as described in note 6.1 to our audited consolidated financial statements included elsewhere in this annual report.

*Income taxes*

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

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

We had tax loss carry forwards amounting to a tax benefit of R\$200 million as of December 31, 2017, as compared to R\$112 million as of December 31, 2016 and R\$232 million as of December 31, 2015. These losses do not expire and relate to subsidiaries that have tax-planning opportunities available to support these balances, however, the use of tax loss carry forwards is limited by law to 30% of taxable income in a single fiscal-year.

*Fair value of derivatives and other financial instruments*

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

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

#### *Share-based payments*

The cost of transactions with employees eligible for share-based compensation is measured based on the fair value of the equity instruments on the grant date. Estimating the fair value of share-based payment transactions requires determining the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs for the valuation model, including the expected useful life of the stock options, volatility and dividend yield, as well as making assumptions about them. The assumptions and models used to estimate the fair value of share-based payment transactions are disclosed in note 24.5 to our audited consolidated financial statements included elsewhere in this annual report.

#### *Provision for tax, civil and labor proceedings*

The Company is party to several proceedings at the judicial and administrative levels in the ordinary course of its business. Provisions for legal claims are recognized for all cases representing reasonably estimated probable losses. The assessment of the likelihood of loss takes into account available evidence, the hierarchy of laws, former court decisions and their legal significance, as well as the legal counsel's opinion. For details on legal proceedings, see note 21 to our audited consolidated financial statements included elsewhere in this annual report.

#### *Estimated losses on trade receivables*

Our subsidiary Via Varejo has accounts receivable of sales made on installment due from individual customers. The losses on the accounts receivable from these sales are estimated based on a percentage obtained by analyzing the behavior of the customer credit portfolio over the past months and updated at each period end.

#### *Recoverable taxes*

We pay tax on services and sales, known as ICMS, which is a state level value-added tax levied on the sale of goods and provision of services at each phase of production and sales. In the states of Brazil in which we operate, and for most of the products in our sales mix, the ICMS tax substitution regime applies. Under the tax substitution regime, the responsibility for paying up-front taxes due on the entire production and sales chain for certain products is primarily of the manufacturers and, in some cases, can be ours. In the tax substitution regime, the tax is collected on the sale of the products and transferred to the government. We record the taxes prepaid as substitution in accordance with the accrual basis in our cost of goods resold.

In addition to the tax credits related to the ICMS tax substitution, we also have recoverable tax credits related to PIS and COFINS taxes (as defined below).

The estimate of future recoverability of these tax credits is made based on growth projections, operational matters, the consumption of the credits by the *Grupo Pão de Açúcar* companies and the special tax regime. For details of credits and compensation, see note 11 to our audited consolidated financial statements included elsewhere in this annual report.

*Inventories*

Inventories are carried at the lower of cost or net realizable value. The cost of inventories purchased is recorded at average cost, plus warehouse and handling costs in bringing each product to its present location and condition, less rebates received from suppliers.

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

45

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The value of inventory is reduced by an allowance for losses and breakage, which is periodically reviewed and evaluated as to its adequacy. See in note 5 of our consolidated financial statements further details on new accounting standards such as on IFRS 9-Financial Instruments and IFRS 15-Revenue from contracts.

### **Cnova Reorganization**

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

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

As a result of the Cnova Reorganization:

- (i) Via Varejo became the sole shareholder of Cnova Brazil, operating the websites Extra.com.br, Pontofrio.com and Casasbahia.com.br, and was no longer a shareholder of Cnova;
- (ii) Cnova has continued its e-commerce operations outside of Brazil, focusing entirely on Cdiscount; and
- (iii) CBD was no longer a majority shareholder of Cnova, which became an associate of CBD.

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

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

In accordance with IFRS 5, as a result of the Cnova Reorganization and the “going private” transaction of Cnova carried out by Casino, we presented the net results after taxes reported by Cnova until October 31, 2016, representing the companies that operate in the e-commerce segment outside of Brazil in one single line item in the statement of operations and the balances of assets and liabilities held for sale as discontinued operations. For further information on the Cnova Reorganization and its effects on our consolidated financial statements, see note 32.1 to our audited consolidated financial statements as of and for the year ended December 31, 2017 included elsewhere in this annual report.

### **Discontinued Operations of Via Varejo**

On November 23, 2016, our board of directors approved our plan to sell our shareholdings in Via Varejo, in line with our long-term strategy of focusing on the food retail segment.

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

As disclosed in note 32 to our audited consolidated financial statements included elsewhere in this annual report, the statement of operations for the years ended December 31, 2017, 2016 and 2015 related to Via Varejo and Cnova Brazil (until October 31, 2016) was classified in a single line item as “discontinued operations” as well as the assets and liabilities for Via Varejo (including Cnova Brazil), which are now classified as held for sale as of December 31, 2017 and 2016. In addition, we also restated the financial data as of and for the years ended December 31, 2014 and 2013 in the five-year table under “Item 3A. Selected Financial Data” for comparability across all periods.

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

## Overview

Although the year of 2017 was challenging, there were important indications of recovery in the business environment in Brazil. Even if the effects from the improving macroeconomic indicators are still incipient, we ended the year with an important profit before income tax and social contribution increase of R\$548 million in *Multivarejo* and of 102.2%, or R\$391 million, in the *Assaí* banner. In addition to the slight improvement of Brazil's economic situation, we believe that the reasons for this evolution were the following: (i) strategic management of our store portfolio; (ii) accurate use of our database, offering personalized discounts to our customers; and (iii) continued discipline employed in our financial management and streamlining of our structures.

The 7.7% increase in net operating revenue, which reached R\$44.6 billion in 2017, is remarkable given the still-recessionary economy marked by strong deflation, especially in food categories. This result attests the effectiveness of our management.

Staying focused on higher-return formats through store openings, closures and, especially, conversions, proved being the right strategy, which generated profitability gains. The cash and carry segment has been making a strong contribution to the improvement in our results, having recorded a 121% increase in net operating revenue in the three years ended December 31, 2017. This performance is even more significant once we consider the approximately 8.00% contraction in the country's GDP during the period.

*Assaí*'s net sales increased 27.3% in 2017, having reached R\$18.5 billion, mainly due to the opening of 20 stores in the period, 15 of which were conversions from *Extra* Hypermarkets and five of which are new stores. According to Nielsen, *Assaí* is Brazil's fastest growing cash-and-carry chain.

*Multivarejo* continued to be negatively affected by food deflation. The highlights of *Multivarejo* were the stable margins at *Pão de Açúcar*. We have executed an important renovation project of the *Pão de Açúcar* banner stores, with 50 units renovated in 2017, and improvement at *Extra Hiper* banner stores, driven by the performance of non-food categories. We also ended 2017 with important market share gains in all measurements conducted by Nielsen.

In our ongoing digital transformation process, we developed the "My Discount" program at *Multivarejo*, which consists of a mobile app that provides personalized discounts to customers who are members of the loyalty programs of the *Pão de Açúcar* and *Extra* banners. During the six-month period from July to December 2017, the program reached 3.9 million downloads. During 2017, the total base of loyal customers in the "My Discount" program increased from 12 million to 14.4 million people.

The "My Discount" program has been important for us not only because of the number of customers who are using the app but also for the strategic opportunity it gives us to develop a closer relationship with our clients. This relationship will allow us to know and better meet our clients' needs and convenience.

We have used the "My Discount" app for sales on important dates, such as the "Black Friday." We intend to continue to do so and to further develop the "My Discount" program throughout 2018. Additionally, in light of the changes in consumer relations, all the other endeavors within our digital transformation process will also remain as a priority matter in 2018.

GPA's achievements in 2017 reflect the capacity of our team. In a complex economic environment for the country, we reinforced important pillars in the management of our human resources, which led to an 18% increase in the employee engagement index in the food retail segment and a 21% increase in the employee engagement index in the cash and carry segment. The qualified teams at the Company's many different levels are raising the quality of our services to the level of excellence. A study conducted by LinkedIn in 2017 indicated GPA as the best Brazilian company to work at.



We made important advances regarding cultural and social diversity, with the promotion of the one week open to the public event in our business units in which viewpoints on diversity in the corporate and retail environment were debated. At the event, we signed a letter in which we committed to promote equality amongst the employees of GPA regardless of gender or sexual orientation. These initiatives remain closely aligned with the principles of the United Nations Global Compact.

The results achieved in 2017 demonstrate the improvements we completed through our strategic planning. Our accomplishments so far make us more confident to execute our plans for 2018. We also believe that the process of recovery in the country's macroeconomic scenario will persist. Finally, we maintain our commitment to the continued sustainable growth of our businesses, with a total focus on our customers and on the best management practices in all of our businesses.

### Results of Operations for 2017, 2016 and 2015

We measure the results of our operating segments in accordance with IFRS, using, among other measures, each segment's operating results. References to "same-store" sales is determined by the sales made in stores open for at least 12 consecutive months and that did not close or remain closed for a period of seven or more consecutive days.

The following table presents the consolidated results of operations in accordance with IFRS for the periods indicated, as included in our audited consolidated financial statements included elsewhere in this annual report.

	Year Ended December 31, <sup>(1)</sup>					
	2017	%	2016	%	2015	%
	(in millions of R\$, unless otherwise noted)					
<b>Results of Operation</b>						
<b>Net operating revenue</b>	<b>44,634</b>	<b>100.0</b>	<b>41,454</b>	<b>100.0</b>	<b>37,198</b>	<b>100.0</b>
Cost of sales	(33,931)	(76.0)	(31,933)	(77.0)	(28,123)	(75.6)
<b>Gross profit</b>	<b>10,703</b>	<b>24.0</b>	<b>9,521</b>	<b>23.0</b>	<b>9,075</b>	<b>24.4</b>
Selling expenses	(6,804)	(15.2)	(6,567)	(15.8)	(5,922)	(15.9)
General and administrative expenses	(972)	(2.2)	(884)	(2.1)	(766)	(2.1)
Depreciation and amortization	(779)	(1.7)	(707)	(1.7)	(650)	(1.7)
Other operating expenses, net..	(579)	(1.3)	(567)	(1.4)	(206)	(0.6)
<b>Profit from operations before financial expenses and share of profit of associates</b>	<b>1,569</b>	<b>3.5</b>	<b>796</b>	<b>1.9</b>	<b>1,531</b>	<b>4.1</b>
Financial income	181	0.4	231	0.6	354	1.0
Financial expenses	(911)	(2.0)	(1,134)	(2.7)	(1,122)	(3.0)
Financial expenses, net	(730)	(1.6)	(903)	(2.2)	(768)	(2.1)
Share of profit of associates	(60)	(0.1)	60	0.1	81	0.2
<b>Profit before income tax and social contribution</b>	<b>779</b>	<b>1.7</b>	<b>(47)</b>	<b>(0.1)</b>	<b>844</b>	<b>2.3</b>
Income tax and social contribution	(297)	(0.7)	(24)	(0.1)	(229)	(0.6)
Net income (loss) from continued operations	482	1.1	(71)	(0.2)	615	1.7
Net income (loss) from discontinued operations	383	0.9	(1,005)	N/A	(891)	N/A
<b>Net income (loss) for the year</b>	<b>865</b>	<b>1.9</b>	<b>(1,076)</b>	<b>N/A</b>	<b>(276)</b>	<b>N/A</b>
Attributed to controlling shareholders	619	1.4	(482)	N/A	265	N/A
Net income from continued operations	482	1.1	(71)	(0.2)	615	1.7
Net income from discontinued operations	137	0.3	(411)	N/A	(350)	N/A
Attributed to non-controlling shareholders	246	0.6	(594)	N/A	(541)	N/A
Net income from continued operations	-	-	-	-	-	-

Net income from discontinued operations	<b>246</b>	<b>0.6</b>	(594)	N/A	(541)	N/A
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(1) In 2016, there were two transactions that lead to the retrospective reclassification of operational segments into a single line of the statement of operations as “Discontinued Operations” for the years ended December 31, 2017, 2016 and 2015, as described in note 32 to our audited consolidated financial statements included elsewhere in this annual report as per IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.” The transactions are: i)

48

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corporate restructuring that lead to the deconsolidation of the international activity of the e-commerce segment starting on October 31, 2016, becoming an equity investee. The statement of operations until this date was reclassified to “Discontinued operations.” The Brazilian activity of the e-commerce segment was contributed to Via Varejo, becoming one sole segment. ii) Due to the announced efforts and probability to sell Via Varejo, including the Brazilian e-commerce activity, reclassifying the statement of operations for the whole years ended December 31, 2017, 2016 and 2015.

In addition, we present the results of our operating segments in the same manner management evaluates the performance of and strategy for the segments listed below. For further information on the segments, see note 30 to our audited consolidated financial statements included elsewhere in this annual report.

Information for our segments is included in the following tables:

Segments	Year Ended December 31, 2017				
	Food Retail	Cash and Carry	Assets held for sale and discontinued operations		Total
Others <sup>(1)</sup>					
<b>Statement of operations</b>					
			(in millions of R\$)		
<b>Net operating revenue</b>	<b>26,194</b>	<b>18,440</b>	-	-	<b>44,634</b>
<b>Gross profit</b>	<b>7,762</b>	<b>2,941</b>	-	-	<b>10,703</b>
Depreciation and amortization	(604)	(175)	-	-	(779)
Profit from operations before financial income (expenses) and share of profit of associates	747	822	-	-	1,569
Financial expenses, net	(682)	(48)	-	-	(730)
Share of profit of associates	64	-	-	(124)	(60)
<b>Profit (loss) before income tax and social contribution</b>	<b>129</b>	<b>774</b>	-	<b>(124)</b>	<b>779</b>
Income tax and social contribution	(63)	(234)	-	-	(297)
<b>Net income (loss) – continued operations</b>	<b>66</b>	<b>540</b>	-	<b>(124)</b>	<b>482</b>
<b>Net income (loss) – discontinued operations</b>	<b>(33)</b>	<b>-</b>	<b>416</b>	<b>-</b>	<b>383</b>
<b>Net income (loss) for the year</b>	<b>33</b>	<b>540</b>	<b>416</b>	<b>(124)</b>	<b>865</b>

Segments	Year Ended December 31, 2016				
	Food Retail	Cash and Carry	Assets held for sale and discontinued operations		Total
Others <sup>(1)</sup>					
<b>Statement of operations</b>					
			(in millions of R\$)		
<b>Net operating revenue</b>	<b>26,967</b>	<b>14,487</b>	-	-	<b>41,454</b>
<b>Gross profit</b>	<b>7,351</b>	<b>2,170</b>	-	-	<b>9,521</b>
Depreciation and amortization	(576)	(131)	-	-	(707)
Profit from operations before financial income (expenses) and share of profit of associates	319	477	-	-	796
Financial expenses, net	(808)	(95)	-	-	(903)
Share of profit of associates	77	-	-	(17)	60

<b>Profit (loss) before income tax and social contribution</b>	<b>(413)</b>	<b>383</b>	<b>-</b>	<b>(17)</b>	<b>(47)</b>
Income tax and social contribution	76	(100)	-	-	(24)
<b>Net income (loss) – continued operations</b>	<b>(337)</b>	<b>283</b>	<b>-</b>	<b>(17)</b>	<b>(71)</b>
<b>Net income (loss) – discontinued operations</b>	<b>(78)</b>	<b>-</b>	<b>(927)</b>	<b>-</b>	<b>(1,005)</b>
<b>Net income (loss) for the year</b>	<b>(415)</b>	<b>283</b>	<b>(927)</b>	<b>(17)</b>	<b>(1,076)</b>

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(1) Equity pickup of the Company in Cnova.N.V.

Segments	Year Ended December 31, 2015			
	Food Retail	Cash and Carry (in millions of R\$)	Assets held for sale and discontinued operations	Total
Statement of operations				
<b>Net operating revenue</b>	<b>26,745</b>	<b>10,453</b>	-	<b>37,198</b>
<b>Gross profit</b>	<b>7,538</b>	<b>1,537</b>	-	<b>9,075</b>
Depreciation and amortization	(552)	(98)	-	(650)
Profit from operations before financial income (expenses) and share of profit of associates	1,194	337	-	1,531
Financial expenses, net	(691)	(77)	-	(768)
Share of profit of associates	81	-	-	81
<b>Profit (loss) before income tax and social contribution</b>	<b>584</b>	<b>260</b>	-	<b>844</b>
Income tax and social contribution	(140)	(89)	-	(229)
<b>Net income (loss) – continued operations</b>	<b>444</b>	<b>171</b>	-	<b>615</b>
<b>Net income (loss) – discontinued operations</b>	<b>(74)</b>	-	<b>(817)</b>	<b>(891)</b>
<b>Net income (loss) for the year</b>	<b>370</b>	<b>171</b>	<b>(817)</b>	<b>(276)</b>

#### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

##### Consolidated

*Net operating revenue.* Net operating revenue increased by 7.7%, or R\$3,180 million, from R\$41,454 million in 2016 to R\$44,634 million in 2017, mainly due to the increase of R\$3,953 million in the cash and carry segment. In the cash and carry segment, there was an increase of R\$1,533 million in same-stores sales, and the additional increase was due to the opening of new stores, with five new *Assaí* stores and 15 conversions from *Extra Hiper* to *Assaí* stores. The food retail segment remained stable in comparison with 2016 in same-stores sales. Therefore, the reduction of sales is almost entirely related to the closing of *Extra Hiper* stores to be converted into *Assaí* stores.

*Gross profit.* Gross profit increased by 12.4%, or R\$1,182 million, from R\$9,521 million in 2016 to R\$10,703 million in 2017. The increase in gross profit was higher than the increase in net operating revenue, mainly due to tax credits recognized in 2017 in the food retail segment of R\$723 million, which along with other factors caused the increase of 2.3 p.p. in gross profit. The gross profit margin of the cash and carry segment increased by 0.9 p.p. from 2016 to 2017.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by 4.4%, or R\$325 million, from R\$7,451 million in 2016 to R\$7,777 million in 2017. This increase was principally due to the increase in net operating revenue in the *Assaí* banner. Selling, general and administrative expenses represented 18% of net operating revenues in 2016, and 17.4% in 2017.

*Depreciation and amortization.* Depreciation and amortization increased by 10.2%, or R\$72 million, from R\$707 million in 2016 to R\$779 million in 2017, mainly due to the depreciation of acquired assets in connection with the opening and renewal of stores and other acquisition.

*Other operating expenses, net.* Other operating expenses, net, increased by R\$12 million, from R\$567 million in 2016 to R\$579 million in 2017. This increase was mainly due to the increase of loss on disposal of fixed assets of R\$148 million, which were partially offset by the decrease of expenses in connection with tax installments and provisions for other tax risks of R\$140 million.

*Financial expenses, net.* Financial expenses, net, decreased by 19.2%, or R\$173 million, from R\$903 million in 2016 to R\$730 million in 2017, mainly as a result of (i) a decrease of R\$207 million in cost of debt mainly due to the decrease in the average interest rates; (ii) a R\$19 million decrease in the cost of receivables discount and (iii) a R\$43 million decrease in the monetary restatement of other accounts. These factors were partially offset by the increase of R\$46 million in other financial expenses and the decrease of R\$46 million in income from cash and cash equivalents.

*Share of profit of associates.* Share of profit of associates decreased by R\$120 million, from a gain of R\$60 million in 2016 to a loss of R\$(60) million in 2017. The decrease was due to the R\$12 million in share of profit on FIC and the loss of the control of Cnova in the end of 2016. Therefore, there were two months of equity pickup in 2016 and 12 months of equity pickup in 2017, which represents a decrease of R\$108 million.

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution increased by R\$826 million, from a loss of R\$47 million in 2016 to a profit of R\$779 million in 2017, due to the increase of net operating revenue in the cash and carry segment, an increase in gross margin, and the decrease of financial expenses, net.

*Income tax and social contribution.* Income tax and social contribution increased by R\$273 million, from R\$24 million in 2016 to R\$297 million in 2017. This variation was mainly due to increase in profit in 2017.

*Net income/loss from continued operations.* Net income from continued operations for 2017 was R\$482 million, an increase of R\$553 million, from a net loss of R\$71 million in 2016, mainly due to the increase of net operating revenue in the cash and carry segment gross margin expansion, and the decrease of financial expenses, net.

*Net income/loss from discontinued operations.* Net income from discontinued operations for 2017 was R\$383 million, an increase of R\$1,388 million, from a net loss of R\$1,005 million in 2016, mainly due to the conclusion of the initial steps of the integration of Cnova Brazil and Via Varejo, and the ability to implement multi-channel sales strategy, which allowed us to adopt a more effective pricing and assortment policy.

## ***Segment Information***

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

As of December 31, 2017, the food retail segment was comprised of the banners Pão de Açúcar and Extra (including Minimercado Extra, Minuto Pão de Açúcar, Extra Supermercado and Extra Hiper).

*Net operating revenue.* Net operating revenue decreased by 2.9%, or R\$773 million, from R\$26,967 million in 2016 to R\$26,194 million in 2017, mainly due to the closure of 17 hypermarkets in the period, 15 of which were converted into Assaí stores that operate in the cash and carry segment.

*Gross profit.* Gross profit increased by 5.6%, or R\$411 million, from R\$7,351 million in 2016 to R\$7,762 million in 2017. In the same period, our gross margin increased from 27.3% in 2016 to 29.6% in 2017. This 2.3 p.p. increase was mainly related to tax credits for ICMS tax substitution recognized in 2017 of R\$723 million.

*Depreciation and amortization.* Depreciation and amortization increased by 4.9%, or R\$28 million, from R\$576 million in 2016 to R\$604 million in 2017, mainly due to the depreciation of acquired assets in connection with the renewal of stores.

*Profit/loss from operations before financial income (expenses) and share of profit of associates.* Profit from operations before financial income (expenses) and share of profit of associates increased by 134.9%, or R\$429 million, from R\$318 million in 2016 to R\$747 million in 2017, mainly due to lower cost of sales, and our ability to maintain expenses under control.

*Financial expenses, net.* Financial expenses, net, decreased by 15.6%, or R\$126 million, from R\$808 million in 2016 to R\$682 million in 2017 mainly due to the decrease in the cost of debt, due to the reduction of the average CDI rate from 14% in 2016 to 10% in 2017.

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution increased by R\$542 million, from a loss of R\$413 million in 2016 to a profit of R\$129 million in 2017, mainly due to the increase in gross profit and the reduction of financial expenses, net, as described above.

*Cash and Carry Segment*

As of December 31, 2017, the *Assaí* banner represented our cash and carry segment.

51

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*Net operating revenue.* Net operating revenue increased by 27.3%, or R\$3,953 million, from R\$14,487 million in 2016 to R\$18,440 million in 2017, mainly due to the 20 store openings in 2017, with 15 store conversions and five new stores as a result of our organic expansion and an 11% increase in same-stores sales.

*Gross profit.* Gross profit increased by 35.5%, or R\$771 million, from R\$2,170 million in 2016 to R\$2,941 million in 2017. The increase in gross profit exceeded the increase in net operating revenue. In the same period, our gross margin increased 0.9 p.p., from 15% in 2016 to 15.9% in 2017 due to the recognition of the tax credits related to the ICMS by the Brazilian Supreme Court, the maturing of stores opened in prior periods, the increase in the sales mix percentage to individual customers and small businesses which increased the margin and lower retail stock out ratio.

*Depreciation and amortization.* Depreciation and amortization increased by 33.6%, or R\$44 million, from R\$131 million in 2016 to R\$176 million in 2017, mainly due to the opening of new stores.

*Profit from operations before financial income (expenses) and share of profit of associates.* Profit from operations before financial income (expenses) increased by 72.0%, or R\$345 million, from R\$477 million in 2016 to R\$822 million in 2017. This increase was mainly due to the increase of net operating revenue.

*Financial expenses, net.* Financial expenses, net, decreased by 49.5%, or R\$47 million, from R\$95 million in 2016 to R\$48 million in 2017. This decrease was mainly due to the decrease in the cost of debt due to lower average interest rates in the period.

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution increased by 102.2%, or R\$391 million, from R\$383 million in 2016 to R\$774 million in 2017, mainly due to the increase in net operating revenues and decrease in financial expenses, net, as described above.

## **Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

### ***Consolidated***

*Net operating revenue.* Net operating revenue increased by 11.4%, or R\$4,256 million, from R\$37,198 million in 2015 to R\$41,454 million in 2016, mainly due to the increase of R\$4,034 million in the cash and carry segment and, to a lesser extent, the increase of R\$222 million in the food retail segment. In the cash and carry segment, there was an increase of R\$1,918 million in same-stores sales, and the additional increase was due to the expansion of new stores, mainly 13 new *Assaí* stores. In the food retail segment, there was an increase of 1.9% in same-stores sales, which was almost entirely offset by the decrease of stores in the formats *Extra Hyper* (including two conversions to *Assaí*) and *Extra Super*, during the year.

*Gross profit.* Gross profit increased by 4.9%, or R\$446 million, from R\$9,075 million in 2015 to R\$9,521 million in 2016. The increase in gross profit was lower than the increase in net operating revenue, mainly due to our competitiveness strategy, especially in the food retail segment, which caused a decrease of R\$187 million, or 0.4 p.p. in gross profit. This decrease was partially offset by an increase in gross profit from the cash and carry segment of R\$633 million, mainly due to an increase in net operating revenue. Gross profit for *Assaí* represented 0.2 p.p. of gain in comparison to 2015.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by 11.4%, or R\$763 million, from R\$6,688 million in 2015 to R\$7,451 million in 2016. This increase was principally due to the increase in net operating revenue, especially in the *Assaí* banner. Despite the inflation in the period and the organic growth, our expenses at the end of the year remained stable at 18.0% as a percentage of net operating revenue as a result of our strategy to optimize expenses.

*Depreciation and amortization.* Depreciation and amortization increased by 8.8%, or R\$57 million, from R\$650 million in 2015 to R\$707 million in 2016, mainly due to the depreciation of acquired assets in connection with the opening and renewal of stores and other acquisition.

*Other operating expenses, net.* Other operating expenses, net, increased by R\$361 million, from R\$206 million in 2015 to R\$567 million in 2016. This increase was mainly due to an increase of R\$353 million in provisions for tax risks accrued in the year end.

*Financial expenses, net.* Financial expenses, net, increased by 17.6%, or R\$135 million, from R\$768 million in 2015 to R\$903 million in 2016, mainly as a result of (i) an increase of 5.7% in the weighted interest rate in the period that caused an increase in the cost of receivables sold of R\$43 million and (ii) a decrease of R\$123 million in interest earned on our cash availability due to lower level of cash availability during the year. These factors were offset by a decrease of R\$39 million in interest calculated on other accounts, such as provision for tax risks, and other liabilities. In addition, while there was an increase in interest rates during the period, we were able to decrease our total debt and incur less expensive credit lines, which caused an increase of only R\$7 million in the cost of debt.

*Share of profit of associates.* Share of profit of associates decreased by 25.9%, or R\$21 million, from R\$81 million in 2015 to R\$60 million in 2016. The decrease results from a lower profit of R\$5 million from FIC, and equity pickup for two months of Cdiscount of R\$16 million (losses).

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution decreased by 105.6%, or R\$891 million, from a profit of R\$844 million in 2015 to a loss of R\$47 million in 2016, due to the decrease in margin, mainly in the food retail segment, increased other operating expenses, net and increased financial expenses, net.

*Income tax and social contribution.* Income tax and social contribution decreased by 89.5%, or R\$205 million, from R\$229 million in 2015 to R\$24 million in 2016. This variation was mainly due to the income tax effect on payment of interest on shareholders' equity of R\$13 million from Assai to GPA and other permanent differences.

*Net income/loss for the year continued operations.* Net loss for 2016 was R\$71 million, a decrease of R\$686 million, from a net income of R\$615 million in 2015, mainly due to the decrease in margin, especially in the food retail segment, increased other operating expenses, net and increased financial expenses, net.

*Net income/loss for the year discontinued operations.* Net loss for 2016 was R\$1,005 million, a decrease of R\$114 million, from a loss of R\$891 million in 2015, mainly due to higher competitiveness in the home appliances and food retail segments and the decrease in the in the e-commerce segment, partially offset by increased revenues from the cash and carry segment.

## **Segment Information**

### *Food Retail Segment*

As of December 31, 2016, the food retail segment was comprised of the banners *Pão de Açúcar* and *Extra* (including *Minimercado Extra*, *Minuto Pão de Açúcar*, *Extra Supermercado* and *Extra Hiper*).

*Net operating revenue.* Net operating revenue increased by 0.8%, or R\$222 million, from R\$26,745 million in 2015 to R\$26,967 million in 2016, mainly due to same stores sales of 1.9%, which was partially offset by stores conversion and closing of stores (conversion of two hypermarkets, closing of five supermarkets and net closing of 37 proximity stores).

*Gross profit.* Gross profit decreased by 2.5%, or R\$187 million, from R\$7,538 million in 2015 to R\$7,351 million in 2016. In the same period, our gross margin decreased from 28.2% in 2015 to 27.3% in 2016. This 0.9 p.p. variation was due to the price competitiveness strategy adopted throughout the year, especially for the *Extra* banner, which was

partially offset by an increase in the share of higher margin formats (i.e, *Pão de Açúcar*, *Minimercado Extra* and *Minuto Pão de Açúcar*).

*Depreciation and amortization.* Depreciation and amortization increased by 4.3%, or R\$24 million, from R\$552 million in 2015 to R\$576 million in 2016, mainly due to the depreciation of acquired assets in connection with the opening and renewal of stores and other acquisition.

*Profit from operations before financial income (expenses) and share of profit of associates.* Profit from operations before financial income (expenses) and share of profit of associates decreased by 73.3%, or R\$876 million, from R\$1,194 million in 2015 to R\$318 million in 2016, mainly due to lower gross margins, increased depreciation and inflationary pressure on operating expenses.

*Financial expenses, net.* Financial expenses, net, increased by 14.48%, or R\$117 million, from R\$691 million in 2015 to R\$808 million in 2016 in line with the increase in interest rate in the period.

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution decreased by 170.7%, or R\$997 million, from a profit of R\$584 million in 2015 to losses of R\$413 million in 2016, mainly due to the decrease in our operating profit, as a result of inflationary pressure on expenses, increase of financial expenses and also accrual of tax risks in the year.

#### *Cash and Carry Segment*

As of December 31, 2016, the *Assaí* banner represented our cash and carry segment.

*Net operating revenue.* Net operating revenue increased by 38.6%, or R\$4,034 million, from R\$10,453 million in 2015 to R\$14,487 million in 2016, mainly due to an increase of R\$1,918 million in same-stores sales and the difference due to the expansion of 13 new stores.

*Gross profit.* Gross profit increased by 41.2%, or R\$633 million, from R\$1,537 million in 2015 to R\$2,170 million in 2016. The increase in gross profit exceeded the increase in net operating revenue. In the same period, our gross margin increased 0.3 p.p., from 14.7% in 2015 to 15% in 2016 due to the banner's growth and maturation of new stores.

*Depreciation and amortization.* Depreciation and amortization increased by 33.7%, or R\$33 million, from R\$98 million in 2015 to R\$131 million in 2016, mainly due to property and equipment acquired during 2016 and the opening of 13 new stores.

*Profit from operations before financial income (expenses) and share of profit of associates.* Profit from operations before financial income (expenses) and share of profit of associates increased by 41.8%, or R\$141 million, from R\$337 million in 2015 to R\$477 million in 2016. This increase outpaced sales growth, despite the strong expansion of stores in the year and the inflationary pressure on expenses, mainly electricity costs, as a result of improved operating efficiency.

*Financial expenses, net.* Financial expenses, net, increased by 23.4%, or R\$18 million, from R\$77 million in 2015 to R\$95 million in 2016. This increase was mainly due to higher sale of receivables and interest on other debts.

*Profit/loss before income tax and social contribution.* Profit before income tax and social contribution increased by R\$123 million, from R\$260 million in 2015 to R\$383 million in 2016, mainly due to an increase in our operating profit and was partially offset by an increase in our financial expenses, net.

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

We have funded our operations and capital expenditures mainly from our operating cash flow and sale of receivables at a discount to financial institutions (banks and credit card merchant acquirers). Additionally, we have issued debentures in the local markets and obtained loans from banks and from the BNDES.

In 2017, we continued selling our receivables to banks and credit card merchant acquirers at a discount, without right of recourse or any obligation related therewith. For further information on the discount on receivables, see note 8.1 to our audited consolidated financial statements included elsewhere in this annual report.

As of December 31, 2017, we had R\$7,351 million in cash and cash equivalents, of which R\$3,792 million derived from our continued operations and R\$3,558 million derived from our discontinued operations. We have a policy of

maintaining cash and cash equivalents to meet short-term liquidity needs. Historically, we generate a relevant portion of our cash during the fourth quarter of the year, and our cash level decreases between the second and third quarter of each year.

Our main cash needs include:

54

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- the servicing of our indebtedness; and
- capital expenditures, including the construction and remodeling of new stores and investments in our infrastructure.

Our primary sources of liquidity have historically been cash flow from our operating activities. Net cash provided from (used in) operating activities, including continued and discontinued operations, was R\$1,895 million in 2017, R\$(1,304) million in 2016 and R\$4,632 million in 2015. From 2015 to 2016, the decrease in net cash provided from (used in) operating activities was due to lower profitability of R\$800 million and the variation in assets and liabilities of R\$(5,637) million, principally in trade receivables and trade payables. From 2016 to 2017, the increase in net cash provided from (used in) operating activities was due to the variation in assets and liabilities accounts that generated a gain of R\$2,598 million. In addition, in 2017, we used net cash provided from (used in) operating activities primarily for investments in the capital expenditures program, totaling R\$1,713 million. Our inventory days, decreased by one day in 2017, as compared to 2016, due to the optimizations in all of our business segments.

Our year-end total cash position decreased by 19.6%, or R\$1,791 million, from R\$9,142 million as of December 31, 2016 to R\$7,351 million as of December 31, 2017.

Net cash used in investment activities was R\$(1,592) million, R\$(2,020) million and R\$(1,852) million for the years ended December 31, 2017, 2016 and 2015, respectively.

Net cash provided by (used in) financing activities, considering proceeds received and disbursements made, was R\$(2,094) million, R\$(1,475) million and R\$(3,006) million for the years ended December 31, 2017, 2016 and 2015, respectively. From 2016 to 2017, the decrease was mainly due to higher amount of debt payments. Our year-end current and noncurrent borrowings and financing decreased by 22.3%, or R\$1,309 million, from R\$5,869 million as of December 31, 2016 to R\$4,560 million as of December 31, 2017, excluding the liabilities related to assets held for sale, and consisted of:

- R\$3,642 million in *real*-denominated loans; and
- R\$918 million in U.S. dollar-denominated debt, swapped to *real*-denominated loans.

Certain suppliers offer us the ability to extend to Via Varejo the same due dates in connection with payables. Given the characteristics of these commercial negotiations between the suppliers and Via Varejo (“Structured Payable Program”), we recorded these financial liabilities as credit lines with financial institutions with a cost of 112.3% of CDI in the total amount of R\$437 million. We do not consider this amount as part of our total debt and we presented it in “held for sale and discontinued operations.” For further information on this transaction, see note 32.2 to our audited consolidated financial statements included elsewhere in this annual report.

Our cost of debt was R\$498 million in 2017, R\$705 million in 2016 and R\$698 million in 2015, excluding our discontinued operations.

We have adopted a treasury policy to manage foreign exchange risk, principally by entering into swaps in *reais* for 100% of our U.S. dollar-denominated liabilities, which represents 25.2% of our total debt. We engage in cross-currency interest rate swaps under which we enter into an agreement with the same counter-party that provides the original U.S. dollar-denominated financing. We sign a separate financial instrument at the time the loan agreement is consummated, pursuant to which we are then effectively liable for amounts in *reais* and interest at a percentage of the CDI rate. The reference amounts and maturity periods of these swaps generally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

We have credit lines outstanding with financial institutions that are associated with BNDES by means of the Equipment and Machinery Financing (*Financiamento de Máquinas e Equipamentos*), or FINAME, platform, which are used in the ordinary course of business for purchase of machinery and equipment financing. Amortizations are in monthly installments after a grace period. BNDES has historically been one of our sources of financing for new stores and the acquisition of supermarket chains as well as machinery and equipment. For further information on our lines of credit with BNDES FINAME, see note 17 to our audited consolidated financial statements included elsewhere in this annual report.



We issued a number of non-convertible debentures in recent years, as follows:

In September 2014, our shareholders approved the twelfth issuance and public offering of debentures in Brazil. We received proceeds equivalent to R\$900 million for 900,000 non-convertible debentures issued as the first series of the twelfth issuance. The debentures accrue interest at 107.0% of the average CDI rate, payable semi-annually. Principal will be paid on September 12, 2018, and on the maturity date of September 12, 2019.

In December 2016, our shareholders approved the 13<sup>th</sup> private issuance of 1,012,500 non-convertible debentures in Brazil. We received R\$1,013 million for the acquisition of the totality of the debentures from the initial debenture holder, which assigned the securities to Apice Securitizadora S.A. or Apice. Apice acquired the debentures with the purpose of including the debentures as collateral to back the 2<sup>nd</sup> series of its 1<sup>st</sup> issuance of Certificate of Agribusiness Receivables, or CRAs. The debentures accrue interest at 97.5% of the average CDI rate, payable semi-annually. Principal will be paid on the maturity date of December 20, 2019.

In April 2017, our shareholders approved the 14<sup>th</sup> private issuance of 1,080,000 non-convertible debentures in Brazil. We received R\$1,080 million for the acquisition of the totality of the debentures from the initial debenture holder, which assigned the securities to Apice. Apice acquired the debentures with the purpose of including the debentures as collateral to back the 7<sup>th</sup> series of its 1<sup>st</sup> issuance of CRAs. The debentures accrue interest at 96% of the average CDI rate, payable semi-annually. Principal will be paid on the maturity date of April 13, 2020.

As of December 31, 2017, we had: (i) 900,000 non-convertible debentures outstanding, totaling R\$921 million related to the 12th issuance; (ii) 1,012,500,000 non-convertible debentures outstanding, totaling R\$1,014 million related to the 13th issuance; and (iii) 1,080,000, non-convertible debentures outstanding, totaling R\$1,096 million related to the 14th issuance. We are subject to certain covenants, such as net debt (defined as debt less cash and cash equivalents and trade receivables) not to exceed equity and consolidated net debt-to-EBITDA ratio equal to or less than 3.25

We are required to maintain certain debt financial covenants. The ratios are calculated based on our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. The ratios are (i) net debt (defined as debt minus cash and cash equivalents and trade accounts receivable) not greater than equity; and (ii) consolidated net debt/EBITDA ratio lower than or equal to 3.25. During 2017, we complied with the covenants under our debt instrument.

For further information on our non-convertible debentures, see note 17.4 to our audited consolidated financial statements included elsewhere in this annual report.

#### *Borrowings in foreign currencies*

As of December 31, 2017, we had borrowings in foreign currencies (U.S. dollar and euro) to strengthen our working capital, maintain our cash strategy, extend our debt profile and make investments. The last maturity is scheduled for September 2020.

#### **Capital Expenditures**

In 2017, our capital expenditures, or purchases of property, equipment and intangible assets, totaled R\$1,713 million, as compared to R\$1,543 million in 2016 and R\$1,000 million in 2015. We financed these investment projects with our operating cash flow and through third parties. For further information on the specific use of our capital expenditures in 2017, see “Item 4A. History and Development of the Company - Capital Expenditure and Investment Plan.”

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

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

We do not have any significant research and development activities.

**5D. Trend Information**

After having reached historically low levels during the first semester of 2016, consumer confidence, as measured by the FGV, sustained continuous increase in Brazil throughout 2017 and ended the year with a total increase of 17%. This increase was mainly driven by the political and legislative changes in the country (especially the labor reform).

In parallel to this renewed confidence, Brazil's basic macroeconomic indicators presented gradual recovery. Inflation decreased by 334 bps when compared to 2016 having registered 2,95% in 2017, according to the IPCA, and the average interest rate decreased by 409 bps when compared to 2016 having registered 9,9% in 2017. Despite these encouraging trends, unemployment remained at very high levels throughout 2017 and is expected to increase during 2018.

During the latest economic crisis, households modified their consumption habits by seeking stores with cheaper prices, choosing heavily promoted items and building up stock at home by buying bulk or multi-pack products. Consumers became more careful to choose products with an attractive cost-benefit tradeoff and avoid superfluous items. These modifications in consumer habits led to a significant shift of the consumers from the traditional retail to the cash and carry segment, which became the preferred channel of purchase of the Brazilian households in 2016 and kept increasing its penetration during 2017.

We believe that the Company is well prepared to face the challenges of 2018. The commercial strategies of our hypermarkets, supermarkets and cash and carry segments have been constantly reviewed throughout 2017 and led the Company to gain market shares in the *Multivarejo* and *Assaí* banners. The value proposal of our banners is being redefined to address new consumption habits while enhancing profitability.

We implemented a process of store conversions to adapt them to attend new consumer trends and a strong digital transformation plan was put in place, which helped us develop a closer relationship with suppliers, while improving our customers' shopping experience and keeping the Company ahead of innovative solutions that will drive the retail business on the future. We will continue promoting the values that make GPA competitive and combining respect for local culture and corporate innovation by offering products and services that meet our customers' needs and attend our stakeholders' demands. We will continue promoting social development and diversity, practicing responsible management and delivering consistent results.

We believe that all of these actions, combined to maintain a disciplined approach to investments and cost and cash management, will ensure sustainable growth while creating value for our shareholders. In 2018, we are confident that CBD is fully prepared to take advantage of the opportunities that the Brazilian economy's recovery will provide. In the meanwhile, and in order to respond to the evolving behavior of our customers, we will continue to invest in compatible store formats such as cash and carry, premium and proximity stores.

**5E. Off-Balance Sheet Arrangements**

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, with the exception of off-balance sheet arrangements related to operational leases disclosed in note 22 to our audited consolidated financial statements included elsewhere in this annual report.



**5F. Tabular Disclosure of Contractual Obligations**

The following table summarizes significant contractual obligations and commitments as of December 31, 2017:

Contractual Obligations <sup>(1)</sup>	Total	Payment Due by Period			
		Less than one year	One to three years	Three to five years	After five years
		(in millions of R\$)			
Long-term debt:					
Principal	1,212	587	545	43	37
Accrued interest as of 12/31/17	138	132	6	-	-
Projected interest <sup>(2)</sup>	193	73	72	13	35
Total long-term debt	1,543	792	623	56	72
Debentures and promissory note:					
Principal	2,976	442	2,534	-	-
Accrued interest as of 12/31/17	39	39	-	-	-
Projected interest <sup>(2)</sup>	410	171	239	-	-
Total debentures and promissory note	3,425	652	2,773	-	-
Taxes, other than on income	867	301	105	198	263
Financial leasing:					
Present value	195	51	97	20	27
Projected interest <sup>(2)</sup>	185	15	23	18	129
Total financial leasing	380	67	120	37	156
<b>Total contractual obligations</b>	<b>6,215</b>	<b>1,811</b>	<b>3,621</b>	<b>292</b>	<b>491</b>

(1) For additional information, see notes 17, 18, 19 and 22 to our audited consolidated financial statements included elsewhere in this annual report.

(2) Future interest includes estimated interest to be incurred from December 31, 2017, through the respective contractual maturity dates, based on outstanding principal amounts at December 31, 2017, and projected market interest rates (especially the Brazilian CDI rate) for our variable rate debt obligations, net of the impacts of derivative instruments classified as fair value hedges and swap transactions.

**5G. Safe Harbor**

See “Forward-Looking Statements” on page 4 of this annual report.

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

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

<b>Name</b>	<b>Position</b>	<b>Since</b>	<b>Date of Birth</b>
Jean-Charles Henri Naouri	Chairman	2005 <sup>(1)</sup>	March 8, 1949
Arnaud Daniel Charles Walter Joachim Strasser	Vice-Chairman	2010 <sup>(2)</sup>	July 6, 1969
Yves Desjacques	Director	2014	December 23, 1967
Carlos Mario Giraldo Moreno	Director	2015	September 21, 1960
Jose Gabriel Loaiza Herrera	Director	2015	March 19, 1975
Manfred Heinrich Gartz Moises	Director	2017	September 20, 1978
Ronaldo Iabrudi dos Santos Pereira	Director	2016	May 14, 1955
Luiz Augusto de Castro Neves	Director (Independent)	2012	October 29, 1943
Eleazar de Carvalho Filho	Director (Independent)	2012	July 26, 1957
Luiz Aranha Corrêa do Lago	Director (Independent)	2014	November 27, 1950
Luiz Nelson Guedes de Carvalho	Director (Independent)	2017	November 18, 1945

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(1) Mr. Jean-Charles Henri Naouri has been a member of the board since 2005 and the chairman since 2013.

(2) Mr. Arnaud Strasser has been a member of the board since 2010 and vice-chairman since 2012.

*Mr. Jean-Charles Henri Naouri* has been a member of our board of directors and the chairman and chief executive officer of the Casino Group since March 21, 2005, president of its parent company Euris S.A.S. He also serves as chairman of the board of directors of Rallye S.A., chairman of the Euris Foundation, vice-chairman of the Casino Group Corporate Foundation and member of the board of directors of F. Marc de Lacharrière (Fimalac) S.A. He has served as chairman and chief executive officer of Casino Finance until 2017, chairman of the board of directors of CNova N.V. until 2015, chairman of the board of directors of Wilkes Participações until 2015, chief executive officer of Rallye S.A. until 2013, and as chairman, chief executive officer, and chairman of the supervisory board of Monoprix S.A. until 2013 and member of the supervisory board of Monoprix S.A. until 2014. In 2013, Mr. Naouri was appointed by France's Ministry of Foreign Affairs to be a special representative for economic relations with Brazil. From 1982 to 1986, Mr. Naouri served as chief of staff for the Minister of Social Affairs and National Solidarity of France and the Minister of Economy, Finance and Budget of France. Mr. Naouri is an *Inspecteur des Finances* (Finance Inspector) for the French government. Mr. Naouri holds degrees from *École Normale Supérieure* and *École Nationale d'Administration*, a Ph.D. in mathematics, and has studied at Harvard University.

*Mr. Arnaud Daniel Charles Walter Joachim Strasser* has been the vice-chairman of our board of directors since 2012 and a member of our board of directors since 2010. He has also been a member of the board of directors of Cnova since 2014 and of Via Varejo, where he has served since 2013 as vice-chairman, and since 2012 as a board member. Until 2016, he was a member of the board of directors of Exito, until 2014. Mr. Strasser also served as a member of the board of directors of the Big C Supercenter plc. He has worked for the Casino Group since 2007, where he currently serves as corporate development and holdings officer. Until 2009, he was an advisor to the chairman for international development of the Casino Group. Mr. Strasser also worked as mission head in the Cabinet of the Prime Minister of France in 2005 and as special advisor in the Cabinet of the French Minister of Companies and Trade, from 2005 to 2007. Mr. Strasser holds a bachelor's degree from *École Nationale d'Administration* and master's degrees from *École des Hautes Études Commerciales* and *Institut d'Études Politiques de Paris*.

*Mr. Yves Desjacques* has been a member of our board of directors since 2014. He also serves as a member of the board of directors of Éxito, CNova N.V., and Mercialys S.A., a French real estate affiliate of the Casino Group. Mr. Desjacques has been executive vice-president of human resources of the Casino Group since 2007. From 2001 to 2007, he served as vice-president of human resources and as a member of the executive committee of Védior France. From 1994 to 2001, Mr. Desjacques held several positions at Generali Assurances, including human resources manager from 1994 to 1997, vice-president of human resources from 1997 to 2001 and vice-president of human resources for shared corporate functions from 1998 to 2001. From 1992 to 1994, he was human resources officer at Commercial Union Assurances. Since 2007, Mr. Desjacques has been chairman of the French Association of Equal Opportunity in Education. He holds a master's degree in international human resources management from the University of Paris II, where he specialized in labor law, corporate relations and human resources.

*Mr. Carlos Mario Giraldo Moreno* has been a member of our board of directors since 2015. He is also the chief executive officer of Éxito and a member of Casino's executive committee. Mr. Giraldo joined Grupo Éxito in 2007 as Chief Operational Officer and has been Éxito's chief executive officer since March 2013. Prior to joining Éxito, Mr. Giraldo was, from 1997 to 2005, the president of Industrias Alimenticias Noel S.A., a large Colombian cookies and processed meats company, and from 2005 to 2007, president of Compañía de Galletas Noel S.A. and executive vice-president of Grupo Nutresa, a large Colombian food company. Mr. Giraldo has a law degree from the Universidad de Medellín and a master's degree in law from Tulane University. He has also attended management programs at the Kellogg School of Management and Stanford University, and a strategic planning management program in retail at Babson College. He is a member of the boards of the Consumer Goods Forum, the Coca-Cola Retailing Research Council for Latin America, which he chaired in 2013 and 2014, Copa Airlines and Interconexión Eléctrica S.A. ISA in Colombia. In 2003, he was appointed chairman of the board of the National Association of Business, Colombia's principal trade association.

*Mr. Jose Gabriel Loaiza Herrera* has been a member of our board of directors since 2015. He is also the international business vice-president of Éxito. Mr. Loaiza was the commercial and supply chain vice-president of Éxito since 2011. Previously, he held the positions of corporate officer of leisure, electronics and appliances from 2010 to 2011, financial planning advisor from 2008 to 2010 and investor relations officer from 2006 to 2008. Mr. Loaiza earned a bachelor's degree in business administration from *Universidad Nacional de Colombia* and an MBA from Texas A&M University.



*Mr. Manfred Heinrich Gartz Moises* is the chief financial officer of *Éxito*. He began his professional career at Grupo Bancolombia in 2005, where he undertook a wide range of responsibilities in project planning, strategy and strategic management. Afterwards, he held various positions in the office of the vice president of corporate finance, leading projects for mergers, acquisitions and structured financing in Latin America. His most recent role with this institution was as vice president of mergers and acquisitions and investment banking. He is a production engineer with an MBA in finance from EAFIT University in Medellin, Colombia, as well as an MS in finance from Boston College.

*Mr. Ronaldo Iabrudi dos Santos Pereira* has been a member of our board of directors since 2014. He has also been a member of our human resources and compensation committee and a member of our corporate governance and sustainable development committee since 2016. He has also been chief executive officer of GPA since 2014. He has served as the chief executive officer of Gerdau until 1997, where he also served as chief financial and administrative officer and chief human resources officer, of Ferrovias Centro-Atlântica from 1997 to 1999, and of Magnesita from 2007 to 2011 and from 1999 to 2006. He has served as chairman of Via Varejo, Lupatech, Contax and Telemar. He was vice chairman of the board of directors of CNova and a member of the board of FIC. He was a member of the board of directors of Estácio, Magnesita, Cemar, Oi/Telemar, RM Engenharia and Ispamar. Mr. Pereira graduated in Psychology from *Pontifícia Universidade Católica de Minas Gerais* in 1979, and has a master's degree in organizational development from *Université Panthéon Sorbonne* in management from *Université Paris Dauphine*, both in Paris.

*Mr. Luiz Augusto de Castro Neves* has been an independent member of our board of directors since 2012. Mr. Castro Neves was a career diplomat having joined the Brazilian diplomatic service in 1967 and served as a Brazilian ambassador to Japan, from 2008 to 2010, China, Mongolia and the Democratic People's Republic of Korea between 2004 and 2008 and Paraguay, from 2000 to 2004. He has also served as chairman of Itaipu Binacional and Interim Minister of State and Head of the Secretariat of Strategic Affairs of the Presidency of Brazil. He is a founding partner of CN Estudo e Projetos Ltda., emeritus vice president of the Brazilian Center of Foreign Affairs, president of Brazil-China's Business Council and member of the Technical Council of the National Confederation of Commerce. Mr. Castro Neves holds bachelor's degrees in economics from the *Universidade Federal do Rio de Janeiro* and diplomacy from the Brazilian Ministry of Foreign Affairs Instituto Rio-Branco and a master's degree in economics from the University of London.

*Mr. Eleazar de Carvalho Filho* has been an independent member of our board of directors since 2012 and a member of the board of directors of Cnova since 2014. He is a founding partner at Virtus BR Partners, an independent advisory firm, and at Sinfonia Capital, and currently serves as a member of the board of directors of FMC Technologies, Inc. and of Brookfield Renewable Energy Partners. In 2018, he joined the transitional board of directors of Oi S.A., pursuant to the judicial reorganization plan approved in the general creditors meeting. He served as chief executive officer of Unibanco Banco de Investimentos do Brasil S.A., president of BNDES and managing director of Banco UBS – Brasil Banco de Investimento S.A. He served as the chairman of the board of directors of BHP Billiton Brazil and as a member of the board of directors of Petrobras, Centrais Elétricas Brasileiras S.A., Vale, Tele Norte Leste Participações, Alparagatas, and others. He is also president of the board of trustees of the Brazilian Symphony Orchestra Foundation. He holds a bachelor's degree in economics from New York University and a master's degree in international relations from Johns Hopkins University.

*Mr. Luiz Aranha Corrêa do Lago* has been an independent member of our board of directors since 2014. He has been a professor of economics at *Pontifícia Universidade Católica do Rio de Janeiro* since 1979, having served as associate professor from 1979 to 1995 and full professor since 1995. Mr. Lago served as a planning and economic consultant and officer for Grupo Lorentzen, a member of the board of directors of Lorentzen Empreendimentos S.A., where he was director from 1988 to 2006, and of Lorinvest Gestão de Recursos Ltda. He also was technical director of Primus Corretora de Valores e Câmbios S.A. from 1986 to 1987, economic consultant of the Investment Bank Association, stock market officer of the Central Bank from 1987 to 1988, chief of the Center for Monetary Studies and

International Economics from 1981 to 1986 and senior economist of the Brazilian Institute of Economy from 1978 to 1986. Mr. Lago served as a member of board of directors of Aracruz Celulose S.A. from 1988 to 2008, Veracel S.A. from 2006 to 2008, Arapar S.A. from 1988 to 2009 and Companhia de Navegação Norsul from 1988 to 2010. Mr. Lago holds a bachelor's degree in economics from Universidade Federal do Rio de Janeiro, a master's degree in economics from Duke University and a master's degree and Ph.D. in economics from Harvard University.

*Mr. Luiz Nelson Guedes de Carvalho* has been a member of our audit committee since 2014, as the accounting and finance specialist, and an independent member of our board of directors since 2017. He teaches in the category of “Senior Professor” at the School of Economy, Business Administration and Accounting (Faculdade de Economia, Administração e Contabilidade), or “FEA”, of the Universidade de São Paulo. He is an advisor of the Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis), or “CPC” (the Brazilian Accounting Standards entity), and he was a representative of the CPC in the Emerging Economies Group of IASB. He is also member of the Board of Directors and chairs the audit committee as the accounting and finance specialist of B3 S.A. (formerly BM&FBOVESPA), the self-listed Brazilian Futures and Stock Exchange. He also chairs the Board of PETROBRAS Petróleo Brasileiro S.A., dual listed company (Brazil and USA). At B3 S. A. he is also an independent member of its sustainability committee. Mr. Carvalho is a member of the Brazilian Accounting Academy (Academia Brasileira De Ciências Contábeis), or “Abracicon”, and chairs the “Fiscal Council” (“Conselho Fiscal” of Fundação Amazonas Sustentável – FAS, a NGO aiming to protect the Amazon Forest. He is also a Trustee of Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras FIPECAFI, a not-for-profit academic research organization. He also is a Co-arbitrator at the Brazil – Canada Chamber of Commerce (São Paulo) and at the International Chamber of Commerce (Paris). He is a Litigation Expert in matters involving Financial Accounting, International Accounting, Corporate Governance, Risk Management and Auditing. Previously, Mr. Carvalho has been: chairman of the Committee on Capacity Building in the area of International Financial Reporting of the Intergovernmental Group of Experts in International Standards of Accounting and Reporting, a branch of UNCTAD, United Nations, in Geneva, Switzerland; an independent member of the banking self-regulation Committee of the Brazilian Federation of Banks (Federação Brasileira de Bancos), or “FEBRABAN”; member of the board of directors of the NGO Sustainable Amazon Foundation (Fundação Amazônia Sustentável), where today he chairs its fiscal council; a member of the International Integrated Reporting Council (Conselho Internacional para Relatórios Integrados) led by the Prince of Wales; vice-president “at large” of the International Association for Accounting Education and Research - IAAER; he was also a member of the Financial Crisis Advisory Group set out by the US FASB and the IASB in 2008; the first independent Chairman of the Standards Advisory Council (Conselho Consultivo de Normas) of the IASB; member of the Consultative and Advisory Group of the International Federation of Accountants (“IFAC - Federação Internacional de Contadores”); vice-director of the Interamerican Accounting Association; member of the board of directors of (a) Banco Nossa Caixa S.A., (b) Caixa Econômica Federal, (c) Banco Bilbao Vizcaya Argentaria Brasil – BBVA, (d) Banco de Crédito Real de Minas Gerais, (e) Grupo ORSA (pulp and paper), (f) Companhia Müller de Bebidas, (g) Vicunha Têxtil S.A., and (h) Banco Fibra S.A.; he was a member of the audit committees of Banco Nossa Caixa and Vicunha Têxtil; and a member of the internal controls committee of Banco Fibra. Mr. Carvalho was also the regional president of the International Association of Financial Executives Institutes IAFEI for Central and South Americas and Head of Banking Supervision at the Board of the Brazilian Central Bank and a Commissioner at CVM (the Brazilian Securities and Exchange Commission). Mr. Carvalho holds bachelor’s degrees in economics from FEA and in accounting from Faculdade São Judas Tadeu and master and PhD degrees in accounting and controllership from FEA USP.

## Executive Officers

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

<b>Name</b>	<b>Position</b>	<b>First Year Elected</b>	<b>Date of Birth</b>
Ronaldo Iabrudi dos Santos Pereira	Chief Executive Officer	2014	May 14, 1955
Christophe Jose Hidalgo	Chief Financial Officer	2012	October 25, 1967
Antonio Salvador	Vice-President of Human Resources and Management	2013	June 13, 1967

Luis Emilio Moreno Sanchez	Vice-President of Multivarejo business	2016	May 27, 1967
Belmiro de Figueiredo Gomes	Officer of Wholesale Business	2012	August 11, 1971
Daniela Sabbag	Investor Relations Officer	2013	April 10, 1975

*Mr. Ronaldo Iabrudi dos Santos Pereira* – for Mr. Pereira’s brief biographical description, see page 60 above.

*Mr. Christophe José Hidalgo* has served as our chief financial officer since 2012. He has also been our corporate services officer since 2012. He joined the Casino Group in 2000, where he has held several positions in finance and controllership, including chief financial officer of *Éxito* from 2010 to 2012. From 1996 to 2000, Mr. Hidalgo served as the chief financial officer of *Castorama*. Mr. Hidalgo holds a bachelor’s degree in law and a master’s degree in finance and accounting from *Université de Bordeaux*.

*Mr. Antonio Salvador* has served as our vice-president of human resources since 2013. Previously, he served as vice-president of human resources for *Hewlett-Packard* in Brazil from 2010 to 2013, human resources executive director at *PricewaterhouseCoopers Brazil* from 2007 to 2010, associate partner at *IBM Global Business Services* from 2003 to 2007, executive director at *Promon Tecnologia* from 2001 to 2003, senior manager at *PricewaterhouseCoopers Brazil* from 1997 to 2001 and corporate university manager at *Brahma* from 1994 to 1997. In 2011 and 2012, Mr. Salvador received the “HR Professional of the Year” award for the technology industry from *Voce S.A.* Mr. Salvador holds a bachelor’s degree in social communication from *Universidade Gama Filho* and an executive MBA from *Fundação Cândido Mendes*. He has also completed programs in business administration at *Fundação Getulio Vargas*, *INSEAD* and *Harvard Business School*.

*Mr. Luis Emilio Moreno Sanchez* has been our vice-president of *Multivarejo* since 2016. Mr. Sanchez has served as chief executive officer for *Libertad S.A.* from 2014 to 2016, as chief management officer for *Walmart*, from 2005 to 2013; as chief operational officer and director for *Ahold* from 2001 to 2005, as director for *Carrefour* from 1992 to 2001. Mr. Sanchez has a degree in business administration and international trade from *Salamanca University*, in Spain.

*Mr. Belmiro de Figueiredo Gomes* has been our director for wholesale business since 2012. Mr. Gomes joined us in 2010. He has also served as a commercial executive officer and also worked in several areas of the *Atacadão* chain for 22 years. In 2007, he coordinated the M&A transaction of the *Atacadão* chain to the *Carrefour* Group.

*Ms. Daniela Sabbag* has been GPA’s investor relations officer and executive officer since 2013. She joined GPA in 2002, having served as investor relations officer from 2006 to 2010, and strategic planning, M&A and new business officer, besides serving on GPA’s finance team. She has also worked in *Deutsche Bank* and the *Jeronimo Martins Group*. She received a degree in Business Administration from *Fundação Getulio Vargas*, completed a postgraduate degree in capital markets at *Universidade de São Paulo* and obtained a MBA degree at *Fundação Getulio Vargas*.

On the date of the filing of this annual report, an annual shareholders’ meeting will take place, in which we expect the shareholders to reelect the majority of the current members of our board of directors and appoint a new chief executive officer, Mr. Peter Paul Lourenço Estermann, who is currently the chief executive officer of *Via Varejo*.

## **6B. Compensation**

For the year ended December 31, 2017, the aggregate compensation paid to the directors, executive officers and members of the committees of CBD was R\$94 million, of which R\$ 60 million was paid in cash. The executive officers receive a package of benefits in line with market practices, including a health care and dental plan, biennial medical check-ups, a pension plan, meal vouchers, fuel vouchers and parking in the workplace. Under CVM rules, listed companies are required to publicly disclose the lowest, highest and average compensation paid to executive officers and board members. However, our Company, together with other Brazilian listed companies, has not disclosed this information, based on an injunction obtained by *IBEF-RJ* on March 2, 2010, which, according to our legal department, supersedes the CVM requirement.

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees and engaged the financial institution, Brasilprev Seguros e Previdência S.A., for management purposes. When establishing the plan, the Company provides monthly contributions on behalf of its employees on account of services rendered to the Company. Contributions made by the Company in the year ended December 31, 2017, amounted to R\$3,3 million and employees' contributions amounted to R\$4,8 million with 678 participants.

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

### Compensation of the Board of Directors, Executive Officers and Fiscal Council of CBD for 2016, 2017 and 2018

The table below indicates the compensation for members of the board of directors and members of the committees of the board of directors, executive officers and fiscal council for 2016:

	<b>Board of directors and members of the committees of the board of directors</b>	<b>Executive officers (In R\$, when applicable)</b>	<b>Fiscal council</b>	<b>Total</b>
Number of members	14.58	6.83	-	21.41
Number of compensated members	13.58	6.83	-	20.41
Fixed annual compensation	5,778,338	21,332,917	-	27,101,255
Benefits	-	4,712,181	-	4,721,181
Variable compensation				
Profit sharing	-	16,684,368	-	16,684,368
Participation in meetings	-	-	-	-
Others (invitees' compensation, contributions and taxes)	1,350,000	4,488,555	-	5,838,555
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	-	23,112,364	-	23,112,354
<b>Total compensation</b>	<b>7,128,338</b>	<b>70,320,385</b>	<b>-</b>	<b>77,448,723</b>

The table below indicates the compensation for members of the board of directors and members of the committees of the board of directors, executive officers and fiscal council for 2017:

	<b>Board of directors and members of the committees of the board of directors</b>	<b>Executive officers (In R\$, when applicable)</b>	<b>Fiscal council</b>	<b>Total</b>
Number of members	16.08	6.75	2.00	24.83
Number of compensated members	15.08	6.75	2.00	23.83
Fixed annual compensation	5,797,408	26,434,799	456,000	32,688,207

Benefits	-	4,973,165	-	4,973,165
Variable compensation				
Profit sharing	-	26,813,355	-	26,813,355
Participation in meetings	-	-	-	-
Others (invitees' compensation, contributions and taxes)	-	5,286,960	-	5,286,960
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	-	24,405,000	-	24,405,000
<b>Total compensation</b>	<b>5,797,408</b>	<b>87,913,479</b>	<b>456,000</b>	<b>94,166,687</b>

The table below indicates the expected compensation for members of the board of directors and members of the committees of the board of directors, executive officers and fiscal council for 2018:



	<b>Board of directors and members of the committees of the board of directors</b>	<b>Executive officers (In R\$, when applicable)</b>	<b>Fiscal council<sup>(1)</sup></b>	<b>Total</b>
Number of members	14.00	5.75	3.00	22.75
Number of compensated members	13.00	5.75	3.00	21.75
Fixed annual compensation	9,639,280	25,395,578	684,000	35,718,858
Benefits	2,099,916	3,456,171	-	5,556,087
Variable compensation				
Profit sharing	-	15,250,683	-	15,250,683
Participation in meetings	-	-	-	-
Others (invitees' compensation, contributions and taxes)	1,449,527	5,079,116	136,800	6,665,443
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	-	22,143,270	-	22,143,270
<b>Total compensation</b>	<b>13,188,724</b>	<b>71,324,818</b>	<b>820,800</b>	<b>85,334,342</b>

(1) On the date of the filing of this annual report, an annual shareholders' meeting will take place, in which it is possible that our shareholders will decide to install a fiscal council.

### Variable Compensation 2016, 2017 and 2018

Below we present the variable compensation of our executive officers paid in 2016 and 2017 and expected to be paid in 2018.

<b>2016</b>	<b>Executive officers (In R\$, when applicable)</b>
Number of members	6.83
Number of compensated members	6.83
<b>Profit sharing</b>	
Minimum expected amount	0
Maximum expected amount	60,050,712
Expected amount – goals achieved	30,025,356
Amount actually recognized	16,684,368

<b>2017</b>	<b>Executive officers (In R\$, when applicable)</b>
Number of members	6.75

Number of compensated members	6.75
<b>Profit sharing</b>	
Minimum expected amount	0
Maximum expected amount	45,670,882
Expected amount – goals achieved	22,835,441
Amount actually recognized	26,813,355

<b>2018 (Expected)</b>	<b>Executive officers (In R\$, when applicable)</b>
Number of members	5.75
Number of compensated members	5.75
<b>Profit sharing</b>	
Minimum expected amount	0
Maximum expected amount	30,501,366
Expected amount – goals achieved	15,250,683

### Employee Stock Option Plans

At an extraordinary general meeting held on May 9, 2014, our shareholders voted to (i) approve the creation of a new stock option plan, or our New Stock Option Plan; and (ii) create a compensation plan for employees based on stock options, or our Compensation Plan. Our New Stock Option Plan grants options to purchase our preferred shares only, and members of our board of directors are not eligible to participate. The New Stock Option Plan and the Compensation Plan were further amended as a result of the resolution approved at the annual and special shareholders' meeting held on April 24, 2015.

## ***General Terms and Conditions***

### ***New Stock Option Plan***

Our New Stock Option Plan is administered by the human resources and compensation committee of our board of directors, which will define the plan's eligibility criteria and select recipients based on their functions, responsibilities and performance. Each grant cycle under our New Stock Option Plan will be designated with a serial number beginning with the letter "C." As of December 31, 2017, the outstanding series of stock options under our New Stock Option Plan were Series C2, C3 and C4.

The Company's employees and executives are eligible to participate in our New Stock Option Plan. Employees and executive managers of our subsidiaries who are considered "key executives" may also participate subject to the approval of the human resources and compensation committee. Our employees' participation in our New Stock Option Plan is independent of other forms of compensation, such as wages and benefits.

### ***Compensation Plan***

Our Compensation Plan is also administered by the human resources and compensation committee of our board of directors, which will define the plan's eligibility criteria and select recipients based on their functions, responsibilities and performance. Each grant cycle under our Compensation Plan will be designated with a serial number beginning with the letter "B." As of December 31, 2017, the outstanding series of stock options under our Compensation Plan were Series B2, B3 and B4.

The Company's employees and executives are eligible to participate in our Compensation Plan. Employees and executive managers of our subsidiaries who are considered "key executives" may also participate subject to the approval of the human resources and compensation committee. Our employees' participation in our Compensation Plan is independent of other forms of compensation, such as wages and benefits.

### ***Main Objectives of the Stock Option Plans***

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

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

The total aggregate number of options that may be granted under each of our New Stock Option Plan and our Compensation Plan must not exceed 2% of the total number of preferred shares issued by the Company, subject to adjustments resulting from stock splits, reverse stock splits and bonuses.

### ***Exercise Price***

The exercise price per preferred share granted under the Compensation Plan will correspond to R\$0.01.

For each series of options granted under all of the New Stock Option Plan, the exercise price of each stock option will correspond to 80% of the average of the closing price of the preferred shares issued by the Company in the prior 20 trading sessions of the B3 prior to the date of the meeting of the human resources and compensation committee in

which such options are granted

***Vesting***

In general, the stock options granted under the New Stock Option Plan will vest as from the 36th month following the granting of the stock options.

65

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The options granted under the Stock Option Plans may be exercised in whole or in part.

### *Restrictions on Transferring Shares*

The stock option plan management committee and the human resources and compensation committee, as the case may be, may establish restrictions on the transfer of the shares resulting from the exercise of the stock options. As a general rule, shares acquired from the New Stock Option Plan cannot be transferred for six months after acquisition.

### *Outstanding Stock Options*

Below are the outstanding options for the members of our senior management, as of December 31, 2017.

#### **Number of members that benefit from the stock option plan:**

#### **Board of Executive Officers**

<b>In relation to each option grant:</b>	<b>Series B1</b>	<b>Series C1</b>	<b>Series B2</b>	<b>Series C2</b>	<b>Series B3</b>	<b>Series C3</b>	<b>Series B4</b>	<b>Series C4</b>
Grant date	05/30/2014	05/30/2014	05/29/2015	05/29/2015	05/31/2016	05/31/2016	05/31/2017	05/31/2017
Number of options granted (in number of shares)	23,752	23,750	107,674	107,662	356,760	356,760	238,581	238,581
Deadline for the options to become exercisable	06/01/2017	06/01/2017	06/01/2018	06/01/2018	05/30/2019	05/30/2019	05/31/2020	05/31/2020
Deadline for the exercise of the options	11/30/2017	11/30/2017	11/30/2018	11/30/2018	11/30/2019	11/30/2019	11/30/2020	11/30/2020
Period of restriction to the transfer of the shares	N/A	180 days	N/A	180 days	N/A	180 days	N/A	180 days
Average weighted exercise price of each of the following groups of shares:								
Outstanding in the beginning of the year (in R\$ per share)	0.01	83.22	0.01	77.27	0.01	37.21	0.01	56.78
Lost during the year (R\$ per share)	N/A	N/A	0.01	N/A	N/A	N/A	N/A	N/A
Exercised during the year (R\$ per share)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Expired during the year (R\$ per share)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fair value of the options on the grant date (in R\$ per share)	101.83%	44.36%	85.64%	34.60%	40.44%	16.98%	68.9%	30.74%
Potential dilution in case of exercise of the options	N/A	N/A	0.01	N/A	N/A	N/A	N/A	N/A

### ***Stock Options Exercised and Shares Delivered***

In 2017, 304,412 options were exercised by certain members of our senior management and 257,948 shares were delivered to certain members of our senior management.

We recognized share-based payments of R\$24,405 million, R\$23,112 million and R\$5 million in our consolidated financial statement in 2017, 2016 and 2015 respectively. These amounts included the amounts related to the acceleration of the vesting of certain stock options

### **Insurance**

We maintain officers and directors liability insurance with a certain limit covering all our managers against damages attributed to them in the good faith exercise of their functions. The policy is automatically extended to the management of our subsidiaries.

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

According to our by-laws and the internal regulation of the board of directors, our board of directors consists of at least three and up to 12 members. The directors meet ordinarily at least six times a year, to review the financial and other results of the Company, as well as follow-up on the annual operating plan, and extraordinarily whenever required. The members of our board of directors are appointed at general shareholders' meetings for a term of office of two years, re-election being permitted. The board's responsibilities include leading the corporate governance process, electing our executive officers and members of our committees and supervising our management, among others.

Currently, our board of directors consists of eleven members elected by our shareholders, of which three are representatives of the Casino Group, three are representatives of Éxito Group, one is also part of the Company's management and four are independent directors. The terms of office of our directors expire in April 2020. We are managed by our board of directors and by our board of executive officers. None of our directors and officers is party to an employment agreement providing for benefits upon termination of employment, except for those benefits provided by Brazilian labor law. On the date of the filing of this annual report, an annual shareholders' meeting will take place, in which we expect the shareholders to reelect the majority of the current members of our board of directors and appoint a new chief executive officer, Mr. Peter Paul Lourenço Estermann, who is currently the chief executive officer of Via Varejo.

Our board of executive officers is composed of at least two and up to 14 members. The general responsibilities of our executive officers are determined pursuant to our by-laws and their specific duties and titles are established by our board of directors. As of December 31, 2017, our board of executive officers was composed of six members.

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

Our executive officers are elected by our board of directors for two-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. On March 22, 2016, our directors elected our current executive officers. The current term of all executive officers expires on the first meeting of the board of directors to be held after the annual shareholders' general meetings that will approve the financial statements related to the fiscal year of 2017.

### **Committees of the Board of Directors**

As of the date of this annual report, we have the following five advisory committees: (i) audit committee; (ii) human resources and compensation committee; (iii) financial committee; (iv) sustainable development committee; and (v) corporate governance committee. The responsibilities of our committees are established by their respective internal regulations. The members of each committee are appointed by our board of directors and the board of directors also designates the chairman of each advisory committee. The committees may include one member who is external and independent, except for the audit committee, which has specific rules described below. Each special committee is composed of at least three and up to five members for a term of office of two years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.

In accordance with the matters that we expect will be voted at the annual shareholders' meeting which will take place on the date of the filing this annual report, the composition of the committees of our board of directors and of the statutory audit committee, may undergo changes.

#### ***Audit Committee***

Brazilian publicly-held companies may, pursuant to CVM Rule 308 as amended by the CVM Rule 509, adopt a statutory audit committee ("*Comitê de Auditoria Estatutário*"). According to CVM Rule 308, the statutory audit committee is an advisory body of the board of directors and must have at least three members who shall be appointed by the board of directors, including at least one member who is also a member of the board of directors and not a member of management. A majority of the members must be independent, according to the independence requirements of the CVM.





On October 18, 2012, our shareholders approved the inclusion of a statutory audit committee in our bylaws, which started to function effectively from the beginning of 2014. It has the following duties: a) suggesting amendments to its internal regulation, submitting them to the board of directors' consideration; b) advising the board of directors on the appointment of external auditors, as well as external auditor replacements c) analyzing the management's report, financial statements, quarterly financial statements and other mid-period financial statements that may be prepared by the Company, submitting to the board of directors recommendations as it deems necessary; d) evaluating the effectiveness and adequacy of the internal control structure and of the internal and external audit procedures of the Company, presenting recommendations it deems necessary to improve policies, practices and procedures; e) advising on the management's proposals to be submitted to the shareholders' meeting regarding changes in the capital stock, issue of debentures or subscription warrants, capital budgets, distribution of dividends, transformation, merger or split-up; f) assessing and monitoring the Company's risk exposure under the board of directors' guidelines and reporting accordingly; g) monitoring compliance with its recommendations and/or explanations for its findings; h) monitoring compliance of the board of executive officers with the recommendations made by the external and internal auditors, as well as reporting to the board of directors any possible conflicts between internal auditors, external auditors, and/or the Company's officers; i) meeting with the various committees, the board of directors, officers and management representatives to discuss policies, practices and procedures identified under their corresponding areas of responsibility; j) preparing an annual report to be submitted accompanied with the financial statements; k) reviewing and monitoring the adequacy of the Company to Law No. 12,846, as of August 1, 2013, and its regulations; l) assessing and monitoring the mechanisms of control and verifying the Company's compliance with Law No. 12,846, as of August 1, 2013, and its regulations; and m) advising on any other matters that the board of directors may submit to it, as well as those that this Committee may deem relevant.

We have a Related Party Transactions Policy providing for such transactions to be arm's length and in the interest of the Company, as well as which corporate body is responsible for approving these transactions. Our statutory audit committee is also responsible for, among other things, reviewing whether these procedures have been followed, as determined in the Policy.

Our statutory audit committee is composed of at least three and up to five members, of whom at least two must be external and independent and one must be a member of our board of directors and not an executive officer of the Company. Additionally, at least one of the members of the audit committee must have recognized experience in corporate accounting. Members of our statutory audit committee are appointed by our board of directors for a two-year term, re-election being permitted, subject to a maximum of ten years, and must meet certain requirements set forth by our by-laws, the audit committee's internal regulation and the CVM rules.

Our statutory audit committee is not equivalent to or comparable with a U.S. audit committee. Pursuant to Exchange Act Rule 10A-3(c)(3), which provides for an exemption under the rules of the U.S. Securities and Exchange Commission, or SEC, regarding the audit committees of listed companies, a foreign private issuer is not required to have an audit committee equivalent to or comparable with a U.S. audit committee, if the foreign private issuer has a body established and selected pursuant to home country legal or listing provisions expressly requiring or permitting such a body, and if the body meets the requirements that (i) it be separate from the full board; (ii) its members not be elected by management; (iii) no executive officer be a member of the body; and (iv) home country legal or listing provisions set forth standards for the independence of the members of the body.

As a foreign private issuer, we chose to rely on this exemption under Exchange Act Rule 10A-3(c)(3) and we believe that our statutory audit committee complies with the aforementioned exemption requirements.

Because Brazilian corporate law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external independent auditors and does not provide the board with the authority to resolve disagreements between management and the external auditors regarding financial reporting, our statutory audit

committee cannot fulfill these functions. Therefore, our statutory audit committee may only make recommendations to the board of directors with respect to these matters.

The following members were appointed by our board of directors to our statutory audit committee:

<b>Name</b>	<b>Position</b>	<b>First Year Elected</b>	<b>Date of Birth</b>
Eleazar de Carvalho Filho	Member	2014	July 26, 1957
Luiz Nelson Guedes de Carvalho	Coordinator <sup>(1)</sup>	2014	November 18, 1945
Celso Clemente Giacometti	Member	2016	October 13, 1943

(1) The role of the Coordinator of the statutory audit committee is provided for in CVM Instruction No. 509, of November 16, 2011. His responsibilities are to chair the meetings, represent the committee to the bodiess of the administration and enforce the provisions of the internal regulation.

*Mr. Eleazar de Carvalho Filho* has been an independent member of our board of directors since 2012 and a member of the board of directors of Cnova since 2014. He is a founding partner at Virtus BR Partners, an independent advisory firm, and at Sinfonia Capital, and currently serves as a member of the board of directors of FMC Technologies, Inc. and of Brookfield Renewable Energy Partners. In 2018, he joined the transitional board of directors of Oi S.A., pursuant to the judicial reorganization plan approved in the general creditors meeting. He served as chief executive officer of Unibanco Banco de Investimentos do Brasil S.A., president of BNDES and managing director of Banco UBS – Brasil Banco de Investimento S.A. He served as the chairman of the board of directors of BHP Billiton Brazil and as a member of the board of directors of Petrobras, Centrais Elétricas Brasileiras S.A., Vale, Tele Norte Leste Participações, Alpargatas, and others. He is also president of the board of trustees of the Brazilian Symphony Orchestra Foundation. He holds a bachelor’s degree in economics from New York University and a master’s degree in international relations from Johns Hopkins University.

*Mr. Luiz Nelson Guedes de Carvalho* - for Mr. Carvalho’s brief biographical description, see page 60 above.

*Mr. Celso Clemente Giacometti* has been a member of our audit committee since 2016. Mr. Giacometti started his career in 1960 at Citibank. From 1963 to 2001 he worked at Arthur Andersen, becoming a partner in 1974 and acting as CEO of Brazilian operations from 1985 to 2000. He served on the board of directors and audit committees of Lojas Marisa S.A., Tarpon Investimentos, Sabó Autopeças and on the audit committee of TIM Participações, Votorantim Indústrias. He has also served as chairman of the fiscal council and as chairman of the audit committee of Ambev S.A. He was also a member of the fiscal council of CTEEP/ISA - Transmissão Paulista. He was the CEO of Souto Vidigal, a holding company and family office, from 2004 to 2006. He has served as chairman of Banco Santander (Brasil) S.A., from 2011 to 2013 and from 2013 to 2015, where he also served as a member of the audit committee among other advisory committees until 2016, and now serves as an independent member of the board of directors and a member of the nomination and governance committee. He is the managing partner of Giacometti Negócios Ltda. Mr. Giacometti is also one of the co-founders and former board member of IBGC (Brazilian Institute of Corporate Governance) and a current member of its governance and nomination committee. He holds a degree in business administration from the *Faculdade de Economia São Luís* and graduated in accounting sciences in *Faculdade de Ciências Econômicas de Ribeirão Preto*.

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

The human resources and compensation committee holds meetings at least once every three months and has the following duties: a) suggesting amendments to its internal regulation, submitting them for the board of directors’ consideration; b) advising on the organizational structure model of the Company, to be submitted for the board of directors’ consideration; c) evaluating and recommending to the board of directors policies on management and

development of people, as well as guidelines for attracting and retaining talent; d) identifying, both in the Company and in its subsidiaries, potential future leaders and following up in the development of their careers; e) reviewing and discussing recruitment and hiring methods adopted by the Company and its subsidiaries, using for comparison those employed by similar Brazilian companies; f) examining candidates for the board of directors and special committees, including external members, based on professional experience, technical qualifications, and economic, social and cultural representativeness; g) advising the board of directors on the candidates selected for the position of chief executive officer of the Company, as well as the candidates selected by the CEO for the board of executive officers; h) reviewing and discussing the remuneration policy as it applies to the Company's management, advising the board of directors on the criteria of remuneration, benefits and other programs, including the stock option program; i) reporting periodically to the board of directors on the applicability and effectiveness of remuneration policies adopted by the Company, in order to assess the effectiveness of these policies in rewarding performance and disciplining non-satisfactory performance, according to metrics aligned with the Company's objectives, including attracting and retaining talent; j) advising on criteria for the annual performance evaluation of the Company's officers, using for comparison those employed by similar Brazilian companies, as well as supporting the board of directors in the evaluation process, expressing its recommendations to the individual assessments of the Company's board; and k) performing other duties as may be specified by the board of directors. Our human resources and compensation committee is composed of Arnaud Strasser, Yves Desjacques, Carlos Mario Giraldo Moreno, Carlos Mario Diez Gomes and Ronaldo Iabrudi dos Santos Pereira.

### ***Financial Committee***

The financial committee holds meetings at least once every three months and has the following duties: a) suggesting amendments to its internal regulation, submitting them for the board of directors' consideration; b) recommending and monitoring the adoption of the best economic and financial standards and the process of implementation and maintenance of such standards in the Company, suggesting changes, updates and improvements thereto to the board of directors; c) analyzing and reviewing the Company's budget, as well as monitoring the implementation and enforcement thereof; d) analyzing and reviewing the economic and financial feasibility of the Company's investment plans and programs, as well as monitoring the implementation thereof; e) analyzing, reviewing, and recommending measures and actions for the negotiations of any merger and acquisition, or any other similar transaction involving the Company or any of its controlled companies; f) monitoring any of the operations and negotiations mentioned in item (e); g) analyzing and reviewing the economic and financial indicators, the Company's cash flow and debt policy, for the purpose of suggesting changes whenever it may deem necessary; h) monitoring the Company's average capital structure cost and suggesting modifications thereto, whenever it may deem it necessary, as well as evaluating and discussing new funding alternatives for the Company; i) reviewing and recommending opportunities regarding financing transactions that may improve the Company's capital structure, as well as analyzing and discussing the working capital needs and its impact on the Company's capital structure; j) assisting both the board of directors and the executive board of the Company in analyzing the Brazilian and world economic trends and scenarios and their potential effects on the Company's financial position, evaluating opportunities and risks and defining strategies to be adopted by the Company as regards its financial policy; k) monitoring the trading patterns of the Company's securities in both the Brazilian and American markets, as well as the opinions of top investment analysts, recommending measures to maintain a healthy and liquid secondary market; and l) performing other duties as may be specified by the board of directors. Our financial committee is currently composed of Eleazar de Carvalho Filho, Arnaud Strasser and José Gabriel Loaiza Herrera.

### ***Sustainable Development Committee***

The sustainable development committee holds meetings at least once every three months and has the following duties: a) suggesting amendments to its internal regulation, submitting them for the board of directors' consideration; b) recommending and monitoring the adoption of the best sustainable development standards and the process of implementation and maintenance of such standards in the Company, suggesting changes, updates and improvements in policies, strategies and practices to the board of directors, in order to promote sustainable development and disseminate these practices in all activities and strategic relationships of the Company; c) evaluating and recommending to the board of directors projects, proposals and institutional campaigns connected to environmental or social issues, including suggestions regarding the allocation of funds and resources; d) evaluating and recommending to the board of directors adequacies to the annual reports related to sustainable development; e) analyzing market opportunities or new business formats to strengthen the Company's sustainable growth strategy; f) advising the Company's board of directors on all aspects regarding sustainability, including actions aimed at promoting consumer awareness in customers, suppliers and employees; g) submitting to the board of directors recommendations for amendments to or revision of proposals for strategic investments of the Company from the point of view of sustainability; j) advising on the Company's efficient management, by recommending the adoption of programs of waste management, encouraging small producers, and food security; and k) performing other duties as may be specified by the board of directors. Our sustainable development committee is composed of Luiz Augusto Castro Neves, Ronaldo Iabrudi dos Santos Pereira and Helio Mattar.

### ***Corporate Governance Committee***

The corporate governance committee holds meetings at least once every three months and has the following duties: a) suggesting amendments to its internal regulation, submitting them for the board of directors' consideration; b)

promoting, monitoring, and ensuring the adoption of best corporate governance practices, and coordinating the implementation process and maintenance of such practices in the Company, as well as the effectiveness of corporate governance processes, suggesting changes, updates, and improvements whenever necessary; c) reviewing periodically and recommending any necessary changes to corporate governance policies and practices adopted by the Company; d) ensuring the proper operation of the board of directors, the board of executive officers and their supporting bodies, ensuring the good relationship of such bodies among themselves and with the Company's shareholders, and, accordingly, reviewing periodically and making recommendations to the board of directors on its operation and attributions, as well as on the board of executive officers and on the supporting bodies; e) periodically preparing or reviewing the Company's bylaws, codes, and policies, the internal regulations of the Company management's supporting bodies, as well as any other documents connected to the Company's corporate governance, submitting recommendations for amendments, criticism and suggestions it deems necessary to the board of directors in order to keep them constantly updated and in line with the highest corporate governance standards, always observing the Company's unique characteristics; f) keeping the board of directors informed and updated about the applicable rules, regulations, and recommendations being practiced in the market, including rules that may be created and that may impact the corporate and securities exchange activities of the Company; g) monitoring the implementation of and compliance with the requirements of all Brazilian corporate law and the securities and exchange market, as well as the requirements of every and any supervision and surveillance authorities of securities and exchange market to which the Company is subject; h) drawing up, making drafts of, submitting to the board of directors and periodically reviewing the Company's Policy on Transactions with Related Parties, as well as all other policies that the Company may need to adopt in order to align with best management and corporate governance practices; i) issuing its opinion, at the request of the board of directors or the officers, on situations in which a conflict of interests scenario may exist involving the Company's activities; j) issuing its opinion on any other matters that the board of directors may submit to it, as well as those that this committee may deem relevant. Our corporate governance committee is composed of Arnaud Strasser, Carlos Mario Giraldo Moreno, Luiz Augusto Castro Neves, Ronaldo Iabrudi dos Santos Pereira and Celso Clemente Giacometti.

### *Fiscal Council*

According to Brazilian corporate law, the adoption of a fiscal council is voluntary and it may be on a permanent or temporary basis. On October 18, 2012, our shareholders approved an amendment to our by-laws to grant temporary status to our fiscal council. Under Brazilian corporate law, the fiscal council is an independent body from management and the board of directors, elected by shareholders annually to supervise the activities of board of directors, management and independent auditors. The responsibilities of the fiscal council are established by Brazilian corporate law and encompass the oversight of management's compliance with the laws and by-laws, the issuance of a report included in the annual and quarterly reports and certain matters submitted for shareholders' approval and calling of shareholders' meetings and the reporting of specific adverse matters arising at those meetings.

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

Our fiscal council for the 2017 fiscal year was installed at our annual shareholders' meeting held on April 26, 2017, and is composed of three members, with terms lasting until the next annual shareholders' meeting. On the date of the filing of this annual report, an annual shareholders' meeting will take place, in which we expect our shareholders to decide to install a fiscal committee, composed of three members, with terms lasting until the next annual shareholders' meeting. Under Brazilian corporate law, minority shareholders have the right to elect separately one member of the fiscal council. However, our controlling shareholder has the right to elect the majority of the members of the fiscal council.

Our fiscal council for the 2017 fiscal year comprised the following members:

<b>Name</b>	<b>Position</b>	<b>First Year Elected</b>	<b>Date of Birth</b>
Fernando Dal-Ri Murcia	Member	2017	07/16/1977
Eduardo da Silva Flores	Member	2017	09/01/1986
Gerlando Augusto Sampaio Franco de Lima	Member	2017	04/11/1979
Bruno Meirelles Salotti	Substitute Member	2017	12/22/1977
Jerônimo Antunes	Substitute Member	2017	11/18/1955
Heraldo Gilberto de Oliveira	Substitute Member	2017	05/04/1964

#### **6D. Employees**

As of December 31, 2017, we had 91,106 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management believes that our relations with our employees and their unions are good. The following table sets forth the number of our employees as of December 31, 2015, 2016 and 2017:

	<b>As of December 31,<sup>(1)</sup></b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Operational	90,410	90,385	87,544
Administrative	3,306	3,273	3,561
<b>Total</b>	<b>93,176</b>	<b>93,658</b>	<b>91,106</b>

(1) Based on the average of the full-time equivalent number of employees, which is the product of the number of food retail employees (full- and part-time) and the ratio of the average monthly hours of all retail employees to the average monthly hours of all full-time employees. The numbers in the table are related to our continued operations share ownership.

#### **6E. Share Ownership**

As of December 31, 2017, members of our board of executive officers directly owned an aggregate amount of 470,379 preferred shares while the members of our board of directors directly held an aggregate amount of two preferred shares. None of the members of our board of directors and our board of executive officers, on an individual basis and as a group, own directly any of our common stock. For further information on direct and indirect share ownership of our board members, see “Item 7A. Major Shareholders.” As of December 31, 2017, our management and some of our employees also owned options to purchase an aggregate amount of 1,549,409 preferred shares at a per-share weighted average purchase price of R\$31.81. None of the members of our management and our employees holds any options to purchase our common shares. See “Item 6B. Compensation” for a description of the stock option plans available to the Company’s and our subsidiaries’ senior management and employees.

### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**



**7A. Major Shareholders**

The following table sets forth information relating to the beneficial ownership of our capital stock as of March 31, 2018, by each person known by us to beneficially own 5% or more of our common shares and our directors and officers as a group. We have also included in the table the number of preferred shares held by each such person and by our directors and officers as a group.

72

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Shareholder	Common Shares		Preferred Shares		Total Shares	
	Number	%	Number	%	Number	%
Wilkes Participações S.A. <sup>(1)</sup>	94,019,178	94.32	-	0.00	94,019,178	35.27
Almacenes Éxito S.A. <sup>(1)</sup>	1	0.00	-	0.00	1	0.00
Segisor S.A.S. <sup>(1)</sup>	5,600,050	5.62	-	0.00	5,600,050	2.10
Casino <sup>(1)</sup>	1	0.00	-	0.00	1	0.00
King LLC <sup>(1)</sup>	-	-	852,000	0.51	852,000	0.32
Geant International B.V. <sup>(1)</sup>	-	-	9,423,742	5.65	9,423,742	3.53
Helicco Participações Ltda. <sup>(1)</sup>	-	-	581,600	0.35	581,600	0.22
Carmignac Gestion	-	-	13,576,698	8.13	13,576,698	5.09
Brandes Investment Partners, LP	-	-	8,510,442	5.10	8,510,442	3.19
Jean-Charles Naouri	-	-	1	0.00	1	0.00
Directors and Officers <sup>(2)</sup>	-	-	470,380	0.28	470,380	0.18
Treasury shares	-	-	232,586	0.14	232,586	0.09
Others	60,621	0.06	133,259,660	79.84	133,320,281	50.01
<b>Total</b>	<b>99,679,851</b>	<b>100.00</b>	<b>166,907,109</b>	<b>100.00</b>	<b>266,586,960</b>	<b>100.00</b>

(1) Wilkes Participações S.A., Almacenes Éxito S.A., Segisor S.A.S., Casino, King LLC, Geant International BV and Helicco Participações Ltda are part of the Casino Group.

(2) Refer to the amount of our shares that directors and officers own directly.

As of the date of this annual report, the Casino Group is the beneficial owner of 41.4% of the total capital stock of CBD. On March 31, 2018, 60,879,587 of our preferred shares were held in the form of ADSs, representing 39.2% of the total of our preferred shares. None of our common shares are held in the form of ADSs.

The Casino Group, jointly with its holding company Rallye S.A., increased its direct and indirect ownership of our Company from 35.4% as of January 1, 2011, to 41.27% as of March 31, 2015, as a result of (i) a series of market transactions, (ii) the receipt of newly issued shares of our Company in connection with the amortization of goodwill, (iii) the acquisition of 19,375,000 shares of the Holding Company held by the Diniz Family as a result of the exercise of a purchase option and (iv) the aforementioned agreement entered into with the Diniz Family on September 6, 2013.

The Diniz Family sold its remaining interest in our Company in October 2014 as a result of (i) a series of market transactions between December 2012 and October 2014, (ii) the sale of 19,375,000 shares of the Holding Company to the Casino Group as a result of the exercise by the Casino Group of a purchase option and (iii) the aforementioned agreement entered into with the Casino Group on September 6, 2013.

In 2015, our controlling shareholder, the Casino Group, carried out a reorganization of its activities and businesses in Latin America to consolidate its platform in the region and capture synergies. Pursuant to the reorganization, the Casino Group transferred 50% of the shares of our common stock to Éxito, corresponding to approximately 18.8% of our total capital stock. Éxito is also controlled by the Casino Group and, therefore, after consummation of the transaction, the Casino Group remained as our controlling shareholder.

In connection with this reorganization, a Segisor S.A.S. shareholders' agreement, the Holding Company's shareholders' agreement and CBD's shareholders' agreement were executed on August 20, 2015 with the purpose of setting forth the rules pursuant to which the Casino Group and Éxito will exercise control of CBD. As a result of the Holding Company shareholders' agreement and the CBD shareholders' agreement, representatives of the Casino Group and

Éxito on our board of directors will vote in the same manner and our board will have 11 members, of whom three will be representatives of the Casino Group and three will be representatives of Éxito. Summaries of the Holding Company shareholders' agreement and the CBD shareholders' agreement are qualified by reference to the agreements that are filed as exhibits to this annual report.

**7B. Related Party Transactions**

From time to time we have entered into transactions with the Casino Group and other related parties. The following discussion summarizes certain of the significant agreements and arrangements among us and our related parties. For further details regarding our related party transactions, see note 12 to our audited consolidated financial statements included elsewhere in this annual report. We have a Related Party Transactions Policy pursuant to which these transactions shall be arm's length and in the interest of the Company. The Policy also establishes which

corporate body is responsible for approving the transactions. Our statutory audit committee is responsible for, among other things, reviewing whether these procedures have been followed.

As part of the Cnova Reorganization, Casino and CBD executed the Casino-CBD commitment letter and the CBD support letter. The Casino-CBD commitment letter and the CBD support letter are intended to govern the parties' ongoing relationship to each other in their capacity as shareholders of Cnova following completion of the Cnova Reorganization and the Offers. For further information related to the Casino-CBD commitment letter and the CBD support letter, see "Item 4A. History and Development of the Company—Cnova Reorganization."

### ***Cost Sharing Agreement***

On August 1, 2014, as amended on October 30, 2014, we entered into a cost sharing agreement with Casino, Euris and Helicco Participações Ltda. (both companies controlled by the Casino Group), pursuant to which we agreed to reimburse them for expenses incurred by their employees in connection with activities involving the transfer of "know-how" to CBD to support its development. The activities involve administrative, financial, advertising, strategic, planning and budgeting aspects, among others. For the year ended December 31, 2017, we paid them R\$ 38.5 million under the cost sharing agreement. On August 1, 2016, we also entered into a Joinder Agreement (substantially in the form of the schedule attached to the cost sharing agreement) with Casino Services SAS (a company controlled by the Casino Group), pursuant to which Casino Services SAS adhered to the cost sharing agreement.

### ***Services Agreements***

We entered into services agreements with Casino on March 8, 2017 and July 31, 2017, to regulate the terms under which Casino renders services of: (i) risk mapping; (ii) analysis regarding insurance coverages and claims; (iii) crisis management; and (iv) intermediation in the negotiations to renew some of our insurance policies.

### ***Agency Agreements***

On December 20, 2004, we entered into an agency agreement, later amended on February 23, 2017, with Sendas Distribuidora S.A. and Casino International S.A., an affiliate of the Casino Group, to regulate the terms pursuant to which Casino International S.A. renders international retail and trade services to us (i.e., negotiation of commercial services with international suppliers).

On July 25, 2016, as amended on January 24, 2017, we, Sendas Distribuidora S.A. and Groupe Casino Ltd., an affiliate of the Casino Group, entered into an agency agreement to regulate the terms under which Groupe Casino Limited renders global sourcing services to us (i.e., prospection of global suppliers and mediation in purchases).

### ***Cost Reimbursement Agreement***

On July 25, 2016, we and Casino entered into a reimbursement agreement to regulate reimbursement by the Company of expenses incurred by the Company's French employees related to French social contributions paid by Casino in France.

### ***Agreement to Establish Commercial Relationships***

On July 27, 2016, we, Sendas Distribuidora S.A., Éxito and other companies of the Exito Group (from Argentina, Uruguay and Colombia) entered into an agreement pursuant to which the parties undertake to introduce the suppliers

from their respective home countries and mediate commercial transactions among each other.

***Commercial Agreement***

On July 27, 2016, we and Éxito entered into an agreement for the implementation of synergy processes for the operations of CBD and Éxito, including the granting of certain trademark and copyright licenses by Distribuidora de Textiles y Confecciones S.A., a company of the Éxito Group, to us, which royalty is agreed on the Copyright License Agreement entered into by us and Distribuidora de Textiles y Confecciones S.A. on July 13, 2017.

***Energy Efficiency Framework Agreement***

On May 8, 2015 we entered into a subsequently amended agreement with GreenYellow do Brasil Energia e Serviços Ltda., or GY, a Brazilian company controlled by Casino, pursuant to which GY provided for the installation of equipment and rendering of energy efficient solutions services at our *Extra* and *Pão de Açúcar* stores. The equipment and the services provided by GY were aimed at the reduction of the use of energy at our stores. As compensation for the sale of the equipment, GY receives an annual interest rate of 9.7%, in a payment method similar to that of a lease. For the rendering of services, GY is compensated based on a formula according to the energy savings generated at each store.

## **Related Party Transactions Relating to Discontinued Operations**

### ***Lease Agreements with the Klein Family***

Casa Bahia Comercial and Via Varejo entered into operating lease agreements for Casa Bahia Comercial properties where some of the stores, distribution centers and buildings of Nova Casa Bahia are located. In addition, as of December 31, 2017, we had lease agreements with the Klein Family regarding 302 properties, among these distribution centers, stores and administrative buildings. We adjust the rental annually by inflation based on the positive variation of the IPCA.

### ***Indemnity with the Klein Family***

On December 4, 2009, we entered into an association agreement with Via Varejo, the Klein Family and Casa Bahia Comercial which was later amended on July 1, 2010. Under the association agreement, (i) Via Varejo had indemnity rights against us and Casa Bahia Comercial for certain claims existing as of July 1, 2010 and (ii) the parties undertook to ascertain the balance of indemnity rights to be paid by one party to another, among other related expenses on November 8, 2016 (i.e. six years after the closing of the transaction).

On July 4, 2017, we entered into an agreement with the original counterparties to the association agreement to (i) ascertain the liabilities for losses and damages incurred by Via Varejo and the Klein family until July 1, 2010; (ii) consolidate the procedures for indemnification of potential losses and damages of Via Varejo and the Klein family before and after July 1, 2010; and (iii) adjust the guarantees provided by GPA on the lease agreements entered into between Via Varejo and the Klein family. Pursuant to the terms of that agreement, it was established that (i) Casa Bahia Comercial would pay R\$ 70.2 million to Via Varejo in instalments over 2017, subject to the SELIC rate, as the outstanding amount of indemnifying losses incurred until November 8, 2016; and (ii) Via Varejo would pay a fee to us on an arm's length basis in connection with corporate guarantees provided by us to secure the lease agreements entered into by Via Varejo and Casa Bahia Comercial. The parties also agreed on the proceedings to be taken to determinate the liability of each party regarding claims occurred on and after November 8, 2016.

For further information regarding actions taken after November 8, 2016, see note 12(v) to our audited consolidated financial statements included elsewhere in this annual report.

### ***Operational Agreement***

In August 2016, Via Varejo and Cnova entered into a reorganization agreement related to the reorganization of Cnova Brazil within Via Varejo (the "Cnova Reorganization"). In October 31, 2016, the Cnova Reorganization was implemented and as result Via Varejo became the sole shareholder of Cnova Brazil, which operates Extra.com.br, Pontofrio.com and Casasbahia.com.br websites, and ceased to be a shareholder of Cnova. Cnova will continue its e-commerce activities outside of Brazil, focusing entirely on Cdiscount. For further information on the Cnova Reorganization and related consequences, see "Item 4A. History and Development of the Company—Cnova Reorganization."

On August 8, 2016, CBD and Via Varejo entered into an Operational Agreement in which both parties agreed to integrate the e-commerce and physical stores of the "Extra" banner. Pursuant to the Operational Agreement, we must pay Via Varejo a fixed remuneration for items which we purchase from suppliers in conjunction with Via Varejo. Conversely, Via Varejo must pay us a fixed remuneration for the withdrawal of products from our physical stores which were purchased through the websites of the *Extra*, *Ponto Frio* and *Casas Bahia* banners.

### ***Agreements with Casino, Distribution Casino France and Éxito***

In the ordinary course of business, Cnova and its subsidiaries have entered into related party transactions with affiliates of the Casino Group, including Casino, Distribution Casino France, Foncière Euris, Helicco Participações Ltda. and Exito, relating to supply agreements of Casino Group private label products and products from other suppliers, purchasing synergies of certain products, provision of services related to purchase, logistics, shipping (including pick-up point services), back-office IT license and maintenance and back offices services such as accounting, audit, legal and human resources, real estate management and marketing; implementation of a cash pool among certain entities of the Casino Group to improve cash management; joint venture, partnership and cooperation agreements; among others.

### ***Guarantee Framework Agreements***

CBD entered into three different agreements with Cnova Brazil, Via Varejo and Via Varejo and its subsidiaries, respectively (collectively, the “Guarantee Framework Agreements”) as indicated below:

- (i) on May 10, 2016, CBD and Cnova Brazil entered into a subsequently amended agreement in which Cnova Brazil has to pay a fee to be charged on market terms by CBD in consideration for the future and existing guarantees provided by CBD under the obligations of Cnova Brazil pursuant to financial agreements, lease agreements and commercial agreements with third parties;
- (ii) on April 27, 2017, CBD and Via Varejo entered into an agreement in substantially the same terms of the agreement described in item (i) above, provided that the guarantees given by CBD to Via Varejo are limited to R\$800 million; and
- (iii) on February 19, 2018, CBD, Via Varejo and its subsidiaries (Cnova Brazil, Bartira, Globex and VVLog Logística Ltda.) entered into an agreement in substantially the same terms of the agreements described in items (i) and (ii) above, provided that the guarantees given by CBD to Via Varejo and its subsidiaries were pursuant to (a) insurance policies and (b) agreements with financial institutions in which the financial institutions conceded a surety to Via Varejo and its subsidiaries. In any case, the guarantees provided by CBD to Via Varejo and its subsidiaries under the agreements mentioned in letter (b) above are limited to R\$1.2 billion.

The Guarantee Framework Agreements will remain in force until all debts have been paid by CBD’s counterparties or until CBD is released from all guarantees. If CBD requests the termination of any of the Guarantee Framework Agreements and any of CBD’s counterparties is unable to replace the guarantees within a 90-day period, (i) the agreement in question will remain in force until the guarantees are replaced and (ii) CBD’s fees will remain in force, without the application of the discount provided in the agreement in question. Additionally, the agreements indicated in items (ii) and (iii) above will be terminated in case of change of control of CBD’s counterparties.

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

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

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

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

### **Legal Proceedings**

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business. These include general civil, tax and labor litigation and administrative proceedings. We believe that our provisions for legal



proceedings are sufficient to meet probable and reasonably estimated losses in the event of unfavorable court decisions to us and to ensure that the outcomes of these legal proceedings have no material effect on our financial condition or results of operations. We cannot estimate the amount of all potential costs that we may incur or penalties that may be imposed on us other than those amounts for which we have made provisions. For further information on our legal proceedings, see note 21 to our audited consolidated financial statements included elsewhere in this annual report.

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

	2015	2016	2017
	(in millions of R\$)		
Tax claims <sup>(1)</sup>	517	734	637
Labor claims	597	302	331
Civil and other claims	282	141	139
<b>Total accrued liabilities for legal proceedings</b>	<b>1,396</b>	<b>1,177</b>	<b>1,107</b>

(1) Includes tax claims related to Social security contribution (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, and Social integration (*Programa de Integração Social*), or PIS.

### ***Tax-Related Claims***

Tax-related claims are indexed to the SELIC rate, which in annual terms, was 14.25% on December 31, 2015, 13.75% on December 31, 2016, and 7.00% on December 31, 2017, and are also subject, in certain cases, to fines. We have made provisions for interest charges and fines, when applicable.

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

### ***COFINS and PIS taxes***

We pay PIS and COFINS taxes, at the rates of 1.65% and 7.60% on gross sales revenue, respectively. We adopt the non-cumulative system whereby these tax liabilities can be partially or completely offset by credits, as the case may be, we accrue from taxes previously paid on products we purchase and other expenses. As a result of our application of the non-cumulative system, we and our subsidiaries have requested the right to exclude state value added tax (*Imposto Sobre Circulação de Mercadorias e Serviços*), or ICMS, from the calculation basis of these two contributions.

On March 15, 2017, the Brazilian Supreme Court, or STF, ruled that ICMS should be excluded from the calculation basis of PIS/COFINS, in accordance with the thesis we presented to the court. Based on this decision and on the legal opinion of our advisors, we believe that a disbursement of cash related to the values not paid in previous periods is not probable. As a result, we reversed the provision of R\$117 million in the first quarter of 2017.

Since the judgment of the STF, on March 15, 2017, the procedural steps were in line with what our legal advisors anticipated. Therefore, there were no changes in our management's judgment regarding the reversal of the provision for lawsuits on this subject.

The prosecution has filed an appeal to this decision and such appeal is still pending judgment. The Company and its advisors estimate that the final decision related to the application of the effects will not limit the right of the judicial claim proposed by the Company. Nevertheless, the elements which are still pending a final decision do not allow us to recognize the asset related to the credits since the original claim began in 2003. According to the preliminary evaluation, based on the available information as of December 31, 2017, the Company estimates the potential tax

credit for the food retail segment in a range from R\$1,300 million to R\$1,850 million. At this moment, the calculation for the cash and carry segment is not completed.

As disclosed in Via Varejo's financial statements as of and for the year ended December 31, 2017, the tax credits for this subsidiary, classified as discontinued operations, were estimated at approximately R\$1,384 million, of which R\$425 million is attributed to the Company due to a shareholders' agreement between us and Grupo Casas Bahia.

The remainder accrued amount for other discussions related to PIS and COFINS, which includes challenges of tax offset and other small amounts, as of December 31, 2017 represent R\$184 million, of which R\$74 million was for continued operation and R\$110 million for discontinued operations (R\$204 million as at December 31, 2016, of which R\$148 million was for continued operation and R\$56 million for discontinued operations).

### *Taxes and other*

The Company recognized, in the 2nd quarter of 2017, the effects of the Special Program on Tax Settlements, or PERT. The subjects are related to the tax assessments over purchase transactions, industrialization and exports sales of soybeans (PIS/COFINS and IRPJ), and non-validation of tax offsets which amounted to the provision of R\$146 million, of which R\$89 million was for continued operation and R\$57 million for discontinued operations.

Additionally, during the 3rd quarter, the Tax Debt Installment Payment Plan (“PEP” - *Parcelamento Estadual do Estado de São Paulo*) was adopted, related to tax assessments of acquisition of suppliers considered not qualified in the State Finance Department registry, error in application of tax rate and accessory obligations by state tax authorities totaling R\$28 million, of which R\$6 million was for continued operation and R\$22 million for discontinued operations.

We have other tax claims that were deemed probable losses by our legal counsel: (i) disagreement on the non-application of Accident Prevention Factor (*Fator Acidentário de Prevenção*), or FAP, in 2011; (ii) disagreement with the Finance Department on the ICMS tax rate calculated on electricity bills; and (iii) other less relevant issues. The amount we provisioned for these matters as of December 31, 2017 was R\$184 million, of which R\$183 million was for continued activities and R\$1 million for discontinued operations (R\$408 million as of December 31, 2016, of which R\$356 million was for continued operation and R\$52 million for discontinued operations).

The STF on October 16, 2014, decided that the taxpayers whose trade products included in the “basic consumer products basket” have no right to fully use the ICMS credits. The Company, with the aid of its legal advisors, evaluated and recorded a provision for this matter amounting to R\$142 million as of December 31, 2017 (R\$153 million as of December 31, 2016), since this claim is considered a probable loss.

Additionally, we are party to some proceedings before the São Paulo state tax authorities, which discuss accessory state tax obligations in the context of the refund of ICMS due to tax substitution. Considering recent court decisions, we recorded a provision for this matter amounting to R\$167 million (R\$138 million in December 2016) representing the estimate of probable loss evaluated by management on these proceedings.

We discussed in court the eligibility to not pay the contributions provided for by Supplementary Law 110/01, referring to the Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço*), or FGTS, costs. The accrued amount as of December 31, 2017, was R\$72 million (R\$77 million as of December 31, 2016).

Provisions for tax contingent liabilities were recorded by our subsidiary Via Varejo at the time of the business combination. As of December 31, 2017, the amount recorded was R\$90 million in tax contingent liabilities (R\$89 million as of December 31, 2016). These accrued claims refer to administrative proceedings related to the offset of tax debts against credits from the contribution levied on coffee exports.

For further information on our tax-related claims, see note 21 to our audited consolidated financial statements included elsewhere in this annual report.

During the third quarter of 2016, we reversed most of our contingencies arising from the business combination of Bartira in 2013. The amount reversed consisted of R\$6 million of tax contingencies and R\$11 million of labor contingency, totaling R\$17 million. The remaining balance as of December 31, 2017, was R\$1 million (R\$1 million as of December 31, 2016).

### ***Labor Claims***

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of business. As of December 31, 2017, we recorded a provision of R\$1,284 million, of which R\$331 million was for continued operations and R\$953 million for discontinued operations (R\$950 million as of December 31, 2016 of which R\$302 million was for continued activities and R\$648 million for discontinued operations) referring to lawsuits whose risk of loss was considered probable. Management, assisted by legal counsel, evaluates these claims recording provision for losses when reasonably estimable, taking into account previous experience in relation to the amounts claimed.

### ***Civil and Other Claims***

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

- We file and respond to various lawsuits requesting the review of lease amounts. In these lawsuits, the judge determines a provisional lease amount, which is then paid by the stores until the final lease amount is defined. The Company recognizes a provision for the difference between the original amount paid by the stores and the amounts requested by the opposing party (owner of the property) in the lawsuit, when internal and external legal advisors agree on the likelihood of a change to the lease paid by the entity. As of December 31, 2017, the provision for these lawsuits was R\$125 million, of which R\$61 million was for continued operations and R\$64 million for discontinued operations (R\$121 million as of December 31, 2016 of which R\$49 million was for continued activities and R\$72 million was for discontinued operations) to which there are no judicial deposits.

As of December 31, 2017, including the lawsuits mentioned above, we had provisions for civil actions of R\$314 million, of which R\$139 million was for continued operations and R\$175 million for discontinued operations, as compared to R\$343 million as of December 31, 2016, of which R\$141 million was for continued operations and R\$202 million for discontinued operations.

### ***Other Contingent Liabilities for Which There Are No Provisions***

As of December 31, 2017, we were party to certain legal proceedings for which the probability of loss was deemed possible and, therefore, we have not recorded provisions for these proceedings. See note 21.4 to our audited consolidated financial statements included elsewhere in this annual report for detailed information on these proceedings.

We are party to several tax-related legal proceedings with various governmental agencies related to social security taxes (*Instituto Nacional de Seguridade Social*), or INSS, IRPJ, withholding tax (*Imposto de Renda Retido na Fonte*), or IRRF, social contribution on net profits (*Contribuição Social Sobre o Lucro Líquido*), or CSLL, COFINS, PIS, IPI credits, contribution tax on financial transactions, (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, ICMS, municipal service tax (*Imposto Sobre Serviços*), or ISS, municipal property tax (*Imposto Predial e Territorial Urbano*), or IPTU. As of December 31, 2017, the aggregate amount of the possible loss regarding these tax-related legal proceedings was R\$11,778 million, of which R\$10,159 million was for continued operations and R\$1,619 million for discontinued operations, as compared to R\$12,221 million as of December 31, 2016, of which R\$10,736 million was for continued operations and R\$1,485 million for discontinued operations.

### ***Other Legal Proceedings***

We are party to certain administrative proceedings and lawsuits related to civil, consumer protection matters and labor claims. As of December 31, 2017, the aggregate amount of the possible loss regarding these proceedings was R\$689 million, of which R\$542 million was for continued operations and R\$147 million for discontinued operations, as compared to R\$952 million in 2016, of which R\$721 million was for continued operations and R\$231 million for discontinued operations.

***Federal Tax Installment Payment Program (Programa de Recuperação Fiscal), or REFIS***

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

Previously, we maintained provisions for judicial proceedings related to certain social security contributions and income taxes. During the third quarter of 2009, we adhered to the federal tax installment payment program introduced by Law No. 11,941/09. Our management and local counsel included tax and social security liabilities originated from proceedings, in particular those related to the COFINS tax rate, which totaled approximately R\$987 million at that time, and other applicable tax liabilities in the federal tax installment payment program. The balance of the consolidated installments on December 31, 2017 was R\$511 million, as compared to R\$624 million in 2016.

Law 12,996, dated June 18, 2014, or Law 12,966/14, as amended by Provisional Act - MP 651, dated July 9, 2014, introduced interest and penalties reduction benefits for cash payments and payments in installments of federal debts. The Company considered an appropriate procedure to enroll in the REFIS to settle part of its debts, utilizing also part of the tax losses for payment of the debt balance. As a result, in the last quarter of 2014, there was a reduction of the provision for risks of R\$296 million which represented a gain, net of other negative effects, of R\$23 million. In addition, Law 12,996/14 also allowed taxpayers to use tax loss carryforward to settle 70% of the remaining debt balance. Therefore, management settled certain debts, in the total amount of R\$366 million (R\$256 million of which using tax loss carryforward and R\$97 million of which paid in cash and with interest reduction).

We decided to include federal tax debts in the PERT, as per the conditions established on Law no. 13,496, dated October 24, 2017. The program allows the payment in monthly installments, and grants reductions in interest and penalties. We included in the PERT, tax debts accrued related to: (i) tax assessments over purchase transactions, manufacturing and exports sales of soil beans (PIS/COFINS); (ii) non-validation of tax offsets (IRPJ, PIS/COFINS); and (iii) other tax debts previously classified as possible risks related mainly due to CPMF and other claims. The PERT will be settled integrally in cash, in monthly installments, in 12 years. The balance of the consolidated installments on December 31, 2017 was R\$176 million.

### ***Arbitration***

#### *Morzan*

In June 2012, we received a correspondence from the International Chamber of Commerce, whereby we were notified of a request for arbitration submitted by Morzan Empreendimentos e Participações Ltda. (“Morzan”), the former parent company of Globex, currently Via Varejo. The arbitration proceeding is related to issues arising from the share purchase agreement entered into by our subsidiary Mandala Empreendimentos e Participações S.A. on June 8, 2009 to acquire 86,962,965 common shares, representing approximately 70.2% of the total voting capital of Via Varejo (the “Via Varejo Purchase Agreement”). The terms of this arbitration are subject to confidentiality clauses.

While we believe that we have fulfilled our obligation under the Via Varejo Purchase Agreement, the arbitral tribunal issued a decision in August 2015, further complemented by a decision issued in January 2016, which determined that the Company and its controlling company, Wilkes Participações S.A., had to pay the amounts requested by Morzan. On April 1, 2016, the Company made a payment of R\$233 million.

On October 25, 2016, we received a letter from a superintendence of the CVM determining that we pay an additional amount to the original non-controlling shareholders’ of Globex, corresponding to 80% of the indemnification effectively paid to Morzan as a result of the tender offer for Globex’s shares carried out on January 4, 2010. We appealed the CVM decision and were granted a suspended effect of the decision.

In a unanimous decision, the board of commissioners of the CVM, higher instance within the CVM, reverted the superintendence’s order, concluding that the CVM could not extend the indemnification provided for in the arbitration award to Globex’s minority shareholders according to due process and the Brazilian code of civil procedure. Considering the favorable decision of the CVM’s board of commissioners, the discussions concerning the extension of the additional amount proportionally paid to Morzan as indemnification to other minority shareholders of Globex were definitely closed.

For further information on the arbitration request by Morzan, see note 1.1 to our audited consolidated financial statements included elsewhere in this annual report.

#### *Península*



On September 12, 2017, we announced that we received a notice from the Brazil Canada Chamber of Commerce regarding a request for arbitration filed by Banco Ourinvest S.A., a financial institution, in its capacity as fund manager and acting in the exclusive interest of the quotaholders of Península.

80

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The arbitration proceeding aims to discuss the calculation of the rental fees and other operational matters related to lease agreements and contracts which we entered into with Peninsula, during the year of 2005, regarding stores owned by Peninsula. These agreements entitled us to the commercial use of the referred real estates for a period of 20 years, which may be extended for an additional 20-year term, at our exclusive criteria.

The proceeding refers to matters related to the application of these agreements and does not affect the continuity of the leases, which are contractually established. We understand that the requests made by Peninsula have no legal grounds and we believe that the arbitration proceeding will be favorable to us.

#### *Notices from CVM to CBD and our Subsidiary Via Varejo*

On February 18, 2016, our subsidiary, Via Varejo, received a notice from a superintendence of the CVM challenging the accounting treatment given by Via Varejo in 2013 to the acquisition of the control of Bartira (acquisition of an additional 75% equity interest) and requesting the restatement of the financial statements.

Via Varejo appealed to the board of commissioners of the CVM, requesting suspensive effect of the restatement request, which was granted to the Company on January, 2017. The superintendence of the CVM issued the notice requesting that the board of commissioners reconsider its decision. On April, 2017, the CVM informed that the board of commissioners rejected the superintendence's request for reconsideration and, therefore, the matter is no longer under discussion.

For further information on this topic, see note 1.2 to our audited consolidated financial statements included elsewhere in this annual report.

#### *Legal Proceedings Related to Cnova*

On December 2015, the board of directors of Cnova engaged legal counsel and forensic accountants to perform an internal investigation of alleged employee misconduct related to inventory management at Cnova Brazil's distribution centers. Subsequently, the scope of the investigation at Cnova Brazil expanded to other facts. The internal investigation was concluded on June 2016. Based on the findings of the investigation, which have been shared with the SEC, Cnova has restated its consolidated financial statements as of and for the years ended December 31, 2013 and 2014 and selected financial information as of and for the year ended December 31, 2012.

Cnova, certain of its current and former officers and directors, and the underwriters of its initial public offering have been named as defendants in a securities class action consolidated in the United States District Court for the Southern District of New York. The plaintiffs asserted claims related to inventory management and material misstatements and omissions in the disclosure regarding Cnova's net sales and other financial information in Cnova's Form F-1, filed with the SEC in 2014, in the context of its initial public offering.

On May 22, 2017, the parties signed a memorandum of understanding to settle the class action which contemplated that, among other things, the claims against the defendants would be released and resolved in exchange for a payment of \$28,500,000, without the admittance of fault or liability. On October 11, 2017, the court entered an order preliminarily approving the settlement and conditionally certifying the class for purposes of the settlement and scheduled a hearing for final approval on March 15, 2018. The time period to object to, or opt out from, the settlement has passed and no objections or opt out notices were received.

Following the March 15, 2018 hearing, the court entered, on March 19, 2018, the final order giving the definitive approval to the settlement, closing the judicial proceedings with the United States District Court for the Southern District of New York and releasing defendants of the claims alleged against them accordingly. In the coming period,

notices with more information concerning the settlement will be sent and distributed by the plaintiff's lawyer to the plaintiff shareholders via Newswire.

The majority of the settlement amount is funded by Cnova's insurers. The remainder, as well as all expected related costs, are covered by Cnova's provision recorded in 2016 representing insurance deductible and total expected legal costs. Accordingly, the settlement should have no material impact on Cnova's net results.

## Dividend Policy and Dividends

### *General*

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

Pursuant to our dividend policy, created by our board of directors on August 3, 2009, we may anticipate our dividend distribution on a quarterly basis, subject to approval by our board of directors, at meetings usually held during the first quarter of each fiscal year.

There was no approval for the anticipation of dividends for the fiscal years of 2016 or 2017 by our board of directors. Nevertheless, interest on shareholders' equity has been distributed to shareholders in December 2017. For further information see "Item 10B. Memorandum and Articles of Association—Allocation of Net Profits and Distribution of Dividends—Distribution of Dividends and Interest on Shareholders' Equity." According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval of the distribution of dividends in the shareholders' meeting.

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

The following table sets forth the distributions paid to holders of our common shares and preferred shares since 2013:

Period	Description	First payment date	R\$ per preferred share	R\$ per common share	Total amount in dividends on shareholders' equity shares (in R\$ millions)
2012	Dividends	June 14, 2013	0.653088073	0.593716430	166
2013	Dividends	May 16, 2013	0.13	0.118182	33
2013	Dividends	August 13, 2013	0.13	0.118182	33
2013	Dividends	November 7, 2013	0.13	0.118182	33
2013	Dividends	June 13, 2014	0.5889348796	0.5353953451	151
2014	Dividends	May 15, 2014	0.14	0.127270	36
2014	Dividends	August 13, 2014	0.14	0.127270	36
2014	Dividends	November 21, 2014	0.14	0.127270	36
2014	Dividends	June 25, 2015	0.76	0.69	194
2015	Dividends	May 28, 2015	0.15	0.136365	38
2015	Dividends	August 8, 2015	0.15	0.136365	38

		November 11,			
2015	Dividends	2015	0.15	0.136365	38
2015	Dividends	June 23, 2016	0.015073	0.013703	4
		December 15,			
2017	Interests on equity	2017	0.31524139588	0.28658308716	81
2017	Interests on equity	May 25, 2018	0.354066288	0.321878444	91

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

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

## 8B. Significant Changes

None.

## ITEM 9. THE OFFER AND LISTING

### 9A. Offer and Listing Details

Our preferred shares trade on the B3 under the trading symbol PCAR4. In addition, our common shares are listed under the trading symbol PCAR3, although they are not actively traded. See "Item 7A. Major Shareholders" for more information on ownership of our common shares.

The following table sets forth, for the periods indicated, the reported high and low sales prices for our preferred shares on the B3:

Calendar Period	High (in R\$)	Low	R\$ Average Daily		Trading Volume
			High (in US\$) <sup>(1)</sup>	Low	
2013:	114.70	88.67	48.96	37.85	83,709,400
2014:	115.00	92.30	43.29	34.75	85,324,937
2015:					
1st quarter	98.90	88.47	30.83	27.58	83,824,762
2nd quarter	102.69	73.30	33.10	23.63	109,734,899
3rd quarter	75.30	48.76	18.95	12.27	77,605,789
4th quarter	58.80	41.19	15.06	10.55	67,471,834
2016:					
1st quarter	51.80	32.90	14.56	9.24	56,527,030
2nd quarter	52.36	40.45	16.31	12.60	44,502,740
3rd quarter	57.25	46.65	17.64	14.37	45,096,527
4th quarter	61.86	49.01	18.98	15.04	50,053,128
2017:					
1st quarter	62.24	54.30	19.39	16.92	49,919,631
2nd quarter	76.50	58.06	23.21	17.62	54,802,731
3rd quarter	79.48	63.50	23.35	20.26	67,501,874
4th quarter	80.85	69.12	24.56	21.00	59,726,531
2018:					

1st quarter	78.99	63.92	24.09	19.49	69,964,142
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(1) Converted into Brazilian *reais* at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. See “Item 3A. Selected Financial Data—Exchange Rates.”

The following table sets forth, for the most recent six months, the reported high and low sales prices for our preferred shares on the B3:

Calendar Period	High (in R\$)	Low	High (in US\$) <sup>(1)</sup>	Low	R\$ Average Daily
					Trading Volume
October 2017	80.85	75.09	25.34	23.54	58,487,473
November 2017	75.41	69.12	23.20	21.27	65,379,796
December 2017	78.93	70.96	23.99	21.57	55,442,751
January 2018	78.99	73.31	24.60	22.83	51,235,326
February 2018	74.70	65.03	24.22	21.09	102,576,408
March 2018	69.00	63.92	21.04	19.49	49,311,015
April 2018 (through April 13, 2018)	71.59	66.48	21.26	19.74	67,323,183

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

Our preferred shares in the form of ADSs trade on the New York Stock Exchange, or NYSE, under the trading symbol “CBD.” Our ADSs commenced trading on the NYSE in May 1997. As of December 31, 2017, the ADSs represented 36.7% of our preferred shares. Each ADS represents one preferred share, without par value. The ADSs are evidenced by ADRs issued by JP Morgan Chase Bank, N.A.

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

Calendar Period	High		Low		US\$ Average Daily Trading Volume
	(in US\$ per ADSs)	(in US\$ per ADSs)	(in R\$ per ADSs) <sup>(1)</sup>	(in R\$ per ADSs) <sup>(1)</sup>	
2013:	56.83	38.98	133.13	91.31	26,667,579
2014:	51.23	35.35	136.08	93.90	25,702,263
2015:					
1st quarter	37.32	28.96	119.72	92.90	20,269,579
2nd quarter	34.16	23.67	105.98	73.44	18,320,015
3rd quarter	23.78	11.90	94.48	47.28	14,478,110
4th quarter	15.59	10.44	60.88	40.77	12,550,615
2016:					
1st quarter	14.27	8.01	50.79	28.51	10,245,116
2nd quarter	14.99	11.14	48.11	35.76	10,259,850
3rd quarter	17.40	13.98	56.48	45.38	12,472,166
4th quarter	19.38	14.14	63.16	46.08	11,870,080
2017:					
1st quarter	19.89	16.96	63.85	54.44	9,689,391
2nd quarter	24.63	18.43	81.16	60.73	11,123,965
3rd quarter	25.35	19.16	79.47	60.06	10,866,187
4th quarter	25.49	20.81	83.91	68.50	7,025,747
2018:					
1st quarter	25.10	19.30	82.31	63.29	7,415,709

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

The following table sets forth, for the most recent six months, the reported high and low sales prices for our ADSs listed on the NYSE:

	High		Low		US\$ Average Daily Trading Volume
	(in US\$ per ADSs)	(in US\$ per ADSs)	(in R\$ per ADSs)	(in R\$ per ADSs)	



<b>Calendar Period</b>	<b>(in US\$ per ADSs)</b>		<b>(in R\$ per ADSs)<sup>(1)</sup></b>		
October 2017	25.49	23.23	81.31	74.10	8,145,177
November 2017	23.03	20.81	74.85	67.63	7,997,034
December 2017	23.57	21.67	77.55	71.29	4,774,523
January 2018	25.10	22.63	80.59	72.66	4,873,738
February 2018	23.36	19.97	72.03	61.58	9,341,244
March 2018	21.23	19.30	69.62	63.29	8,215,530
April 2018 (through April 13, 2018)	20.82	19.47	70.11	65.57	8,215,530

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

## **9B. Plan of Distribution**

Not applicable.

## 9C. Markets

### Trading on the B3

The B3, formerly BM&FBOVESPA, is a Brazilian publicly held company formed in 2008 through the integration between the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*) and the Brazilian Mercantile and Futures Exchange (*Bolsa de Mercadorias & Futuros*). The B3 is one of the largest exchanges in the world in market capitalization, the second in the Americas and the leader in Latin America.

Trading on the exchange is conducted by authorized members. Trading sessions take place every business day, from 10:00 a.m. to 5:00 p.m. or from 11:00 a.m. to 6:00 p.m. during daylight savings time in Brazil, on an electronic trading system. Trading is also conducted between 6:00 p.m. and 7:30 p.m., or between 7:00 p.m. and 8:30 p.m. during daylight savings time in Brazil, in an after market trading session.

To better control the excess of volatility in market conditions, the B3 has adopted a “circuit breaker” pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the stock exchange broad based index falls below the limits of 10% and 15%, respectively, compared to the close of trading of the previous trading day. In the event the stock exchange index falls below the limit of 20% in comparison to the previous trading day, the B3 may determine the suspension of the trading session for a certain period to be defined at its sole discretion. The exchange has also adopted single stocks trading halts to deal with certain high volatility situations.

Trading on the B3 by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment and tax legislation.

### Regulation of the Brazilian Securities Markets

The Brazilian securities market is regulated and supervised by the CVM (which has general authority over the stock exchanges and securities markets) as provided for by the Law 6,385, dated December 7, 1976, or Brazilian Securities Exchange Act, and Brazilian corporate law. The CMN is responsible for supervising the CVM’s activities, granting licenses to brokerage firms to govern their incorporation and operation, and regulating foreign investment and exchange transactions, as provided for by the Brazilian Securities Exchange Act and Law No. 4,595 of December 31, 1964. These laws and regulations provide for, among other things, disclosure requirements to issuers of securities listed on stock exchanges, criminal sanctions for insider trading and price manipulation, protection of minority shareholders, the procedures for licensing and supervising brokerage firms and the governance of Brazilian stock exchanges.

Under Brazilian corporate law, a company is either public (*companhia aberta*) such as we are, or private (*companhia fechada*). All public companies are registered with the CVM, and are subject to periodic reporting requirements and disclosure of material facts. A company registered with the CVM may have its securities traded either on the B3 or on the Brazilian over-the-counter market. The shares of a company listed on the B3 may also be traded privately, subject to certain limitations. To be listed on the B3, a company must apply for registration with the CVM and with the B3. Trading of securities of a public company on the B3 may be suspended at the request of such company in anticipation of a material announcement. Trading may also be suspended on the initiative of the B3 or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries made by the CVM or the B3.

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

procedures, supervision of brokerage firms, and governance of the Brazilian stock exchanges.

### **Corporate Governance Practices**

In 2000, the BM&FBOVESPA, now the B3, introduced three special listing segments, known as Level 1 (*Nível 1*) and 2 (*Nível 2*) of differentiated Corporate Governance Practices and New Market (*Novo Mercado*), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BM&FBOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by applicable Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

To be listed on the Level 1 segment, in addition to the obligations imposed by current Brazilian law, a company must agree to (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading (at least 25% must be free float); (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (iii) comply with minimum quarterly disclosure standards including the disclosure of consolidated financial statements and independent audit revision opinion; (iv) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the respective company; and (v) disclose to shareholders an annual corporate events calendar.

On May 10, 2011, the differentiated Corporate Governance Practices and New Market rules were amended. The new provisions include, among others, new pecuniary sanctions for companies that do not comply with rules. In addition, according to the amended rules, a company's chief executive officer or major executive officer cannot hold the position of chairman of the board of directors. Board members shall be elected for continuous terms of a maximum of two years, with reelection permitted.

We have been listed as a Level 1 listed company since March 31, 2003. As a result, we must comply with the corporate governance standards and Level 1 listing requirements described in the previous paragraphs in addition to other obligations imposed by applicable Brazilian law.

### **Disclosure Requirements**

According to Brazilian corporate law and CVM regulation, a public company must submit to the CVM and the B3 certain periodic information, including financial statements accompanied by the management discussion and analysis report and independent audit report, quarterly information, management discussion and analysis and independent audit reports. This legislation also requires us to file with the CVM and the B3 our shareholders' agreements, notices of shareholders' meetings and copies of the related minutes and communications regarding material acts or facts.

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

Such requirements include provisions that:

- establish the concept of a material act or events that gives rise to reporting requirements. Material acts or events include decisions made by the controlling shareholders, resolutions of the general meeting of shareholders or of management of the company, or any other political, administrative, technical, financial or economic acts or facts related to the company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade or maintain such securities or to exercise any of such securities' underlying rights;
- specify examples of acts or facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control of a public company, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;

- oblige the public company to disclose material acts or facts to the CVM, to the B3 and through the publication of such acts in the newspapers or websites usually utilized by such company;
- require the acquirer of a controlling stake in a public company to publish a material event, including its intentions as to whether or not to de-list the corporation's shares, within one year;

86

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- require management, members of the fiscal council, if active, or of any technical or advising body of a public company, to disclose to the company, to the CVM and to the B3 the number, type and form of trading of securities issued by the company, its subsidiaries and controlling public companies that are held by them or by persons closely related to them, and any changes in their respective ownership positions;
- require that, if any direct or indirect controlling shareholder or any shareholder electing members of the board of directors of a public company increases or decreases participation in such company by more than 5.0%, such person or entity must disclose information regarding such acquisition or disposition; and
- forbid trading on the basis of insider information.

Under the terms of CVM Instruction No. 358, dated January 3, 2002, as amended, we may, under exceptional circumstances, submit a request for confidential treatment to the CVM concerning a material act or fact when our controlling shareholders or managers consider that their disclosure will pose a risk to the company's legitimate interest.

**9D. Selling Shareholders**

Not applicable.

**9E. Dilution**

Not applicable.

**9F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**10A. Share Capital**

As of December 31, 2017, our capital stock consisted of a total of 266,579,430 non-par shares, of which 99,679,851 were common shares and 166,899,579 were preferred shares. As of the same date, our Company held 232,586 preferred shares in treasury. In 2017, we increased our capital stock by 503,503 preferred shares in connection with our New Stock Option Plan.

As of April 26, 2018, our capital stock consisted of a total of 266,629,739 non-par shares, of which 99,679,851 were common shares and 166,949,888 were preferred shares. As of the same date, 232,586 preferred shares were held in treasury and no common shares were held in treasury.

In the last three years we have not issued any other class of shares.

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

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

which has been filed with the SEC) and to Brazilian corporate law.

### **Corporation Objects and Purposes**

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

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

## Preferred Shares and Common Shares

Pursuant to Brazilian corporate law and our by-laws, each common share entitles the holder thereof to one vote at our shareholders' meetings. Holders of common shares are not entitled to any preference relating to our dividends or other distributions or any preference upon our liquidation, provided that they may convert their common shares into preferred shares at any time, subject to legal restrictions. See "Conversion of Common Shares into Preferred Shares."

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

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

Furthermore, the preferred shares will only be admitted for trading on the B3 if they are entitled to at least one of the following preferences:

- right to participate in the distribution of the mandatory dividend of at least 25% of our adjusted net profits, pursuant to the following criteria (see "—Allocation of Net Profits and Distribution of Dividends—Allocation of Net Profits—Mandatory Dividends" for a description of calculation of our adjusted net profits):
  - (i) priority in the receipt of dividends corresponding to at least 3% of the shares' book value; and (ii) right to participate in the profit distribution together with the common shares under equal conditions, after the common shares have received dividends as set forth in item (i) above;
- right to receive dividends in an amount per share of at least 10% higher than the amount per share paid to holders of common shares; or
- rights to be included in a tender offer for the sale of control, with tag along right at a price of at least 80% of the amount paid for the common shares and assured rights of receiving dividends in the same conditions as the common shares.

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

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

## Allocation of Net Profits and Distribution of Dividends

### *Allocation of Net Profits*



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

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

- amounts allocated to the formation of a legal reserve account;

- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years;
- amounts allocated to the formation of a tax incentives reserve account;
- amounts allocated to the statutory reserve, if any;
- amounts allocated to the unrealized profit reserve;
- amounts allocated to the retained profit reserve; and
- reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

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

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

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

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

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

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

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

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

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

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

### *Distribution of Dividends*

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

- our “net profits” earned in a given fiscal year, which is our result of the relevant fiscal year, reduced by: accumulated losses from prior fiscal years; provisions for income tax and social contribution for such fiscal year; and amounts allocated to employees’ and managers’ participation in the results in such fiscal year pursuant to our Profit Sharing Program (*participações dos empregados nos resultados*). Furthermore, our by-laws allow us to implement a profit sharing plan for employees and managers and a stock option plan. The amount to be paid in connection with both plans is set forth by our board of directors and must not exceed an amount equal to 15% of our net profits. Under Brazilian corporate law, this profit sharing may only be paid to managers with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders;
- our net profits accrued in previous fiscal years or in any six-month and/or quarterly interim period of a fiscal year; or
- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, “profit reserves” means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by our shareholders’ resolution or unrealized income reserve account, not including the legal reserve account.

Under our by-laws, the preferred shares are entitled to: (i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R\$0.08 per preferred share; (ii) priority in reimbursement of capital, without premium, in case of liquidation; (iii) participation on equal terms with common shares in the distribution of bonus shares resulting from capitalization of reserves of retained earnings; and (iv) receipt of the mandatory dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.08 per share.

Consequently, under our by-laws, to the extent funds are available, dividends and/or interest on shareholders’ equity are paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares of R\$0.08 per preferred share; and (ii) a dividend that is 10% higher than the mandatory dividend attributed to each common share, including for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.08 per preferred share, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition.

Dividends are generally to be declared at general shareholders’ meetings in accordance with the recommendation of the board of directors. Our board of directors may declare interim dividends to be deducted from the accrued profits recorded in our annual or semiannual financial statements. In addition, our board of directors may pay dividends from the net income based on our unaudited quarterly financial statements. The interim dividends may be declared and debited to the profit reserve amount registered at the most recent annual or semiannual statement. These semiannual or quarterly interim dividends may not exceed the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividends relating to the net profits earned in the

year the interim dividends were paid.

Distributions of interest on our shareholders' equity may constitute an alternative form of payment to shareholders. These payments may qualify as part of the mandatory dividend at their net value. Please see "Item 10E. Taxation—Brazilian Tax Considerations."

Under Brazilian corporate law, dividends must be available to the shareholders within 60 days after the date the dividends were declared to the holder of record on the declaration date. The amount is subject to monetary restatement, in accordance with the recommendation of our board of directors and Brazilian corporate law.

A shareholder has a three-year period following the dividend payment date to claim a dividend in respect of its shares. After the expiration of that period, we are no longer liable for the payment of such dividend.

Our calculation of “net profits” and allocations to reserves for any fiscal year are determined on the basis of financial statements.

Under Brazilian corporate law, however, we are allowed to suspend the distribution of the mandatory dividends for any year in which our management report to our shareholders’ general meeting that the distribution would be incompatible with our financial condition. Such suspension is subject to review by the fiscal council. In addition, in the case of public companies, like us, our management must file a justification for such suspension with the Brazilian Securities Commission within five days from the date of the relevant general shareholders’ meeting. If the mandatory dividend is not paid, the unpaid amount shall be attributed to a special reserve account and, if not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

### ***Conversion of Common Shares into Preferred Shares***

Our by-laws do not provide for the conversion of preferred shares into common shares. In accordance with our by-laws, our shareholders may at any time convert our common shares into preferred shares, provided that such common shares are fully paid and that the total of preferred shares issued does not exceed the limit of two-thirds of all outstanding shares. The requests for conversion must be submitted in writing to our board of executive officers and subsequently ratified at the next board of directors meeting.

### **Interest on Shareholders’ Equity**

We are allowed to pay interest on shareholders’ equity as an alternative form of payment to shareholders, the payment may be treated as a deductible expense for income tax and social contribution purposes. Payments of interest on shareholders’ equity may be made at the discretion of our board of directors, subject to the approval of our shareholders in the shareholders’ meeting. The amount paid to shareholders as interest on shareholders’ equity, net of any withholding tax, may be included as part of the mandatory distribution. This interest is limited to the daily pro rata variation of the TJLP, as determined by the Central Bank from time to time, and cannot exceed, for tax purposes, the greater of (i) 50% of net income (after deduction of social contribution on profits and before taking such distribution and any deduction for corporate income tax) for the year in respect of which the payment is made; or (ii) 50% of the sum of retained profits and profit reserves in the beginning of the period with respect to which the payment is made.

Distribution of interest on shareholders’ equity may also be accounted for as our tax deductible expense, and any payment of interest on preferred shares to shareholders, whether Brazilian residents or not, including holders of ADSs, is subject to Brazilian withholding tax at the rate of 15% or at the rate of 25% if the beneficiary is resident and domiciled in a “tax haven,” a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment. See “Item 10E. Taxation—Brazilian Tax Considerations—Distribution of Interest on Shareholders’ Equity.” To the extent we distribute interest on shareholders’ equity in any year, this distribution is not accounted for as part of the mandatory distribution, a Brazilian withholding tax would apply and we would not be required to make a gross-up.

### **Board of Directors**

According to Brazilian corporate law, our officers and directors are prohibited from voting on, or acting in, matters in which their interests conflict with ours.

Our by-laws provide that the shareholders are responsible for determining the global remuneration of the members of our management bodies. There are no specific provisions regarding the directors' power to vote on their compensation in the absence of an independent quorum.

With respect to the borrowing powers of the board of directors, the board of directors has the power to authorize the borrowing of funds. Other financing arrangements, including bank loans, may be entered into by us upon the joint signatures of (i) two executive officers acting jointly; (ii) one officer indicated by the board of directors and one attorney-in-fact; (iii) two attorneys-in-fact; or (iv) one attorney-in-fact or one officer in exceptional cases. Acts resulting in the acquisition, encumbrance or disposition of assets of the company, as well as the granting of powers of attorney for such purposes must be entered into by us upon the joint signature of two officers indicated by the board of directors, acting jointly with the chief executive officer.

There is no requirement under Brazilian corporate law or our by-laws that directors retire upon reaching a certain age. In addition, our by-laws do not provide for the re-election of directors at staggered intervals.

For a discussion of our board of directors, see “Item 6A. Directors and Senior Management—Board of Directors” and “Item 6C. Board Practices.”

### **Voting Rights**

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

Brazilian corporate law provides that non-voting or restricted voting shares (such as our preferred shares) entitled to fixed or minimum dividends acquire unrestricted voting rights if the company has failed for three consecutive fiscal years (or for any shorter period set forth in a company’s by-laws) to pay any fixed or minimum dividend to which such shares are entitled, and such voting rights exist until the payment thereof is made. Our by-laws do not set forth any shorter period.

In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle the holder thereof to one vote.

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority or preference over the existing preferred shares, would require, in addition to the affirmative vote of shareholders holding the majority of our common shares in a shareholders’ meeting, the prior approval or ratification by holders of a majority of the concerned outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares.

According to Brazilian corporate law, (i) shareholders that jointly hold preferred shares that represent at least 10% of the total capital stock; and (ii) holders of common shares that are not controlling shareholders and represent at least 15% of the total voting stock will have the right to elect one member of the board of directors and an alternate. If non-controlling shareholders do not achieve the aforementioned percentage, they may combine their participation and, if they jointly hold at least 10% of the total capital, they may elect a member of the board of directors and an alternate director. Only shareholders that can prove that they have held the shares for at least three continuous months may exercise such rights.

### **Shareholders’ Meetings**

Under Brazilian corporate law, at an annual general meeting of shareholders, or an extraordinary general meeting, convened and held in accordance with such law and our by-laws, the shareholders are empowered to decide all matters relating to our business purposes.

In accordance with Brazilian corporate law, shareholders voting at our general meeting have the power, among others, to:

- amend our by-laws;
- delist from CVM (to become a private company);
- approve the issuance of convertible debentures and secured debentures;



- elect or dismiss members of the board of directors and of the fiscal council, at any time;
- receive the management's accounts and approval of our financial statements, including the allocation of net profits;

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

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

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review of the accounts and reports;
- appointment and removal of the chairman and the vice-chairman of our board of directors;
- establishment of the global annual compensation of the members of any management body of the Company including fringe benefits;
- approval of or amendment to our annual investment plan;
- approval of any issuance of common or preferred shares in an amount larger than the limit of our authorized capital (400,000,000 shares) and any bonuses, debentures convertible into its shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for its shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which the Company is or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and approve the terms and conditions of their subscription and payment; and
- approval of any delisting from trading on any stock exchange or filings for new listings.

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

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;

- the right to preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under the Brazilian law described under “—Preemptive Rights on Increase in Preferred Share Capital;”
- the right to withdraw from the company in the cases specified under Brazilian corporate law, see “—Withdrawal Rights;” and
- the right to supervise, pursuant to Brazilian corporate law, the management of the company.

### *Quorum*

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

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

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

### ***Notice of our shareholders' meetings***

Notice of our shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, and in one of the following newspapers *Folha de São Paulo*, *Valor Econômico* or *Estado de S. Paulo*. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, the CVM may require that the first notice be published 30 days in advance of the meeting.

### ***Conditions of admission***

Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares that they intend to vote on. A shareholder may be represented at a shareholders' meeting by a proxy

appointed less than a year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. Investment funds must be represented by their manager.

### **Preemptive Rights on Increase in Preferred Share Capital**

Under Brazilian corporate law, each shareholder has a general preemptive right to subscribe for shares in any capital increase, in proportion to its shareholding, except in the event of the grant and exercise of any option to acquire shares of our capital stock under our stock option program. A shareholder has a general preemptive right to subscribe for debentures convertible into our shares and subscription warrants that we may issue. A minimum period of 30 days following the publication of the notice of a capital increase must be respected to exercise this right, except if otherwise determined by the by-laws or the shareholder meeting, and this right is negotiable.

According to Brazilian corporate law, capital increases that do not change the proportion between the existing classes and types of shares entitle the shareholders to exercise their preemptive rights solely with respect to shares of equal class and type as the shares that they already hold. However, if an issuance of shares changes the existing proportion of classes and types of shares, then (i) the shareholders may exercise their preemptive rights with respect to shares of equal class and type as the shares they already hold and; (ii) if necessary to maintain such shareholders' ownership proportional with regard to the total capital stock, they may subscribe for other classes or types of shares.

Our board of directors is authorized to eliminate preemptive rights with respect to the issuance of shares, debentures convertible into shares and subscription warrants, provided that the distribution of such shares is effected (i) through a stock exchange or in a public offering; or (ii) through an exchange of shares in a public offering, the purpose of which is to acquire control of another company.

In the event of a capital increase, which maintains or increases the proportion of capital represented by preferred shares, holders of ADSs may, under the certain circumstances described above, exercise preemptive rights to subscribe newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs may, under the certain circumstances described above, have preemptive rights to subscribe for preferred shares in proportion to their shareholdings, and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see “Item 3D. Risk Factors—Risks Relating to the Preferred Shares and ADSs—You might be unable to exercise preemptive rights with respect to the preferred shares underlying the ADSs.”

### **Withdrawal Rights**

Neither the common shares nor the preferred shares are redeemable. Any of our shareholders who dissent from certain actions taken by our shareholders in a shareholders’ meeting have the right to withdraw from our company and to receive the value of their shares. According to Brazilian corporate law and our by-laws, the withdrawal rights of a dissenting shareholder may be exercised in the event that the shareholders’ meeting approve the following matters:

- i. the creation of preferred shares or the disproportional increase of an existing class of preferred shares relative to the other classes of shares, if the number of preferred shares increases to more than two-thirds of the total of our issued and outstanding shares, as is provided for or authorized by our by-laws;
- ii. the modification of a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or the creation of a new class with greater privileges than the existing classes of preferred shares;
- iii. a reduction in the percentage of mandatory dividends;
- iv. a change in our corporate purposes;
- v. the merger of all of our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company or vice versa;
- vi. our merger into or with another company, including if we are merged into one of our controlling companies, or are consolidated with another company;
- vii. our participation in a group of companies as defined under Brazilian corporate law and subject to the conditions set forth therein;
- viii. a spin-off of our company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a group of companies (as defined under Brazilian corporate law); or the transformation of us into another type of company.

Dissenting shareholders also have a right of withdrawal in the event that the entity resulting from (a) a merger of all of our shares into another company so that we become a wholly-owned subsidiary of such company; (b) a spin-off; or (c) a merger or a consolidation of a Brazilian publicly listed company, fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken.

The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting. In items (i) and (ii) above, the resolution will be effective only upon the prior approval or confirmation within one year by the preferred shareholders, which must be made at a special meeting, in which case the 30-day term is counted from the date the minutes of the special meeting are published. In any event, we are entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of the 30-day term mentioned above, if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

In addition, the rights of withdrawal in items (v), (vi), (vii) and (vii), above, may not be exercised by holders of shares if such shares have (a) liquidity, when such shares are listed in the B3, or part of any other stock exchange index in Brazil or in the world, as defined by the CVM, and (b) dispersion, when the controlling shareholder or other companies under the same control has less than 50% of the shares or class of shares.

Our preferred shares may be withdrawn at their book value, determined on the basis of the last balance sheet approved by the shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs more than sixty days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a special balance sheet that is of a date within sixty days of the shareholders' meeting. In this case, we must immediately pay 80% of the book value of the shares according to the most recent balance sheet approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the relevant shareholders' meeting.

### **Form and Transfer of Shares**

Our shares are in book-entry form, and the transfer of such shares is made by the registrar in our books, by debiting the share account of the transferor and crediting the share account of the transferee. We maintain book entry form services with the Custodian, which performs all of the services of safekeeping and transfer of our shares and related services.

Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to Resolution 373 of CMN, the foreign investor should also seek amendment of the electronic registration to reflect the new ownership through its local agent, if necessary.

The B3 operates a clearing house through CBLC. CBLC is also responsible for settlement and custody of the shares. The payment of dividends, bonuses and other corporate events is managed by *Central Depositária*, which is a department of the B3.

### **Other Dispositions**

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

- i. upon a sale of control, the acquirer is required to launch a tender offer to purchase all minority voting shares at a price equal to at least 80% of the control price;
- ii. if provided for in the by-laws, disputes among our shareholders will be subject to arbitration; our by-laws currently do not provide for arbitration;
- iii. upon the occurrence of a tender offer aiming at delisting our company or through which our controlling shareholders acquire more than one-third of the float shares, the purchase price will be equal to the fair value of the shares taking into account the total number of outstanding shares;
- iv. members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent accountant of the controlling shareholders; and
- v. the chairman of any shareholders' or board of directors' meeting may disregard any vote that is rendered against provisions of any shareholders' agreement if



that shareholders' agreement has been duly filed with us.

**10C. Material Contracts**

On December 4, 2009, we entered into an association agreement with Via Varejo, the Klein Family and Casa Bahia Comercial which was later amended on July 1, 2010. Under the association agreement, (i) Via Varejo had indemnity rights against us and Casa Bahia Comercial for certain claims existing as of July 1, 2010 and (ii) the parties undertook to ascertain the balance of indemnity rights to be paid by one party to another, among other related expenses on November 8, 2016 (i.e. six years after the closing of the transaction).

On July 4, 2017, we entered into an agreement with the original counterparties to the association agreement to (i) ascertain the liabilities for losses and damages incurred by Via Varejo and the Klein family until July 1, 2010; (ii) consolidate the procedures for indemnification of potential losses and damages of Via Varejo and the Klein family before and after July 1, 2010; and (iii) adjust the guarantees provided by GPA on the lease agreements entered into between Via Varejo and the Klein family. Pursuant to the terms of that agreement, it was established that (i) Casa Bahia Comercial would pay R\$ 70.2 million to Via Varejo in instalments over 2017, subject to the SELIC rate, as the outstanding amount of indemnifying losses incurred until November 8, 2016; and (ii) Via Varejo would pay a fee to us on an arm's length basis in connection with corporate guarantees provided by us to secure the lease agreements entered into by Via Varejo and Casa Bahia Comercial. The parties also agreed on the proceedings to be taken to determinate the liability of each party regarding claims occurred on and after November 8, 2016.

For further information regarding actions taken after November 8, 2016, see “Item 7B. Related Party Transactions—Related Party Transactions Relating to Discontinued Operations—Indemnity with the Klein Family” and note 12(v) to our audited consolidated financial statements included elsewhere in this annual report.

#### **10D. Exchange Controls**

The ownership of preferred or common shares by individuals or legal entities domiciled outside Brazil is subject to certain conditions established under Brazilian law.

The right to convert dividend payments and proceeds from the sale of common shares or preferred shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires, among other things, obtaining an electronic registration with the Central Bank.

Resolution No. 1,927 of the CMN provided for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Based on Resolution No. 1,927 of the CMN, we filed an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we received final approval before the offering of the preferred shares underlying the ADSs in May 1997. Since March 30, 2015, Resolution No. 4,373 of the CMN, which replaced Resolution No. 1,927 of the CMN, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers.

An electronic registration, which replaced the amended certificate of registration, was issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary.

This electronic registration was carried out through the Central Bank’s system (*Sistema do Banco Central*), or SISBACEN, a database of information provided by financial institutions to the Central Bank. Pursuant to the electronic registration, the custodian is able to convert dividends and other distributions, with respect to the preferred shares represented by the ADSs, into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges those ADSs for preferred shares, that holder will be entitled to continue to rely on the depositary’s electronic registration for only five business days after that exchange, after which time that holder must seek to obtain its own electronic registration. Thereafter, unless the preferred shares are held pursuant to Resolution No. 4,373 of the CMN, dated as of September 29, 2014, a holder of preferred shares who applies for and obtains a new electronic registration may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon disposal of the preferred shares, or distributions with respect thereto, and generally will be subject to a less favorable tax treatment on the proceeds arising from any sale of the preferred shares. In addition, if the foreign investor is domiciled in a Low or Nil Taxation Jurisdiction (as defined under “Item 10E. Taxation—Brazilian Tax Considerations”), the investor will also be subject to a less favorable tax treatment, even if its registry before the Central Bank is in accordance with the provisions of Resolution No. 4,373. See “Item 10E. Taxation—Brazilian Tax Considerations.”

Under Resolution No. 4,373, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that the requirements described below are fulfilled. In accordance with Resolution 4,373, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities domiciled or headquartered outside Brazil.

Pursuant to Resolution No. 4,373, foreign investors must fulfill the following requirements before engaging in financial transactions:

- i. appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;

- ii. appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM;
- iii. complete the appropriate foreign investor registration form;
- iv. register as a foreign investor with the CVM; and  
  
register the foreign investment with the Central Bank.
- v.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 4,373 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out on stock exchanges or through organized over-the-counter markets licensed by the CVM, except for subscription, bonification, conversion of debentures into shares, securities indexes, purchase and sale of investment funds quotas and, if permitted by the CVM, going private transactions, canceling or suspension of trading, public offering of securities etc., as detailed by CVM Rule No. 560. Moreover, the offshore transfer or assignment of the securities or other financial assets held by foreign investors pursuant to Resolution No. 4,373 is prohibited, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Investors under Resolution No. 4,373 who are not resident in a tax haven jurisdiction (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See “Item 10E. Taxation—Brazilian Tax Considerations.”

## **10E. Taxation**

This summary contains a description of the main Brazilian and U.S. federal income tax consequences applicable to the purchase, ownership and disposal of preferred shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to these matters based upon the particular circumstances of a holder.

This summary is based upon federal tax laws of Brazil and the federal income tax laws of the United States in effect as of the date hereof, which are subject to change and differing interpretations. This summary is also based upon the representations of the depositary and on the assumption that each obligation in the Third Amended and Restated Deposit Agreement, dated as of December 7, 2015, among us, JP Morgan Chase Bank, N.A., as the depositary and the owners from time to time of ADRs, and any related documents, will be performed in accordance with its terms.

Although there is presently no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a tax treaty will enter into force or how such treaty would affect a U.S. holder of preferred shares or ADSs.

### **Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposal of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Brazilian Holder”). It is based on Brazilian law as currently in effect, which is subject to change, and to differing interpretations. Any change in this law may change the consequences described below. Each Non-Brazilian Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in preferred

shares or ADSs.

***Taxation of Dividends***

Dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us to the depositary in respect of preferred shares underlying ADS or to a Non-Brazilian Holder in respect of preferred shares, are exempt from withholding income tax.

Law No. 12,973/14, dated May 13, 2014, or Law 12,973, also modified the tax treatment for the income derived by foreign subsidiaries of Brazilian companies. As of January 1, 2015, income earned by the foreign subsidiaries became subject to taxation in Brazil on a year-end basis regardless of the distribution of such income in the form of dividends, or capital gains or any other modality of disposal of such income.

98

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Law 12,973 also authorized foreign subsidiaries of Brazilian companies to obtain a limited percentage of tax credits derived from income these companies obtain abroad. This benefit is only granted to foreign subsidiaries with activities on certain sectors of the economy and, in any case, will only be applicable until 2022.

### ***Distribution of Interest on Shareholders' Equity***

In accordance with the Law No. 9,249, dated December 26, 1995, as amended, Brazilian corporations may make payments to shareholders characterized as distributions of interest on shareholder's equity as an alternative to making ordinary dividend distributions. Such interest is calculated by reference to the TJLP, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- i. 50% of the current net profits (before the distribution and before any deductions for calculating income taxes into account), as measured in accordance with generally accepted accounting principles in Brazil for the period in respect of which the payment is made; or
- ii. 50% of the balance of retained earnings (before computing the profits of the current year) as measured in accordance with generally accepted accounting principles in Brazil.

Payments of interest on shareholder's equity to a Non-Brazilian Holder may be deducted for purposes of calculating Brazilian corporate income tax and social contribution on net profits provided that the limits described above are observed. Nevertheless, such payments will be subject to withholding income tax at the rate of 15%, or 25% if: (i) the Non-Brazilian Holder is domiciled in a country or location that does not impose income tax or where the maximum income tax rate is lower than 20%; or (ii) where local legislation imposes restrictions on the disclosure (a) of the shareholding composition, (b) of the ownership of the investment or (c) of the identity of the effective beneficiary of the income attributed to non-residents ("Low or Nil Taxation Jurisdiction"). These payments may be included, at their net value, as part of any mandatory dividend. To the extent that such payments are accounted for as part of the mandatory dividend, under current Brazilian law, we are obliged to distribute to shareholders an additional amount sufficient to ensure that the net amount received by the shareholders, after payment by us of applicable Brazilian withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend. The distribution of interest on shareholders' equity must be proposed by our board of directors and subject to subsequent ratification by the shareholders at the shareholders' meeting.

### ***Taxation of Gains***

According to Law No. 10,833, dated December 29, 2003, or Law 10,833, capital gains earned on the disposal of assets located in Brazil by a Non-Brazilian Holder, whether to another non-Brazilian resident or to a Brazilian resident are subject to taxation in Brazil. In this sense, on the disposal of the preferred shares, as they are assets located in Brazil, the Non-Brazilian Holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the disposal is conducted in Brazil or abroad and by a Brazilian resident or not.

Regarding the ADSs, although the matter is not free from doubt, the gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident are arguably not taxed in Brazil, based on the argument that ADSs would not constitute assets located in Brazil for purposes of Law 10,833. However, we cannot assure you of how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident. As a result, gains on a disposal of ADSs by a Non-Brazilian Holder to a Brazilian resident, or even to a non-Brazilian resident in the event

that Brazilian courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described below.

Although there is no clear regulatory guidance, the withdrawal of ADSs in exchange for preferred shares should not be subject to Brazilian income tax, since as described above, ADSs would not constitute assets located in Brazil for purposes of Law 10,833. With reference to the deposit of preferred shares in exchange for ADSs, the difference between the acquisition cost of the preferred shares and the market price of the preferred shares may be subject to Brazilian income tax. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case that a Non-Brazilian Holder is a 4,373 Holder (as defined below) and is not a resident in a Low or Nil Taxation Jurisdiction.

Under Brazilian law, income tax rules on such gains can vary, depending on the domicile of the Non-Brazilian Holder, the type of registration of the investment by the Non-Brazilian holder before the Central Bank (“portfolio investment” made under Resolution No. 4,373, dated September 29, 2014, or “foreign direct investment” made under Law No. 4,131, dated September 3, 1962) and how the disposal is carried out, as described below.

Capital gains assessed by a Non-Brazilian Holder on a disposal of preferred shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

- i. exempt from income tax when assessed by a Non-Brazilian Holder that (a) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 4,373, of September 29, 2014, (“4,373 Holder”); and (b) is not a resident in a Low or Nil Taxation Jurisdiction; or
- ii. subject to income tax in any other case, including a case of gains assessed by a Non Brazilian Holder that is not a 4,373 Holder, or is a resident in a Low or Nil Taxation Jurisdiction.

Any other gains assessed on a disposal of the preferred shares that is not carried out on a Brazilian stock exchange are regularly subject to income tax. In that sense, Law No. 13,259 of March 17, 2016, established that, as of January 2017, capital gains derived by Brazilian individuals and Non-Brazilian Holders (Normative Ruling No. 1,732/17) are subject to progressive taxation and the rate may vary from 15% up to 22.5% depending on the portion of gains. However, for residents in a Low or Nil Taxation Jurisdiction, the gain is still subject to income tax at the fixed rate of 25%.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by a Non-Brazilian Holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the progressive rate from 15% to 22.5% and 25% for residents in a Low or Nil Taxation Jurisdiction.

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

There is no assurance that the current preferential treatment for a Non-Brazilian Holder of ADSs and 4,373 Holder of preferred shares will continue or that it will not be changed in the future.

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

#### ***Discussion on Low or Nil Taxation Jurisdictions***

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

On June 24, 2008, Law No. 11,727, or Law 11,727, added the fourth paragraph to article 24 of Law No. 9,430, dated December 27, 1996, or Law 9,430, and introduced a new concept of “Privileged Tax Regime.” According to the enacted

article 24-A of Law 9,430 the tax regime is considered as such if it (i) does not tax income or taxes it at a maximum rate lower than 20%; or (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; or (iii) does not tax or taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.



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

In principle, the best interpretation of Law No. 11,727 leads us to conclude that the concept of “Privileged Tax Regime” should be solely applied for purposes of transfer pricing rules in export and import transactions (Law No. 9,430) and thin capitalization rules (Law No. 12,249, dated June 11, 2010).

Thus, to income and gains realized by foreign investors that invest in the Brazilian financial and capital markets (4,373 Holders), the relevant concept is the one that makes reference to “countries that tax income at a rate lower than 20%,” as provided by article 7 of Law No. 9,959, dated December 23, 1997 (i.e. only Low or Nil Taxation Jurisdiction in its strict sense) and the countries listed in the article one of the Normative Ruling No. 1,037/10.

### ***Other Brazilian Taxes***

There are no Brazilian federal inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of preferred shares or ADSs by a Non-Brazilian Holder. Gift and inheritance taxes, however, may be levied by some states on gifts made to or inheritances bestowed by the Non-Brazilian Holder on individuals or entities resident or domiciled within such states in Brazil. There is no Brazilian stamp, issue, registration or similar taxes or duties payable by a Non-Brazilian Holder of preferred shares or ADSs.

### ***Taxation of Foreign Exchange Transactions (“IOF/Exchange”)***

Pursuant to Decree No. 6,306/07, the conversion into foreign currency or the conversion into Brazilian currency of the proceeds received or remitted by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment by a Non-Brazilian Holder in the preferred shares and ADSs, may be subject to the Tax on Foreign Exchange Transactions, or IOF/Exchange. Currently, applicable rate for almost all foreign currency exchange transactions is 0.38%. However, foreign currency exchange transactions carried out for the inflow of funds in Brazil for investment in the Brazilian financial and capital market made by a foreign investor (including a Non-Brazilian Holder, as applicable) are subject to IOF/Exchange at 0% rate. The IOF/Exchange rate will be also 0% for the outflow of resources from Brazil related to these type of investments, including payments of dividends and interest on shareholders’ equity and the repatriation of funds invested in the Brazilian market. Furthermore, the IOF/Exchange is currently levied at a 0% rate on the withdrawal of ADSs into shares held by foreign investors under the 4,373 Holders regime. In any case, the Brazilian Government is permitted to increase at any time the rate to a maximum of 25%, but only in relation to future transactions.

### ***Tax on Bonds and Securities Transactions (“IOF/Bonds”)***

Pursuant to Decree 6,306/07, the Tax on Bonds and Securities Transactions (“IOF/Bonds”) may be imposed on any transactions involving bonds and securities even if the transactions are performed on a Brazilian stock exchange. The rate of this tax for transactions involving preferred shares is currently 0%, but the Brazilian government may increase such rate up to 1.5% per day, only with respect to future transactions. Currently, the issuance of depositary receipts traded outside of Brazil which underlying shares are issued by a Brazilian company and listed on a Brazilian stock exchange are also subject to IOF/Bonds at 0% rate. Any increase in the rate would not apply retroactively.

### **U.S. Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relating to the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. holder (as defined below) holding such preferred shares or ADSs as capital assets for U.S. federal income tax purposes (generally, property held for investment). This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the “IRS”) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any implications under state, local or non-U.S. tax law, or any aspect of U.S. federal tax law (such as the estate tax, gift tax or the Medicare tax on net investment income) other than U.S. federal income taxation.

This summary does not purport to address all of the material U.S. federal income tax consequences that may be relevant to the holders of the preferred shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for the alternative minimum tax, partnerships and other pass-through entities, U.S. expatriates, investors that own or are treated as owning 10% or more of our voting stock, investors that hold the preferred shares or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, certain U.S. holders who file applicable financial statements required to recognize income when the associated revenue is reflected on such financial statements and U.S. holders whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used below, a “U.S. holder” is a beneficial owner of preferred shares or ADSs that is, for U.S. federal income tax purposes:

- i. an individual citizen or resident of the United States;
- ii. a corporation (or an entity taxable as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- iii. an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- iv. a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or (b) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

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

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

### ***Taxation of Distributions***

In general, distributions with respect to the preferred shares or ADSs (which likely include distributions of interest on shareholders’ equity, as described above under “—Brazilian Tax Considerations—Distribution of Interest on Shareholders’ Equity”) will, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our current and accumulated earnings and profits, as so determined under U.S. federal income tax principles, the excess will be treated first as a non-taxable return of capital to the extent of the U.S. holder’s tax basis in the preferred shares or ADSs, and thereafter as capital gain. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. holders should assume that all distributions are made out of earnings and profits and constitute dividend income. As used

below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

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

Under current law, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a reduced rate if the dividends represent “qualified dividend income.” Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States; (ii) the U.S. holder meets the holding period requirement for the ADSs (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date; and (iii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The ADSs are listed on the New York Stock Exchange, and should qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Based on our audited financial statements as well as relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2017 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, subject to the discussion below, we do not currently expect to become a PFIC for our 2018 taxable year. However, as discussed above in the “Explanatory Note” on page 4 of this annual report and in note 32 to our audited consolidated financial statements, on November 23, 2016, our board of directors approved the sale of our shareholdings in Via Varejo, but the sale has not yet been conducted. Depending on the nature and amount of proceeds realized upon the sale of Via Varejo and our use (including timing of use) of such proceeds, it is possible that this sale could cause us (and we cannot assure you that this sale will not cause us) to become a PFIC for U.S. federal income tax purposes with respect to the taxable year in which such a sale occurs. Further, whether or not such a sale occurs, because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future) tax year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares (to the extent not represented by ADSs) will be treated as qualified dividend income, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced that it continues to study and promulgate additional or revised rules pursuant to which holders of ADSs, or preferred stock and intermediaries through whom such securities are held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Dividends paid by us generally will constitute foreign source “passive category” income and will be subject to various other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian income tax imposed or withheld on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder’s U.S. federal income tax liability (or at a U.S. holder’s election if it does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. holder’s taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian income tax on dividends could be affected by future actions that may be taken by the IRS. The rules with respect to the U.S. foreign tax credit are complex, and U.S. holders of preferred shares or ADSs are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.



### ***Taxation of Capital Gains***

Deposits and withdrawals of preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

In general, gain or loss, if any, realized by a U.S. holder upon a sale, exchange or other taxable disposition of preferred shares or ADSs, will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition and such U.S. holder's adjusted tax basis in the preferred shares or ADSs. Such capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other taxable disposition the preferred shares or ADSs have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gain of certain U.S. holders (including individuals) is eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations under the Code.

Gain, if any, realized by a U.S. holder on the sale, exchange or other taxable disposition of preferred shares or ADSs generally will be treated as U.S. source gain for U.S. foreign tax credit purposes. Consequently, if a Brazilian income tax is imposed on the sale or disposition of preferred shares, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian income tax. Alternatively, a U.S. holder may take a deduction for all foreign income taxes paid during the taxable year if it does not elect to claim a foreign tax credit for any foreign taxes paid or accrued during the taxable year. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

### ***Passive Foreign Investment Company Rules***

Based upon our current and projected income, assets and activities, we do not expect the preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year. However, as described above under “—U.S. Federal Income Tax Considerations—Taxation of Distributions,” while we do not currently expect to become a PFIC for our 2018 taxable year, depending on the nature and amount of proceeds realized upon the sale of Via Varejo and our use (including timing of use) of such proceeds, it is possible that this sale could cause us to become a PFIC for U.S. federal income tax purposes with respect to the taxable year in which such a sale occurs. Further, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income, assets and the nature of our business, as well as the income, assets and business of entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or “excess distributions” allocable to prior years in the U.S. holder's holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our preferred shares or ADSs would not be “qualified dividend income” eligible for preferential rates of U.S. federal income taxation.

A U.S. Holder who owns preferred shares or ADSs during any taxable year in which we are a PFIC in excess of certain *de minimis* amounts and fails to qualify for certain other exemptions would be required to file IRS Form 8621. In addition, under certain circumstances, the temporary regulations also require a “United States person” (as such term is defined in the Code) that owns an interest in a PFIC as an indirect shareholder through one or more United States persons to file Form 8621 for any taxable year during which such indirect shareholder is treated as receiving an excess distribution in connection with the ownership or disposition of such interest, or reports income pursuant to a mark-to-market election. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules to the preferred shares or ADSs.

***U.S. Information Reporting and Backup Withholding***

A U.S. holder of preferred shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends paid by our company or the proceeds of a sale, exchange or other taxable disposition of preferred shares or ADSs, unless such U.S. holder (i) is an exempt recipient and demonstrates this fact when so required; or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is a U.S. person and that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder's U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.



**“Specified Foreign Financial Asset” Reporting**

Owners of “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 (and in some circumstances, a higher threshold), may be required to file an information report with respect to such assets with their U.S. federal income tax returns. “Specified foreign financial assets” generally include any financial accounts maintained by foreign financial institutions as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons; (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties; and (iii) interests in foreign entities.

Prospective purchasers should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of preferred shares or ADSs, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction, including estate, gift, and inheritance laws.

**10F. Dividends and Paying Agents**

Not applicable.

**10G. Statement by Experts**

Not applicable.

**10H. Documents on Display**

We are subject to the information requirements of the Exchange Act, pursuant to which we file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549, and at the Commission’s Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. You may also inspect these reports and other information at the offices of the New York Stock Exchange Inc., 120 Broad Street, New York, New York 10005, on which our ADSs are listed.

We also file financial statements and other periodic reports with the CVM, including the *Formulário de Referência*, which is an annual report that is prepared and filed in accordance with CVM Instruction No. 480/09 and can be accessed through [www.cvm.gov.br](http://www.cvm.gov.br). Information from that website is not incorporated by reference into this document.

Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our headquarters at: Avenida Brigadeiro Luiz Antonio, 3142, São Paulo, SP, Brazil.

**10I. Subsidiary Information**

Not required.

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

**Market Risk**

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See note 18 to our audited consolidated financial statements included elsewhere in this annual report for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk.

Starting in 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial part of our U.S. dollar-denominated liabilities to obligations denominated in *reais*. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we are effectively then liable for amounts in *reais* and interest at a percentage of the CDI rate. Amounts are normally consummated with the same financial institutions and for the same maturity periods. See “Item 5B. Liquidity and Capital Resources.”

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. Our realized and unrealized gains and losses on these contracts are included within “financial income” and “financial expense,” respectively.

We use interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements.

We have a policy of entering into contracts only with parties that have high credit ratings. The counter-parties to these contracts are major financial institutions. We do not anticipate a credit loss from counter-party non performance.

### **Interest Rate Risk**

We are exposed to interest rate volatility with regard to our cash and cash equivalents and floating rate debt. For cash and cash equivalents, we generally swap the fixed interest rate for a floating rate, the CDI rate. The interest rate in our cash and cash equivalents denominated in *reais* is based on the CDI rate, the benchmark interest rate set by the interbank market on a daily basis.

We are exposed to interest rate volatility with regard to future issuances of debt, foreign currency fluctuations and existing issuances of variable rate debt. We manage our debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, and using derivative financial instruments. Among other facilities, we also use bank loans to meet our financing requirements, originally denominated in U.S. dollars and swapped to obligations in *reais* accruing interest based on the CDI rate.

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2017.

**Expected Maturity Date**  
**As of December 31, 2017**

	2018	2019	2020	2021	2022	There-after	Total	Borrowing Cost	Fair Value	Annual Average Interest Rate
	(in millions of R\$)									
<b>Assets:</b>										
Cash and banks in <i>reais</i> <sup>(1)</sup>	464	-	-	-	-	-	464	-	464	
Cash equivalents denominated in <i>reais</i>	3,328	-	-	-	-	-	3,328	-	3,328	98.07% of CDI
Total cash and cash equivalents	3,792	-	-	-	-	-	3,792	-	3,792	
<b>Liabilities:</b>										
Loans and financing										
Floating rate, denominated in U.S. dollars <sup>(2)</sup>	210	333	156	-	-	-	699	-	699	(104.5% of CDI) + (2.57% per year)
Floating rate, denominated in euros <sup>(3)</sup>	220	-	-	-	-	-	220	(1)	219	(100.5% of CDI) + (1.99% per year)
Floating rate, denominated in <i>reais</i>	283	29	17	13	13	36	391	(4)	385	(103.81% of CDI) + (TR + 9.98% per year)
Floating rate, denominated in <i>reais</i>	8	8	8	9	9	3	45	-	32	(97.12% of CDI) + (1.32% of IGPD)
Floating rate, denominated in <i>reais</i>	51	59	37	18	2	27	194	-	195	(23.87% per year)
Total loans and financing	772	429	218	40	24	66	1,549	(5)	1,530	
Debentures floating rate, denominated in <i>reais</i> ..	489	1,463	1,080	-	-	-	3,032	(17)	3,003	(99.84% of CDI)
<b>Total liabilities</b>	<b>1,261</b>	<b>1,892</b>	<b>1,298</b>	<b>40</b>	<b>24</b>	<b>66</b>	<b>4,581</b>	<b>(22)</b>	<b>4,533</b>	

(1) Cash and banks include 68 million U.S. dollars.

(2) Originally U.S. dollar-denominated and swapped to CDI.

(3) Originally euro-denominated and swapped to CDI.

The following table presents historical data for interest rates relevant to our financial instrument in the last three years:

**As of December 31,**

	2015	2016	2017
CDI <sup>(1)</sup>	13.2%	14.0%	9.9%
TJLP <sup>(2)</sup>	7.0%	7.5%	7.0%

(1) Annualized rate at the end of each period.

(2) Reference rate at the end of each period.

We have not experienced, and we do not expect to experience, difficulty in obtaining financing or refinancing existing debt. See “Item 5B. Liquidity and Capital Resources” for a discussion of our credit agreements.

### Exchange Rate Risk

We are exposed to fluctuations in foreign currency cash flows related to certain short-term and long-term debt payments. We are principally exposed to fluctuations of the exchange rate with the U.S. dollar and euros.

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, 2012, 2013 and 2014 the *real* depreciated against the U.S. dollar and reached at year end 2014 R\$2.656 per US\$1.00. During 2015 the *real* further depreciated against the U.S. dollar and on December 31, 2015, the exchange rate was R\$3.905 per US\$1.00. During 2016, the *real* appreciated against the U.S. dollar and on December 31, 2016, the exchange rate was R\$3.2591 per US\$1.00. During 2017, the *real* appreciated against the U.S. dollar and on December 31, 2017, the exchange rate was R\$3.308 per US\$1.00. On April 15, 2018, the *real*/U.S. dollar exchange rate was R\$3.411 per US\$1.00.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar and euro. Foreign currency-denominated liabilities as of December 31, 2017, included debt denominated mainly in U.S. dollars. Our net foreign currency exposure (U.S. dollar and/or euro-denominated debt less our cross-currency interest rate swaps in our U.S. dollar-denominated debt) was R\$7 million as of December 31, 2017, compared to R\$177 million as of December 31, 2016 and R\$722 million as of December 31, 2015. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially hedge our exposure arising from our U.S. dollar denominated debt.

The table below provides information on our debt outstanding as of December 31, 2017:

	Expected Maturity Date						Total	Fair Value	
	2018	2019	2020	2021	2022	Thereafter			
	(in millions of R\$)								
Loans and financing									
U.S. dollars <sup>(1)</sup>	210	333	156	-	-	-	699	699	
Euros <sup>(2)</sup>	219	-	-	-	-	-	219	219	
<i>Reais</i>	341	95	62	40	24	65	626	612	
<b>Total loans and financing</b>	<b>770</b>	<b>428</b>	<b>218</b>	<b>40</b>	<b>24</b>	<b>65</b>	<b>1,544</b>	<b>1,530</b>	
Debentures and promissory note									
<i>Reais</i>	481	1,456	1,079	-	-	-	3,016	3,003	
<b>Total Debentures</b>	<b>481</b>	<b>1,456</b>	<b>1,079</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,016</b>	<b>3,003</b>	

(1) Originally U.S. dollar-denominated and swapped to CDI.

(2) Originally euro-denominated and swapped to CDI.

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar and/or euro-denominated short-term and long-term debt for Brazilian *real*-denominated floating rate debt, based on the CDI rate variation. See note 18 to our audited consolidated financial statements included elsewhere in this annual report. As of December 31, 2017, the originally U.S. dollar and/or euro-denominated debt of R\$918 million and R\$1,710 million as of December 31, 2016, which were covered by floating rate swaps in *reais*, based on the CDI rate, has been treated on a combined basis as if these loans had been originally denominated in *reais* and accrued CDI. In addition, the swap agreements do not provide for collateral.

The table below provides information about our cross-currency interest rate swaps:

	Expected Maturity Date						Fair Value of Assets (Liabilities)	Average Paying Rate in <i>reais</i>	Average Receiving Rate
	2018	2019	2020	2021	2022	Thereafter			
Cross currency and interest rate swap contracts notional									

amount

U.S. dollars to <i>reais</i>	168	330	165	-	-	-	663	(100.5% 663over CDI)	(USD + 2.57% per year)
Euros to <i>reais</i>	200	-	-	-	-	-	200	(104.70% 200over CDI)	Euro + 1.99% per year)

108

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

**12A. American Depositary Shares**

In the United States, our preferred shares trade in the form of ADS. The ADSs commenced trading on the NYSE on May 29, 1997.

We do not treat ADR holders as our shareholders and ADR holders have no shareholder rights. Brazilian law governs shareholder rights. The depositary is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights.

**Fees and Expenses**

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

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

- |   |   |
|---|---|
| <p>US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p>   | <ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> </ul>   |
| <p>US\$.05 (or less) per ADS</p>  | <ul style="list-style-type: none"> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> </ul>   |
| <p>US\$.05 (or less) per ADS per calendar year (or portion thereof)</p>   | <ul style="list-style-type: none"> <li>• Any cash distribution to ADS registered Holders</li> <li>• Services performed by the depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision)</li> </ul> |
| <p>A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs</p>                                  | <ul style="list-style-type: none"> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders</li> </ul>   |
| <p>Registration or transfer fees</p>  | <ul style="list-style-type: none"> <li>• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares</li> </ul>  |
| <p>Expenses of the depositary</p>   | <ul style="list-style-type: none"> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li> </ul>   |
| <p>Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</p> | <ul style="list-style-type: none"> <li>• Converting foreign currency to U.S. dollars</li> <li>• As necessary</li> </ul>   |



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

109

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### **Fees Incurred Since January 1, 2015**

On December 7, 2015, JPMorgan Chase Bank, N.A. replaced The Bank of New York Mellon as the depository bank for our ADS program pursuant to the third amended and restated deposit agreement entered into by and among CBD, JP Morgan Chase Bank, N.A., as the depository bank, and the ADR holders.

From January 1, 2017, until December 7, 2017, the Company received from J.P. Morgan Chase Bank N.A., as the depository bank of our ADS program during that period, the amount of US\$3.16 million for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of reimbursement of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

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

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

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

No matters to report.

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

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act, is recorded, processed, summarized and reported within the specified time periods. The Company's chief executive officer and chief financial officer evaluated the effectiveness, as of December 31, 2017, of the Company's "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2017, are effective at the reasonable assurance.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by IASB.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that the receipts and expenditures of the Company are being made only in accordance with appropriate authorization of management and the board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013). Based on this assessment, management believes that as of December 31, 2017, our internal control over financial reporting was effective.

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report appearing on page F-2 of this annual report.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(d) under the Exchange Act) during the year ended December 31, 2017, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16. [RESERVED]**

#### **16A. Audit Committee Financial Expert**

Our board of directors has determined that Luiz Nelson Guedes de Carvalho, a member of our audit committee, is an audit committee financial expert, as defined by current SEC rules and meets the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see "Item 6C. Board Practices—Committees of the Board of Directors—Audit Committee."

#### **16B. Code of Ethics**

In 2000, our board of directors adopted a code of ethics for our directors, officers and employees, including our chief executive officer and chief financial officer, which was amended by our board of directors on July 27, 2016. This Code of Ethics of the Company complies with item 5.8 of the New Listing Regulation for Corporate Governance Level 1 issued by the B3 and is available at our website [www.gpari.com.br](http://www.gpari.com.br) and at [www.cvm.gov.br](http://www.cvm.gov.br). We intend to make publicly available on this website any amendments to our code of ethics. Information from that website is not incorporated by reference into this document.

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

Ernst & Young Auditores Independentes acted as our independent registered public accounting firm for the fiscal years ended December 31, 2017 and Deloitte Touche Tohmatsu Auditores Independentes acted as our independent registered public accounting firm for the fiscal years ended December 31, 2015 and 2016. The chart below sets forth the total amount billed to us by our independent accountants for services performed in 2015, 2016 and 2017, including out-of-pocket expenses, and a breakdown of these amounts by category of service:

	<b>2015</b>	<b>2016</b>	<b>2017</b>
--	-------------	-------------	-------------

	<b>(in millions of R\$)</b>		
Audit Fees	8.2	10.2	7.8
Audit-Related Fees	-	0.5	-
Tax Fees	-	-	0.9
All Other Fees	-	-	-
<b>Total</b>	<b>8.2</b>	<b>10.7</b>	<b>8.7</b>

---

111

### **Audit Fees**

Audit fees are fees for: (i) (a) the audit of our consolidated financial statements for the year of 2017, (b) the reviews of our quarterly financial information for the year of 2017, and (c) the audit of our internal control over financial reporting for 2017, which were billed in 2017; and (ii) (a) the audit of the consolidated financial statements for the year of 2016, and (b) the audit of the internal control over financial reporting of our indirect subsidiary Cnova Brazil, which were billed in 2017.

### **Audit-Related Fees**

Audit-related fees were comprised of assurance and related services that are related to the performance of the audit or review of our consolidated financial statements, including due diligence related to mergers and acquisitions, audit in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, consultations concerning financial accounting and reporting standards and tax compliance review.

### **Pre-Approval Policies and Procedures**

Our audit committee has the responsibility of approving all audit, audit-related, tax and other services provided by our independent accountants. Any services provided by our independent accountants that are not specifically included within the scope of the audit must be pre-approved by our audit committee prior to any engagement. Our audit committee is permitted to approve certain audit and tax services, pursuant to a *de minimis* exception.

In the beginning of 2014 and in 2013, these functions were performed by our fiscal council, which was then installed. None of the fees paid to our independent accountant were approved pursuant to the *de minimis* exception.

### **16D. Exemptions from the Listing Standards for Audit Committees**

Under the listed company audit committee rules of the NYSE and the SEC, effective July 31, 2005, we are required to comply with Exchange Act Rule 10A-3, which mandates that we either establish an audit committee composed of members of the board of directors that meets specified requirements or rely on an exemption under Exchange Act Rule 10A-3(c)(3), which is the case with our statutory audit committee. In our assessment, in light of the composition of our statutory audit committee, our reliance on the exemption does not materially adversely affect the ability of our statutory audit committee to act independently and to satisfy the other requirements of Exchange Act Rule 10A-3. For a further discussion of our statutory audit committee and the audit committee exemption, see “Item 6C. Board Practices—Audit Committee, Stock Option Plan Management Committee and Fiscal Council—Audit Committee.”

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

None.

### **16F. Change in Registrant’s Certifying Accountant**

Not applicable.

### **16G. Corporate Governance**

#### **Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we must disclose any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards. As a Brazilian company listed on the B3, we are required to comply with the corporate governance standards set forth in Brazilian corporate law and the rules of CVM. The following is a summary of those differences.

112

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### **Independence of Directors and Independence Tests**

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence.

Brazilian corporate law requires that our directors be elected by our shareholders at a general shareholders' meeting. Currently our board of directors consists of 11 members selected by our shareholders, consisting of three representatives of the Casino Group, three representatives of Éxito Group, one representative of the Company's management and four external and independent directors of Éxito Group, one representative of the Company's management and four external and independent directors.

### ***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected from management. There is no requirement that non-management directors meet regularly without management. As a result, the non-management directors on our board do not typically meet in executive session.

### ***Nominating/Corporate Governance Committee***

NYSE rules require that listed companies have a nominating/corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company.

Although we are not required under applicable Brazilian law, we have created a Corporate Governance Committee and a Human Resources and Compensation Committee to improve our corporate governance practices. The Human Resources and Compensation Committee is responsible for examining candidates and providing guidelines for the appointment of members for our board of directors, special committees and executive officers. For further information on our Human Resources and Compensation Committee, see "Item 6C. Board Practices—Committees of the Board of Directors—Human Resources and Compensation Committee."

### ***People Management Policies Committee***

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive compensation and equity-based plans.



Under Brazilian corporate law, the total amount available for compensation of our directors and executive officers and for profit sharing payments to our executive officers is established by our shareholders at the annual general meeting. On the other hand, the board of directors, through the Committee of Human Resources and Compensation, is responsible for recommending to the shareholders the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such recommendation, the board, through the Committee of Human Resources and Compensation, reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation. For further information on our Human Resources and Compensation Committee, see “Item 6C. Board Practices—Committees of the Board of Directors—Human Resources and Compensation Committee.”

### ***Audit Committee and Audit Committee Additional Requirements***

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

As a foreign private issuer, we chose to rely on an exemption under Exchange Act Rule 10A-3(c)(3). For a further discussion of our statutory audit committee and the audit committee exemption, see "Item 6C. Board Practices—Audit Committee, Stock Option Plan Management Committee and Fiscal Council—Audit Committee."

### ***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under Brazilian corporate law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval as well. Our board of directors, in its turn, is responsible for voting on the issuance of new equity in connection with our existing stock option plans, provided that the limit of our authorized capital is respected.

### ***Corporate Governance Guidelines***

Under NYSE listing standards, a listed U.S. company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We have adopted and observed corporate governance guidelines in accordance with Brazilian legislation, including a disclosure policy which requires, among other things, the disclosure of our corporate governance guidelines, material facts and annual financial reports. In addition, we have adopted and observed a policy on business conduct and ethics.

### ***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Brazilian law has a similar requirement.

We implemented a code of ethics in 2000, as amended in 2016, to regulate our employees' conduct with us and our customers, suppliers, competitors, public agents and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act, NYSE rules and applicable Brazilian law, we implemented rules applicable to our managers' conduct in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data in 2016. For more information about our code of ethics, see "Item 16B. Code of Ethics."

### ***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the fiscal council or the audit committee, as the case may be, with ongoing assessments of the company's risk management processes and system of internal control. Our internal audit department and our internal control department are responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal control over financial reporting. The internal audit department reports to our audit committee as

well as to our chief executive officer. Our audit committee and chief executive officer, in turn, report to our board of directors.

### *Sarbanes Oxley Act of 2002*

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

#### **16H. Mine Safety Disclosure**

Not applicable.

## **PART II**

### **ITEM 17. FINANCIAL STATEMENTS**

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

### **ITEM 18. FINANCIAL STATEMENTS**

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

### **ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
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<u>1.1</u>	<u>English translation of our <i>Estatuto Social</i> (by-laws), as amended.*</u>
<u>2.(a)</u>	<u>Form of Amended Deposit Agreement, among us, JPMorgan Chase Bank, N.A., as depository, and each Owner and Beneficial Owner from time to time of ADRs issued thereunder, including the form of American Depositary Receipt.<sup>(1)</sup></u>
<u>4.(b)(1)</u>	<u>Shareholders' Agreement dated July 1, 2010, among Companhia Brasileira de Distribuição, Samuel Klein, Michael Klein, Eva Lea Klein, Via Varejo S.A. as intervening party, Casa Bahia Comercial Ltda. and Wilkes Participações S.A.<sup>(2)</sup></u>
<u>4.(b)(2)</u>	<u>Cost Sharing Agreement, dated August 1, 2014, by and among Casino Guichard Perrachon S.A., Sudaco Participações Limitada and Companhia Brasileira de Distribuição.<sup>(3)</sup></u>
<u>4.(b)(3)</u>	<u>First Amendment to the Cost Sharing Agreement, dated October 30, 2014, by and among Casino Guichard Perrachon S.A., Sudaco Participações Limitada, Companhia Brasileira de Distribuição and Euris.<sup>(3)</sup></u>
<u>4.(b)(4)</u>	<u>Framework and IPO Agreement, dated July 11, 2014, among Casino, Guichard-Perrachon S.A., Companhia Brasileira de Distribuição, Via Varejo S.A., Nova Pontocom Comércio Eletrônico S.A., Bruxelas Empreendimentos e Participações S.A. and CNova N.V.<sup>(4)</sup></u>
<u>4.(b)(5)</u>	<u>English translation of Guarantee Framework Agreement, dated May 10, 2016, between CNova Comércio Eletrônico S.A. and Companhia Brasileira de Distribuição.<sup>(4)</sup></u>

- 4.(b)(6) English translation of First Amendment, dated May 10, 2016, to the Guarantee Framework Agreement, dated May 10, 2016, between CNova Comércio Eletrônico S.A. and Companhia Brasileira de Distribuição.<sup>(4)</sup>
- 4.(b)(7) Wilkes Participações S.A. Shareholders' Agreement, dated August 20, 2015, among Segisor S.A.S., Casino, Guichard-Perrachon S.A., Oregon LLC, Pincher LLC, Bengal I LLC and Almacenes Éxito S.A., and, as Intervening Parties, Wilkes Participações S.A., Companhia Brasileira de Distribuição and Onper Investments 2015, S.L.<sup>(5)</sup>
- 4.(b)(8) Companhia Brasileira de Distribuição Shareholders' Agreement, dated August 20, 2015, among Wilkes Participações S.A., Casino, Guichard-Perrachon S.A. and Almacenes Éxito S.A., and, as Intervening Parties, Companhia Brasileira de Distribuição, Segisor S.A.S. and Onper Investments 2015, S.L.<sup>(5)</sup>
- 4.(b)(9) Commitment Letter from Casino, Guichard-Perrachon to Companhia Brasileira de Distribuição, dated August 8, 2016.<sup>(6)</sup>
- 4.(b)(10) Support Letter from Companhia Brasileira de Distribuição to Casino, Guichard-Perrachon, dated August 8, 2016.
- 6.1 See note 4.22 to our financial statements for information explaining how earnings per share information was calculated.
- 8.1 List of Subsidiaries. See note 3.1 to our financial statements for information regarding our subsidiaries.
- 12.1 Section 302 Certification of the Chief Executive Officer.\*
- 12.2 Section 302 Certification of the Chief Financial Officer.\*
- 13.1 Section 906 Certification of the Chief Executive Officer.\*
- 13.2 Section 906 Certification of the Chief Financial Officer.\*

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- (1) Incorporated herein by reference to our registration statement on Form F-6 (No. 333-207667).
- (2) Incorporated herein by reference to our annual report on Form 20-F filed on July 1, 2011.
- (3) Incorporated herein by reference to our annual report on Form 20-F filed on April 30, 2015.
- (4) Incorporated herein by reference to our annual report on Form 20-F filed on September 9, 2016.
- (5) Incorporated herein by reference to our 6-K filed on August 28, 2015.
- (6) Incorporated herein by reference to our annual report on Form 20-F filed on May 10, 2017.
- (7) Incorporated herein by reference to our annual report on Form 20-F filed on May 10, 2017.
- \* Filed herewith.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

By: /s/ Ronaldo Iabrudi

Name: Ronaldo Iabrudi

Title: Chief Executive Officer

By: /s/ Christophe Hidalgo

Name: Christophe Hidalgo

Title: Chief Financial Officer

Dated: April 27, 2018

***Companhia Brasileira  
de Distribuição and subsidiaries***

*Consolidated Financial Statements as of*

*December 31, 2017 and 2016 and for the  
Years Ended December 31, 2017, 2016 and*

*2015 and Report of Independent*

*Registered Public Accounting Firm*

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## Companhia Brasileira de Distribuição

Consolidated Financial Statements as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015

Table of contents

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
Consolidated financial statements	
<u>Consolidated Statement of operations and comprehensive income</u>	<u>F-4</u>
<u>Consolidated Balance Sheets</u>	<u>F-5</u>
<u>Consolidated Statement of changes in shareholders equity</u>	<u>F-7</u>
<u>Consolidated Statement of cash flows</u>	<u>F-8</u>
<u>Notes to the consolidated financial statements</u>	<u>F-10</u>

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## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of

### **Companhia Brasileira de Distribuição**

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Companhia Brasileira de Distribuição and subsidiaries (the Company) as of December 31, 2017, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, based on our audit and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017, and the results of its operations and its cash flows for the year then ended December 31, 2017, in conformity with International Financial Reporting Standards - IFRS as issued by the International Accounting Standards Board - IASB.

We did not audit the financial statements of Via Varejo S.A., a Company's subsidiary, whose assets, liabilities and operations are presented as discontinued operations as of December 31, 2017. Via Varejo S.A.'s total assets constitute 48% of the Company's total consolidated assets as of December 31, 2017 and its net income constitute 44% of the Company's consolidated net income for the year ended December 31, 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Via Varejo S.A., is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 26, 2018 expressed an unqualified opinion thereon.

## Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG

Auditores Independentes S.S.

We have served as the Company's auditor since January 1<sup>st</sup>, 2017.

São Paulo, Brazil  
April 26, 2018

F-1

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## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of

### **Companhia Brasileira de Distribuição**

#### **Opinion on Internal Control over Financial Reporting**

We have audited Companhia Brasileira de Distribuição's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Companhia Brasileira de Distribuição (the Company), based on our audit and the report of other auditors, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We did not examine the effectiveness of internal control over financial reporting of Via Varejo S.A., a Company's subsidiary, whose assets, liabilities and operations are presented as discontinued operations as of December 31, 2017. Via Varejo S.A.'s total assets constitute 48% of the Company's total consolidated assets as of December 31, 2017 and its net income constitute 44% of the Company's consolidated net income for the year ended December 31, 2017. The effectiveness of Via Varejo S.A.'s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Via Varejo S.A.'s internal control over financial reporting, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2017, and the related notes and our report dated April 26, 2018 expressed an unqualified opinion thereon, based on our audit and the report of the other auditors.

#### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

F-2

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## **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG

Auditores Independentes S.S.

São Paulo, Brazil

April 26, 2018



**Companhia Brasileira de Distribuição**

## Consolidated Statements of Operations and Comprehensive Income (loss)

Years ended December 31, 2017, 2016 and 2015

*(In millions of Brazilian reais, except earnings per share)*

	<b>Note</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net operating revenue	25	<b>44,634</b>	41,454	37,198
Cost of sales	26	<b>(33,931)</b>	(31,933)	(28,123)
Gross profit		<b>10,703</b>	9,521	9,075
Operating expenses, net				
Selling expenses	26	<b>(6,804)</b>	(6,567)	(5,922)
General and administrative expenses	26	<b>(972)</b>	(884)	(766)
Depreciation and amortization		<b>(779)</b>	(707)	(650)
Other operating expenses, net	27	<b>(579)</b>	(567)	(206)
		<b>(9,134)</b>	(8,725)	(7,544)
Profit from operations before net financial expenses and share of profit of associates		<b>1,569</b>	796	1,531
Financial expenses, net	28	<b>(730)</b>	(903)	(768)
Share of profit of associates	13	<b>(60)</b>	60	81
Income (loss) before income tax and social contribution		<b>779</b>	(47)	844
Income tax and social contribution	20	<b>(297)</b>	(24)	(229)
Net income (loss) for the year from continued operations		<b>482</b>	(71)	615
Net income (loss) for the year from discontinued operations after tax		<b>383</b>	(1,005)	(891)
Net income (loss) for the year		<b>865</b>	(1,076)	(276)
<b>Other comprehensive income (loss) for the year, net of income tax</b>				
<i>-Items that may be reclassified subsequently to statement of operations:</i>				
Foreign currency translation		<b>(17)</b>	234	(219)
Hedging instruments designated on hedge of the net assets of foreign operations		-	-	(1)
<i>-Items that will not be reclassified subsequently to statement of operations:</i>				

Other comprehensive income	(1)	(3)	(2)
Other comprehensive income (loss) for the year, net of income tax	(18)	231	(222)
<b>Total comprehensive income (loss) for the year</b>	<b>847</b>	<b>(845)</b>	<b>(498)</b>
<b>Net income (loss) for the year attributed to:</b>			
Controlling shareholders from continued operations	482	(71)	615
Controlling shareholders from discontinued operations	137	(411)	(350)
Total of controlling shareholders	619	(482)	265
Non-controlling shareholders from discontinued operations	246	(594)	(541)
Total of non-controlling shareholders	246	(594)	(541)
<b>Total comprehensive income (loss) for the year attributed to:</b>			
Controlling shareholders	601	(395)	177
Noncontrolling shareholders	246	(450)	(675)
	847	(845)	498
<b>Earnings (loss) per share (R\$/share) – controlling shareholders'</b>			
	29		
<b>Basic</b>			
Preferred – continued and discontinued operations	2.40692	(1.81669)	1.03245
Common – continued and discontinued operations	2.18810	(1.81669)	0.93859
Preferred – continued operations	1.87356	(0.26891)	2.39760
Common – continued operations	1.70324	(0.26891)	2.17964
<b>Diluted</b>			
Preferred – continued and discontinued operations	2.39074	(1.81669)	1.03014
Common – continued and discontinued operations	2.18073	(1.81669)	0.93859
Preferred – continued operations	1.86188	(0.26891)	2.39222
Common – continued operations	1.69955	(0.26891)	2.17964

The accompanying notes are integral part of these consolidated financial statements.



**Companhia Brasileira de Distribuição**

## Consolidated Balance Sheets

December 31, 2017 and 2016

*(In millions of Brazilian reais)*

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Current assets			
Cash and cash equivalents	7	<b>3,792</b>	5,112
Trade receivables, net	8	<b>632</b>	543
Other receivables	9	<b>271</b>	126
Inventories, net	10	<b>4,822</b>	4,641
Recoverable taxes	11	<b>596</b>	674
Prepaid expenses		<b>112</b>	97
Other current assets		<b>34</b>	155
Assets held for sale	32	<b>22,961</b>	20,303
Total current assets		<b>33,220</b>	31,651
Noncurrent assets			
Trade receivables, net	8	<b>80</b>	-
Other receivables	9	<b>642</b>	612
Recoverable taxes	11	<b>1,747</b>	632
Derivative financial instruments	18.1	<b>28</b>	-
Deferred income tax and social contribution	20	<b>121</b>	170
Related parties	12	<b>25</b>	17
Restricted deposits for legal proceedings	21.5	<b>762</b>	661
Prepaid expenses		<b>43</b>	45
Investments in associates	13	<b>177</b>	316
Investment properties		<b>21</b>	23
Property and equipment, net	14	<b>9,138</b>	9,182
Intangible assets, net	15	<b>1,924</b>	1,908
Total noncurrent assets		<b>14,708</b>	13,566
Total assets		<b>47,928</b>	45,217

The accompanying notes are integral part of these consolidated financial statements.



**Companhia Brasileira de Distribuição**

## Consolidated Balance Sheets

December 31, 2017 and 2016

*(In millions of Brazilian reais)*

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Current liabilities			
Trade payable, net	16	<b>8,128</b>	7,232
Borrowings and financing	17	<b>1,251</b>	2,957
Payroll and related taxes		<b>640</b>	614
Taxes and contributions payable and taxes payable in installments	19	<b>301</b>	254
Related parties	12	<b>153</b>	147
Dividends payable	24.10	<b>78</b>	-
Financing of property		<b>116</b>	116
Rent payable		<b>128</b>	110
Deferred revenue	23	<b>146</b>	224
Pass-through liabilities		<b>14</b>	15
Customer loyalty programs		<b>-</b>	28
Other current liabilities		<b>213</b>	253
Liabilities related to assets held for sale	32	<b>17,824</b>	15,632
Total current liabilities		<b>28,992</b>	27,582
Noncurrent liabilities			
Borrowings and financing	17	<b>3,337</b>	2,912
Deferred income tax and social contribution	20	<b>394</b>	317
Tax payable in installments	19	<b>566</b>	540
Provision for contingencies	21	<b>1,107</b>	1,177
Deferred revenue	23	<b>22</b>	24
Provision for losses on investments in associates	13	<b>165</b>	22
Other noncurrent liabilities		<b>53</b>	46
Total noncurrent liabilities		<b>5,644</b>	5,038
Shareholders' equity			
Share capital	24	<b>6,822</b>	6,811
Capital reserves		<b>355</b>	331
Earning reserves		<b>3,174</b>	2,718
Other comprehensive income (loss)		<b>(18)</b>	-

	<b>10,333</b>	9,860
Non controlling interest	<b>2,959</b>	2,737
Total shareholders' equity	<b>13,292</b>	12,597
Total liabilities and shareholders' equity	<b>47,928</b>	45,217

The accompanying notes are integral part of these consolidated financial statements.

F-6

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**Companhia Brasileira de Distribuição**

## Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2017, 2016 and 2015

*(In millions of Brazilian reais)*

	Capital reserves			Legal	Controlling Shareholders Earnings reserves			Appropriated earnings	Other compre-he income (I
	Share Capital	Other reserves	Stock options		Expans-ion	Treasury shares	Retained earnings		
<b>Balance at December 31, 2014</b>	<b>6,792</b>	<b>7</b>	<b>275</b>	<b>413</b>	<b>1,809</b>	<b>(7)</b>	<b>1,187</b>	<b>-</b>	
Other comprehensive income:									
Net income for the year	-	-	-	-	-	-	-	265	
Foreign currency translation (note 24.6)	-	-	-	-	-	-	-	-	
Investment hedge Other	-	-	-	-	-	-	-	-	
<b>Comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>265</b>	
Capital increase (note 24.1)	14	-	-	-	-	-	-	-	
Share-based expenses (note 24.5)	-	-	11	-	-	-	-	-	
Share-based expenses - subsidiaries (note 24.5)	-	-	9	-	-	-	-	-	
Transfer to expansion reserve	-	-	-	-	815	-	(815)	-	
Appropriation of income to legal reserve	-	-	-	13	-	-	-	(13)	
Proposed dividends	-	-	-	-	-	-	-	-	