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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

Commission File Number 1-14626

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

(Exact Name of Registrant as Specified in its Charter)

BRAZILIAN DISTRIBUTION COMPANY

(Translation of Registrant's name into English)

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

José Antônio de Almeida Filippo, Chief Financial Officer

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Avenida Brigadeiro Luiz Antonio, 3,142

01402-901 São Paulo, SP, Brazil

(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

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

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

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

x Yes ¨ No

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

¨ Yes x No

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

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

x Yes ¨ No

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

¨ Yes x No

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

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

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

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

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

Item 17 ¨ Item 18 ¨

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

¨ **Yes** x No

Page

INTRODUCTION

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

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

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

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

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

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

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

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

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

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

4

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

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

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

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

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

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

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

Exchange Rates

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

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

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

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

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

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

Source: Central Bank

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Retail Industry and Us

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

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

We are controlled by two groups of shareholders.

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

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

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

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

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

- deliberate on financings and similar transactions.

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

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

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

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

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

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

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

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

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

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

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

We are subject to environmental laws and regulations.

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

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

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

We face risks related to our distribution centers.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Preferred Shares and ADSs

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

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

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

12

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

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

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

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

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

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

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

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

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

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

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

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

Reorganization of E-Commerce Operations

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

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

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

Capital Expenditures and Investment Plan

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

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

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

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

(1) Acquired in July 2009.

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

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

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

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

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

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

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

4B. Business Overview

The Brazilian Retail Industry

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

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

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

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

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

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

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

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

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

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

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

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

Our Company

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

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

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

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

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

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

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

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

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

Segment Revenue and Income Distribution

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

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

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

Year Ended December 31, 2011

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

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

Number of Stores

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

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

Geographic Distribution of Stores

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

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

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

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

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

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

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

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

Operations

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

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

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

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

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

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

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

Food Retail Operating Segment

Pão de Açúcar Stores

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

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

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

Extra Hipermercados Stores

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

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

Extra Supermercado Stores

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

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

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

Mini Mercado Extra Stores

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

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

Gas Stations

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

Drugstores

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

Pão de Açúcar Delivery

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

Cash-and-Carry Operating Segment

Assaí Stores

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

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

Home Appliances Operating Segment

Ponto Frio Stores

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

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

Casas Bahia Stores

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

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

E-commerce Operating Segment

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

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

Seasonality

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

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

Our Products

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

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

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

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

Suppliers

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

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

Distribution and Logistics

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

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

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

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

Stores, Supermarkets and Hypermarkets

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

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

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

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

PA Delivery

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

Nova Pontocom

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

Drugstores

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

Gas Stations

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

Marketing

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

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

FIC and Investcred

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

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

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

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

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

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

(1) Including Viavarejo (Ponto Frio).

26

Credit Sales

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

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

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

Installment sales ("*Crediário*"). Our