

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
June 27, 2006

**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

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

For the fiscal year ended: **December 31, 2005**

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)

Federative Republic of Brazil

(Jurisdiction of Incorporation)

Avenida Brigadeiro Luiz Antonio, no. 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 | New York Stock Exchange |
| American Depositary Receipts), each | |
| Representing 1,000 shares of Preferred | |
| Shares | |

*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.

The number of issued shares of each class of stock of COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO as of December 31, 2005 was:

49,839,925,688 Common Shares, no par value per share

63,827,989,745 Preferred Shares, no par value per share

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

Yes No

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

Yes No

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

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

Yes No

Indicate by check mark whether the registrant 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 | | Non-accelerated |
| Filer | Accelerated Filer | Filer |

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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

Yes No

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INTRODUCTION

All references in this annual report (i) to CBD, we, us, our or Company are references to Companhia Brasileira Distribuição and its consolidated subsidiaries, (ii) to the Brazilian government are references to the federal government of the Federative Republic of Brazil, or Brazil, and (iii) to 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*, in each case without par value. All references to ADSs are to American depositary shares, each representing 1,000 preferred shares. All references herein to the *real*, *reais* or R\$ are to Brazilian *reais*, the official currency of Brazil. All references to U.S.\$, dollars or U.S. dollars are to United States dollars.

At June 23, 2006, the commercial market rate for purchasing U.S. dollars was R\$ 2.2462 to U.S.\$ 1.00.

We have prepared our consolidated financial statements included in this annual report in conformity with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;
- the rules and regulations of the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*, or CVM; and
- the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil* or IBRACON).

For the years ended December 31, 2003 and 2002, we had prepared consolidated financial statements for Companhia Brasileira de Distribuição using the U.S. dollar as the reporting currency and in accordance with U.S. GAAP, under Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation, which we filed with the United States Securities and Exchange Commission (SEC) on June 21, 2004. However, since that time we have changed the format of the primary financial statements which are now being presented and prepared in Brazilian *reais* and in accordance with Brazilian GAAP. This change was made to better facilitate the understanding of our financial information and to provide uniform information to our foreign and local investors. These financial statements prepared in accordance with Brazilian GAAP include a reconciliation to U.S. GAAP.

Brazilian GAAP differs in significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. For more information about the differences between Brazilian GAAP and U.S. GAAP and a reconciliation of our net income and shareholders' equity from Brazilian GAAP to U.S. GAAP, see note 22 to our consolidated financial statements. The financial information contained in this annual report is in accordance with Brazilian GAAP, except as otherwise noted.

FORWARD-LOOKING STATEMENTS

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

- our ability to sustain or improve our performance,

- competition in the Brazilian retail food industry,
- government regulation and tax matters,
- adverse legal or regulatory disputes or proceedings,

- credit and other risks of lending and investment activities,
- changes in regional, national and international business and economic conditions and inflation, and
- other risk factors as set forth under Item 3D Key Information Risk Factors.

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

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

The following table presents our selected financial data as of the dates and for each of the periods indicated. The selected financial data at December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 have been derived from our consolidated financial statements included in this annual report. The selected financial information at December 31, 2003, 2002 and 2001 and for each of the two years ended December 31, 2002 have been derived from our consolidated financial statements prepared under Brazilian GAAP that are not included elsewhere in this annual report.

Our financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these financial statements and a reconciliation of net income and shareholders' equity from Brazilian GAAP to U.S. GAAP, see note 22 to our audited consolidated financial statements included in this annual report.

At and for the Year Ended December 31,**2005 2004 2003 2002 2001****(millions of R\$, except share, per share and per ADS amounts)****Statement of operations data****Brazilian GAAP:**

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Net sales revenue | 13,413.4 | 12,565.0 | 10,806.4 | 9,454.7 | 8,054.9 |
| Cost of sales | (9,438.1) | (8,891.5) | (7,764.3) | (6,809.6) | (5,807.7) |
| Gross profit | 3,975.3 | 3,673.5 | 3,042.1 | 2,645.1 | 2,247.2 |
| Selling, general and administrative expenses | (2,868.8) | (2,690.1) | (2,183.6) | (1,935.3) | (1,655.8) |
| Depreciation and amortization | (625.3) | (489.6) | (454.3) | (413.6) | (330.8) |
| Financial income | 446.7 | 330.3 | 575.3 | 438.7 | 422.4 |
| Financial expense | (683.5) | (618.3) | (760.1) | (601.7) | (419.3) |
| Equity results | (16.2) | 5.3 | (8.8) | (10.4) | 3.0 |
| Operating income | 228.2 | 211.1 | 210.6 | 122.8 | 266.7 |
| Non-operating income, net | 32.1 | 80.3 | 5.2 | 4.5 | 1.8 |
| Income before income taxes | 260.3 | 291.4 | 215.8 | 127.3 | 268.5 |
| Income tax (expense) benefit: | | | | | |
| Current | (133.9) | (39.0) | (31.4) | (34.9) | (35.8) |
| Deferred | 80.9 | 88.5 | 41.1 | 152.7 | 18.0 |
| Employee profit sharing | (14.5) | (14.3) | 0.0 | 0.0 | 0.0 |
| Minority interest | 64.2 | 43.2 | 0.0 | 0.0 | 0.0 |
| Net income | 257.0 | 369.8 | 225.5 | 245.1 | 250.7 |

Number of shares outstanding at year end (in thousands):

| | | | | | |
|------------------|------------|------------|------------|------------|------------|
| Preferred shares | 63,827,990 | 50,051,428 | 49,971,428 | 49,715,328 | 45,590,328 |
| Common shares | 49,839,926 | 63,470,811 | 63,470,811 | 63,470,811 | 63,470,811 |

Net income per thousand shares at year end (1)

| | | | | | |
|--|------|------|------|------|------|
| Net income per thousand shares at year end (1) | 2.26 | 3.26 | 1.99 | 2.17 | 2.22 |
|--|------|------|------|------|------|

| | | | | | |
|------------------------------------|------|------|------|------|------|
| Net income per ADS at year end (1) | 2.26 | 3.26 | 1.99 | 2.17 | 2.22 |
|------------------------------------|------|------|------|------|------|

U.S. GAAP:

| | | | | | |
|----------------|-------|-------|-------|------|-------|
| Net income (5) | 270.6 | 488.9 | 293.2 | 93.8 | 260.0 |
|----------------|-------|-------|-------|------|-------|

Basic earnings per 1,000 shares (1) (2) (5)

| | | | | | |
|-----------|------|------|------|------|------|
| Preferred | 2.49 | 4.54 | 2.73 | 0.83 | 2.36 |
| Common | 2.27 | 4.13 | 2.48 | 0.83 | 2.36 |

Diluted earnings per 1,000 shares (1) (2) (5)

| | | | | | |
|-----------|------|------|------|------|------|
| Preferred | 2.49 | 4.53 | 2.72 | 0.83 | 2.34 |
| Common | 2.26 | 4.12 | 2.48 | 0.83 | 2.34 |

| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Basic earnings (loss) per ADS (1) (5) | 2.49 | 4.54 | 2.73 | 0.83 | 2.36 |
| Diluted earnings (loss) per ADS (1) (5) | 2.49 | 4.53 | 2.72 | 0.83 | 2.34 |
| Weighted average number of shares outstanding (in thousands) | | | | | |
| Preferred | 59,058,731 | 50,032,630 | 49,725,151 | 49,596,794 | 46,912,582 |
| Common | 54,470,693 | 63,470,811 | 63,470,811 | 63,470,811 | 63,168,975 |
| Total | 113,529,424 | 113,503,441 | 113,195,962 | 113,067,605 | 110,081,557 |
| Dividends declared and interest on equity per 1,000 shares (2) (3) (4) | | | | | |
| Preferred | 0.57 | 1.33 | 0.53 | 0.55 | 0.00 |
| Common | 0.52 | 1.21 | 0.53 | 0.55 | 0.00 |
| Dividends declared and interest on shareholders' equity per ADS (2) (3) (4) | | | | | |
| | 0.57 | 1.33 | 0.53 | 0.55 | 0.00 |
| Balance sheet data | | | | | |
| Brazilian GAAP: | | | | | |
| Cash and cash equivalents | 1,710.8 | 1,179.5 | 981.9 | 1,135.2 | 1,048.1 |
| Property and equipment, net | 3,861.7 | 4,425.4 | 3,986.0 | 3,741.5 | 3,006.4 |
| Total assets | 10,923.2 | 11,040.2 | 8,939.9 | 9,187.7 | 7,281.1 |
| Short-term debt (including current portion of long-term debt) | 440.6 | 1,304.3 | 1,387.7 | 1,566.1 | 1,254.6 |
| Long-term debt | 1,615.3 | 1,400.5 | 1,081.1 | 1,349.7 | 858.2 |
| Shareholders' equity | 4,252.4 | 4,051.0 | 3,768.4 | 3,592.0 | 3,403.9 |
| Capital stock | 3,680.2 | 3,509.4 | 3,157.2 | 2,749.8 | 2,252.4 |
| U.S. GAAP: | | | | | |
| Total assets | 10,513.7 | 9,396.4 | 9,159.3 | 8,968.7 | 7,141.3 |
| Shareholders' equity | 4,148.0 | 3,922.5 | 3,573.6 | 3,330.4 | 3,292.2 |
| Other financial information | | | | | |
| Brazilian GAAP: | | | | | |
| Net cash provided by (used in): | | | | | |
| Operating activities | 1,063.5 | 406.5 | 1,103.1 | 629.2 | 429.0 |
| Investing activities | 62.2 | (133.2) | (627.1) | (984.0) | (685.2) |
| Financing activities | (594.3) | (148.7) | (629.3) | 441.9 | 412.3 |
| Capital expenditures | (899.6) | (559.4) | (541.7) | (984.3) | (656.8) |

-
- (1) Net income per 1,000 shares or ADS under Brazilian GAAP is based on shares outstanding at the end of each year. Earnings per 1,000 shares or ADS under U.S. GAAP is based on the weighted average number of shares outstanding during each period.
 - (2) Since 2003, each preferred share receives a dividend 10% higher than the dividend paid to each common share. Both preferred and common shares effectively participate equally in earnings in 2002 and 2001. See Item 8A Financial Information Consolidated Financial Statements and Other Financial Information Dividend Policy and Dividends.
 - (3) In accordance with Brazilian corporate law, we can distribute a notional, tax-deductible interest charge attributable to shareholders' equity as an alternative form of payment to shareholders. A dividend of R\$0.57 per 1,000 preferred shares and R\$0.52 per 1,000 common shares was approved and declared at our general shareholders' meeting held on April 27, 2006 and was paid on June 23, 2006.
 - (4) Dividends declared and interest on shareholders' equity per 1,000 preferred shares, per 1,000 common shares and per ADS, was U.S.\$ 0.24, U.S.\$0.22 and U.S.\$0.24, respectively, translated using the exchange rate at December 31, 2005 of R\$2.3407 per U. S.\$1.00.
 - (5) The U.S. GAAP financial information was restated to correct the accounting treatment for cash considerations received from vendors in 2003 and amortization of leasehold improvements in 2003, 2002 and 2001 (see Note 22(e) and Note 22(f)(ii) to our consolidated financial statements).

At and for the Year Ended December 31,

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|--|---|-------------|-------------|-------------|-------------|
| | (millions of reais, except as indicated) | | | | |
| Operating Data | | | | | |
| Employees at end of period (1) | 62,803 | 63,484 | 55,557 | 57,898 | 52,060 |
| Total square meters of selling area at end of period | 1,206,254 | 1,144,749 | 982,701 | 979,723 | 866,280 |
| Number of stores at end of period: | | | | | |
| Pão de Açúcar | 185 | 196 | 208 | 188 | 176 |
| CompreBem (2) | 176 | 165 | 172 | 148 | 150 |
| Extra | 79 | 72 | 62 | 60 | 55 |
| Extra Eletro | 50 | 55 | 55 | 54 | 62 |
| Sendas(3) | 66 | 63 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 50 | - |
| Total number of stores at end of period | 556 | 551 | 497 | 500 | 443 |
| Net sales revenues per employee (7)(8): | | | | | |
| Pão de Açúcar | \$ 222,565 | \$ 214,883 | \$ 198,342 | \$ 192,826 | \$ 184,273 |
| CompreBem (2) | 255,681 | 224,435 | 206,737 | 191,149 | 126,746 |
| Extra | 280,753 | 273,659 | 264,315 | 239,933 | 219,796 |
| Extra Eletro | 408,056 | 380,098 | 371,991 | 286,692 | 286,291 |
| Sendas (3) | 195,347 | 150,098 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 70,148 | - |
| Total net sales revenues per employee | \$ 252,186 | \$ 234,423 | \$ 230,156 | \$ 199,160 | \$ 190,585 |
| Net sales revenues by store format (4): | | | | | |
| Pão de Açúcar | \$ 3,245 | \$ 3,315 | \$ 3,435 | \$ 2,800 | \$ 2,644 |
| CompreBem (2) | 2,194 | 2,016 | 1,921 | 1,527 | 1,107 |
| Extra | 6,532 | 5,996 | 5,195 | 4,423 | 3,926 |
| Extra Eletro | 233 | 240 | 255 | 327 | 378 |
| Sendas (3) | 1,209 | 998 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 378 | - |
| Total net sales | \$ 13,413 | \$ 12,565 | \$10,806 | \$9,455 | \$ 8,055 |
| Average monthly net sales revenue per square meter (5)(7): | | | | | |
| Pão de Açúcar | \$ 1,094.1 | \$ 1,033.8 | \$ 1,075.1 | \$ 1,068.5 | \$ 994.7 |
| CompreBem (2) | 852.4 | 834.3 | 846.1 | 744.7 | 532.9 |
| Extra | 921.2 | 951.9 | 946.4 | 851.7 | 795.6 |
| Extra Eletro | 575.9 | 559.2 | 621.5 | 703.6 | 766.1 |
| Sendas (3) | 839.7 | 745.3 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 317.8 | - |
| | \$ 856.7 | \$ 917.8 | \$ 950.8 | \$ 820.8 | \$ 792.5 |

CBD average monthly net sales revenue per square meter

Average ticket amount (7):

| | | | | | |
|---------------------------|---------|---------|---------|---------|---------|
| Pão de Açúcar | \$ 20.5 | \$ 19.2 | \$ 19.2 | \$ 18.5 | \$ 17.4 |
| CompreBem (2) | 16.0 | 14.9 | 15.0 | 13.8 | 12.1 |
| Extra | 40.2 | 39.1 | 39.6 | 37.2 | 35.9 |
| Extra Eletro | 283.5 | 261.9 | 279.4 | 268.9 | 236.1 |
| Sendas (3) | 18.8 | 18.0 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 16.0 | - |
| CBD average ticket amount | \$ 25.7 | \$ 24.3 | \$ 24.6 | \$ 23.3 | \$ 22.8 |

Average number of tickets per month:

| | | | | | |
|---|------------|------------|------------|------------|------------|
| Pão de Açúcar | 13,189,705 | 14,356,288 | 14,882,404 | 12,590,382 | 12,646,836 |
| CompreBem (2) | 11,415,478 | 11,284,705 | 10,694,314 | 9,206,964 | 7,600,350 |
| Extra | 13,538,497 | 12,779,828 | 10,939,529 | 9,911,953 | 9,106,790 |
| Extra Eletro | 68,497 | 76,366 | 76,068 | 101,326 | 133,445 |
| Sendas (3) | 5,348,968 | 4,619,534 | - | - | - |
| Sé and CompreBem (6) | - | - | - | 1,970,602 | - |
| CBD average number of tickets per month | 43,561,146 | 43,116,721 | 36,592,315 | 33,781,227 | 29,487,421 |

-
- (1) Based on the full-time equivalent number of employees calculated by dividing total number of hours worked by all employees in the final month of each period presented by 220 hours.
- (2) Formerly named *CompreBem Barateiro*.
- (3) Includes *Sendas* supermarkets and excludes *Extra* hypermarkets and *Pão de Açúcar* and *CompreBem* supermarkets in the State of Rio de Janeiro.
- (4) In millions of *reais*.
- (5) Calculated using the average of square meters of selling area on the last day of each of the months in the period; in *reais*.
- (6) These stores were converted into one of our formats during 2003.
- (7) In *reais*.
- (8) Based on the average of the full-time equivalent number of employees calculated by dividing total number of hours worked by all employees at the end of each month by 220 hours.

Exchange Rates

Prior to March 14, 2005, there were two foreign exchange markets in Brazil:

- (i) the commercial exchange market; and,
- (ii) the floating exchange market.

Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends with respect to preferred shares or ADSs, were carried out on the commercial market at the applicable commercial market rate. The floating market generally applied to transactions to which the commercial market rates did not apply, including the sale of Brazilian currency to tourists and remittances related to banking guarantees and payments in connection with the provision of technical services, which were made at the applicable floating market rate. Prior to February 1999, the exchange rate in each market was established independently, resulting in different rates during some periods.

After the implementation of the Real plan in 1994, the Central Bank announced that it would intervene in the market and buy or sell U.S. dollars, adopting a crawling peg system with the establishment of a trading band (*faixa de flutuação*) within which the exchange rate between the real and the U.S. dollar would fluctuate. From 1995 through 1998, the Central Bank periodically adjusted the limits of the band.

On January 15, 1999, the Brazilian Government announced that it would no longer have a crawling peg system and, instead, it would adopt a floating exchange rate, leading to a devaluation of the real of more than 40% in the weeks following the announcement. In the wake of the devaluation and the adoption of a floating exchange regime, the National Monetary Council adopted Resolution No. 2,588, effective as of February 1, 1999. Since this resolution became effective, the commercial market and the floating market were placed under identical operational limits, and financial institutions authorized to operate in foreign exchange transactions were required to unify their positions in the two different markets, which led to a convergence in the pricing and liquidity of both markets and a reduction in the difference between their respective rates. Since February 1, 1999, the floating market rate had been substantially the same as the commercial market rate, and the system relying on the foreign exchange rate band had been eliminated.

On March 4, 2005, the National Monetary Council enacted Resolution No. 3,265, pursuant to which the floating exchange market and the commercial exchange market were unified under the denomination of exchange market, effective as of March 14, 2005. The new regulation allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, provided, however, the legality of the transaction. Despite these new dispositions, the transactions that used to be carried out in the commercial market generally still require prior registration with and the approval of the Central Bank.

As a general rule, purchases and sales of foreign currencies can only be carried out through a Brazilian bank authorized to buy and sell currency in the foreign currency exchange market.

Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the real declined relative to the U.S. dollar. The real appreciated against the U.S. dollar in 2003, 2004 and 2005. The Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the real float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise.

In the year ended on December 31, 2005, the *real* appreciated by 13.4% to R\$2.3407 to US\$ 1.00. In the first five months of 2006 the *real* appreciated by 1.7% to R\$ 2.3005 to U.S.\$ 1.00 at May 31, 2006. We cannot assure you that the *real* will not devalue substantially in the near future. See Item 5A Operating and Financial Review and Prospects Operating Results Effects of Fluctuations in Exchange Rates between Real and U.S. Dollar Effects of Exchange Rate Variation and Inflation on Our Financial Condition and Results of Operations.

The following table sets forth information on the commercial market rate for U.S. dollars for the periods and dates indicated.

Exchange Rate of Brazilian Currency per US\$1.00

| Year | Low | High | Average (1) | Year-End |
|------|--------|--------|-------------|----------|
| 2001 | 1.9357 | 2.8007 | 2.3532 | 2.3204 |
| 2002 | 2.2709 | 3.9552 | 2.9983 | 3.5333 |
| 2003 | 2.8219 | 3.6623 | 3.0600 | 2.8892 |
| 2004 | 2.6544 | 3.2051 | 2.9171 | 2.6544 |
| 2005 | 2.1633 | 2.7621 | 2.4125 | 2.3407 |

Source: Central Bank

(1) Represents the average of the exchange rates on the last day of each month during the relevant period.

Exchange Rate of Brazilian Currency per US\$1.00

| Month | Low | High |
|---------------|--------|--------|
| December 2005 | 2.1800 | 2.3735 |
| January 2006 | 2.2152 | 2.3460 |
| February 2006 | 2.1170 | 2.2210 |
| March 2006 | 2.1067 | 2.2238 |
| April 2006 | 2.0892 | 2.1542 |
| May 2006 | 2.0586 | 2.3711 |

Source: Central Bank

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this document. The risks described below are not the only ones we face. Additional risks may impair our business operations. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the ADSs could decline.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business and the market price of the preferred shares and the ADSs.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in policy. The Brazilian government's actions to control inflation and affect other policies have included high interest rates, wage and price controls, currency devaluations, capital controls, and limits on imports, among other actions. Our business, financial condition, revenues, results of operations and prospects may be adversely affected by changes in government policies, as well as general economic factors including:

- currency fluctuations;
- inflation;
- price instability;
- energy policy;
- interest rate increases;
- liquidity of domestic capital and lending markets;
- changes in tax policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad that are supported by Brazilian issuers. These and other future developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and may adversely affect the trading price of the ADSs.

In 2005 and 2006, government figures, legislators and political party officials, especially those of the President's party, have been the subject of a variety of allegations of unethical or illegal conduct. These accusations, which are currently being investigated by the Brazilian Congress, involve campaign financing and election law violations, influencing of government officials and Congressmen in exchange for political support and other allegedly corrupt behavior. Several members of the President's party and of the federal government, including the President's chief of staff, have resigned. We cannot predict what effects these accusations and investigations may have on the Brazilian economy and the market for securities of Brazilian issuers.

Furthermore, the upcoming presidential election in October 2006 may lead to market instability or an economic downturn in Brazil.

Inflation, and certain governmental measures to curb inflation, may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets, which may adversely affect our business.

Brazil has in the past experienced high rates of inflation. More recently, Brazil's annual rate of inflation was 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004 and 1.2% in 2005 (as measured by *Índice Geral de Preços Mercado*, or the IGP-M). Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Actions taken to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. Future Brazilian government actions, including interest rate

decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our customers to offset the effects of inflation on our cost structure. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market value of our preferred shares and, as a result, the ADSs.

Fluctuations in the value of the real against the value of the U.S. dollar may adversely affect the Brazilian securities market and could lower the market value of the preferred shares and the ADSs.

The Brazilian currency has historically suffered frequent devaluations. Although over the longer term, devaluations of the Brazilian currency generally have correlated with the rate of inflation in Brazil, devaluations have resulted in significant short- to medium-term fluctuations in the value of the Brazilian currency. See Item 3A Selected Financial Data Exchange Rates for more information on exchange rates.

The *real* devalued against the U.S. dollar by 8.5% in 2000 and by 15.7% in 2001. In 2002, the *real* devalued against the U.S. dollar by 34.3% due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown; in 2003 the appreciation of the *real* relative to the U.S. dollar totaled 22.3%. In 2005 and 2004, the *real* appreciated against U.S. dollar by 13.4% and 8.8% respectively.

No assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. Further devaluations of the *real* relative to the U.S. dollar would reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the preferred shares and the ADSs. Further devaluations of the *real* relative to the U.S. dollar also create additional inflationary pressures in Brazil that may negatively affect us. They may curtail access to foreign financial markets and may require government intervention, including recessionary governmental policies.

The perception of risk in emerging economies may impede our access to international capital markets, hinder our ability to finance our operations and adversely affect the market price of our preferred shares and the ADSs.

As a general rule, international investors consider Brazil to be an emerging market economy. Consequently, economic conditions and the market for securities of emerging market countries, especially those located in Latin America, influence investors' perceptions of Brazil and their evaluation of Brazilian companies' securities.

Since the end of 1997, economic problems in various emerging market countries have resulted in investors' perception of greater risk from investments in emerging markets. During periods of investor concern, Brazil has experienced a significant outflow of U.S. dollars, and Brazilian companies have faced higher costs for raising funds, both domestically and abroad, as well as limited access to international capital markets. The prices of Brazilian securities have been significantly negatively affected.

The perception of risk in emerging economies may adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if there should be a need. We cannot assure you that international capital markets will remain open to Brazilian companies or that the perception of risk inherent in investing in Brazilian shares will not increase and adversely affect the market price of our preferred shares and the ADSs.

Risks Relating to CBD

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

The retail food industry in Brazil is highly competitive. We face intense competition from small food retailers that often can benefit from inefficiencies in the Brazilian tax collection system. These small food retailers also frequently have access to merchandise from irregular and informal distribution channels at lower prices than those charged by manufacturers and stores in the conventional supply chain of the organized retail food sector. In addition, in our markets, and particularly in the São Paulo City area, we compete with a number of large multinational retail food and general merchandise chains, as well as local supermarkets and independent grocery stores. Some of these international competitors have access to a broader range of financial resources than we have.

Our company is co-controlled by two groups of shareholders.

The Diniz group and the Casino group share our control through a holding company that owns 65.6% of our voting shares. This holding company is referred to herein also as the Holding Company. See Item 4 - Information on the Company - History and Development of the Company Co-Control by the Diniz Family and

Casino. Consequently, our two indirect co-controlling shareholders have the power to control our company, including the power to:

- appoint the members to our board of directors, who, in turn, name our executive officers,
- determine the outcome of any action requiring shareholder approval, including the timing and payment of any future dividends, and
- transfer control.

Although Mr. Abilio Diniz will remain Chairman of both the Holding Company and us for several years, and will retain decision-making powers in the ordinary course of business, the co-control of our company could result in deadlocks with respect to certain important issues. For other information on shared decision-making, see [Item 7 Major Shareholders and Related Party Transactions](#) [Major Shareholders](#) [Shareholders](#) [Transactions](#).

We engage in, and expect from time to time in the future to engage in, commercial and financial transactions with our controlling shareholders or their affiliates. Neither the Casino group nor the Diniz group can enter into related-party transactions with us without the approval of the other.

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.

The Brazilian custodian for the preferred shares must register with the Central Bank of Brazil to remit U.S. dollars abroad. If you decide to exchange your ADSs for the underlying preferred shares, you will be entitled to continue to rely, for five business days from the date of the exchange, on the custodian's registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad unless you obtain your own registration. Obtaining your own registration will result in expenses and may cause you to suffer delays in receiving distributions. See [Item 10D Additional Information](#) [Exchange Controls](#).

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

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. 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.

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 the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater

concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the BOVESPA as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 53%, 45% and 51% of all shares traded on the BOVESPA in 2003, 2004 and 2005, respectively.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs or our preferred shares.

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. In the event that the disposition of assets is interpreted to include a disposition of the ADSs or our preferred shares, this tax law could result in the imposition of withholding taxes on a disposition of the ADSs or our preferred shares by a non-resident of Brazil to another non-resident of Brazil. We are unable to predict whether an interpretation applying such tax laws to dispositions of the ADSs or our preferred shares between non-residents could ultimately prevail in the courts of Brazil.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

We were incorporated in Brazil under the Brazilian corporate law on November 10, 1981 as Companhia Brasileira de Distribuição. Our principal executive offices are located at Avenida Brigadeiro Luis Antonio, no. 3,142, CEP 01402-901 São Paulo, SP, Brazil (telephone: 55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

We have been a pioneer in the Brazilian retail food industry, opening our first store, a pastry shop, in 1948 in São Paulo City 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. It has been estimated that more than 19 million people gained access to consumer goods markets for the first time after 1994, as Brazilians, predominantly in lower and middle-income households, generally experienced real income gains. This increase in available income and the resulting increase in consumer confidence broadened our potential customer base and provided us with growth opportunities.

We responded to these changes by strengthening our capital structure, increasing our logistics and technology investments and implementing an expansion strategy focused on the different consumer preferences of the Brazilian population. To support our expansion strategy, consisting of acquisitions and organic growth, we defined the format of our stores in terms of the expectations, consumption patterns and purchasing power of the different income levels in Brazil.

From 2001 through 2005 we invested approximately R\$415.2 million in technology, or about 11.4% of our total investments in the last five years. We also implemented projects designed to improve operational logistics and margins. In 1997, we began substituting our stores' autonomous operating model for a more centralized system under which the responsibility for purchases was transferred to our commercial department. Our distribution and other administrative functions were also centralized to obtain economies of scale. These changes strengthened our negotiating position with suppliers with respect to prices and payment terms. In 2001, we finished implementing our new category management system, under which our commercial department became responsible solely for purchases in order to maximize bargaining power. However, we transferred category management decisions, which relate to the pricing and mix of products, to each of our banners, as they are in a better position to make these determinations for their particular target customers. We have also sought to gain efficiencies through improvements in our supply chain, in an effort to decrease stock-outs, breakage and shrinkage, and packaging and labor costs, as well as to increase inventory turnover.

Since 2001, we have acquired and merged a total of 172 stores. When entering new markets, we have generally sought to acquire local supermarket chains to benefit from existing know-how of the geographic region. For expansion within urban areas where we already have a presence, we have historically opened new stores. Nowadays our focus is to expand organically, not through acquisitions, as it was in the past.

Although acquisition may occur, it is not the focus. Since 2001, we have also opened 68 new stores. Historically, our organic growth and smaller acquisitions have generally been funded from our cash flow from operations, and larger acquisition opportunities have required external funding or capital increases. We expect to fund future organic growth from our cash flow from operations. Our aggregate sales area has increased by 39.2% since 2001 as a result of our acquisitions and our opening of new stores.

Also in response to the increased levels of income resulting with the introduction of the *real*, we realized in 1998 that in order to take full advantage of Brazil's economic growth, we needed to adjust the format of our stores according to the expectations and needs of different consumers. We refocused the *Pão de Açúcar* format to cater specifically to the high-income consumers and sought to target lower income consumers with a cost-oriented format, *Barateiro*, currently named *CompreBem*, which we acquired in 1998. The acquisition of the *Barateiro* chain represented a decisive step in carrying out our targeted marketing plans. Our diversity of formats allows us to reclassify stores to a more appropriate format within a market from time to time. Some *Pão de Açúcar* stores, particularly in the state of São Paulo, were converted into the *Barateiro* format in 2001, as average income levels dropped in neighborhoods of these stores' original locations.

In June 2002, we acquired the *Sé Supermercados* chain of supermarkets, which, at the time of acquisition, was the seventh largest chain by sales in Brazil. All of the 60 *Sé* stores were located in the state of São Paulo.

Also in 2002, as part of our effort to increase sales of our *Barateiro* stores, we launched a new store format known as *CompreBem Barateiro* in certain regions of Brazil. This format, which responded to market research from the target *Barateiro* audience, focused not only on reduced costs, but also on personal service, organization and increased customer relations. Under the new model, the stores offer new layouts, more modern equipment and a more pleasant shopping environment with a variety of services. In addition, the *CompreBem Barateiro* format emphasized the importance of family and community connection, sponsoring community outreach activities such as local artwork competitions and showcase of neighborhood children's artwork in the stores. Due to the great consumer acceptance of this new format, which was evidenced by the performance as measured by total sales of *CompreBem Barateiro* stores as compared to *Barateiro* ones, we have converted the *Barateiro* stores into *CompreBem* stores.

During 2005, CBD undertook an intense review of its purchasing and category management activities including processes, systems and management models. Additionally, throughout the year the strategies for all categories of the Company's sales mix were redefined. All these initiatives aimed at increasing efficiency in negotiations with suppliers, product assortment, exposure in the stores, promotions and pricing. In 2006 we will execute the actions and strategies defined in 2005, by which the Company expects to reach higher competitiveness and profitability levels.

The Sendas Strategic Partnership

In December 2003, we signed a letter of intent to enter into an association with Sendas S.A., or Sendas. The association was named Sendas Distribuidora S.A., or Sendas Distribuidora, and became operational in February 2004. At that time, Sendas Distribuidora's voting stock was held 50% by us and 50% by Sendas, and we are responsible for the management of the company. See Item 10.C Material Contracts The Sendas Association. Sendas has been operating in the Brazilian retail market for 43 years, operating exclusively in the state of Rio de Janeiro. As of December 2005, Sendas' network was comprised of 18 hypermarkets and 89 supermarkets. The association with Sendas was an important strategic step towards growth and leadership consolidation in the Brazilian market. Sendas Distribuidora is enjoying the benefits from the synergy with our corporate operations. Furthermore, this association is helping us to increase our presence in other businesses including gas stations (Sendas Distribuidora had 8 in December 2005 compared to 8 in February 2004) and drugstores (Sendas Distribuidora already had 47 in December 2005 compared to 32 in February 2004).

The AIG Group association

In order to reduce net indebtedness and strengthen the capital structure of Sendas Distribuidora, on November 30, 2004, Sendas, CBD and investment funds of the AIG Group - AIG entered into an agreement through which AIG invested R\$135.7 million (equivalent to U.S.\$ 50 million) in Sendas Distribuidora, through the acquisition of 157,082,802 Class B preferred shares and 2,000 Class A common shares, issued by Sendas

Distribuidora, representing 14.86% of its capital. Due to the agreement, CBD currently has a 42.57% stake in Sendas.

Pursuant to the agreement, CBD and AIG mutually granted reciprocal call and sale options for shares acquired by AIG from Sendas Distribuidora, which may be exercised within 4 years. Upon the exercise of these options, the shares of Sendas Distribuidora purchased by AIG would represent a credit, valued pursuant to a formula based on multiples of EBITDA of Sendas Distribuidora less its net debt, held by AIG against CBD, which would be used to subscribe up to three billion preferred shares issued by CBD that will be created in a future capital increase. Any excess of the credit above the three billion shares issued by CBD would be paid in cash. The price of the future issuance of preferred shares issued by CBD will be set based on market value at the time of issuance. The capital increase will also allow CBD shareholders to exercise preemptive rights with respect to preferred shares.

The Itaú CBD association

On October 27, 2004, we entered into a partnership agreement with Banco Itaú Holding Financeira, or Itaú Holding, to establish a new financial institution named Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento (FIC). FIC service kiosks in our stores have exclusive rights to offer private label and co-branded credit cards, personal and consumer credit, extended warranties and insurance. Currently, FIC kiosks are present in 322 of our stores. We and Itaú Holding each indirectly hold 50% of FIC 's capital stock. However, Itaú Holding is responsible for the management of the company, being entitled to appoint most of the company 's officers.

In 2005, FIC Financeira Itaú CBD, advanced on three fronts, recording physical and financial growth and increasing its share of sales. During the year, 308 FIC stands were installed in *Extra* (79), *Extra-Eleto* (49), *CompreBem* (90), *Sendas* (32) and *Pão de Açúcar* stores (58), almost 100% more than the initial annual target of 156. The number of clients exceeded the four-million mark in December 2005, also higher than the initial target. In fact, FIC gave priority to growing the client base in order to build a representative portfolio to work with in the coming years.

In addition, more than three million private-label cards (exclusively for use in CBD stores) were issued during the year, overtaking the number of existing cards issued by CBD 's previous financial partners. This increase in clients also allowed FIC to beat the target for share of sales.

Receivables, representing the volume of consumer financing, were also above-target in all of the established indicators, underlining the success of the annual strategy, based on growth and increased participation. As a result of this approach, FIC posted a net loss in 2005, although this should be reversed in 2007, which we expect will be the operation 's break-even year.

Co-Control by the Diniz Family and Casino

On May 3, 2005, the Diniz group (consisting of our shareholders Mr. Abilio Diniz, Península Participações Ltda., or Península, and the other members of the Diniz family that control Península) and the Casino group executed a Joint Venture Agreement, which set forth a series of transactions that resulted in equal co-control by the Casino group, on the one hand, and the Diniz group, on the other, through the Holding Company that controls CBD. On June 22, 2005, a Holding Company Shareholders ' Agreement and a new CBD Shareholders ' Agreement were entered into, superseding the 1999 shareholders ' agreement between the groups. See Item 7: Major Shareholders and Related Party Transactions Major Shareholders ' Shareholders ' Transactions. Financial settlement of the transaction occurred on July 8, 2005.

The Casino group and the Diniz group contributed 2.2 billion and 30.5 billion CBD common shares, respectively, to the Holding Company allowing the Holding Company to become our controlling shareholder by the ownership of 65.6% of the voting shares of CBD, which represents 28.8% of our share capital. Both Diniz group and Casino group

owns 50% of the common shares of the Holding Company.

On June 14, 2005, CVM sent us a letter in which it requested the acquirer of our shares under the terms of the Joint Venture Agreement to make a mandatory tender offer to the minority holders of our common shares, based on CVM's understanding that implementation of the transaction detailed in the Joint Venture Agreement would represent a transfer of our corporate control. On June 28, 2005, we filed a petition before CVM (i) requesting that its respective technical areas (*Superintendências de Registro de Valores Mobiliários e de Relações com Empresas*)

reconsider their decision dated as of June 14, 2005; or, (ii) in case of rejection of our request, submitting an appeal from such decision before the CVM's Board (*Colegiado*), in accordance with the terms of applicable regulation. Our petition was not reconsidered by CVM technical areas and in a meeting held in April 11, 2006 the CVM Committee (*Colegiado*) did not accept the appeal, instead ratifying the assessment of the technical areas of CVM and calling for the exercise of the public tender offer to acquire voting shares in the market corresponding to approximately 0.06% of our voting capital. Despite the request for registering a public offering for the acquisition of our outstanding voting shares made by Casino on May 16, 2006 before the CVM, we expressly reiterated our understanding that the corporate transaction between Diniz group and Casino group did not constitute a transfer of our control.

Co-Control

Control of CBD is in the form of equal representation of the two shareholding groups on the boards of the Holding Company and of CBD. Abilio Diniz will act as Chairman of the Holding Company for at least the first seven years of the joint venture. All corporate actions of the Holding Company require unanimity, except that certain issues, including those pertaining to the Chairmanship, quorum, and dividend policy, are governed by the Holding Company Shareholders Agreement.

The CBD board of directors is now composed of five Casino group representatives, five Diniz group representatives and four independent directors, jointly appointed by the Casino group and the Diniz group. Abilio Diniz will continue to act as Chairman of the board of directors of CBD and for at least the first seven years of the joint venture will be appointed by Diniz group. Starting June 22, 2012, the appointment of the Chairman will alternate every three fiscal years and Casino group will have the right to the first alternate appointment. A unanimous vote of a quorum of the board of directors, not including the independent directors, is required in matters involving a conflict of interest with Abilio Diniz. Specified matters, including those with respect to quorum, certain investments, and certain issuances of debt, are governed by the Holding Company Shareholders Agreement. Our Chief Executive Officer will be jointly selected by the Diniz group and the Casino group out of a list of three candidates submitted to our board of directors by Abilio Diniz.

The Diniz group has agreed to lock up its stake in the Holding Company for the first nine years following the closing of the transaction. Similarly, the Casino group has agreed to a lock up of its stake for 18 months following the closing of the transaction. At the end of these lock-up periods, the other Holding Company shareholder will generally have a right of first refusal to buy the stake, if it is offered for sale.

The Holding Company Shareholders Agreement provides that beginning in 2012, Casino may appoint the Chairman of the board of the Holding Company who could be someone other than Abilio Diniz or his designee. In the case of Casino's exercise of its right to appoint a Chairman, the shareholder agreement provides for put and call mechanisms that, if used, would change the voting control of the Holding Company. In particular, Casino's exercise of its right to appoint a Chairman would result in reduced corporate governance rights for Abilio Diniz and the Diniz group. In addition, the Diniz group may cause the Casino group to purchase a direct equity interest in the Holding Company representing 500,000,000 shares of CBD, and thereafter during a period of eight years to cause the Casino group to purchase the remaining block of shares owned by the Diniz group. If these put rights are not exercised by the Diniz group, Casino has a share call that would be sufficient to transfer share voting control. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders Transactions.

Associated real estate transactions

The real estate and buildings holding 60 stores and associated commercial malls (28 *Extra* hypermarkets, 7 *CompreBem* and 25 *Pão de Açúcar* supermarkets) with gross sales of around R\$5 billion (or approximately 30.5% of our total sales) were transferred to a real estate investment fund called Fundo de Investimento Imobiliário Península,

whose quotas are owned by a company controlled by the Diniz group (hereinafter referred as Reco Master).

On October 3, 2005 and December 30, 2005, final agreements were entered into referring to the sale of the referred real estate properties to Fundo de Investimento Imobiliário Península. The properties were transferred at their fair value. Indeed, an appraisal by independent experts with international reputation confirmed that the net book value of these properties, in the amount of R\$1,029 million, is equivalent to their fair market value. CBD and

Fundo de Investimento Imobiliário Península entered into long-term lease agreements in accordance with Brazilian market terms. In particular, rents amount to 2% of gross sales, and the term of the lease agreements will remain in effect for a period of 20 years, with two subsequent 10-year renewals at the option of CBD. CBD has also the right to exit individual stores before the termination of each lease term. The total amount paid under these leases in 2005 was R\$ 29.0 million (out of which R\$28.3 million were paid directly by CBD). CBD paid to the Diniz Group R\$ 25.5 million, on the inception date of the lease agreements, as an initial fee for entering into those long-term lease agreements.

CBD, the Diniz group, and the Casino group executed an agreement that establishes the principles governing the relationship between CBD, Reco Master and Fundo de Investimento Imobiliário Península. Pursuant to the agreement, as amended, CBD and Casino group each own a golden share issued by Reco Master, providing them with specific rights that ensure the proper use of the real estate properties by the Diniz group.

The ultimate use of the proceeds from the transfer of real estate store assets will be to reduce CBD's debt and will also enhance its ability to fund its growth.

Tax impacts of the transactions

Following completion of the transaction, the parties have agreed that Casino will contribute to CBD the acquisition goodwill generated by the Casino group as a result of its acquisitions of CBD shares, as contemplated by CVM regulation. In return, the Casino group will be entitled to receive the economic benefits of new CBD preferred shares without additional payment, to the extent that the goodwill is utilized to generate tax credits for CBD.

Casino's call option for 2.5% of share capital

Abilio Diniz and a relative have granted the Casino group a call option for a period of three years on 2.8 billion of CBD common shares at an exercise price of U.S.\$ 28 per thousand common shares. The exercise of this option by the Casino group would not affect Casino's equal control with the Diniz group of the Holding Company. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders.

4B. Business Overview

The Brazilian Retail Food Sector

The Brazilian retail food sector represented approximately 5.5% of Brazil's GDP in 2005. According to ABRAS (Brazil's supermarket association), the food retail sector in Brazil had gross revenues of R\$ 106 billion in 2005, a 7.8% increase over 2004. The Brazilian retail food sector is highly fragmented. However, despite the consolidation within the Brazilian retail food industry, the five largest supermarket chains have accounted for an estimated 40.5% of the retail food sector in 2005, down from 41.2% in 2001. We believe this consolidation will continue, and this is expected to favor large food retailers, such as us, that can take advantage of better economies of scale in the provision of services, implementation of cost-cutting and efficiency measures, and sourcing from suppliers. According to ABRAS, our gross sales represented 15.2% of the gross sales of the entire retail food sector in 2005.

Foreign ownership in the Brazilian food retail sector began with *Carrefour*, a leading French retail chain, which opened its first hypermarket 31 years ago. In the last decade, international chains such as *Wal-Mart* and *Sonae* have also entered the Brazilian market, mostly through acquisitions of domestic retail food chains, and competition in the industry has intensified. In addition to the organized retail food sector, the Brazilian retail food sector also consists of small food retailers which frequently avail themselves of access to merchandise from irregular and informal distribution channels. This merchandise usually has lower prices than those charged by manufacturers and stores in

the conventional supply chain of the organized retail food sector.

Overall supermarket penetration in Brazil today, in terms of the number of supermarkets relative to overall population and area, is estimated to be below the levels common in the United States, many western European countries such as France and some South American countries such as Chile. Management believes that the population of Brazil is an important factor affecting the potential growth in supermarket activity. According to the Brazilian Institute of Geography and Statistics, or IBGE, the total population of Brazil was approximately 184.2

million at the end of 2005, making Brazil the fifth most populous country in the world, and the population is currently growing at a rate of 1.4% per year. As approximately 83% of the population lives in urban areas, 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 economies of scale deriving from Brazil's urban growth. São Paulo, with a population of approximately 10.9 million, and Rio de Janeiro, with a population of approximately 6.1 million, are the two largest cities in Brazil. São Paulo State has a total population in excess of 40.4 million, representing approximately 21.9% of the Brazilian population. São Paulo State is the first and Rio de Janeiro is the second largest consumer market in which we operate.

The Brazilian retail sector is perceived as essentially growth-oriented, since retail margins are substantially more constrained compared to other business sectors. 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 Ibope.

| Class Level | Annual Income (in reais) |
|-------------|---------------------------------|
| A | Above R\$33,648 |
| B | Between R\$20,028 and R\$33,648 |
| C | Between R\$11,124 and R\$20,028 |
| D | Between R\$5,088 and R\$11,124 |

Class A households account for only 6% of the urban population, and class B households account for 23% of the urban population. Classes C, D and E collectively represent 71% of all urban households. In recent years, the class C, D and E households have been increasing, and now have greater purchasing power.

Current salary levels in Brazil have generally lagged compared to increases in interest and exchange rates and price levels. We expect that increased consumption by the lower income class levels will take place over time as a result of gradual increments to salary levels and a steadily growing population. As seen in the years immediately following the introduction of the *real*, even small increments in purchasing power generally result in significant increases in consumption in absolute terms, as well as increased expenditures in premium priced food products and other non-food items, including home appliances and consumer electronics.

Our Company

We are the largest food retailer in Brazil based on both gross revenues and number of stores. In 2005, we had a market share of approximately 15.2% in the Brazilian food retailing business according to ABRAS, with annualized gross sales of R\$16.1 billion. As of December 31, 2005, we operated 556 stores throughout Brazil, of which 506 were retail food stores. Of our retail food stores, 316 are located in São Paulo State, representing 58.2% of our net sales revenue from our retail food stores in 2005. São Paulo State is Brazil's largest consumer market. We are among the market leaders in the retail food stores in the cities of São Paulo, Rio de Janeiro, Brasília, Curitiba, Belo Horizonte, Salvador and Fortaleza. The Company's sales are effected through different sales formats under five banners: *Pão de Açúcar* (185 supermarkets), *CompreBem* (176 supermarkets), *Sendas* (66 supermarkets), *Extra* (79 hypermarkets) and *Extra Eletro* (50 home appliance stores).

The following table sets forth the number of our stores by region, as of December 31, 2005:

| | Greater | | South and Southeast (excluding States of São Paulo and Rio de Janeiro) (2) | | Northeast | Center West |
|------------------|------------------------------|-----------------------------------|---|----|------------------|------------------------|
| | Rest of São Paulo | State of São Paulo (1) | State of Rio de Janeiro | | | |
| Pão de Açúcar | 68 | 42 | 11 | 8 | 39 | 17 |
| Extra | 32 | 10 | 18 | 5 | 8 | 6 |
| CompreBem | 111 | 53 | 12 | - | - | - |
| Sendas | - | - | 66 | - | - | - |
| Extra Eletro (3) | 38 | 12 | - | - | - | - |
| Total | 249 | 117 | 107 | 13 | 47 | 23 |

(1) The rest of the state of São Paulo consists of 39 cities, including Campinas, Ribeirão Preto and Santos.

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

(3) Our *Extra Eletro* stores, which make up our home appliance format, were placed under the management of *Extra* in November 2002.

The following table sets forth the activity in our stores during the periods presented:

| | Pão de Açucar | CompreBem | Extra | Extra Eletro | Sendas (2) | Sé and CompreBem (1) | Total |
|-----------------------|--------------------------|------------------|--------------|-------------------------|-------------------|-------------------------------------|--------------|
| January 1, 2001 | 186 | 111 | 53 | 66 | - | - | 416 |
| Opened | 4 | 33 | 3 | 1 | - | - | 41 |
| Closed | (5) | (4) | - | (5) | - | - | (14) |
| Transferred (to)/from | (9) | 10 | (1) | - | - | - | - |
| December 31, 2001 | 176 | 150 | 55 | 62 | - | - | 443 |
| Opened | 4 | 7 | 5 | - | - | 72 | 88 |
| Closed | (5) | (12) | (1) | (8) | - | (5) | (31) |
| Transferred (to)/from | 13 | 3 | 1 | - | - | (17) | - |
| December 31, 2002 | 188 | 148 | 60 | 54 | - | 50 | 500 |
| Opened | 2 | 4 | 3 | 5 | - | - | 14 |
| Closed | (3) | (4) | (1) | (4) | - | (5) | (17) |
| Transferred (to)/from | 21 | 24 | - | - | - | (45) | - |
| December 31, 2003 | 208 | 172 | 62 | 55 | - | - | 497 |
| Opened | 2 | 1 | 2 | 2 | 69 | - | 76 |

| | | | | | | | |
|-----------------------|------|------|----|-----|-----|---|------|
| Closed | (5) | (15) | - | (2) | - | - | (22) |
| Transferred (to)/from | (9) | 7 | 8 | - | (6) | - | - |
| December 31, 2004 | 196 | 165 | 72 | 55 | 63 | - | 551 |
| Opened | 7 | 8 | 7 | - | - | - | 22 |
| Closed | (6) | (6) | - | (5) | - | - | (17) |
| Transferred (to)/from | (12) | 9 | - | - | 3 | - | - |
| December 31, 2005 | 185 | 176 | 79 | 50 | 66 | - | 556 |

(1) These stores were acquired in June 2002 and converted into one of our formats during 2002 and 2003.

(2) One new store was opened during the year and the remaining stores (68) came from the association with Sendas S.A.

Our Competitive Strengths

Our main competitive strengths are our different retail food store formats, our extensive network of distribution centers, our economies of scale, our prime locations in densely populated urban areas and growing provincial urban areas, and our high level of customer service.

Different retail food store formats

We conduct our retail food operations under three main store formats, *Pão de Açúcar*, *CompreBem/Sendas* and *Extra*, each of which has a distinct merchandising strategy and a strong brand name. We offer a variety of formats, which enables us to effectively target different consumer preferences and thus earn their loyalty. This approach, coupled with our intimate understanding of the Brazilian consumer permits us to meet diverse customer needs without confusing consumers as to the marketing or price focus of each format. Each of our brand concepts is clearly identified in the marketplace for a combination of goods and services offered and relative consumer wealth. For example, our *Pão de Açúcar* format is positioned to serve the higher income consumers through a combination of store location, store design and product and service offerings. Our second format, under the *CompreBem* and *Sendas* banners, is targeted to middle and lower income consumer brackets. Our third retail format, *Extra*, is our hypermarket format which offers the widest assortment of any of our store formats and allows us to target potential customers along the entire income spectrum. Our hypermarket stores have the additional advantage of benefiting from the general lack of department stores and specialized stores in Brazil. As a result, a retailer such as an *Extra* store that also sells non-food products such as household appliances, consumer electronic products, general merchandise, clothing and textiles is particularly convenient to a Brazilian consumer.

Extensive network of distribution centers

We operate distribution centers strategically located within the cities of São Paulo, Brasília, Fortaleza, Curitiba, Rio de Janeiro and Recife. Our distribution centers have a total storage capacity of 380,000 square meters of built-in area. Our management believes that our network of distribution centers is the most extensive and technologically advanced product distribution center network in the Brazilian retail food industry. We believe that our facilities are capable of servicing substantially all of our distribution requirements, both for our existing stores and for the stores that we currently plan to open in the near future. Approximately 83% of our inventory in 2005 came directly from a distribution center instead of a supplier, a substantial increase from 72% in 2001, resulting in higher bargain power with suppliers, fewer inventory shortages, lower shrinkage and improved working capital management. Many of the functions of our distribution centers are automated, allowing for quicker and more efficient handling of products. Our distribution centers are supported by sophisticated systems which other Brazilian retailers lack, including *pd@net*, a business-to-business technology platform which links our computer automated ordering system, our suppliers and our distribution centers to automatically replenish our inventory.

Economies of scale

We enjoy significant economies of scale resulting from our position as the largest food retailer in Brazil. Our large scale gives us increased bargaining power with suppliers, resulting in lower prices for consumers, higher operating margins and more favorable payment terms. Our size permits us to benefit from important marketing channels including prime time television advertising, one of the most effective means to promote sales, which would be prohibitively expensive for smaller retail chains. Our scale also enables us to make major operational investments, such as in technology, which generates attractive returns. Our size and financial strength, compared to most other supermarket chains in Brazil, has put us at the forefront of the Brazilian retail industry in using information technology and in continually improving our sophisticated management information systems.

Prime locations in densely populated urban areas and growing provincial urban centers

Since we started our operations in 1959, we have been able to accumulate store locations for our *Pão de Açúcar* and *Extra* stores in prime sites that offer significant competitive advantages. Our older stores in São Paulo and Brasília are located in high traffic residential neighborhoods and, as a result, the average monthly sales per square meter in these stores is substantially higher than that of the average supermarket in Brazil. Since prime real estate in these

urban areas in Brazil is scarce, new stores would be prohibitively expensive for competitors. Our recent association with *Sendas* in the state of Rio de Janeiro enabled us to add numerous high quality locations.

High level of customer service

All of our store formats offer a broad selection of quality products in a pleasant shopping environment that emphasizes customer service. We believe that our emphasis on employee training and our commitment to employee loyalty lead to higher levels of customer service which differentiates us from our competitors. We have also developed customer loyalty and recognition programs which we believe enhance our competitive position. For our

Pão de Açúcar, *CompreBem-Sendas* and *Extra* formats, we offer a preferred shopping card, which customers present at checkout and which collects information on the shopping patterns of our customers and offers credit products. Based on this information, we also offer personalized discounts to our customers. We were also the first Brazilian food retailer to appoint a customer liaison to voice opinions, suggestions and complaints on behalf of customers. We have won several awards from industry associates for our innovative service such as *Prêmio SM Excelência no Varejo* (the excellence in retail award) given by a group of industry professionals.

Offering of additional products and services

In the past several years, we have begun to expand our range of complementary products and services in an effort to enhance our customer satisfaction and provide additional revenue sources. For example, with respect to the *Extra* hypermarket format, we have begun to provide additional services tailored to the specific needs of *Extra*'s broad base of customers, such as gasoline stations within the parking area of *Extra* stores. In addition, we have successfully test marketed and are currently incorporating drugstores into our existing store formats. Our recent association with *Sendas* has greatly expanded our presence in drugstore services.

During 2005, our partnership with Itaú Holding, to exploit financial products and services at CBD's stores, was enhanced. The main product is private label cards that attracted more than 3.2 million card holders by the end of the year. FIC partnership allows CBD, to offer its customers a wider variety of credit products and facilities.

The main benefits offered by FIC are: lower risk and cheaper funding, due to the presence of a strong financial partner; increase in investments and technological updating, as Itaú's core business includes the investment in this type of activity; better quality products and higher profitability for the Company; wider products and services portfolio, such as personal credit, insurance, etc; and reduction of operating expenses.

Our Strategy

Our strategy is focused on pursuing increased efficiency, allowing us to operate with lower costs and expenses and greater competitiveness. The resulting gains will allow us to become even more competitive, thereby boosting our main performance indicator – growth of same-store sales – in turn generating greater assets turnover and higher returns. In 2005, our focus was to identify opportunities for improving efficiency, whereas in 2006 the goal is to consolidate these initiatives, thereby ensuring a virtuous circle of increased profitability and competitiveness. We therefore drew up and implemented several initiatives throughout the year that will allow us to achieve the main goal of trimming costs and expenses and becoming more efficient.

- Commercial Dynamic Project

Resulting from the new management model, which brought together the purchasing and category-management areas, the Commercial Dynamic project is a key ingredient of our strategy. By revising the management model, processes and systems related to these two areas, it will ensure greater efficiency in such aspects as negotiations with suppliers, defining the best product assortment, pricing strategies, promotions and product display.

- Zero Base Budget

The adoption of this methodology is designed to ensure that our budgets are determined in a more rational manner, taking into account real needs and/or what really adds value to the operation. The next step was to construct a ranking of proposed expenditures in order to prioritize those most relevant to achieving our strategic goals. In order to ensure that expenditures are monitored in the most efficient manner, we also adopted, in line with Zero Base Budget, a model whereby executives' variable compensation will be tied to meeting the expenditure targets.

- Shared Services Center

In order to eliminate the overlapping of internal tasks and procedures that have arisen from the growth of our administrative area in recent years, we created an area which will concentrate all our repetitive and bureaucratic operational services, i.e. those that do not involve such aspects as strategy, decision taking or creation. In practice, they can be reduced to certain activities in the accounting, human resources, property management and treasury areas, among others. Initially, the center will map out the various departments' demands and needs in relation to

these activities in order to identify how the associated processes take place. Centralization will allow them to be carried out in a more rational manner, in line with real demand. Subsequently, we intend to identify opportunities for boosting productivity and reducing expenses.

- New purchasing area for non-saleable products and services

This new area was set up to unify the acquisition of products and services not destined for resale, which had previously been handled by various corporate areas. These purchases, involving items that are essential for the day-to-day functioning of our offices and stores, such as cleaning materials, paper, outsourced services, electric power, water, airfares, etc., amount to around R\$ 2 billion per year. The aim is to provide the area with the same expertise we use when acquiring the products sold in our stores. This means making maximum use of its bargaining power, which will translate into more fruitful supplier negotiations backed by the most up-to-date negotiating techniques.

- Cancellation of marketing contracts

CBD cancelled all its contracts with outside marketing agencies and concentrated all publicity activities for its store banners in the hands of PA Publicidade, an agency belonging to the Group.

All the above mentioned initiatives already implemented in the Company aim at increasing efficiency by reducing costs and expenses. Our main objective is to be more price-competitive and boost same-store sales.

Additionally, CBD is investing in competitive advantages, such as:

- To strengthen brand-positioning advantages, with each store banner developing marketing and consumer-relations activities for their respective target publics;
- To restructure e-commerce operations, with an emphasis on non-food items, thereby strengthening *Extra*'s share of this important sales channel;
- To reinforce non-food operations in general, with an emphasis on home electronics and appliances, textiles and household/auto/gardening items, consolidating the *Extra* brand as a national reference and increasing in-and-out initiatives;
- To increase private-label sales in all store banners, thereby boosting sales margins;
- To increase the share of gas stations and drugstores in all store banners by opening new stores, helping cement customer loyalty and increasing store traffic;
- To strengthen the activities of Financeira Itaú CBD (FIC) by developing products and services that represent new forms of revenue generation and act as important mechanisms for building loyalty and increasing store traffic.

Further improve efficiencies

We continually seek to improve operating efficiencies in connection with our supply chain. We were one of the first supermarket chains in Brazil to equip our stores with a point of sale, or POS, system and utilize a computer automated ordering system that automatically replenishes our inventory. We intend to improve operating efficiencies in other stages of the supply chain, particularly product outflow, by increasing the volume of merchandise going

through our distribution centers. In 2005, approximately 83% of our inventory came directly from one of our distribution centers instead of a supplier. In the past year, we combined our perishable and groceries departments in an effort to rationalize and reduce costs and we consolidated our non-food product area and our flower department in order to achieve operating efficiency. Also, as part of our strategy, we intend to substantially increase our cross-docking capability, which should result in working capital savings and lower inventory levels. We also intend to improve handling to further decrease stock-outs, breakage and shrinkage and delivery costs. For example, we are exerting pressure on suppliers to ship their products in amounts that are less than a full pallet which we feel will result in cost savings through lower levels of spoilage.

Private Label strategy

Private-label and first-price products constitute one of the main components of our strategy for the next

four years. Our aim is to double sales of private-label and best-price products, which will not only give us an extra edge over our competitors, but should also strengthen customer loyalty.

In the fourth quarter of 2005, therefore, we developed a new private-label brand for all our stores – the *Escolha Econômica* (literally Economical Choice) line. As its name implies, it aims to offer products at the lowest price in the market. Our intention is to boost competitiveness by forming a strong association between the our stores and low prices; to generate store traffic by attracting price-conscious consumers; to expand the range of low-priced products; to increase our bargaining power within our industry; to maintain consumption patterns among customers whose purchasing power has diminished; and to promote experimentation among customers with more rigid consumption patterns that habitually consume certain products. The idea is to offer the products with the highest sales volume in each of 400 categories of items.

In 2005, we launched 60 *Escolha Econômica* items, as well as 318 other private-label ones: *Pão de Açúcar* (86), Good Light (10), Mister Valley (14), *CompreBem* (40), Sendas (113) and Extra (55). Both private-label and best-price items recorded substantially higher gross profits than in 2004. Over the period from 2001-2005, sales have increased at an average annual rate of 70%.

Seasonal performance was also strong. At Easter time, private-label Easter egg sales moved up 48% compared to sales a year earlier. They were accompanied a series of free gifts, such as characters from Sítio do Pica Pau Amarelo (a famous series of Brazilian children's books), Robots and Disney Pixar characters. At Christmas time, we launched seven seasonal items, including meat products (*Tender* ham; *Pernil* leg of pork; and *Ave Natalina*- chicken), and new varieties of *panettone* (honey bread for Extra and *Pão de Açúcar* and the introduction of the previous year's favorite cream fudge into the *CompreBem* and Sendas stores). Period sales volume jumped 56% over 2004.

Another of the year's highlights was the construction of the Innovation Center, which will substantially step up the development of private-label items. It comprises two areas: the consumer research center, where products are tested with consumers against leading brands to ensure that they can compete in quality with the best in the market; and the culinary center, responsible for devising the new products in association with the suppliers and for creating the recipes that will eventually appear on the packaging. In less than a year of operations, 138 consumer tests and 176 technical tests were carried out and 82 courses were offered

Operations

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats at December 31, 2005:

| | 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 |
|----------------------|-----------------|---------------------|--|--|---|--|
| <i>Pão de Açúcar</i> | Supermarkets | 185 | 247,164 | 1,336 | 14,580 | 24.2% |
| <i>CompreBem</i> | Supermarkets | 176 | 214,500 | 1,219 | 8,581 | 16.4% |
| <i>Extra</i> | Hypermarkets | 79 | 590,890 | 7,480 | 23,266 | 48.7% |
| <i>Extra Eletro</i> | Home | 50 | 33,713 | 674 | 571 | 1.7% |

| | | | | | | |
|--------------------------------------|---------------------|-----|-----------|-------|--------|--------|
| | appliance stores | | | | | |
| <i>Sendas</i> | Supermarkets | 66 | 119,987 | 1,818 | 6,189 | 9.0% |
| Head office & distribution center | - | - | - | - | 9,616 | - |
| Total | | 556 | 1,206,254 | 2,170 | 62,803 | 100.0% |

(1) Full-time equivalent number of employees calculated by dividing total number of hours worked by all employees in the month of December 2005 by 220 hours.

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

Pão de Açúcar Stores

Pão de Açúcar operates convenient neighborhood stores. Our *Pão de Açúcar* stores are predominantly located in large urban areas (with over one-third located in the greater São Paulo City area). We believe this to be a significant competitive advantage since available sites in those urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers, whose minimum annual household income exceeds R\$20,028. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and a high level of personal service, with an average of 59 employees per 1000 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 offer shopping advisors to assist customers with inquiries about particular food needs, prices, special discounts and brand information. *Pão de Açúcar* stores also offer private label products, including the *Goodlight* brand of health food products.

We had 185 *Pão de Açúcar* stores at December 31, 2005. The *Pão de Açúcar* stores range in size from 331 to 4,730 square meters and averaged 1,336 square meters of selling space at December 31, 2005. The sale of food products represented 93.3% and non-food products represented 6.7% of *Pão de Açúcar* net sales revenue in 2005. *Pão de Açúcar* customers can also make purchases on-line through *paodeacucar.com.br*, the *Pão de Açúcar* website. This site is available to customers in the cities of São Paulo, Rio de Janeiro, Brasília and Curitiba.

Pão de Açúcar recorded gross sales of R\$ 3.9 billion in 2005, versus R\$ 4.0 billion in 2004. The decline was primarily due to the conversion of 12 stores to the *CompreBem* format and by a slowdown in consumption and food deflation.

Nevertheless, *Pão de Açúcar* maintained its 2004 market share. This was mainly thanks to the good performance of the stores in the more cosmopolitan regions, whose sales increased. Such stores are responsible for 75% of total sales.

The remaining 25%, located in regions where there is strong price competition, were more affected by the market variations, albeit not unduly.

In order to counter the declining price of certain food products, there was a more pronounced specialization in certain items regarded as strategic, such as coffee, wine, olive oil, and bread. A variety of initiatives were implemented to reinforce *Pão de Açúcar*'s presence in these categories and encourage their purchase, thereby adding value, increasing consumers' understanding of the product and generating a healthier cost/benefit ratio.

These initiatives were not limited to enhancing product variety, but also involved services that supplied consumers with additional information through specialist talks, posters, leaflets and blackboard notices, equipping them to make more knowledgeable purchase decisions. One such example was a pilot project involving wine, whereby customers could make use of touch-screen terminals to seek information on the product in question. We intend to extend this procedure to other products.

In order to improve productivity, we established a project to permit continuous store monitoring. We created a series of tools allowing managers to undertake a more detailed analysis of sales behavior and, subsequently, introduce staffing levels more appropriate to day-to-day store movement. The pursuit of best practices continued throughout the year and *Pão de Açúcar* stores across the board were subjected to internal expense-reduction benchmarks in order to boost productivity.

Following a study carried out during the year, the *Pão de Açúcar Mais* program, a preferred shopper/fidelity card, will be overhauled and relaunched in six stores in 2006. The new program will hopefully be self-sustaining and will attract consumers.

CompreBem/Sendas Stores

CompreBem supermarkets offer competitive prices and essential services. *CompreBem* stores target the Brazilian class C and class D household consumers, whose annual household income is less than R\$20,000 and which collectively make up approximately 85% of all urban households. Accordingly, *CompreBem* stores are located in lower-income neighborhoods compared to *Pão de Açúcar* stores. Generally, *CompreBem* stores offer more competitively priced products than *Pão de Açúcar* stores. In addition, these stores are characterized by a lower level of personal service than *Pão de Açúcar* stores, with an average of 40 employees per 1000 square meters of store space.

We have a private label preferred shopper/fidelity card, the *Clube CompreBem* card, which is currently used by approximately 700,000 customers. This card, in addition to assisting us in the collection of consumer shopping data, allows us to offer customers credit products.

We had 176 stores under the *CompreBem* banner at December 31, 2005. *CompreBem*'s stores range in size from 300 to 5,092 square meters and averaged 1,219 square meters of selling space at December 31, 2005. In 2005, non-food items accounted for approximately 8.1% and food items accounted for approximately 91.9% of *CompreBem* net sales revenue.

The *Sendas* communications strategy is aligned to the *CompreBem* format. However, emphasis will be placed on the regional characteristics of the Rio de Janeiro market, such as a strong presence on television. Another goal will be the revitalization of the banner's image as a prestigious brand that celebrated its 45th anniversary in second quarter of 2005.

Sendas ended 2005 with 66 stores and gross sales of R\$1.4 billion. Its focus was on the profitability of the business and its brand repositioning in the state of Rio de Janeiro, and the resulting revitalization of the banner's image among consumers.

The changes followed the same pattern adopted by the *CompreBem* chain and were aimed at making *Sendas* the main supermarket option for middle class women in Rio de Janeiro.

CompreBem and *Sendas* had an exceptionally good year in 2005, particularly *Sendas*, with sales up 20% as compared to 2004. *CompreBem* also did well, recording gross sales of R\$ 2.6 billion, up 7.7% .

One of the main factors behind these results was the conversion of 60 *Sendas* stores in Rio de Janeiro, incorporating the new positioning focused on the lower end of the middle-income spectrum, developed in 2004 for the *CompreBem* stores. The project, undertaken between February and June, consumed around R\$ 100 million in remodeling and recuperation of the banner's image. This enhanced alignment of *Sendas* stores with the *CompreBem* model also helped recoup *Sendas*' image in Rio and it increased its market share (according to Nielsen, which tracks retail performance). The investment was quickly rewarded in terms of performance, with growth accelerating as of June. *Sendas* closed the year with CBD's best results.

Despite these advances, there are still many challenges ahead due to the nature of the Rio market, which is more competitive than other regions and demands higher expenditure. One initiative that will certainly help reduce expenses is the new commercial framework, under which a good deal of the business' management was transferred to São Paulo, with only operations, regional supplier development and marketing remaining in Rio. Another positive step was the conversion of five ABC stores in Rio to the *Sendas* format.

In 2005, *CompreBem* replaced 12 *Pão de Açúcar* stores, which were out of alignment with the latter's positioning, mostly located in São Paulo state (outside the capital), and six Coopercitrus ones, acquired by CBD in May 2005. In the case of these six, a new store model was created, called *City Supermarket*, which functions as a small hypermarket in towns, which do not have this type of establishment. One example is the store in Barretos, which has 3,500 square meters of floor space and differs from its competitors in its greater attention to non-food lines, including an extensive home electronics and appliance range, a bigger household/auto/gardening area and a streamlined textile section. The aim of the format is to complement existing food sales, thereby attracting more customers.

In conjunction with FIC, there were a number of initiatives geared towards pleasing customers with *CompreBem* and *Sendas* cards, but the undoubted highlight was the in-and-out initiatives, dubbed "now or never" in both stores, designed to reinforce the low-price image and increase traffic of consumers. In order to supply consumers with the

products in question with a focus on non-food items that are not part of the store's normal mix whose total or installment price is low, the association with FIC was crucial in ensuring low installment payments

Extra /Extra Eletro Stores

Extra hypermarkets are the largest of our stores. We introduced the hypermarket format to 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, with approximately 70,000 items and an average selling area of 7,480 square meters at December 31, 2005. The *Extra* stores target the Brazilian class B, class C and class D household consumers, whose annual household income ranges from R\$11,100 to R\$56,000. At December 31, 2005, we had 79

Extra stores. The sale of food products represented 63.3% and non-food products represented 36.7% of *Extra*'s net sales revenue in 2005.

In general, the year was dominated by the consolidation of initiatives and processes begun in previous years and whose results should become apparent in 2006. In addition to strengthening basic services, such as reducing checkout waiting periods and improving the quality of perishables, *Extra* stores also concentrated on more strategic aspects such as private-label and best-price products; means of payment (by putting greater emphasis on *Extra* credit cards); the creation of new services, such as digital photo development; expanding the gas stations and drug stores (currently raising the number of each to 52 and 117, respectively); and reinforcing the *Cartão Presente* (a gift-voucher card), which was restructured and will be relaunched in new format in 2006.

One of the year's highlights was the introduction of *Mundo Casa (Home World)*, a space dedicated to homes uniting products from three categories—consumer electronics and home appliances, household/auto/gardening items and textiles. In order to give customers all the information they need, salespersons were trained in the knowledge of all the items involved.

Another pioneering initiative was a detailed customer profile survey, including data on the number of customers per store and frequency of their visits, allowing stores to adapt to changes in day-to-day customer behavior and *Extra* stores to introduce specific neighborhood initiatives in order to increase sales.

The focus on perishables, which has become one of *Extra*'s key features, also continued throughout the year with the creation of the third employee training module, which introduced new, standardized techniques designed to improve the quality with which these products are treated by staff, in turn improving competitiveness.

Extra Eletro stores are generally small showrooms that sell a broad range of home appliances and consumer electronic products. These stores had an average selling area of 674 square meters at December 31, 2005. Customers place orders in the stores, and products are shipped from a central warehouse. At December 31, 2005 we had 50 *Extra Eletro* stores, all of which are in the state of São Paulo.

In 2005, *Extra-Eletro* closed the year with 50 stores and gross sales of R\$ 305.0 million. The focus of the year was the street stores that were subjected to changes in layout and product mix in order to increase their sales and profitability. Also, we launched a pilot project in a single store, in which a space was dedicated to homes, in line with the hypermarket concept of *Mundo Casa (Home World)*. This involved the introduction of categories not normally associated with such stores, such as decorative items and textiles. Geared towards the B and C income groups, consumer electronics and home appliances are expected to account for 70% of sales and the new products for the remaining 30%.

Capital Expansion and Investment Plan

As part of our capital expansion and investment plan, we have invested approximately R\$3.6 billion in our operations since 2001. Our investments have included:

Acquisitions of supermarket and hypermarket chains—Since 2001, we have acquired and merged 172 stores, consisting of numerous supermarket chains and individual stores. Through our acquisition of the *Barateiro* chain in 1998, we inaugurated a new store format targeted specifically to lower income consumers. In addition, when entering new markets, we have generally sought to acquire local supermarket chains to benefit from their existing know-how of the geographic region. As a result, these acquisitions have enabled us to expand our operations to locations outside of the state of São Paulo, particularly Rio de Janeiro and some northeastern Brazilian states.

We acquired the Sé Supermercados chain of supermarkets in 2002. The purchase price was R\$386.4 million, including the assumption of debt in the amount of R\$124.4 million. On January 23, 2003, we sold the Sé trade name for R\$0.3 million, as requested by the Conselho Administrativo de Defesa Econômica (CADE), the principal Brazilian antitrust authority. We have spent an aggregate of R\$415.6 million on acquisitions since 2001.

The following table presents information regarding these acquisitions and the regional distribution of the stores we acquired over the past five years:

| Year | Chains Acquired | Number of Stores | Geographic Distribution |
|------|---|------------------|---------------------------------|
| 2001 | ABC Supermercados | 26 | Rio de Janeiro: 26 |
| 2002 | Sé Supermercados (60) and <i>CompreBem</i> (12) | 72 | São Paulo: 60 Pernambuco: 12 |
| 2004 | <i>Sendas</i> ^(*) | 68 | Rio de Janeiro: 68 |
| 2005 | Coopercitrus | 6 | São Paulo: 6 |
| | Total | 172 | |

(*) Association See item 4A The *Sendas* Strategic Partnership

Opening of new stores As part of our expansion strategy, we have opened 68 new stores since 2001, including 19 *Pão de Açúcar* stores, 20 *CompreBem* stores, 20 *Extra* stores, 8 *Extra Eletro* stores, and 1 *Sendas* store. The total cost of these new stores was R\$1,091.4 million. We seek real estate properties for constructing or renovating stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities that suits one of our formats. We also tend to enter new regional markets with the construction of a hypermarket.

Renovation of existing stores We have remodeled *Pão de Açúcar*, *CompreBem Barateiro*, *Extra* stores, *Sendas* and *Extra Eletro* stores every year. Our renovation program allows us to add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information systems. The total cost of renovating these stores was R\$1,366.1 million.

Improvements to information technology We have been committed to technology as an important component in our pursuit of greater efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We implemented a computer automated ordering system, which automatically replenishes our inventory based on consumers' shopping habits. We have a proprietary technology system, the *pd@net*, a B-2-B, or business to business, platform for the on-line integration of approximately 7,000 suppliers. This Internet process enables information to be exchanged rapidly, precisely and transparently among all participants in the supply chain. For more information, see Technology. We have spent an aggregate of R\$415.2 million on information technology since 2001.

Expansion of distribution facilities Since 2001, we have opened distribution centers in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro and Recife. 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\$103.1 million on our distribution facilities since 2001.

The following table provides a summary description of our principal capital expenditures disbursed for the last three years:

| | Year Ended December 31, | | |
|------------------------------|-------------------------|---------|---------|
| | 2005 | 2004 | 2003 |
| | (millions of reais) | | |
| Opening of new stores | \$317.3 | \$140.6 | \$140.1 |
| Acquisition of retail chains | 21.5 | 2.3 | 2.0 |
| Purchases of real estate | 72.0 | 39.9 | 31.9 |
| Renovations | 359.3 | 300.5 | 283.3 |
| Information technology | 109.5 | 69.9 | 73.3 |
| Distribution centers | 20.0 | 6.2 | 11.1 |
| Total | \$899.6 | \$559.4 | \$541.7 |

CBD invested R\$ 899.6 million in 2005, mostly in opening new stores and remodeling the 60 *Sendas* stores, which were totally renovated and adapted to our standards. Another portion went towards the advance purchase of strategic sites that will form part of our Investment Plan in the next two years.

Annual organic growth in 2005 was strong, with the inauguration of seven *Extra* hypermarkets and eight supermarkets, seven *Pão de Açúcar* stores and one *CompreBem* store, as well as eight gas stations and 42 drug stores. We also acquired the *Coopercitrus* chain, located in the midwest of São Paulo state, with gross sales of R\$ 154.0 million in 2004. The six stores and three gas stations were converted to the *CompreBem* format.

In addition to being remodeled and upgraded, three *ABC Barateiro* stores were converted to the *Sendas* format during the year, and 12 *Pão de Açúcar* stores were converted to the *CompreBem* format. Information technology and logistics investments involved, respectively, the substitution of hardware and software and the upgrading and renovation of the distribution centers.

In 2006 and 2007, the Company plans to open 16 to 20 hypermarkets and 40 to 60 supermarkets, which should increase sales by 6% to 8% per year.

Our Board of Directors approved the Investment Plan for 2006 totaling R\$935.0 million in the year, earmarked for opening new stores, gas stations and drugstores; site acquisitions; renovations and maintenance of existing assets.

Supply and Distribution

Supply. We have centralized purchasing for our *Pão de Açúcar*, *CompreBem*, *Extra* and *Extra Eletro* stores. We purchase substantially all of our food products on a spot or short-term basis from unaffiliated suppliers. In the aggregate, we purchase up to 170,000 products from approximately 10,000 suppliers. In 2005, no single supplier accounted for more than 6% of total goods purchased. Our 10 largest suppliers in 2005 collectively accounted for 28% of our purchases, and we believe that we are not dependent on any single supplier.

Distribution. In order to distribute perishable food products, grocery items and general merchandise efficiently, we operate 18 distribution centers strategically located within the cities of São Paulo, Brasília, Fortaleza, Curitiba, Rio de Janeiro and Recife, with a total storage capacity of 380,000 square meters of built-in area. We were the first retailer in Brazil to have a centralized distribution center. The locations of our distribution centers make it possible for us to

make frequent shipments to stores, which reduce the need of in-store stockroom space, and limits non-productive store inventories. CBD has an efficient logistics operation, with an 83% centralization level, which enables it to have lower logistics costs and higher productivity gains. In addition, the higher productivity is related to recent investments in new distribution centers: flowers, fish, frozen products, fruits and vegetables. This performance has enabled the Company to operate the supply chain with the lowest costs of its history.

In 2005, our distribution centers focused on reducing expenses by developing initiatives aimed at adding value and cutting logistics costs.

One such initiative was the structuring of the distribution network, which involved more suppliers delivering their goods to the regional distribution centers, thereby strengthening the regionalization process and reducing CBD's freight costs. Another was the introduction of more compact loads, enabling trucks to carry a

greater volume of merchandise, in turn reducing the number of trips. Logistics costs were further trimmed by streamlining operating processes within the distribution centers, which increased productivity and rationalized workforce numbers.

In addition, monitoring procedures were introduced, which led to a substantial decline in the out-of-stock index, the national benchmarking level. Aside from the reduction itself, the initiatives also focused on processes that resulted in more efficient controls over breakages involving those products with the highest turnover.

Relationships with suppliers were strengthened by the consolidation of our Top Log suppliers' certification system, which ranks suppliers and helps develop a better relationship between CBD and its suppliers, which generated strong results. Meetings were held with more than 60 suppliers, during which CBD was able to broaden its knowledge of their logistics, while suppliers also improved their understanding of our distribution and logistics, enabling the development of several joint process-improvement initiatives. At the end of the year, 13 suppliers were certified as having achieved the proposed objectives, which were based on indicators related to level of service, out-of-stock indicators and joint projects.

In addition to strengthening the supply framework in the Northeast, with the construction of a new distribution center for grocery and non-food items and the remodeling of the old facility which was turned into a perishable center, we also tripled the capacity of our seafood center. Previously limited to supplying 30 *Extra* stores in São Paulo state, the seafood operation now covers all stores, including in other states. The flower center, located in Holambra, in the state of São Paulo, was also expanded to and began to supply Rio de Janeiro.

Marketing

Our marketing strategy is to further enhance the quality image of our stores and to emphasize our selection and service and our competitive and fair prices. Each store banner executes its own marketing strategy designed to promote its particular strengths and to appeal to its customer base. In 2005 and 2004, we spent approximately R\$202.3 million and R\$260.5 million, respectively, on advertising (approximately 1.5% of total net sales revenues in each year).

We spent 36.0% in 2005 and 22.0% in 2004 of our total marketing expenditures on radio, newspaper and magazine advertising. In addition, television accounted for 25.9% of advertising expenses in 2005 and 30.2% in 2004. We spent 38.1% in 2005 and 47.8% in 2004 on other promotional activities.

We centralize the purchasing of advertising time or space for all of our stores, which enables us to reduce marketing expenditures. CBD cancelled all its contracts with outside marketing agencies and concentrated all publicity activities for its store banners in the hands of PA Publicidade, an agency belonging to the Group. While our primary advertising focus is on specific brand name, price, and quality-related promotions, we also regularly promote our store brands through sponsorships and sporting and cultural events, endorsements and support of environmental activities.

We have further developed our marketing initiatives through the *Pão de Açúcar Mais* card, the first preferred shopper/fidelity relationship card in the Brazilian retail industry, and the *Clube CompreBem* card. Through these programs we continue to collect customer information in an effort to offer more personalized services and products to shoppers who use our stores. We have also developed a private label strategy pursuant to which our various stores sell high quality products at competitive prices. The principal advantages of this private label strategy have been improved brand loyalty to our brands and increased leverage with our suppliers because our private label products are similar in quality to, but more favorably priced than, leading brands.

Credit Sales

In 2005, 49.6% of our net sales revenue were represented by credit sales in the form of credit card sales, installment sales, post-dated checks and purchase vouchers. In 2004, 48.0% of our net sales revenue was represented by credit sales.

Credit card sales. All our store formats accept payment for purchases with MasterCard (*Credicard*), Visa, Diners Club, American Express or our co-branded credit cards. We also offer private label credit cards, whose use is limited to our stores. Sales to customers using credit cards accounted for 37.1% of our net sales revenue in 2005. In 2004, sales through credit cards accounted for 36.5% of our net sales revenue. An allowance for doubtful

accounts is not required as credit risks are substantially assumed by third parties. Our Itaú CBD partnership provides credit products and services at CBD's stores, which involves private label and co-branded credit cards.

Installment sales. Our *Extra Eletro* stores and *Extra* hypermarkets offer attractive consumer financing to our customers who frequently purchase electronic goods or home appliances, respectively, on an installment basis. The consumer credit installment term in 2005 averaged 10 months, with fixed interest payments averaging approximately 4.0% per month throughout 2005. We borrow funds approximately equivalent to the consumer credit financing we extend through our sales of electronics. The consumer financing is generally for a term of up to 24 months and is funded by our borrowing on a shorter-term basis at fixed rates. In 2005, installment sales accounted for 2% of our total net sales revenue.

Post-dated checks. Post-dated checks are commonly used financial instruments in Brazil to make purchases. Post-dated checks are executed by a consumer with a future date (up to 90 days) instead of the date of the purchase. The retailer typically deposits the check only as of this future date, and interest for the time elapsed is included in the amount of the check. We currently have post-dated check programs in which interest is computed on the settlement amount based upon a fixed monthly rate of interest (to a lesser extent, for certain promotional programs no interest is charged). We limit the availability of post-dated checks to customers who meet our credit criteria and who hold our identification card. Over 380,000 customers use the programs on at least a monthly basis. Sales to customers using post-dated checks accounted for 3.0% of our net sales revenue in 2005 (4.4% in 2004).

As part of the credit approval process, we require each customer to complete a credit application. The applicant must also provide a taxpayer's identification number, identification card, proof of residential address and current pay stub or other evidence of income as part of the application process. We then run a credit check with local credit reporting services and with SPC and SERASA, both of which are national credit reporting services, to determine a credit limit. We also input the data regarding the client and any purchases into our database.

Purchase vouchers. We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 7.5% of our net sales revenue in 2005, compared to 7.1% in 2004. An allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties.

Technology

We have been at the forefront of the Brazilian retail industry in using information technology. We were one of the first supermarket chains in Brazil to equip its stores with a POS system and the first major food retailer in Brazil to equip every one of its checkouts with this technology. We invested R\$63.3 million in technology in 2005 and R\$69.9 million in 2004.

Considered an important competitive advantage, information technology operates in harmony with our strategic guidelines, seeking solutions and tools to sustain and simplify internal processes. Aligned with the changes undergone by CBD during the year, the area played a fundamental role in the integration of the Commercial and Category Management areas.

The main goal was to furnish a package of instruments and aids which, in addition to providing support, would transform the new business model's proposed changes into reality. With this in mind, systems and tools were developed which would allow the two areas to work together and have access to the same information, with the same indicators, ensuring transparency in commercial relations, cost and margin calculations, etc.

In the Business Intelligence area, the team came up with a new type of intelligence gathering tool, which allows us to analyze the prices of all our competitors in all the leading cities. Its novelty lies in the enhancement of the interface with the database, which already existed, but was endowed with a wider range of consultative and graphic features, allowing managers and executives to broaden their analytical spectrum.

The area handled the updating of more than 9,000 points-of-sales machines in the entire Group and the migration of 4,500 software programs from DOS to Linux, allowing CBD to expand the applications of these machines to include even more front-line services to its customers.

Another highlight was the implantation of new budget planning system that can be updated on-line. In addition to integrating the Sales, Category Management and Commercial areas, it also allowed these areas to carry

out their planning activities with greater ease and speed.

On the innovation front, studies into the application of smart tags moved ahead, with the development of the first pilot project using this technology in the Latin American retail sector. CBD was also the first supermarket company to offer its customers *wifi* (wireless broadband internet access), now available in 20 *Pão de Açúcar* stores, and was responsible for installing Brazil's first self check-out facility, in the *Pão de Açúcar* store in Real Parque in the state of São Paulo. This allows consumers to make their own product bar-code readings and pay for their purchases, without the need for check-out personnel.

Competition

The Brazilian food retailing business is highly competitive and has experienced consolidation in recent years. In 2005, the three largest food retailers in Brazil accounted for 38.0% of the organized sector sales, which consist of sales by companies enrolled in ABRAS, Brazil's supermarket association. In 2005, we accounted for 15.2% of the organized sector sales according to ABRAS. We believe that consolidation will continue to take place, not only within the food retail market but also other segments of the retail industry. For example, hypermarkets are expected to gain market share in apparel, general merchandise, consumer electronics, furniture, home development and other non-food categories because of a general lack of department stores and specialized stores in Brazil. We have continued our growth strategy by focusing on regions where we can reinforce our presence. As part of our expansion strategy, we have also focused on the needs and expectations of different consumers by developing store formats that respond to different household income levels. Although we operate stores in many regions throughout Brazil, the size, wealth and importance of the São Paulo State have led us to concentrate our stores in this particular market. In 2005, sales in São Paulo State accounted for 60% of our total sales. In São Paulo State and throughout Brazil, we compete principally on the basis of location, price, image, quality and service. In the retail food market, our competition includes hypermarkets, supermarkets and traditional wholesalers. Our principal competitors are multinational retail food chains, local supermarkets and grocery stores.

The main competitor of our *Extra* hypermarket is *Carrefour*, a leading French retail food chain, which at December 31, 2005 operated 399 retail stores principally in the southeast and south of Brazil. At December 31, 2005, *Carrefour* accounted for 11.8% of the organized sector's sales according to data from ABRAS. *Wal-Mart*, which as of December 31, 2005 operated 295 stores in Brazil, is also a competitor in the hypermarket and supermarket format with an 11.0% market share.

Pão de Açúcar has different competitors in each of the markets where we operate. In São Paulo State, we compete principally with a number of local supermarkets and grocery stores such as Sonda, Pastorinho, Carrefour, Mambo, Futurama and Wal-Mart. The main competitor of *Pão de Açúcar* in Brasília is Champion, the supermarket division of *Carrefour*, Super Maia, Super Cei and Big Box. In the state of Rio de Janeiro, our *Pão de Açúcar* format competes with Supermercados Mundial and Zona Sul. In Paraíba, Pernambuco, Ceará and Piauí, our main competitors are local supermarkets and Bompreço (Wal-Mart).

CompreBem - Sendas also faces different competitors depending on the particular regional market. In the state of São Paulo, *CompreBem* faces strong competition from a number of smaller regional chains. The main competitors of *CompreBem - Sendas* in the state of Rio de Janeiro are Guanabara, Champion and Mundial.

In other regional markets, we compete within the organized food retail sector as well as against several medium and small chains and family-owned and operated food retail businesses, which are estimated to represent approximately 50% of overall food sales in Brazil. Other organized food retail chains among our competitors include *Sonae* and *Bompreço*, owned by *Wal-Mart* in Brazil.

The principal competitors of our *Extra Eletro* stores are Casas Bahia and Ponto Frio (Globex), each of which operates in São Paulo State.

Other U.S. and international retailers may enter into the Brazilian retail market, either directly, by forming joint ventures or by acquiring existing chains. Some of these potential competitors may have greater financial resources than us. Moreover, to the extent that other large international food retailers enter the Brazilian market or

the retail sector continues to consolidate through the acquisition of local supermarket chains, our market share may be adversely affected.

Regulatory Matters

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

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

As a result of significant inflation during long periods in the past, it is commonly the practice in Brazil not to label individual items. Currently, there exists uncertainty regarding the requirement for price labeling each individual item. This uncertainty derives from a conflict between federal and state laws on the subject. State laws allow other pricing methods, such as the posting of signs and the placement of scanners for bar codes, which are the prevailing commercial practices. If the conflict is not resolved in a manner consistent with our current pricing practices and we are compelled to place price tags on each individual item, we would lose flexibility in carrying out our sales and may incur increased labor costs in connection with the affixing of price tags. However, we do not believe that our business would be adversely affected in a material way.

The Brazilian Congress is considering a bill requiring a prior assessment of the impact of the construction of a hypermarket in excess of 1,000 square meters on the relevant neighborhood. The proposed regulation is intended to protect traditional family-owned retailers that have increasingly lost market share in Brazil to the larger chains and hypermarkets. Regulations of this type already exist at the municipal level. For example, governmental authorities in the city of Porto Alegre in the state of Rio Grande do Sul issued a city ordinance in January 2001 prohibiting construction of food retail stores with a selling area greater than 1,500 square meters, which in May 2005, was amended as to increase from 1,500 to 2,500 square meters the selling area of food retail stores. Other jurisdictions may adopt similar laws, and, if the bill pending before the Brazilian Congress becomes law, our future expansion and growth may be subject to significant constraints.

4C. Organizational Structure

Companhia Brasileira de Distribuição conducts our operations. Our investments in subsidiaries are effected primarily to acquire the share capital of other retail chains from third parties. In most cases, the retail operations are transferred to retail stores under existing banners or the stores acquired begin operating under our banners. All our operations are conducted under the *Pão de Açúcar*, *CompreBem*, *Sendas*, *Extra* and *Extra Eletro* banners.

4D. Property, Plant and Equipment

We own 47 stores, seven warehouses and a part of our headquarters. The remaining 509 stores and 6 warehouses we operate and the remainder of our headquarters are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 47 leases expiring in 2006. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31,

2005, we leased 21 properties from members of the Diniz family and 60 stores from Fundo de Investimento Imobiliário Península. Management believes that these leases are on terms at least as favorable to us as we could get from an unrelated party. See Item 7B Major Shareholders and Related Party Transactions Related Party Transactions Leases.

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that is owned and leased as of December 31, 2005:

| | Owned | | Leased | | Total | |
|----------------------|--------|-------------------------------|--------|-------------------------------|--------|-------------------------------|
| | Number | Area (in square meters) | Number | Area (in square meters) | Number | Area (in square meters) |
| <i>Pão de Açúcar</i> | 28 | 44,994 | 157 | 202,170 | 185 | 247,164 |
| <i>Extra</i> | 8 | 56,890 | 71 | 534,000 | 79 | 590,890 |
| <i>Extra Eletro</i> | 3 | 3,624 | 47 | 30,089 | 50 | 33,173 |
| <i>CompreBem</i> | 6 | 4,960 | 170 | 209,540 | 176 | 214,500 |
| <i>Sendas</i> | 2 | 2,153 | 64 | 117,834 | 66 | 119,987 |
| <i>Warehouses</i> | 7 | 286,589 | 6 | 93,411 | 13 | 380,000 |
| <i>Headquarters</i> | | 28,591 | | 13,043 | | 41,634 |

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5A. Operating Results

The following discussion should be read in conjunction with our consolidated financial statements as of December 31, 2005 and 2004 and for the three years ended December 31, 2005, appearing elsewhere in this annual report, and in conjunction with the consolidated financial statements included under Item 3A Key information Selected Financial Data.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

We have prepared our consolidated financial statements at December 31, 2005 and 2004 and for the three years ended December 31, 2005 in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with Brazilian GAAP and presented in *reais*, which differs in significant respects from U.S. GAAP. See note 22 to our consolidated financial statements for an explanation of these differences.

Discussion of Critical Accounting Policies

Management strives to report the financial results of the company in a clear and understandable manner, even though in some cases accounting and disclosure rules are complex and require us to use technical terminology.

In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Although we review these estimates and assumptions in the ordinary course of business, the portrayal of our financial condition and results of operation often requires our management to make judgments regarding the effects of inherently uncertain matters on the carrying value of our assets and liabilities. Actual results may differ from those estimated under different variables, assumptions or conditions. We provide below a summarized discussion of the following significant accounting policies involving these management judgments, including the variables and assumptions underlying the policies:

- Inventories and payments from suppliers;

- Leases;
- Valuation of long-lived assets;
- Goodwill; and
- Deferred taxes.

Inventories and payments from suppliers

Inventories are carried at the lower of cost or market. We record the inventory losses (shrinkage) throughout the year. No provision is required at year-end since we hold physical inventory count on the last business day of the year in the vast majority of stores and in our distribution centers.

We receive cash consideration from suppliers for various programs, primarily volume incentives, warehouse allowances and reimbursements for specific programs such as markdowns, margin protection and cooperative advertising. Volume bonuses and discounts are received from suppliers in the form of product as zero-cost additions to inventories and the benefit is recognized as the product is sold. Discounts and bonuses in cash are recorded to income at cost of sales when certain conditions are fulfilled. Substantially all cash consideration from suppliers are accounted for as a reduction of item cost and recognized in income when certain conditions are fulfilled and the related inventory is sold.

Leases

Under Brazilian GAAP, leases are treated as operating leases and the expense is recognized at the time that each lease installment falls due. Under U.S. GAAP, we estimate the expected term of leases of our stores by assuming the exercise of renewal options, which are at the sole discretion of the Company. This expected term is used in the determination of whether a store lease is capital or operating and in the calculation of straight-line rent expense. Additionally, the useful life of leasehold improvements is limited by the lease term.

Valuation of long-lived assets

Under Brazilian GAAP, companies are required to determine if operating income is sufficient to absorb the depreciation or amortization of long-lived assets in order to assess potential asset impairment. In the event such operating income is insufficient to recover the depreciation, the assets, or groups of assets, are written down to recoverable values, preferably based on the projected discounted cash flows of future operations. Under U.S. GAAP, in accordance with SFAS No. 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

A determination of the fair value of an asset and estimating recoverability require management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic and industry trends, interest rates and changes in the marketplace. A change in the assumptions and estimates that we use could change its estimate of the expected future net cash flows and lead to the recognition of an impairment charge in results of operations relating to our property and equipment.

Goodwill

Under Brazilian GAAP, goodwill arises from the difference between the amount paid and the Brazilian GAAP book value (normally also the tax basis) of the net assets acquired. This goodwill is normally attributed to the difference between the book value and the market value of assets acquired or justified based on expectation of future profitability and is amortized on a straight line basis over the remaining useful lives of the assets or up to ten

years. Goodwill in a subsidiary subsequently merged into its parent is reclassified to deferred charges or property and equipment.

For U.S. GAAP, fair values are assigned to assets acquired and liabilities assumed in business combinations, including intangible assets. The difference between of consideration paid over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (FAS 142) requires that, effective January 1, 2002, goodwill, including those in the carrying value of investments accounted for under the equity method and certain other intangible assets deemed to have an indefinite useful life, cease to be amortized. FAS 142 also requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. Goodwill is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of certain goodwill may be impaired. This evaluation requires management to make judgments relating to future cash flows, growth rates, economic and market conditions. These evaluations are based on discounted cash flows that incorporate the impact of existing company businesses. Historically, the company has generated sufficient returns to recover the cost of goodwill and other intangible assets. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted.

Deferred Taxes

We compute and pay income taxes based on results of operations determined under Brazilian GAAP. Under Brazilian GAAP and U.S. GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance if, under U.S. GAAP, it is more likely than not that the deferred tax assets will not be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Under Brazilian GAAP, deferred tax assets are recorded when recoverability is considered probable, limited to the assets which will be recovered over the following 10 years against estimated taxable income at present values. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income. In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors, such as economic and industry trends, interest rates, changes in our business strategies and changes in the type of services it offers to the market. The use of different assumptions and estimates could significantly change our financial statements. A change in the assumptions and estimates with respect to our expected future taxable income could result in a reduction in deferred tax assets being charged to income. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or discount rates, the time period over which the underlying temporary differences become taxable or deductible, or any change in its future projections, we could be required to establish a valuation allowance against or write off all or a significant portion of our deferred tax assets resulting in a substantial increase of our effective tax rate and a material adverse impact on operating results. Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax asset will not be realized and the projection if estimated future taxable income is considered only for a short period of time.

Restatement of Previously Issued Financial Statements

As discussed herein and in Notes 22(e) and 22(f)(ii) of our consolidated financial statements, we have restated at December 31, 2004 amounts presented under U.S. GAAP in relation to information derived from our U.S. GAAP consolidated statements of operations for the year ended December 31, 2003 for corrections in our accounting for amortization of leasehold improvements and cash consideration received from vendors. Throughout this Annual Report, all referenced U.S. GAAP amounts for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

Subsequent to the issuance of our financial statements for the year ended December 31, 2003, our management adjusted the accounting for leasehold improvements to amortize the leasehold improvements over the estimated useful lives of the assets or the primary lease terms of the respective lease including only those renewals options exercisable at the sole discretion by us, whichever is shorter. Consequently, net income for the year ended December 31, 2003 was decreased in the amount of R\$ 11.6 million, net of tax effects (see Note 22(f)(ii) to our consolidated financial statements). Additionally, we recognized that we had not applied the provisions of EITF 02-16 in relation to the recording of cash consideration received from vendors in 2003 and consequently we restated our net income for the year ended December 31, 2003 related to the application of EITF 02-16 in the amount of R\$30.7 million, net of tax effects (See Note 22(e) to our consolidated financial statements).

Overall Impact of the Restatement

The schedule below shows the effects of the restatement on reported earnings, earnings per share (basic and diluted). The restatement decreased U.S. GAAP net income for the year ended December 31, 2003. This amount had previously been reported as net income without having taken into account the correction of amortization period for leasehold improvements, retroactively to December 31, 2001, and the requirement of EITF 02-16 which was adjusted as at December 31, 2003 and for the year then ended. We restated at December 31, 2004 our consolidated financial statements to properly present our results of operations and financial condition in accordance with U.S. GAAP.

The correction of the adjustments from the accounting treatment for amortization of leasehold improvements and cash consideration received from vendors resulted in the following additional charges:

| | Before tax effects | Tax effects | Net of tax Effects |
|---|----------------------------|-------------|-----------------------|
| | (millions of reais) | | |
| Net income for the year ended December 31, 2003 | | | |
| Cash consideration received from vendors | (40.9) | 10.2 | (30.7) |
| Leasehold improvements | (15.5) | 3.9 | (11.6) |
| | (56.4) | 14.1 | (42.3) |

| | As previously reported | Adjustment | As restated |
|---|--|-------------------|--------------------|
| | (millions of reais, except earnings per share amounts which are stated in reais) | | |
| Net income for the year ended December 31, 2003 | 335.5 | (42.3) | 293.2 |
| Earnings per thousand shares | | | |
| Basic preferred shares | 3.12 | (0.39) | 2.73 |
| Basic common shares | 2.84 | (0.36) | 2.48 |
| Diluted preferred shares | 3.11 | (0.39) | 2.72 |
| Diluted common shares | 2.84 | (0.36) | 2.48 |

The impacts on our U.S. GAAP consolidated statements of income information for the years ended December 31, 2003, arising from the correction on the amortization of leasehold improvement accounting policies resulted, in the additional depreciation and amortization expenses of R\$ 15.4 million. The impacts on our U.S. GAAP consolidated Balance Sheet information as at December 31, 2003, decreased property and equipment, net, and total assets by R\$ 32.3 million and R\$ 24.3 million, respectively, and decreased shareholders' equity by R\$24.3 million.

The impacts on our U.S. GAAP consolidated statements of income information for the year ended December 31, 2003, arising from the correction of the accounting of cash consideration received from vendors, resulted in the

additional charges of R\$40.9 million being recorded as Cost of sales. The impacts on our U.S. GAAP consolidated balance sheet information as at December 31, 2003, decreased inventories, current assets and total assets by R\$ 40.9 million, R\$ 30.6 million and R\$ 30.6 million, respectively, and decreased shareholders' equity and working capital by the amount of R\$ 30.6 million.

U.S. GAAP Reconciliation

Our net income in accordance with Brazilian GAAP was R\$ 257.0 million in 2005, R\$369.8 million in 2004 and R\$225.5 million in 2003. Under U.S. GAAP, we would have reported net income of R\$ 270.6 million in 2005, R\$488.9 million in 2004 and R\$293.2 million in 2003.

Our shareholders' equity in accordance with Brazilian GAAP was R\$ 4,252.4 million at December 31, 2005, R\$4,051.0 million at December 31, 2004. Under U.S. GAAP, we would have reported shareholders' equity of R\$ 4,148.0 million at December 31, 2005 and R\$3,922.5 million at December 31, 2004.

The principal differences between Brazilian GAAP and U.S. GAAP that affected our net income in 2005, 2004 and 2003, as well as shareholders' equity at December 31, 2005 and 2004, are described in note 22 to our consolidated financial statements. The major differences relate to the accounting treatment of the following items:

- Supplementary inflation restatement of permanent assets and shareholders' equity in 1996 and 1997;
- Capitalized interest;
- Leasehold improvements;
- Deferred gain on FIC transactions;
- Deferred charges and other intangible assets;
- Business combinations;
- Accounting for a put option;
- Cash consideration received from vendors;
- Sale leaseback transactions;
- Deferred income taxes, and
- Consolidation of Sendas Distribuidora.

Brazilian Economic Environment

As a Brazilian company with all of our operations in Brazil, we are significantly affected by economic and social conditions in the country. In particular, our results of operations and financial condition, as reported in the financial statements included in Item 18, have been affected by the growth rate of the Brazilian gross domestic product and the rate of Brazilian inflation. Our results of operations and financial condition have also been affected by the rate of depreciation of the Brazilian currency against the U.S. dollar. See "Effects of Fluctuations in Exchange Rates between Real and U.S. Dollar" Effects of Exchange Rate Variation and Inflation on Our Financial Condition and Results of Operations.

Gross Domestic Product

After several years of steady economic growth following the introduction of the *Real* Plan in 1994, the Brazilian economy entered into a downturn in late 1998 that was exacerbated by a significant currency devaluation beginning in mid-January 1999. As a result, gross domestic product, or GDP, grew in constant terms by only 0.2% in 1998. The economic slowdown resulted in generally flat demand in the Brazilian retail industry as GDP grew by 0.8% in 1999.

The recovery of the economy in 1999, in the wake of the 32.4% devaluation of the local currency against the U.S. dollar and the strong fiscal adjustment produced by the public sector, led to strengthened consumer

confidence. In 2000, GDP grew by 4.4% . GDP increased by only 1.4% in 2001, principally as a result of the electric energy shortage in Brazil, decreased consumer confidence following the Argentina crisis and the September 2001 terrorist attacks. In 2002, GDP increased by only 1.5%, principally as a result of the political uncertainty in Brazil relating to the presidential elections, the continued economic and political uncertainties in Argentina, the political uncertainties in Venezuela and the global economic slowdown.

The social security system reform was implemented, which was considered an essential element for restoring medium and long-term solvency of the Brazilian public sector.

In 2003, Brazil's economy began to improve. Investor confidence increased as the new administration largely followed the macroeconomic policies of the previous government, including its focus on fiscal responsibility. However, GDP decreased 0.2% on average in real terms during 2003. This contraction was largely due to the effect of high interest rates during the first half of the year.

The Brazilian economy grew 2.3% in 2005, as a result of increased exports and the recovery of domestic consumption. While all the sectors of the economy experienced impressive growth rates in 2005, the industrial sector grew the fastest, by 2.5%, as compared to 2004. Although strong growth of the export economy has played an important role in Brazil's economy, the recovery of internal demand is largely responsible for the overall turn around of the Brazilian economy. In addition to the strengthening domestic economy the appreciation of the *real* is partially due to the worldwide depreciation of the U.S. dollar. The base interest rates increased from 17.75% at the end of 2004 to 18.0% by the end of 2005. This increase was effected largely to control inflationary pressures.

The Brazilian economy has grown 1.4% during the first quarter of 2006. The value of the *real* appreciated to R\$2.1724 per U.S. dollar at March 31, 2006, as compared with R\$2.3407 at December 31, 2005. The Central Bank decreased the base interest rate from 18.0% to 15.3% during the first five months of 2006.

Our business is directly affected by the macroeconomic trend of the global economy in general and the Brazilian economy in particular. If interest rates rise and the Brazilian economy enters a period of continued recession, demand for our products and services is likely to be negatively affected. Further, continuing depreciation of the Brazilian *real* against the U.S. dollar and the consequent inflation would reduce the purchasing power of Brazilian consumers, negatively affecting the ability of our customers to pay for our products and services. Future *real* devaluations would also affect our profit margins by increasing the carrying costs of our U.S. dollar and other foreign currency denominated debt and our other costs and expenses based on the U.S. dollar and other foreign currencies. If Brazil experiences significant inflation rates, we may be unable to increase prices charged to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected as a consequence.

Inflation and Devaluation

The Brazilian general price (IGP-M) and consumer price (IPCA) inflation indices and the devaluation of the Brazilian currency against the U.S. dollar are presented below:

| | | Five months ended | Year ended December 31, | | | | |
|-----------|-----------|------------------------------|--------------------------------|-------------|-------------|-------------|-------------|
| | | May 31, 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
| Inflation | IGP-M (1) | 0.7% | 1.2% | 12.4% | 8.7% | 25.3% | 10.4% |
| Inflation | IPCA (2) | 1.7% | 5.7% | 7.6% | 8.7% | 12.5% | 7.7% |

Nominal devaluation (appreciation) of the *real* against the
U.S. dollar

(1.1%) (13.4%) (8.8%) (22.3%) 34.3% 15.7%

(1) *Índice Geral de Preços Mercado* (general price index) compiled by the Fundação Getúlio Vargas.

(2) *Índice de Preços ao Consumidor Amplo* (consumer price index) compiled by IBGE, the Brazilian Institute of Geography and Statistics.

Effects of Fluctuations in Exchange Rates between *Real* and U.S. Dollar

Effects of Exchange Rate Variation and Inflation on Our Financial Condition and Results of Operations

The depreciation or appreciation of the *real* against the U.S. dollar has had and may continue to have multiple effects on our results of operations. Exchange gains and losses arising from our transactions in U.S. dollars

(excluding transactions which are covered by cross-currency interest rate swaps) are recorded directly in our statement of operations. Significant foreign exchange losses arose from our U.S. dollar-denominated loans at the time of the devaluation of the *real* in early 1999. Since the adoption of our treasury policy in late 1999 designed to mitigate the effects of foreign currency variations, we have generally consummated cross-currency interest rate swaps to cover the foreign exchange and interest rate risk on virtually all U.S. dollar-denominated loans, foreign currency exposures and a portion of our capital lease agreements. We have excluded from this policy our import financing. The devaluation (appreciation) of the *real* was (13.4)% in 2005, (8.8)% in 2004, (22.3)% in 2003 and 34.3% in 2002.

Inflation and exchange rate variations have had, and may continue to have, effects on our financial condition and results of operations. One significant effect of inflation and exchange rate variations relates to our costs and operating expenses. Substantially all our cash costs (i.e., other than depreciation and amortization) and operating expenses are in *reais* and tend to increase with Brazilian inflation because our suppliers and service providers generally increase prices to reflect Brazilian inflation.

The devaluation of the *real* affects the amount available for distribution when measured in U.S. dollars. Amounts reported as available for distribution in our statutory accounting records prepared under Brazilian GAAP will decrease or increase when measured in U.S. dollars as the *real* depreciates or appreciates, respectively, against the U.S. dollar. In addition, the devaluation of the *real* creates foreign exchange losses which are included in the results of operations determined under Brazilian GAAP which affect the amount of unappropriated earnings available for distribution.

Since late 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial portion of our U.S. dollar-denominated liabilities for obligations denominated in *reais*. Our treasury policy has been to swap all foreign currency debt at fixed rates for *reais* debt using a fixed percentage of a floating rate, except for import financing and a portion of our capital lease agreements.

We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in *reais* and interest at a percentage of an interbank (*Certificado de Depósito Interbancário* - CDI) variable interest rate. The term of the swap contract matches the term of the underlying obligation; we have not terminated any of our contracts prior to maturity. The counter-parties to these contracts are major financial institutions that have acceptable credit ratings. We do not have significant exposure to any single counter-party.

We use these derivative financial instruments for purposes other than trading and do so only to manage and reduce our exposure to market risk resulting from fluctuations in interest rates and foreign currency exchange rates.

We record both the interest expense from the original loan and the net realized and unrealized effect of the results of the cross-currency interest rate swaps under Financial expense interest expense. If the results of applying the variation of the U.S. dollar plus the original fixed coupon, that is, the original characteristics of the financial instrument, exceed the product of applying the CDI rate, we record this benefit reducing our Financial expense interest expense to reflect the gain accruing as a result of our having opted to swap the currency and interest rate components. If the inverse were to occur, an additional charge is recorded under Financial expense interest expense to reflect the loss accruing as a result of our having opted to swap the currency and interest rate components. Accordingly, if the *real* devalues against the U.S. dollar, the cross-currency interest rate swaps assure that we mitigate the effects of the loss from the devaluation.

Tax Environment

We are currently involved in tax proceedings as discussed in note 14 to our consolidated financial statements. We have accrued our estimate of the costs for the resolution of these claims when we consider the loss of our claim to be probable and for existing tax obligations under dispute. The tax contingencies relate primarily to taxes on revenue, social security contributions and income tax. We have identified probable losses and existing tax obligations under dispute in the amount of R\$1,076.9 million at December 31, 2005 (R\$922.3 million in 2004) that have been provided as liabilities in on our consolidated financial statements. This estimate has been developed based on consultation with outside legal counsel handling our defense in these matters and is based upon an analysis

of potential results, assuming a combination of litigation and settlement strategies. We do not believe these tax proceedings will have a material adverse effect on our financial position. It is possible, however, that future results of operations could be materially affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings. For more information on our tax proceedings, see Item 8A Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings.

Income taxes in Brazil generally include federal income tax and social contribution. The composite tax rate is 34%, comprised of income tax (15% plus a surtax of 10% on taxable income exceeding R\$20,000 per month, or R\$60,000 per quarter, or R\$240,000 per year) and social contribution tax (9%). In June 1990, we filed for an injunction seeking protection for non-payment of the social contribution, which we claimed to be unconstitutional based on the fact that this tax should have been enacted by a complementary law to the Brazilian constitution. We, but not our subsidiaries, obtained a favorable decision from the lower court in March 1991. Although no appeal was presented by the federal government, pursuant to Brazilian law, this lawsuit was submitted to mandatory review of the Regional Federal Court, which in February 1992 confirmed the lower court's decision. As a result, we do not pay the social contribution based on this February 1992 decision. Based on the opinion of our legal counsel, we believe the federal tax authorities have no further legal recourse available to collect this contribution on a retroactive basis. Nevertheless, the federal government may still try to collect the unpaid social contribution on profits or replace the current one by establishing a new social contribution on profits. Accordingly, we have provided no social contribution tax for the periods presented.

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 around twice as much as the average sales revenues in the other months.

2005 Business and Economic Environment

Over the year, we perceived a family-income reallocation process, especially among low- and medium-income families, with a higher level of consumption of durable goods and the consolidation of new consumption habits. The likely incorporation of these new habits - such as the use of cell phones and the Internet - should result in more income being allocated to the acquisition of non-durable consumer goods.

Certain Operating Data

The following table presents the net sales revenue in *reais* for each of our store formats for the years ended December 31, 2005, 2004 and 2003.

| | Year Ended December 31, | | | | | |
|------------------------------------|--|-------|-----------|-------|-----------|-------|
| | 2005 | | 2004 | | 2003 | |
| | (millions of <i>reais</i> , except percentage amounts) | | | | | |
| Net sales revenue by store format: | | | | | | |
| <i>Pão de Açúcar</i> | \$3,244.9 | 24.2% | \$3,315.2 | 26.4% | \$3,435.5 | 31.8% |
| <i>Extra</i> | 6,532.3 | 48.7 | 5,996.2 | 47.8 | 5,195.0 | 48.1 |
| <i>Extra Eletro</i> | 232.8 | 1.7 | 240.1 | 1.9 | 254.6 | 2.3 |
| <i>CompreBem</i> | 2,194.3 | 16.4 | 2,015.4 | 16.0 | 1,921.3 | 17.8 |

| | | | | | | |
|-------------------------|------------|--------|------------|--------|------------|--------|
| <i>Sendas</i> | 1,209.1 | 9.0 | 998.1 | 7.9 | - | - |
| Total net sales revenue | \$13,413.4 | 100.0% | \$12,565.0 | 100.0% | \$10,806.4 | 100.0% |

Results of Operations for 2005, 2004 and 2003

The following table summarizes our historical results of operations for the years ended December 31, 2005, 2004 and 2003.

Year Ended December 31,

| | 2005 | | 2004 | | 2003 |
|--|------|--|------|--|------|
|--|------|--|------|--|------|

(millions of reais , except percentages)

Statement of operations data**Brazilian GAAP:**

| | | | | | | |
|--|-----------|--------|-----------|--------|-----------|--------|
| Net sales revenue | 13,413.4 | 100.0 | 12,565.0 | 100.0 | 10,806.4 | 100.0 |
| Cost of sales | (9,438.1) | (70.4) | (8,891.5) | (70.8) | (7,764.3) | (71.8) |
| Gross profit | 3,975.3 | 29.6 | 3,673.5 | 29.2 | 3,042.1 | 28.2 |
| Selling, general and administrative expenses | (2,868.8) | (21.4) | (2,690.1) | (21.4) | (2,183.6) | (20.2) |
| Depreciation and Amortization | (625.3) | (4.7) | (489.6) | (3.9) | (454.3) | (4.2) |
| Financial income | 446.7 | 3.3 | 330.3 | 2.6 | 575.3 | 5.3 |
| Financial expense | (683.5) | (5.1) | (618.3) | (4.9) | (760.1) | (7.0) |
| Equity | (16.2) | (0.1) | 5.3 | 0.1 | (8.8) | (0.1) |
| Operating income | 228.2 | 1.7 | 211.1 | 1.7 | 210.6 | 2.0 |
| Non-operating income, net | 32.1 | 0.2 | 80.3 | 0.6 | 5.2 | 0.1 |
| Income before income taxes | 260.3 | 1.9 | 291.4 | 2.3 | 215.8 | 2.1 |
| Income tax (expense) benefit: | | | | | | |
| Current | (133.9) | (1.0) | (39.0) | (0.3) | (31.4) | (0.3) |
| Deferred | 80.9 | 0.6 | 88.5 | 0.7 | 41.1 | 0.3 |
| Employee profit sharing | (14.5) | (0.1) | (14.3) | (0.1) | - | - |
| Minority interest | 64.2 | 0.5 | 43.2 | 0.3 | - | - |
| Net income | 257.0 | 1.9 | 369.8 | 2.9 | 225.5 | 2.1 |

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net sales revenue. Net sales revenue increased by 6.8% to R\$13,413.4 million in the year ended December 31, 2005 from R\$12,565.0 million in the year ended December 31, 2004. Our sales performance was negatively affected by strong deflation in many categories, especially perishables and commodities, resulting from excessive offering of some products and the appreciation of the *Real* against the dollar. In addition, consumers spent a smaller share of their income on food, due to the financing burden derived from the acquisition of durable goods (installment payments and consigned loans).

Pão de Açúcar net sales revenue decreased by 2.1% to R\$3,244.9 million in 2005 from R\$3,315.2 million in 2004. This decrease was mainly due to the conversion of 12 stores to the *CompreBem* banner during 2005.

CompreBem/Sendas stores had an exceptionally good year in 2005. *CompreBem* net sales revenue increased by 8.9% to R\$2,194.3 million in 2005 from R\$2,015.3 million in 2004, principally as a result of store conversions from other banners to the *CompreBem* format. *Sendas* net sales revenue increased 21.1% to R\$1,209.1 million in 2005 from R\$998.1 in 2004. One of the main factors behind these results was the conversion of 60 *Sendas* stores and repositioning in the state of Rio de Janeiro. Additionally, as a result of higher price competitiveness, *Sendas* presented the best performance among CBD s banners.

Extra stores net sales revenue increased by 8.9% to R\$6,532.3 million in 2005 from R\$5,996.2 million in 2004, principally as a result of the opening of 7 new stores in 2005, as well an increase in non-food sales.

The net sales revenue of *Extra Eletro* stores decreased by 3.1% to R\$232.8 million in 2005 from R\$240.1 million in 2004. This performance was impacted by the closing of 5 stores during the fiscal years of 2005.

Gross Profit. Gross profit increased by 8.2% to R\$3,975.3 million in 2005 from R\$3,673.5 million in 2004. This improvement is due to a combination of better negotiation with suppliers and improvement in our management of pricing.

Selling, General and Administrative Expenses. In 2005, selling, general and administrative expenses reached R\$ 2,868.8 million, a 6.7% increase over 2004. Total expenses in the year were equivalent to 21.4% of net sales, the same level reported in 2004, despite the reduced sales scenario and, consequently, lower dilution of expenses.

Depreciation and Amortization. Depreciation and amortization increased by 27.7% to R\$625.3 million in 2005 from R\$489.6 million in 2004. We anticipated the recognition of the effects of NBC Brazilian Accounting Standards - T 19.5 which modifies the leasehold improvements amortization criteria. Thus, starting in 2005, we started to account for the leasehold improvements according to the contractual terms of the leases, disregarding any expectation of contract renewals. The adoption of this accounting procedure generated additional depreciation of R\$86.5 million in 2005.

Financial Income. Financial income increased by 35.2% to R\$446.7 million in 2005 from R\$330.3 million in 2004, mainly due to higher income from cash investments.

Financial Expenses. Financial expenses increased by 10.6% to R\$683.5 million in 2005 from R\$618.3 million in 2004, due to higher average interest rates over 2004 and impacting on our debt and reserves.

Operating Income. Operating income increased by 8.1% to R\$228.2 million in 2005 from R\$211.1 million in 2004, as a result of the effects described above.

Non-operating Income. Non-operating income decreased by 60% to R\$32.1 million in 2005 from R\$80.3 million in 2004. This was mainly due to: i) income of R\$ 38.1 million, derived from gains of the joint venture with Itaú (FIC); ii) income of R\$11.4 million resulting from the sale of real estate assets to Grupo Diniz, for which CBD received an amount higher than the book value of the assets; and iii) a write-off of closed stores throughout the year of 2005.

Income Before Income Taxes, Employee Profit Sharing and Minority Interest. Income before income taxes and minority interest decreased by 10.7% to R\$260.3 million in 2005 from R\$291.4 million in 2004 due to the effects described above.

Income Tax Benefits (Expense). In 2005, we had an income tax expense of R\$53.0 million as compared to an income tax benefit of R\$49.5 million for 2004. The income tax benefit in 2004 arose, primarily, due to the benefit from tax-deductible shareholder dilution in our investee Miravalles. In addition, the effective rate in 2005 and 2004 was (20.4)% and 17.0% in comparison with the statutory rate of 25%.

Employee Profit Sharing. The profit sharing paid in 2005 to employees was R\$ 14.5 million compared to R\$ 14.3 million in 2004.

Net Income. Net income decreased by 30.5% to R\$257.0 million in 2005 from R\$369.8 million in 2004, mainly due to non-operating income and by the difference in the income tax line.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Sales Revenue. Net sales revenue increased by 16.3% to R\$12,565.0 million in the year ended December 31, 2004 from R\$10,806.4 million in the year ended December 31, 2003. Approximately R\$998.1 million of this increase can be attributed to the addition of Sendas 60 supermarkets and 8 hypermarkets to our operations. On a same-store

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basis, our net sales revenue increased by 5.1% from 2003 to 2004, as explained below for each of our banners.

Pão de Açúcar's net sales revenue decreased by 3.5% to R\$3,315.2 million in 2004 from R\$3,435.5 million in 2003. This decrease was due to our opening new stores in late 2003 and two new stores in 2004, offset by the conversion of nine stores to the *CompreBem* banner.

Extra's net sales revenue increased by 15.4% to R\$5,996.2 million in 2004 from R\$5,195.0 million in 2003, principally as a result of the opening of new stores in late 2003 and two new stores in 2004, and the conversion of eight *Sendas* stores into *Extra* stores.

CompreBem's net sales revenue increased by 4.9% to R\$2,015.4 million in 2004 from R\$1,921.3 million in 2003, principally as a result of store conversions from other banners to the *CompreBem* format.

The net sales revenue of *Extra Eletro* stores decreased by 5.7% to R\$240.1 million in 2004 from R\$254.6 million in 2003. The performance of the *Extra Eletro* stores was adversely affected by high interest rates that reduced consumer confidence and their willingness to buy durable goods on credit.

Sendas Supermercados's net sales revenue was R\$998.1 million in 2004. As a result of our partnership with *Sendas* described above, *Sendas Supermercados* was created in February of 2004, which includes 60 supermarkets.

Gross Profit. Gross profit increased by 20.8% to R\$3,673.5 million in 2004 from R\$3,042.1 million in 2003. This increase can be attributed to the initiation of our partnership with *Sendas*, represented by 68 new stores, as well as seven new stores opened during the year and efficient price management. Gross profit as a percentage of net sales revenue increased to 29.2% in 2004 from 28.2% in 2003.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses include personnel, marketing, rent and other expenses. Selling, general and administrative expenses increased 23.2% to R\$2,690.1 million in 2004 from R\$2,183.6 million in 2003, principally as a result of the increase in the number of our stores in late 2003 and in 2004. As a percentage of net sales revenue, selling, general and administrative expenses were 21.4% in 2004 and 20.2% in 2003.

Depreciation and Amortization. Depreciation and amortization increased by 7.8% to R\$489.6 million in 2004 from R\$454.3 million in 2003, principally due to an increase in depreciation from the investments made in 2003 (R\$541.7 million) and in 2004 (R\$559.4 million) related to remodeling and re-equipping of some existing stores in late 2003 and in 2004, the opening of new stores in late 2003 and in 2004 and our continued investment in information technology and distribution centers. The amortization in 2004 includes the amount of R\$ 22.2 million relating to the amortization of the goodwill generated for the strategic partnership between CBD and *Sendas*.

Financial Income. Financial income decreased by 42.6% to R\$330.3 million in 2004 from R\$575.3 million in 2003, principally due to decreased interest income on lower cash equivalents balances in the first half of the year, as well as lower credit revenues due to the weakness in durable goods sales.

Financial Expenses. Financial expenses decreased by 18.7% to R\$618.3 million in 2004 from R\$760.1 million in 2003, resulting mainly from lower funding rates due to a general decline in interest rates.

Operating Income. Operating income increased by 0.2% to R\$211.1 million in 2004 from R\$210.6 million in 2003, as a result of the effects described above.

Non-operating Income. Non-operating income includes the net gain by dilution of the capital subscription in Miravalles. Such gain was reduced by the disposal of certain assets related to the implementation costs for startup of operations.

Income Before Income Taxes, Employee Profit Sharing and Minority Interest. Income before income taxes and minority interest increased by 35.0% to R\$291.4 million in 2004 from R\$215.8 million in 2003 due to the effects described above.

Income Tax Benefits (Expense). In 2004, we had an income tax benefit of R\$49.5 million as compared to an income tax expense of R\$9.7 million for 2003. The income tax benefit in 2004 rose, primarily due to the benefit from tax-deductible shareholder dilution in our investee Miravalles, as compared to the income tax benefit from the reversal of valuation allowance against net operating loss carryforwards in 2003.

Employee Profit Sharing. The profit sharing paid in 2004 to the employees were R\$ 14.3 million.

Net Income. Net income increased by 64.0% to R\$369.8 million in 2004 from R\$225.5 million in 2003, for the reasons described above.

5B. Liquidity and Capital Resources

We have funded our operations and capital expenditures principally from operating cash flows, loans obtained from the Brazilian National Bank for Economic and Social Development, or BNDES and issuances of debentures. At December 31, 2005, we had R\$1,710.8 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents in order to be in a position to respond immediately to liquidity requirements. In addition, we borrow funds from local Brazilian banks approximately equivalent to the consumer credit financing we extend through our *Extra Eletro* and *Extra* formats and our post-dated check programs for *Pão de Açúcar*, *CompreBem* and *Extra* and we also securitize receivables. Our fixed rate consumer financing through the *Extra Eletro* and *Extra* formats is generally for a term of up to 24 months (with the average term being approximately 10 months at December 31, 2005.) Our post-dated check programs provide our customers with financing for up to 60 days (with an average of 40 days at December 31, 2005). In 2005, we noted that customers tended to use principally credit cards as a method of credit purchase instead of installment sales and post-dated checks.

Our principal cash requirements include:

- the servicing of our indebtedness,
- capital expenditures, including the construction and remodeling of new stores and investments in our infrastructure,
- consumer credit,
- acquisitions of other supermarket chains, and
- distributions of dividends and interest on shareholders' equity.

Our primary sources of liquidity have historically been cash flows from operating activities and borrowings. Net cash from operating activities was R\$1,063.5 million in 2005, R\$406.5 million in 2004 and R\$1,103.1 million in 2003. Net cash provided by (used in) financing was R\$(594.3) million in 2005 (after payment of R\$89.1 million of dividends), R\$(148.7) million in 2004 (after payment of R\$54.8 million of dividends) and R\$629.3 million in 2003 (after payment of R\$59.4 million of dividends). In 2005, these cash flows were primarily used for investments in the capital expenditures program totaling R\$899.6 million.

At December 31, 2005, our total outstanding debt was R\$2,056.0 million, consisting of:

- R\$ 747.5 million of *real*-denominated loans,

- R\$ 1,249.6 million of U.S. dollar-denominated debt, and
- R\$ 58.9 million of debt linked to a basket of foreign currencies to reflect BNDES funding portfolio, plus an annual spread.

At December 31, 2005, of the R\$1,249.6 million of U.S. dollar-denominated debt, approximately R\$176.9 million was covered by swaps into *reais* which has been treated on a combined basis as if these loans had been

originally denominated in *reais* and accrued an interbank variable rate (CDI). In addition, we have R\$58.9 million of debt to BNDES that is linked to a basket of foreign currencies, for which we have swap agreements to mitigate foreign currency risk. Since late 1999, we have adopted a treasury policy to manage financial market risk, principally by entering into swaps into *reais* for a substantial part of our U.S. dollar-denominated liabilities. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party that provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in *reais* and interest at a percentage of an interbank variable interest rate (CDI). The reference amounts and maturity periods of these swaps normally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

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

Total debt at December 31, 2005 decreased by R\$ 648.8 million from R\$2,704.8 million at December 31, 2004. Our most significant debt was incurred in connection with the acquisition and construction of new stores and the remodeling of existing stores. Our cash interest expense was R\$547.3 million in 2005, R\$384.4 million in 2004 and R\$421.0 million in 2003. The R\$162.9 million increase in cash interest expense in 2005 related directly to the payment of U.S. dollar denominated debt.

Several banks provide us short-term financing; of these, three banks, Citibank, Unibanco and BNP Paribas, individually represent greater than 10.2% of the total amount of short-term debt outstanding as of December 31, 2005. Although we have no committed lines of credit with these banks, our management believes we are in good standing with our lenders and have sufficient available credit for our needs. These short-term U.S. dollar-denominated financings are guaranteed by a promissory note.

Our long-term debt net of current portion aggregated R\$1,615.4 million and R\$1,400.5 million at December 31, 2005 and 2004, respectively. The balance consists primarily of long-term expansion program loans from BNDES, working capital loans from Brazilian banks and debentures we issued.

We have entered into nine lines of credit agreements with BNDES, which are either denominated in *reais* and subject to indexation, based on the TJLP plus an annual spread or are denominated based on a basket of foreign currencies to reflect BNDES funding portfolio, plus an annual spread. Amortizations will be in monthly installments after a grace period. BNDES has been historically an important source of financing for new stores and the acquisition of supermarket chains. For more information regarding our lines of credit with BNDES, see note 12(iii) to our financial statements.

We cannot offer any assets as collateral for loans to other parties without the prior authorization of BNDES and must comply with the following negative covenants measured in accordance with Brazilian GAAP: (i) maintain a capitalization ratio (shareholders equity/total assets) equal to or in excess of 0.40 and (ii) maintain a current ratio (current assets/current liabilities) equal to or in excess of 1.05. The Diniz group provided sureties with respect to the amount drawn down.

We issued a number of convertible and non-convertible debentures between 1997 and 2002, some of which have since been converted to our non-voting preferred shares. At December 31, 2005, the nonconvertible fifth issue was still outstanding in part.

On October 4, 2002, the shareholders approved the fifth issue and public placement of debentures. We received proceeds equivalent to R\$411.9 million, for 40,149 non-convertible debentures issued as the first series of this fifth

issue. The debentures are indexed to the average rate of CDI and accrue an annual spread of 1.45% which is payable semi-annually. The remuneration of the first series was subject to renegotiation or a put exercised in October 2004. The first series was renegotiated to accrue of CDI plus an annual spread of 0.95% as from October 1, 2004, which is payable semi-annually, beginning on April 1, 2005 and ending on October 1, 2007. The debentures will not be subject to renegotiation until the maturity date on October 1, 2007. At December 31, 2005, we had 40,149 non-convertible debentures outstanding from the first series of our fifth issue, totaling R\$419.5 million. We are required to comply with the following negative covenants measured in accordance with Brazilian GAAP: (i) net

debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity; and (ii) maintenance of a ratio between net debt and EBITDA less than or equal to four.

For more information on our convertible and non-convertible debentures, see note 13 to our financial statements.

On September 19, 2003, we concluded the structure of *Pão de Açúcar Fundo de Investimento em Direitos Creditórios* (or PAFIDC), a receivables securitization fund. The PAFIDC has duration of five years, renewable for one additional five-year period, beginning from the date of the first subscription of quotas. The capital structure of the PAFIDC is composed of 80.6% senior quotas held by third parties and 19.4% subordinated quotas held by us. Senior quotas will be divided in two series: Series A for which the benchmark remuneration (i) was 103% of CDI (*Certificado de Depósito Interbancário*), an interbank variable interest rate, during the period beginning on the date of the first subscription of quotas and ending on February 20, 2004 and (ii) is 105% of CDI as from February 21, 2004; and Series B for which the benchmark remuneration is 101% of CDI. The holders of senior quotas series B will redeem both on June 23, 2006 and June 23, 2007, the principal amount of R\$71.7 million, respectively and will redeem the remaining balance at the end of the fund's duration. The series A quota holders will redeem their quotas at the end of the fund's duration. Upon consolidation of PAFIDC, senior quotas are recorded as mandatory redeemable equity interest in securitization fund. Subordinated quotas have a single series. Beginning in February 2004, the quotas are nominative and could be listed for negotiation the over-the-counter market. We hold a retained interest of 19.4% (subordinated quotas) and will redeem the subordinated quotas only after the redemption of senior quotas (or at the end of the PAFIDC's duration). Subordinated quotas are non-transferable and nominative. Once the senior quotas have been remunerated, the subordinated quotas receive the balance of the PAFIDC's net assets after absorbing any default on the credit rights transferred to PAFIDC and any losses attributed to the PAFIDC.

We invested R\$100.0 million in October 2003 and R\$29.9 million in July 2004, in subordinated quotas of PAFIDC and transferred credit rights to the securitization fund. In 2005, we transferred to PAFIDC customer credit financing, post-dated check credit sales and accounts receivable from credit card companies, in securitization transactions totaling R\$6,750.1 million and R\$4,990.9 million in 2004, the outstanding balance of these receivables at December 31, 2005 was R\$756.8 million and R\$701.8 million in 2004. For all securitizations, we retained servicing responsibilities and subordinated interests. The delinquent credits will be collected by the PAFIDC's administrator, which will be assisted by our collection department, for which we do not receive fees for such service. The quota holders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and the PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us.

We continue to implement our capital expansion and investment plan and currently intend to invest in 2006 approximately R\$935 million in new projects.

In 2005, our capital expenditures were R\$899.6 million. These investment projects were financed primarily from our operating cash flow and, to a lesser extent, by third parties. Our capital expenditures were R\$559.4 million for 2004 and R\$541.7 million for 2003. For specific use of our capital expenditures in 2005, see Item 4B Information on the Company Business Overview Capital Expansion and Investment Plan.

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

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

We do not have any significant research and development policies.

5D. Trend Information

The trends, which influence our sales, are primarily the patterns of consumer purchases through the year and the effects on consumer disposable incomes of such factors as economic conditions, consumer confidence, level of employment and credit conditions.

5E. Off-balance sheet arrangements

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

5F. Tabular disclosure of contractual obligations

The following table summarizes significant contractual obligations and commitments at December 31, 2005 that have an impact on our liquidity:

| Contractual Obligations | Total | Payment Due by Period | | | |
|--------------------------------------|----------------|-----------------------|--------------------|---------------------|------------------|
| | | Less than one year | One to three years | Three to five years | After five years |
| (in millions of U.S. dollars) | | | | | |
| Long-term debt | 1,636.5 | 422.6 | 960.6 | 253.3 | - |
| Debentures | 419.5 | 18.0 | 401.5 | - | - |
| Estimated interest payments (1) | 162.6 | 92.1 | 51.9 | 18.6 | - |
| Taxes, other than on income | 361.7 | 48.3 | 96.4 | 96.4 | 120.6 |
| Leases Agreements (2) | 2,017.1 | 116.7 | 208.7 | 205.8 | 1,485.9 |
| Operating leases (3) | 1,580.1 | 235.1 | 417.1 | 275.5 | 652.4 |
| Other | 25.0 | - | 25.0 | - | - |
| Total contractual obligations | 6,202.5 | 932.8 | 2,161.2 | 849.6 | 2,258.9 |

(1) Estimated interest payments include unrealized losses on cross-currency and interest rate swap contracts. Estimated interest payments and foreign currency losses were determined considering the interest rate and exchange rate at December 31, 2005. However, our long-term debt is subject to variable interest rates and inflation indices, and these estimated payments may differ significantly from the payments actually made.

(2) Lease agreements include capital lease obligations which are not distinguished in the Brazilian GAAP.

(3) Operating leases include minimum rental obligations which are not distinguished in the Brazilian GAAP.

In addition, we have made provisions for contingencies of R\$1,076.9 million at December 31, 2005.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6A, 6B and 6C. Directors and Senior Management, Compensation and Board Practices

We are managed by our *Conselho de Administração*, or board of directors and by our *Diretoria*, or executive officers committee.

Following the implementation of the transactions contemplated by the Joint Venture Agreement celebrated on May 3, 2005 as described in Item 4 - Information on the Company - History and Development of the Company

Co-Control by the Diniz Family and Casino , our shareholders meetings held on June 22, 2005 and August 16, 2005 approved our corporate management structure reorganization. As a result of the reorganization, five special committees were created to support the management structure, whose attributions will be set forth by our board of directors, as well as the regulation of our executive officers duties and titles. For specific information regarding the new corporate structure and competences of our committees, see - Committees .

At our general shareholders meeting held on June 22, 2005 and at our extraordinary shareholders meeting held on August 16, 2005, our shareholders also appointed new members to our board of directors and renewed the mandate of existing board members. Mr. Abilio Diniz has been re-confirmed as the Chairman of our board of directors and appointed as the Chairman of the board of directors of the Holding Company. As part of his duties as Chairman of our board of directors, Mr. Abilio Diniz is responsible for the general supervision of our strategy and activities and will serve as liaison between our board of directors and our executive officers committee. As Chairman of our board of directors, Mr. Abilio Diniz has a casting vote for matters in the regular course of our business. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders - Shareholders Transactions Holding Company Shareholders Agreement. Also on June 22, 2005, our directors renewed the mandate of existing officers.

Board of Directors

According to our by-laws, our board of directors consists of at least 3 (three) and up to 18 (eighteen) members. In addition, our founding shareholder is entitled to be a member of our board as Honorable Chairman. The directors meet ordinarily, at least once a month, and extraordinarily whenever required. The members of our board of directors are appointed at general shareholders meetings for a term of office of three-year terms and are required to be our shareholders. The board s responsibilities include leading the corporate governance process, electing our executive officers and supervising our management. Currently our board of directors consists of one honorary member and fourteen members elected by our shareholders, consisting of five representatives of the Diniz group, four external directors and five representatives of the Casino group, whose term of office expires in 2008. Our board of directors is currently composed of the following members:

| Name | Position | Since |
|--|--------------------|-------|
| Valentim dos Santos Diniz (1) | Honorable Chairman | 2003 |
| Abilio dos Santos Diniz (2) | Chairman | 2003 |
| Ana Maria Falleiros dos Santos Diniz D Avila | Director | 2003 |
| João Paulo Falleiros dos Santos Diniz | Director | 1999 |
| Pedro Paulo Falleiros dos Santos Diniz | Director | 2003 |
| Geyze Marchesi Diniz | Director | 2005 |
| Maria Silvia Bastos Marques | Director | 2003 |
| Gerald Dinu Reiss | Director | 1995 |
| Candido Botelho Bracher | Director | 2005 |
| Jean-Charles Henri Naouri | Director | 2005 |
| Jacques Patrice Marie Joseph Tierny | Director | 2005 |
| Hakim Laurent Aouani | Director | 2005 |
| Francis André Mauger | Director | 2005 |
| Joël Luc Albert Mornet | Director | 2005 |
| Henri Philippe Reichstul | Director | 2005 |

(1) Valentim dos Santos Diniz had been our Chairman since 1995 until his appointment as our Honorable Chairman in 2003.

(2) Abilio dos Santos Diniz had been a director of our board of directors from 1995 until 1999 when he became Vice-Chairman and from 2003 on he became Chairman of our board.

Executive Officers Committee

Our executive officers committee is composed of at least 2 (two) and up to 12 (twelve) members, being one the Chief Executive Officer and the others executive officers, elected by our board of directors. The general

responsibilities of our executive officers are determined pursuant to our by-laws, and their duties and titles will be established by our board of directors.

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

Our executive officers are elected by our board of directors for three-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. Currently, the term of all executive officers expires in 2008. At our board of directors meetings held on June 22, 2005, January 9, 2006 (with respect to Mr. Cássio Casseb) and May 30, 2006 (with respect to Mrs. Daniela Sabbag), our executive officers were appointed and their attributions and titles were established as follows:

| Name | Position |
|--------------------------------|---|
| Cássio Casseb Lima | Chief Executive Officer |
| Jean Henri Albert Armand Duboc | <i>Extra Hypermarket</i> Officer |
| José Roberto Coimbra Tambasco | <i>Pão de Açúcar</i> Supermarket Officer |
| Hugo Antonio Jordão Bethlem | <i>CompreBem/Sendas</i> Supermarket Officer |
| César Suaki dos Santos | Commercial Officer |
| Enéas César Pestana Neto | Administrative Financial Officer |
| Caio Racy Mattar | Investment and Construction Officer |
| Maria Aparecida Fonseca | Human Resources Officer |
| Daniela Sabbag | Investor Relations Officer |

Fiscal Council

Under the Brazilian corporate law and our by-laws, we are not required to, and currently do not, maintain a permanent fiscal council (*conselho fiscal*). However, we are required to establish a fiscal council upon the request of shareholders who hold at least 2% of the common shares or 1% of the preferred shares, pursuant to CVM Instruction 324, dated as of January 19, 2000. Any fiscal council would consist of three and up to five members and an equal number of alternates. The members of the fiscal council would be elected, at the maximum, for one-year terms, but can be reelected for additional one-year terms. Holders of preferred shares, voting as a class, would be entitled to elect one member (and his or her alternate) by majority vote of the shareholders present at the meeting at which members of the fiscal council are elected, and holders of common shares would be entitled to elect the other members (and their respective alternates), provided that such holders represent at least 10% of the common shares. The primary responsibility of the fiscal council, which, if established, would act independently from our management and external auditors, would be to review our consolidated financial statements and report on them to our shareholders.

Committees

Pursuant to our by-laws, we currently have the following five special committees: (i) Audit Committee; (ii) Human Resources and Compensation Committee; (iii) Financial Committee; (iv) Innovation and Development Committee; and (v) Institutional Marketing and Social Responsibility Committee, which will be responsible for making proposals or recommendations and giving their opinion to our board of directors in their specific areas of expertise whenever called upon. The attributions of each committee will be set forth by our board of directors, as well as the members of each committee will be appointed by our board of directors, solely among its members, and will also designate the

President of each special committee. Each special committee will be composed of 3 (three) and up to 5 (five) members for a term of office of 3 (three) years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.

Audit Committee

The audit committee holds meetings quarterly and has the following assignments: (i) to review the

appointment by our board of directors of the independent public accountants who will audit our financial statements; (ii) to review the financial statements and the annual and quarterly financial statements together with the accompanying reports, through discussions with our Chief Executive Officer, Chief Financial Officer and/or with the Administrative Financial Officer; (iii) to review the internal control systems, and in a more generic way to examine our audit, accounting and management procedures, through discussions with our Chief Executive Officer and the Administrative Financial Officer; and (iv) to review and discuss any fact or event likely to have a material impact on our financial situation and/or any of our controlled companies in relation to the obligations and/or risks, compliance with laws and regulations and any material pending litigation, and more particularly those matters concerning risk management and identification and prevention of management errors.

The responsibilities of the audit committee are consistent with the U.S. Blue Ribbon Committee and the rules and regulations of the New York Stock Exchange. Our audit committee is composed of Gerald Dinu Reiss, as President, Maria Silvia Bastos Marques and Henri Philippe Reichstul.

Human Resources and Compensation Committee

The human resources and compensation committee holds meetings at least once every two months and will have the following assignments: (i) to provide guidelines to the profile of the officer that will become our Chief Executive Officer; (ii) to examine candidates for election to our board of directors, in light of their commercial experience, expertise and economic, social and cultural activity; (iii) to examine candidates for appointment to our executive officers committee; (iv) to review and discuss management compensation and stock option plan for our officers; (v) to propose criteria for the assessment of the performance of our managers, using similar Brazilian corporations as benchmark; (vi) to review the recruitment and hiring methods adopted by us and our controlled companies, using similar Brazilian corporations as benchmark; (vii) to define the compensation and incentive policies for our managers; and (viii) to identify individuals within our company and our controlled companies who could be our future leaders and follow up the development of their career. Our Human Resources and Compensation Committee is composed of Ana Maria Falleiros dos Santos Diniz D Avila, Geyze Marchesi Diniz, Jean-Charles Henri Naouri, Francis André Mauger and Henri Philippe Reichstul.

Financial Committee

The financial committee holds meetings at least once every two months and will have the following assignments: (i) to review the financial/economic viability of our investment plans and programs; (ii) to review and recommend actions for the negotiation of any merger and acquisition or of any similar transaction involving us and any of our controlled companies; (iii) to follow up any such transaction and negotiation referred to in item (ii); (iv) to review our cash flow, indebtedness policy and capital structure; (v) to accompany and supervise the implementation and accomplishment of our annual investment plan; (vi) to accompany the average cost of our capital structure and to make suggestions for modifications whenever deemed necessary; and (vii) to review and recommend opportunities related to financing transactions that may improve our capital structure. Our financial committee is currently composed of Ana Maria Falleiros dos Santos Diniz D Avila, João Paulo Falleiros dos Santos Diniz, Hakim Laurent Aouani, Jacques Patrice Marie Joseph Tierny and Gerald Dinu Reiss.

Innovation and Development Committee

The innovation and development committee will hold meetings at least once every three months and will have the following assignments: (i) to review the projects related to business and technology innovations as well as to recommend to our company the introduction of such innovations; (ii) to review and propose market opportunities or new business formats to strengthen our growth strategy; and (iii) to review the real estate expansion plans. Our innovation and development committee is composed of Pedro Paulo Falleiros dos Santos Diniz, Geyze Marchesi

Diniz, Francis André Mauger and Joël Luc Albert Mornet.

Institutional Marketing and Social Responsibility Committee

The institutional marketing and social responsibility committee will hold meetings at least twice a year and will have the following functions: (i) to analyze our marketing policy and communication strategy for each of our store formats; (ii) to create, prepare and implement our marketing plans; (iii) to create and propose new targets to our executive officers committee related to its institutional marketing; and (iv) to review and recommend actions

regarding the development of social responsibility projects involving our company. Our institutional marketing and social responsibility committee is currently composed of Ana Maria Falleiros dos Santos Diniz D'Avila, João Paulo Falleiros dos Santos Diniz, Francis André Mauger, Joël Luc Albert Mornet and Gerald Dinu Reiss.

Advisory Board

In addition to the committees described above, our by-laws provide for an *ad hoc* advisory board of up to 13 (thirteen) members, whose purpose is to make recommendations to our board of directors on measures to be taken in order to ensure the development of our businesses and activities, as well as render opinion on any matters submitted by our board of directors. Our advisory board meets semi-annually and, in extraordinary circumstances, whenever called by the president of our board of directors. The current term of all members of our advisory board is 3 (three) years, reelection being permitted, and such members may receive a compensation set forth by our general shareholders meeting. Our advisory board was elected by our shareholders in the shareholders' meeting held on June 22, 2005 and is comprised of the following members: Luiz Carlos Bresser Gonçalves Pereira, Mailson Ferreira da Nóbrega, Roberto Teixeira da Costa, José Roberto Mendonça de Barros, Manuel Carlos Teixeira de Abreu, Luiz Felipe Chaves D'Ávila, Luiz Marcelo Dias Sales, Arthur Antonio Sendas and Marcelo Pereira Lopes de Medeiros.

Biographical Information

Mr. Valentim dos Santos Diniz is the Honorary Chairman of our board of directors. Mr. Diniz founded the *Pão de Açúcar* Group in 1948.

Mr. Abilio dos Santos Diniz is the Chairman of our board of directors. Mr. Abilio Diniz was one of the founders of São Paulo's supermarket association, and was also a founder of ABRAS. He is a former member of the Brazilian National Monetary Council. Mr. Abilio Diniz holds a bachelor's degree in Business Administration from Fundação Getúlio Vargas and has attended Columbia University in New York and the University of Ohio at Dayton. Mr. Abilio Diniz is the son of Mr. Valentim dos Santos Diniz.

Mrs. Ana Maria Falleiros dos Santos Diniz D'Avila is a member of our board of directors. She has a bachelor's degree in Business Administration from Fundação Armando Álvares Penteado (FAAP) and post-graduate degree in Marketing from Fundação Getúlio Vargas and from FAAP. Mrs. Diniz D'Avila is the daughter of Mr. Abilio Diniz.

Mr. João Paulo Falleiros dos Santos Diniz is a member of our board of directors. Mr. João Paulo Diniz began his career with us in 1985. He was an executive officer in charge of our associated companies and our International Division. Mr. João Paulo Diniz has a bachelor's degree in Business Administration from Fundação Getúlio Vargas and has attended the London Business School. Mr. João Paulo Diniz is the son of Mr. Abilio Diniz.

Mr. Pedro Paulo Falleiros dos Santos Diniz is a member of our board of directors. Mr. Pedro Paulo Diniz began his career with us in 2003. Mr. Pedro Paulo Diniz is a businessman and the president of PPD Sports. Mr. Pedro Paulo Diniz is the son of Mr. Abilio Diniz.

Mrs. Geyze Marchesi Diniz is a member of our board of directors. She has a bachelor's degree in Economics and earned an MBA from Fundação Getúlio Vargas. Mrs. Marchesi Diniz is Mr. Abilio Diniz's wife.

Mrs. Maria Silvia Bastos Marques is a member of our board of directors. Mrs. Marques is a partner in the Brazilian consulting firm MS & CR2 Finanças Corporativas. She was the former President of the Instituto Brasileiro de Siderurgia, Officer-Director of Companhia Siderúrgica Nacional, Municipal Secretary of Finance of the City of Rio de Janeiro and Director of Banco Nacional de Desenvolvimento Econômico e Social - BNDES. Mrs. Marques has a degree in Public Administration from Fundação Getúlio Vargas, where she earned a master's degree and a doctoral

degree.

Mr. Gerald Dinu Reiss is a member of our board of directors. Mr. Reiss is a partner in the Brazilian consulting firm Reiss & Castanheira Consultoria e Empreendimentos Industriais. He was the former Planning Manager of Metal Leve S.A. and Executive Vice-President of Cevokol S.A. Mr. Reiss has a degree in Electrical

Engineering from Escola Politécnica da Universidade de São Paulo - USP and has earned MBA and Ph.D. degrees from the University of California at Berkeley.

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

Mr. Jean-Charles Henri Naouri is a member of our board of directors. Mr. Naouri is Chairman and Chief Executive Officer of Casino Groupe.

Mr. Jacques Patrice Marie Joseph Tierny is a member of our board of directors. Mr. Tierny is Executive Deputy Managing Director and responsible for administration and finances of Casino Groupe.

Mr. Hakim Laurent Aouani is a member of our board of directors. Mr. Aouani is Director of Corporate Finance at Casino Groupe. Mr. Aouani received a degree from SUPELEC Engineering School with a major in telecommunication and also holds a degree in business administration from HEC Business School.

Mr. Francis André Mauger is a member of our board of directors. Mr. Mauger is Director of Latin America Operation of Casino Groupe. Mr. Mauger has attended The Ecole Hôtelière de Lausanne - Swiss.

Mr. Joël Luc Albert Mornet is a member of our board of directors. Mr. Mornet is Non-food Activities Director from Casino Groupe. He was the former Director of Galeries Lafayette and FNAC in France. Mr. Mornet holds a degree in business administration from HEC Business School.

Mr. Henri Philippe Reichstul is a member of our board of directors. Mr. Reichstul is the Chairman of - G & R Gestão Empresarial (Own Consulting Company), since 2003. He was the CEO of Globopar, Petrobras and Vice-President and Partner of Banco Inter American Express S.A. He was also Vice-Minister of Planning Ministry of Brazil. He has a degree in Economics, from University of São Paulo and has Post-Graduate studies in Economics at Hertford College, University of Oxford.

Mr. Cássio Casseb is our Chief Executive Officer. Mr. Casseb graduated in engineering from Escola Politécnica da Universidade de São Paulo. Mr. Casseb started his career at Banco de Boston where he worked for three years. In 1979, he moved to Banco Francês & Brasileiro (Credit Lyonnais), where he worked for several areas during nine years. Mr. Casseb left Credit Lyonnais to work in Banco Mantrust SRL (Manufacturers Hannover and local professionals joint venture), where he stayed for four years, initially serving as Financial Vice President and then, as Executive Vice President. In 1997, Mr. Casseb started working for Credicard S.A. as CEO, where he accumulated sound experience in the retail industry. In May 1999, he started working for the holding company of Vicunha Group, where together with our shareholders, helped redefine our industrial strategy and focus. From January 2003 to November 2004, Mr. Casseb served as CEO of Banco do Brasil. Before entering CBD, Mr. Casseb had been serving as CEO of Coinbra, a commodities trading company under the French Group Louis Dreyfus. Mr. Casseb is a member of the Superior Council of The Federation of Industries of the State of São Paulo (Fiesp).

Mr. Jean Henri A. Duboc is our Extra Hypermarket Officer. He was a former executive officer of TAM and chairman of Carrefour Brazil.

Mr. José Roberto Coimbra Tambasco is our *Pão de Açúcar* Supermarket Officer. Mr. Tambasco, who has worked for us since 1979, has a degree in Business Administration from Fundação Getúlio Vargas.

Mr. Hugo A. Jordão Bethlem is our *CompreBem* and Sendas Supermarket Officer. Mr. Bethlem was the Commercial Officer of DiCicco, Jerônimo Martins, Parque Temático Play Center and Carrefour. Mr. Bethlem has a degree in Business Administration from Faculdades Metropolitanas Unidas FMU and has a post-graduate degree in Administration from Cornell University.

Mr. César Suaki dos Santos is our Commercial Officer. Mr. dos Santos previously served as the person-in-charge of one of the business units of Grupo Ultra and was responsible for the acquisition and logistical division of

Grupo Martins. Mr. dos Santos has a degree in Engineering from Universidade de São Paulo USP where he earned a master's degree.

Mr. Enéas César Pestana Neto is our Administrative Financial Officer. He was the Vice-President of Laboratório Delboni Auriemo and has worked at GP Investimentos and *Carrefour*. Mr. Pestana holds a degree in Accounting from Pontifícia Católica de São Paulo PUC.

Mr. Caio Racy Mattar is our Investment and Construction Officer. He previously served as a member of the executive office of Reúne Engenharia e Construções Ltda. He is also a member of the board of directors of Paramount Lansul S.A., Sendas Distribuidora S.A. and Gafisa S.A. Mr. Mattar has an Engineering degree from Instituto de Engenharia Paulista and has attended the London Business School.

Mrs. Maria Aparecida Fonseca is our Human Resources Officer. Mrs. Fonseca has a degree in Mathematics and a post-graduate degree in Finance from Universidade São Judas Tadeu. She also has a postgraduate degree in Human Resources from Universidade Federal de Pernambuco.

Mrs. Daniela Sabbag is our Investor Relations Officer. Mrs. Sabbag has worked in our Investor Relations area since 2000, and in recent years was the Investor Relations Manager. Mrs. Sabbag has a degree in business administration and holds an MBA from Fundação Getúlio Vargas, with supplementary courses and post-graduate studies in business administration from Fipecafi at the University of São Paulo. Previously, Mrs. Sabbag worked as an investment analyst (equity research) at Deutsche Bank, and with Sé supermarkets in Jerônimo Martins.

For the year ended December 31, 2005, the aggregate compensation paid in cash to all of our directors and executive officers and members of our committees as a group was approximately R\$19 million. Other non-cash benefits in 2005 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers, and we do not otherwise publicly disclose this information.

6D. Employees

Our workforce at December 31, 2005 consisted of 62,803 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our hourly employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management considers our relations with our employees and their unions to be good. We have not had a strike in our history.

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

| | At December 31⁽¹⁾ | | | | |
|----------------|-------------------------------------|-------------|-------------|-------------|-------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Operational | 53,187 | 53,177 | 46,094 | 47,623 | 42,599 |
| Administrative | 9,616 | 10,307 | 9,463 | 10,275 | 9,461 |

| | | | | | |
|-------|--------|--------|--------|--------|--------|
| Total | 62,803 | 63,484 | 55,557 | 57,898 | 52,060 |
|-------|--------|--------|--------|--------|--------|

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

6E. Share Ownership

Stock Option Plan

In 1997, our shareholders approved a compensatory stock option plan for our management and certain employees. Our stock option plan is designed to obtain and retain the services of executives and certain employees. Only options covering preferred shares are granted.

Our stock option plan is administered by a committee elected by our board of directors. This committee periodically grants share options setting the terms thereof and determining the employees to be included. In addition to managing our stock option plan, the committee is responsible for selecting the manager and employee beneficiaries who are entitled to benefit from the option plan as well as establishing the specific terms and conditions of each option agreement (including the quantity of shares to be acquired) applicable to each of the beneficiaries. The exercise price will not be lower than 60% of the weighted average market price of our shares on the São Paulo Stock Exchange during the four business days preceding the date of the option agreement.

When share options are exercised, we can grant new shares or transfer treasury shares to the new shareholder. Our stock option plans are accounted for as variable plans as the indexed exercise price of the options is adjusted by dividends declared from the grant date through the exercise date. Our stock option plan stipulates that 50% of the options granted vest and can be exercised at the end of three years and the remaining 50% vest and can be exercised at the end of five years. The exercise term expires after a period of three months after the vesting dates. In 1999, our board of directors approved a new grant of options convertible into an additional 3.4 billion preferred shares to be granted under our stock option plan.

| | Share options (thousands) | |
|--|----------------------------------|-------------|
| | 2005 | 2004 |
| Options outstanding at beginning of year | 1,706,870 | 1,439,340 |
| Options granted | | |
| Series 8 (granted April 30, 2004, exercise price R\$52.00 per 1,000 shares) | - | 431,110 |
| Series 9 (granted on April 15, 2005, exercise price R\$52.00 per 1,000 shares) | 494,545 | - |
| Options exercised | | |
| Series 3 March 26, 2004 capital increase of R\$1,797 | - | (80,000) |
| Series 7 December 13, 2005 capital increase of R\$6,445 | (145,677) | - |
| Options forfeited | (197,430) | (83,580) |
| Options expired | (237,075) | - |
| Outstanding options granted at end of year | 1,621,233 | 1,706,870 |
| Share options available at end of year for future grants | 1,928,429 | 1,988,469 |

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**7A. Major Shareholders**

The following table sets forth information as of May 31, 2006 with respect to holdings of our capital stock:

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| Shareholder | Common Shares | | Preferred Shares (1) | | Total Shares | |
|--|----------------|------------|----------------------|------------|-----------------|------------|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Vieri Participações S/A Península Participações Ltda. (2) | 32,700,000,000 | 65.61% | - | - | 32,700,000,000 | 28.74% |
| Casino Group | 1,392,087,129 | 2.79% | 1,298,759,628 | 2.03% | 2,690,846,757 | 2.37% |
| Abilio dos Santos Diniz | 14,309,589,419 | 28.71% | 2,067,946,860 | 3.23% | 16,377,536,279 | 14.40% |
| João Paulo F. dos Santos Diniz | 15 | - | - | - | 15 | - |
| Ana Maria F. dos Santos Diniz D Ávila | 10 | - | 8,900,000 | 0.01% | 8,900,010 | 0.01% |
| Pedro Paulo F. dos Santos Diniz | 10 | - | 40,500,000 | 0.06% | 40,500,010 | 0.03% |
| Rio Soe Empreendimentos e Participações Ltda. Apart New Participações Ltda. Capitório Participações Ltda. | - | - | 360,850 | - | 360,850 | - |
| Onyx 2006 Participações Rio Plate Empreendimentos e Participações Ltda. Splendour Empreendimentos e Participações Ltda. | 1,407,912,871 | 2.82% | - | - | 1,407,912,871 | 1.24% |
| Directors and officers | - | - | 5,474,058 | 0.01% | 5,474,058 | - |
| Others (3) | - | - | 160,314,807 | 0.25% | 160,314,807 | 0.14% |
| TOTAL | 49,839,925,688 | 100.00% | 6,253,190,000 | 9.78% | 6,253,190,000 | 5.49% |
| | | | 4,263,896,304 | 6.67% | 4,263,896,304 | 3.75% |
| | | | 4,000,000,000 | 6.26% | 4,000,000,000 | 3.52% |
| | 95 | - | 60,370,010 | 0.09% | 60,370,105 | 0.05% |
| | 30,336,139 | 0.07% | 45,769,677,228 | 71.61% | 45,800,013,367 | 40.26% |
| | 49,839,925,688 | 100.00% | 63,929,389,745 | 100.00% | 113,769,315,433 | 100.00% |

- (1) In August 1999 and September 2000, we issued the equivalent of R\$303 million and R\$100 million, respectively, of principal amount of debentures, which are convertible into preferred shares. Some of these debentures have already been converted into preferred shares. See Item 5B Operating and Financial Review and Prospects Liquidity and Capital Resources and note 13 to the financial statements included in this annual report. The authorized share capital (the number of shares up to which the board of directors can issue shares without the approval of a shareholders meeting at December 31, 2003 is 150 billion shares. The balance of unissued shares in relation to the authorized share capital relates to unissued common and preferred shares.
- (2) Península Participações Ltda. is controlled by Mr. Abilio dos Santos Diniz and his children. Upon the death of Mr. Abilio dos Santos Diniz, his children, Ana Maria Falleiros dos Santos Diniz D Ávila, Mr. João Paulo Falleiros dos Santos Diniz, Mrs. Adriana Falleiros dos Santos Diniz and Mr. Pedro Paulo Falleiros dos Santos Diniz, will own and control 100% of Península Participações voting quotas (ownership units).
- (3) Comprises the shares held by the members of our board of directors, except for shares held by Mr. Abilio dos Santos Diniz, Mrs. Ana Maria Falleiros dos Santos Diniz D Ávila, Mr. João Paulo Falleiros dos Santos Diniz

and Mr. Pedro Paulo Falleiros dos Santos Diniz.

At May 31, 2006, there were 20,891,852,228 preferred shares held by holders of record in Brazil, representing 32.7% of the total of preferred shares outstanding, and 30,336,139 common shares held by holders of record in Brazil, representing 0.1% of the total of common shares outstanding.

Shareholders Transactions

On October 17, 2000, we issued 100,000 convertible debentures due August 2005, 41,962 of which were subscribed by the Casino group in November 2000 and repaid at maturity in August 2005.

As part of the transactions contemplated by the Joint Venture Agreement described in Item 4 - Information on the Company - History and Development of the Company Co-Control by the Diniz Family and Casino, the

1999 shareholders' agreement with the Casino group was superseded by (i) a new Holding Company Shareholders Agreement between the Diniz group and the Casino group that outlines the rules for the exercise of our co-control, corporate governance and restrictions on transfer of the Holding Company's shares; and (ii) a new CBD Shareholders Agreement between the Diniz group, the Casino group and the Holding Company that governs their relationship in light of the Holding Company Shareholders' Agreement, and establish that the Diniz group and the Casino group will vote CBD shares in accordance with instructions given by the Holding Company.

Holding Company Shareholders' Agreement

Pursuant to the Holding Company Shareholders' Agreement, the Diniz group, at the Holding Company level:

- may appoint (i) two directors and respective alternates (out of four members) of the board of directors of the Holding Company, and (ii) two executive officers of the Holding Company;
- may appoint the Chairman of the board of directors of the Holding Company up to the 7th year after the date of implementation of the joint venture.

The Diniz group, at our company's level:

- may appoint five directors to our board of directors;
- may appoint the Chairman of our board of directors up to the 7th year after the date of implementation of the joint venture; from the beginning of the 8th year after the date of implementation of the joint venture and every three years thereafter, there will be an alternating appointment of the Chairman of our board of directors between the two groups, and the Casino group will have the right to the first alternate appointment, for a term-in-office comprising June 22, 2012 to June 21, 2015; however, the Casino group has agreed, for this first alternate appointment, that Mr. Abilio Diniz will continue as Chairman of our board of directors, provided that we maintain a good performance track record. Moreover, for any subsequent terms as to which the Casino group is entitled to name the Chairman, Casino has agreed that Mr. Abilio Diniz will remain Chairman as long as he is mentally and physically fit for the functions and as long as we maintain a good performance track record;
- may cast a casting vote if the Casino group requests a lower distribution of dividends by us than the Diniz group prefers, in which case the Diniz group may effect dividends of up to 40% of our annual profits.

The Casino group, at the Holding Company level:

- may appoint (i) two directors and respective alternates (out of four members) of the board of directors of the Holding Company, and (ii) two executive officers of the Holding Company;
- may appoint the Chairman of the board of directors of the Holding Company (i) from the beginning of the 8th year until the end of the 9th year after the date of implementation of the joint venture, which if exercised, would trigger a share put and call option in respect of the Diniz group's shares of the Holding Company, and (ii) from the beginning of the 10th year after the date of implementation of the joint venture, if the Diniz group transfers any common shares of the Holding Company to a third party.

The Casino group, at our company's level:

- may appoint five directors to our board of directors;

- may cast a casting vote if the Diniz group requests a lower distribution of dividends by us than the Casino group prefers, in which case the Casino group may effect dividends of up to 32.5% of our annual profits;
- may determine the kind or classes of new shares or convertible securities issued by us, if any, and only the Casino group will subscribe new common shares or securities convertible into common shares issued by us (although the Diniz group may veto these rights, as described below).

Both the Casino group and the Diniz group are subject to limitations on the purchase of our preferred shares on the open market, which limitations vary according to the percentage of shares freely available to the investing public. However, the Casino group is free to acquire any of our common or preferred shares held by the Diniz group.

In addition, both the Casino group and the Diniz group have, except in certain circumstances, the right of first refusal with respect to shares or convertible securities of the Holding Company to be disposed of by any of them. The Casino group may not sell its shares in the Holding Company for 18 months from the date of execution of the Holding Company Shareholders Agreement, and the Diniz group may not sell its shares in the Holding Company for 9 years from such date (or, if the Casino group appoints the Chairman of the board of directors of the Holding Company, on the date of such appointment).

If the Casino group appoints the Chairman of the board of directors of the Holding Company or acquires shares of the Holding Company from the Diniz group under certain circumstances, the Diniz group, as long as it holds specified share amounts in the Holding Company or us, will only have, except under certain circumstances, the following Diniz Group Rights: (A) veto rights regarding, among other matters: (i) any corporate restructuring of our company or of the Holding Company; (ii) certain contracts or agreements entered into by and between us and the Holding Company; (iii) any change in our dividend policy or that of the Holding Company; (iv) the delisting, or any change in the rights and characteristics, of our shares; and (B) certain other rights regarding the election and composition of our board of directors, including Mr. Abilio Diniz's right to remain as the Chairman of our board of directors as long as he is mentally and physically fit for the function of Chairman and as long as we maintain a good performance track record.

The Holding Company Shareholders Agreement provides that the Diniz group and the Casino group will not compete with each other in the food retailing business in Argentina, Uruguay, Paraguay, and Colombia, and they may not engage in the food retailing business in Brazil through any entity other than us. The non-compete provision will continue for 3 years counted from the date either party ceases to be the owner of at least 10% of the voting capital stock of the Holding Company, except that Diniz group may not compete with the Casino group as long as any of its members (i) remains a direct or indirect shareholder of the Brazilian corporation that received real estate properties from us and rents them to us (see Item 4 Information on the Company Co-Control by the Diniz Family and Casino) or (ii) keeps, in whole or in part, the Diniz Group Rights described above.

Our company also has a preemptive right to take advantage of business opportunities identified by either (i) certain members of the Diniz group or the Casino group in a new business other than the food retail business in Brazil or (ii) the Diniz group or the Casino group in a food retail business in Portugal on a 50%-50% basis with whichever shareholder identified the opportunity.

The Holding Company Shareholders Agreement has a term of forty years and terminates automatically (except with respect to the 3-year non-compete provision and in certain circumstances the Diniz Group Rights described above) when either of the Casino group or the Diniz group ceases to hold 10% of the Holding Company's shares or convertible securities.

CBD Shareholders Agreement

According to the CBD Shareholders Agreement, the Diniz group and the Casino group are obligated to vote together and in the same way that the Holding Company votes at any of our general shareholders meetings.

The Holding Company has, except in certain circumstances, the right of first refusal with respect to our shares or convertible securities to be disposed of by any of the Casino group and/or the Diniz group.

If our preferred shares come to have any voting rights by operation of law, the Casino group and/or the Diniz group will automatically cede such voting right to the Holding Company. For the period the preferred shares have any voting rights, the Casino group will be free to acquire our preferred shares from any third party, provided that any voting rights are ceded to the Holding Company.

The Casino group will not convert, during the term of the CBD Shareholders Agreement, any of our common shares held by it into preferred shares, unless authorized by the Holding Company.

The CBD Shareholders Agreement will remain valid as long as the Holding Company is our controlling shareholder.

7B. Related Party Transactions

From time to time we have entered into transactions with the Diniz group and other related parties for the provision of certain services. In the past, we and our shareholders have advanced funds to each other and may do so in the future. If our shareholders advance funds to us, or if we advance funds to our shareholders, the transaction will be conducted on the same terms applied to third parties. The following discussion summarizes certain of the significant agreements and arrangements among us and certain of our affiliates.

Leases

We currently lease properties from some members of the Diniz family, some of whom are our shareholders, and also lease properties from Fundo de Investimento Imobiliário Península, which belongs to the Diniz group. These properties include one store from Mr. Valentim dos Santos Diniz, six stores from Mr. Arnaldo dos Santos Diniz, four stores from Mrs. Vera Lúcia dos Santos Diniz and eight stores from Mrs. Sonia Maria dos Santos Diniz Bernardini, all children of Mr. Valentim dos Santos Diniz, 57 stores from the Sendas family and 60 stores from the Fundo de Investimento Imobiliário Península. Aggregate payments in 2005 under those leases equaled approximately R\$14.7 million to the Diniz family, R\$34.7 million to the Sendas family and R\$29.0 million to the Fundo de Investimento Imobiliário Península in fourth quarter 2005. See Item 4 - Information on the Company - History and Development of the Company Co-Control by the Diniz Family and Casino Associated real estate transactions. We believe that all such leases are on terms at least as favorable to us as those which could be obtained from unrelated parties on an arm's-length basis.

Related Party Financing

In November 2000, the Casino Group subscribed 41,962 convertible debentures from our fourth issue out of a total of 100,000 convertible debentures. These debentures were repaid at maturity in August 2005. Interest expense related to the debentures was 1.6 million in 2005. See note 8 to the financial statements.

The Technical Assistance Agreement

In July 2005, we entered into a Technical Assistance Service Agreement with our shareholder Casino, in the total annual amount in Brazilian *reais* corresponding to US\$ 3 million, of which the subject matter is the rendering of services by Casino to CBD, involving technical assistance in the areas of human resources, trade marks, marketing and communication, global campaigns and administrative assistance, among others. This agreement is effective for 7 years, after which term it will be automatically renewed for an undetermined period. This agreement was approved by a board of directors meeting and an Extraordinary General Meeting held on August 16, 2005. In 2005 we paid R\$ 2.0 million related to this technical assistance.

7C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8A. Consolidated Financial Statements and Other Financial Information

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

Legal Proceedings

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business described below. These include general civil, tax and labor litigation and administrative proceedings. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimable losses in the event of unfavorable court decisions and that the ultimate outcome of these matters will not have a material effect on our financial condition or results of operations. We cannot estimate the amount of all potential costs that we may incur or penalties that may be imposed on us other than those amounts for which we have provisions. See note 14 to the financial statements.

The following probable losses from existing tax obligations under dispute have been identified based on the advice of outside legal counsel and have been provided as liabilities in our financial statements:

| | 2005 | 2004 |
|---|----------------------|---------|
| | (millions of reais) | |
| Taxes: | | |
| COFINS and PIS | 921,963 | 805,733 |
| Income tax | - | 10,658 |
| Labor claims | 44,567 | 29,065 |
| Civil and other | 110,381 | 76,868 |
| | | |
| Total accrued liabilities for legal proceedings | 1,076,911 | 922,324 |

Taxes on Revenues

We are questioning the constitutionality of the increase of the tax rate of the PIS and the COFINS taxes, which accrue on revenues, as well as the expansion of their tax basis as of February 1, 1999 because we believe these changes could only be introduced by a law complementary to the Federal Constitution. On September 1999, the lower court issued a ruling in our favor. The federal government appealed the decision and is awaiting a final judgment. At December 31, 2005, we had a provision of R\$922.0 million that we believe corresponds to the amount of PIS and COFINS we did not collect, based on the lower court decision, and this provision is monetarily updated. Since these contributions are not being collected, the federal government has issued tax assessment notices to charge the values not collected in the amount of R\$ 841.2 million.

In March 2004, we filed an injunction seeking a judicial authorization so as to ensure the right to enlist the credit resulting from the COFINS levied on the inventory at the rate of 7.6% in a single installment. The preliminary order was granted. According to this decision, we did not collect the amount of R\$ 32.9 million. The chances of success for this lawsuit are deemed possible.

Social Security Contributions

We are challenging the constitutionality of some social security contributions, such as the contributions for education allowance (*salário educação*) and for worker's compensation insurance (*SAT*), as well as our right to offset the amount we believe was overpaid with other social security contributions. Based on preliminary orders issued in our favor by the lower courts, we have not been collecting some of these contributions and/or we have been offsetting

overpaid contributions with other social security contributions. The lower courts provided a favorable decision in both lawsuits. The federal government appealed these decisions and, with regard to worker's compensation insurance (SAT) the court ruled against us, prompting us to join the Special Installments Program (*Parcelamento Especial - PAES*) pursuant to Law 10,684/2003 and pay the amount of R\$256.6 million of social security contributions in installments. As of December 31, 2005, the amount of R\$252.0 million was recorded in our current liabilities and long-term liabilities as Taxes payable in installments.

Furthermore, the Social Security Institute INSS filed several assessment tax notices, to charge the social security contribution levied on payments that we do not believe should be included in the calculation of this contribution, since they do not reflect a consideration for the work accomplished and are not paid habitually, in the approximate amount of R\$ 121.6 million. We presented administrative defenses, and are awaiting a decision. We believe our chances of success are possible, and there is no provision accrued for this contingency.

Income Tax

In January 1995, we filed an injunction to obtain a judicial authorization to adjust our 1989 balance sheet using a rate relating to the inflationary index for January and February 1989 (70.3%), which generated an additional tax-deductible depreciation charge. In July 2000, a lower court issued a ruling, which was partially favorable to us, acknowledging our right to use a tax inflation index for the month of January 1989 of 42.7% for purposes of determining the depreciation charge. We appealed the decision and asserted the right to adjust our 1989 balance sheet according to the inflationary index of 6.3% for February 1989. The federal government also appealed the decision and is awaiting a final judgment. The federal government is charging the values not collected since there is a lawsuit in the amount of R\$ 54.1 million. Since it is probable that we will not prevail in this lawsuit, as of December 31, 2004, we had a provision of R\$10.6 million that we believe corresponds to the difference between the 42.7% inflationary index for January 1989 and the 6.3% inflationary index for February 1989 and the 70.3% rate, which was fully settled in June 2005.

The federal government is charging the values resulting from additional amounts that have not been included in the calculation of the Corporate Income Tax in the amount of R\$ 37.0 million; we believe our chances of success in this suit as possible.

Other Tax-Related Matters

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

We were assessed by the State of São Paulo to charge the ICMS (State Value-Added Tax on Sales and Services) levied on the financial fees, included on sales, excluded of the calculation basis, in the amount of approximately R\$ 70.4 million. The administrative authority ruled against us and we filed an administrative appeal. As of the date of this annual report, a final administrative decision was pending. According to our legal advisers, our chances of success in these administrative defenses are probable.

Labor Claims

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of our business. At December 31, 2005, we had a provision of R\$ 44.6 million for labor related loss contingencies, since it is probable that we will not prevail in these lawsuits and the damages are reasonably estimable.

Other

The Company is defendant, at several judicial levels, in lawsuits of tax and civil natures. The Company sets up provisions for losses in amounts considered to be sufficient to cover unfavorable court decisions when its internal and external legal advisors consider losses to be probable.

Subsequent changes in the expectation of risk of the referred to suits may require that additional provisions for contingencies be allocated.

Dividend Policy and Dividends*General*

Pursuant to the Brazilian corporate law, Brazilian corporations are required to hold an annual shareholders meeting in the first four months of each year at which an annual dividend may be declared. Under the Brazilian corporate law, shareholders of a Brazilian corporation have the right to receive, as a mandatory dividend for each fiscal year, a part of the corporation's net profits as established under its by-laws or, if not provided under such bylaws, an amount equal to that established 50% of the net profits adjusted pursuant to the Brazilian corporate law. Currently, the Brazilian corporate law generally requires that each Brazilian corporation distribute as a mandatory dividend an aggregate amount equal to at least 25% of the net profits adjusted according to Brazilian corporate law. Pursuant to the Brazilian corporate law, in addition to the mandatory dividend, the board of directors may recommend to the shareholders payment of interim dividends and payment of dividends from other legally available funds. See item 10B Additional Information Memorandum and Articles of Association Allocation of Net Profits and Distribution of Dividends Distribution of Dividends.

Dividend Policy and History of Dividend Payments

The following table sets forth the distributions paid to holders of our common shares and preferred shares since 2001:

| Period | Description | First payment date | R\$ per 1,000 preferred shares | R\$ per 1,000 common shares | Total amount in dividends and interest on shareholders equity (in R\$ millions) |
|---------------|--------------------|---------------------------|---------------------------------------|------------------------------------|--|
| 2001 | Dividends | June 2002 | 0.5375 | 0.5375 | 60.8 |
| 2002 | Dividends | June 2003 | 0.5252 | 0.5252 | 59.4 |
| 2003 | Dividends | June 2004 | 0.5089 | 0.4626 | 54.8 |
| 2004 | Dividends | June 2005 | 0.8265 | 0.7514 | 89.1 |
| 2005 | Dividends | June 2006 (1) | 0.5686 | 0.5169 | 62.0 |

(1) The proposed dividend accrued in December 31, 2005 was approved at the annual shareholders meeting on April 27, 2006 and was paid on June 23, 2006. According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval.

Shareholders who are not residents of Brazil must generally register with the Central Bank to have dividends and/or interest on shareholders equity, sales proceeds or other amounts with respect to their shares eligible to be remitted in foreign currency outside of Brazil. See Item 10E Additional Information Taxation Brazilian Tax Considerations Registered Capital. The preferred shares underlying the ADSs are held in Brazil by the custodian, as agent for the depository, the registered owner on the records of the registrar for the preferred shares underlying the ADSs. The current registrar is Banco Itaú S.A.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the custodian on behalf of the depository, which will then convert the payments in Brazilian currency into U.S. dollars and thereafter will cause the U.S. dollars to be delivered to the depository for distribution to holders of ADSs as described above. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends and/or interest

on shareholders' equity into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that occur before the distributions are converted and remitted. See

Item 3A Key Information Selected Financial Data Exchange Rates. Dividends and interest on shareholders' equity in respect of the preferred shares paid to shareholders, including holders of ADSs, are exempt from Brazilian withholding tax in respect to profits accrued as of January 1, 1996. See Item 10E Additional Information Taxation Brazilian Tax Considerations.

8B. Significant Changes

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

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

Our preferred shares are traded on the São Paulo Stock Exchange – BOVESPA under the trading symbol PCAR4. Our preferred shares in the form of American depositary shares, or ADSs, also trade on the New York Stock Exchange under the trading symbol – CBD – and on the Luxembourg Stock Exchange. We became a U.S. registered company listed on the New York Stock Exchange in May 1997.

Each ADS represents 1,000 preferred shares, without par value. The ADSs are evidenced by American depositary receipts, or ADRs, issued by The Bank of New York, as depositary.

The following table sets forth, for the period indicated, the reported high and low sales prices for the preferred shares on the São Paulo Stock Exchange, in *reais* and U.S. dollars:

| Calendar Period | High | Low | High | Low | R\$ Average Daily Trading Volume |
|-----------------|-----------------------------------|-------|--|-------|---|
| | R\$ per 1,000 Preferred Shares | | U.S.\$ per 1,000 Preferred Shares (1) | | |
| 2001 | 75.43 | 33.25 | 32.51 | 14.33 | 2,362,045 |
| 2002 | 60.00 | 40.00 | 16.98 | 11.32 | 1,788,932 |
| 2003 | 71.00 | 40.00 | 24.57 | 11.93 | 2,562,900 |
| 2004: | | | | | |
| 1st quarter | 77.47 | 56.60 | 26.63 | 19.46 | 2,572,387 |
| 2nd quarter | 63.20 | 42.94 | 20.34 | 13.82 | 2,575,033 |
| 3rd quarter | 62.90 | 53.49 | 22.00 | 18.71 | 4,619,435 |
| 4th quarter | 69.00 | 57.59 | 25.99 | 21.70 | 3,593,056 |
| 2005: | | | | | |
| 1st quarter | 67.90 | 55.00 | 25.47 | 20.63 | 5,746,677 |
| 2nd quarter | 57.00 | 46.85 | 24.25 | 19.93 | 3,745,354 |
| 3rd quarter | 64.00 | 43.90 | 28.80 | 19.76 | 5,943,516 |
| 4th quarter | 77.00 | 56.80 | 32.90 | 24.27 | 7,990,502 |

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

| | | | | | |
|---------------|-------|-------|-------|-------|------------|
| December 2005 | 77.00 | 71.24 | 32.90 | 30.44 | 9,557,616 |
| January 2006 | 84.51 | 79.30 | 38.14 | 35.79 | 11,710,710 |
| February 2006 | 90.00 | 77.05 | 42.14 | 36.08 | 8,837,820 |

| | | | | | |
|------------|-------|-------|-------|-------|------------|
| March 2006 | 98.85 | 88.95 | 45.50 | 40.95 | 9,363,801 |
| April 2006 | 89.70 | 80.70 | 42.94 | 38.63 | 10,483,541 |
| May 2006 | 86.99 | 75.50 | 37.81 | 32.82 | 13,400,179 |

(1) Converted into U.S. dollars at the U.S. dollar-Brazilian *real* exchange rate in effect at the end of each period presented. There was a significant devaluation of the Brazilian *real* in early 2001 and 2002. See Item 3A Key Information Selected Financial Data Exchange Rates.

On May 31, 2006, the closing sale price for the preferred shares on the São Paulo Stock Exchange was R\$75.50 per 1,000 preferred shares, equivalent to U.S.\$ 32.82 per ADS translated at the exchange rate of R\$ 2.3005 per U.S.\$1.00, the commercial market rate on such date.

The following table sets forth, for the periods indicated, the reported high and low sales prices for our ADSs listed on the New York Stock Exchange, in U.S. dollars and *reais*:

| Calendar Period | High | Low | High | Low | U.S.\$ Average Daily |
|-----------------|-------------|-------------|----------|----------|----------------------|
| | U.S.\$ ADSs | U.S.\$ ADSs | R\$ ADSs | R\$ ADSs | Trading Volume |
| 2001 | 38.88 | 12.50 | 90.22 | 29.01 | 3,601,605 |
| 2002 | 25.05 | 11.48 | 88.51 | 40.56 | 1,832,312 |
| 2003 | 25.15 | 11.44 | 72.66 | 33.05 | 2,374,799 |
| 2004: | | | | | |
| 1st quarter | 27.74 | 19.30 | 80.68 | 56.14 | 3,527,041 |
| 2nd quarter | 22.00 | 13.37 | 68.37 | 41.55 | 3,174,933 |
| 3rd quarter | 21.38 | 17.41 | 61.12 | 49.77 | 3,029,943 |
| 4th quarter | 25.60 | 20.65 | 67.95 | 54.81 | 3,421,341 |
| 2005: | | | | | |
| 1st quarter | 26.02 | 20.85 | 69.37 | 55.59 | 4,356,430 |
| 2nd quarter | 22.96 | 19.89 | 53.97 | 46.75 | 4,103,298 |
| 3rd quarter | 28.87 | 18.56 | 64.15 | 41.24 | 6,818,936 |
| 4th quarter | 34.61 | 25.53 | 81.01 | 59.76 | 6,392,071 |

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

| | | | | | |
|---------------|-------|-------|--------|-------|------------|
| December 2005 | 34.61 | 31.07 | 81.01 | 72.73 | 6,263,626 |
| January 2006 | 38.32 | 34.37 | 84.92 | 76.16 | 10,258,682 |
| February 2006 | 42.86 | 34.85 | 91.53 | 74.42 | 9,001,114 |
| March 2006 | 46.13 | 41.00 | 100.21 | 89.07 | 10,633,087 |
| April 2006 | 41.91 | 38.48 | 87.56 | 80.39 | 9,994,939 |
| May 2006 | 42.15 | 31.60 | 96.97 | 72.20 | 10,572,919 |

9B. Plan of Distribution

Not applicable.

9C. Markets

Trading on the Brazilian Stock Exchanges

The principal trading market for our preferred shares and common shares is the São Paulo Stock Exchange.

Settlement of transactions on BOVESPA occurs three business days after the trade date. Delivery of and payment for shares is made through the facilities of an independent clearinghouse. The clearinghouse for BOVESPA is Companhia Brasileira de Liquidação e Custódia, or CBLC. The CBLC is the central counterparty for transactions effected on BOVESPA, carrying out multi-party settlement for financial obligations and transfers of securities. Under the regulations of the CBLC, financial settlement is carried out through the Sistema de Transferência de Reservas (Reserve Transfer System) of the Central Bank. The settlement of trades of shares is carried out in the custodial

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system of CBLC. All deliveries against final payment are irrevocable.

At May 31, 2006, there were 384 companies listed on the São Paulo Stock Exchange.

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

Regulation of the Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, the Brazilian securities commission, which has authority over stock exchanges and the securities markets generally, the Conselho Monetário Nacional CMN, the national monetary council, and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

Under the Brazilian corporate law, a company is either public, a *companhia aberta*, such as we are, or private, a *companhia fechada*. All public companies are registered with the CVM, and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on the Brazilian stock exchanges or in the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to certain limitations. To be listed on a Brazilian stock exchange, a company must apply for registration with the CVM and with a stock exchange. Once this stock exchange has admitted a company to listing and the CVM has accepted its registration as a public company, its securities may, under certain circumstances, be traded on all other Brazilian stock exchanges.

Trading in securities on the Brazilian stock exchanges may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of a Brazilian stock exchange or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the relevant stock exchange.

The Brazilian securities law, the Brazilian corporate law and the laws and regulations issued by the CVM, the CMN, and the Central Bank provide for, among other things, disclosure requirements applicable to issuers of traded securities, restrictions on insider trading and price manipulation, and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions.

Corporate Governance Practices

As a Brazilian company listed on the *Nível 1 das Práticas Diferenciadas de Governança Corporativa da Bolsa de Valores de São Paulo* (Level 1 of the Differentiated Practices of Corporate Governance of the São Paulo Stock Exchange or Level 1) we must comply with the corporate governance standards set forth in the Brazilian corporate law, the rules of the CVM and the *Regulamento de Práticas Diferenciadas de Governança Corporativa da Bolsa de Valores de São Paulo* (the Differentiated Practices of Corporate Governance of the São Paulo Stock Exchange or the Level One Regulation), as well as our own bylaws.

On November 4, 2003, the SEC approved the new corporate governance rules established by the NYSE. Pursuant to these rules, foreign private issuers that are listed on the NYSE, such as, we must disclose any significant differences in corporate governance practices compared to U.S. domestic companies under the listing rules of the NYSE.

The significant differences between our corporate governance practices and the NYSE corporate governance standards are as follows:

Independence of Directors and Independence Tests

The Brazilian corporate law and our bylaws require that our directors be elected by our shareholders at a general shareholders meeting. Currently our board of directors consists of one honorable member and fourteen members elected by our shareholders, consisting of five representatives of the Diniz group, five representatives of the Casino group, and four external directors.

Neither our board of directors nor our management test the independence of the directors before such elections are made. However, both the Brazilian corporate law and CVM establish rules in relation to certain

qualification requirements and restrictions, investiture, compensation, duties and responsibilities of the companies executives and directors. Because we believe these rules provide adequate assurances that our directors are independent, we have not otherwise attempted to impose the independence tests established by the NYSE.

Executive Sessions

According to the Brazilian corporate law, up to 1/3 of the members of the board of directors can be elected into executive positions.

The remaining non-management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management. Notwithstanding, our board of directors consists of one honorable member and fourteen members elected by our shareholders, all of whom are non-management directors. Therefore we are in compliance with this standard.

Committees

We are not required under applicable Brazilian corporate law to have, and accordingly we do not have, a Nominating Committee and a Corporate Governance Committee. Although we are not required to have a Compensation Committee, we currently have a Human Resources and Compensation Committee, which, among other assignments, will review and discuss management compensation. See Item 6 Directors, Senior Management and Employees Committees. Pursuant to our bylaws our directors are elected by our shareholders at a general shareholders meeting. Compensation for our directors and executive officers is established by our shareholders.

Audit Committee and Audit Committee Additional Requirements

Under the Brazilian corporate law and our by-laws, we are not required to, and currently do not, maintain a permanent fiscal council (conselho fiscal). The fiscal council operates independently from our management and from our external auditors. Its main function is to examine the financial statements of each fiscal year and provide a formal report to our shareholders. We do not maintain a permanent fiscal council, however if necessary we should install one upon the vote of 2% of our common shares shareholders or 1% of the holders of our preferred shares, pursuant to CVM Instruction 324, dated as of January 14, 2000. In order to comply with the requirements of the Sarbanes-Oxley Act and the rules and regulations of the NYSE, we finished the implementation of an independent audit committee composed of three independent members, which are members of our board.

Shareholder Approval of Equity Compensation Plans

Our board of directors is responsible for voting on the issuance of new equity in connection with our existing stock option plans, provided that the limit of our authorized capital is respected. However, any issuance of new shares that exceeds such authorized capital is subject to shareholder approval.

Corporate Governance Guidelines

We have not adopted any corporate governance guidelines in addition to the rules imposed upon us by applicable Brazilian corporate law. We believe the corporate governance guidelines applicable to us under Brazilian corporate law are consistent with the guidelines established by the NYSE. We have adopted and observe the Policy of Disclosure of Acts or Relevant Facts and the Preservation of Confidentiality of CBD, which deals with the public disclosure of all relevant information as per CVM's guidelines. Also, we comply with the CVM rules relating to transactions involving the trading by our management of our securities.

Code of Business Conduct and Ethics

Although the adoption of a code of ethics is not required by Brazilian corporate law, we implemented our Code of Ethics in 2000 to regulate our employees' conduct with us and our customers, suppliers, competitors and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act and New York Stock Exchange rules, we later implemented rules applicable to our managers' conduct in connection with the registration

and control of financial and accounting information and their access to privileged and non-public information and data. For more information about our Code of Ethics, see Item 16B Code of Ethics .

In addition to complying with the rules of corporate governance applicable to us under Brazilian law, we intend to gradually comply with substantially all of the new rules established by the NYSE and the SEC applicable to domestic U.S. companies.

9D. Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10A. Share Capital

Not applicable.

10B. Memorandum and Articles of Association

Set forth below is a brief summary of certain significant provisions of our by-laws and Brazilian corporate law. This description does not purport to be complete and is qualified by reference to our by-laws (an English translation of which has been filed with the Commission) and to the Brazilian corporate law.

Objects and Purposes

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

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

Preferred Shares and Common Shares

General

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

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

- (i) priority in the receipt of fixed or minimum dividend;

(ii) priority in the reimbursement of capital, with or without premium; or

(iii) cumulative preferences and advantages established in items (i) and (ii) above.

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

- right to participate in the distribution of the mandatory dividend of 25% of our adjusted net profits, pursuant to the following criteria (See - Allocation of Net Profits and Distribution of Dividends - Mandatory Dividends for a description of calculation of our adjusted net profits):

(i) priority in the receipt of dividends corresponding to at least 3% of the shares' book value; and

(ii) right to participate in the profit distribution together with the common shares under equal conditions, after the common shares have received dividends as set forth in item (i) above.

- right to receive dividends in an amount per share at least 10% higher than the amount per share paid to holders of common shares; or
- tag-along right of at least 80% of the price paid to the controlling shareholder in case of transfer of control.

In this sense, our by-laws sets forth that the preferred shares are entitled to the following advantages and preferences:

(i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R\$0.15 per batch of 1,000 preferred shares that is accounted for as a portion of the mandatory dividends (as mentioned below);

(ii) priority in the reimbursement of capital, which value will be calculated by the division of the corporate capital for the number of trading shares, without premium, in the event of our liquidation;

(iii) participation under equal conditions with common shares, in the distribution of bonus shares resulting from capitalization of reserves or retained earnings; and

(iv) each preferred share will be entitled to a mandatory dividend 10% (ten per cent) higher than the dividend amount attributed to each common share (including, for purposes of such calculation, in the sum of the total amount of dividends paid to the preferred shares, the amount paid pursuant to item (i) above).

In addition, pursuant to the Brazilian corporate law and our by-laws, the preferred shares will acquire the right to vote in the event that the minimum non-cumulative annual preferred dividend is not paid for a period of three consecutive years and such voting right will cease upon the payment of such minimum non-cumulative annual preferred dividend.

Under the Brazilian corporate law, amendments reducing the rights of preferred shares entitle the holders of those shares to withdrawal rights. See Withdrawal Rights for a description of withdrawal rights.

Allocation of Net Profits and Distribution of Dividends

Allocation of Net Profits

Brazilian corporate law defines the net profit as the results of the relevant fiscal year, reduced by accumulated losses of prior fiscal years, provisions for income tax and social contribution for such fiscal year, and amounts allocated to employees and management's participation in the results in such fiscal year. The allocation of our net profits is proposed by our management and is subject to approval by our shareholders at a general shareholders meeting. The discretion of our management and our shareholders to determine the allocation of our

net profits, however, is limited by certain rules that determine whether such net profits should be distributed as dividends or allocated to certain profit reserves or carried forward to future fiscal years, as follows:

Mandatory dividends. Our shareholders are generally entitled to receive mandatory dividends each year, in an amount equivalent to 25% of our adjusted net profits. Adjusted net profits is net profits following the addition or subtraction of:

- amounts allocated to the formation of a legal reserve account;
- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years;
- amounts allocated to the statutory reserve, if any;
- amounts allocated to the unrealized profit reserve;
- amounts allocated to the retained profit reserve; and
- reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

The payment of our mandatory dividends may be limited to the profits actually realized in the fiscal year, if the portion of the profits not realized is allocated to the unrealized income reserve account (as described below).

Legal reserve account. We are required to maintain a legal reserve to which we must allocate 5% of our net profits for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. The allocation of a portion of the net profits to the legal reserve account is mandatory and it must be submitted to the approval by the shareholders voting at the general shareholders meeting and may only be transferred to our capital account or used to offset accumulated losses, if any. We are not required to make any allocations to our legal reserve for any fiscal year in which such reserve, when added to our capital reserves, exceeds 30% of our capital stock. The legal reserve account is not available for the payment of dividends.

Expansion Reserve: Currently, our by-laws provide for an expansion reserve (*Reserva de Expansão*) which will be made of up to 100% of the remainder net profits adjusted after the establishment of the legal, contingency and unrealized income reserves. The total amount of this reserve may not exceed the amount corresponding to our share capital. Our shareholders may amend our by-laws in order to establish one or more other discretionary reserves. The allocation of our net profits to discretionary reserve accounts may not be made if it prevents the distribution of our mandatory dividends.

Contingency reserve account. A portion of our net profits may also be allocated to a contingency reserve for an anticipated loss that is deemed probable in future years. Any amount so allocated in a prior year must either be reversed in the fiscal year for which the loss was anticipated if the loss does not occur or be charged off if the anticipated loss occurs.

Retention of our net profits. According to the Brazilian corporate law, the shareholders can decide to retain a portion of the net profit provided that such portion has been contemplated in the capital budget previously approved by the shareholders.

Unrealized income reserve account. The portion of the mandatory dividends that exceeds the net profits actually realized in that year may be allocated to the unrealized income reserve account. Unrealized income is that resulting

from the equity pick up result and/or the profits of earnings of any transaction, the financial satisfaction of which takes place in the subsequent fiscal year.

The unrealized income reserve account, when realized, must be used first to offset accumulated losses, if any, and the remaining portion must be used for the payment of mandatory dividends.

The balance of the profits reserve accounts, except for the contingency reserve account and unrealized income reserve account, may not exceed the share capital. If this happens, a shareholders' meeting must resolve if the excess will be applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed share capital or to distribute dividends.

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

Distribution of Dividends

Under the Brazilian corporate law and our by-laws, we may pay dividends only from:

- our net profits earned in a given fiscal year, which is our result of the relevant fiscal year, reduced by: accumulated losses from prior fiscal years; provisions for income tax and social contribution for such fiscal year; and amounts allocated to employees' and managers' participation in the results in such fiscal year pursuant to our Profit Sharing Program (*participações estatutárias*). Furthermore, our by-laws authorize not only a profit sharing plan for employees and managers, but also a stock option plan. The amount to be paid in connection with both plans is set forth by our board of directors and must not exceed an amount equal to 15% of our net profits. Under Brazilian corporate law, this profit sharing may only be paid to managers with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders.
- our net profits accrued in previous fiscal years or in any six-month and/or quarterly interim periods of a fiscal year; or
- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, profit reserves means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by our shareholders' resolution or unrealized income reserve account, not including the legal reserve account.

Under our by-laws, the preferred shares are entitled to: (i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R\$0.15 per 1,000 preferred shares, (ii) priority in reimbursement of capital, without premium, in case of liquidation, (iii) participation on equal terms with common shares in the distribution of bonus shares resulting from capitalization of reserves of retained earnings and (iv) receipt of the mandatory dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.15 per 1,000 shares.

Consequently, under our by-laws, to the extent funds are available, dividends and/or interest on shareholders' equity are paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares in the amount of R\$0.15 per 1,000 preferred shares; and (ii) after common shares are assured a dividend equal to the minimum non-cumulative annual preferred dividend equal to R\$0.15 per 1,000 shares, each preferred share receives a dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R\$0.15 per 1,000

preferred shares, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition. We are authorized, but not required, to distribute a greater amount of dividends.

Dividends are generally to be declared at general shareholders meetings in accordance with the recommendation of the board of directors. Our board of directors may declare interim dividends to be deducted from the accrued profits recorded in our annual or semiannual financial statements. In addition, our board of directors may pay dividends from the net income based on our unaudited quarterly financial statements. The interim

dividends may be declared and debited to the profit reserve amount registered at the most recent annual or semiannual statement. These semiannual or quarterly interim dividends may not exceed the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividends relating to the net profits earned in the year the interim dividends were paid.

Distributions of interest on our shareholders' equity may constitute an alternative form of payment to shareholders. These payments may qualify as part of the mandatory dividend at their net value. Please see Item 10E Taxation Brazilian Tax Considerations.

Dividends are generally available to the shareholders within 60 days after the date the dividends were declared to the holder of record on the declaration date. The amount is subject to monetary restatement, in accordance with recommendation of our board of directors and the current corporate law.

A shareholder has a three-year period following the dividend payment date to claim a dividend in respect of its shares, after which we have no liability for such payment.

Our calculation of net profits and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with Brazilian GAAP, although our allocations to reserves and dividends will be reflected in those financial statements, investors will not be able to calculate these allocations or required dividend amounts from the financial information in U.S. GAAP.

Conversion of Common Shares into Preferred Shares

Our by-laws do not provide for the conversion of preferred shares into common shares. In accordance with our by-laws, our shareholders may at any time convert our common shares into preferred shares, provided that such common shares are fully paid and that the total of preferred shares issued do not exceed the limit of two-thirds of all outstanding shares. The requests for conversion must be submitted in writing to our executive officers committee and subsequently ratified at the next board of directors meeting.

Interest on Shareholders' Equity

We are allowed to pay interest on shareholders' equity as an alternative form of payment to shareholders, which payment may be treated as a deductible expense for income tax and social contribution purposes. Payments of interest on shareholders' equity may be made at the discretion of our board of directors, subject to the approval of our shareholders in the shareholders' meeting. Payments of interest on shareholders' equity, net of withholding tax, may be used to satisfy a company's mandatory distribution obligation. This interest is limited to the daily pro rata variation of the TJLP, the Brazilian government's long-term interest rate, as determined by the Brazilian Central Bank from time to time, and cannot exceed, for tax purposes, the greater of (i) 50% of net income (after deduction of social contribution on profits and before taking such distribution and any deduction for corporate income tax) for the year in respect of which the payment is made; or (ii) 50% of the sum of retained profits and profit reserves in the beginning of the period with respect to which the payment is made.

Distribution of interest on shareholders' equity may also be accounted for as our tax deductible expense, and any payment of interest on preferred shares to shareholders, whether Brazilian residents or not, including holders of ADSs, is subject to Brazilian withholding tax at the rate of 15%. See Item 10E Taxation Brazilian Tax Considerations Interest on Shareholders' Equity. The amount paid to shareholders as interest on shareholders' equity, net of any withholding tax, may be included as part of the mandatory distribution. We are required to distribute to shareholders an amount sufficient to ensure that the net amount received by the shareholders, after the payment by us of applicable withholding taxes in respect of the distribution of interest on shareholders' equity, is at least equal to the mandatory

distribution. To the extent we distribute interest on shareholders' equity in any year, which distribution is not accounted for as part of the mandatory distribution, a Brazilian withholding tax would apply and we would not be required to make a gross-up.

Voting Rights

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

The Brazilian corporate law provides that non-voting or restricted voting shares (such as the preferred shares) entitled to fixed or minimum dividends acquire unrestricted voting rights if the company has failed for three consecutive fiscal years (or for any shorter period set forth in a company's by-laws) to pay any fixed or minimum dividend to which such shares are entitled, and such voting rights exist until the payment thereof is made. Our bylaws do not set forth any shorter period.

In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle the holder thereof to one vote.

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority or preference over the existing preferred shares, would require, in addition to the affirmative vote of shareholders holding at least one-half of our common shares in a shareholders' meeting, the prior approval or the ratification by holders of a majority of the concerned outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares.

This meeting would be called by notice published at least three times in the *Diário Oficial do Estado de São Paulo*, as well as in a newspaper of wide circulation in São Paulo, our principal place of business, at least 15 days prior to the meeting, but would not generally require any other form of notice. We have designated *Folha de São Paulo*, *Gazeta Mercantil*, *Valor Econômico* or *Estado de S. Paulo* for this purpose.

According to the Brazilian corporate law, (i) shareholders that jointly hold preferred shares that represent, at least, 10% of the total capital stock, and (ii) holders of common shares that are not controlling shareholders and represent, at least, 15% of the total voting stock, will have the right to elect one member of the board of directors and an alternate. In case non-controlling shareholders do not achieve the aforementioned percentage, they may combine their participation and, if they jointly hold at least 10% of the total capital, they may elect a member of the board of directors and an alternate director. Only shareholders that prove they have been holding the shares for at least 3 continuous months may exercise such rights.

Shareholders Meetings

Under the Brazilian corporate law, at an annual general meeting of shareholders, or an extraordinary general meeting, convened and held in accordance with such law and our by-laws, the shareholders are empowered to decide all matters relating to our business purposes.

Pursuant to the Brazilian corporate law, shareholders voting at a general meeting have the power, among others, to:

- amend our by-laws;
- delisting of the company from CVM (to become a privately held company);
- approval of the issuance of convertible debentures and secured debentures;
- election or dismissal of members of our board of directors and of our fiscal council, at any time;
- receipt of the management's accounts and approval of the financial statements, including the allocation of net profits;
- suspension of the rights of a shareholder who has violated Brazilian corporate law or our by-laws;

- approval of the valuation of assets to be paid in our capital stock;
- approval of the transformation of our corporate form or of our merger with or into another company (*incorporação* or *fusão*), spin-off (*cisão*), consolidation or split; and

- authorization of management to petition for our bankruptcy, to declare our company insolvent and to request a *recuperação judicial* or *recuperação extrajudicial* (a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code).

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

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review the reports;
- appointment and removal of the Chairman of our board of directors;
- approval of the annual global compensation of the members of our management, including benefits;
- approval of or amendment to our annual investment program;
- approval of any issuance of common or preferred shares up to the limit of the authorized capital (200,000,000,000 shares), and/or any bonuses, debentures convertible into our shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for our shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which we are or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and the terms and conditions of subscription and payment;
- approval of any agreement or amendment to any agreement, directly or indirectly, between us and/or our affiliates and any of our controlling shareholders or their relatives, members of our management or any of our controlled companies and affiliates, except those agreements executed in ordinary course of business, which should be contracted on an arm's-length basis (market conditions);
- approval of any delisting from trading on any stock exchange or filings for new listings;
- approval of any change in our dividend policy;
- approval of any joint venture between us and third parties involving an individual investment or investments aggregated over a fiscal year in excess of the amount equivalent in *reais* to U.S.\$ 100,000,000 or in excess of an amount equal to 6% of our shareholders equity (*patrimônio líquido*) as determined in its latest annual balance sheet, whichever is the higher, provided that the Joint Venture was previously approved by our board of directors;
- approval of any purchase, sale, disposal of or creation of any lien on any asset of ours or any other investment made by us (Investment) in an individual amount or amounts aggregated over a fiscal year in excess of the amount in *reais* equivalent to U.S.\$ 100,000,000 , or in excess of an amount equal to 6% of our shareholders equity (*patrimônio líquido*) as determined in our latest annual balance sheet, whichever is higher; and
- approval of any financial arrangement, including the lending or borrowing by us of funds and the issuance of non-convertible debentures in excess of an individual amount equal to 2 times EBITDA of the preceding 12 months.

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

- approval of any Investment in an individual amount or cumulated over a fiscal year in excess of the amount in *reais* equivalent to U.S.\$ 20,000,000 or in excess of an amount equal to 1% and up to 6% of our shareholders equity (*patrimônio líquido*) as determined in its latest annual balance sheet, whichever is the higher; and

- approval of any Financial Arrangement in excess of an individual amount equivalent to one half and up to 2 times EBITDA of the preceding 12 months.

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

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

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

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

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

Notice of our shareholders meetings. Notice of our shareholders meetings must be published at least three times in the *Diário Oficial do Estado*, the official newspaper of the state where our headquarters are located and another newspaper widely published, currently *Folha de São Paulo*, *Gazeta Mercantil*, *Valor Econômico* or *Estado de S. Paulo*. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, the CVM may require that the first notice be published 30 days in advance of the meeting.

Conditions of admission. Shareholders attending a shareholders meeting must produce proof of their status as shareholders and proof that they hold the shares they intend to vote.

A shareholder may be represented at a shareholders meeting by a proxy appointed less than a year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. Investment funds must be represented by their manager.

Preemptive Rights on Increase in Preferred Share Capital

Under the Brazilian corporate law, each shareholder has a general preemptive right to subscribe for shares in any capital increase, in proportion to its shareholding, except in the event of the grant and exercise of any option to acquire shares of our capital stock under our stock option program. A shareholder has a general preemptive right to subscribe for debentures convertible into shares of our company, rights to acquire our shares and subscription warrants that we may issue. A minimum period of 30 days following the publication of notice of the capital increase is allowed for the exercise of the right, except if otherwise determined by the by-laws or the shareholder meeting, and the right is negotiable.

However, our board of directors is authorized to eliminate preemptive rights with respect to the issuance of shares, debentures convertible into shares and subscription warrants, provided that the distribution of such shares is effected (i) through a stock exchange or in a public offering or (ii) through an exchange of shares in a public offering, the purpose of which is to acquire control of another company.

According to Brazilian corporate law, capital increases that do not change the proportion between the existing classes and types of shares entitle the shareholders to exercise their preemptive rights solely with respect to shares of equal class and type as the shares each of them already holds. Notwithstanding that, if the company issues shares that cause changes to the existing proportion of classes and types of shares, then the shareholders may exercise their preemptive rights with respect to shares of equal class and type as the shares they already hold and, only if necessary to maintain its participation in the total capital stock, may subscribe for other classes or types of shares.

Therefore, in the event of a capital increase, which would maintain or increase the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to subscribe only newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to subscribe for preferred shares, in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see Item 3D Key Information Risk Factors.

Withdrawal Rights

Neither the common shares nor the preferred shares are redeemable. Any of our shareholders who dissent from certain actions taken by our shareholders in a shareholders meeting have the right to withdraw from our company and to receive the value of their shares. According to the Brazilian corporate law, the withdrawal rights of a dissenting shareholder may be exercised in the event that our shareholders representing at least one-half of our issued and outstanding voting capital authorizes:

(i) the creation of preferred shares or the disproportional increase of an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;

(ii) the modification of a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or the creation of a new class with greater privileges than the existing classes of preferred shares;

(iii) a reduction in the mandatory distribution of dividends;

(iv) a change in our corporate purposes;

- (v) the transfer of all of our shares to another company in order to make us a wholly owned subsidiary of such company or vice versa (*incorporação de ações*);
- (vi) our merger into or with another company (*incorporação* or *fusão*), including if we are merged into one of our controlling companies, or are consolidated with another company;
- (vii) our participation in a group of companies as defined under the Brazilian corporate law and subject to the conditions set forth therein;
- (viii) a spin-off of our company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a centralized group of companies; or
- (ix) the transformation of our company into another type of company.

Dissenting shareholders also have a right of withdrawal in the event that the entity resulting from (a) an *incorporação de ações* as described above, (b) a spin-off, (c) a merger or a consolidation of a Brazilian publicly listed company fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken.

The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting. In items (i) and (ii) above, the resolution will be effective only upon the prior approval or confirmation within one year by the preferred shareholders, which must be made at a special meeting, in which case the 30-day term is counted from the date the minutes of the special meeting are published. In any event, we are entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of the 30-day term mentioned above if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

In addition, the rights of withdrawal in items (iv), (v), (vii) and (viii) above may not be exercised by holders of shares if such shares have (a) liquidity, when such shares are part of the Bovespa Index, or part of any other stock exchange index in Brazil or in the world, as defined by the CVM, and (b) dispersion, when the controlling shareholder or other companies under the same control has less than 50% of the shares or class of shares.

Our preferred shares may be withdrawn at their book value, determined on the basis of the last balance sheet approved by the shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs more than sixty days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a special balance sheet that is of a date within sixty days of such shareholders' meeting. In this case, we must immediately pay 80% of the book value of the shares according to the most recent balance sheet approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the relevant shareholders' meeting.

Form and Transfer of Shares

Our shares are in book-entry form, and the transfer of such shares is made by the registrar in our books, by debiting the share account of the transferor and crediting the share account of the transferee. We maintain book-entry form services with Banco Itaú S.A., or the registrar, which performs all the services of safekeeping and transfer of our shares and related services.

Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to Resolution 2,689, of CMN (National Monetary Council) the foreign investor should also seek the amendment of this Resolution.

CBLC (*Câmara Brasileira de Liquidação e Custódia*) is the exclusive clearing house that operates in São Paulo Stock Exchange. CBLC is also responsible for settlement and custody of the shares.

Other Dispositions

In addition to the provisions already described in this annual report, the Brazilian corporate law and current

regulations set forth:

- upon a sale of control, the acquiror is required to launch a tender offer to purchase all minority voting shares at a price equal to at least 80% of the control price;
- if provided for in the by-laws, disputes among our shareholders will be subject to arbitration. Our by-laws currently do not provide for arbitration;
- upon the occurrence of a tender offer aiming at delisting our company or through which our controlling shareholders acquire more than one-third of the float shares, the purchase price will be equal to the fair value of the shares considering the total number of outstanding shares;
- members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent accountant of the controlling shareholders;
- our controlling shareholders, the shareholders that elect members to our board of directors and to the fiscal council, our directors, members of fiscal council and our executive officers will be required to disclose any purchase or sale of our shares to the CVM and to the São Paulo Stock Exchange; and
- the chairman of any shareholders or board of directors meeting will disregard any vote that is rendered against provisions of any shareholders agreement if that shareholders agreement has been duly filed with us.

We have amended our by-laws to meet certain mandatory provisions of the Brazilian corporate law.

10C. Material Contracts

The Sendas Association

We and Mr. Abilio dos Santos Diniz, Península and Pão de Açúcar S.A. Indústria e Comércio, or PAIC, are parties to a shareholders agreement dated September 16, 2005 with Sendas S.A., or Sendas, and its direct and indirect controlling shareholders Sendas Empreendimentos e Participações Ltda. and Mr. Arthur Antonio Sendas. The main purpose of the Sendas shareholders agreement is to regulate our relationship with Sendas as shareholders of Sendas Distribuidora, a joint participation on a shared basis and in a 50% proportion of the voting stock.

On November 30, 2004, we and Sendas entered into a shareholders agreement with investment funds of AIG Group, pursuant to which they agreed to extend certain rights to AIG Group. See Item 4.A. Information on the Company- History and Development of the Company -The AIG Group Association.

Pursuant to the Sendas and the AIG Group shareholders agreement:

- Sendas is entitled to appoint five members and two alternates of the board of directors of Sendas Distribuidora, while we are entitled to appoint the remaining seven members and two alternates, as long as we and Sendas continue to own shares representing 50% of the joint participation (defined under the shareholders agreement as the sum of our and Sendas equity interests in the voting capital of Sendas Distribuidora);
- the investor is entitled to appoint one member and the respective alternate;
- any two directors appointed by Sendas can veto specific business decisions outside the business purpose of Sendas Distribuidora;

- we have the right to appoint all executive officers of Sendas Distribuidora, who must be professionals with flawless reputations and renowned competence, which enables us to be fully responsible for the operating and administrative management of Sendas Distribuidora and to have complete freedom in connection with the day-to-day operational decisions;

- as long as we and Sendas continue to own fifty percent of the joint participation, the shareholders resolutions of Sendas Distribuidora must be taken by consensus between us and Sendas. However, if the equity participation of any of we or Sendas falls below fifty percent of the joint participation, the shareholders resolutions will have to be decided by a simple majority vote, giving the minority shareholder in this case the right to veto certain major corporate decisions, such as changes to provisions in the by-laws of Sendas Distribuidora regarding its capital stock, issuance of securities and dividends policies, as well as the mergers, spin-offs and other corporate reorganizations, among others. This veto right will be valid provided that the minority shareholder continues to own more than twenty-five percent of the joint participation; and
- as long as AIG Group is a shareholder of Sendas Distribuidora it will have the right to veto certain major corporate decisions, such as issuance of new class B preferred shares, changes to provisions in the by-laws regarding the rights granted to the holders of the class B preferred shares, redemption of shares, merger, spin-off and other corporate reorganizations.

The shareholders agreement also establishes certain rights as described below:

- in the event PAIC, Península and Mr. Abilio Diniz decide to transfer, either direct or indirectly, our own equity control, Sendas will be entitled, pursuant to the Sendas shareholders agreement, to exercise a put option right against us and therefore to sell the totality of its Sendas Distribuidoras shares at the price fixed by the shareholders agreement. On the other hand, if Sendas controlling shareholder receives from a third party an offer for Sendas control, we are entitled to either exercise a right of first refusal and acquire the shares at the terms and conditions offered by such third party or to acquire, at the price fixed under the shareholders agreement, the totality of shares in the capital stock of Sendas Distribuidora owned by Sendas. Despite the CVM's Committee decision, we have reiterated our understanding that the transaction between Diniz group and Casino group did not constitute a transfer of our control and that such decision shall not constitute a trigger to the put option right. See Co-Control by the Diniz Family and Casino.
- the shareholders agreement also provides that Sendas may at any time as of February 1, 2007 exercise the right to exchange the totality or a portion of its paid-in shares in Sendas Distribuidora for preferred shares representing our capital stock. In such case, we can alternatively (i) carry out the share exchange; or (ii) purchase in cash, at a certain transfer price determined by the Sendas shareholders agreement, the shares upon which the right of share exchange has been exercised; or (iii) accomplish the exchange transaction through several corporate procedures such as capital increases, mergers of shares and others. In addition to the cash or shares received, as the case may be, Sendas would also have the right, in case all its shares in Sendas Distribuidora were exchanged for our preferred shares, to subscribe one class A common share that would be issued by Sendas Distribuidora. This special share would allow it to appoint, in a separate voting procedure, one member of the Sendas Distribuidora's board of directors.
- However, if Sendas transferred more than 75% of our preferred shares following the exchange, it would be required to sell back such class A common shares to us at a fixed price of R\$ 1.00 and therefore it would cease to have the special rights provided therein. In addition, Sendas would also be subject to limitations in the amount of our preferred shares, which it could sell in the open market.

We and Sendas have also agreed pursuant to the Sendas shareholders agreement not to compete, either independently or jointly with third parties, with Sendas Distribuidora in the food retailing business in the state of Rio de Janeiro and, in the future, in the state of Espírito Santo, for so long as the shareholders agreement is in effect.

Other than the Sendas association and the Joint Venture Agreement and related agreements between the Diniz group and the Casino Group, described under Item 7A Major Shareholders and Related Party Transactions Major

Shareholders Shareholders Transactions, we have not entered into any material contracts outside the normal course of our business.

10D. Exchange Controls

The ownership of preferred or common shares by individuals or legal entities domiciled outside Brazil is subject to restrictions established in the Brazilian Constitution.

The right to convert dividend payments and proceeds from the sale of common shares or preferred shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires, among other things, obtaining an electronic registration with the Central Bank.

Resolution No. 1,927 of the CMN, which is the restated and amended Annex V to Resolution No. 1,289 of the CMN, or the Annex V Regulations, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. We filed an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we received final approval before the offering of the preferred shares underlying the ADSs in May 1997.

An electronic registration, which replaced the amended certificate of registration, was issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary.

This electronic registration was carried on through the Sistema do Banco Central SISBACEN, a database of information provided by financial institutions to the Central Bank. Pursuant to the electronic registration, the custodian is able to convert dividends and other distributions with respect to the preferred shares represented by the ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges those ADSs for preferred shares, that holder will be entitled to continue to rely on the depositary's electronic registration for only five business days after that exchange, following which that holder must seek to obtain its own electronic registration. Thereafter, unless the preferred shares are held pursuant to Resolution No. 2,689 of January 26, 2000, as amended, or Resolution 2,689, of CMN, the National Monetary Council, by a duly registered investor or, if not a registered investor under Resolution 2,689, a holder of preferred shares who applies for and obtains a new electronic registration, that holder may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon the disposition of the preferred shares, or distributions with respect thereto, and generally will be subject to less favorable tax treatment when it obtains its own electronic registration. In addition, if the foreign investor resides in a tax haven jurisdiction, the investor will be also subject to less favorable tax treatment. See Item 10E Taxation Brazilian Tax Considerations.

Under Resolution 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that the requirements described below are fulfilled. In accordance with Resolution 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities domiciled or headquartered abroad.

Pursuant to Resolution 2,689, foreign investors must fulfill the following requirements before engaging in financial transactions:

- appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and CVM;
- register as a foreign investor with the CVM, the Brazilian securities commission; and

- register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by foreign investors is generally restricted to transactions involving

securities listed on the Brazilian stock exchanges or traded in organized over-the-counter markets licensed by the CVM.

Investors under Resolution 2,689 who are not resident in a tax haven jurisdiction (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See Item 10E Taxation Brazilian Tax Considerations.

10E. Taxation

This summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of preferred shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to these matters based upon the particular circumstances of a holder.

This summary is based upon tax laws of Brazil and the United States in effect as of the date hereof, which laws are subject to change (possibly with retroactive effect) and differing interpretations. This summary is also based upon the representations of the depositary and on the assumption that each obligation in the Amended and Restated Deposit Agreement, dated as of May 28, 1997, among us, the depositary and the Owners from time to time of American Depositary Receipts, and any related documents, will be performed in accordance with its terms.

Although there is presently no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how such a treaty would affect a U.S. holder of preferred shares or ADSs.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a non-Brazilian holder). It is based on Brazilian law as currently in effect, and, therefore, any change in such law may change the consequences described below. Each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in preferred shares or ADSs.

A holder of ADSs may withdraw them in exchange for preferred shares in Brazil. Pursuant to Brazilian law, investors may invest in the preferred shares under Resolution 2,689, of January 26, 2000, of the National Monetary Council.

Resolution No. 2,689 allows non-Brazilian investors to invest in almost all financial assets and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that some requirements are fulfilled. In accordance with Resolution No. 2,689, the definition of non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered outside of Brazil.

Pursuant to Resolution 2,689, a foreign investor must: (1) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment, (2) complete the appropriate foreign investor registration form, (3) register as a foreign investor with the CVM, and (4) register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized

over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, occurring upon the death of an investor by operation of law or will or as a consequence of the delisting of the relevant shares from a stock exchange and the cancellation of the registration with the CVM.

Taxation of Dividends

As a result of the tax legislation adopted on December 26, 1995, dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us in respect of preferred shares, are exempt from withholding income tax. Stock dividends with respect to profits generated before January 1, 1996 are not subject to Brazilian tax, provided that the stock is not redeemed by us or sold in Brazil within five years after distribution of such stock dividends. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, depending on the year the profits were generated.

Taxation of Gains

According to Law No. 10,833 of December 2003, the disposition of assets located in Brazil by a non-Brazilian holder, whether to other non-Brazilian holder or Brazilian holders, may become subject to taxation in Brazil. In this sense, on the disposition of the preferred shares, as an asset located in Brazil, the non-Brazilian holder may be subject to income tax on the gains assessed, following the rules described below, no matter if the transactions is conducted in Brazil or abroad and with a Brazilian resident or not. Regarding the ADSs, although we believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, considering the general and unclear scope of it and the lack of judicial court ruling in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil and, thus, if the income tax would be applicable on the gains assessed on the disposition of ADSs by the non-Brazilian holder to another non-Brazilian holder.

The withdrawal of ADSs in exchange for preferred shares is not subject to Brazilian income tax as long as registration rules for the preferred shares are appropriately observed. The deposit of preferred shares in exchange for ADSs may be subject to Brazilian capital gain tax at the rate of 15% or 25%, in case the holder is located in a tax haven (as described below), if the acquisition cost of the preferred shares is lower than (1) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the fifteen trading sessions immediately preceding such deposit. In this case, the difference between the acquisition cost and the average price of the preferred shares, calculated as above, will be considered a capital gain.

Non-Brazilian holders are generally subject to income tax imposed at a rate of 15% or 25%, in case the holder is located in a tax haven (as described below) on gains realized on sales or exchanges of preferred shares that occur, off of Brazilian stock, future and commodities exchanges. Non-Brazilian holders are subject to income tax currently at a rate of 15% on gains realized on sales in Brazil of preferred shares that occur on the Brazilian stock exchanges unless such a sale is made by a non-Brazilian holder who is not resident in a tax haven (as described below) and: (1) such sale is made within five business days of the withdrawal of such preferred shares in exchange for ADSs and the proceeds thereof are remitted abroad within such five-day period, or (2) such sale is made under Resolution 2,689 by registered non-Brazilian holders who obtain registration with the CVM. In the two latter cases, the gains realized are exempt from income tax. Such gain realized is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost, measured in Brazilian currency, without any correction for inflation, of the shares sold.

Additionally, the transactions with the preferred shares conducted on the Brazilian stock, future or commodities exchange, on the organized over-the-counter market or on the non-organized over-the-counter market with intermediation are subject to withholding income tax of 0.005% on the value of the sale or disposition (to be offset against tax due on eventual capital gains), except in case of non-Brazilian holder who is not resident in a tax haven (defined below) and is registered under Resolution 2,689.

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

Any exercise of preemptive rights relating to the preferred shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the preferred shares by a holder of preferred shares or by the depositary on behalf of holders of the ADSs, will be subject to Brazilian taxation at the same rate applicable to the sale or disposition of preferred shares.

Interest on Shareholders' Equity

Distribution of an interest on shareholders' equity in respect of the preferred or common shares as an alternative form of payment to shareholders who are either Brazilian residents or non-Brazilian residents, including holders of ADSs, is subject to Brazilian withholding income tax at the rate of 15% or 25%, in case the holder is located in a tax haven (as described below). Such payments, subject to certain limitations, are deductible for Brazilian income tax purposes and, as from 1997, deductible in determining social contribution on net income (the latter is not applicable to us) by us as long as the payment of a distribution of interest is credited to the shareholder's account and approved at our general meeting of shareholders. To the extent that such payment is accounted for as part of the mandatory dividend, under current Brazilian law, we are obliged to distribute to shareholders an additional amount sufficient to ensure that the net amount received by the shareholders, after payment by us of applicable Brazilian withholding taxes in respect of the distribution of interest on net worth, is at least equal to the mandatory dividend. To the extent we distribute interest on shareholders' equity, which distribution is not accounted for as part of the mandatory dividend, we are not obliged to pay such an additional amount on behalf of the shareholders. The distribution of interest on shareholders' equity is proposed by our board of directors and subject to subsequent declaration by the shareholders at the general meeting.

Beneficiaries Resident or Domiciled in Tax Havens or Low Tax Jurisdiction

Law 9779/99, in effect as of January 1, 1999, states that, with the exception of certain prescribed circumstances, income derived from operations by a beneficiary resident or domiciled in a country considered as a tax haven is subject to income tax withholding at a rate of 25%. Tax havens are considered to be places which do not impose any income tax or which impose such tax at a maximum rate of less than 20% and those where the internal legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment. Accordingly, if the distribution of interest on shareholders' equity is made to a beneficiary resident or domiciled in a tax haven, the income tax rate applicable will be 25% instead of 15%. Capital gains related to transactions not conducted in the Brazilian stock exchange (for gains realized) are subject to this 25% tax. The 25% rate is not applicable for capital gains obtained in transactions conducted in the Brazilian stock exchange, which remains subject to income tax at the rate of 15%.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes, which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil within such states to individuals or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of preferred shares or ADSs.

Tax on Bank Account Transactions (CPMF)

As a general rule, CPMF is imposed on debits to bank accounts. Therefore, transactions by the depositary or by holders of preferred shares which involve the transfer of Brazilian currency through Brazilian financial institutions will be subject to a financial transactions tax, the CPMF tax. The CPMF tax is a temporary contribution on financial transactions, at a current rate of 0.38%, despite the fact that, for some cases, transactions involving foreign investors may be exempt from CPMF. The responsibility for the collection of the CPMF tax is borne by the financial institution that carries out the relevant financial transaction.

In addition, according to Article 4 of Provisory Measure No. 281, dated as of February 15, 2006, which is currently in effect, the CPMF rate is reduced to zero on withdrawals from bank accounts used to buy common shares in a public

offering, provided that (i) the public offering is registered with the CVM and (ii) the issuer is listed on the Brazilian stock exchange. In order for the effects of this Provisory Measure to be permanent it must be converted into law with observance to the legal procedures for such, which, at this date, to be completed, is only pending of sanction by the President.

Taxation of Foreign Exchange Transactions (IOF/Câmbio)

Pursuant to Decree 4,494/2000, IOF/Câmbio may be imposed on the conversion of Brazilian currency into foreign currency (e.g., for purposes of paying dividends and interest) and on the conversion of foreign currency into Brazilian currency. Except under specific circumstances, the rate of IOF tax on such conversions is currently 0%, but the Minister of Finance has the legal power to increase at any time the rate to a maximum of 25%, but only in relation to future transactions.

Tax on Bonds and Securities Transactions (IOF/Títulos)

Law 8,894/1994 created the Tax on Bonds and Securities Transactions, the IOF/Títulos, which may be imposed on any transactions involving bonds and securities, including those carried out on Brazilian futures and commodities stock exchanges. As a general rule, the rate of this tax is currently zero, although the executive branch may increase such rate up to 1.5% per day, but only with respect to future transactions.

U.S. Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relating to the purchase, ownership and disposition of preferred shares or ADSs by a U.S. holder (as defined below) holding such preferred shares or ADSs as capital assets (generally, property held for investment). This summary is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the IRS) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any implications under state, local or non-U.S. tax law, or any aspect of U.S. federal tax law other than income taxation.

This summary does not purport to address all the material federal income tax consequences that may be relevant to the holders of the preferred shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for the alternative minimum tax, partnerships and other pass-through entities, U.S. expatriates, investors that own or are treated as owning 10% or more of our voting stock, investors that hold the preferred shares or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction and U.S. holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used below, a U.S. holder is a beneficial owner of preferred shares or ADSs that is, for U.S. federal income tax purposes:

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

United States person.

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

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

Taxation of Distributions

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

If a distribution exceeds the amount of our current and accumulated earnings and profits, as so determined, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends represent qualified dividend income. Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company (PFIC). The ADSs are listed on the New York Stock Exchange, and should qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Based on our audited financial statements as well as relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2005 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2006 taxable year. Because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future tax year).

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares (to the extent not represented by ADSs) will be treated as qualified dividend income, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the

availability of the reduced dividend tax rate in the light of their own particular circumstances.

Dividends paid by us generally will constitute income from non-U.S. sources and will be subject to various classification and other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian withholding tax imposed on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability (or at a U.S. holder's election if it does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, all foreign

income taxes paid may instead be deducted in computing such U.S. holder's taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax. U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian withholding tax on dividends could be affected by future actions that may be taken by the IRS.

Taxation of Capital Gains

Deposits and withdrawals of preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

In general, gain or loss, if any, realized by a U.S. holder upon a sale or other taxable disposition of preferred shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and such U.S. holder's adjusted tax basis in the preferred shares or ADSs. Such capital gain or loss will be long-term capital gain or loss if at the time of sale or other taxable disposition the preferred shares or ADSs have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gain of certain U.S. holders (including individuals) is eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations under the Code. Gain, if any, realized by a U.S. holder on the sale or other disposition of preferred shares or ADSs generally will be treated as U.S. source gain for U.S. foreign tax credit purposes. Consequently, if a Brazilian withholding tax is imposed on the sale or disposition of preferred shares, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian withholding tax. Alternatively, a U.S. holder may take a deduction for all foreign income taxes paid during the taxable year if it does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

Passive Foreign Investment Company Rules

Based upon our current and projected income, assets and activities, we do not expect the preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year or for future fiscal years. However, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income and assets, and entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or excess distributions allocable to prior years in the U.S. holder's holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our ADSs would not be qualified dividend income subject to preferential rates of U.S. federal income taxation. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules to the preferred shares or ADSs.

U.S. Backup Withholding and Information Reporting

A U.S. holder of preferred shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends paid by our company or the proceeds of a sale of preferred shares or ADSs, unless such U.S. holder (i) is a corporation or comes within certain other exempt categories, and demonstrates this fact when so required, or (ii) in the case of backup withholding,

provides a correct taxpayer identification number, certifies that it is a U.S. person and that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder's U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

10F. Dividends and Paying Agents

Not applicable.

10G. Statement by Experts

Not applicable.

10H. Documents on Display

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. You may also inspect these reports and other information at the offices of the New York Stock Exchange Inc., 120 Broad Street, New York, New York 10005, on which our ADSs are listed.

We also file financial statements and other periodic reports with the CVM.

Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our headquarters at: Avenida Brigadeiro Luiz Antônio, no. 3,142, CEP 01402-901, São Paulo, SP, Brazil.

10I. Subsidiary Information

Not required.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See notes 19 and 22(j) to our financial statements for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk management.

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

Since late 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial part of our U.S. dollar-denominated liabilities to obligations denominated in *reais*. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in *reais* and interest at a percentage of an interbank (*Certificado de Depósito Interbancário* - CDI) variable interest rate. Amounts are normally consummated with the same financial institutions and for the same maturity periods. See Item 5B Operating and Financial Review and Prospects Liquidity and Capital Resources.

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration

the amount and duration of the exposure, market volatility, and economic trends. We realized and unrealized gains and losses on these contracts which are included within financial income and financial expense, respectively.

We do not hold or issue financial instruments for trading purposes.

We use interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements.

We have a policy of entering into contracts only with parties that have high credit ratings. The counter-parties to these contracts are major financial institutions, and we do not have significant exposure to any single counter-party. We do not anticipate a credit loss from counter-party non-performance.

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

Interest Rate Risk

We are exposed to interest rate volatility with regard to our cash and cash equivalents, fixed and floating rate debt. For cash and cash equivalents, we generally will swap the fixed interest rate for a floating rate, the CDI rate. The interest rate in our cash and cash equivalents denominated in *reais* is based on the CDI rate, the benchmark interest rate set by the interbank market on a daily basis.

We are exposed to interest rate volatility with regard to future issuances of fixed rate debt, foreign currency fluctuations and existing issuances of fixed rate debt, foreign currency fluctuations and existing issuances of variable rate debt. We manage our debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, and using derivative financial instruments. We primarily use working capital debt to meet our financing requirements, originally denominated in U.S. dollars and swapped to obligations in *reais* accruing interest based on the CDI.

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2005. See notes 12 and 13 to our financial statements.

As of December 31, 2005

| | Expected Maturity Date | | | | | There- after | Total | Fair Value | Annual Average Interest Rate |
|--|------------------------|-------|-------|------|-------|-----------------|---------|---------------|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | | | | |
| (millions of Reais) | | | | | | | | | |
| Assets: | | | | | | | | | |
| Cash and banks in reais | 168.6 | - | - | - | - | - | 168.6 | 168.6 | |
| Cash equivalents denominated in reais | 1,542.2 | | | | | | 1,542.2 | 1,542.2 | 100.7% of CDI |
| Total cash and cash equivalents | 1,710.8 | - | - | - | - | - | 1,710.8 | 1,710.8 | |
| Liabilities: | | | | | | | | | |
| Loans and financing | | | | | | | | | |
| Floating rate, denominated in US dollars | 15.1 | - | - | - | - | - | 15.1 | 15.1 | Foreign exchange |
| Floating rate, denominated in US dollars | 21.1 | 16.3 | 10.3 | 10.3 | 0.9 | - | 58.9 | 58.8 | 3.7% over basket of foreign currencies (**) |
| Floating rate, denominated in US dollars (*) | 163.6 | 155.9 | 316.7 | - | 188.8 | - | 825.0 | 828.1 | 103.5% of CDI |
| Floating rate, denominated in US dollars (*) | 32.9 | - | - | - | - | - | 32.9 | 31.1 | 100.0% of CDI |
| Floating rate, denominated in US dollars (*) | 60.7 | 315.8 | - | - | - | - | 376.5 | 388.3 | 104.5% of CDI |
| Floating rate, denominated in reais | 129.2 | 87.4 | 58.2 | 53.3 | - | - | 328.1 | 326.9 | 3.5% over TJLP |
| Total loans and financing | 422.6 | 575.4 | 385.2 | 63.6 | 189.7 | - | 1,636.5 | 1,648.3 | |
| Debtures | | | | | | | | | |
| Floating rate, denominated in reais | 18.0 | 401.5 | - | - | - | - | 419.5 | 407.4 | 0.95% over CDI |
| Total Debtures | 18.0 | 401.5 | - | - | - | - | 419.5 | 407.4 | |

- (*) We entered into cross-currency interest rate swaps in the same amount to exchange the U.S. dollars exposure for R\$ indexed by CDI.
- (**) Based on a basket of foreign currencies to reflect BNDES's funding portfolio.

The annual TJLP, which is modified quarterly, was as follows:

| | 2005 | 2004 | 2003 |
|----------------|-------|--------|--------|
| First quarter | 9.75% | 10.00% | 11.00% |
| Second quarter | 9.75 | 9.75 | 12.00 |
| Third quarter | 9.75 | 9.75 | 12.00 |
| Fourth quarter | 9.75 | 9.75 | 11.00 |

The TJLP was 9.75% in the first half of 2005, respectively.

Annualized Rate

As of December 31

| | Three months ended March 30, 2006 | 2005 | 2004 | 2003 |
|----------------------|---|-------|-------|-------|
| IGP-M ⁽¹⁾ | 0.7% | 1.2% | 12.4% | 8.7% |
| CDI ⁽²⁾ | 16.5% | 18.0% | 16.6% | 16.3% |
| TR | 0.5% | 2.8% | 1.8% | 4.6% |

(1) *Índice Geral de Preços Mercado* (general price index) compiled by the Fundação Getúlio Vargas.

(2) *Certificado de Depósito Interbancário* (interbank variable interest rate), annualized rate at the end of each period.

We have not experienced, and we do not expect to experience, difficulty obtaining financing or refinancing existing debt. As of December 31, 2005, we had no committed line of credit agreements, other than the BNDES contracts. See Item 5B Operating and Financial Review and Prospects Liquidity and Capital Resources for a discussion of these agreements.

Foreign Exchange Risk

We are exposed to fluctuations in foreign currency cash flows related to certain short-term and long-term debt payments. Primary exposure is to the U.S. dollar. Additionally, certain lines of credit agreements entered into with BNDES are subject to indexation based on a basket of foreign currencies to reflect BNDES's funding portfolio.

Since January 1, 2001 and through December 31, 2005, the U.S. dollar appreciated by 19.7% against the *real*, and as of December 31, 2005, the commercial market rate for purchasing U.S. dollars was R\$2.3407 to U.S.\$ 1.00. In the first three months of 2006, the *real* appreciated by 7.8% against the U.S. dollar, and as of March 31, 2006, the commercial market rate for purchasing U.S. dollars was R\$2.1724 to U.S.\$ 1.00.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency-denominated liabilities at December 31, 2005 included debt denominated mainly in U.S.

dollars. Our net foreign currency exposure (U.S. dollar-denominated debt less our cross-currency interest rate swaps in our U.S. dollar-denominated debt) was R\$15.1 million at December 31, 2005 compared to R\$30.3 million at December 31, 2004. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially protect our exposure arising from our U.S. dollar-denominated debt.

The table below provides information on our debt outstanding as of December 31, 2005.

FOREIGN CURRENCY

As of December 31, 2005

Expected Maturity Date

| | 2006 | 2007 | 2008 | 2009 | 2010 | There- after | Total | Fair Value |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------------------|--------------|-----------------------|
| (millions of Reais) | | | | | | | | |
| Loans and financing | | | | | | | | |
| Foreign currencies (**) | 21.1 | 16.3 | 10.3 | 10.3 | 0.9 | - | 58.9 | 58.8 |
| US dollars | 15.1 | - | - | - | - | - | 15.1 | 15.1 |
| US dollars (*) | 257.2 | 471.7 | 316.7 | - | 188.8 | - | 1,234.4 | 1,247.5 |
| Reais | 129.2 | 87.4 | 58.2 | 53.3 | - | - | 328.1 | 326.9 |
| Total loans and financing | 422.6 | 575.4 | 385.2 | 63.6 | 189.7 | - | 1,636.5 | 1,648.3 |
| Debtentures | | | | | | | | |
| Reais | 18.0 | 401.5 | - | - | - | - | 419.5 | 407.4 |
| Total Debtentures | 18.0 | 401.5 | - | - | - | - | 419.5 | 407.4 |

(1) Originally U.S. dollar-denominated and swapped to R\$ indexed by CDI.

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

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar-denominated short-term and long-term debt for Brazilian *real*-denominated floating rate debt, based on the CDI rate variation. See notes 12 and 13 to the financial statements. As of December 31, 2005, the originally U.S. dollar-denominated debt of R\$1,234.4 million (2004 R\$1,639.4 million) which were covered by floating rate swaps in Brazilian *reais*, based on the CDI rate, has been treated on a combined basis as if these loans had been originally denominated in *reais* and accrued CDI. In addition, the swap agreements do not provide for collateral.

The table below provides information about our cross-currency interest rate swaps:

As of December 31, 2005

Expected Maturity Date

| | 2006 | 2007 | 2008 | 2009 | 2010 | There- after | Total | Fair Value of Assets (Liabilities) | Average Paying Rate in Reais | Average Receiving Rate |
|--|----------------------------|-------------|-------------|-------------|-------------|-------------------------|--------------|---|---|---------------------------------------|
| | (millions of Reais) | | | | | | | | | |
| Cross currency and interest rate swap contracts notional amount | | | | | | | | | | |
| US dollars to reais | 131.8 | 124.1 | 258.8 | 10.9 | 170.9 | - | 696.5 | (174.2) | 93.6% of CDI | 4.7% over U.S. dollar |

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

No matters to report.

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

Brazilian corporate law No. 10,303 of December 10, 2001 amended the provisions of the Brazilian corporate law relating to the rights of preferred shareholders. In order to comply with such modifications, on the extraordinary general shareholders meeting held on February 28, 2003, an amendment to our bylaws was approved granting the preferred shareholders the right to receive dividends 10% higher than the dividends paid to common shareholders.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Management, with the participation of our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the U.S. Securities Exchange Act of 1934 under Rules 13a-15(e)) as of the end of the period covered by this annual report, has concluded that, as of that date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred in the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Beginning with the year ending December 31, 2006, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include an internal control report of management with our annual report on Form 20-F. The internal control report must contain (1) a statement of management's responsibility for establishing and maintaining adequate internal controls over financial reporting, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal controls over financial reporting, (3) management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective, and (4) a statement that our independent auditors have issued an attestation report on management's assessment of our internal controls over financial reporting.

Management is in the process of developing a comprehensive plan in order to achieve compliance with Section 404 within the prescribed period and to review, evaluate and improve the design and effectiveness of our controls and procedures on an on-going basis. The comprehensive compliance plan includes (1) documentation and assessment of the adequacy of our internal controls over financial reporting, (2) remediation of control weaknesses, (3) validation through testing that controls are functioning as documented and (4) implementation of a continuous reporting and improvement process for internal controls over financial reporting.

ITEM 16. [Reserved]**16A. Audit Committee Financial Expert**

As disclosed in item 16D below, we concluded the process of implementing a fully independent audit committee as a best corporate governance practice, and currently, our audit committee follows the independence requirements of the SEC and the NYSE. Our board of directors has determined that each member of the new audit committee is an audit committee financial expert.

16B. Code of Ethics

Our board of directors has adopted a Code of Ethics applicable to our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Ethics can be found at www.cbd-ri.com.br. Information found at this website is not incorporated by reference into this document.

16C. Principal Accountant Fees and Services

Ernst & Young Auditores Independentes acted as our independent registered public accounting firm for the fiscal year ended December 31, 2005 and 2004. The chart below sets forth the total amount billed to us by Ernst & Young Auditores Independentes for services performed in 2005 and 2004, and breaks down these amounts by category of service:

| | 2005 | 2004 |
|--------------------|---------------------------------|---------------|
| | (millions of <i>reais</i>) (1) | |
| Audit Fees | \$ 4.8 | \$1.5 |
| Audit-Related Fees | 0.3 | - |
| Tax Fees | - | - |
| All Other Fees | = | = |
| Total | \$ 5.1 | \$ 1.5 |

(1) Fees including out-of-pocket expenses.

Audit Fees

Audit fees are fees billed for the audit of our annual financial statements and for the reviews of our quarterly financial statements in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were comprised of assurance and related services that are related to the performance of the audit or review of the financial statements, including due diligence related to mergers and acquisitions, audit in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Pre-Approval Policies and Procedures

The audit committee approves all audit, audit-related, tax and other services provided by Ernst & Young Auditores Independentes. Any services provided by Ernst & Young Auditores Independentes that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. The audit committee is permitted to approve certain fees for audit-related services, tax services and

other services pursuant to a *de minimis* exception before the completion of the engagement. In 2005, none of the fees paid to Ernst & Young Auditores Independentes were approved pursuant to the *de minimis* exception.

16D. Exemptions from the Listing Standards for Audit Committees

On June 13, 2000, our board of directors approved the creation of an audit committee, whose responsibilities are consistent with the U.S. Blue Ribbon Committee and the rules and regulations of the New York Stock Exchange. The primary responsibility of the audit committee, which members have to be independent from our executive officers committee, from representatives of our controlling shareholders on our board of directors and from our independent auditors, is to review our financial statements and report on them to our shareholders. We finished the implementation of an independent audit committee composed of three independent members and we comply with Exchange Act Rule 10A-3.

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

None.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS