BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
April 30, 2019

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, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-14626

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

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

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

Christophe Hidalgo, Chief Financial Officer
Phone: +55 11 3886-0421

gpa.ri@gpabr.com
Avenida Brigadeiro Luiz Antonio, 3142
01402-901 São Paulo, SP, Brazil
(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

As of December 31, 2018, the registrant had outstanding 99,679,851 Common Shares, no par value per share, and 167,165,057 Preferred Shares, no par value per share.

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Emerging Growth Company

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

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

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

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

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

All references in this annual report to (i) "CBD," "we," "us," "our," "Company," "Grupo Pão de Açúcar" and "GPA" are refere to Companhia Brasileira de Distribuição and its consolidated subsidiaries, unless the context requires otherwise; (ii) the "Brazilian government" are references to the federal government of the Federative Republic of Brazil, or Brazil; and (iii) "preferred shares" and "common shares" are references to our authorized and outstanding shares of non-voting preferred stock, designated as *ações preferenciais*, and common stock, designated as *ações ordinárias*, respectively, in each case without par value. All references to "ADSs" are to American depositary shares, each representing one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or "ADRs," issued by J.P. Morgan Chase Bank N.A. All references herein to the "*real*," "*reais*" or "R$" are to the Brazilian *real*, the official currency of Brazil. All references to "US$," "dollars" or "U.S. dollars" are to United States dollars. All references to "€" or "euro" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

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

Our consolidated financial statements are presented in Brazilian *reais*. We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts as of December 31, 2018 was R$3.8748 to US$1.00, which was the commercial selling rate of U.S. dollars in effect as of December 31, 2018, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate.

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

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, principally in "Item 3D. Risk Factors," "Item 4B. Business Overview" and "Item 5. Operating and Financial Review and Prospects." We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things:

- global economic conditions and their impact on consumer spending patterns, particularly in Brazil (including, but not limited to, unemployment rates, interest rates, monetary policies and inflation rates);

- our ability to sustain or improve our performance;

- competition in the Brazilian retail industry in the sectors in which we operate;

- Brazilian government regulation and tax matters;

- adverse legal or regulatory disputes or proceedings;

- our ability to implement our strategy, including our digital transformation initiatives;

- credit and other risks of lending and investment activities;
- our ability to expand our operations outside of our existing markets;
- hedge risks; and
- other risk factors as set forth under “Item 3D. Risk Factors.”

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

PART 1

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

Selected Financial Data

We present in this section summary financial and operating data derived from our audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 included elsewhere in this annual report and prepared in accordance with IFRS as issued by the IASB.

IFRS 9 – Financial Instruments became effective on January 1, 2018. The adoption of IFRS 9 did not have a significant impact on our accounting policies related to financial liabilities and derivative financial instruments. In addition, in accordance with IFRS 15 – Revenue from Contracts with Customers, which also became effective on January 1, 2018, we reclassified the rebates received from suppliers from selling, general and administrative expenses to cost of sales. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements for the years ended December 31, 2017 and 2016. Our financial statements for the years ended December 31, 2015 and 2014 have not been retroactively restated and as such are not directly comparable. For further details on our adoption of new accounting standards, such as IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers, see note 5 to our audited consolidated financial statements included elsewhere in this annual report.

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2018, have been translated into U.S. dollars at a rate of R$3.8748 to US$1.00, which was the commercial selling rate of U.S. dollars in effect as of December 31, 2018, as reported by the Central Bank.

	As of and for the Year Ended December 31,					
	2018	**2018**(1)	**2017**(1)	**2016**(1)	**2015**(1)(3)	**2014**(1)(3)
	(millions of US$, except as indicated)	**(millions of R$, except as indicated)**				
Statement of operations and comprehensive income						
Net operating revenue	12,746	49,388	44,634	41,454	37,198	34,741
Cost of sales	(9,764)	(37,834)	(33,646)	(31,654)	(28,123)	(25,955)
Gross profit	**2,982**	**11,554**	**10,988**	**9,800**	**9,075**	**8,786**
Selling, general and administrative expenses	(2,156)	(8,354)	(8,059)	(7,729)	(6,688)	(6,067)
Depreciation and amortization	(217)	(840)	(779)	(707)	(650)	(581)
Other operating expenses, net	(56)	(216)	(579)	(567)	(206)	(306)
Operating expenses	**(2,429)**	**(9,410)**	**(9,417)**	**(9,003)**	**(7,544)**	**(6,954)**
Profit from operations before net financial expenses and share of profit of associates	553	2,144	1,571	797	1,531	1,832

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	As of and for the Year Ended December 31,					
	2018 (millions of US$, except as indicated)	**2018**(1)	**2017**(1)	**2016**(1)	**2015**(1)(3)	**2014**(1)(3)
		(millions of R$, except as indicated)				
Financial income	60	231	181	231	354	323
Financial expenses	(182)	(705)	(911)	(1,134)	(1,122)	(921)
Finance expenses, net	(122)	(474)	(730)	(903)	(768)	(598)
Share of profit of associates	9	33	(89)	21	81	78
Profit (loss) before income tax and social contribution	440	1,703	752	(85)	844	1,312
Income tax and social contribution	(116)	(449)	(297)	(24)	(229)	(348)
Net income (loss) for the year from continuing operations	**324**	**1,254**	**455**	**(109)**	**615**	**964**
Net income (loss) for the year from discontinued operations	**(19)**	**(74)**	**356**	**(1,036)**	**(891)**	**(620)**
Net income (loss) for the year	**305**	**1,180**	**811**	**(1,145)**	**(276)**	**1,584**
Attributed to controlling shareholders from continuing operations	324	1,254	455	(109)	615	964
Attributed to controlling shareholders from discontinued operations	(16)	(61)	125	(424)	(350)	243
Total attributed to controlling shareholders	**308**	**1,193**	**580**	**(533)**	**265**	**1,207**
Attributed to non-controlling shareholders from continuing operations	—	—	—	—	—	—
Attributed to non-controlling shareholders from discontinued operations	(3)	(13)	231	(612)	(541)	377
Total attributed to non-controlling shareholders	**(3)**	**(13)**	**231**	**(612)**	**(541)**	**377**
Other comprehensive income (loss) for the year, net of income tax	(4)	(15)	(35)	198	(222)	4
Total comprehensive income (loss) for the year	**301**	**1,165**	**776**	**(947)**	**(498)**	**1,588**
Attributed to controlling shareholders	303	1,176	551	(459)	177	1,208
Attributed to non-controlling shareholders	(3)	(11)	225	(488)	(675)	380
Basic earnings per share (weighted average for the year) (in R$)						
Preferred – Continuing operations and discontinued operations	1.20	4.64	2.26	(2.01)	1.03	4.72
Common – Continuing operations and discontinued operations	1.08	4.20	2.05	(2.01)	0.94	4.30
Preferred – Continuing operations	1.26	4.87	1.78	(0.41)	2.40	3.77
Common – Continuing operations	1.14	4.43	1.62	(0.41)	2.18	3.42
Diluted earnings per share (weighted average for the year) (in R$)						

Preferred – Continuing operations and discontinued operations	1.19	4.61	2.25	(2.01)	1.03	4.72
Common – Continuing operations and discontinued operations	1.08	4.20	2.05	(2.01)	0.94	4.30
Preferred – Continuing operations	1.25	4.84	1.77	(0.41)	2.39	3.76
Common – Continuing operations	1.14	4.43	1.62	(0.41)	2.18	3.42
Basic earnings per ADS (in R$)	1.20	4.64	2.26	(2.01)	1.03	4.71
Diluted earnings per ADS (in R$)	1.19	4.61	2.25	(2.01)	1.03	4.71
Weighted average number of shares outstanding (in thousands)						
Preferred	167,165	167,165	166,391	165,852	165,640	165,103
Common	99,680	99,680	99,680	99,680	99,680	99,680
Total	**266,845**	**266,845**	**266,071**	**265,532**	**265,320**	**264,783**
Dividends declared and interest on own capital per share (in R$)						
Preferred	0.28	1.09	0.57	—	0.47	1.18
Common	0.26	0.99	0.52	—	0.42	1.07
Dividends declared and interest on own capital per ADS (in R$)[(2)]	0.28	1.09	0.57	—	0.47	1.18

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	As of and for the Year Ended December 31,					
	2018	**2018**[1]	**2017**[1]	**2016**[1]	**2015**[1][3]	**2014**[1][3]
	(millions of US$, except as indicated)	**(millions of R$, except as indicated)**				
Balance sheet data						
Cash and cash equivalents	1,128	4,369	3,792	5,112	11,015	11,149
Property and equipment, net	2,490	9,650	9,138	9,182	10,377	9,699
Assets held for sale	6,308	24,443	22,775	20,153	15	—
Total assets	13,639	52,849	47,707	45,051	47,241	45,345
Current borrowings and financing	520	2,016	1,251	2,957	4,869	6,594
Non-current borrowings and financing	906	3,509	3,337	2,912	4,164	3,134
Liabilities related to assets held for sale	5,010	19,412	17,824	15,632	—	—
Shareholders' equity	3,597	13,939	13,041	12,417	13,352	14,194
Share capital	1,761	6,825	6,822	6,811	6,806	6,792
Other financial information						
Net cash provided by (used in):						
Operating activities	667	2,586	1,895	(1,304)	4,632	4,990
Investing activities	(490)	(1,899)	(1,592)	(2,020)	(1,852)	(1,624)
Financing activities	11	42	(2,094)	1,475	(3,006)	(636)
Capital expenditures[4]	(611)	(2,366)	(1,713)	(1,023)	(2,059)	(1,038)

(1) As disclosed in note 32 to our audited consolidated financial statements included elsewhere in this annual report, operations of Via Varejo were classified as "discontinued operations" in 2018 and all prior periods presented. Starting on November 1, 2016, we began recording our investment in Cnova N.V., or Cnova, using the equity method of accounting.

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

(3) IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective on January 1, 2018. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2017 and 2016. Our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2015 and 2014 have not been retroactively restated and as such are not directly comparable.

(4) Capital expenditures comprise are comprised of cash used in purchases of property, equipment and intangible assets, as reflected in the consolidated statement of cash flows.

As of and for the Year Ended December 31,

	2018 (US$, except as indicated)	**2018**	**2017**	**2016**	**2015**[4]	**2014**[4]
				(R$, except as indicated)		
Operating Data						
Number of Employees at period end[1]	—	94,119	91,106	93,658	93,176	93,413
Total square meters of selling area at period end	—	**1,793,077**	**1,743,505**	**1,740,567**	**1,719,559**	**1,659,924**
Number of stores at period end[2]:						
Pão de Açúcar	—	186	186	185	185	181
Extra Hiper	—	112	117	134	137	137
Mini Extra and Minuto Pão de Açúcar	—	235	265	284	311	256
Extra Supermercado[3]	—	186	188	194	199	207
Assaí	—	144	126	107	95	84
Total number of stores at period end	—	**863**	**882**	**904**	**927**	**865**

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

(2) Excludes gas stations and drugstores.

(3) Includes *Extra Supermercado*, *Mercado Extra* and *Compre Bem* banners.

(4) IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective on January 1, 2018. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2017 and 2016. Our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2015 and 2014 have not been retroactively restated and as such are not directly comparable.

	As of and for the Year Ended December 31,					
	2018	**2018**	**2017**	**2016**	**2015(5)**	**2014(5)**
	(US$, except as indicated)	**(R$, except as indicated)**				
Net operating revenue per employee(1):						
Pão de Açúcar	114,104	442,129	414,903	407,463	371,152	346,472
Extra Hiper(2)	157,263	609,364	570,601	517,197	463,212	496,126
Mini Extra and Minuto Pão de Açúcar	90,065	348,985	349,306	296,698	232,215	179,230
Extra Supermercado(3)	100,657	390,024	439,678	421,094	388,391	396,860
Assaí	197,501	765,277	699,146	687,156	628,748	610,144
CBD average net operating revenue per employee	135,425	524,743	489,910	363,407	322,753	450,179
Net operating revenue by store format:						
Pão de Açúcar	1,851	7,171	6,932	6,979	6,727	6,327
Extra Hiper(2)	3,541	13,719	13,652	14,102	14,249	14,490
Mini Extra and Minuto Pão de Açúcar	305	1,182	1,085	1,131	946	638
Extra Supermercado(3)	1,140	4,417	4,525	4,755	4,822	4,959
Assaí	5,910	22,899	18,440	14,487	10,453	8,326
Total net operating revenue	**12,746**	**49,388**	**44,634**	**41,454**	**37,198**	**34,371**
Average monthly net operating revenue per square meter(4):						
Pão de Açúcar	633	2,451	2,385	2,420	2,361	2,362
Extra Hiper(2)	391	1,516	1,412	1,362	1,325	1,341
Mini Extra and Minuto Pão de Açúcar	393	1,524	1,343	1,287	1,109	1,143
Extra Supermercado(3)	440	1,704	1,636	1,685	1,648	1,624
Assaí	922	3,574	3,430	3,107	2,578	2,367
CBD average monthly net operating revenue per square meter	589	2,283	2,085	1,928	1,747	1,918
Average ticket amount:						
Pão de Açúcar	17	64	59	57	53	50
Extra Hiper(2)	22	86	80	73	70	70
Mini Extra and Minuto Pão de Açúcar(2)	6	22	20	19	17	15
Extra Supermercado(3)	10	38	36	36	34	33
Assaí	41	158	157	156	146	134
CBD average ticket amount	22	84	76	69	61	67
Average number of tickets per month:						
Pão de Açúcar	—	9,393,488	9,770,687	10,187,388	10,581,845	10,502,201
Extra Hiper(2)	—	13,244,647	14,284,209	16,106,165	17,037,205	17,273,270
Mini Extra and Minuto Pão de Açúcar	—	4,435,348	4,425,078	4,929,778	4,725,240	3,463,884
Extra Supermercado(3)	—	9,710,083	10,480,779	11,060,911	11,870,096	12,595,001
Assaí	—	12,095,230	9,792,180	7,717,266	5,949,201	5,164,456
CBD average number of tickets per month	—	48,878,795	48,752,933	50,001,507	50,163,588	48,998,812

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

average monthly hours of full-time employees.

(2) Includes revenues associated with rentals of commercial spaces. Revenues of gas stations, drugstores, food delivery and in-store pick-up are included in the respective banner.

(3) Includes *Extra Supermercado*, *Mercado Extra* and *Compre Bem* banners.

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

(5) IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective on January 1, 2018. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2017 and 2016. Our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2015 and 2014 have not been retroactively restated and as such are not directly comparable.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

An investment in the ADSs or our preferred shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this annual report before making an investment decision. The risks described below are those that we currently believe may materially affect us. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. This annual report also contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." The trading price of the ADSs and our preferred shares could decline due to any of these risks or other factors, and you may lose all or part of your investment. Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks facing our Company described below and elsewhere in this annual report.

Risks Relating to our Industry and Us

We face significant competition and pressure to adapt to changing consumer habits, which may adversely affect our market share and net income.

We operate mainly in the Brazilian food retail industry. The Brazilian food retail industry, including the cash and carry (*atacado de autosserviço*) segment, and the home appliances sector are highly competitive. In this annual report, the term "home appliances" refers to the sale of durable goods (i.e., electronics, furniture and other items for the home). We compete with other retailers based on price, product mix, store location and layout and services. Consumer habits are constantly changing and we may not be able to anticipate and quickly respond to these changes. We face intense competition from small and regional retailers, mainly in the retail segment, and especially from those that operate in the informal segment of the Brazilian economy. We also compete with large chains in both the retail and cash and carry segments. In addition, in our markets, and particularly in the São Paulo and Rio de Janeiro metropolitan areas, we compete in the food retail sector with a number of large multinational retail food, general merchandise and cash and carry chains, as well as local supermarkets and independent grocery stores. In the home appliances sector, we also compete with large multinational chains and large or specialized Brazilian companies. Acquisitions or consolidations within the industry may also increase competition and adversely affect our market share and net income.

If we are unable to compete successfully in our target markets (including adapting our store format mix or layout, identifying locations and opening stores in preferred areas, and quickly adjusting our product mix or prices under each of our banners and segments) or otherwise adjust to changing consumer preferences, such as shopping on mobile devices, we may lose market share, which would adversely affect our financial position and results of operations.

Our traditional supermarkets and retail stores face increasing competition from internet sales, which may negatively affect sales of traditional channels, and our digital transformation strategy might not be an effective response to this competition.

In recent years, retail sales of food, clothing and home improvement products over the internet have increased significantly in Brazil, and we expect this trend to continue as more traditional retailers enter into the online retail field or expand their existing infrastructure therein. For example, Amazon recently announced that it would focus more resources on its business in Brazil. Growth in the internet retail business of our competitors would likely harm not only our retail operations but also our internet retail operations. Internet retailers are able to sell directly to consumers, diminishing the importance of traditional distribution channels such as supermarkets and retail stores. Certain internet food retailers have significantly lower operating costs than traditional hypermarkets and supermarkets because they do not rely on an expensive network of retail points of sale or a large sales force. As a result, such internet food retailers are able to offer their products at lower costs than we do and in certain cases are able to bypass retailing intermediaries and deliver particularly high-quality, fresh products to consumers. We believe that our customers are increasingly using the internet to shop electronically for food and other retail goods, and that this trend is likely to continue. We have a digital transformation strategy, but we cannot provide any assurance that our strategy will be successful in meeting consumer demands or maintaining our market share in light of our competitors' internet retail businesses. For information on our digital activities, see "Item 4A. History and Development of the Company—Recent Changes in Our Business—Digital Transformation." If internet sales in Brazil continue to grow, consumers' reliance on traditional distribution channels such as our supermarkets and retail stores could be materially diminished, which could have a material adverse effect on our financial position and results of operations.

The Brazilian food retail industry is sensitive to decreases in consumer purchasing power and unfavorable economic cycles.

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

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

Restrictions of credit availability to consumers in Brazil and Brazilian government rules and interventions affecting financial operations may adversely affect our sales volumes and operations, and we are exposed to risks related to customer financing and loans.

Sales in installments are an important component of the result of operations for Brazilian non-food retailers. The increase in the unemployment rate combined with relatively high interest rates have resulted in an increased restriction of credit availability to consumers in Brazil, which may be further increased if macroeconomic conditions in Brazil deteriorate. The unemployment rate reached 12.3% in 2018, compared to 12.7% in 2017 and 11.5% in 2016. These circumstances have not been appreciably improved by gradual reductions in the basic interest rate in Brazil, the SELIC rate, which was 6.5%, 7.0% and 13.8% in 2018, 2017 and 2016, respectively.

Our sales volumes, particularly for non-food products, and, consequently, our results of operations may be adversely affected if the credit availability to consumers decreases, or if Brazilian government policy restricts the granting of credit to consumers.

Additionally, we are involved in extending credit to customers through our partnership with Itaú Unibanco Holding S.A., or Itaú Unibanco, one of the largest privately owned financial institutions in Brazil, called Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, or FIC. FIC exclusively offers credit cards, financial services and insurance coverage at our stores. For more information on FIC, see "Item 4B. Business Overview—FIC and Investcred."

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

Furthermore, FIC is a financial institution regulated by the Central Bank and is therefore subject to significant regulation. The regulatory structure of the Brazilian financial system is continuously changing. Existing laws and regulations may be amended, and their application or interpretation may also change, and new laws and regulations may be adopted. FIC and, therefore, we, may be adversely affected by changes in regulations, including those related to:

- minimum capital requirements;
- requirements for investment in fixed capital;
- credit limits and other credit restrictions;

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

Brazilian government rules and intervention may adversely affect our operations and profitability more than those of a retailer without financial operations.

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

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

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

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

In this annual report, “Via Varejo” refers to Via Varejo S.A. and its subsidiaries. Via Varejo is one of our subsidiaries and as of December 31, 2016, we have reported its results of operations as discontinued operations. On November 23, 2016, our board of directors approved the disposal of our equity interest in Via Varejo, in line with our long-term strategy of focusing on the development of the food retail sector and cash and carry segment. Due to certain external factors out of our control, mainly related to the Brazilian macroeconomic environment, the sale of Via Varejo has not been concluded within the initially expected timetable. As the first step of our strategy for this divestiture, we reduced our shareholding through two total return swap transactions on December 27, 2018 and February 25, 2019. For more information about these transactions, see “Item 4E. Discontinued Operations.” While our board of directors instructed our management to actively pursue selling our remaining equity interest in Via Varejo to a strategic investor or through operations available in capital markets in order to complete the full divestiture in Via Varejo by December 2019, we cannot assure you that the transaction will be consummated under the expected terms, conditions and timing, or at all, due to events out of our control. If this divestment does not occur according to our expectations, we may need to reconsider our long-term strategy as we will continue to own and operate Via Varejo, which could cause a material adverse effect on our business, operations, results of operations and financial condition. In addition, while this divestment has not yet occurred, our management team will need to continue to dedicate time and attention to the divestment efforts.

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

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

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

To promote increased traffic of customers and attract them to our stores, we dedicate substantial resources to our advertisement and marketing campaigns. Our revenues and profitability depend on our ability to, among other things, identify our target consumers and decide on the marketing message and communication method to reach them most effectively. If we do not conceive, plan or execute our advertisement and marketing activities in order to successfully and efficiently increase revenues and market share, our profitability and financial position may be adversely affected.

We may not be able to renew or maintain our stores' lease agreements on acceptable terms, or at all, and we may be unable to obtain or renew the operational licenses of our stores or distribution centers in a timely manner.

Most of our stores are leased. The strategic location of our stores is key to the development of our business strategy and, as a result, we may be adversely affected in the event that a significant number of our lease agreements is terminated and we fail to renew these lease agreements on acceptable terms, or at all. In addition, in accordance with applicable law, landlords may increase rent periodically, usually every three years. A significant increase in the rent of our leased properties may adversely affect or financial position and results of operations. Furthermore, we are party to an arbitration proceeding related to the lease agreements of 61 stores entered into with Fundo de Investimento Imobiliário Península, or Península, which is beneficially owned by members of the Diniz family (former shareholders of Wilkes Participações S.A.). We cannot assure you that the outcome of this arbitration proceeding will not adversely affect our business and operations. For more information on this arbitration proceeding, see "Item 8A. Financial Information—Legal Proceedings—Península."

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

Our product distribution is dependent on a limited number of distribution centers and we depend on the transportation system and infrastructure in Brazil to deliver our products, and any disruption at one of our distribution centers or delay related to transportation and infrastructure could adversely affect our supply needs and our ability to distribute products to our stores and customers.

In our food retail segment (*Multivarejo*), approximately 75% of our products are distributed through our 15 distribution centers and depots located in the Southeastern, Midwestern and Northeastern regions of Brazil. In our cash and carry segment, approximately 40% of our products are distributed through nine distribution centers. The transportation system and infrastructure in Brazil are underdeveloped and need significant investment to work efficiently and to meet our business needs.

Any significant interruptions or reduction in the use or operation of transportation infrastructure in the cities where our distribution centers are located or in operations at one of our distribution centers, as a result of natural disasters, fire, accidents, systemic failures, strikes (such as the May 2018 Brazilian truckers' strike) or other unexpected causes, may delay or affect our ability to distribute products to our stores and may decrease our sales, which may have a material adverse effect on us.

Our growth strategy includes the opening of new stores which may require the opening of new distribution centers or the expansion of the existing ones to supply and meet the demand of additional stores. Our operations may be negatively affected if we are not able to open new distribution centers or expand our existing distribution centers in order to meet the supply needs of these new stores. For more information on our distribution and logistics operations, see "Item 4B. Business Overview—Distribution and Logistics."

Our systems are subject to cyberattacks and security and privacy breaches, which could cause a material adverse effect on our business and reputation.

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

We maintain what we believe to be reasonable and adequate technical security controls, policy enforcement mechanisms, monitoring systems and management oversight to address these threats. While these measures are designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks, including cyberattacks, may occur.

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

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

Our information systems may suffer interruptions due to factors beyond our control, such as natural disasters, hacking, failures in telecommunication and computer viruses, among other factors. Any of these types of interruption may adversely affect our operations, thereby impacting our cash generation and our financial condition.

Failure to protect our database, which contains the personal data of our clients and employees, and developments in data protection and privacy laws, could have an adverse effect on our business, financial condition or results of operations.

We maintain a database of information about our employees and customers, which mainly includes, but is not limited to, data collected when customers sign up for our loyalty programs. If we experience a breach in our security procedures that affect the integrity of our database, including unauthorized access of the personal information of our customers, we may subject us to new legal proceedings, resulting in damages, fines and harm to our reputation.

Currently, the processing of personal data in Brazil is regulated by a series of rules, such as the Federal Constitution, the Consumer Protection Code and the Internet Civil Registry. Failure to comply with certain provisions of such laws, especially in connection with (i) providing clear information on the data processing operations performed by us, (ii) respect for the purpose of the original data collection; (iii) legal deadlines for the storage of user data, and (iv) the adoption of legally required security standards for the preservation and inviolability of the personal data processed, can give rise to penalties, such as fines and even temporary or permanent suspension of our personal data processing activities.

On August 14, 2018, Law No. 13,709, the General Data Protection Act (*Lei Geral de Proteção de Dados*), or GDPA, was enacted, which will come into force in August 2020 and will transform personal data protection in Brazil. The GDPA establishes a new legal framework to be observed in the processing of personal data, including that of our customers, suppliers and employees. The GDPA establishes, among other things, the rights of personal data owners, the legal basis applicable to the protection of personal data, requirements for obtaining consent, obligations and requirements relating to security incidents, data leaks and data transfers, as well as the creation of the National Data Protection Authority. In the event of non-compliance with the GDPA, we may be subject to the following penalties: (i) disclosure of the infraction after it has been duly investigated and confirmed, (ii) blockage of the personal data to which the infraction relates, (iii) elimination of personal data to which the infraction relates and (iv) a fine, per infraction, of up to 2% (subject to a limit of R$50,000,000) of our billings in Brazil during the last fiscal year, excluding taxes. The National Data Protection Authority may revise data protection standards and proceedings based on the GDPA in the future.

In the event of non-compliance with the GDPA or any other applicable law related to personal data, or in the event of a personal data breach, we may be subject to legal proceedings, fines and damage to our reputation. The GDPA includes requirements related to the processing of personal data, and we have begun to review our internal policies and procedures with respect to implementation before the GDPA becomes effective in August 2020, which may materially affect our business.

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

Our controlling shareholders, the Casino Group (as defined in “Item 7B. Related Party Transactions”), together with its subsidiary Almacenes Éxito S.A., or Éxito, indirectly through their holding company, Wilkes Participações S.A., or the Holding Company, have the power to, among other things: (i) appoint the majority of the members of our board of directors, who, in turn, appoint our executive officers; (ii) determine the outcome of the vast majority of actions requiring shareholder approval, including the timing and payment of any future dividends, provided that we observe the minimum mandatory dividend set by Law No. 6,404, dated December 15, 1976, as amended, or Brazilian corporate law; (iii) approve corporate reorganizations, acquisitions, dispositions and the transfer of our control to third parties; (iv) enter into new partnerships; and (v) deliberate on financings and similar transactions. Our controlling shareholders’ interests and business decisions may prevail over those preferred by our other shareholders or holders of ADSs.

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

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

We may be unable to attract or retain key personnel.

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

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

Law No. 12,846, of August 1, 2013, or the Brazilian Anti-corruption Law, introduced the concept of strict liability for legal entities involved in harmful acts against the public administration, subjecting the violator to penalties both in administrative and civil law. Similar to the Foreign Corrupt Practices Act of the United States, to which we are also subject, the Brazilian Anti-Corruption Law considers that an effective implementation of a compliance program may be used to mitigate the administrative penalties to be applied as a consequence of a harmful act against the public administration.

Additionally, French Law No. 1,691, of December 2016, or the Sapin II Law, relates to transparency, preventing corruption and the modernization of economic activity, and stipulates that companies must establish an anti-corruption program to identify and mitigate corruption risks. Under the Sapin II Law, any legal or natural person may be held criminally liable for offering a donation, gift or reward with the intent to induce a foreign public official to abuse their position or influence to obtain an undue advantage. The Sapin II Law is applicable to companies belonging to a group whose parent company is headquartered in France and whose workforce includes at least 500 employees worldwide. As such, the Sapin II Law applies to us. The key anti-corruption provisions of the Sapin II Law are in force since June 1, 2017.

Failure to comply with anti-corruption laws or any investigations of misconduct or enforcement actions could subject us to fines, loss of operating licenses, and reputational harm as well as other penalties, including individual arrests, which may materially and adversely affect us, our reputation, and the trading price of the ADSs and our preferred shares.

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

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

Some categories of products that we sell are principally acquired from few suppliers and over-concentration could disrupt the availability of these products.

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

In addition, some of our principal suppliers are currently involved in "*Operação Lava Jato*" (defined below) and developments in the related investigations or possible convictions of such suppliers may adversely affect their ability to supply products to us and, consequently, our sales levels for such products. For more information, see "Risks Relating to Brazil—Ongoing political instability may adversely affect our business, results of operations and the trading price of the ADSs and our preferred shares" below.

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

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

We are subject to environmental laws and regulations and any non-compliance may adversely affect our reputation and financial position.

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

Risks Relating to Brazil

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

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

- economic, political and social instability;
- increases in the unemployment rate;

- interest rates and monetary policies (such as restrictive consumption measures that could affect the income of the population and government measures that may affect the levels of investment and employment in Brazil);
- significant increases in inflation or strong deflation in prices;
- currency fluctuations;
- import and export controls;
- exchange controls and restrictions on remittances abroad (such as those that were imposed in 1989 and early 1990s);
- modifications to laws and regulations according to political, social and economic interests;
- efforts to reform labor, tax and social security policies and regulation (including the increase of taxes, both generally and on dividends);
- energy and water shortages and rationing;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. These uncertainties and other future developments in the Brazilian economy may adversely affect our business activities, and consequently our results of operations, and may also adversely affect the trading price of the ADSs and our preferred shares.

Such factors are compounded as Brazil emerges from a prolonged recession after a period of a slow recovery, with only meager gross domestic product, or GDP, growth in 2017 and 2018. Brazil's GDP real growth (contraction) rates since 2016 were 1.1% in 2018, 1.0% in 2017 and (3.6)% in 2016. Our results of operations and financial condition have been, and will continue to be, affected by the weakness of Brazil's GDP. Developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the use of our products and services, which may adversely affect the trading price of the ADSs and our preferred shares.

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

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. Despite the slow economic recovery and the still high fiscal vulnerability, several Brazilian macroeconomic fundamentals improved during 2017-18. The main highlight was the deceleration of inflation and the achievement of historically low interest rates.

The economic outlook for 2019 continues to face significant uncertainties. The Brazilian economy is expected to continue recovering at a moderate pace. The median market forecast currently predicts that the GDP growth rate will accelerate from 1.1% in 2018 to around 1.95% in 2019 (according to Focus Report on April 12, 2019).

In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as "*Operação Lava Jato*," have negatively impacted the Brazilian economy and political environment.

Under "*Operação Lava Jato*" members of the Brazilian federal government and of the legislative branch, as well as senior officers of large state-owned and private companies, have faced allegations and, in certain cases, convictions, or, also, entering into plea bargains, related to crimes of political corruption, involving alleged bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties of the government that were unaccounted for or not publicly disclosed, in addition to alleged personal enrichment of the recipients of the bribes and the favoring of companies in contracts with the Brazilian government. Furthermore, certain of these companies have or are also facing investigations, and, in certain cases, being convicted by the competent authorities, such as the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM, the U.S. Securities and Exchange Commission, or the SEC, and the United States Department of Justice. Certain of these companies have chosen to enter into leniency agreements with the competent authorities, when possible. The potential outcome of these investigations, convictions, plea bargaining and leniency agreements is still uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, political parties and on the general market perception of the Brazilian economy and political environment. We cannot predict whether such investigations will lead to further political and economic instability or whether new allegations against government officials, officers and/or companies will arise in the future. In addition, we cannot predict the outcome of any such investigations or allegations nor their effect on the Brazilian economy.

We also cannot predict which policies the current President of Brazil, Jair Bolsonaro, may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy. During his presidential campaign in 2018 and at the start of his four-year term beginning in January 2019, Bolsonaro reportedly favored the privatization of state-owned companies, economic liberalization, new pension legislation and tax reforms. However, there is no guarantee that Bolsonaro will be successful in executing his campaign promises or passing certain favored reforms fully or at all, particularly when confronting a fractured congress. Moreover, Bolsonaro was generally a polarizing figure during his campaign for presidency, particularly in relation to certain social views, and we cannot predict the ways in which a divided electorate may continue to impact his presidency and ability to implement policies and reforms. Any such new policies or changes to current policies may have a material adverse effect on us or the price of the ADSs and our preferred shares. Furthermore, uncertainty over whether the current Brazilian government will implement changes in policy or regulation in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

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

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

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

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

The *real* has historically experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. In 2016, the *real* appreciated against the U.S. dollar, reaching R$3.259 per US$1.00 as of December 31, 2016. In 2017, the *real* depreciated against the U.S. dollar in comparison to 2016, reaching R$3.308 per US$1.00 as of December 31, 2017. In 2018, the *real* depreciated further against the U.S. dollar in comparison to 2017, reaching R$3.875 per US$1.00 as of December 31, 2018. On April 15, 2019, the *real*/U.S. dollar exchange rate was R$3.873 per US$1.00. There can be no assurance that the *real* will not depreciate further against the U.S. dollar. Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which negatively affects the growth of the Brazilian economy as a whole, curtails access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* against the U.S. dollar has also, including in the context of an economic slowdown, led to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. Depreciation would also reduce the U.S. dollar value of distributions and dividends and the U.S. dollar equivalent of the trading price of the ADSs and our preferred shares. As a result, we may be materially and adversely affected by *real*/U.S. dollar exchange rate variations.

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

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

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

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

In February 2016, Standard & Poor's downgraded Brazil's credit rating to BB, maintaining its negative outlook, citing a worsening credit situation since September 2015. In January 2018, Standard & Poor's lowered Brazil's rating to BB-minus with a stable outlook in light of doubts regarding this year's presidential election and pension reform efforts. In February 2016, Moody's downgraded Brazil's ratings to below investment grade, to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's debt service in a negative or low growth environment, in addition to challenging political dynamics. In April 2018, Moody's reaffirmed the Ba2 rating, but raised the outlook from negative to stable, citing expectations that the winner of the October 2018 presidential elections will pass fiscal reforms. Fitch also downgraded Brazil's credit rating in May 2016 to BB with a negative outlook, which it maintained in 2017 and downgraded to BB- in February 2018. As a result, the trading prices of debt and equity securities of Brazilian issuers were negatively affected.

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

Risks Relating to the ADSs and Our Preferred Shares

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

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

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

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

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

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

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

The Brazilian securities market is substantially smaller, less liquid, more volatile and more concentrated than major international securities markets, including the securities market of the United States. The B3 had a market capitalization of R$3.5 trillion as of December 31, 2018. The ten most traded stocks by volume on the B3 during 2018 accounted for approximately 51.2% of total trading on the B3 during that period. Conversely, the New York Stock Exchange had a market capitalization of approximately US$30.4 trillion as of December 31, 2018. Furthermore, the regulations of the B3 may differ from what foreign investors are accustomed to seeing in other international exchanges. The characteristics of the Brazilian securities market may substantially limit the capacity of holders of the preferred shares underlying the ADSs to sell them at the time and price they desire and, consequently, may adversely affect the market price of our preferred shares. If a liquid and active trading market is not developed or maintained, the trading price of our preferred shares may be negatively affected.

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

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

Our status as a foreign private issuer exempts us from certain of the corporate governance standards of the New York Stock Exchange, or the NYSE, limiting the protections afforded to investors.

We are a “foreign private issuer” within the meaning of the NYSE corporate governance standards. Under the NYSE listing rules, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the board of directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities, and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. Therefore, ADS holders do not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements.

For example, as a foreign private issuer, we chose to rely on an exemption under Rule 10A-3(c)(3) of the Exchange Act of 1934, as amended, or the Exchange Act with respect to our audit committee. For a further discussion of our statutory audit committee and the audit committee exemption, see "Item 6C. Board Practices—Committees of the Board of Directors—Audit Committee."

U.S. securities laws do not require us to disclose as much information to investors as a U.S. issuer is required to disclose, and you may receive less information about us than you might otherwise receive from a comparable U.S. company.

The corporate disclosure requirements applicable to us may not be equivalent to the requirements applicable to a U.S. company and, as a result, you may receive less information about us than you might otherwise receive in connection with a comparable U.S. company. We are subject to the periodic reporting requirements of the Exchange that apply to "foreign private issuers." The periodic disclosure required of foreign private issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. For example, we are required only to file an annual report on Form 20-F, but we are not required to file any quarterly reports. A U.S. registrant must file an annual report on Form 10-K and three quarterly reports on Form 10-Q. In addition, we are required to file current reports on Form 6-K, but the information that we must disclose in those reports is governed primarily by Brazilian law disclosure requirements and may differ from Form 8-K's current reporting requirements imposed on a U.S. issuer. Finally, we are not subject to the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders are not subject to the short swing insider trading reporting and recovery requirements under Section 16 of the Exchange Act.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

We have been a pioneer in the Brazilian retail food industry, opening our first store, a pastry shop, in 1948 in the city of São Paulo under the name *Pão de Açúcar*. We established one of the first supermarket chains in Brazil, opening our first supermarket in 1959, and opening the first hypermarket in Brazil in 1971. Brazilian economic reforms implemented in 1994, including the introduction of the *real* as the Brazilian currency and the drastic reduction of inflation rates, resulted in an unprecedented growth in local consumer markets. This increase in available income and the resulting increase in consumer confidence broadened our potential customer base and provided us with growth opportunities.

We responded to these changes by strengthening our capital structure, increasing our logistics and technology investments and implementing an expansion strategy focused on the different consumer preferences of the Brazilian population. To support our expansion strategy, consisting of acquisitions and organic growth, we defined the format of our stores to tailor them to the expectations, consumption patterns and purchasing power of the different income levels in Brazil. Our stores have operated under different banners targeting the various income segments of the Brazilian population, with the aim to provide comprehensive and targeted coverage of the regions where we operate. For further information on our banners, see "Item 4B. Business Overview—Our Company" and "Item 4B. Business Overview —Operations." In order to implement this strategy and to increase our market share, between 1981 and 2003 we acquired important Brazilian supermarket chains which were later and gradually converted into our current banners. We summarize below major events from 2004 to the present related to our organic growth, divestitures, acquisitions and other significant developments in our business.

Historical Changes in Our Business

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

From 2007 to 2009, we acquired a 100% ownership interest in Sendas Distribuidora S.A., which operates the *Assaí* chain. This acquisition enabled us to enter the cash and carry segment. For further information on *Assaí*, see "Item 4B. Business Overview—Our Company—Cash and Carry Operating Segment—Assaí Stores."

In 2009, we acquired a 98.8% of ownership interest in Globex (which later changed its corporate name to Via Varejo), a company which operates in the home appliances sector under the brand name *Ponto Frio*.

In 2010, through an association with members of the Klein family who represent the partners of Casa Bahia Comercial Ltda., or Casa Bahia Comercial, a Brazilian home appliances retailer which operates under the brand name *Casas Bahia*, by means of a corporate reorganization, we and the partners of Casa Bahia Comercial merged our respective businesses in the home appliances and ecommerce segments under Via Varejo. As a result we then owned 52.4% of Via Varejo. On December 27, 2013, Via Varejo concluded its public offering in Brazil.

In this annual report, the term “Cnova Brazil” refers to Cnova Comércio Eletrônico S.A., which until October 31, 2016 was a wholly owned subsidiary of Cnova, owning the Brazilian non-food ecommerce businesses of CBD and Via Varejo. Following the completion of the corporate reorganization of Cnova (as detailed in “Cnova Reorganization” below) on October 31, 2016, Cnova Brazil became a wholly owned subsidiary of Via Varejo.

On November 23, 2016, our board of directors approved the disposal of our equity interest in Via Varejo, which also consolidates the results of Cnova Brazil, in line with our long-term strategy of focusing on the development of the food retail and cash and carry segments. Due to certain external factors out of our control, mainly related to the Brazilian macroeconomic environment, the sale of Via Varejo was not concluded within the expected timetable. For more information about our divestment of Via Varejo, see “Item 4E. Discontinued Operations.”

Recent Changes in Our Business

Digital Transformation

In 2018, we created our Digital Transformation department as part of our strategy designed to offer customers increasingly more personalized solutions in order to guarantee them a better shopping experience. As part of this strategy, we began working more closely with foodtech startups. In the process, we formed partnerships with Liga Ventures, to sponsor the first retail start-up acceleration program in Brazil, Liga Retail, and with Cubo Itaú, an innovation and entrepreneurial hub, in order to accelerate innovation in the retail sector. We also created our own innovation lab, GPA Lab, located at our headquarters, in order to strengthen a culture of innovation. GPA Lab has three modern spaces, available to hold meetings, workshops, lectures, trainings and other internal and external events. Our Digital Transformation department is responsible for creating our digital products and helping to maintain the growth of our stores by increasing our efficiency. We believe that our digital transformation will help us become more agile, more productive and more efficient, bringing improvements to our online platforms as well as physical stores.

Beginning in 2018, we have also pursued opportunities to integrate innovative businesses into our group by analyzing companies in the industry, which to date has resulted in:

(i) Our November 2018 announcement of a partnership with Cheftime Comércio de Refeições Ltda., or Cheftime, a pioneering foodtech startup founded in 2015, that offers an online subscription service and sells individual gastronomic kits. These individual gastronomic kits are sold under the name “Cheftime by Pão de Açúcar” and feature ingredients from our private label. In the first quarter of 2019, we started the rollout of gastronomic kit sales in 23 *Pão de Açúcar* stores and six *Minuto* Pão de Açúcar stores. In accordance with the agreement entered into with Cheftime, we have the right to acquire a controlling interest in Cheftime within 18 months after the execution of the agreement, which can be extended to up to 24 months; and

(ii) Our December 2018 acquisition of 100% of the capital stock of Leji Intermediação S.A., a startup that operates the super app James Delivery, which is a multiservice platform for ordering and delivering various products, connecting customers, deliverers and establishments. This acquisition complements the delivery methods that we make available to our customers: physical store purchases, next day, same day and express deliveries (within four hours) and “Click and Collect” withdrawals in physical stores). In 2018 and the first quarter of 2019, James Delivery conducted a pilot program in *Extra* and *Pão de Açúcar* stores in the state of Paraná. In April 2019, James Delivery initiated operations in São Paulo and by the end of 2019, we expect the entire city of São Paulo will be served by the delivery platform. After São Paulo, the plan is to take James Delivery to 10 more Brazilian cities. This rollout is expected to occur during the course of 2019.

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In addition, in 2018, we inaugurated *Pão de Açúcar Adega*, an online platform for the sale of special beers and wines with nationwide delivery and a brick-and-mortar store (in the city of São Paulo) providing our customers with an omnichannel experience.

Furthermore, in 2018 we launched additional app tools, and we experienced record downloads and significant growth in the use of our app. "Express Check-out" allows consumers to preselect a checkout time to help them avoid lines and save time while shopping. "My Preferences" allows consumers to request electronic tickets. "My Rewards" allows consumers to win rewards by completing monthly challenges. For more information about our "My Rewards" program, see "—Food Retail Operating Segment—'My Discount' and 'My Rewards' Programs." We established a partnership with the e-commerce service provider Livelo, enabling its customers to use the *Clube Extra* and *Pão de Açúcar Mais* apps and redeem their rewards directly at the relevant stores. We also offer blogs where we discuss products and recipes for each customer profile that has been converted into online sales.

Introduction of Compre Bem

In March 2018, SCB Distribuição e Comércio Varejista de Alimentos Ltda., or *Compre Bem*, was created. We currently hold 100% of the capital stock of *Compre Bem*. During 2018, SCB opened 13 supermarkets under the *Compre Bem* banner, focused on the food retail market. This new banner represents an important strategy in diversifying our store format and coverage of key growth markets. For further information on *Compre Bem*, see "Item 4B. Business Overview—Our Company—Food Retail Operating Segment—*Compre Bem*."

Repositioning our Private Label

During 2018, we also focused on repositioning our private label portfolio, with a priority on improving quality and price competitiveness as an important process for building client loyalty in the markets in which we operate. As part of this initiative, we have started working more closely with suppliers, making long-term partnerships and ensuring higher production levels, which allow us to maintain our product launch rates and reach better margins. In 2018, we launched approximately 500 new products, supported by a new marketing model and new promotional campaigns. We aim to increase the reach of our private label by 20% over the next two to three years.

Cnova Reorganization

In August 2016, Cnova, Cnova Brazil and Via Varejo entered into a reorganization agreement providing for the reorganization of Cnova, or the Cnova Reorganization. In December 2016, Casino launched concurrent tender offers to purchase any and all Cnova ordinary shares for US$5.50 per share in cash in the United States and in France. These concurrent tender offers are referred to as the "Cnova Offers" in this annual report. The Cnova Offers were the second and final transactions constituting Cnova's "going private" transaction. For more information, see note 32 to our audited consolidated financial statements included elsewhere in this annual report.

As a result of the Cnova Reorganization: (i) Via Varejo became the sole shareholder of Cnova Brazil, operating the websites *Extra.com.br*, *Pontofrio.com* and *Casasbahia.com.br*, and was no longer a shareholder of Cnova; (ii) Cnova continued its ecommerce operations outside of Brazil, focusing entirely on Cdiscount S.A., or CDiscount; and (iii) CBD was no longer a majority shareholder of Cnova which became an associate of CBD. Consequently, since October 31, 2016, CBD has not consolidated the results of operations of Cnova.

In accordance with IFRS 5 – non-current assets held for sale and discontinued operations, we presented Cnova's results for the ten-month period ended October 31, 2016 and the year ended December 31, 2015, as follows: (i) the ecommerce segment outside of Brazil in one single line item in our statement of operations and comprehensive income in loss from discontinued operations; and (ii) the related balances of assets and liabilities in the line items assets held for sale and liabilities related to assets held for sale, respectively, in the balance sheet as of December 31, 2015. Starting on November 1, 2016, we became a minority shareholder in Cnova and we began applying the equity method of accounting to our investment in Cnova.

Casino and CBD Support Letters

In connection with the Cnova Reorganization, Casino and CBD made certain undertakings to each other pursuant to a letter agreement addressed to the CBD Special Committee and executed by Casino and CBD, dated August 8, 2016, or the Casino-CBD Commitment Letter, and a letter agreement from CBD to Casino, dated August 8, 2016, or the CBD Support Letter. The Casino-CBD Commitment Letter and the CBD Support Letter are intended to govern the parties' ongoing relationship in their capacity as shareholders of Cnova following completion of the Cnova Reorganization and the Cnova Offers.

Pursuant to the CBD Support Letter, our board of directors approved, in accordance with the recommendation of the CBD Special Committee, the execution of a new operating agreement between CBD and Via Varejo, which established the terms and conditions for the commercial and strategic alignment of their retail and ecommerce activities, especially regarding the joint acquisitions of common products and the ecommerce activities under the brand *Extra*, which came into effect as of the implementation of the Cnova Reorganization. For more information about our divestment of Via Varejo, see "Item 4E. Discontinued Operations."

You are encouraged to read the Casino-CBD Commitment Letter and the CBD Support Letter, included as Exhibits 4.(b)(6) and 4.(b)(7) to this annual report, respectively, carefully in their entirety, in addition to the cost sharing arrangements described in note 12.2(v) to our audited consolidated financial statements included elsewhere in this annual report.

Capital Expenditures and Investment Plan

As part of our capital expenditures and investment plan, we have invested R$5.6 billion in our consolidated operations in the three years ended December 31, 2018. Despite a macroeconomic environment still marked by a slow and incomplete recovery, we maintained a high level of capital expenditures in our continuing operations in 2018 of R$1.7 billion, an increase of 28.8% compared to R$1.4 billion in 2017, which reinforces our confidence in the execution of our business strategy and in the improvement of the Brazilian economy. These 2018 investments principally related to the expansion of the *Assaí* banner, store renovations and store conversions. Our capital expenditures and investment plan for 2019 our continuing operations contemplates capital expenditures and investments of up to R$1.8 billion relating to (i) the opening of new stores, purchase of real estate and store conversions; (ii) store renovations; (iii) improvements to information technology; and (iv) improvements to distribution facilities. The Company has historically financed its capital expenditures and investments mainly with cash flow generated from its operations and, to a lesser extent, funded by third parties. The Company plans to continue financing its capital expenditures and investments principally with cash flow from its operations.

Our group's investments in the last three years have included:

Opening of new stores and purchases of real estate – In the food retail sector, we seek to rent or purchase real estate properties when there is an opportunity to open new stores under one of our banners or local supermarket chain acquisition opportunities that suit one of our formats. We have organically opened 60 new stores from 2016 through 2018, including those in the food retail sector. The total cost of opening these new stores and the purchase of real estate from 2016 through 2018 was R$1.9 billion.

Renovation of existing stores – We usually remodel a number of our stores every year. Through our renovation program, we updated refrigeration equipment in our stores, created a more modern, customer-friendly and efficient environment and outfit our stores with advanced information technology systems. Also, in 2017, we started a special renovation program of the *Pão de Açúcar* banner stores, in which we renovated a number of stores using our next generation concept, or G7. In 2018, 15 stores were fully renovated using the G7 concept, bringing the total number of stores in the G7 concept to 20. In addition, another 23 *Extra Supermercado* stores were remodeled under the *Mercado Extra* concept and 13 stores were converted into *Compre Bem*, which have been delivering strong growth since their conversion. The total cost of renovating existing stores from 2016 through 2018 was R$1.8 billion.

Improvements to information technology – We view technology as an important tool for efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We have made significant investments in information technology, totaling R$850 million from 2016 through 2018. For more information on our information technology, see "Item 4B. Business Overview—Information Technology."

Improvements to distribution facilities –We own and lease distribution centers and depots located in the Southeastern, Midwestern and Northeastern regions of Brazil. The improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have invested R$1,010 million in our distribution facilities from 2016 through 2018.

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

	Year Ended December 31,			
	2018	**2017**	**2016**	**2016-2018**
	(in millions of R$)			
Opening of new stores	863	590	475	1,928
Purchases of real estate	-	13	5	18
Renovation of existing stores	767	561	489	1,817
Information technology	362	204	284	850
Distribution facilities	374	345	291	1,010
Total	**2,366**	**1,713**	**1,544**	**5,623**

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

4B. Business Overview

The Brazilian Retail Industry

According to the Brazilian Supermarket Association (*Associação Brasileira de Supermercados*), or ABRAS, the Brazilian retail food industry represented approximately 5.2% of Brazil's GDP in 2018, and the food retail industry in Brazil had gross revenues of approximately R$356 billion in 2018, representing a 0.7% nominal increase compared to approximately R$353 billion in 2017.

The Brazilian retail food industry is highly fragmented. According to ABRAS, the five largest supermarket chains that disclosed their revenues to ABRAS represented approximately 37.0% of the retail food industry in 2018, as compared to 39.7% in 2017 and 40.6% in 2016. Our consolidated gross sales represented 15.1% of the gross sales of the entire retail food industry in 2018, as compared to 13.8% in 2017, also according to ABRAS.

According to data published in February 2019 by the IBGE, the volume of sales in the food retail sector increased by 4.4% in 2018 compared to 2017.

The cash and carry segment was created in order to serve customers within a market niche that was neither reached by self-service retail nor by direct wholesale. According to data published by The Nielsen Company (US), LLC, or Nielsen, in February 2019, the cash and carry segment in Brazil experienced an increase of 13.9% in sales and 12.8% in volume, respectively, in 2018.

According to the IBGE, the total population of Brazil was approximately 209 million in 2018, representing a 1.4% growth since 2016. Given that more than 84% of the population lives in urban areas (where most of our operations are located) and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from Brazil's urban growth and economies of scale related to urban growth. According to an IBGE survey, in 2018, the city of São Paulo had a population of approximately 12.2 million and the city of Rio de Janeiro had a population of approximately 6.8 million. These are the two largest cities in Brazil. The state of São Paulo has a total population in excess of 45 million, representing 22.0% of the Brazilian population and is our largest consumer market, with 709 stores as of December 31, 2018. The state of Rio de Janeiro is our second largest consumer market, with 141 stores as of December 31, 2018.

During 2018, private consumption in Brazil increased 1.9% while the country's GDP increased 1.1%. The GDP increase was mainly due to growth in the services segment, especially with respect to the performance of the retail and real estate sectors.

The following table sets forth the different income class levels of Brazilian households, according to the Consumption Potential Index (*Índice de Potencial de Consumo*), or IPC Maps 2018 published by IPC Marketing Editora.

Class Level	**Average Monthly Income (in R$)**
A	20,888
B1	9,254
B2	4,852
C1	2,705
C2	1,625
D/E	768

According to a study by IPC Maps 2018, class A households account for only 2.6% of all urban households and classes B1 and B2 households account for 22.3% of all urban households. Classes C1 and C2, the most representative in Brazil, collectively represent 48.2% of all urban households and classes D and E collectively represent 27.0% of all urban households. In recent years, the number of class C, D and E households has increased in terms of total urban households and their average purchasing power has increased.

We expect that increased consumption by the lower income class levels will occur over time as a result of gradual salary increases and a steadily growing population. The Brazilian monthly minimum wage increased 4.6% from R$954 in January 2018 to R$998 in January 2019.

For more information on the Brazilian economic environment, see "Item 5A. Operating Results—Brazilian Economic Environment and Factors Affecting Our Results of Operations."

Our Company

We are the largest traditional retailer in the food segment in Brazil and the second largest player in the cash and carry segment, which are our two operating segments. Within the Brazilian retail food industry, we had a total market share based on consolidated gross sales of approximately 15.1% in 2018, as compared to 13.8% in 2017, according to information published by ABRAS. As of December 31, 2018, our total gross sales, taking into account only our food business categories, totaled R$53,616 million. On the same date, we operated 863 stores, 71 gas stations and 123 drugstores in 18 Brazilian states and the Federal District, in addition to a logistics infrastructure supported by 22 distribution centers and depots across Brazil. We operate in the retail segment of food, clothing, home appliances and other products by means of our hypermarkets, supermarkets, proximity and specialized stores, especially under the banners *Pão de Açúcar, Minuto Pão de Açúcar, Pão de Açúcar Adega, Extra Hiper, Extra Supermercado, Mercado Extra, Compre Bem, Mini Extra, Assaí and Aliados Minimercado.*

We classify our two operating segments as follows (see note 30 to our audited consolidated financial statements included elsewhere in this annual report):

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

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

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

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

We carry out our discontinued operations through Via Varejo, which is the sole shareholder of Cnova Brazil, and operates in the home appliances and ecommerce segments through stores under the banners *Ponto Frio* and *Casas Bahia,* in addition to the ecommerce platforms *Casasbahia.com, Extra.com, Pontofrio.com* and *Barateiro.com.* For more information about our divestment of Via Varejo, see "Item 4E. Discontinued Operations" and note 32 to our audited consolidated financial statements included elsewhere in this annual report.

Segment Revenue and Income Distribution

The table below shows the breakdown of our consolidated gross and net operating revenue by banner and segment for the year ended December 31, 2018.

	Year Ended December 31, 2018			
Operating segment	**Gross Operating Revenue from the Segment (in millions of R$)**	**Percentage of Total Gross Operating Revenue (%)**	**Net Operating Revenue from the Segment (in millions of R$)**	**Percentage of Total Net Operating Revenue (%)**
Extra(1)	17,254	32.2%	15,792	32.0%
Pão de Açúcar	7,471	13.9%	6,860	13.9%
Proximity stores(2)	1,264	2.4%	1,182	2.4%
Others(3)	2,704	5.0%	2,655	5.3%
Food retail	28,693	53.5%	26,489	53.6%
Assaí	24,923	46.5%	22,899	46.4%
Cash and carry	24,923	46.5%	22,899	46.4%
Total	**53,616**	**100.0%**	**49,388**	**100.0%**

(1) Includes *Extra Hiper, Extra Supermercado*, *Mercado Extra* and *Compre Bem* banners.

(2) Includes *Mini Extra*, *Minuto Pão de Açúcar*, *Pão de Açúcar Adega* and *Aliados Minimercado*.

(3) Includes drugstores, gas stations, food delivery and malls.

We generate all of our operating revenue in Brazil.

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

	Year Ended December 31, 2018	
Operating segment	**Net Income (Loss) from the Segment (in millions of R$)**	**Percentage of Total Net Income (Loss) (%)**
Food retail	218	18.5%

Cash and carry	1,054	89.3%
Discontinued operations	(46)	(3.9)%
Eliminations/Others	(46)	(3.9)%
Total	**1,180**	**100.0%**

For more information about our net operating revenue and net income (loss) by operating segment, see “Item 5A. Operating Results—Results of Operations for 2018, 2017 and 2016.”

Number of Stores

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

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	Pão de Açúcar	*Extra Hiper*	*Extra Super-mercado*	*Mercado Extra*	*Compre Bem*	*Mini Extra*	*Minuto Pão de Açúcar*	*Assaí*	**Total**
As of December 31, 2015 [(1)]	**185**	**137**	**199**	**-**	**-**	**249**	**62**	**95**	**927**
During 2016									
Opened	2	—	—	-	-	1	14	13	30
Closed	(2)	(3)	(5)	-	-	(41)	(1)	(1)	(53)
Converted (from)/to	—	—	—	-	-	(2)	2	—	—
As of December 31, 2016[(1)]	**185**	**134**	**194**	**-**	**-**	**207**	**77**	**107**	**904**
During 2017									
Opened	3	-	-	-	-	-	6	5	14
Closed	(2)	(2)	(6)	-	-	(24)	(1)	(1)	(36)
Converted (from)/to	-	(15)	0	-	-	-	-	15	-
As of December 31, 2017[(1)]	**186**	**117**	**188**	**-**	**-**	**183**	**82**	**126**	**882**
During 2018									
Opened	-	-	-	-	-	-	-	16	16
Closed	-	(2)	(3)	-	-	(27)	(3)	0	(35)
Converted (from)/to	-	(3)	1	23	13	-	-	2	-
As of December 31, 2018[(1)]	**186**	**112**	**186**	**23**	**13**	**156**	**79**	**144**	**863**

(1) Excludes 71 gas stations and 127 drugstores.

Geographic Distribution of Stores

The Company operates mainly in the Southeast region of Brazil, in the states of São Paulo, Rio de Janeiro and Minas Gerais. The Southeast region accounted for 70.0% of the Company’s consolidated net revenue for the year ended December 31, 2018, while the other Brazilian regions (North, Northeast, Midwest and South), in the aggregate, accounted for the remaining consolidated net operating revenue for the year ended December 31, 2018. In addition, none of these regions represents individually more than 18.0% of the consolidated net operating revenue.

The following table sets forth the number of our stores by region as of December 31, 2018:

Region	**Supermarket**	**Hypermarket**	**Cash and Carry**	**Proximity**	**Total**
North	-	1	5	-	**6**
Midwest	16	12	14		**42**
Southeast	315	78	87	227	**707**
Northeast	37	19	34	8	**98**
South	4	2	4	-	**10**

Total	**372**	**112**	**144**	**235**	**863**

Operations

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net operating revenue as a percentage of our total net operating revenue for each of our store formats as of December 31, 2018:

	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 Operating Revenue
Pão de Açúcar	Supermarket	186	240,127	1,291	16,220	14.5%
Extra Hiper	Hypermarket	112	686,585	6,130	22,514	27.8%
Extra Supermercado, Mercado Extra and Compre Bem	Supermarket	186	210,798	1,133	11,325	8,9%
Mini Extra and Minuto Pão de Açúcar	Proximity Store	235	57,579	245	3,387	2.4%
Assaí	Cash and Carry	144	597,988	4,153	29,922	46.4%
Total(2)		**863**	**1,793,077**	**2,078**	**83,368**	**100.0%**

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

(2) Excludes 71 gas stations and 123 drugstores.

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

Food Retail Operating Segment – Store Formats and Banners

The Company presents a multi-channel, multi-format and multi-region portfolio ensuring a strong position in offering products and services to our customers. Our food retail operating segment operates under different formats and banners, which we also refer to as *Multivarejo.* We highlight below the differences in the behavior of our customers in the various food retail formats and banners:

Pão de Açúcar

Our *Pão de Açúcar* banner is the premium supermarket chain of our Company. This banner is considered a reference for innovation in the retail industry, providing a high level of services and assortment of products to our customers and promoting concepts of healthy living and sustainability.

Pão de Açúcar stores are supermarkets, which are predominantly located in large urban areas (with over one-third located in the greater São Paulo metropolitan area). We believe that the locations of our *Pão de Açúcar* stores are a competitive advantage since available sites in these urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and a high level of customer service. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, as well as meat, cheese and seafood departments and bakeries.

As of December 31, 2018, we had 186 *Pão de Açúcar* stores in 13 Brazilian states, with an average sales area per store of 1,291 square meters. Food products represented 95.5% of gross sales revenue attributable to *Pão de Açúcar* in 2018 and non-food products represented 4.5%. In 2018, 15 stores were fully renovated using the G7 concept, which focuses on the shopping experience and presents a differentiated value proposition, strengthening perishables, wellness, organic products and services, reinforcing our healthy product positioning, and offering in-store Wi-Fi and store-in-store concept. These stores, together with those renovated in 2017, continue to deliver significant growth compared to non-renovated stores.

The *Pão de Açúcar* banner recorded gross sales of R$7,471 million in 2018 (including record sales on Black Friday and during December 2018), which represented an increase of 3.1% compared to 2017. We believe that this performance was a direct result of various commercial initiatives that we started implementing in 2017 and continued implementing in 2018, such as (i) successful promotional campaigns (including our "Collect and Win" campaign, where loyalty program, *Cliente Mais*, participants can earn stickers for purchases made, which can be redeemed for prizes once a pre-determined number of stickers have been collected), especially during seasonal periods, (ii) the strong performance of our stores that were renovated to the G7 concept, which presented higher growth in sales, volume and customer traffic compared to our non-renovated stores, (iii) operational improvements and (iv) the evolution of our food ecommerce offering due to the reformulation of our website, the launching of our *Pão de Açúcar* apps and expansion of our express delivery model. Additionally there was an increase in the reach of the loyalty program, representing approximately 85% of *Pão de Açúcar* sales.

We also introduced “Cheftime by Pão de Açúcar” in 2018. Through our partnership with Cheftime, *Pão de Açúcar* currently sells Cheftime gastronomic kits, which feature ingredients from our private label, on our website and also in 25 *Pão de Açúcar* stores and three *Minuto* Pão de Açúcar stores. For more information, see “Item 4A. History and Development of the Company—Recent Changes in Our Business—Digital Transformation.”

Extra

Extra is our banner focused on meeting our clients’ demands related to different needs and occasions, with the formats of hypermarkets, supermarkets, drugstores and gas stations. With a product assortment tailored to each format, the *Extra* banner offers food, home appliances, bazar, clothing and other products, as well as services such as bakery, rotisserie, butchery and fishery.

In 2018, the *Extra* banner increased same-store sales volumes, due to our seasonal marketing and promotional campaigns (such as our "Collect and Win" campaign, where participants of our loyalty program, *Clube Extra*, can earn stickers for purchases made, which can be redeemed for prizes once a pre-determined number of stickers have been collected), strong commercial activities, reinforcement of the quality and assortment of perishables, portfolio optimization adhering to the needs of our customers in each region, monetization of store area, efficiency gains, growth in the reach of our private label and growth in the number of downloads of our *Extra* loyalty program, *Clube Extra*, app. For more information on our same-store sales, see "Item 5A. Operating Results—Results of Operations for 2018, 2017 and 2016."

Extra Supermercado Stores

As of December 31, 2018, we operated 150 *Extra Supermercado* stores. Our *Extra Supermercado* banner is characterized by supermarkets focused on middle-class customers, with an average sales area per store of 1,095 square meters, as of December 31, 2018, and a complete mix of food products and general merchandise, with a focus on increasing the reach of our private label. Our *Extra Supermercado* stores offer quality products, where families can rapidly and economically stock up on items for their pantries and also acquire a wide range of household items in an easily accessible and pleasant environment. The sale of food products and non-food products represented 96.3% and 3.7%, respectively, of *Extra Supermercado*'s gross sales in 2018.

Gross sales of the *Extra Supermercado* banner in 2018, including *Mercado Extra* and *Compre Bem*, reached R$4,428 million, a 3.8% decrease compared to 2017, mainly due to the conversions of 35 *Extra Supermercado* stores into *Mercado Extra* and *Compre Bem* stores, which represented the temporary closure of the stores that were converted to the *Compre Bem* banner during the renovation process, and the permanent closing of three *Extra Supermercado* stores in 2018.

Mercado Extra Stores

In 2018, we initiated the process of converting some of our *Extra Supermercad*o stores into the *Mercado Extra* banner. Our *Mercado Extra* stores aim to be innovative and bring a pleasant shopping experience to customers, creating a comfortable environment. These stores also offer fresh seafood three times a week. As of December 31, 2018, we converted 23 *Extra Supermercado* stores into *Mercado Extra* stores, which have been delivering strong growth since their conversion. Through these conversions, we achieved approximately 30% of sales growth in our *Mercado Extra* stores, as well as growth in the number and volume of sales. We have continued these conversions in 2019, already converting seven *Extra Supermercados* to the *Mercado Extra* banner in the first quarter. *Mercado Extra* stores aim to reinforce the quality of perishables, customer service and the penetration of our private label. The *Mercado Extra* stores target the Brazilian class B and class C household consumers. In 2018, the banner had positive performance in sales, volume and customer traffic.

Extra Hiper Stores

We introduced the hypermarket format in Brazil with the opening of our first 7,000 square meter store in 1971. The *Extra Hiper* stores offer the widest assortment of products of any of our store formats and are organized in a department store style, with an average sales area per store of 6,130 square meters as of December 31, 2018. The *Extra Hiper* stores target the Brazilian classes B, C, D and E classes. As of December 31, 2018, we had 112 *Extra Hiper* stores. The sale of food products and non-food products represented 62.0% and 38.0% of *Extra Hiper*'s gross sales in 2018, respectively.

Gross sales of the *Extra Hiper* banner in 2018 reached R$12,827 million, a 1.0% decrease compared to 2017, mainly due to the closing of two stores during the year, in addition to two conversions into the *Assaí* banner and one converted into *Compre Bem* banner.

Compre Bem

As of December 31, 2018, we completed the conversion of 12 *Extra Supermercado* stores and one *Extra Hiper* into the *Compre Bem* banner, which have been delivering strong growth since their conversion. The conversions allow us to enter in a market segment currently controlled by regional supermarkets. The *Compre Bem* store model focuses on locality, adapted to the needs of the consumers in each of the regions where stores are located. The service and assortment of perishables are reinforced, while other product categories have a leaner assortment. *Compre Bem* is managed independently from the *Extra Supermercado* banner in order to streamline operational costs, especially logistics and IT. In 2018, the *Compre Bem* banner had positive performance in sales, volume and customer traffic. In addition, GPA's first self-checkout was introduced in 2018 in a *Compre Bem* store.

Proximity Stores (Mini Extra and Minuto Pão de Açúcar)

As of December 31, 2018, the *Mini Extra* and *Minuto Pão de Açúcar* stores had an average sales area per store of 245 square meters. The sale of food products and non-food products represented 98.6% and 1.4%, respectively, of gross sales in proximity stores in 2018.

Gross sales of the proximity stores in 2018 totaled R$1,264 million, a 8.5% increase compared to 2017, mainly due to the (i) consolidation of our loyalty strategy in the fruits, vegetables and bakery categories and the growth in the reach of our private label, (ii) synergies in promotional actions aligned with the *Extra* and *Pão de Açúcar* banners, (iii) seasonal marketing and promotional campaigns and (iv) review of the assortment of products offered and adjustment of customer clusters for *Mini Extra*. The proximity format reached 235 stores as of December 31, 2018, of which 156 were *Mini Extra* and 79 were *Minuto Pão de Açúcar*. As of December 31, 2018, the majority of our proximity stores were located in the state of São Paulo.

In 2016, GPA launched the "*Aliados Compre Bem*" project, which was renamed to "*Aliados Minimercado*" in 2018, a business model for neighborhood stores that consists of a partnership between GPA and independent retailers, in which GPA provides its operational expertise to meet and increase the sales potential of this market segment by supplying products to participating independent retailers. GPA was the first major Brazilian retailer to offer this type of service and ended 2018 supplying products to approximately 500 neighborhood stores.

Other Businesses and Services

Other businesses include gas stations, drugstores, food delivery and revenues related to rentals of commercial property. Gross sales from other businesses increased by 12.9% in 2018, totaling R$2,704 million, mainly due to the positive performance of our gas stations and rentals of commercial property.

Gas Stations

As of December 31, 2018, we operated 71 gas stations, the vast majority of which are located within the parking area of certain of our stores, mainly in *Extra Hiper* stores. We also have gas stations that operate under our *Pão de Açúcar*, *Assaí* and *Compre Bem* banners. We also have partnerships with Ipiranga and Shell, two major gas station chains in Brazil, which we believe gives us a competitive advantage. Through these partnerships, we offer co-branded gas stations, such as *Extra-Ipiranga*, *Pão de Açúcar-Ipiranga* and *Assaí-Ipiranga*. The location of our gas stations allows our customers to both shop and refuel their cars while they are on our premises. Our strategy for gas stations is based on competitive prices and the reliability and quality of fuel, which we believe is assured by the brand. Our gas stations performed well in 2018 mainly due to the standardization of services, renovations, participation in the "My Discount" program and the strengthening of the image of our prices.

Drugstores

As of December 31, 2018, we operated 123 drugstores in 15 states and in the Federal District. Our strategy, in relation to our drugstores, is to provide greater convenience to our customers by providing additional products, mainly in our *Extra Hiper* stores. We also have drugstores that operate under our *Pão de Açúcar* banner.

Food Delivery and In-Store Pick-Up

We have consolidated our leadership in food ecommerce through our food delivery platforms, including *Pão de Açúcar* Delivery, or PA Delivery, and *Extra* Delivery, through which our customers can order their products online and receive them at home (within 24 hours for “conventional” delivery and four hours for “express” delivery). This service also allows us to expand and deepen our client base, reaching new clients through our app and website, while also furthering our omnichannel approach for existing clients.

We also offer our “Click and Collect” service, a purchasing option through which our customers are able to order online and choose the best time to pick up their food order at selected *Pão de Açúcar* and *Extra* stores.

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As of December 31, 2018, we offered the "express" and/or "click and collect" concepts at more than 70 stores under the *Pão de Açúcar* and *Extra* banners, in the Southeast, South, Midwest and Northeast region of Brazil. In line with our digital transformation strategy, we plan to continue to increase the presence of *Extra* Delivery, including in our *Extra Hiper* and *Extra Supermercado* stores.

In December 2018, we launched *Pão de Açúcar Adega*, an online platform for the sale of special beers and wines with nationwide delivery and a brick-and-mortar store (in the city of Sao Paulo) providing our customers with a truly omnichannel experience. *Pão de Açúcar Adega* offers our subscription service, *Pão de Açúcar Viva Vinhos*, through which customers can have our wines delivered directly to their homes.

As part of our Digital Transformation strategy, in 2018 we acquired the super app James Delivery, which is a multiservice platform for ordering and delivering various products, connecting customers, deliverers and establishments. This acquisition complements the delivery methods that we make available to our customers: physical store purchases, next day, same day and express deliveries (within four hours) and "Click and Collect" withdrawals in physical stores). In April 2019, James Delivery initiated operations in São Paulo and by the end of 2019, we expect the entire city of São Paulo will be served by the delivery platform. After São Paulo, the plan is to begin taking James Delivery to 10 more Brazilian cities during the course of 2019.

"My Discount" and "My Rewards" Programs

The "My Discount" program, launched in July 2017, consists of a mobile app that provides personalized discounts to customers who are members of the loyalty programs of the *Pão de Açúcar* and *Extra* banners. In the first year and a half period from July 2017 to December 2018, the platform reached 7.7 million downloads. In 2018, the total base of loyal customers in the "My Discount" program increased from 14.4 million on December 31, 2017 to 17.9 million people on December 31, 2018. In addition, as of December 31, 2018, approximately 40% the sales tickets at *Pão de Açúcar* stores included at least one item from the "My Discount" program. Our strategy in relation to the "My Discount" program is to develop a closer relationship with our clients, which will allow us to know and better meet their needs and convenience.

In March 2018, we added the "My Rewards" program to our mobile app, providing personalized challenges to customers who are members of the loyalty programs of the *Pão de Açúcar* and *Extra* banners. These challenges can be completed monthly to receive prizes, such as coupons, products in-store and vouchers from our partner companies.

GPA Malls

GPA Malls is our real estate business unit, which is responsible for the creation and management of commercial spaces. As of December 31, 2018, GPA Malls was present in 22 states and the Federal District and managed around 250 commercial galleries in Brazil and two neighbourhood commercial centers. As of December 31, 2018, GPA Malls had more than 260,000 square meters of gross leasable area.

Cash and Carry Operating Segment – Store Format and Banner

Assaí Stores

Assaí has been operating in the cash and carry segment for more than 40 years and is focused on the commercialization of products that meet the needs of individual consumers and corporations, such as prepared food retailers (including restaurants, pizzerias and snack bars), conventional retailers (such as grocery stores and neighborhood supermarkets) and end users (including schools, small businesses, churches and hospitals). It offers more than 7,000 items of grocery, food, perishable, beverage, wrapping, hygiene and cleaning products, among others. According to a 2018 study by Nielsen, cash and carry is the most popular food sales format in Brazil, with 60%, and in certain large cities greater than 70%, of Brazilian households participating (for example, 76% of households in the greater São Paulo area).

Assaí standard stores are strategically located and are characterized by wide aisles, high ceilings and larger cold rooms, which facilitate the loading and increase up to six times the storage capacity for goods, allowing for more accessible prices and lower distribution costs. In addition, other characteristic features of these standard stores include a larger assortment of goods and improved ambiance, including covered parking, in-store Wi-Fi, air conditioning and natural lighting. *Assaí* also features a sales floor where all supply transactions are fully automated and monitored.

In 2018, we continued to expand our cash and carry business and invested in organic growth by opening 16 new *Assaí* stores and converting two *Extra Hiper* stores to the *Assaí* banner, strengthening the *Assaí* banner's national footprint and increasing our market share. During the opening and conversion of these new *Assaí* stores, more than 92,000 square meters of sales area were constructed. As of December 31, 2018, the *Assaí* banner totaled 144 stores in 18 Brazilian states (up from 14 stores in one Brazilian state when we acquired the *Assaí* banner in 2007), and reached gross sales of R$24,923 million, an increase of 24.2% compared to 2017. In addition, as of December 31, 2018, we already had more than 700,000 *Passaí* credit cards issued. *Passaí* is our branded credit card associated with the *Assaí* banner that offers cash and carry pricing on products for individuals customers.

Seasonality

We have historically experienced seasonality in our results of operations, principally due to traditionally stronger sales in the fourth quarter holiday season and "Black Friday" promotions, which are relatively new in Brazil and help to boost fourth quarter sales in mainly non-food categories. In recent years, our average sales revenues during the fourth quarter have typically been approximately 19% above average sales revenues during the other quarters.

We also experience strong seasonality in our results for the months of March or April as a result of the Easter holiday, when we offer specialized products for the occasion, as well as in FIFA World Cup years, when some of our event-focused products show an increase in sales.

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

Our Products

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

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

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

Suppliers

The purchasing of food products for all of our *Multivarejo* banners, therefore excluding *Assaí*, is centralized and we purchase substantially on the spot or on a short-term basis from a large number of unrelated suppliers. The purchasing of products for *Assaí* is generally decentralized, with purchases being made directly from a large number of unrelated suppliers. As a result, we are not dependent on any single supplier. The prices of our food products may vary depending on inflation.

Distribution and Logistics

In order to efficiently distribute perishable food products, grocery items and general merchandise, we operate 22 distribution centers and depots strategically located across Brazil, with a total storage capacity of approximately 670,000 square meters. The locations of our distribution centers enable us to make frequent shipments to stores, which reduces the need of in-store inventory space, and limits non-productive store inventories.

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

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

Stores, Supermarkets and Hypermarkets

As of December 31, 2018, the logistics process to supply our stores, supermarkets and hypermarkets, excluding drugstores and gas stations, included 15 distribution centers located in the states of São Paulo (including a distribution center specifically focused on our proximity stores), Rio de Janeiro, Ceará, Pernambuco, Bahia and the Federal District, corresponding to a 518,700 square meter area including both our own and outsourced distribution centers. Our distribution process is performed by an outsourced fleet. As of December 31, 2018, our centralization rate (the percentage of revenue from the products supplied at our stores that comes directly from our distribution centers) was approximately 80% excluding our cash and carry operation, which we carry out through *Assaí*.

Orders made for our non-centralized products are made directly by the stores and delivered by the suppliers following the supply model known as “Direct Delivery.” As of December 31, 2018, approximately 20% of our stores sales, excluding our cash and carry operation, corresponded to “Direct Delivery” products, especially ornamental plants, cigarettes, ice cream, yogurt and magazines.

Cash and Carry

To support the growth of the cash and carry business and ensure the efficient supply of stores that work with high sales volume, we operate with nine distribution centers in six different Brazilian states and in the Federal District. The distribution centers are strategically located within these states to allow us to work with a high-frequency supply, reducing the need for inventory space, improving stock coverage and assuring better stock out rates in stores. These advantages are also sustained by the distribution center’s total storage area of 136,000 square meters, storage capacity of more than 150,000 pallet positions and a system which improves the operation management of the distribution centers. We consider the risks to our business in relation to the products supplied by the distribution centers to be low, since approximately 40% of our sales volume is supplied by the distribution centers.

In 2018, we expanded our logistics operation to meet our business requirements. In the state of São Paulo, we unified dry goods operations by optimizing the distribution of items in this category and generating a 31% increase in storage capacity (pallet positions). In the Central West region, we inaugurated a distribution center in Goiânia in the State of Goiás, improving service to stores in the region.

E-commerce Food Delivery

Since 2016, we have operated a dedicated distribution center in the city of São Paulo focused on our online and proximity operations. This distribution center is responsible for regular online delivery requests. Additionally, certain of our stores offer express delivery (within four hours) services.

Drugstores

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

Gas Stations

Our gas stations are supplied by exclusive suppliers. In 2018, we used two suppliers. Supply orders are made individually by each station, and fuel is requested through purchase orders or pre-agreed daily supply orders, pursuant to the service agreements entered into by each gas station. Fuel transportation is carried out exclusively by our suppliers while unloading operations are closely followed by our employees for safety and quality control reasons.

The supply process for compressed natural gas (*gás natural veicular*), or GNV, is different. GNV is delivered by regional suppliers directly to the gas stations using pipelines connected to the entrance boxes located at the gas stations and holding fuel meters installed and controlled by the dealers themselves. This equipment regularly measures the GNV volumes supplied. GNV is then sold to customers through dispensers attached to these entrance boxes, using specific pipelines.

Marketing

Our marketing policy aims to attract and retain our customers. To this end, we conduct integrated marketing campaigns that are specific to each store banner in which we operate and are structured and directed at the target customer market for each store banner. Our marketing teams are media experts dedicated to developing quality marketing campaigns to emphasize our strengths in terms of selection, service and competitive prices. We recognize marketing campaign expenses as sales expenses as they are incurred.

In 2018, our marketing efforts were focused on adapting to changing consumers' needs in light of the economic downturn in Brazil, notably making adjustments to the assortment of available products and increasing competitiveness. These efforts with initiatives to improve operating efficiency and the introduction of new strategies in our loyalty programs, such as personalized offers and prizes provided by digital tools and the development of news apps.

In 2018, 2017 and 2016, we spent R$573 million, R$508 million and R$489 million, respectively, in advertising, representing 1.16%, 1.14% and 1.18%, respectively, of total net operating revenue in each year.

FIC and Investcred

Before our acquisition of Via Varejo, Via Varejo had entered into an association with Unibanco – União de Bancos Brasileiros S.A. (currently, Itaú Unibanco), named Banco Investcred Unibanco S.A., or Investcred. In December 2009, we amended our partnership with Itaú Unibanco to include the original scope of the Investcred partnership within FIC, in order to allow Itaú Unibanco to enter into similar partnerships with other retailers, and to extend FIC's term through August 28, 2029.

FIC operates financial services kiosks in our stores with exclusive rights to offer credit cards, financial services and insurance policies (except for extended warranties). FIC has been operating for more than ten years and as of December 31, 2018 had a portfolio of 3.6 million credit card accounts from customers (including the portfolio of *Cartão Extra*, *Cartão Pão de Açúcar*, *Cartão Passaí* and *Cartão Ponto Frio*). We and Itaú Unibanco each hold 50% of FIC's capital stock. Our interest in FIC's capital stock is split between 36% held by the retail segment through CBD and 14% held by the home appliances segment through Via Varejo. Itaú Unibanco determines the financial and operational policies of FIC and appoints the majority of its officers.

In 2018, net profit in the credit card business was R$219 million. The decrease in net profit in the credit card business to R$186 million in 2017 was partially due to a regulation of the Central Bank regarding revolving credit that was passed that year and affected 2017 interest revenues and net profit. Net profit in the credit card business was R$236 million in 2016.

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

The table below sets forth the breakdown of FIC's customers in 2018, 2017 and 2016:

Total number of clients	**2018**	**2017**	**2016**
		(in thousands)	
Retail - GPA Food	2,613	2,160	1,974
Home appliances (*Ponto Frio*)	961	1,002	1,040
Credit cards	**3,574**	**3,162**	**3,013**

Credit Sales

In 2018, 51.1% of our net operating revenue was represented by credit sales, principally in the form of credit card sales, installment sales and food vouchers, as compared to 49.1% in 2017, as described below:

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Credit card sales. All of our store formats and our ecommerce operations accept payment for purchases with major credit cards, such as MasterCard, Visa, Diners Club, American Express and co-branded credit cards issued by FIC. Our stores also accept virtual credit cards through methods such as Apple Pay. Sales to customers using credit cards accounted for 40.3%, 38.2% and 39.3% of the consolidated net operating revenue in 2018, 2017 and 2016 for our food retail and cash and carry segments, respectively. Of this total, sales through our FIC co-branded credit cards accounted for 16.3% of our net operating revenue in 2018. An allowance for doubtful accounts is not required as credit risks are assumed by the relevant credit card companies or issuing banks.

Installment sales. Our Extra hypermarkets offer consumer financing incentives to our customers to purchase home appliances on an installment basis through our FIC co-branded and private label credit cards, as well as third-party credit cards. Sales to customers using credit cards on an installment basis accounted for 13.9%, 13.7% and 10.4% of our total credit card sales in the food retail segment in 2018, 2017 and 2016, respectively. An allowance for doubtful accounts is not required as credit risks for all installments are assumed by the relevant credit card companies or issuing banks.

Food Vouchers

At our food stores, we accept food vouchers (issued by third-party agents to participating companies that provide food vouchers to their employees as a fringe benefit) as payment. Food vouchers accounted for 10.7%, 10.4% and 9.9% of the consolidated net operating revenue in 2018, 2017 and 2016 for our retail and cash and carry segments, respectively. The voucher-issuing companies assume the credit risk associated with these sales.

Information Technology

We invested R$362 million, R$204 million and R$284 million in information technology in 2018, 2017 and 2016, respectively. We are identifying opportunities and mapping efficiency gains by integrating services and functions across our various operating segments, focusing on governance and our customers. Our information technology department negotiates the reduction of costs on projects and contracts with service and software suppliers, based on sharing services between us and our subsidiaries, thus creating economies of scale.

Intellectual Property

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

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

As of December 31, 2018, our most important trademarks (*Pão de Açúcar*, *Extra*, *Qualitá*, *Taeq*, *Assaí* and *Compre Bem*, among others) were duly registered with INPI and we had approximately 2,998 trademarks registered or in the process of being registered in Brazil and abroad (2,655 trademarks in Brazil alone). We did not have any registered patents as of December 31, 2018.

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

We own the following domain names, among others: *www.extra.com.br*, *www.gpabr.com*, *www.paodeacucar.com.br*, *www.paodeacucar.com*, *www.deliveryextra.com.br* and *www.assai.com.br*. These domain names are listed for informative purposes only and the information contained in these websites is not incorporated by reference in this annual report.

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Competition

Brazil's leading retail food companies are controlled by companies headquartered abroad. Foreign presence in the Brazilian retail food industry started with the French retail food chain, *Carrefour*. In 1995, the U.S. chain *Walmart* also entered the Brazilian market, mostly through the acquisition of domestic retail food chains, increasing competition in the industry. Thus, the Brazilian retail food industry is highly competitive. For more information about risks related to competition, see "Item 3D. Risk Factors—Risks Relating to our Industry and Us—We face significant competition and pressure to adapt to changing consumer habits, which may adversely affect our market share and net income." Nonetheless, supermarket penetration levels in Brazil, in terms of the number of supermarkets in proportion to the country's population and area, is estimated to be lower than the levels recorded in the United States, several Western European countries and some other South American countries.

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

- development and expansion of cash and carry formats;
- migration of large stores to smaller store formats, such as neighborhood or proximity stores;
- conversion of hypermarkets stores into cash and carry stores;
- expansion of small store formats;
- investment in store renovations and in general asset quality;
- investment in multi-channel strategy to reach more customers;
- focus on fidelity programs for deeper understanding of consumer habits; and
- increased promotional activities for hypermarkets and supermarkets, which have been most affected by customer migration.

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

The principal competitor of our *Extra* hypermarkets is *Carrefour*, which operates stores in the Southeastern and Southern regions of Brazil, and *Walmart*, which operates through various banners in the Southeastern, Northeastern and Southern regions of Brazil.

Our *Assaí* banner competes mainly with *Atacadão*, *Roldão*, *Tenda*, *Makro* and *Maxxi*.

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

We are market leaders in food ecommerce, through the *Pão de Açúcar* and *Extra* banners. Our main competitors in this segment are *Carrefour, Saint Marché*, *Mambo, Sonda* and *Zona Sul*.

Regulatory Matters

We are subject to a wide range of governmental regulation and supervision generally applicable to companies engaged in business in Brazil, including federal, state and municipal regulation, such as labor laws, public health and environmental laws. In order to open and operate our stores, we need a business permit and site approval and an inspection certificate from the local fire department, as well as health and safety permits. Our stores are subject to inspection by city authorities. We believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business. In addition, we have internal policies that in some instances go beyond what is required by law, particularly with respect to environmental and sustainability requirements and social and community matters.

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

Environmental and Social Matters

In 2018, we reviewed our operating strategy and designed a new medium-term vision (covering 2018 to 2020) with strategic projects and short-term objectives for 2018. Following that review, our Sustainability and Social Investment areas were brought together under the same department. We defined our new strategy based on the global priorities of our group and our businesses, as well as the results of the materiality matrix reviewed by our board of directors at the end of 2017).

Based on this new strategy, we articulated our corporate purpose “To be an agent of transformation, improving and innovating our way of doing business in order to build a more responsible and inclusive society,” and we announced the six operating pillars for all of our business units:

- Valuing our people: To be the reference in promoting diversity, inclusion and sustainability among our employees;

- Managing environmental impact: To minimize and prevent the environmental impact of our operations;

- Conscientious consumption and supply: To expand the offering of healthy and sustainable products as a strategic value in our brands and businesses, while influencing our supply chain and raising awareness among consumers to choose these products;

- Transforming the value chain: To engage players across our value chains to make them more responsible towards the environment, people and animal welfare.

- Engagement with society: To strengthen the relationship between customers, suppliers, employees and social organizations around our stores to work together as agents of social transformation.

- Integrated management and transparency: To integrate sustainability into our business model and strengthen transparency in the relationship with our stakeholders.

Our highlights in 2018 are the following:

Transforming the value chain

We evaluated our supply chain considering social and environmental risks. After prioritizing specific supply chains and product categories, we defined an action plan, which included the following actions in 2018:

- Animal welfare for egg-laying hens: we promoted our private label cage-free, free-range and organic eggs through offers, promotions and media campaigns to raise the awareness of our customers. Consequently, the share of cage-free egg sales increased by 110% between 2017 and 2018.

- Working conditions at international factories: we audited 100% of the suppliers of our private label and no-name products from countries requiring additional scrutiny.

 Diversity of fish species: we encourage consumption of lesser-consumed fish species, reducing concentration and promoting diversity of consumption.

 Illegal deforestation: all of our suppliers adhered to our meat supplier policy, with the purpose of ensuring that the meat we sell is not sourced from deforestated areas. As a result, from 33 suppliers, 14 slaughterhouses (representing 42% of our meat suppliers) implemented a geomonitoring tool to control their own purchases of cattle (in compliance with the second step of the suppliers' development program, which is a requirement of our meat supplier policy), and 8 other suppliers are in the process of implementing a geomonitoring tool. In the last three years, we canceled our purchase agreements with 15 suppliers due to the non-compliance with our meat supplier policy.

Management of environmental impact and conscientious consumption and supply

We continue to invest in projects to improve the energy efficiency of our stores, which allowed us to further reduce our energy consumption per square meter by 10.6% since 2015, consistent with our goal to reduce our energy consumption by 15% by 2020. In addition, we changed the packaging material in certain banners, replacing Styrofoam packaging with coated paper for cold cuts, and eliminating the use of straws in the café area in our stores. In addition, we installed solar panels at certain *Assaí* stores. We also improved the recyclability index of our waste (from 25% in 2017 to 37% in 2018) through a pilot project implemented in 12 stores. Finally, we increased the volume of perishable food donated by 71.8% in 2018 compared to 2017, thereby reducing food waste.

Valuing our people

We have a gender equality committee and, in 2018, we created two other affinity groups for promoting racial equality and LGBTI+ rights, demonstrating our commitment to diversity and complementing our diversity initiatives

Our committee and affinity groups foster strategic and operational discussions on diversity and raising awareness of our employees. We strengthened our activities related to gender equality and persons with disabilities, which resulted in an increase of 3% in the number of women in leadership positions (managers and above) and an increase of 21% in the number of employees with disabilities in 2018 compared to 2017. In addition, male members of our leadership team signed our “Manifesto of senior male leaders for gender equality.” This manifesto identifies five areas with specific actions to be implemented in order to encourage greater equality in the workplace (increase women in leadership positions, new maternity and paternity policies, ensure equal pay, fight unconscious biases in interviews and prevent workplace discrimination).

Engaging society

GPA Institute, our social investment branch, is responsible for determining and implementing our strategy for social investments. From its launch in November 2017 to December 31, 2018, the platform “Assaí Bons Negócios” has already been accessed 742,869 times, received 24,546 registrations and certified 1,661 people. We also conducted three basic bakery and pastry courses in partnership with social institutions to 85 students, including 45 with disabilities. In addition, we invested in a nationwide mapping of healthy and sustainable community businesses, which identified more than 1,000 organizations and selected 21 projects to participate in a business incubator with our sales team in 2019. This incubator will include meetings with experts to improve business models, financing and marketing.

Two significant highlights of 2018 were the results of Solidarity Day, through which we collected 1,100 tons of food to support more than 100 social institutions, exceeding by 22% the results of 2017 and the launch of *Colabora*, a volunteering app for employees of our group to participate, register and invite other employees for community service projects.

All of these actions, combine with others used to value our people, promote conscientious consumerism, transform the value chain, preserve the environment and engage society to reinforce the pillars that guide our business strategy.

4C. Organizational Structure

The chart below sets forth a summary of our organizational structure based on total capital stock as of March 25, 2019:

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(1) The names of the entities shown on the chart above have been abbreviated for ease of reference. The complete names of such entities are as follows: (a) "Casino Group" refers to Casino and its subsidiaries, including Éxito, and controlling holding companies, including Rallye, and Euris, which are ultimately controlled by Mr. Jean-Charles Naouri; (b) "Éxito" refers to Almacenes Éxito S.A; (c) "Onper" refers to Onper Investments 2015, S.L.; (d) "Segisor" refers to Segisor S.A.S.; (e) "Wilkes" refers to Wilkes Participações S.A.; (f) "CBD" refers to us, Companhia Brasileira de Distribuição; (g) "GPA Logística" refers to GPA Logística e Transporte Ltda.; (h) "Novasoc" refers to Novasoc Comercial Ltda.; (i) "Sendas" refers to Sendas Distribuidora S.A.; (j) "CBD Holland" refers to CBD Holland B.V.; (k) "SCB" refers to SCB Distribuição e Comércio Varejista de Alimentos Ltda.; (l) "GPA M&P" refers to GPA Malls & Properties Gestão de Ativos e Serviços Imobiliários Ltda.; (m) "Green Yellow" refers to Greenyellow do Brasil Energia e Serviços; (n) "Leji (James)" refers to Leji Intermediação S.A; (o) "GPA 2" refers to GPA 2 Empreendimentos e Participações Ltda.; (p) "Bitz" refers to Bitz Fidelidade e Inteligência S.A.; (r) "Bellamar" refers to Bellamar Empreendimentos e Participações Ltda.; (s) "FIC" refers to Financeira Itaú CBD S/A Crédito, Financiamento e Investimento; (t) "FIC Promotora" refers to FIC Promotora de Vendas Ltda.; (u) "VVAR" refers to Via Varejo S.A.; (v) "GAS" refers to Globex Administração e Serviços Ltda.; (w) "VVLog" refers to VVLOG Logística Ltda.; (x) "Lake Niassa" refers to Lake Niassa Empreendimentos e Participações Ltda.; (y) "Banco Investcred" refers to Banco Investcred Unibanco S.A.; (z) "GAC" refers to Globex Administradora de Consórcios Ltda.; (aa) "Bartira" refers to Indústria de Móveis Bartira Ltda.; (bb) "Cnova Brasil" refers to Cnova Comércio Eletrônico S.A.; (cc) "CBD LuxCo" refers to Companhia Brasileira de Distribuição Luxembourg Holding S.à r.l.; (dd) "CBD DutchCo" refers to Companhia Brasileira de Distribuição Netherlands Holding B.V.; (ee) "Cnova N.V." refers to Cnova N.V.; (ff) "Casino" refers to Casino, Guichard-Perrachon S.A.

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

4D. Property, Plant and Equipment

We own 133 stores, seven distribution centers (warehouses) and a portion of the real estate where our headquarters are located. We lease the remaining 730 stores and 15 distribution centers and depots we operate in Brazil and the remaining portion of the real estate where our headquarters is located. Leases are usually for a term of five to twenty five years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 76 leases expiring by the end of 2019. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. In addition, as of December 31, 2018, we had a lease agreement with the Klein Family and a sublease agreement with Via Varejo, regarding two properties (distribution centers) owned by the Klein Family. See note 12.2(v) to our audited consolidated financial statements included elsewhere in this annual report. Based on our management's experience and knowledge of the Brazilian market, our management believes that our leases follow market standards.

The following table sets forth the number and total selling area of our owned and leased retail and cash and carry stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that we owned and leased as of December 31, 2018:

	Owned		**Leased**		**Total[1]**	
	Number	**Area (in square meters)**	**Number**	**Area (in square meters)**	**Number**	**Area (in square meters)**
Pão de Açúcar	43	56.510	143	183.617	186	240.127
Extra Hiper	28	175.607	84	510.978	112	686.585
Extra Supermercado[2]	29	39.641	157	171.158	186	210.799
Proximity stores[3]	2	326	233	57.253	235	57.579
Assaí	31	133.069	113	464.919	144	597.988
Total Stores	133	405.153	730	1.387.925	863	1.793.078
Warehouses	7	97.429	15	571.614	22	669.043
Total	140	502.582	745	1.959.539	885	2.462.121

(1) Excludes gas stations and drugstores.

(2) Includes *Extra Supermercado*, *Mercado Extra* and *Compre Bem* banners.

(3) Includes *Mini Extra*, *Minuto Pão de Açúcar*, *Pão de Açúcar Adega* and *Aliados Minimercado*.

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

4E. Discontinued Operations

On November 23, 2016, our board of directors approved the disposal of our equity interest in Via Varejo, in line with our long-term strategy of focusing on the development of the food retail and cash and carry segments. Due to certain external factors out of our control, mainly related to the Brazilian macroeconomic environment, the sale of Via Varejo was not concluded within the expected timetable.

On November 26, 2018, we held 559,521,085 common shares, corresponding to 43.23% of Via Varejo's corporate interest. On December 21, 2018, our board of directors approved a total return swap transaction, involving the sale of 50,000,000 common shares held by us in Via Varejo, corresponding to 3.86% of Via Varejo's capital stock. Further, on February 20, 2019, our board of directors approved another total return swap transaction, involving the sale of 40,000,000 common shares held by us in Via Varejo, corresponding to 3.09% of Via Varejo's capital stock. These sales were carried out on the B3 on December 27, 2018 and February 25, 2019, respectively. As a result, our corporate interest in Via Varejo decreased from 559,521,085 common shares to 469,521,085 common shares, corresponding to 36.27% of Via Varejo's capital stock. In addition, our board of directors instructed our management to actively pursue selling our remaining equity interest in Via Varejo to a strategic investor or through operations available in capital markets in order to complete the full divestiture in Via Varejo by December 2019.

As disclosed in note 32 to our audited consolidated financial statements included elsewhere in this annual report, the net income for the years ended December 31, 2018, 2017 and 2016 related to Via Varejo was classified in a single line item as "discontinued operations" in our statement of operations and comprehensive income and the assets and liabilities for Via Varejo (including Cnova Brazil) are classified as held for sale in our balance sheet as of December 31, 2018, 2017 and 2016. Starting on November 1, 2016, we began recording our investment in Cnova using the equity method of accounting. Furthermore, we restated the financial data as of and for the years ended December 31, 2015 and 2014 in the five-year table under "Item 3A. Selected Financial Data" for comparability across all periods.

Noncurrent assets and liabilities held for sale were, respectively, R$24,443 million as of December 31, 2018 compared to R$22,775 million as of December 31, 2017 and R$19,412 million as of December 31, 2018 compared to R$17,824 million as of December 31, 2017. The net income (loss) from discontinued operations was a net loss of R$74 million in 2018 compared to a net income of R$356 million in 2017 and a net loss of R$1,036 million in 2016.

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Discontinued Operations – Operating Segments

We carry out our discontinued operations through Via Varejo, which operates in the home appliances and ecommerce segments through stores under the banners *Ponto Frio* and *Casas Bahia,* in addition to the ecommerce platforms *Casasbahia.com, Extra.com, Pontofrio.com* and *Barateiro.com.*

Via Varejo files financial statements and other periodic reports with the CVM, including the *Formulário de Referência*, which is an annual report that is prepared and filed in accordance with CVM Instruction No. 480/09 and can be accessed through *www.cvm.gov.br*, and on Via Varejo's website that can be accessed through *http://www.viavarejo.com.br*. Information from those websites is not incorporated by reference into this document.

Ponto Frio and Casas Bahia Stores

The *Ponto Frio* and *Casas Bahia* stores are specialized in sales of home appliances, such as consumer electronics and furniture. As of December 31, 2018, Via Varejo operated 1,035 stores 807 *Casas Bahia* stores and 228 *Ponto Frio* stores). In 2018, Via Varejo's stores had net gross sales of R$23,668 million, an increase of 4.6% compared to 2017.

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

The *Ponto Frio* stores target middle and higher-income customers (A and B income classes), but also provides flexible payment alternatives, including installment plans. Via Varejo offers these customers customized expert advice on its products, as well as a range of value-added services, during and after sales, such as extended warranties. In 2018, Via Varejo opened 89 new stores, of which 75 are *Casas Bahia* and 14 are *Ponto Frio* stores, and Via Varejo closed 25 stores, of which 19 are *Casas Bahia* stores and six are *Ponto Frio* stores, mainly due to low performance compared to our average performance.

Cnova Brazil

According to GfK, a source of market information related to the ecommerce industry, in 2018, 26.3% of the total ecommerce transactions in Brazil, in terms of gross sales, were made through Via Varejo's channels. As of December 31, 2018, Via Varejo offered approximately 2.0 million products through its direct sales and marketplace businesses. Via Varejo's main websites are *Casasbahia.com.br*, *Pontofrio.com.br* and *Extra.com.br*. For the year ended December 31, 2018, Cnova Brazil's gross sales were R$6,592 million, which represented a 10.7% increase as compared to 2017.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5A. Operating Results

Brazilian Economic Environment and Factors Affecting Our Results of Operations

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

Although the Brazilian economy has shown signs of recovery, the economic environment remained challenging for our operations in 2018. Inflation increased in Brazil in 2018, having reached an annual rate of 7.55%, according to the General Market Price Index (*Índice Geral de Preços - Mercado*), or IGP-M, compared to (0.53)% in 2017 and 7.19% in 2016. The IPCA inflation rate also increased, reaching 3.75% in 2018, compared to 2.95% in 2017 and 6.29% in 2016. Inflation has a direct effect on the final prices we charge our customers when they acquire our products.

The interest rates set by the Brazilian Committee of Monetary Policy declined in 2018, reaching an all time low of 6.50% at year-end 2018. The interest rates were 7.00% at year-end 2017 and 13.75% at year-end 2016.

Foreign exchange reserves held by the Brazilian government slightly increased from US$379.577 billion as of March 2018 to US$384.165 billion as of March 2019.

Brazilian GDP decreased 3.6% in 2016, increased 1.0% in 2017, and increased 1.1% in 2018. The unemployment rate in Brazil reached 12.7% in 2017, the highest rate since the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, started publishing the current unemployment rate index in 2012. The unemployment rate decreased slightly in 2018, to 12.3%. These two indicators directly affect the purchasing power of the Brazilian workforce.

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

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

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

	December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
GDP Growth(1)	1.1%	1.0%	(3.6)%	(3.8)%	0.1%
Inflation (IGP-M) (%)(2)	7.5%	(0.5)%	7.1%	10.5%	3.7%
Inflation (IPCA) (%)(3)	3.7%	2.9%	6.3%	10.7%	6.4%
CDI (%)(4)	6.4%	9.9%	14.0%	13.2%	10.8%
TJLP (%)(5)	6.9%	7.4%	7.5%	7.0%	5.0%
SELIC rate (%)(6)	6.5%	7.0%	13.8%	14.3%	11.8%
Appreciation (depreciation) of *real* to USD (%)	18.3%	1.5%	17.0%	47.0%	(13.4)%
Exchange rate (closing) R$ per USD 1.00(7)	3.875	3.308	3.259	3.905	R$2.656
Average exchange rate R$ per USD 1.00(8)	3.656	3.193	3.484	3.339	R$2.355

(1) Source: IBGE.

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

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

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

(5) The official long-term interest rate (*taxa de juros de longo prazo*), or TJLP, is charged by Brazil's National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, on long-term financing (end of the period data).

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

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

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

Financial Presentation and Accounting Policies

Presentation of Financial Statements

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

Critical Accounting Policies

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

For further details on our adoption of new accounting standards, such as IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases see note 5 of our consolidated financial statements.

Annual impairment test of goodwill and intangibles

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

As of December 31, 2018, the Company calculated the recoverable amount of goodwill arising from past acquisitions, for the purpose of evaluating if there were decreases in the assets' value resulting from events or changes in economic, operating and technological conditions that might indicate impairment.

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

The recoverable amount allocated to each segment was defined by means of a calculation based on the value in use of the assets based on cash flow projections arising from financial budgets approved by senior management for the next three years. The discount rate applied to cash flow projections was 10.1% p.a. and cash flows exceeding five years are extrapolated by the expected long-term growth rate of 5.5% for food retail and cash and carry. Based on this analysis, no impairment loss was identified.

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

Income taxes

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

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

We had tax loss carry forwards amounting to a tax benefit of R$198 million as of December 31, 2018, as compared to R$200 million as of December 31, 2017 and R$112 million as of December 31, 2016. These losses do not expire and relate to subsidiaries that have tax-planning opportunities available to support these balances, however, the use of tax loss carry forwards is limited by law to 30% of taxable income in a single fiscal-year.

Fair value of derivatives and other financial instruments

When the fair value of financial assets and liabilities recorded in the financial statements cannot be observed in active markets, it is determined according to the hierarchy set forth by IFRS 13, which sets certain valuation techniques including the discounted cash-flow model. The inputs to these models are taken from observable markets where possible or from information on comparable operations and transactions in the market. The judgments include analyses of data, such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors may affect the reported fair value of financial instruments.

The fair value of financial instruments that are actively traded on organized markets is determined based on market quotes, at the end of the reporting period. For financial instruments that are not actively traded, the fair value is based on valuation techniques defined by us and compatible with usual market practices. These techniques include the use of recent market arm's length transactions, benchmarking of the fair value of similar financial instruments, analyses of discounted cash flows or other valuation models.

Share-based payments

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

Provision for contingencies

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

Estimated losses on trade receivables

Measurement of expected credit losses – Expected credit losses are estimated based on the weighted probability of credit losses based on historical losses and projections of related assumptions. Credit losses are measured at present value based on all cash insufficiencies (i.e. the differences between the cash flows owed to the Company according to contracts and the cash flows the Company expects to receive).

Expected credit losses are discounted by the effective interest rate of the financial asset.

Recoverable taxes

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

We also have recoverable tax credits related to social security contribution (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, and social integration (*Programa de Integração Social*), or PIS, taxes.

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

Inventories

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

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

The value of inventory is reduced by an allowance for losses and breakage, which is periodically reviewed and evaluated as to its adequacy.

Cnova Reorganization

For information regarding our Cnova Reorganization, see "Item 4A. History and Development of the Company—Cnova Reorganization."

Discontinued Operations of Via Varejo

For information regarding our discontinued operations of Via Varejo, see "Item 4E. Discontinued Operations."

Overview

Although 2018 was challenging, there were important indications of recovery in the business environment in Brazil. Even if the effects from the improving macroeconomic indicators are still incipient, we ended the year with an increase in profit before income tax and social contribution of R$113 million in *Multivarejo* and R$747 million in the *Assaí* banner. In addition to the slight improvement of Brazil's economic situation, we believe that the reasons for this evolution were as follows: (i) strategic management of our store portfolio, including conversions, renovations and new concepts to ensure a strong offering of products and services for our customers; (ii) accurate use of our database, offering personalized discounts to our customers; and (iii) continued discipline employed in our financial management and streamlining of our cost structures.

Despite a macroeconomic environment still marked by recovery, in 2018 we maintained a high level of investment in the food segment of R$1.7 billion, an increase of 28.8% compared to R$1.4 billion in 2017, which reinforces our confidence in the execution of our business strategy and in the recovery of the Brazilian economy. We posted gross sales of R$53.6 billion, an increase of 10.7% compared to R$48.4 in 2017, and market share gains at both *Multivarejo* and *Assaí*, with sequential improvements in our results, which led to net income of R$1.2 billion in 2018, an increase of 50.0% compared to R$0.8 billion in 2017.

At *Assaí*, 2018 was marked by solid and strong sales growth, which was leveraged by the banner's nationwide footprint. *Assaí*, which ended the year with 144 stores, maintained its accelerated pace of store openings: 18 new units. The highly effective strategy for determining the sites of these stores supported above-expectation performance and the best result in sales per square meter of the last five years. In 2018, *Assaí* was also included on Interbrand's list of "Brazil's Most Valuable Brands."

Multivarejo delivered strong revenue growth, reflecting more dynamic commercial efforts, the better positioning of ads and the higher penetration of loyalty tools and customization of the "My Discount" app and "My Rewards" initiative. During 2018, the *Extra Supermercado* and proximity formats posted significant improvement in their performances, while the *Pão de Açúcar* banner maintained its high profitability.

We made important adjustments in the portfolio, with the following improvements: renovation of 15 *Pão de Açúcar* stores, totaling 20 stores renovated to the new G7 concept, which focuses entirely on the shopping experience and on strengthening the banner's value proposition; another 23 *Extra Supermercado* stores were remodeled under the *Mercado Extra* concept and 13 stores were converted into *Compre Bem*, which have been delivering strong growth since their conversion.

2018 ended with very positive progress and solid and sustainable results for our businesses, which are accomplishments that reflect the engagement and skill of our entire team. We continue working to ensure a store portfolio that meets consumers' needs, products and initiatives that offer the best options to our shareholders, suppliers, employees and, most importantly, a permanent focus on our customers.

Results of Operations for 2018, 2017 and 2016

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

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

	Year Ended December 31, (1)(2)					
	2018	**% of Net Operating Revenue**	**2017 restated**	**% of Net Operating Revenue**	**2016 restated**	**% of Net Operating Revenue**
Results of Operations	(in millions of R$, unless otherwise noted)					
Net operating revenue	**49,388**	**100.0**	**44,634**	**100.0**	**41,454**	**100.0**
Cost of sales	(37,834)	(76.6)	(33,646)	(75.4)	(31,654)	(76.4)
Gross profit	**11,554**	**23.4**	**10,988**	**24.6**	**9,800**	**23.6**
Selling, general and administrative expenses	(8,354)	**(16.9)**	(8,059)	**(18.1)**	(7,729)	**(18.6)**
Depreciation and amortization	(840)	(1.7)	(779)	(1.7)	(707)	(1.7)
Other operating expenses, net	(216)	(0.4)	(579)	(1.3)	(567)	(1.4)
Operating expenses	**(9,410)**	**(19.1)**	**(9,417)**	**(21.1)**	**(9,003)**	**(21.7)**
Profit from operations before financial expenses and share of profit of associates	2,144	4.3	1,571	3.5	797	1.9
Financial income	231	0.5	181	0.4	231	0.6
Financial expenses	(705)	(1.4)	(911)	(2.0)	(1,134)	(2.7)
Financial expenses, net	(474)	(1.0)	(730)	(1.6)	(903)	(2.2)
Share of profit of associates	33	0.1	(89)	(0.2)	21	0.1
Profit (loss) before income tax and social contribution	**1,703**	**3.4**	**752**	**1.7**	**(85)**	**(0.2)**
Income tax and social contribution	(449)	(0.9)	(297)	(0.7)	(24)	(0.1)
Net income (loss) from continuing operations	**1,254**	**2.5**	**455**	**1.0**	**(109)**	**(0.3)**
Net income (loss) from discontinued operations	**(74)**	**(0.1)**	**356**	**0.8**	**(1,036)**	**(2.5)**
Net income (loss) for the year	**1,180**	**2.4**	**811**	**1.8**	**(1,145)**	(2.8)
Attributed to controlling shareholders from continuing operations	1,254	2.5	455	1.0	(109)	(0.3)
Attributed to controlling shareholders from discontinued operations	(61)	(0.1)	125	0.3	(424)	(1.0)

Total attributed to controlling shareholders	**1,193**	**2.4**	**580**	**1.3**	**(533)**	**(1.3)**
Attributed to non-controlling shareholders from continuing operations	—	—	—	—	—	—
Attributed to non-controlling shareholders from discontinued operations	(13)	(0.0)	231	0.5	(612)	(1.5)
Total attributed to non-controlling shareholders	**(13)**	**(0.0)**	**231**	**0.5**	**(612)**	(1.5)

(1) In 2016, there were transactions that led to the reclassification of operational segments into a single line of the statement of operations and comprehensive income as “Discontinued Operations”, as described in note 32 to our audited consolidated financial statements included elsewhere in this annual report as per IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.” The transactions were: (i) A corporate restructuring that led to the deconsolidation of the international activity of the ecommerce segment starting on October 31, 2016, becoming an equity investee, and the contribution of the Brazilian activity of the ecommerce segment to Via Varejo, becoming one segment. The statement of operations and comprehensive income prior to and including October 31, 2016 was reclassified to “Discontinued operations.” (ii) The reclassification of the statement of operations and comprehensive income due to the announced efforts and probability of selling Via Varejo, including the Brazilian ecommerce activity.

(2) IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective on January 1, 2018. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2017 and 2016.

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

Information for our segments is included in the following tables:

Statement of operations	**Year Ended December 31, 2018**				
Segments	**Food Retail**	**Cash and Carry**	**Assets held for sale and discontinued operations**	**Others[1]**	**Total**
			(in millions of R$)		
Net operating revenue	**26,489**	**22,899**	**-**	**-**	**49,388**
Gross profit	**7,389**	**4,165**	**-**	**-**	**11,554**
Depreciation and amortization	(608)	(232)	-	-	(840)
Profit from operations before financial income (expenses) and share of profit of associates	577	1,567	-	-	2,144
Financial expenses, net	(428)	(46)	-	-	(474)
Share of profit of associates	79	-	-	(46)	33
Profit (loss) before income tax and social contribution	**228**	**1,521**	**-**	**(46)**	**1,703**
Income tax and social contribution	18	(467)	-	-	(449)
Net income (loss) – continuing operations	**246**	**1,054**	**-**	**(46)**	**1,254**
Net income (loss) – discontinued operations	**(28)**	**-**	**(46)**	**-**	**(74)**
Net income (loss) for the year	**218**	**1,054**	**(46)**	**(46)**	**1,180**

Statement of operations	**Year Ended December 31, 2017[2]**
Segments	**Assets held for sale and discontinued operations**

	Food Retail	Cash and Carry		Others[1]	Total
			(in millions of R$)		
Net operating revenue	**26,194**	**18,440**	**-**	**-**	**44,634**
Gross profit	**8,036**	**2,952**	**-**	**-**	**10,988**
Depreciation and amortization	(604)	(175)	-	-	(779)
Profit from operations before financial income (expenses) and share of profit of associates	749	822	-	-	1,571
Financial expenses, net	(682)	(48)	-	-	(730)
Share of profit of associates	48	-	-	(137)	(89)
Profit (loss) before income tax and social contribution	**115**	**774**	**-**	**(137)**	**752**
Income tax and social contribution	(63)	(234)	-	-	(297)
Net income (loss) – continuing operations	**52**	**540**	**-**	**(137)**	**455**
Net income (loss) – discontinued operations	**(33)**	**-**	**389**	**-**	**356**
Net income (loss) for the year	**19**	**540**	**389**	**(137)**	**811**

Statement of operations **Year Ended December 31, 2016[2]**

Segments	Food Retail	Cash and Carry	Assets held for sale and discontinued operations	Others[1]	Total
			(in millions of R$)		
Net operating revenue	**26,967**	**14,487**	**-**	**-**	**41,454**
Gross profit	**7,624**	**2,176**	**-**	**-**	**9,800**
Depreciation and amortization	(576)	(131)	-	-	(707)
Profit from operations before financial income (expenses) and share of profit of associates	319	478	-	-	797
Financial expenses, net	(808)	(95)	-	-	(903)
Share of profit of associates	41	-	-	(20)	21
Profit (loss) before income tax and social contribution	**(448)**	**383**	**-**	**(20)**	**(85)**
Income tax and social contribution	76	(100)	-	-	(24)
Net income (loss) – continuing operations	**(372)**	**283**	**-**	**(20)**	**(109)**
Net income (loss) – discontinued operations	**(78)**	**-**	**(958)**	**-**	**(1,036)**
Net income (loss) for the year	**(450)**	**283**	**(958)**	**(20)**	**(1,145)**

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

(2) IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective on January 1, 2018. We have retroactively adopted IFRS 9 and IFRS 15 as of January 1, 2016 and as a result, have restated our audited consolidated financial statements, and financial information included in this annual report, for the years ended December 31, 2017 and 2016.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Consolidated

Net operating revenue. Net operating revenue increased by 10.7%, or R$4,754 million, from R$44,634 million in 2017 to R$49,388 million in 2018, mainly due to the increase of R$4,459 million in the cash and carry segment. In the cash and carry segment, there was an increase of R$1,531 million in same-stores sales, and the additional increase was due to the opening of 16 stores and two conversions from *Extra Hiper* to *Assaí*. The food retail segment experienced growth of 3.5% in same-stores sales in 2018, compared with 2017.

Gross profit. Gross profit increased by 5.2%, or R$566 million, from R$10,988 million in 2017 to R$11,554 million in 2018, mainly due to an increase of R$436 million, or 2.2 percentage points (principally related to tax credits), in our gross margin for the cash and carry segment. Our commercial strategy also contributed to this increase in gross profit, especially in Assaí, since the margin of the food retail segment decreased R$647 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by 3.7%, or R$295 million, from R$8,059 million in 2017 to R$8,354 million in 2018. This increase was principally due to the strong expansion of the *Assaí* banner (higher selling expenses, higher headcount resulting in higher payroll expenses). In 2017 and 2018, we were also able to control these expenses and limit their decrease to a level below inflation, while increasing revenues due to several initiatives aimed at controlling expenses. Selling, general and administrative expenses represented 18.1% of net operating revenue in 2017, and 16.9% in 2018.

Depreciation and amortization. Depreciation and amortization increased by 7.8%, or R$61 million, from R$779 million in 2017 to R$840 million in 2018, mainly due to the depreciation of acquired assets in connection with the opening and renewal of stores and other acquisition.

Other operating expenses, net. Other operating expenses, net, decreased by 62.8%, or R$363 million, from R$579 million in 2017 to R$216 million in 2018. This decrease was mainly due to the result of sales of fixed assets, which totaled a loss of R$247 million in 2017, due to store closures and the costs associated with fire and damages on one of our distribution centers, and a gain of R$122 million in 2018, due to the sale of non-core fixed assets, such as real estate properties.

Financial expenses, net. Financial expenses, net, decreased by 35.1%, or R$256 million, from R$730 million in 2017 to R$474 million in 2018 equivalent to 1% of our sales during 2018, as a result of (i) a decrease of R$108 million in cost of debt due to the decrease in average interest rates, (ii) the positive impact of a contract renegotiation in the amount of R$96 million and (iii) the reversal of PIS/Cofins provision on financial expenses.

Share of profit of associates. Share of profit of associates increased by R$122 million, from a loss of R$89 million in 2017 to a gain of R$33 million in 2018. The increase was due to the R$30 million increase in our share of profit on FIC and a decrease of R$92 million in losses from our share of profit of Cnova N.V., mainly related to Cdiscount France's performance during 2018

Profit/loss before income tax and social contribution. As a result of the foregoing, profit before income tax and social contribution increased by 126.5%, or R$951 million, from a profit of R$752 million in 2017 to a profit of R$1,703 million in 2018.

Income tax and social contribution. Income tax and social contribution increased by 51.2%, or R$152 million, from R$297 million in 2017 to R$449 million in 2018. This variation was mainly due to higher taxable income reported in our cash and carry segment in 2018.

Net income/loss from continuing operations. As a result of the above, net income from continuing operations for 2018 was R$1,254 million, an increase of 175.6%, or R$799 million, from a net income of R$455 million in 2017.

Net income/loss from discontinued operations. Net loss from discontinued operations for 2018 was R$74 million, a decrease of 120.8%, or R$430 million, from a net income of R$356 million in 2017, mainly due to a loss of margin due to competition and restructuring costs.

Segment Information

Food Retail Segment

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

Net operating revenue. Net operating revenue increased by 1.1%, or R$295 million, from R$26,194 million in 2017 to R$26,489 million in 2018, mainly due to the closure of five hypermarkets during the year, three of which were converted into *Assaí* stores which operate in the cash and carry segment, three supermarkets and 36 proximity stores. This decrease in sales was completely offset by the increase of 3.5% in same-store sales.

Gross profit. Gross profit decreased by 8.1%, or R$647 million, from R$8,036 million in 2017 to R$7,389 million in 2018. This decrease is mainly due to the tax credits for ICMS tax substitution recognized in 2017 of R$723 million. In this same period, our gross margin decreased from 30.7% in 2017 to 27.9% in 2018. This 2.8 percentage point decrease was related to tax credits that were reported in 2017.

Depreciation and amortization. Depreciation and amortization increased by 0.8%, or R$4 million, from R$604 million in 2017 to R$608 million in 2018. The impact of the acquisitions were substantially offset by the assets sold, maintaining the depreciation level substantially in line.

Profit from operations before financial income (expenses) and share of profit of associates. As a result of the foregoing, profit from operations before financial income (expenses) and share of profit of associates decreased by 23.0%, or R$170 million, from R$749 million in 2017 to R$577 million in 2018.

Financial expenses, net. Financial expenses, net, decreased by 37.2%, or R$254 million, from R$682 million in 2017 to R$428 million in 2018, mainly due to (i) the decrease in the cost of debt, due to the reduction of the average CDI rate from 10% in 2017 to 6.5% in 2018, (ii) the positive impact of a contract renegotiation in the amount of R$96 million and (iii) the the reversal of PIS/Cofins on financial expenses.

Profit/loss before income tax and social contribution. As a result of the above, profit before income tax and social contribution increased by 98.3%, or R$113 million, from a profit of R$115 million in 2017 to a profit of R$228 million in 2018.

Cash and Carry Segment

As of December 31, 2018, the *Assaí* banner represented our cash and carry segment.

Net operating revenue. Net operating revenue increased by 24.2%, or R$4,459 million, from R$18,440 million in 2017 to R$22,899 million in 2018, mainly due to the opening of 18 stores in 2018, with two conversions and 16 organic expansions as well as an 8.3% increase in same-stores sales.

Gross profit. Gross profit increased by 41.1%, or R$1,213 million, from R$2,952 million in 2017 to R$4,165 million in 2018. The increase in gross profit exceeded the increase in net operating revenue, and was mainly due to an increase of R$436 million, or 2.2 percentage points (principally related to tax credits), in our gross margin..

Depreciation and amortization. Depreciation and amortization increased by 32.0%, or R$57 million, from R$175 million in 2017 to R$232 million in 2018, mainly due to the opening of new stores.

Profit from operations before financial income (expenses) and share of profit of associates. As a result of the foregoing, profit from operations before financial income (expenses) increased by 90.6%, or R$745 million, from R$822 million in 2017 to R$1,567 million in 2018. This increase was mainly due to the strong organic expansion that led to an increase of net operating revenue and growth of gross margin.

Financial expenses, net. Financial expenses, net, decreased by 5.2%, or R$2 million, from R$48 million in 2017 to R$46 million in 2018. This slight decrease was mainly due to the overall lower cost of discounting accounts receivable.

Profit/loss before income tax and social contribution. As a result of the above, profit before income tax and social contribution increased by 96.5%, or R$747 million, from R$774 million in 2017 to R$1,521 million in 2018.

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

Consolidated

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

Gross profit. Gross profit increased by 12.1%, or R$1,188 million, from R$9,800 million in 2016 to R$10,988 million in 2017. The increase in gross profit was higher than the increase in net operating revenue, mainly due to tax credits recognized in 2017 in the food retail segment of R$723 million, which along with other factors caused the increase of 2.3 percentage points in gross profit. The gross profit margin of the cash and carry segment increased by 0.9 percentage points in from 2016 to 2017.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by 4.3%, or R$330 million, from R$7,729 million in 2016 to R$8,059 million in 2017. This increase was principally due to higher expenses in connection with the opening of new stores of *Assaí* brand (increasing headcount and related payroll expenses, utilities and other store related expenses). Selling, general and administrative expenses represented 18.6% of net operating revenue in 2016, and 18.1% in 2017.

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

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

Financial expenses, net. Financial expenses, net, decreased by 19.2%, or R$173 million, from R$903 million in 2016 to R$730 million in 2017, mainly as a result of (i) a decrease of R$207 million in cost of debt mainly due to the decrease in average interest rates; (ii) a R$19 million decrease in the cost of receivables discount and (iii) a

R$43 million decrease in the monetary restatement of other accounts. These factors were partially offset by the increase of R$46 million in other financial expenses and the decrease of R$46 million in income from cash and cash equivalents.

Share of profit of associates. Share of profit of associates decreased by R$110 million, from a gain of R$21 million in 2016 to a loss of R$89 million in 2017. The decrease was due to the loss of control of Cnova N.V. in the end of 2016. Therefore, there were two months of equity pickup in 2016 and 12 months of equity pickup in 2017, which represents a decrease of R$118 million, partially offset by the increase of R$8 million in our share of profit of FIC.

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Profit/loss before income tax and social contribution. Profit before income tax and social contribution increased by R$837 million, from a loss of R$85 million in 2016 to a profit of R$752 million in 2017, due to the increase of net operating revenue in the cash and carry segment, an increase in gross margin, and the decrease of financial expenses, net.

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

Net income/loss from continuing operations. Net income from continuing operations for 2017 was R$455 million, an increase of R$564 million, from a net loss of R$109 million in 2016, mainly due to the increase of net operating revenue in the cash and carry segment, an increase in gross margin, and the decrease of financial expenses, net.

Net income/loss from discontinued operations. Net income from discontinued operations for 2017 was R$356 million, an increase of R$1,392 million, from a net loss of R$1,036 million in 2016, mainly due to the conclusion of the initial steps of the integration of Cnova Brazil and Via Varejo, and the ability to implement multi-channel sales strategy, which allowed us to adopt a more effective pricing and assortment policy.

Segment Information

Food Retail Segment

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

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

Gross profit. Gross profit increased by 5.4%, or R$412 million, from R$7,624 million in 2016 to R$8,036 million in 2017. In the same period, our gross margin increased from 28.3% in 2016 to 30.7% in 2017. This 2.4 percentage point increase was mainly related to tax credits for ICMS tax substitution recognized in 2017 of R$723 million.

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

Profit/loss from operations before financial income (expenses) and share of profit of associates. Profit from operations before financial income (expenses) and share of profit of associates increased by 134.5%, or R$430 million, from R$319 million in 2016 to R$749 million in 2017, mainly due to higher gross profit, and our ability to maintain expenses under control.

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

Profit/loss before income tax and social contribution. Profit before income tax and social contribution increased by R$563 million, from a loss of R$448 million in 2016 to a profit of R$115 million in 2017, mainly due to the increase in gross profit and the reduction of financial expenses, net as described above.

Cash and Carry Segment

As of December 31, 2017 and 2016, the *Assaí* banner represented our cash and carry segment.

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

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Gross profit. Gross profit increased by 35.7%, or R$776 million, from R$2,176 million in 2016 to R$2,952 million in 2017. The increase in gross profit exceeded the increase in net operating revenue. In the same period, our gross margin increased 1.0 percentage points, from 15% in 2016 to 16.0% in 2017 due to recognition of ICMS ST tax credits, the maturing of stores opened in prior periods, mix of sales to individual customers and small businesses and lower retail stock out ratio the maturing of stores opened in prior periods, mix of sales to individual customers and small businesses and lower retail stock out ratio.

Depreciation and amortization. Depreciation and amortization increased by 33.6%, or R$44 million, from R$131 million in 2016 to R$175 million in 2017, mainly due to the opening of new stores.

Profit from operations before financial income (expenses) and share of profit of associates. Profit from operations before financial income (expenses) increased by 72.0%, or R$344 million, from R$478 million in 2016 to R$822 million in 2017. This increase was mainly due to the increase of net operating revenue and higher gross profit.

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

Profit/loss before income tax and social contribution. Profit before income tax and social contribution increased by 102.1%, or R$391 million, from R$383 million in 2016 to R$774 million in 2017.

5B. Liquidity and Capital Resources

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

In 2018, we continued selling our receivables to financial institutions, credit card companies and credit card merchant acquirers at a discount, without a right to recourse or any related obligation. For further information on the discount on receivables, see note 8.1 to our audited consolidated financial statements included elsewhere in this annual report.

As of December 31, 2018, we had R$8,080 million in cash and cash equivalents, of which R$4,369 million derived from our continuing operations and R$3,711 million derived from our discontinued operations. We have a policy of maintaining cash and cash equivalents to meet short-term liquidity needs. Historically, we generate a significant portion of our cash during the fourth quarter of the year, and our cash level decreases between the second and third quarter of each year.

Our main cash needs include:

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

Our primary sources of liquidity have historically been cash flow from our operating activities. Net cash provided from (used in) operating activities, including continuing and discontinued operations, was R$2,586 million in 2018, R$1,895 million in 2017 and R$(1,304) million in 2016. From 2017 to 2018, the increase in net cash provided from operating activities was due to the increase of R$369 million in our net income and the variation in assets and liabilities of R$534 million. From 2016 to 2017, the increase in net cash provided from (used in) operating activities was due to the variation in assets and liabilities that generated a gain of R$2,598 million. In addition, in 2018, 2017 and 2016, we used net cash provided from (used in) operating activities primarily for investments in the capital expenditures program, totaling R$2,366 million, R$1,713 million and R$1,544 million, respectively.

Our year-end total cash position increased by 9.9%, or R$729 million, from R$7,351 million as of December 31, 2017 to R$8,080 million as of December 31, 2018.

Net cash used in investment activities was R$(1,899) million, R$(1,592) million and R$(2,020) million for the years ended December 31, 2018, 2017 and 2016, respectively. In 2018, 2017 and 2016 our net cash used in investment activities related to the purchase of property and equipment and intangible assets. Net cash provided by (used in) financing activities, considering proceeds received and disbursements made, was R$42 million, R$(2,094) million and R$(1,475) million for the years ended December 31, 2018, 2017 and 2016, respectively. From 2017 to 2018, the increase was mainly due to a lower amount of debt payments.Our year-end current and noncurrent borrowings and financing increased by 19.2%, or R$876 million, from R$4,560 million as of December 31, 2017 to R$5,438 million as of December 31, 2018, excluding the liabilities related to assets held for sale, and consisted of:

- R$4,671 million in *real*-denominated loans; and

- R$767 million in U.S. dollar-denominated debt, swapped to *real*-denominated loans.

From 2016 to 2017, the decrease was mainly due to a higher amount of debt payments as a result of due dates in the year.Our year-end current and noncurrent borrowings and financing decreased by 22.3%, or R$1,309 million, from R$5,869 million as of December 31, 2016 to R$4,560 million as of December 31, 2017, excluding the liabilities related to assets held for sale, and consisted of:

- R$3,642 million in real-denominated loans; and

- R$918 million in U.S. dollar-denominated debt, swapped to real-denominated loans.

Certain suppliers offer us the ability to extend to Via Varejo the same due dates in connection with payables. Given the characteristics of these commercial negotiations between the suppliers and Via Varejo, or Structured Payable Program, we recorded these financial liabilities as credit lines with financial institutions with a cost of 106.3% of CDI in the total amount of R$421 million. We do not consider this amount as part of our total debt and we presented it in "held for sale and discontinued operations." For further information on this transaction, see note 32.2 to our audited consolidated financial statements included elsewhere in this annual report.

Our cost of debt was R$390 million in 2018, R$498 million in 2017 and R$705 million in 2016, excluding our discontinued operations.

We have a treasury policy to manage foreign exchange risk, principally by entering into swaps in *reais* for 100% of our U.S. dollar-denominated liabilities, which represents 16.2% of our total debt as of December 31, 2018. We engage in cross-currency interest rate swaps under which we enter into an agreement with the same counter-party that provides the original U.S. dollar-denominated financing. We sign a separate financial instrument at the time the loan agreement is consummated, pursuant to which we are then effectively liable for amounts in *reais* and interest at a percentage of the CDI rate. The reference amounts and maturity periods of these swaps generally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

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

On December 17, 2018, our board of directors approved the 4th issuance of commercial promissory notes in a single series for public distribution with restricted efforts in Brazil. We received proceeds equivalent to R$800 million for 800 promissory notes issued. The promissory notes are not guaranteed or secured by any collateral and accrue interest at 105.75% of the average CDI rate, payable on the maturity date.

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

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

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

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

In January 2018, our shareholders approved the 15th issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$800 million for 800,000 non-convertible debentures issued as the first series of the 15th issuance. The debentures accrue interest at 104.75% of the average CDI rate, payable semi-annually. Principal will be paid on the maturity date, January 15, 2021.

In September 2018, our shareholders approved the 16th issuance and public offering of debentures in Brazil. We received proceeds equivalent to R$700 million for 700,000 non-convertible debentures issued as the first series of the 16th issuance and R$500 million for 500,000 non-convertible debentures issued as the second series of the 16th issuance. The first series accrues interest at 106.0% of the average CDI rate, payable semi-annually. Principal will be paid on the maturity date, September 10, 2021. The second series accrues interest at 107.4% of the average CDI rate, payable semi-annually. Principal will be paid on the maturity date, September 12, 2022.

As of December 31, 2018, we had: (i) 1,012,500,000 non-convertible debentures outstanding, totaling R$1,014 million related to the 13th issuance; (ii) 1,080,000, non-convertible debentures outstanding, totaling R$1,094 million related to the 14th issuance; (iii) 800,000, non-convertible debentures outstanding, totaling R$824 million related to the 15th issuance; (iv) 700,000, non-convertible debentures outstanding, totaling R$714 million related to the first series of the 16th issuance; and (v) 500,000, non-convertible debentures outstanding, totaling R$510 million related to the second series of the 16th issuance. Our debentures include certain restrictive covenants, such as net debt (defined as debt less cash and cash equivalents and trade receivables) not to exceed equity and a consolidated net debt-to-EBITDA ratio equal to or less than 3.25.

We are required to comply with certain debt covenants. The financial ratios are calculated based on our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. The ratios are (i) net debt (defined as debt minus cash and cash equivalents and trade accounts receivable) not greater than equity; and (ii) consolidated net debt/EBITDA ratio lower than or equal to 3.25. During 2018, we complied with the covenants under our debt instruments.

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

Borrowings in foreign currencies

As of December 31, 2018, we had borrowings in foreign currencies (U.S. dollars) to strengthen our working capital, maintain our cash strategy, extend our debt profile and make investments. The latest scheduled maturity is September 2020.

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

We do not have any significant research and development activities.

5D. Trend Information

Despite having reached low levels during the first semester of 2016, consumer confidence, as measured by FGV, continuously increased in Brazil throughout 2017 and ended 2018 with a total increase of 17%, mainly driven by the political and legislative changes in the country (especially labor reform). For more information, see “Item 3D. Risk Factors—Risks Relating to Brazil—Ongoing political instability may adversely affect our business, results of operations and the trading price of the ADSs and our preferred shares.”

Nonetheless, during the latest economic crisis, households modified their consumption habits by seeking stores with cheaper prices, choosing heavily discounted items and building up stock at home by buying bulk or multi-pack products. Consumers became more careful, choosing products with an attractive cost-benefit trade off and avoiding superfluous items. These modifications in consumer habits led to a significant shift from the traditional retail to the cash and carry segment, which has been the preferred purchasing channel for Brazilian households since 2016.

We believe that the Company is well prepared to face the challenges of 2019. The commercial strategies of our hypermarkets, supermarkets and cash and carry segments have been constantly monitored throughout 2018 and led the Company to gain market share in both the *Multivarejo* and *Assaí* banners. The value proposal of our banners is being redefined to address new consumption habits while enhancing profitability.

We have converted a number of our stores in order to adapt them to attend new consumer trends and plan to continue to do so in 2019. We have also implemented a strong digital transformation plan, which helped us develop a closer relationship with suppliers, while improving our customers' shopping experience and keeping us ahead of innovative solutions that will drive the retail business in the future. For more information on our digital transformation, see "Item 4A. History and Development of the Company — Recent Changes in our Business—Digital Transformation." We will continue promoting the values that make GPA competitive, combining respect for local culture and corporate innovation by offering products and services that meet our customers' needs and attend our stakeholders' demands. We will continue promoting social development and diversity, practicing responsible management and delivering consistent results.

We believe that all of these actions, combined to maintain a disciplined approach to investments and cost and cash management, will ensure sustainable growth while creating value for our shareholders. In 2019, we are confident that the Company is fully prepared to take advantage of the opportunities that the Brazilian economy's recovery is expected to provide. In the meanwhile, and in order to respond to the evolving behavior of our customers, we will continue to invest in compatible store formats to attend the needs of the customers.

5E. Off-Balance Sheet Arrangements

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

5F. Tabular Disclosure of Contractual Obligations

The following table summarizes significant contractual obligations and commitments as of December 31, 2018:

		Payment Due by Period			
Contractual Obligations[1]	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**After five years**
			(in millions of R$)		
Long-term debt:					
Principal	1,121	852	200	43	26
Accrued interest as of 12/31/18	19	18	1	-	-
Projected interest[2]	104	50	25	4	25
Total long-term debt	1,244	920	226	47	51
Debentures:					
Principal	4,083	1,005	2,578	500	-
Accrued interest as of 12/31/18	63	63	-	-	-

Projected interest(2)	599	215	335	49	-
Total debentures	4,745	1,283	2,913	549	-
Taxes, other than on income	842	370	203	162	107
Financial leasing:					
Present value	152	35	83	9	25
Projected interest(2)	172	14	20	17	121
Total financial leasing	324	49	103	26	146
Total contractual obligations	**7,155**	**2,622**	**3,445**	**784**	**304**

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

(2) Future interest includes estimated interest to be incurred from December 31, 2018, through the respective contractual maturity dates, based on outstanding principal amounts at December 31, 2018, and projected market interest rates (especially the Brazilian CDI rate) for our variable rate debt obligations, net of the impacts of derivative instruments classified as fair value hedges and swap transactions.

5G. Safe Harbor

See "See "Forward-Looking Statements" on page 6 of this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6A. Directors and Senior Management

Board of Directors

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

Name	Position	Since	Date of Birth
Jean-Charles Henri Naouri	Chairman	2005(1)	March 8, 1949
Arnaud Daniel Charles Walter Joachim Strasser	Co Vice-Chairman	2010(2)	July 6, 1969
Ronaldo Iabrudi dos Santos Pereira	Co Vice-Chairman	2016(3)	May 14, 1955
Carlos Mario Giraldo Moreno	Director	2015	September 21, 1960
José Gabriel Loaiza Herrera	Director	2015	March 19, 1975
Manfred Heinrich Gartz Moises	Director	2017	September 20, 1978
Luiz Augusto de Castro Neves	Director (Independent)	2012	October 29, 1943
Eleazar de Carvalho Filho	Director (Independent)	2012	July 26, 1957
Luiz Nelson Guedes de Carvalho	Director (Independent)	2017	November 18, 1945

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

(2) Mr. Arnaud Daniel Charles Walter Joachim Strasser has been a member of the board since 2010 and co vice-chairman since 2018.

(3) Ronaldo Iabrudi dos Santos Pereira has been a member of the board since 2016 and co vice-chairman since 2018.

Mr. Jean-Charles Henri Naouri has been the chairman of our board of directors since 2013. He has also been a member of our board of directors, the chairman and chief executive officer of the Casino Group and president of the Casino Group's parent company, Euris S.A.S., or Euris, since 2002. He also serves as chairman of the board of directors of Rallye S.A., or Rallye, chairman of the Euris Foundation, vice-chairman of the Casino Group Corporate Foundation and member of the board of directors of F. Marc de Lacharrière (Fimalac) S.A. He has served as chairman and chief executive officer of Casino Finance until 2017, chairman of the board of directors of CNova N.V. until

2015, chairman of the board of directors of Wilkes Participações until 2015, chief executive officer of Rallye until 2013, and as chairman, chief executive officer, and chairman of the supervisory board of Monoprix S.A. until 2013 and member of the supervisory board of Monoprix S.A. until 2014. In 2013, Mr. Naouri was appointed by France's Ministry of Foreign Affairs to be a special representative for economic relations with Brazil. From 1982 to 1986, Mr. Naouri served as chief of staff for the Minister of Social Affairs and National Solidarity of France and the Minister of Economy, Finance and Budget of France. Mr. Naouri is an *Inspecteur des Finances* (Finance Inspector) for the French government. Mr. Naouri holds degrees from *École Normale Supérieure* and *École Nationale d'Administration*, a Ph.D. in mathematics, and has studied at Harvard University.

Mr. Arnaud Daniel Charles Walter Joachim Strasser has been co vice-chairman of our board of directors since 2018 and a member of our board of directors since 2010. Prior to serving as co vice-chairman, he was the vice-chairman of our board of directors from 2012 to 2018. He has also been a member of the board of directors of Cnova since 2014 and of Via Varejo, where he has served since 2013 as vice-chairman, and since 2012 as a board member. Mr. Strasser also served as a member of the board of directors of the Big C Supercenter plc. He has worked for the Casino Group since 2007, where he currently serves as corporate development and holdings officer. Until 2009, he was an advisor to the chairman for international development of the Casino Group. Mr. Strasser also worked as mission head in the Cabinet of the Prime Minister of France in 2005 and as special advisor in the Cabinet of the French Minister of Companies and Trade, from 2005 to 2007. Mr. Strasser holds a bachelor's degree from *École Nationale d'Administration* and master's degrees from *École des Hautes Études Commerciales* and *Institut d'Études Politiques de Paris*.

Mr. Ronaldo Iabrudi has been the co-vice chairman of our board of directors since April 27, 2018 and has been a member of our board of directors since 2016. He is also chairman of the board of directors of Via Varejo and vice chairman of the board of directors of CNova. From January 2014 to April 2018, Mr. Iabrudi served as our chief executive officer. Previously, he was the chairman of the boards of directors of Lupatech, Contax and Telemar, and a member of the board of directors of Estácio, Magnesita Refratários S.A., or Magnesita, Cemar, Oi/Telemar, RM Engenharia and Ispamar. He was also chief executive officer of Magnesita from 2007 to 2011 and from 1999 to 2006 he worked for Grupo Telemar, where he held several posts, including chief executive officer of Oi/Telemar and Contax. From 1997 to 1999, Mr. Iabrudi was chief executive officer of FCA (Ferrovia Centro-Atlântica) and from 1984 to 1997, he was chief financial and administrative officer and chief human resources officer at the Gerdau group. Mr. Iabrudi earned a degree in psychology from *Pontifícia Universidade Católica de Minas Gerais*, a master's degree in organizational development from *Université Panthéon Sorbonne* and a master's degree in change management from *Université Paris Dauphine*.

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

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

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

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

Mr. Castro Neves holds bachelor's degrees in economics from the *Universidade Federal do Rio de Janeiro* and diplomacy from the Brazilian Ministry of Foreign Affairs Instituto Rio-Branco and a master's degree in economics from the University of London.

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

Mr. Luiz Nelson Guedes de Carvalho has been the coordinating member of our audit committee since 2014, as the accounting and finance specialist, and an independent member of our board of directors since 2017. He teaches in the category of "Senior Professor" at the School of Economy, Business Administration and Accounting (*Faculdade de Economia, Administração e Contabilidade*), or "FEA", of the Universidade de São Paulo. He is an advisor of the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or "CPC" (the Brazilian Accounting Standards entity), and he was a representative of the CPC in the Emerging Economies Group of IASB. He is the former chairman of the Board of Directors of Petrobrás, from September 2015 to December 2018. He is also member of the board of directors and was chair of the audit committee, until March 2018, as the accounting and finance specialist of B3 S.A. (formerly BM&FBOVESPA), the self-listed Brazilian Futures and Stock Exchange. At B3 S. A. he is also an independent member of its sustainability committee. Mr. Carvalho is a member of the Brazilian Accounting Academy (*Academia Brasileira De Ciências Contábeis*), or "Abracicon," and chairs the fiscal council (*conselho fiscal*) of *Fundação Amazonas Sustentável* – FAS, an NGO aiming to protect the Amazon rainforest. He is also a trustee of *Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras* FIPECAFI, a not-for-profit academic research organization. He also is a co-arbitrator at the Brazil – Canada Chamber of Commerce (São Paulo) and at the International Chamber of Commerce (Paris). He is a litigation expert in matters involving Financial Accounting, International Accounting, Corporate Governance, Risk Management and Auditing. Previously, Mr. Carvalho has been: chairman of the Committee on Capacity Building in the area of International Financial Reporting of the Intergovernmental Group of Experts in International Standards of Accounting and Reporting, a branch of UNCTAD, United Nations, in Geneva, Switzerland; an independent member of the banking self-regulation Committee of the Brazilian Federation of Banks (*Federação Brasileira de Bancos*), or "FEBRABAN"; member of the board of directors of the NGO FAS, where he currently chairs the fiscal council; a member of the International Integrated Reporting Council (*Conselho Internacional para Relatórios Integrados*) led by the Prince of Wales; vice-president "at large" of the International Association for Accounting Education and Research - IAAER; he was also a member of the Financial Crisis Advisory Group set out by the US FASB and the IASB in 2008; the first independent chairman of the Standards Advisory Council (*Conselho Consultivo de Normas*) of the IASB; member of the consultative and advisory group of the International Federation of Accountants (*Federação Internacional de Contadores* – IFAC); vice-director of the Interamerican Accounting Association; member of the board of directors of (a) *Banco Nossa Caixa S.A.*, (b) *Caixa Econômica Federal*, (c) *Banco Bilbao Vizcaya Argentaria Brasil – BBVA*, (d) *Banco de Crédito Real de Minas Gerais*, (e) *Grupo ORSA* (pulp and paper), (f) *Companhia Müller de Bebidas*, (g) *Vicunha Têxtil S.A.*, and (h) *Banco Fibra S.A.*; he was a member of the audit committees of *Banco Nossa Caixa* and *Vicunha Têxtil*; and a member of the internal controls committee of *Banco Fibra*. Mr. Carvalho was also the regional president of the International Association of Financial Executives Institutes IAFEI for Central and South Americas and head of banking supervision at the board of directors of the Central Bank and a commissioner at the CVM. Mr. Carvalho holds bachelor's degrees in economics from FEA and in accounting from Faculdade São Judas Tadeu and master's and PhD degrees in accounting and controllership from FEA USP.

Executive Officers

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

Name	Position	First Year Elected	Date of Birth
Peter Paul Lourenço Estermann	Chief Executive Officer	2018	July 27, 1957
Christophe José Hidalgo	Chief Financial Officer	2012	October 25, 1967
Antonio Salvador	Vice-President of Human Resources	2013	June 13, 1967
Belmiro de Figueiredo Gomes	Management Officer of Cash and Carry Business	2012	August 11, 1971
Daniela Sabbag	Investor Relations Officer	2013	April 10, 1975

Mr. Peter Paul Lorenço Estermann has served as the chief executive officer of our Company and of the parent company Via Varejo since 2018. Mr. Estermann had previously been our Vice President of Infrastructure and Strategic Development from June 2014 to October 2015. He has built his career in different business segments, both in industry, services and retail in large companies, leaders in their sectors. Mr. Estermann was Vice President and Chief Operating Officer at TENCO Shopping Centers in 2014, Global Operations Executive Director at Magnesita from 2012 to 2013 and General Executive Director at LWB Refractories - Germany, a wholly-owned subsidiary of Magnesita for Europe-based operations in Germany, from 2008 to 2011. He also served as Chief Operating Officer for Medial Saúde, one of the largest health care providers in Brazil, from 2006 to 2007, where helped prepare the company for an initial public offering on the *Novo Mercado* segment of the Bovespa (now B3). He was also Executive Director of Organizational Development, from 2005 to 2006, and President - North and Northeast, from 2001 to 2004, at Telemar Norte Leste S.A. He also served as Chief Operating Officer and Vice President at Satipel Minas Industrial Ltda. from 1999 to 2001. He also served as General Director of Tecflor Ind. S.A., from 1997 to 1998, and General Director of the Forestry Division, from 1996 to 1997. He also served as Operations Officer at the Petropar Group, from 1989 to 1995, as Operations Director at the Brasilândia S.A. Distillery, from 1987 to 1988, and as General Director at Agropecuária Mogno S.A., from 1981 to 1986. Mr. Estermann has served as a member of the board of directors of Tecflor Industrial S.A., from 1997 to 1998, Planalto Transportes Ltda., from 2007 to 2008, and Odontosystem Ltda., in 2008. He also served as the Chairman of the board of directors at Sinterco SA, from 2008 to 2013.

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

Mr. Antonio Salvador has served as our vice-president of human resources since 2013 and, since 2018, has served as our chief digital officer. Previously, he served as vice-president of human resources for Hewlett-Packard in Brazil from 2010 to 2013, human resources executive director at PricewaterhouseCoopers Brazil from 2007 to 2010, associate partner at IBM Global Business Services from 2003 to 2007, executive director at Promon Tecnologia from 2001 to 2003, senior manager at PricewaterhouseCoopers Brazil from 1997 to 2001 and corporate university manager at Brahma from 1994 to 1997. In 2011 and 2012, Mr. Salvador received the "HR Professional of the Year" award for the technology industry from Voce S.A. Mr. Salvador holds a bachelor's degree in social communication from *Universidade Gama Filho* and an executive MBA from *Fundação Cândido Mendes*. He has also completed programs in business administration at *Fundação Getulio Vargas*, INSEAD and Harvard Business School.

Mr. Belmiro de Figueiredo Gomes has been our officer of cash and carry business since 2012. Mr. Gomes joined us in 2010. He has also served as a commercial executive officer and also worked in several areas of *Atacadão* for 22 years. In 2007, he coordinated the purchase of *Atacadão* by Carrefour.

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

6B. Compensation

For the year ended December 31, 2018, the aggregate compensation expense for the directors, executive officers and members of the committees of CBD was R$99.5 million, of which R$62 million was paid in cash. The executive officers receive a package of benefits in line with market practices, including health and dental insurance, biennial medical check-ups, pension plan, life insurance, meal vouchers and purchase discounts. According to the CVM, listed companies are required to publicly disclose the lowest, highest and average compensation paid to executive officers. In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees and engaged the financial institution, Brasilprev Seguros e Previdência S.A., for management purposes. The Company provides monthly contributions on behalf of its employees based on services rendered to the Company. Contributions made by the Company in the year ended December 31, 2018, amounted to R$2.1 million and employees' contributions amounted to R$3.5 million with 643 participants.

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

Compensation of the Board of Directors, Executive Officers and Fiscal Council of CBD for 2017, 2018 and 2019 (Expected)

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

	Board of directors and members of the committees of the board of directors	**Executive officers**	**Fiscal council**	**Total**
		(In R$, when applicable)		
Number of members	16.08	6.75	2.00	24.83
Number of compensated members	15.08	6.75	2.00	23.83
Fixed annual compensation	5,797,408	26,434,798	456,000	32,688,206
Benefits	-	4,973,165	-	4,973,165
Variable compensation				
Profit sharing	-	26,813,554	-	26,813,554
Participation in meetings	-	-	-	-

Others (invitees' compensation, contributions and taxes)	-	5,286,959	-	5,286,959
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	-	24,405,000	-	24,405,000
Total compensation	**5,797,408**	**87,913,478**	**456,000**	**94,166,886**

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

	Board of directors and members of the committees of the board of directors	**Executive officers**	**Fiscal council**	**Total**
		(In R$, when applicable)		
Number of members	13.33	5.42	1.00	19.75
Number of compensated members	12.33	5.42	1.00	18.75
Fixed annual compensation	9,376,179	37,267,214	228,000.00	46,871,393
Benefits	1,640,961	2,315,308	-	3,956,269
Variable compensation				
Profit sharing	-	15,082,579	-	15,082,579
Participation in meetings	-	-	-	-
Others (invitees' compensation, contributions and taxes)	1,239,187	3,112,563	-	4,351,750
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	-	29,267,000	-	29,267,000
Total compensation	**12,256,327**	**87,044,666**	**228,000.00**	**99,528,993**

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The table below indicates the expected compensation for members of the board of directors and members of the committees of the board of directors, executive officers and fiscal council for 2019:

	Board of directors and members of the committees of the board of directors	**Executive officers**	**Fiscal council**	**Total**
		(In R$, when applicable)		
Number of members	13.00	6.00	3.00	22.00
Number of compensated members	12.00	6.00	3.00	21.00
Fixed annual compensation	11,611,102.16	28,572,735.87	684,000.00	40,867,838.03
Benefits	3,244,373.82	1,596,763.82	-	4,841,137.63
Variable compensation				
Profit sharing	-	13,376,392.27	-	13,376,392.27
Participation in meetings	-	-	-	-
Others (invitees' compensation, contributions and taxes)	3,458,395.35	2,740,573.68	136,800.00	6,335,769.03
Post-employment benefit	-	-	-	-
Benefits on ceasing to exercise the position	-	-	-	-
Share-based compensation	2,435,558.00	17,754,085.00	-	20,189,643.00
Total compensation	**20,749,429.33**	**64,040,550.64**	**820,800.00**	**85,610,779.96**

Variable Compensation for 2017, 2018 and 2019

Below we present the variable compensation of our executive officers paid in 2017 and 2018 and expected to be paid in 2019.

2017	**Executive officers (In R$, when applicable)**
Number of members	6.75
Number of compensated members	6.75
Profit sharing	
Minimum expected amount	0
Maximum expected amount	45,670,882
Expected amount – goals achieved	22,835,441
Amount actually recognized	26,813,555

2018	**Executive officers (In R$, when applicable)**
Number of members	5.42
Number of compensated members	5.42
Profit sharing	
Minimum expected amount	0
Maximum expected amount	29,976,392
Expected amount – goals achieved	14,988,196
Amount actually recognized	15,082,580

2019 (Expected)	**Executive officers (In R$, when applicable)**
Number of members	6.00
Number of compensated members	6.00
Profit sharing	
Minimum expected amount	0
Maximum expected amount	26,752,785
Expected amount – goals achieved	13,376,392

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Employee Stock Option Plans

At an extraordinary general shareholders' meeting held on May 9, 2014, our shareholders voted to (i) approve the creation of a new stock option plan, or our New Stock Option Plan; and (ii) create a compensation plan for employees based on stock options, or our Compensation Plan. Both of our New Stock Option Plan and our Compensation Plan grant options to purchase our preferred shares only, and members of our board of directors can be eligible to participate. The New Stock Option Plan and the Compensation Plan were further amended as a result of the resolutions approved at the annual and special shareholders' meeting held on April 24, 2015 and April 25, 2019, respectively.

General Terms and Conditions

New Stock Option Plan

Our New Stock Option Plan is administered by the human resources and compensation committee of our board of directors, which defines the plan's eligibility criteria and selects recipients based on their functions, responsibilities and performance. Each grant cycle under our New Stock Option Plan is designated with a serial number beginning with the letter "C." As of December 31, 2018, the outstanding series of stock options under our New Stock Option Plan were Series C3, C4 and C5.

Our employees and executive managers, as well as the employees and executive managers of our subsidiaries, who are considered "key executives" are eligible to participate in our New Stock Option Plan, subject to the approval of the human resources and compensation committee. Participation in our New Stock Option Plan is independent of other forms of compensation, such as wages and benefits.

Compensation Plan

Our Compensation Plan is also administered by the human resources and compensation committee of our board of directors, which defines the plan's eligibility criteria and selects recipients based on their functions, responsibilities and performance. Each grant cycle under our Compensation Plan is designated with a serial number beginning with the letter "B." As of December 31, 2018, the outstanding series of stock options under our Compensation Plan were Series B3, B4 and B5.

Our employees and executives managers, as well as the employees and executive managers of our subsidiaries, who are considered "key executives" are eligible to participate in our Compensation Plan, subject to the approval of the human resources and compensation committee. Participation in our Compensation Plan is independent of other forms of compensation, such as wages and benefits.

Main Objectives of the Stock Option Plans

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

Maximum Number of Shares and Options

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

Exercise Price

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

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

Vesting

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

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

Restrictions on Transferring Shares

Under the New Stock Option Plan, for a period of 180 days from the date of delivery to the participant of the shares underlying the options, the participant will be prohibited from, directly or indirectly, selling, assigning, exchanging, disposing, transferring, granting an option or entering into any instrument or agreement that results or may result in the direct or indirect, onerous or gratuitous, disposition of any or all of such shares. There is no such transfer restriction for the Compensation Plan.

Outstanding Stock Options

Below are the outstanding stock options for the members of our senior management, as of December 31, 2018.

Number of members that benefit from the stock option plan:

In relation to each option grant:	**Series B3**	**Series C3**	**Series B4**	**Series C4**	**Series B5**	**Series C5**
Grant date	05/30/2016	05/30/2016	05/31/2017	05/31/2017	05/31/2018	05/31/2018
Number of options granted (in number of shares)	356,760	356,760	238,581	238,581	276,664	276,664
Deadline for the options to become exercisable	05/30/2019	05/30/2019	05/31/2020	05/31/2020	05/31/2021	05/31/2021
Deadline for the exercise of the options	11/30/2019	11/30/2019	11/30/2020	11/30/2020	11/30/2021	11/30/2021
Period of restriction to the transfer of the shares	N/A	180 days	N/A	180 days	N/A	180 days
Average weighted exercise price of each of the following groups of shares:						
Outstanding in the beginning of the year (in R$ per share)	0.01	37.21	0.01	56.78	0.01	62.61
Lost during the year (R$ per share)	N/A	N/A	N/A	N/A	N/A	N/A
Exercised during the year (R$ per share)	0.01	N/A	0.01	N/A	0.01	N/A
Expired during the year (R$ per share)	N/A	N/A	N/A	N/A	N/A	N/A
Fair value of the options on the grant date (in R$ per share)	40.44	16.98	68.9	30.74	78.52	35,66
Potential dilution in case of exercise of the options	0.01	N/A	N/A	N/A	N/A	N/A

Stock Options Exercised and Shares Delivered

In 2018, 120,583 stock options were exercised by certain members of our senior management and 87,422 shares were delivered to certain members of our senior management.

We recognized share-based payment expenses of R$29,267 million, R$24,405 million and R$22,545 million in our consolidated financial statements in 2018, 2017 and 2016, respectively. These amounts included the amounts related to accelerated vesting of certain stock options.

Maximum, Minimum and Average Compensation of the Board of Directors, Statutory Board of Executive Officers and Fiscal Council

Highest, Lowest and Average Individual Compensation for the Year Ended December 31, 2016

	Board of Directors	Statutory Board of Executive Officers	Fiscal Council[3]
Number of members	14.58	6.83	-
Number of compensated members	13.58	6.83	-
Highest compensation (R$)[1]	955,715	34,500,800	-
Lowest compensation (R$)[2]	27,084	1,158,363	-
Average compensation	524,914	10,295,810	-

(1) The highest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council was received by members who provided services to our Company for 12 months.

(2) The calculation of the lowest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council excludes members who provided services to our Company for less than 12 months in the year.

(3) In 2016, we did not install the fiscal council.

Highest, Lowest and Average Individual Compensation for the Year Ended December 31, 2017

	Board of Directors	Statutory Board of Executive Officers	Fiscal Council
Number of members	16.08	6.75	2.00
Number of compensated members	15.08	6.75	2.00
Highest compensation (R$)[1]	617,700	49,727,847	152,000
Lowest compensation (R$)[2]	180,000	1,552,035	152,000
Average compensation	384,444	13,024,219	228,000

(1) The highest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council was received by members who provided services to our Company for 12 months.

(2) The calculation of the lowest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council excludes members who provided services to our Company for less than 12 months.

Highest, Lowest and Average Individual Compensation for the Year Ended December 31, 2018

	Board of Directors	Statutory Board of Executive Officers	Fiscal Council
Number of members	13.33	5.42	1.00
Number of compensated members	12.33	5.42	1.00
Highest compensation (R$)[1]	6,380,144	29,525,905	76,000

Lowest compensation (R$)[(2)]	92,400	1,587,723	76,000
Average compensation	893,282	15,112,012	228,000

(1) The highest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council was received by members who provided services to our Company for 12 months.

(2) The calculation of the lowest annual individual compensation for each of the board of directors, statutory board of executive officers and fiscal council excludes members who provided services to our Company for less than 12 months.

Insurance

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

6C. Board Practices

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

Currently, our board of directors consists of nine members elected by our shareholders, three of whom are independent. The term of office of all of our directors will expire in April 2020. We are managed by our board of directors and by our board of executive officers. None of our directors and officers is party to an employment agreement providing for benefits upon termination of employment, except for those benefits provided by Brazilian labor law.

Our board of executive officers is composed of at least two and up to 14 members. The general responsibilities of our executive officers are determined pursuant to our by-laws and their specific duties and titles are set by our board of directors. As of December 31, 2018, our board of executive officers was composed of five members.

The responsibilities of our executive officers include adopting plans related to our management and operations, reporting to shareholders each fiscal year on the status of our business activities, presenting the year-end balance sheets and other legally required financial statements and submitting investment programs and budgets to our board of directors. An annual shareholders' meeting is scheduled to take place on April 25, 2019.

Our executive officers are elected by our board of directors for two-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. On April 27, 2018, our directors elected our current executive officers. The current term of all executive officers expires on the first meeting of the board of directors to be held after the annual shareholders' general meetings that will approve the financial statements related to the fiscal year of 2019, to take place in April 2020.

Committees of the Board of Directors

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

We do not expect any changes in the composition of our board of directors, board of officers, board of directors' committees and of the statutory audit committee in 2019.

Audit Committee

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

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

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We have a Related Party Transactions Policy which requires that such transactions be conducted at arm's length and in the interest of the Company. This policy also establishes the corporate body responsible for approving related party transactions. Our statutory audit committee is also responsible for, among other things, reviewing whether the procedures set forth in the Related Party Transactions Policy are followed.

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

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

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

Because Brazilian corporate law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external independent auditors and does not provide the board of directors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, our statutory audit committee cannot fulfill these functions. Therefore, our statutory audit committee may only make recommendations to the board of directors with respect to these matters.

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

Name	Position	First Year Elected	Date of Birth
Eleazar de Carvalho Filho	Independent Member	2014	July 26, 1957
Gisélia da Silva	Independent Member	2018	December 30, 1961
Luiz Nelson Guedes de Carvalho	Coordinator and Independent Member(1)	2014	November 18, 1945
Renan Bergmann	Independent Member	2018	February 16, 1954

(1) Member of Board of Directors.

(2) The role of the coordinator of the statutory audit committee is provided for in CVM Instruction No. 509, of November 16, 2011. His responsibilities are to chair the meetings, represent the committee to our administrative bodies and enforce the provisions of the internal regulation.

Mr. Eleazar de Carvalho Filho. Please see "Item 6A. Directors Senior Management—Board of Directors" for Mr. Carvalho's biography.

Ms. Gisélia da Silva is a founding partner of Evolure, a consulting firm specialized in the development and improvement of integrity culture and corporate governance models. She is a lawyer, who specializes in business law and capital markets. She holds a law degree from the *Pontíficia Universidade Católica* in the state of Rio Grande do Sul (PUC-RS), an MBA in marketing from the *Escola Superior de Propaganda e Marketing* in the state of São Paulo (ESPM-SP), an L.L.M. degree in corporate law from Insper and Post-MBAs in counselors of administration from both Saint Paul Business School and Columbia University. She worked for more than 18 years for the CPFL Energia group, having held the positions of Institutional Relations Advisor, Legal and Corporate Manager and Advisor of Corporate Governance. She is the Coordinator of the Governance Secretariat Committee and a member of the IBGC Juridical Committee, as well as an independent member of the Management Committee of the Integrated Rating of Sports Entities.

Mr. Luiz Nelson Guedes de Carvalho. Please see “Item 6A. Directors Senior Management—Board of Directors” for Mr. Carvalho’s biography.

Mr. Renan Bergmann holds a bachelor's degree in chemical engineering from the Federal University of Rio Grande do Sul and a master’s degree in nuclear chemical engineering from the Federal University of Rio de Janeiro (COPPE). He completed the Executive Program at the John E. Anderson Graduate School of Management and the Executive Program “Making Corporate Boards More Effective” at Harvard Business School. He is a member of the Board of Directors of Fogo de Chão and Ranpak -Columbus - Ohio - USA and is a senior advisor to the Rhone Group. He was a member of the Board of Directors of SLC Participações, FCC Campo Bom - RS, CCRR, Terphane Holdings LLC-Delaware, Almatis B.V. and UTEX - Houston TX. He was an also an advisor to the New Globe.

Human Resources and Compensation Committee

The human resources and compensation committee holds meetings at least once every three months and has the following duties: (a) suggesting amendments to its internal regulation and submitting them for the board of directors’ consideration; (b) advising on the Company’s organizational structure model, to be submitted for the board of directors’ consideration; (c) evaluating and recommending management and professional development policies to the board of directors, as well as guidelines for attracting and retaining talent; (d) identifying, both in the Company and in its subsidiaries, potential future leaders and accompanying their career development; (e) reviewing and discussing recruitment and hiring methods adopted by the Company and its subsidiaries, comparing such methods to those employed by similar Brazilian companies; (f) examining candidates for the board of directors and special committees, including external members, based on professional experience, technical qualifications, and economic, social and cultural representativeness; (g) advising the board of directors on the candidates to be selected by the board of directors for the position of the Company’s chief executive officer, as well as the candidates; (h) reviewing and discussing the remuneration policy as it applies to the Company’s management, advising the board of directors on the criteria for remuneration, benefits and other programs, including stock option plans; (i) periodically reporting to the board of directors on the applicability and effectiveness of remuneration policies adopted by the Company, in order to assess the effectiveness of these policies in rewarding performance and disciplining non-satisfactory performance, according to metrics aligned with the Company’s objectives, including attracting and retaining talent; (j) advising on criteria for the annual performance evaluation of the Company’s officers, comparing such criteria to that employed by similar Brazilian companies, as well as supporting the board of directors in the evaluation process, expressing its recommendations to the individual assessments of the Company’s board of directors; and (k) performing other duties as may be specified by the board of directors. Our human resources and compensation committee is composed of Arnaud Daniel Charles Walter Joachim Strasser, Carlos Mario Giraldo Moreno, Carlos Mario Diez Gomes, Luiz Augusto de Castro Neves and Ronaldo Iabrudi dos Santos Pereira.

Financial Committee

The financial committee holds meetings at least once every three months and has the following duties: (a) suggesting amendments to its internal regulation, submitting them for the board of directors’ consideration; (b) recommending and monitoring the adoption of the best economic and financial standards and the process of implementation and maintenance of such standards by the Company, suggesting changes, updates and improvements thereto to the board of directors; (c) analyzing and reviewing the Company’s budget, as well as monitoring the implementation and enforcement thereof; (d) analyzing and reviewing the economic and financial feasibility of the Company’s investment plans and programs, as well as monitoring the implementation thereof; (e) analyzing, reviewing, and recommending measures and actions for the negotiations of any merger and acquisition, or any other similar transaction involving the Company or any of its controlled companies; (f) monitoring any of the operations and negotiations mentioned in item (e); (g) analyzing and reviewing economic and financial indicators and the

Company's cash flow and debt policy, for the purpose of suggesting changes whenever necessary; (h) monitoring the Company's average capital structure cost and suggesting modifications thereto, whenever necessary, as well as evaluating and discussing new funding alternatives for the Company; (i) reviewing and recommending opportunities regarding financing transactions that may improve the Company's capital structure, as well as analyzing and discussing our working capital needs and its impact on the Company's capital structure; (j) assisting both our board of directors and board of executive officers in analyzing Brazilian and world economic trends and scenarios and their potential effects on the Company's financial position, evaluating opportunities and risks and defining strategies to be adopted by the Company with respect to its financial policy; (k) monitoring the trading patterns of the Company's securities in both the Brazilian and U.S. markets, as well as the opinions of top investment analysts, recommending measures to maintain a healthy and liquid secondary market; and (l) performing other duties as may be specified by the board of directors. Our financial committee is currently composed of Eleazar de Carvalho Filho, Arnaud Daniel Charles Walter Joachim Strasser, José Gabriel Loaiza Herrera and Luiz Nelson Guedes de Carvalho.

Corporate Governance and Sustainability Committee

The corporate governance and sustainability committee, created on April 27, 2018, is a result of the unification of the former sustainable development committee and corporate governance committee with the intent to provide a systemic management focus on the perpetuity of good corporate governance and sustainability practices. This committee is responsible for guiding and ensuring the adoption of the best corporate governance practices by the Company, monitoring compliance with the requirements of Brazilian Corporate Law, capital markets law and securities market oversight bodies to which the Company is subject, guiding our strategy and business in terms of sustainability issues, and promoting discussions on sustainable development policies and initiatives at the level of leadership and of the board of directors. In addition, this committee monitors macroeconomic indicators in order to promote sustainable development by evaluating critical policies and high impact and sustainable practices, based on economic, environmental and social factors. Our corporate governance and sustainability committee is currently composed of Luiz Augusto Castro Neves (president), Arnaud Daniel Charles Walter Joachim Strasser, Carlos Mario Giraldo Moreno, Helio Mattar (external member) and Ronaldo Iabrudi dos Santos Pereira.

Fiscal Council

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

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

Our fiscal council for the 2018 fiscal year was not installed at our annual shareholders’ meeting held on April 27, 2018, because a sufficient number of candidates were not nominated for seats. Under Brazilian corporate law, minority shareholders have the right to elect separately one member of the fiscal council. However, our controlling shareholder has the right to elect the majority of the members of the fiscal council.

6D. Employees

As of December 31, 2018, we had 94,119 employees (calculated on a full-time employee equivalent basis), all located in Brazil. In 2018, over 30% of leadership positions were occupied by women and we experienced a 21% increase in the percentage of persons with disabilities on our team, when compared to 2017. Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover, including a retention program for key management. See, “Item 3D. Risk Factors—Risks Relating to our Industry and Us—We may be unable to attract or retain key personnel.” Our management believes that our relations with our employees and their unions are good. The following table sets forth the number of our employees as of December 31, 2018, 2017 and 2016:

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	As of December 31,[1]		
	2018	**2017**	**2016**
Operational	90,704	87,544	90,385
Administrative	3,415	3,561	3,273
Total	**94,119**	**91,106**	**93,658**

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

6E. Share Ownership

As of December 31, 2018, members of our board of executive officers directly owned an aggregate amount of 50,266 preferred shares while the members of our board of directors directly held an aggregate amount of 501,024 preferred shares. None of the members of our board of directors and our board of executive officers, on an individual basis and as a group, own directly any of our common stock. For further information on direct and indirect share ownership of our board members, see "Item 7A. Major Shareholders." As of December 31, 2018, our management and some of our employees also owned options to purchase an aggregate amount of 2,754,208 preferred shares at a per-share weighted average purchase price of R$26.04. None of the members of our management and our employees hold any options to purchase our common shares. See "Item 6B. Compensation" for a description of the stock option plans available to the Company's and our subsidiaries' senior management and employees.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7A. Major Shareholders

The following table sets forth information relating to the beneficial ownership of our capital stock as of March 31, 2019, by each person known by us to beneficially own 5% or more of our common shares and our directors and officers as a group. We have also included in the table the number of preferred shares held by each such person and by our directors and officers as a group.

Shareholder	**Common Shares**		**Preferred Shares**		**Total Shares**	
	Number	**%**	**Number**	**%**	**Number**	**%**
Wilkes Participações S.A.[1]	94,019,178	94.32	-	-	94,019,178	35.23
Almacenes Éxito S.A.[1]	1	0.00	-	-	1	0.00
Segisor S.A.S.[1]	5,600,050	5.62	-	-	5,600,050	2.10
Casino[1]	1	0.00	-	-	1	0.00
King LLC[1]	-	-	852,000	0.51	852,000	0.32
Geant International B.V.[1]	-	-	9,423,742	5.64	9,423,742	3.53
Helicco Participações Ltda.[1]	-	-	581,600	0.35	581,600	0.22

Carmignac Gestion	-	-	13,374,888	7.99	13,374,888	5.01
Jean-Charles Naouri	-	-	1	0.00	1	0.00
Directors and Officers[(2)]	-	-	540,778	0.32	540,778	0.20
Treasury shares	-	-	232,586	0.14	232,586	0.09
Others	60,621	0.06	135,265,107	80.05	135,325,728	50,71
Total	**99,679,851**	**100.00**	**167,173,731**	**100.00**	**266,853,582**	**100.00**

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

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

As of March 31, 2019, we had 9,800 record holders in Brazil, representing 94.38% of our common shares and 18.80% of our preferred shares. On March 31, 2019, 48,492,810 of our preferred shares were held in the form of ADSs, representing 29.01% of the total of our preferred shares. None of our common shares are held in the form of ADSs.

As of March 31, 2019, the Casino Group is the beneficial owner of 22.7% of the total capital stock of CBD. In 2015, our controlling shareholder, the Casino Group, carried out a reorganization of its activities and businesses in Latin America to consolidate its platform in the region and capture synergies. Pursuant to the reorganization, the Casino Group transferred 50% of the shares of our common stock to Éxito, corresponding to approximately 18.8% of our total capital stock. Éxito is also controlled by the Casino Group and, therefore, after consummation of the transaction, the Casino Group remained as our controlling shareholder.

In connection with this reorganization, a Segisor S.A.S. shareholders' agreement, the Holding Company's shareholders' agreement and CBD's shareholders' agreement were executed on August 20, 2015 with the purpose of setting forth the rules pursuant to which the Casino Group and Éxito would exercise control of CBD. As a result of the Holding Company shareholders' agreement and the CBD shareholders' agreement, representatives of the Casino Group and Éxito on our board of directors vote in the same manner and our board currently has nine members, of whom three are representatives of the Casino Group and three are representatives of Éxito. Summaries of the Holding Company shareholders' agreement and the CBD shareholders' agreement are qualified by reference to the agreements that are filed as exhibits to this annual report.

7B. Related Party Transactions

From time to time we have entered into transactions with the Casino Group and other related parties. The following discussion summarizes certain of the significant agreements and arrangements among us and our related parties. For further details regarding our related party transactions, see note 12 to our audited consolidated financial statements included elsewhere in this annual report. We have a Related Party Transactions Policy which requires that such transactions be at arm's length and in the interest of the Company. This policy also establishes the corporate body responsible for approving related party transactions. Our statutory audit committee is also responsible for, among other things, reviewing whether the procedures set forth in the Related Party Transactions Policy are followed.

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

In this annual report, the term "Casino" refers to Casino, Guichard-Perrachon S.A, the term "the Casino Group" refers to Casino's subsidiaries, including Éxito, and controlling holding companies, including Rallye, and Euris, which are ultimately controlled by Mr. Jean-Charles Naouri.

Agreements with Casino Group

Cost Sharing Agreement

On August 1, 2014, as amended on October 30, 2014, we entered into a cost sharing agreement with Casino, Euris and Helicco Participações Ltda. (both companies controlled by the Casino Group), pursuant to which we agreed to reimburse them for expenses incurred by their employees in connection with activities involving the transfer of "know-how" to CBD to support its development. The activities involve administrative, financial, advertising, strategic, planning and budgeting aspects, among others. For the year ended December 31, 2018, we paid them R$47 million under the cost sharing agreement. On August 1, 2016, we also entered into a Joinder Agreement (substantially in the form of the schedule attached to the cost sharing agreement) with Casino Services SAS (a company controlled by the Casino Group), pursuant to which Casino Services SAS adhered to the cost sharing agreement.

Services Agreements

We entered into services agreements with Casino on April 25, 2018, to regulate the terms under which Casino renders services of: (i) risk mapping; (ii) analysis regarding insurance coverage and claims; (iii) crisis management; and (iv) intermediation in the negotiations to renew some of our insurance policies.

Agency Agreements

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

On July 25, 2016, as amended on January 24, 2017, we, Sendas Distribuidora S.A. and Groupe Casino Limited, an affiliate of the Casino Group, entered into an agency agreement to regulate the terms under which Groupe Casino Limited renders global sourcing services to us (i.e., procurement of global suppliers and mediation in purchases). We also entered into an agreement with the original counterparties of the agency agreement, pursuant to which Groupe Casino Limited reimbursed us for an amount necessary to provide for margin equalization due the reduction of gains as a result of promotions carried out by us in our stores during 2018.

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Cost Reimbursement Agreement

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

Agreements with Éxito

Commercial Agreement

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

Agreements with GY

Energy Efficiency Framework Agreement

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

Photovoltaic Equipment Lease and Maintenance Agreements

From May 2017 to February 2019, we entered into eight agreements, three of them subsequently amended, with GY, pursuant to which GY provided for the installation and maintenance of photovoltaic at eight of our *Assaí* stores. For the lease and rendering of services, GY is compensated based on a formula according to the energy savings generated at each store.

Related Party Transactions Relating to Discontinued Operations

Indemnity with the Klein Family

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

On July 4, 2017, we entered into an agreement with the original counterparties to the association agreement to (i) ascertain the liabilities for losses and damages incurred by Via Varejo and the Klein family until July 1, 2010; (ii) consolidate the procedures for indemnification of potential losses and damages of Via Varejo and the Klein family before and after July 1, 2010; and (iii) adjust the guarantees provided by GPA on the lease agreements entered into between Via Varejo and the Klein family. Pursuant to the terms of that agreement, it was established that (i) Casa Bahia Comercial would pay R$70.2 million to Via Varejo in installments during 2017, subject to the SELIC rate, as the outstanding amount of indemnifying losses incurred until November 8, 2016; and (ii) Via Varejo would pay a fee to us on an arm's length basis in connection with corporate guarantees provided by us to secure the lease agreements entered into by Via Varejo and Casa Bahia Comercial. The parties also agreed on the proceedings to be taken to determine the liability of each party regarding claims occurred on and after November 8, 2016. On October 24, 2018, we entered into an amendment to such agreement to improve the criteria for determination of the outstanding amount of indemnifiable losses, among other items.

For further information regarding actions taken after November 8, 2016, see note 12.2(v) to our audited consolidated financial statements included elsewhere in this annual report.

Operating Agreement

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

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

Guarantee Framework Agreements

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

(i) on May 10, 2016, CBD and Cnova Brazil entered into a subsequently amended agreement in which Cnova Brazil has to pay a fee to be charged on market terms by CBD in consideration for the future and existing guarantees provided by CBD under the obligations of Cnova Brazil pursuant to financial agreements, lease agreements and commercial agreements with third parties;

(ii) on April 27, 2017, CBD and Via Varejo entered into an agreement on substantially the same terms as the agreement described in item (i) above, provided that the guarantees given by CBD to Via Varejo are limited to R$800 million; and

(iii) on February 19, 2018, CBD, Via Varejo and its subsidiaries (Cnova Brazil, Bartira, Globex Utilidades S.A., or Globex, and VVLog Logística Ltda.) entered into an agreement on substantially the same terms as the agreements described in items (i) and (ii) above, provided that the guarantees given by CBD to Via Varejo and its subsidiaries were pursuant to (a) insurance policies and (b) agreements with financial institutions in which the financial institutions conceded a surety to Via Varejo and its subsidiaries. The guarantees provided by CBD to Via Varejo and its subsidiaries under the agreements mentioned in letter (b) above are limited to R$1.2 billion.

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

Cost Sharing Agreement

On December 15, 2016, we entered into an agreement, which was subsequently amended on December 10, 2018, with Via Varejo, Cnova Brazil and Sendas Distribuidora S.A., pursuant to which the parties agreed to reimburse each other for the use of administrative activities which are shared among the parties.

7C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

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

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

	2018	**2017**
	(in millions of R$)	
Tax claims[(1)]	828	637
Labor claims	291	331
Civil and other claims	116	139
Total accrued liabilities for legal proceedings	**1,235**	**1,107**

(1) Includes tax claims related PIS and COFINS.

Tax-Related Claims

Tax-related claims are indexed to the SELIC rate, which in annual terms, was 13.75% on December 31, 2016, 7.00% on December 31, 2017 and 6.50% on December 31, 2018, and are also subject, in certain cases, to fines. We have made provisions for interest charges and fines, when applicable.

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

COFINS and PIS Taxes

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

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

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

The prosecution has filed an appeal to this decision and such appeal is still pending judgment. The Company and its external legal counsel estimate that the final decision related to the application of the effects will not limit the right of the judicial claim proposed by the Company. Nevertheless, the elements which are still pending a final decision do not allow us to recognize the asset related to the credits since the original claim began in 2003. The Company estimates the potential of its tax credits for the food retail segment to be R$1,400 million.

As disclosed in Via Varejo’s financial statements as of and for the year ended December 31, 2018, the tax credits for this subsidiary, classified as discontinued operations, were estimated at R$1,106 million, of which R$453 million is attributed to the Company due to a shareholders’ agreement between us and the Casas Bahia group.

The remainder of the accrued amount related to other discussions regarding PIS and COFINS, which includes challenges to tax offsets and other small amounts, as of December 31, 2018, was R$234 million, of which R$86 million was for continuing operations and R$148 million was for discontinued operations (R$184 million as at December 31, 2017, of which R$74 million was for continuing operations and R$110 million was for discontinued operations).

Taxes and Other

The Company recognized, in the second quarter of 2017, the effects of the Special Program on Tax Settlements, or PERT. These effects are related to tax assessments over purchase transactions, industrialization and export sales of soybeans (PIS/COFINS and corporate income tax (*Imposto de Renda sobre Pessoa Jurídica* – IRPJ), and non-validation of tax offsets which amounted to the provision of R$146 million, of which R$89 million was for continuing operations and R$57 million was for discontinued operations.

Additionally, during the third quarter of 2017, the Tax Debt Installment Payment Plan, or PEP (*Parcelamento Estadual do Estado de São Paulo*) was adopted, related to tax assessments of acquisition by suppliers considered not qualified in the State Finance Department registry, error in the application of tax rates and accessory obligations by state tax authorities totaling R$28 million, of which R$6 million was for continuing operations and R$22 million was for discontinued operations.

We have other tax claims that were deemed probable losses by our legal counsel: (i) a 2011 disagreement regarding the non-application of Accident Prevention Factor (*Fator Acidentário de Prevenção*), or FAP; (ii) a disagreement with the Finance Department of the Brazilian federal government regarding the ICMS tax rate calculated on electricity bills; and (iii) other less relevant issues. The amount we provisioned for these matters as of December 31, 2018 was R$341 million, of which R$340 million was for continuing operations and R$1 million was for discontinued operations (R$184 million as of December 31, 2017, of which R$183 million was for continuing operations and R$1 million was for discontinued operations).

On October 16, 2014, the STF decided that the taxpayers whose trade products were included in the “basic consumer products basket” have no right to fully use their ICMS credits. We, with the aid of our legal advisors, evaluated and recorded a provision for this matter amounting to R$92 million as of December 31, 2018 (R$142 million as of December 31, 2017), since this claim is considered a probable loss.

Additionally, we are party to some proceedings before the São Paulo state tax authorities which discuss accessory state tax obligations in the context of the refund of ICMS due to tax substitution. Considering recent court decisions, we recorded a provision for this matter amounting to R$221 million as of December 31, 2018 (R$167 million as of December 31, 2017) representing the estimate of probable loss evaluated by management on these proceedings.

We discussed in court our eligibility to not pay Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço*), or FGTS, contributions, as provided by Supplementary Law 110/01. The accrued amount as of December 31, 2018 was R$89 million, of which R$88 million was for continuing operations and R$1 million was for discontinued operations (R$72 million as of December 31, 2017, of which R$71 million was for continuing operations and R$1 million was for discontinued operations).

Provisions for tax contingent liabilities were recorded by our subsidiary Via Varejo at the time of the business combination. As of December 31, 2018, the amount recorded was R$92 million in tax contingent liabilities (R$90 million as of December 31, 2017). These accrued claims refer to administrative proceedings related to the offset of tax debts against credits from the contribution levied on coffee exports.

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

Labor Claims

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of business. As of December 31, 2018, we recorded a provision of R$991 million, of which R$291 million was for continuing operations and R$700 million for discontinued operations (R$1,284 million as of December 31, 2017, of which R$331 million was for continuing operations and R$953 million was for discontinued operations) referring to lawsuits whose risk of loss was considered probable. Management, assisted by legal counsel, evaluates these claims recording provisions for losses when reasonably estimable, taking into account previous experience in relation to the amounts claimed.

Civil and Other Claims

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

- We file and respond to various lawsuits requesting the review of lease amounts. In these lawsuits, the judge determines a provisional lease amount, which is then paid by the stores until the final lease amount is defined. The Company recognizes a provision for the difference between the original amount paid by the stores and the amounts requested by the opposing party (owner of the property) in the lawsuit, when internal and external legal advisors agree on the likelihood of a change to the lease paid by the entity. As of December 31, 2018, the provision for these lawsuits was R$94 million, of which R$49 million was for continuing operations and R$45 million for discontinued operations (R$125 million as of December 31, 2017, of which R$61 million was for continuing operations and R$64 million was for discontinued operations) to which there are no judicial deposits.

As of December 31, 2018, including the lawsuits mentioned above, we had provisions for civil actions of R$244 million, of which R$116 million was for continuing operations and R$128 million was for discontinued operations (R$314 million as of December 31, 2017, of which R$139 million was for continuing operations and R$175 million for discontinued operations).

Other Contingent Liabilities for Which There Are No Provisions

As of December 31, 2018, we were party to certain legal proceedings for which the probability of loss was deemed possible and, therefore, we have not recorded provisions for these proceedings. See note 21.4 to our audited consolidated financial statements included elsewhere in this annual report for detailed information on these proceedings.

We are party to several tax-related legal proceedings with various governmental agencies related to social security taxes (*Instituto Nacional de Seguridade Social*), or INSS, IRPJ, withholding tax (*Imposto de Renda Retido na Fonte*), or IRRF, social contribution on net profits (*Contribuição Social Sobre o Lucro Líquido*), or CSLL, COFINS, PIS, credits related to taxes on industrialized products (*Imposto Sobre Produtos Industrializados*), or IPI, contribution tax on financial transactions, (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, ICMS, municipal service tax (*Imposto Sobre Serviços*), or ISS, municipal property tax (*Imposto Predial e Territorial Urbano*), or IPTU. As of December 31, 2018, the aggregate amount of the possible loss regarding these tax-related legal proceedings was R$12,292 million, of which R$10,671 million was for continuing operations and R$1,621 million was for discontinued operations (R$11,778 million as of December 31, 2017, of which R$10,159 million was for continuing operations and R$1,619 million was for discontinued operations).

Other Legal Proceedings

We are party to certain administrative proceedings and lawsuits related to civil, consumer protection matters and labor claims. As of December 31, 2018, the aggregate amount of the possible loss regarding these proceedings was R$585 million, of which R$513 million was for continuing operations and R$72 million was for discontinued operations (R$689 million in 2017, of which R$542 million was for continuing operations and R$147 million was for discontinued operations).

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

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

Previously, we maintained provisions for judicial proceedings related to certain social security contributions and income taxes. During the third quarter of 2009, we adhered to the federal tax installment payment program introduced by Law No. 11,941/09. Our management and local counsel included tax and social security liabilities originating from proceedings, in particular those related to the COFINS tax rate, which totaled R$987 million at that time, and other applicable tax liabilities in the federal tax installment payment program. The balance of the consolidated installments on December 31, 2018 was R$432 million, as compared to R$511 million in 2017.

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

We decided to include federal tax debts in the PERT, as per the conditions set by Law No. 13,496, dated October 24, 2017. The program allows for payment in monthly installments, and grants reductions in interest and penalties. We included in the PERT, tax debts accrued related to: (i) tax assessments over purchase transactions, manufacturing and export sales of soybeans (PIS/COFINS); (ii) non-validation of tax offsets (IRPJ, PIS/COFINS); and (iii) other tax debts previously classified as possible risks related mainly due to CPMF and other claims. The PERT will be settled integrally in cash, in monthly installments, in 12 years. The balance of the consolidated installments on December 31, 2018 was R$169 million (R$176 million as of December 31, 2017).

Arbitration

Península

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

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

The proceeding refers to matters related to the application of these agreements and does not affect the continuity of the leases, which are contractually established. Our management has determined, based on the opinion of external legal counsel, that the possibility of loss is possible. However, the amount of any potential loss cannot be determined with reasonable certainty at this time based on the current stage of the arbitration process.

For further information on this topic, see note 1.1 to our audited consolidated financial statements included elsewhere in this annual report.

Legal Proceedings Related to Cnova

On December 2015, the board of directors of Cnova engaged legal counsel and forensic accountants to perform an internal investigation of alleged employee misconduct related to inventory management at Cnova Brazil's distribution centers. Subsequently, the scope of the investigation at Cnova Brazil expanded to other facts. The internal investigation was concluded on June 2016 and shared with the SEC.

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

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

Following the March 15, 2018 hearing, the court entered, on March 19, 2018, the final order definitively approving the settlement, closing the judicial proceedings with the United States District Court for the Southern District of New York and dismissing the claims against the defendants.

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

With respect to the SEC's investigation, on December 14, 2018, Cnova received a written notice from the SEC announcing the closure of the investigation related to inventory management and accounting issues at Cnova Brasil and confirming that no enforcement action will be initiated against Cnova. Therefore, no penalty, fine or other consequence will be applied in this matter.

Dividend Policy and Dividends

General

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

Pursuant to our dividend policy, created by our board of directors on August 3, 2009, we may prepay our dividend distribution on a quarterly basis, subject to approval by our board of directors, at meetings usually held during the first quarter of each fiscal year. At the end of each fiscal year, we pay our shareholders the minimum mandatory dividend, calculated in accordance with Brazilian corporate law, less the dividend payments paid in advance during the year.

In December 2017 and during 2018, our board of directors approved payments of interest on equity to our shareholders. Such approved payments were charged to the minimum mandatory dividend related to the respective fiscal years. For further information, see "Item 10B. Memorandum and Articles of Association—Allocation of Net Profits and Distribution of Dividends—Distribution of Dividends" and "Item 10B. Memorandum and Articles of Association—Interest on Shareholders' Equity." According to Brazilian corporate law and our by-laws, we must pay declared dividends within 60 days after the approval of the distribution of dividends in the shareholders' meeting.

Dividend Policy and History of Dividend Payments

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The following table sets forth the distributions paid to holders of our common shares and preferred shares since 2016:

Period	Description	First payment date	R$ per preferred share	R$ per common share	Total amount in dividends on shareholders' equity shares (in R$ millions)
2015	Dividends	June 23, 2016	0.015073	0.013703	4
2017	Interest on equity	May 25, 2018	0.354066288	0.321878444	91(1)
2017	Interest on equity	December 15, 2017	0.31524139588	0.28658308716	81(1)
2018	Interest on equity	June 12, 2018	0.2910893309	0.2646266644	75(1)
2018	Interest on equity	November 27, 2018	0.446593630	0.405994209	115(1)
2018	Interest on equity	December 13, 2018	0.277404648	0.252186044	71(1)
2018	Interest on equity	May 22, 2019	0.747146155	0.679223778	192(1)

(1) Such amounts represent the estimated gross amount of interest on equity, as certain shareholders are exempt from IRRF.

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

Payments of cash dividends and distributions, if any, will be made in Brazilian *reais* to the Custodian on behalf of the depositary, which will then convert the payments from Brazilian *reais* into U.S. dollars and thereafter will cause the U.S. dollars to be delivered to the depositary for distribution to holders of ADSs as described above. In the event that the Custodian is unable to immediately convert the Brazilian *reais* 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 any devaluation of the Brazilian *real* that occurs before the distributions are converted and remitted. See "Item 3D. Risk Factors—Risks Relating to Brazil—Exchange rate volatility may adversely affect the Brazilian economy and us." Dividends and interest on shareholders' equity in respect to the preferred shares paid to shareholders, including holders of ADSs, are subject to the tax treatment outlined in "Item 10E. Taxation—Brazilian Tax Considerations."

8B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

9A. Offer and Listing Details

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

Our preferred shares in the form of ADSs trade on the NYSE under the trading symbol "CBD." Our ADSs commenced trading on the NYSE in May 1997. As of December 31, 2018, the ADSs represented 30.8% of our preferred shares. Each ADS represents one preferred share, without par value. The ADSs are evidenced by ADRs issued by JP Morgan Chase Bank, N.A.

9B. Plan of Distribution

Not applicable.

9C. Markets

Trading on the B3

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

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

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

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

Regulation of the Brazilian Securities Markets

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

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

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

Corporate Governance Practices

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

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

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

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

Disclosure Requirements

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

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

Such requirements include provisions that:

- establish the concept of a material act or events that gives rise to reporting requirements. Material acts or events include decisions made by the controlling shareholders, resolutions of the general shareholders' meeting or of the company's management, or any other political, administrative, technical, financial or economic acts or facts related to the company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade or maintain such securities or to exercise any of such securities' underlying rights;

- specify examples of acts or facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control of a public company, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;

- oblige the public company to disclose material acts or facts to the CVM, to the B3 and through the publication of such acts in the newspapers or websites usually utilized by such company;

- require the acquirer of a controlling stake in a public company to publish a material event, including its intentions as to whether or not to de-list the corporation's shares within one year;

- require management, members of the fiscal council, if active, or of any technical or advising body of a public company, to disclose to the company, to the CVM and to the B3 the number, type and form of trading of securities issued by the company, its subsidiaries and controlling public companies that are held by them or by persons closely related to them, and any changes in their respective ownership positions;

- require that, if any direct or indirect controlling shareholder or any shareholder electing members of the board of directors of a public company increases or decreases participation in such company by more than 5.0%, such person or entity must disclose information regarding such acquisition or disposition; and

- forbid trading on the basis of insider information.

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

9D Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10A. Share Capital

The subscribed and paid-up capital as of December 31, 2018 is represented by 266,845 (266,579 as of December 31, 2017) in thousands of registered shares with no par value, of which 99,680 in thousands of common shares (99,680 as of December 31, 2017) and 167,165 in thousands of preferred shares (166,899 as of December 31, 2017).

The Company is authorized to increase its capital stock up to the limit of 400,000 (in thousands of shares), regardless of any amendment to the Company's Bylaws, upon resolution of the Board of Directors, which will establish the terms and conditions.

10B. Memorandum and Articles of Association

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

Corporation Objects and Purposes

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

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

Preferred Shares and Common Shares

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

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

- priority in the receipt of fixed or minimum dividends;
- priority in the reimbursement of capital, with or without premium; or

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- cumulative preferences and advantages established in the items above.

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

- right to participate in the distribution of the mandatory dividend of at least 25% of our adjusted net profits, pursuant to the following criteria (see "—Allocation of Net Profits and Distribution of Dividends—Allocation of Net Profits—Mandatory Dividends" for a description of the calculation of our adjusted net profits): (i) priority in the receipt of dividends corresponding to at least 3% of the shares' book value; and (ii) right to participate in the profit distribution together with the common shares under equal conditions, after the common shares have received dividends as set forth in item (i) above;

- right to receive dividends in an amount per share of at least 10% higher than the amount per share paid to holders of common shares; or

- rights to be included in a tender offer for the sale of control, with a tag along right at a price of at least 80% of the amount paid for the common shares and assured rights to receive dividends under the same conditions as the common shares.

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

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

Allocation of Net Profits and Distribution of Dividends

Allocation of Net Profits

Brazilian corporate law defines "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. Our management's and our shareholders' discretion to determine the allocation of our net profits, however, is limited by certain rules that determine whether such net profits should be distributed as dividends or allocated to certain profit reserves or carried forward to future fiscal years, as follows:

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

- amounts allocated to the formation of a legal reserve account;

- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years;

- amounts allocated to the formation of a tax incentives reserve account;

- amounts allocated to the statutory reserve, if any;
- amounts allocated to the unrealized profit reserve;
- amounts allocated to the retained profit reserve; and
- reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

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

For the fiscal year ended 2009, we created a new dividend policy during the board of directors' meeting held on August 3, 2009, pursuant to which we may prepay our dividend distribution on a quarterly basis; we have not made further alterations to the dividend distribution period.

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

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

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

Tax incentives reserve account. According to Brazilian corporate law, our shareholders' meeting, upon a justified proposal of our board of directors or board of executive officers or according the rules of the benefit granted, may decide to allocate a percentage of our net profits resulting from government donations or subventions for investment purposes.

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

Unrealized income reserve account. The portion of the mandatory dividends that exceeds the net profits actually realized in that year may be allocated to the unrealized income reserve account. Unrealized income is income resulting from investments measured by the equity method and/or the profits of earnings of any transaction, the financial satisfaction of which takes place in the subsequent fiscal year.

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

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

Distribution of Dividends

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

- our "net profits" earned in a given fiscal year, which is our result of the relevant fiscal year, reduced by: accumulated losses from prior fiscal years; provisions for income tax and social contribution for such fiscal year; and amounts allocated to employees' and managers' participation in the results in such fiscal year pursuant to our profit sharing plan. Furthermore, our by-laws allow us to implement a profit sharing plan for employees and managers and a stock option plan. The amount to be paid in connection with both plans is determined by our board of directors and must not exceed an amount equal to 15% of our net profits. Under Brazilian corporate law, this profit sharing may only be paid to managers with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders;

- our net profits accrued in previous fiscal years or in any six-month and/or quarterly interim period of a fiscal year; or

- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, "profit reserves" means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by our shareholders' resolution or unrealized income reserve account, not including the legal reserve account.

Under our by-laws, the preferred shares are entitled to: (i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R$0.08 per preferred share; (ii) priority in reimbursement of capital, without premium, in the event of liquidation; (iii) participation on equal terms with common shares in the distribution of bonus shares resulting from the capitalization of retained earnings reserves; and (iv) receipt of the mandatory dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.08 per share.

Consequently, under our by-laws, to the extent funds are available, dividends and/or interest on shareholders' equity are paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares of R$0.08 per preferred share; and (ii) a dividend that is 10% higher than the mandatory dividend attributed to each common share, including for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.08 per preferred share, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition.

Dividends are generally to be declared at general shareholders' meetings in accordance with the board of directors' recommendation. 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 financial 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. See, "Item 10E. Taxation—Brazilian Tax Considerations."

Under Brazilian corporate law, dividends must be available to the shareholders within 60 days after the date the dividends were declared to the holder of record on the declaration date. The amount is subject to monetary restatement, in accordance with our board of directors' recommendation and Brazilian corporate law.

A shareholder has a three-year period following the dividend payment date to claim a dividend with respect to its shares. After the expiration of that period, we are no longer liable for the payment of such dividend.

Our calculation of "net profits" and allocations to reserves for any fiscal year are determined on the basis of our financial statements.

Under Brazilian corporate law, however, we are allowed to suspend the distribution of the mandatory dividends for any year in which our management reports at our shareholders' general meeting that the distribution would be incompatible with our financial condition. Such suspension is subject to review by the fiscal council. In addition, in the case of public companies, like us, our management must file a justification for such suspension with the CVM within five days from the date of the relevant general shareholders' meeting. If the mandatory dividend is not paid, the unpaid amount shall be attributed to a special reserve account and, if not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

Conversion of Common Shares into Preferred Shares

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

Interest on Shareholders' Equity

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

Distribution of interest on shareholders' equity may also be accounted for as our tax deductible expense, and any payment of interest on preferred shares to shareholders, whether Brazilian residents or not, including holders of ADSs, is subject to Brazilian withholding tax at the rate of 15% or at the rate of 25% if the beneficiary is resident and domiciled in a "tax haven" (a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment). See, "Item 10E. Taxation—Brazilian Tax Considerations—Distribution of Interest on Shareholders' Equity." To the extent we distribute interest on shareholders' equity in any year, this distribution is not considered part of the mandatory distribution, a Brazilian withholding tax would apply and we would not be required to make a gross-up.

Board of Directors

According to Brazilian corporate law, our officers and directors are prohibited from voting on, or acting in, matters in which their interests conflict with ours.

Our by-laws provide that the shareholders are responsible for determining the global remuneration of the members of our management bodies. There are no specific provisions regarding the directors' power to vote on their compensation in the absence of an independent quorum.

With respect to the borrowing powers of the board of directors, the board of directors has the power to authorize the borrowing of funds. Other financing arrangements, including bank loans, may be entered into by us upon the joint signature of (i) two executive officers acting jointly; (ii) one officer indicated by the board of directors and one attorney-in-fact; (iii) two attorneys-in-fact; or (iv) one attorney-in-fact or one officer in exceptional cases. Acts resulting in the acquisition, encumbrance or disposition of assets of the Company, as well as the granting of powers of attorney for such purposes must be entered into by us upon the joint signature of two officers indicated by the board of directors, acting jointly with the chief executive officer.

There is no requirement under Brazilian corporate law or our by-laws that directors retire upon reaching a certain age. In addition, our by-laws do not provide for the re-election of directors at staggered intervals.

For a discussion of our board of directors, see “Item 6A. Directors and Senior Management—Board of Directors” and “Item 6C. Board Practices.”

Voting Rights

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

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

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

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

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

Shareholders' Meetings

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

In accordance with Brazilian corporate law, shareholders voting at our general shareholders' meeting have the power, among others, to:

- amend our by-laws;
- delist our Company from the CVM (to become a private company);
- approve the issuance of convertible debentures and secured debentures;
- elect or dismiss members of the board of directors and of the fiscal council, at any time;
- receive the management's accounts and approval of our financial statements, including the allocation of net profits;
- suspend the rights of a shareholder who has violated Brazilian corporate law or our by-laws;
- approve the valuation of assets offered by a shareholder in consideration for the subscription of shares of our capital stock;
- approve the transformation of our corporate form or a merger with or into another company, spin-off, consolidation or split; and
- authorize management to petition for bankruptcy, to declare our Company insolvent and to request procedures involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code.

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

- approval of our dissolution or liquidation and the appointment and dismissal of the respective liquidator and review of our accounts and reports;

- appointment and removal of the chairman and the vice-chairman of our board of directors;

- establishment of global annual compensation for the members of all of the Company's management bodies, including fringe benefits;

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- approval of or amendment to our annual investment plan;

- approval of any issuance of common or preferred shares in an amount larger than the limit of our authorized capital (400,000,000 shares) and any bonuses, debentures convertible into its shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for its shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which the Company is or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and approve the terms and conditions of their subscription and payment; and

- approval of any delisting from trading on any stock exchange or filings for new listings.

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

- the right to participate in the distribution of profits;

- the right to participate equally and ratably in any remaining residual assets in the event of the 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 Brazilian law, as described under "—Preemptive Rights on Increase in Preferred Share Capital;"

- the right to withdraw from the company in the cases specified under Brazilian corporate law, see "—Withdrawal Rights;" and

- the right to supervise, pursuant to Brazilian corporate law, the management of the company.

Quorum

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

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

- create preferred shares or disproportionally increase an existing class of preferred shares in relation to the other classes of shares, if the number of preferred shares increases to more than two-thirds of the total of our issued and outstanding shares, as provided for or authorized by our by-laws;

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or create a new class with greater privileges than the existing classes of preferred shares;

- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge us into or with another company;
- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in Brazilian corporate law);
- apply for cancellation of any voluntary liquidation;

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 merge all of our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company; and

 approve our dissolution.

Notice of our shareholders' meetings

Notice of our shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, and in *Folha de São Paulo*. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, the CVM may require that the first notice be published 30 days in advance of the meeting.

Conditions of admission

Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares that they intend to vote on. A shareholder may be represented at a shareholders' meeting by a proxy appointed less than a year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. Investment funds must be represented by their manager.

Preemptive Rights on Increases in Preferred Share Capital

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

According to Brazilian corporate law, capital increases that do not change the proportion between the existing classes and types of shares entitle the shareholders to exercise their preemptive rights solely with respect to shares of equal class and type as the shares that they already hold. However, if an issuance of shares changes the existing proportion of classes and types of shares, then (i) the shareholders may exercise their preemptive rights with respect to shares of equal class and type as the shares they already hold and; (ii) if necessary to maintain such shareholders' ownership proportional with regards to the total capital stock, they may subscribe for other classes or types of shares.

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

In the event of a capital increase, which maintains or increases the proportion of capital represented by preferred shares, holders of ADSs may, under the circumstances described above, exercise preemptive rights to subscribe for newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs may, under the circumstances described above, have preemptive rights to subscribe for preferred shares in proportion to their shareholdings, and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see "Item 3D. Risk Factors—Risks Relating to the ADSs and Our Preferred Shares—You might be unable to exercise preemptive rights with respect to the preferred shares underlying the ADSs."

Withdrawal Rights

Neither our common shares nor our preferred shares are redeemable. Any of our shareholders who dissent from certain actions taken by our shareholders in a shareholders' meeting have the right to withdraw from our Company and to receive the value of their shares. According to Brazilian corporate law and our by-laws, the withdrawal rights of a dissenting shareholder may be exercised in the event that the shareholders' meeting approves the following matters:

i. the creation of preferred shares or the disproportional increase of an existing class of preferred shares relative to the other classes of shares, if the number of preferred shares increases to more than two-thirds of the total of our issued and outstanding shares, as is provided for or authorized by our by-laws;

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

iii. a reduction in the percentage of mandatory dividends;

iv. a change in our corporate purposes;

v. the merger of all of our shares into another Brazilian company, so that we become a wholly-owned subsidiary of such company or vice versa;

vi. our merger into or with another company, including if we are merged into one of our controlling companies, or are consolidated with another company;

vii. our participation in a group of companies as defined under Brazilian corporate law and subject to the conditions set forth therein; and

viii. a spin-off of our Company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a group of companies (as defined under Brazilian corporate law); or the conversion of our Company to another corporate form.

Dissenting shareholders also have a right of withdrawal in the event that the entity resulting from (a) a merger of all of our shares into another company so that we become a wholly-owned subsidiary of such company; (b) a spin-off; or (c) a merger or a consolidation of a Brazilian publicly listed company, fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken.

The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting. In items (i) and (ii) above, the resolutions 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 withdrawal rights in items (v), (vi), (vii) and (viii), above, may not be exercised by holders of shares if such shares have (a) liquidity, when such shares are listed in the B3, or part of any other stock exchange index in Brazil or in the world, as defined by the CVM, and (b) dispersion, when the controlling shareholder or other companies under the same control has less than 50% of the shares or class of shares.

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

Form and Transfer of Shares

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

Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to CMN Resolution 373, the foreign investor should also seek amendment of the electronic registration to reflect the new ownership through its local agent, if necessary.

The B3 operates a clearinghouse through CBLC. CBLC is also responsible for settlement and custody of the shares. The payment of dividends, bonuses and other corporate events is managed by the Central Depositary (*Central Depositária*), which is a department of the B3.

Other Dispositions

In addition to the provisions already described in this annual report, Brazilian corporate law and current regulations set forth, among others, that:

i. upon a sale of control, the acquirer is required to launch a tender offer to purchase all minority voting shares at a price equal to at least 80% of the control price;

ii. if provided for in the by-laws, disputes among shareholders will be subject to arbitration; our by-laws currently do not provide for arbitration;

iii. upon the occurrence of a tender offer aiming at delisting our Company or through which our controlling shareholders acquire more than one-third of the float shares, the purchase price will be equal to the fair value of the shares taking into account the total number of outstanding shares;

iv. members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent accountant of the controlling shareholders; and

v. the chairman of any shareholders' or board of directors' meeting may disregard any vote that is rendered against provisions of any shareholders' agreement if that shareholders' agreement has been duly filed with us.

10C. Material Contracts

Cost Sharing Agreement with Casino Group

For information regarding our cost sharing agreement with the Casino Group, see "Item 7B. Related Party Transactions—Agreements with Casino Group—Cost Sharing Agreement."

10D. Exchange Controls

The ownership of preferred or common shares by individuals or legal entities domiciled outside Brazil is subject to certain conditions established under Brazilian law.

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

CMN Resolution No. 1,927 provided for the issuance of depositary receipts in foreign markets with respect to shares of Brazilian issuers. Based on CMN Resolution No. 1,927, we filed an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we received final approval before the offering of the preferred shares underlying the ADSs in May 1997. Since March 30, 2015, CMN Resolution No. 4,373, which replaced CMN Resolution No. 1,927, provides for the issuance of depositary receipts in foreign markets with respect to shares of Brazilian issuers.

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

This electronic registration was carried out through the Central Bank's system (*Sistema do Banco Central*), or SISBACEN, a database of information provided by financial institutions to the Central Bank. Pursuant to the electronic registration, the Custodian is able to convert dividends and other distributions, with respect to the preferred shares represented by the ADSs, into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges those ADSs for preferred shares, that holder will be entitled to continue to rely on the depositary's electronic registration for only five business days after that exchange, after which time that holder must seek to obtain its own electronic registration. Thereafter, unless the preferred shares are held pursuant to CMN Resolution No. 4,373, dated as of September 29, 2014, a holder of preferred shares who applies for and obtains a new electronic registration may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon disposal of the preferred shares, or distributions with respect thereto, and generally will be subject to less favorable tax treatment on the proceeds arising from any sale of preferred shares. In addition, if the foreign investor is domiciled in a Low or Nil Taxation Jurisdiction (as defined under "Item 10E. Taxation—Brazilian Tax Considerations"), the investor will also be subject to less favorable tax treatment, even if its registry before the Central Bank is in accordance with the provisions of CMN Resolution No. 4,373. See "Item 10E. Taxation—Brazilian Tax Considerations."

Under CMN Resolution No. 4,373, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that the requirements described below are fulfilled. In accordance with CMN Resolution 4,373, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities domiciled or headquartered outside Brazil.

Pursuant to CMN Resolution No. 4,373, foreign investors must fulfill the following requirements before engaging in financial transactions:

i. appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;

ii. appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM;

iii. complete the appropriate foreign investor registration form;

iv. register as a foreign investor with the CVM; and

v. register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to CMN Resolution No. 4,373 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out on stock exchanges or through organized over-the-counter markets licensed by the CVM, except for subscription, bonification, conversion of debentures into shares, securities indexes, purchase and sale of investment funds quotas and, if permitted by the CVM, going private transactions, canceling or suspension of trading, public offerings of securities, etc., as detailed by CVM Rule No. 560. Moreover, the offshore transfer or assignment of the securities or other financial assets held by foreign investors pursuant to CMN Resolution No. 4,373 is prohibited, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Investors under CMN Resolution No. 4,373 who are not resident in a Low or Nil Taxation Jurisdiction (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See "Item 10E. Taxation—Brazilian Tax Considerations."

10E. Taxation

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

This summary is based upon federal tax laws of Brazil and the federal income tax laws of the United States in effect as of the date hereof, which are subject to change and differing interpretations. This summary is also based upon the representations of the depositary and on the assumption that each obligation in the Third Amended and Restated Deposit Agreement, dated as of December 7, 2015, among us, JP Morgan Chase Bank, N.A., as the depositary and the owners from time to time of ADRs, and any related documents, will be performed in accordance with its terms.

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

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Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposal of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation, or a Non-Brazilian Holder. It is based on Brazilian law as currently in effect, which is subject to change, and to differing interpretations. Any change in this law may change the consequences described below. Each Non-Brazilian Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in preferred shares or ADSs.

Taxation of Dividends

Dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us to the depositary in respect of preferred shares underlying ADS or to a Non-Brazilian Holder in respect of preferred shares, are exempt from withholding income tax.

Law No. 12,973/14, dated May 13, 2014, or Law 12,973, also modified the tax treatment for foreign source income derived by Brazilian-controlled and affiliated companies located abroad. As of January 1, 2015, foreign source income earned by the Brazilian-controlled companies continues to be subject to taxation in Brazil on a year-end basis regardless of the distribution of such income in the form of dividends, or capital gains or any other modality of disposal of such income.

Law 12,973 also authorized Brazilian-controlled and affiliated companies located abroad to obtain a limited percentage of tax credits derived from income these companies obtain abroad, which is subject to specific regulation.

Distribution of Interest on Shareholders' Equity

In accordance with Law No. 9,249, dated December 26, 1995, as amended, Brazilian corporations may make payments to shareholders characterized as distributions of interest on shareholder's equity as an alternative to making ordinary dividend distributions. Such interest is calculated by reference to the TJLP, as determined by the Central Bank from time to time, and cannot exceed the greater of:

i. 50% of the current net profits (before the distribution and before any deductions for calculating income taxes into account), as measured in accordance with generally accepted accounting principles in Brazil for the period in respect of which the payment is made; or

ii. 50% of the balance of retained earnings (before computing the profits of the current year) as measured in accordance with generally accepted accounting principles in Brazil.

Payments of interest on shareholder's equity to a Non-Brazilian Holder may be deducted for purposes of calculating Brazilian corporate income tax and social contribution on net profits provided that the limits described above are observed. Nevertheless, such payments will be subject to withholding income tax at the rate of 15%, or 25% if: (i) the Non-Brazilian Holder is domiciled in a country or location that does not impose income tax or where the maximum income tax rate is lower than 20%; or (ii) where local legislation imposes restrictions on the disclosure (a) of the shareholding composition, (b) of the ownership of the investment or (c) of the identity of the effective beneficiary of the income attributed to non-residents, or Low or Nil Taxation Jurisdiction. These payments may be included, at their net value, as part of any mandatory dividend. To the extent that such payments are accounted for as part of the mandatory dividend, under current Brazilian law, we are obliged to distribute to shareholders an additional amount sufficient to ensure that the net amount received by the shareholders, after payment by us of applicable

Brazilian withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend. The distribution of interest on shareholders' equity must be proposed by our board of directors and subject to subsequent ratification by the shareholders at the shareholders' meeting.

Taxation of Gains

According to Law No. 10,833, dated December 29, 2003, or Law 10,833, capital gains earned on the disposal of assets located in Brazil by a Non-Brazilian Holder, whether to another non-Brazilian resident or to a Brazilian resident are subject to taxation in Brazil. In this sense, upon the disposal of the preferred shares, as they are assets located in Brazil, the Non-Brazilian Holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the disposal is conducted in Brazil or abroad and by a Brazilian resident or not.

Regarding the ADSs, although the matter is not free from doubt, the gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident are arguably not taxed in Brazil, based on the argument that ADSs would not constitute assets located in Brazil for purposes of Law 10,833. However, we cannot assure you of how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposal of ADSs to another non-Brazilian resident. As a result, gains on the disposal of ADSs by a Non-Brazilian Holder to a Brazilian resident, or even to a non-Brazilian resident in the event that Brazilian courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described below.

Although there is no clear regulatory guidance, the withdrawal of ADSs in exchange for preferred shares should not be subject to Brazilian income tax, since as described above, ADSs would not constitute assets located in Brazil for purposes of Law 10,833. With reference to the deposit of preferred shares in exchange for ADSs, the difference between the acquisition cost of the preferred shares and the market price of the preferred shares may be subject to Brazilian income tax. In some circumstances, there may be arguments to claim that this taxation is not applicable in the event that a Non-Brazilian Holder is a 4,373 Holder (as defined below) and is not a resident in a Low or Nil Taxation Jurisdiction.

Under Brazilian law, income tax rules on such gains can vary, depending on the domicile of the Non-Brazilian Holder, the type of registration of the investment by the Non-Brazilian holder before the Central Bank ("portfolio investment" made under CMN Resolution No. 4,373, dated September 29, 2014, or "foreign direct investment" made under Law No. 4,131, dated September 3, 1962) and how the disposal is carried out, as described below.

Capital gains assessed by a Non-Brazilian Holder on the disposal of preferred shares carried out on the Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

i. exempt from income tax when assessed by a Non-Brazilian Holder that (a) has registered its investment in Brazil with the Central Bank under the rules of CMN Resolution No. 4,373, of September 29, 2014, or 4,373 Holder; and (b) is not a resident in a Low or Nil Taxation Jurisdiction; or

ii. subject to income tax in any other case, including a case of gains assessed by a Non-Brazilian Holder that is not a 4,373 Holder, or is a resident in a Low or Nil Taxation Jurisdiction.

Any other gains assessed on a disposal of the preferred shares that is not carried out on a Brazilian stock exchange are regularly subject to income tax. In that sense, Law No. 13,259 of March 17, 2016, established that, as of January 2017, capital gains derived by Brazilian individuals and Non-Brazilian Holders (Normative Ruling No. 1,732/17) are subject to progressive taxation and the rate may vary from 15% up to 22.5% depending on the portion of gains. However, for residents in a Low or Nil Taxation Jurisdiction, the gain is still subject to income tax at the fixed rate of 25%.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, such as our Company, the positive difference between the amount received by a Non-Brazilian Holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as a capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the progressive rate from 15% to 22.5% and 25% for residents in a Low or Nil Taxation Jurisdiction.

As a general rule, the gains realized as a result of the disposal of preferred shares or ADSs is the positive difference between the amount realized on the sale or exchange of the shares and their acquisition cost.

There is no assurance that the current preferential treatment for a Non-Brazilian Holder of ADSs and a 4,373 Holder of preferred shares will continue or that it will not change in the future.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the preferred shares or ADSs by a Non-Brazilian Holder will be subject to Brazilian taxation at the same rate applicable to the sale or disposal of preferred shares.

Discussion on Low or Nil Taxation Jurisdictions

In certain circumstances, the Brazilian tax legislation imposes higher taxation on transactions that are carried out with entities located in jurisdictions considered to maintain favorable tax regimes (the above mentioned Low or Nil Taxation Jurisdictions).

On June 24, 2008, Law No. 11,727, or Law 11,727, added the fourth paragraph to article 24 of Law No. 9,430, dated December 27, 1996, or Law 9,430, and introduced a new concept of "Privileged Tax Regime." According to the enacted article 24-A of Law 9,430 a tax regime is considered a "Privileged Tax Regime" if it (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out substantial economic activity in the country or dependency or (b) contingent on the non-exercise of substantial economic activity in the country or dependency; (iii) does not tax or taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

The Normative Ruling No. 1,037/10, which sets forth the updated list of countries or jurisdictions deemed by Brazilian tax authorities to provide favorable taxation and privileged tax regimes, made evident the acknowledgement by tax authorities that tax legislation does not provide for a singular concept of the so-called "tax haven." Rather, there are cases of Low or Nil Taxation Jurisdictions and there are cases of Privileged Tax Regimes, which must be analyzed separately. The provisions of Law No. 11,727/08 that refer to the "Privileged Tax Regime" came into effect on January 1, 2009.

In principle, the best interpretation of Law No. 11,727 leads us to conclude that the concept of "Privileged Tax Regime" should be solely applied for purposes of transfer pricing rules in export and import transactions (Law No. 9,430) and thin capitalization rules (Law No. 12,249, dated June 11, 2010).

Thus, to income and gains realized by foreign investors that invest in the Brazilian financial and capital markets (4,373 Holders), the relevant concept is the one that makes reference to "countries that tax income at a rate lower than 20%," as provided by article 7 of Law No. 9,959, dated December 23, 1997 (i.e., only Low or Nil Taxation Jurisdictions in its strict sense) and the countries listed in article one of the Normative Ruling No. 1,037/10.

Other Brazilian Taxes

There are no Brazilian federal inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of preferred shares or ADSs by a Non-Brazilian Holder. Gift and inheritance taxes, however, may be levied by some states on gifts made to or inheritances bestowed by the Non-Brazilian Holder on individuals or entities resident or domiciled within such states in Brazil. There is no Brazilian stamp, issue, registration or similar taxes or duties payable by a Non-Brazilian Holder of preferred shares or ADSs.

Taxation of Foreign Exchange Transactions (IOF/Exchange)

Pursuant to Decree No. 6,306/07, the conversion into foreign currency or the conversion into Brazilian currency of the proceeds received or remitted by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment by a Non-Brazilian Holder in the preferred shares and ADSs, may be subject to the Tax on Foreign Exchange Transactions, or IOF/Exchange. Currently, the applicable rate for almost all foreign currency exchange transactions is 0.38%. However, foreign currency exchange transactions carried out for the inflow of funds in Brazil for investment in the Brazilian financial and capital market made by a foreign investor (including a Non-Brazilian Holder, as applicable) are subject to IOF/Exchange at 0% rate. The IOF/Exchange rate will also be 0% for the outflow of resources from Brazil related to these types of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market.

Furthermore, the IOF/Exchange is currently levied at a 0% rate for the conversion of ADSs into shares held by foreign investors under the 4,373 Holders regime. In any case, the Brazilian government is permitted to increase the rate to a maximum of 25% at any time, with respect to future transactions. Any increase in the rate would not apply retroactively.

Tax on Bonds and Securities Transactions (IOF/Bonds)

Pursuant to Decree 6,306/07, the Tax on Bonds and Securities Transactions, or IOF/Bonds, may be imposed on any transaction involving bonds and securities even if the transactions are performed on a Brazilian stock exchange. The rate of this tax for transactions involving preferred shares is currently 0%, but the Brazilian government may increase such rate up to 1.5% per day, with respect to future transactions. Currently, the issuance of depositary receipts traded outside of Brazil which underlying shares are issued by a Brazilian company and listed on a Brazilian stock exchange are also subject to IOF/Bonds at the 0% rate. Any increase in the rate would not apply retroactively.

U.S. Federal Income Tax Considerations

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

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

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

i. an individual citizen or resident of the United States;

ii. a corporation (or an entity taxable as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

iii. an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

iv. a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or (b) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership or other entity or arrangement 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

Subject to the passive foreign investment company, or PFIC, rules discussed below, 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. In general, distributions with respect to the preferred shares or ADSs (which likely include distributions of interest on shareholders' equity, as described above under "—Brazilian Tax Considerations—Distribution of Interest on Shareholders' Equity"), to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our current and accumulated earnings and profits, as so determined under U.S. federal income tax principles, the excess will be treated first as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. holders should assume that all distributions are made out of earnings and profits and constitute dividend income. As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

Distributions paid in Brazilian currency will be included in the gross income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are actually or constructively received by the U.S. holder, or in the case of dividends received in respect of ADSs, on the date the dividends are actually or constructively received by the depositary or its agent, whether or not converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt by the U.S. holder or disposition, as the case may be, and any gain or loss recognized upon a subsequent disposition of such Brazilian currency generally will be foreign currency gain or loss that is treated as U.S. source ordinary income or loss. If distributions paid in Brazilian currency are converted into U.S. dollars on the day they are received by the U.S. holder, the depositary or its agent, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the depositary or its agent is not converted into U.S. dollars on the date of receipt.

Under current law, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a reduced rate if the dividends represent “qualified dividend income.” Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States; (ii) the U.S. holder meets the holding period requirement for the ADSs (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date; and (iii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. The ADSs are listed on the NYSE, 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. Moreover, as discussed below under “—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules,” we believe that we were not treated as PFIC for U.S. federal income tax purposes in 2018, and do not expect to become a PFIC for our 2019 taxable year. Additionally, dividends on ADSs will not be eligible for the dividends received deduction allowed to U.S. corporations.

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

Dividends paid by us generally will constitute foreign source “passive category” income and will be subject to various other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian income tax imposed or withheld on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder’s U.S. federal income tax liability (or at a U.S. holder’s election if it does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. holder’s taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian income tax on dividends could be affected by future actions that may be taken by the IRS. The rules with respect to the U.S. foreign tax credit are complex, and U.S. holders of preferred shares or ADSs are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Taxation of Capital Gains

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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, gains or losses, if any, realized by a U.S. holder upon a sale, exchange or other taxable disposition of preferred shares or ADSs will be subject to U.S. federal income taxation as capital gains or losses in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition and such U.S. holder's adjusted tax basis in the preferred shares or ADSs. Such capital gains or losses will be long-term capital gains or losses if at the time of sale, exchange or other taxable disposition the preferred shares or ADSs have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gains of certain U.S. holders (including individuals) are eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations under the Code.

Gains, if any, realized by a U.S. holder on the sale, exchange or other taxable disposition of preferred shares or ADSs generally will be treated as U.S. source gains for U.S. foreign tax credit purposes. Consequently, if a Brazilian income tax is imposed on the sale or disposition of preferred shares, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian income tax. Alternatively, a U.S. holder may take a deduction for all foreign income taxes paid during the taxable year if it does not elect to claim a foreign tax credit for any foreign taxes paid or accrued during the taxable year. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

Passive Foreign Investment Company Rules

Based upon our current and projected income, assets and activities, we do not expect the preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year. However, as described above under "—U.S. Federal Income Tax Considerations—Taxation of Distributions," while we do not currently expect to become a PFIC for our 2019 taxable year, depending on the nature and amount of proceeds realized upon the sale of Via Varejo and our use (including timing of use) of such proceeds, it is possible that this sale could cause us to become a PFIC for U.S. federal income tax purposes with respect to the taxable year in which such a sale occurs. Further, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income, assets and the nature of our business, as well as the income, assets and business of entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or "excess distributions" allocable to prior years in the U.S. holder's holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our preferred shares or ADSs would not be "qualified dividend income" eligible for preferential rates of U.S. federal income taxation.

A U.S. Holder who owns preferred shares or ADSs during any taxable year in which we are a PFIC in excess of certain *de minimis* amounts and fails to qualify for certain other exemptions would be required to file IRS Form 8621. In addition, under certain circumstances, the temporary regulations also require a "United States person" (as such term is defined in the Code) that owns an interest in a PFIC as an indirect shareholder through one or more United States persons to file Form 8621 for any taxable year during which such indirect shareholder is treated as receiving an excess distribution in connection with the ownership or disposition of such interest, or reports income pursuant to a mark-to-market election. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules to the preferred shares or ADSs.

U.S. Information Reporting and Backup Withholding

Certain U.S. holders of preferred shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends paid by our Company or the proceeds of a sale, exchange or other taxable disposition of preferred shares or ADSs, unless such U.S. holder (i) is an exempt recipient and demonstrates this fact when so required; or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is a U.S. person and that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder's U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

"Specified Foreign Financial Asset" Reporting

Owners of "specified foreign financial assets" with an aggregate value in excess of US$50,000 (and in some circumstances, a higher threshold), may be required to file an information report with respect to such assets with their U.S. federal income tax returns. "Specified foreign financial assets" generally include any financial accounts maintained by foreign financial institutions as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons; (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties; and (iii) interests in foreign entities.

Prospective purchasers should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of preferred shares or ADSs, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction, including estate, gift, and inheritance laws.

10F. Dividends and Paying Agents

Not applicable.

10G. Statement by Experts

Not applicable.

10H. Documents on Display

We are subject to the information requirements of the Exchange Act, pursuant to which we file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. In addition, the SEC maintains an Internet website at http://www.sec.gov, from which you can electronically access the registration statement and its materials. You may also inspect these reports and other information at the offices of the New York Stock Exchange Inc., 120 Broad Street, New York, New York 10005, on which our ADSs are listed.

We also file financial statements and other periodic reports with the CVM, including the *Formulário de Referência*, which is an annual report that is prepared and filed in accordance with CVM Instruction No. 480/09 and can be accessed through www.cvm.gov.br. Information from that website is not incorporated by reference into this document.

Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our headquarters at: Avenida Brigadeiro Luiz Antonio, 3142, São Paulo, SP, Brazil.

Our website is located at *https://www.gpabr.com* and our investor relations website is located at *http://www.gpari.com.br*. (These URLs are intended to be an inactive textual reference only. They are not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL is not, and shall not be deemed to be, incorporated into this annual report.)

10I. Subsidiary Information

Not required.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See note 18 to our audited consolidated financial statements included elsewhere in this annual report for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk.

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

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. Our realized and unrealized gains and losses on these contracts are included within "financial income" and "financial expense," respectively.

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

We have a policy of entering into contracts only with parties that have high credit ratings. The counter-parties to these contracts are major financial institutions. We do not expect a credit loss from counter-party non-performance.

Interest Rate Risk

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

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

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2018.

	Expected Maturity Date As of December 31, 2018									
	2019	**2020**	**2021**	**2022**	**2023**	**There-after**	**Total**	**Borrowing Cost**	**Fair Value**	**Annual Average Interest Rate**
	(in millions of R$)									
Assets:										
Cash and banks in *reais*(1)	486	-	-	-	-	-	486	-	486	
Cash equivalents denominated in *reais*	3,883	-	-	-	-	-	3,883	-	3,883	85.78% of CDI
Total cash and cash equivalents	4,369	-	-	-	-	-	4,369	-	4,369	
Liabilities:										
Loans and financing										
Floating rate, denominated in U.S. dollars(2)	611	156	-	-	-	-	767	-	767	(102.59% of CDI) + (3.26% per year USD)
Floating rate, denominated in euros(3)	-	-	-	-	-	-	-	-	-	-
Floating rate, denominated in *reais*	252	16	13	12	19	27	339	(3)	336	(94.63% of CDI) + (TR + 9.98% per year)
Floating rate, denominated in *reais*	8	8	9	9	3	-	37	-	29	(3.91% per year)
Floating rate, denominated in *reais*	35	46	37	7	2	25	152	-	153	(96.96% of CDI) + (1.32% of IGPDI) + (23.87% per year)
Total loans and financing	906	226	59	28	24	52	1,295	(3)	1,285	
Debentures floating rate, denominated in *reais*	1,075	1,080	1,500	500	-	-	4,155	(10)	4,146	(101.22% of CDI)
Total liabilities	**1,981**	**1,306**	**1,559**	**528**	**24**	**52**	**5,450**	**(13)**	**5,379**	

(1) Cash and banks include 80 million U.S. dollars.

(2) Originally U.S. dollar-denominated and swapped to CDI.

The following table presents historical data for interest rates relevant to our financial instrument in the last three years:

	As of December 31,		
	2018	**2017**	**2016**
CDI[(1)]	6.4%	9.9%	14.0%
TJLP[(2)]	7.0%	7.0%	7.5%

(1) Annualized rate at the end of each period.

(2) Reference rate at the end of each period.

We have not experienced, and we do not expect to experience, difficulty in obtaining financing or refinancing existing debt. See "Item 5B. Liquidity and Capital Resources" for a discussion of our credit agreements.

Exchange Rate Risk

We are exposed to fluctuations in foreign currency cash flows related to certain short-term and long-term debt payments. We are principally exposed to fluctuations of the exchange rate with the U.S. dollar. For more information see, "Item 3D. Risk Factors—Risks Relating to Brazil—Exchange rate volatility may adversely affect the Brazilian economy and us."

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency-denominated liabilities as of December 31, 2018, 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$76 million as of December 31, 2018, compared to R$7 million as of December 31, 2017 and R$177 million as of December 31, 2016. Our net foreign currency exposure is represented by the debt due to import financing. Our cross-currency interest rate swaps partially hedge our exposure arising from our U.S. dollar denominated debt.

The table below provides information on our debt outstanding as of December 31, 2018:

	Expected Maturity Date							
	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
				(in millions of R$)				
Loans and financing								
U.S. dollars[1]	611	156	-	-	-	-	767	767
Euros[2]	-	-	-	-	-	-	-	-
Reais	294	70	59	28	24	51	525	518
Total loans and financing	**905**	**226**	**59**	**28**	**24**	**51**	**1,292**	**1,285**
Debentures and promissory note								
Reais	1,068	1,079	1,500	500	-	-	4,146	4,094
Total Debentures	**1,068**	**1,079**	**1,500**	**500**	**-**	**-**	**4,146**	**4,094**

(1) Originally U.S. dollar-denominated and swapped to CDI.

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar-denominated short-term and long-term debt for Brazilian *real*-denominated floating rate debt, based on the CDI rate variation. See note 18 to our audited consolidated financial statements included elsewhere in this annual report. As of December 31, 2018, the originally U.S. dollar-denominated debt of R$767 million and R$918 million as of December 31, 2017, which were covered by floating rate swaps in *reais*, based on the CDI rate, has been treated on a combined basis as if these loans had been originally denominated in *reais* and accrued CDI. In addition, the swap agreements do not provide for collateral.

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

	Expected Maturity Date									
	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value of Assets (Liabilities)	Average Paying Rate in *reais*	Average Receiving Rate
Cross currency and interest rate swap contracts notional amount										
U.S. dollars to *reais*	655	189	-	-	-	-	844	844	(102.59% over CDI)	(USD + 3.26% per year)
Euros to *reais*	-	-	-	-	-	-	-	-	-	-

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12A. Debt Securities

Not applicable.

12B. Warrants and Rights

Not applicable.

12C. Other Securities

Not applicable.

12D. American Depositary Shares

In the United States, our preferred shares trade in the form of ADS. The ADSs commenced trading on the NYSE on May 29, 1997.

We do not treat ADR holders as our shareholders and ADR holders have no shareholder rights. Brazilian law governs shareholder rights. The depositary is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights.

Fees and Expenses

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	**For:**
US$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US$.05 (or less) per ADS	Any cash distribution to ADS registered Holders
US$.05 (or less) per ADS per calendar year (or portion thereof)	Services performed by the depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision)
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

Fees Incurred Since January 1, 2018

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From January 1, 2018, until December 31, 2018, the Company received from J.P. Morgan Chase Bank N.A., as the depositary bank of our ADS program during that period, the amount of US$3.33 million for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of reimbursement of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

Fees to be Paid in the Future

JPMorgan Chase Bank, N.A., as depositary, has agreed to reimburse the Company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

No matters to report.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act, is recorded, processed, summarized and reported within the specified time periods. The Company's chief executive officer and chief financial officer evaluated the effectiveness, as of December 31, 2018, of the Company's "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2018, are effective at the reasonable assurance.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by IASB.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that the receipts and expenditures of the Company are being made only in accordance with appropriate authorization of management and the board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013). Based on this assessment, management believes that as of December 31, 2018, our internal control over financial reporting was effective.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report appearing on page F-1 of this annual report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(d) under the Exchange Act) during the year ended December 31, 2018, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

16A. Audit Committee Financial Expert

Our board of directors has determined that Luiz Nelson Guedes de Carvalho, a member of our audit committee, is an audit committee financial expert, as defined by current SEC rules and meets the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see "Item 6C. Board Practices—Committees of the Board of Directors—Audit Committee."

16B. Code of Ethics

In 2000, our board of directors adopted a code of ethics for our directors, officers and employees, including our chief executive officer and chief financial officer, which was amended by our board of directors on July 27, 2016. This Code of Ethics of the Company complies with item 5.8 of the New Listing Regulation for Corporate Governance Level 1 issued by the B3 and is available at our website *www.gpari.com.br* and at *www.cvm.gov.br*. We intend to make any amendments to our code of ethics publicly available on this website. Information from that website is not incorporated by reference into this document.

16C. Principal Accountant Fees and Services

Ernst & Young Auditores Independentes S.S. acted as our independent registered public accounting firm for the fiscal years ended December 31, 2018 and 2017. The chart below sets forth the total amount billed to us by our independent accountants for services performed in 2018 and 2017, including out-of-pocket expenses, and a breakdown of these amounts by category of service:

	2018	**2017**
	(in millions of R$)	
Audit Fees	7.5	7.8
Audit–Related Fees	-	-
Tax Fees	-	0.9
All Other Fees	-	-
Total	**7.5**	**8.7**

Audit Fees

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Audit fees are fees for: (i) the audit of our consolidated financial statements for the year of 2018, the reviews of our quarterly financial information for the year with corresponding audit of our internal control over financial reporting for 2018, which were billed in 2018, and the audit of certain tax credits sold to a bank during 2018; and (ii) the audit of the consolidated financial statements for the year of 2017, and the audit of the internal control over financial reporting of our indirect subsidiary Cnova Brazil.

Audit-Related Fees

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

Tax Fees

Tax fees were comprised of the aggregate fees billed for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

All Other Fees

All other fees were comprised of the aggregate fees billed for products and services provided by the principal accountant, other than the services reported under “audit fees,” “audit-related fees” and “tax fees.”

Pre-Approval Policies and Procedures

Our audit committee has the responsibility of approving all audit, audit-related, tax and other services provided by our independent accountants. Any services provided by our independent accountants that are not specifically included within the scope of the audit must be pre-approved by our audit committee prior to any engagement. Our audit committee is permitted to approve certain audit and tax services, pursuant to a *de minimis* exception.

16D. Exemptions from the Listing Standards for Audit Committees

Under the listed company audit committee rules of the NYSE and the SEC, we are required to comply with Exchange Act Rule 10A-3, which mandates that we either establish an audit committee composed of members of the board of directors that meets specified requirements or rely on an exemption under Exchange Act Rule 10A-3(c)(3), which is the case with our statutory audit committee. In our assessment, in light of the composition of our statutory audit committee, our reliance on the exemption does not materially adversely affect the ability of our statutory audit committee to act independently and to satisfy the other requirements of Exchange Act Rule 10A-3. For a further discussion of our statutory audit committee and the audit committee exemption, see “Item 6C. Board Practices—Committees of the Board of Directors—Audit Committee.”

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

None.

16F. Change in Registrant’s Certifying Accountant

Not applicable.

16G. Corporate Governance

Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we must disclose any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards. As a Brazilian company listed on the B3, we are required to comply with the corporate governance standards set forth in Brazilian corporate law and the rules of CVM. The following is a summary of those differences.

Independence of Directors and Independence Tests

The NYSE rules require that a majority of the board of directors must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board of directors. However, both Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence.

Brazilian corporate law requires that our directors be elected by our shareholders at a general shareholders' meeting. Currently, our board of directors consists of nine members elected by our shareholders, of which three are representatives of the Casino Group, three are representatives of Éxito group, and three are independent directors.

Executive Sessions

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected from management. There is no requirement that non-management directors meet regularly without management. As a result, the non-management directors on our board of directors do not typically meet in executive session.

Nominating/Corporate Governance Committee

NYSE rules require that listed companies have a nominating/corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company.

Although we are not required under applicable Brazilian law, we have created a Corporate Governance and Sustainability Committee and a Human Resources and Compensation Committee to improve our corporate governance practices. The Human Resources and Compensation Committee is responsible for examining candidates and providing guidelines for the appointment of members for our board of directors, special committees and executive officers. For further information on our Human Resources and Compensation Committee, see "Item 6C. Board Practices—Committees of the Board of Directors—Human Resources and Compensation Committee."

Human Resources and Compensation Committee

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive compensation and equity-based plans.

Under Brazilian corporate law, the total amount available for compensation for our directors and executive officers and for profit sharing payments to our executive officers is set by our shareholders at the annual general shareholders' meeting. On the other hand, the board of directors, through the Human Resources and Compensation Committee, is responsible for recommending to the shareholders the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such recommendation, the board, through the Human Resources and Compensation Committee, reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation. For further information on our Human Resources and Compensation Committee, see "Item 6C. Board Practices—Committees of the Board of Directors—Human Resources and Compensation Committee."

Audit Committee and Audit Committee Additional Requirements

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate; (ii) meets the SEC rules regarding audit committees for listed companies; (iii) has at least one member who has accounting or financial management expertise; and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporate law.

As a foreign private issuer, we chose to rely on an exemption under Exchange Act Rule 10A-3(c)(3). For a further discussion of our statutory audit committee and the audit committee exemption, see "Item 6C. Board Practices—Committees of the Board of Directors—Audit Committee."

Shareholder Approval of Equity Compensation Plans

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under Brazilian corporate law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval as well. Our board of directors, in its turn, is responsible for voting on the issuance of new equity in connection with our existing stock option plans, provided that the limit of our authorized capital is respected.

Corporate Governance Guidelines

Under NYSE listing standards, a listed U.S. company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We have adopted and observed corporate governance guidelines in accordance with Brazilian legislation, including a disclosure policy which requires, among other things, the disclosure of our corporate governance guidelines, material facts and annual financial reports. In addition, we have adopted and observed a policy on business conduct and ethics.

Code of Business Conduct and Ethics

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Brazilian law has a similar requirement.

We implemented a code of ethics in 2000, as amended in 2016, to regulate our employees' conduct with us and our customers, suppliers, competitors, public agents and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act, NYSE rules and applicable Brazilian law, we implemented rules applicable to our managers' conduct in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data in 2016. For more information about our code of ethics, see "Item 16B. Code of Ethics."

Internal Audit Function

NYSE rules require that listed companies maintain an internal audit function to provide management and the fiscal council or the audit committee, as the case may be, with ongoing assessments of the company's risk management processes and system of internal control. Our internal audit department and our internal control department are responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal control over financial reporting. The internal audit department reports to our audit committee as well as to our chief executive officer. Our audit committee and chief executive officer, in turn, report to our board of directors.

Sarbanes Oxley Act of 2002

We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. We have filed the relevant officer certifications under Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal controls over financial reporting as Exhibits 12.1 and 12.2 to this annual report.

16H. Mine Safety Disclosure

Not applicable.

PART II

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	English translation of our *Estatuto Social* (by-laws), as amended.[1]
2.(a)	Form of Third Amended and Restated Deposit Agreement, among us, JPMorgan Chase Bank, N.A., as depositary, and all holders from time to time of ADRs issued thereunder, evidencing ADSs representing deposited Shares (defined therein).
4.(b)(1)	Shareholders' Agreement dated July 1, 2010, among Companhia Brasileira de Distribuição, Samuel Klein, Michael Klein, Eva Lea Klein, Via Varejo S.A. as intervening party, Casa Bahia Comercial Ltda. and Wilkes Participações S.A.[3]
4.(b)(2)	Cost Sharing Agreement, dated August 1, 2014, by and among Casino Guichard Perrachon S.A., Sudaco Participações Limitada and Companhia Brasileira de Distribuição.[4]
4.(b)(3)	First Amendment to the Cost Sharing Agreement, dated October 30, 2014, by and among Casino Guichard Perrachon S.A., Sudaco Participações Limitada, Companhia Brasileira de Distribuição and Euris.[4]
4.(b)(4)	Wilkes Participações S.A. Shareholders' Agreement, dated August 20, 2015, among Segisor S.A.S., Casino, Guichard-Perrachon S.A., Oregon LLC, Pincher LLC, Bengal I LLC and Almacenes Éxito S.A., and, as Intervening Parties, Wilkes Participações S.A., Companhia Brasileira de Distribuição and Onper Investments 2015, S.L.[5]
4.(b)(5)	Companhia Brasileira de Distribuição Shareholders' Agreement, dated August 20, 2015, among Wilkes Participações S.A., Casino, Guichard-Perrachon S.A. and Almacenes Éxito S.A., and, as Intervening Parties, Companhia Brasileira de Distribuição, Segisor S.A.S. and Onper Investments 2015, S.L.[5]
4(b)(6)	Commitment Letter from Casino, Guichard-Perrachon to Companhia Brasileira de Distribuição, dated August 8, 2016.[6]
4(b)(7)	Support Letter from Casino, Guichard-Perrachon to Companhia Brasileira de Distribuição, dated August 8, 2016.[6]

6.1	See note 4.22 to our financial statements for information explaining how earnings per share information was calculated.
8.1	List of Subsidiaries. See note 3.1 to our financial statements for information regarding our subsidiaries.
12.1	Section 302 Certification of the Chief Executive Officer.*

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12.2	Section 302 Certification of the Chief Financial Officer.*
13.1	Section 906 Certification of the Chief Executive Officer.*
13.2	Section 906 Certification of the Chief Financial Officer.*

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(1) Incorporated herein by reference to our 6-K furnished on May 10, 2018.

(2) Incorporated herein by reference to our registration statement on Form F-6 (No. 333-207667).

(3) Incorporated herein by reference to our annual report on Form 20-F filed on July 1, 2011.

(4) Incorporated herein by reference to our annual report on Form 20-F filed on April 30, 2015.

(5) Incorporated herein by reference to our 6-K furnished on August 28, 2015.

(6) Incorporated herein by reference to our annual report on Form 20-F filed on May 10, 2017.

* Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

By: /s/ Peter Paul Lourenço Estermann
Name: Peter Paul Lourenço Estermann
Title: Chief Executive Officer

By: /s/ Christophe José Hildago
Name: Christophe José Hidalgo
Title: Chief Financial Officer

Dated: April 29, 2019.

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Companhia Brasileira de Distribuição and subsidiaries

Consolidated Financial Statements as of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016 and Report of Independent Registered Public Accounting Firm

Companhia Brasileira de Distribuição

Consolidated Financial Statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of

Companhia Brasileira de Distribuição

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Companhia Brasileira de Distribuição and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards - IFRS as issued by the International Accounting Standards Board - IASB.

We did not audit the financial statements of Via Varejo S.A., a Company's subsidiary, whose assets, liabilities and operations are presented as discontinued operations as of December 31, 2018 and 2017. Via Varejo S.A.'s total assets constitute 46% and 48% of the Company´s total consolidated assets as of December 31, 2018 and 2017, respectively, and its net income (loss) constitute 6% and 44% of the Company´s consolidated net income for the years ended December 31, 2018 and 2017, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Via Varejo S.A., is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 29, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 5 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers and financial instruments in 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG

Auditores Independentes S.S.

We have served as the Company's auditor since 2017.

São Paulo, Brazil

April 29, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of

Companhia Brasileira de Distribuição

Opinion on Internal Control over Financial Reporting

We have audited Companhia Brasileira de Distribuição's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Companhia Brasileira de Distribuição (the Company), based on our audit and the report of other auditors, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We did not examine the effectiveness of internal control over financial reporting of Via Varejo S.A., a Company's subsidiary, whose assets, liabilities and operations are presented as discontinued operations as of December 31, 2018. Via Varejo S.A.'s total assets constitute 46% of the Company´s total consolidated assets as of December 31, 2018 and its net loss constitute 6% of the Company´s consolidated net income for the year ended December 31, 2018. The effectiveness of Via Varejo S.A.'s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Via Varejo S.A.'s internal control over financial reporting, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes and our report dated April 29, 2019 expressed an unqualified opinion thereon, based on our audit and the report of the other auditors.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG

Auditores Independentes S.S.

São Paulo, Brazil

April 29, 2019

Companhia Brasileira de Distribuição

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended December 31, 2018, 2017 and 2016

(In millions of Brazilian reais, except earnings per share)

	Note	**2018**	**2017** Restated (Note 5.1)	**2016** Restated (Note 5.1)
Net operating revenue	25	**49,388**	44,634	41,454
Cost of sales	26	**(37,834)**	(33,646)	(31,654)
Gross profit		**11,554**	10,988	9,800
Operating expenses				
Selling expenses	26	**(7,297)**	(7,027)	(6,781)
General and administrative expenses	26	**(1,057)**	(1,032)	(948)
Depreciation and amortization		**(840)**	(779)	(707)
Other operating expenses, net	27	**(216)**	(579)	(567)
		(9,410)	(9,417)	(9,003)
Profit from operations before net financial expenses and share of profit of associates		**2,144**	1,571	797
Financial expenses, net	28	**(474)**	(730)	(903)
Share of profit (loss) of associates	13	**33**	(89)	21
Income (loss) before income tax and social contribution		**1,703**	752	(85)
Income tax and social contribution	20	**(449)**	(297)	(24)
Net income (loss) for the year from continuing operations		**1,254**	455	(109)
Net income (loss) for the year from discontinued operations after tax		**(74)**	356	(1,036)
Net income (loss) for the year		**1,180**	811	(1,145)
Other comprehensive income (loss) for the year				
-Items that may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation		**(24)**	(20)	237
Fair value of trade receivables		**8**	(17)	(51)
Income taxes		**2**	3	15
-Items that will not be reclassified to profit or loss in subsequent periods:				
Other comprehensive income		**(1)**	(1)	(3)

Other comprehensive income (loss) for the year, net of income tax		**(15)**	(35)	198
Total comprehensive income (loss) for the year		**1,165**	776	(947)
Net income (loss) for the year attributed to:				
Controlling shareholders from continuing operations		**1,254**	455	(109)
Controlling shareholders from discontinued operations		**(61)**	125	(424)
Total of controlling shareholders		**1,193**	580	(533)
Non-controlling shareholders from- discontinued operations		**(13)**	231	(612)
Total of non-controlling shareholders		**(13)**	231	(612)
Total comprehensive income (loss) attributed to:				
Controlling shareholders		**1,176**	551	(459)
Non-controlling shareholders		**(11)**	225	(488)
		1,165	776	(947)
Earnings (loss) per share (R$/share) – controlling shareholders'	29			
Basic				
Common – continuing and discontinued operations		**4.19870**	2.05284	(2.01118)
Common – continuing operations		**4.42584**	1.61730	(0.41213)
Preferred – continuing and discontinued operations		**4.64129**	2.25812	(2.01118)
Preferred – continuing operations		**4.86842**	1.77904	(0.41213)
Diluted				
Common – continuing and discontinued operations		**4.19870**	2.05284	(2.01118)
Common – continuing operations		**4.42584**	1.61730	(0.41213)
Preferred – continuing and discontinued operations		**4.60961**	2.24600	(2.01118)
Preferred – continuing operations		**4.83520**	1.76950	(0.41213)

The accompanying notes are integral part of these consolidated financial statements.

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Companhia Brasileira de Distribuição

Consolidated Balance Sheets

December 31, 2018, 2017 and January 1, 2017

(In millions of Brazilian reais)

	Note	**2018**	**2017** Restated (Note 5.1)	**01.01.2017** Restated (Note 5.1)
Current assets				
Cash and cash equivalents	7	**4,369**	3,792	5,112
Trade receivables, net	8	**384**	618	535
Other receivables	9	**302**	267	119
Inventories, net	10	**5,909**	4,822	4,641
Recoverable taxes	11	**679**	596	674
Derivative financial instruments	18.1	**43**	-	-
Other current assets		**175**	146	252
Assets held for sale	32	**24,443**	22,775	20,153
Total current assets		**36,304**	33,016	31,486
Noncurrent assets				
Trade receivables, net	8	**4**	80	-
Other receivables	9	**128**	642	612
Recoverable taxes	11	**2,745**	1,747	632
Derivative financial instruments	18.1	**44**	28	-
Deferred income tax and social contribution	20	**207**	125	174
Related parties	12	**34**	25	17
Restricted deposits for legal proceedings	21.7	**776**	762	661
Prepaid expenses		**59**	43	45
Investments in associates	13	**203**	156	311
Investment properties		**20**	21	23
Property and equipment, net	14	**9,650**	9,138	9,182
Intangible assets, net	15	**2,675**	1,924	1,908
Total noncurrent assets		**16,545**	14,691	13,565
Total assets		**52,849**	47,707	45,051

The accompanying notes are integral part of these consolidated financial statements.

F-6

Companhia Brasileira de Distribuição

Consolidated Balance Sheets

December 31, 2018, 2017, and January 1, 2017

(In millions of Brazilian reais)

	Note	2018	2017 Restated	01.01.2017 Restated
Current liabilities				
Trade payable, net	16	**9,246**	8,128	7,232
Borrowings and financing	17	**2,016**	1,251	2,957
Payroll and related taxes		**686**	640	614
Taxes and contributions payable and taxes payable in installments	19	**370**	301	254
Related parties	12	**145**	153	147
Dividends payable	24.9	**57**	78	-
Financing of property		**149**	116	116
Rent payable		**127**	128	110
Deferred revenue	23	**250**	146	224
Other current liabilities		**327**	227	296
Liabilities related to assets held for sale	32	**19,412**	17,824	15,632
Total current liabilities		**32,785**	28,992	27,582
Noncurrent liabilities				
Borrowings and financing	17	**3,509**	3,337	2,912
Deferred income tax and social contribution	20	**581**	394	317
Tax payable in installments	19	**471**	566	540
Provision for contingencies	21	**1,235**	1,107	1,177
Deferred revenue	23	**13**	22	24
Provision for losses on investment in associates	13	**267**	195	36
Other noncurrent liabilities		**49**	53	46
Total noncurrent liabilities		**6,125**	5,674	5,052
Shareholders’ equity				
Share capital	24	**6,825**	6,822	6,811
Capital reserves		**413**	355	331
Earning reserves		**3,911**	3,060	2,643
Other comprehensive loss		**(66)**	(49)	(20)
		11,083	10,188	9,765
Non-controlling interest		**2,856**	2,853	2,652
Total shareholders’ equity		**13,939**	13,041	12,417
Total liabilities and shareholders’ equity		**52,849**	47,707	45,051

The accompanying notes are integral part of these consolidated financial statements.

F-7

Companhia Brasileira de Distribuição

Statements of Changes in Shareholders' Equity

Years ended December 31, 2018, 2017 and 2016

(In millions of Brazilian reais)

					Controlling Shareholders				
		Capital reserves			**Earnings reserves**				
	Share Capital	**Other Reserves**	**Stock Options**	**Legal**	**Expan-sion**	**Treasury Shares**	**Retained Earnings**	**Tax incentive reserve**	**Appro-priated earnings**
At January 1, 2016	**6,806**	**7**	**295**	**426**	**2,624**	**(7)**	**290**	-	
Effect of adoption of new accounting standards (Note 5.1.4)	-	-	-	-	-	-	-	-	(24
At January 1, 2016 (restated)	**6,806**	**7**	**295**	**426**	**2,624**	**(7)**	**290**	-	**(24**
Other comprehensive income:									
Net loss for the year	-	-	-	-	-	-	-	-	(533
Foreign currency translation (note 24.6)	-	-	-	-	-	-	-	-	
Fair value of trade receivable	-	-	-	-	-	-	-	-	
Income tax related to other comprehensive income (loss)	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	(533
Capital increase (note 24.1)	5	-	-	-	-	-	-	-	
Share-based expenses (note	-	-	21	-	-	-	-	-	

24.5)									
Share-based expenses - subsidiaries (note 24.5)	-	-	8	-	-	-	-	-	
Transfer to Appropriation of income to expansion reserve	-	-	-	-	119	-	(119)	-	
Proposed dividends - additional (note 24.9)	-	-	-	-	-	-	(4)	-	
Absorption of losses	-	-	-	-	(444)	-	(38)	-	48
Transactions with noncontrolling interest (note 24.7)	-	-	-	-	-	-	(138)	-	
Put option - CD Colombia	-	-	-	-	-	-	9	-	
At December 31, 2016 (restated)	**6,811**	**7**	**324**	**426**	**2,299**	**(7)**	**-**	-	**(75**
Other comprehensive income:									
Net income for the year	-	-	-	-	-	-	-	**-**	58
Foreign currency translation (note 24.6)	-	-	-	-	-	-	-	-	
Fair value of trade receivable	-	-	-	-	-	-	-	-	
Income taxes related to other comprehensive income (loss)	-								