BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
June 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

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

For the fiscal year ended: **December 31, 2006**
Commission file number: **1-14626**

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

(Exact name of Registrant as specified in its charter)
Brazilian Distribution Company
(Translation of Registrant s Name into English)

Federative Republic of Brazil
(Jurisdiction of Incorporation)
Avenida Brigadeiro Luiz Antonio, no. 3,142
01402-901 São Paulo, SP, Brazil
(Address of Principal Executive Offices)

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

Title of Each Class	Name of Each Exchange on Which Registered:
Preferred Shares, without par value*	**New York Stock Exchange****
American Depositary Shares (as evidenced by American Depositary Receipts), each Representing 1,000 shares of Preferred Shares	**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.

The number of issued shares of each class of stock of COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO as of December 31, 2006 was:

49,839,925,688 Common Shares, no par value per share
63,931,452,745 Preferred Shares, no par value per share

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

Yes No

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

Yes No

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

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

Yes No

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

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

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

At June 25, 2007, the commercial market rate for purchasing U.S. dollars was R$ 1.9379 to U.S.$ 1.00.

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

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

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

Brazilian GAAP differs in significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. For more information about the differences between Brazilian GAAP and U.S. GAAP and a reconciliation of our net income and shareholders equity from Brazilian GAAP to U.S. GAAP, see note 24 to our consolidated financial statements. The financial information contained in this annual report is in accordance with Brazilian GAAP, except as otherwise noted.

FORWARD-LOOKING STATEMENTS

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

- our ability to sustain or improve our performance,
- competition in the Brazilian retail food industry,
- government regulation and tax matters,
- adverse legal or regulatory disputes or proceedings,

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

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

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The following table presents our selected financial data as of the dates and for each of the periods indicated. The selected financial data at December 31, 2006 and 2005 and for each of the three years ended December 31, 2006, 2005 and 2004 have been derived from our consolidated financial statements prepared under Brazilian GAAP and included in this annual report. The selected financial information at December 31, 2004, 2003 and 2002 and for each of the two years ended December 31, 2003 and 2002 have been derived from our consolidated financial statements prepared under Brazilian GAAP that are not included in this annual report.

	At and for the Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(millions of R$, except share, per share and per ADS Amounts)				
Statement of operations data					
Brazilian GAAP:					
Net sales revenue	13,880.4	13,413.4	12,565.0	10,806.4	9,454.7
Cost of sales	(9,963.0)	(9,438.1)	(8,891.5)	(7,764.3)	(6,809.6)
Gross profit	3,917.4	3,975.3	3,673.5	3,042.1	2,645.1
Selling, general and administrative expenses	(3,031.0)	(2,868.8)	(2,690.1)	(2,183.6)	(1,935.3)
Depreciation and amortization	(547.9)	(625.3)	(489.6)	(454.3)	(413.6)
Financial income	382.8	446.7	330.3	575.3	438.7
Financial expenses	(603.4)	(683.5)	(618.3)	(760.1)	(601.7)
Equity results	(53.2)	(16.2)	5.3	(8.8)	(10.4)
Operating income	64.7	228.2	211.1	210.6	122.8
Non-operating income, net	(323.2)	32.1	80.3	5.2	4.5
Income before income taxes	(258.5)	260.3	291.4	215.8	127.3
Income tax (expense) benefit:					
Current	(92.2)	(133.9)	(39.0)	(31.4)	(34.9)
Deferred	90.7	80.9	88.5	41.1	152.7
Employee profit sharing	(13.4)	(14.5)	(14.3)	0.0	0.0
Minority interest	359.0	64.2	43.2	0.0	0.0
Net income	85.6	257.0	369.8	225.5	245.1
Number of shares outstanding at year end (in thousands):					
Preferred shares	63,931,453	63,827,990	50,051,428	49,971,428	49,715,328
Common shares	49,839,926	49,839,926	63,470,811	63,470,811	63,470,811
Net income per thousand shares at year end [(1)]	0.75	2.26	3.26	1.99	2.17
Net income per ADS at year end [(1)]	0.75	2.26	3.26	1.99	2.17
U.S. GAAP:					
Net income [(5)]	14.5	270.6	488.9	293.2	93.8
Basic earnings per 1,000 shares [(1)(2)(5)]					
Preferred	0.13	2.49	4.54	2.73	0.83
Common	0.12	2.27	4.13	2.48	0.83
Diluted earnings per 1,000 shares [(1)(2)(5)]					
Preferred	0.13	2.49	4.53	2.72	0.83
Common	0.12	2.26	4.12	2.48	0.83

Basic earnings (loss) per ADS (1)(5)	0.13	2.49	4.54	2.73	0.83
Diluted earnings (loss) per ADS (1)(5)	0.13	2.49	4.53	2.72	0.83
Weighted average number of shares outstanding (in thousands)					
Preferred	63,903,600	59,058,731	50,032,630	49,725,151	49,596,794
Common	49,839,926	54,470,693	63,470,811	63,470,811	63,470,811
Total	113,743,526	113,529,424	113,503,441	113,195,962	113,067,605
Dividends declared and interest on equity per 1,000 shares(2)(3)(4)					
Preferred	0.19	0.57	1.33	0.53	0.55
Common	0.17	0.52	1.21	0.53	0.55
Dividends declared and interest on shareholders' equity per ADS(2)(3)(4)	0.19	0.57	1.33	0.53	0.55
Balance sheet data					
Brazilian GAAP:					
Cash and cash equivalents	1,281.5	1,710.8	1,179.5	981.9	1,135.2
Property and equipment, net	4,241.0	3,861.7	4,425.4	3,986.0	3,741.5
Total assets	11,672.3	10,923.2	11,040.2	8,939.9	9,187.7
Short-term debt (including current portion of long-term debt)	1,286.1	440.6	1,304.3	1,387.7	1,566.1
Long-term debt	1,382.2	2,353.9	1,400.5	1,081.1	1,349.7
Shareholders' equity	4,842.1	4.252.4	4,051.0	3,768.4	3,592.0
Capital stock	3,954.6	3,680.2	3,509.4	3,157.2	2,749.8

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	At and for the Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(millions of R$, except share, per share and per ADS Amounts)				
U.S. GAAP:					
Total assets	11,225.0	10,513.7	9,396.4	9,159.3	8,968.7
Shareholders' equity	4,658.0	4,148.0	3,922.5	3,573.6	3,330.4
Other financial information					
Brazilian GAAP:					
Net cash provided by (used in):					
Operating activities	937.6	1,063.5	406.5	1,103.1	629.2
Investing activities	(918.4)	62.2	(133.2)	(627.1)	(984.0)
Financing activities	(448.5)	(594.3)	(148.7)	(629.3)	441.9
Capital expenditures	(902.2)	(899.6)	(559.4)	(541.7)	(984.3)

(1) Net income per 1,000 shares or ADS under Brazilian GAAP is based on shares outstanding at the end of each year. Earnings per 1,000 shares or ADS under U.S. GAAP are based on the weighted average number of shares outstanding during each period.

(2) Since 2003, each preferred share receives a dividend 10% higher than the dividend paid to each common share. Both preferred and common shares effectively participate equally in earnings in 2002. See Item 8A Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends.

(3) In accordance with Brazilian corporate law, we can distribute a notional, tax-deductible interest charge attributable to shareholders equity as an alternative form of payment to shareholders. A dividend of R$0.19 per 1,000 preferred shares and R$0.17 per 1,000 common shares was approved and declared at our general shareholders meeting held on April 30, 2007 and was paid on June 27, 2007.

(4) Dividends declared and interest on shareholders equity per 1,000 preferred shares, per 1,000 common shares and per ADS, was U.S.$0.09, U.S.$0.08 and U.S.$0.09, respectively, translated using the exchange rate at December 31, 2006 of R$ 2.138 per U.S.$1.00.

(5) The U.S. GAAP financial information was restated to correct the accounting treatment for cash considerations received from vendors in 2003 and amortization of leasehold improvements in 2003 and 2002.

	At and for the Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(millions of reais, exept as indicated)				
Operating Data					
Employees at end of period (1)	63,607	62,803	63,484	55,557	57,898
Total square meters of selling area at end of period	1,217,984	1,206,254	1,144,749	982,701	979,723
Number of stores at end of period:					
Pão de Açúcar	164	185	196	208	188
CompreBem	186	176	165	172	148
Extra (7)	87	79	72	62	60
Extra Eletro	50	50	55	55	54
Sendas (2)	62	66	63	-	-
Sé and CompreBem (5)	-	-	-	-	50
Total number of stores at end of period	549	556	551	497	500
Net sales revenues per employee (3)(6):					
Pão de Açúcar	$220,246	$ 222,565	$ 214,883	$ 198,342	$ 192,826
CompreBem	270,280	255.681	224,435	206,737	191,149
Extra (7)	273,978	280.753	273,659	264,315	239,933
Extra Eletro	446,178	408,056	380,098	371,991	286,692
Sendas (2)	252,224	195,347	150,098	-	-
Sé and CompreBem (5)	-	-	-	-	70,148
Total net sales revenues per employee	$ 259,467	$ 252,186	$ 234,423	$ 230,156	$ 199,160
Net sales revenues by store format:					
Pão de Açúcar	$ 3,092	$ 3,245	$ 3,315	$ 3,435	$ 2,800
CompreBem	2,278	2,194	2,016	1,921	1,527
Extra (7)	7,050	6,532	5,996	5,195	4,423
Extra Eletro	286	233	240	255	327
Sendas (2)	1,174	1,209	998	-	-
Sé and CompreBem (5)	-	-	-	-	378
Total net sales	$ 13,880	$ 13,413	$ 12,565	$10,806	$9,455
Average monthly net sales revenue per square meter (3)(4):					
Pão de Açúcar	$ 1,163.7	$ 1,094.1	$ 1,033.8	$ 1,075.1	$ 1,068.5
CompreBem	841.0	852.4	834.3	846.1	744.7
Extra (7)	933.0	921.2	951.9	946.4	851.7
Extra Eletro	706.9	575.9	559.2	621.5	703.6
Sendas (2)	911.0	839.7	745.3	-	-
Sé and CompreBem (5)	-	-	-	-	317.8
	$ 949.7	$ 856.7	$ 917.8	$ 950.8	$ 820.8

CBD average monthly net sales revenue per square meter					
Average ticket amount (3):					
Pão de Açúcar	21.5	$ 20.5	$ 19.2	$ 19.2	$ 18.5
CompreBem	16.7	16.0	14.9	15.0	13.8
Extra (7)	41.6	40.2	39.1	39.6	37.2
Extra Eletro	310.5	283.5	261.9	279.4	268.9
Sendas (2)	19.0	18.8	18.0	-	-
Sé and CompreBem (5)	-	-	-	-	16.0
CBD average ticket amount	27.1	$ 25.7	$ 24.3	$ 24.6	$ 23.3
Average number of tickets per month:					
Pão de Açúcar	11,978,947	13,189,705	14,356,288	14,882,404	12,590,382
CompreBem	11,344,846	11,415,478	11,284,705	10,694,314	9,206,964
Extra (7)	14,123,289	13,538,497	12,779,828	10,939,529	9,911,953
Extra Eletro	76,762	68,497	76,366	76,068	101,326
Sendas (2)	5,138,482	5,348,968	4,619,534	-	-
Sé and CompreBem (5)	-	-	-	-	1,970,602
CBD average number of tickets per month	42,662,326	43,561,146	43,116,721	36,592,315	33,781,227

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

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Exchange Rates

Before March 14, 2005, there were two principal legal foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market. On March 4, 2005, the National Monetary Council *(Conselho Monetário Nacional*), or CMN, enacted Resolution No. 3,265, pursuant to which the floating rate market and the commercial market were unified under the denomination exchange market, effective as of March 14, 2005. The new regulation allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, provided, however, the transaction is legal and subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and, since then, the *real*/U.S. dollar exchange rate has fluctuated considerably. Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the *real* declined relative to the U.S. dollar. The *real* appreciated against the U.S. dollar in 2003, 2004, 2005 and 2006. At December 31, 2006, the exchange rate for U.S. dollars was R$2.138 per U$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see 3D. Risk Factors Risks Relating to Brazil.

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R$/US$), for the periods indicated.

	Exchange Rate of Brazilian Currency per US$1.00			
Year	**Low**	**High**	**Average(1)**	**Year-End**
2002	2.2709	3.9552	2.9983	3.5333
2003	2.8219	3.6623	3.0600	2.8892
2004	2.6544	3.2051	2.9171	2.6544
2005	2.1633	2.7621	2.4125	2.3407
2006	2.0586	2.3711	2.1770	2.1380

	Exchange Rate of Brazilian Currency per US$1.00			
Month	**Low**	**High**	**Average(1)**	**Year-End**
December 2006	2.1380	2.1693	2.1499	2.1380
January 2007	2.1247	2.1556	2.1385	2.1247
February 2007	2.0766	2.1182	2.0963	2.1182
March 2007	2.0504	2.1388	2.0887	2.0504
April 2007	2.0231	2.0478	2.0320	2.0339
May 2007	1.9289	2.0309	1.9816	1.9289
June 2007 (Through June 25)	1.9047	1.9638	1.9304	1.9379

Source: Central Bank

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

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Exchange rate fluctuations will affect the U.S. dollar equivalent of the *real* price of the common shares on the BOVESPA as well as the U.S. dollar equivalent of any distributions we make in *reais* with respect to our common shares.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government s actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. We may be adversely affected by changes in policy or regulations involving or affecting factors, such as:

- interest rates;
- monetary policy;
- exchange controls and restrictions on remittances outside Brazil, such as those which were briefly imposed in 1989 and early 1990;
- currency fluctuations;
- inflation;
- liquidity of domestic capital and lending markets;
- tax policies, and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policies or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad that are supported by Brazilian issuers.

Additionally, President Luiz Inácio Lula da Silva was reelected in October 2006 for a second four-year term in office, but we cannot guarantee that the economic policies adopted in his first term in office will be maintained. From 2001 to 2005, the Brazilian economy grew at an annual average rate of 2.2% . The limited growth of the Brazilian economy in the past years contributed to uncertainty as to whether the economic policies adopted by the current administration will be continued during its second term in office. The maintenance or change in economic policies may have adverse consequences on us and the market value of our preferred shares and the ADSs.

Inflation and efforts by the Brazilian government to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm us and the market value of our preferred shares.

Brazil has in the past experienced extremely high rates of inflation. Inflation, along with the Brazilian government s measures to combat inflation, has had significant negative effects on the Brazilian economy, contributing to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets. The annual rate of inflation, as measured by the IGP-M, has decreased from 20.1% in 1999 to 3.8% in 2006. The Brazilian government s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. As a result, interest rates have fluctuated significantly. For example, the official interest rates in Brazil at the end of 2003, 2004, 2005, and 2006 were 16.50%, 17.75%, 18.00% and 13.25%, respectively, as set by the Brazilian Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM.

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

Exchange rate instability may adversely affect the Brazilian economy and the market price of our preferred shares and the ADSs.

As a result of inflationary pressures, the Brazilian currency has been devalued periodically in relation to the U.S. dollar and other foreign currencies during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated against the U.S. dollar 15.7% in 2001 and 34.3% in 2002. Although the *real* appreciated 8.8%, 13.4% and 9.5% against the U.S. dollar in 2004, 2005 and 2006, respectively, there can be no assurance that the *real* will not depreciate against the U.S. dollar again. See Item 3A Key Information Selected Financial Data Exchange Rates for more information on exchange rates.

Depreciation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil and lead to increases in interest rates, which could negatively affect the Brazilian economy as a whole and result in a material adverse effect on us. Depreciation also would reduce the U.S. dollar value of distributions and dividends and the U.S. dollar equivalent of the market price of our preferred shares and the ADSs.

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

The market price of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, particularly other Latin American and emerging market countries.

Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors reactions to developments in these other countries may have an adverse effect on the market price of securities of Brazilian issuers. Crises in other emerging market countries may diminish investors interest in securities of Brazilian issuers, including our preferred shares. This could adversely affect the market price of our preferred shares, and the ADSs, 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.

Risks Relating to CBD

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

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

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

The Diniz group and the Casino group share our control through a holding company that owns 65.6% of our voting shares. This holding company is also referred to herein as the Holding Company. See Item 7A. Major Shareholders and Related Party Transactions Major Shareholders. Consequently, our two indirect co-controlling shareholders have the power to control our company, including the power to:

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

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

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

Our operations are subject to environmental risks.

We are subject to a number of different environmental laws, regulations and reporting requirements, specially related to our gas stations. Costs are incurred for prevention, control, abatement 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.

11

Risks Relating to the Preferred Shares and ADSs

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

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

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

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

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 49.4% of the aggregate market capitalization of the BOVESPA as of December 31, 2006. The top ten stocks in terms of trading volume accounted for approximately, 45%, 51% and 70% of all shares traded on the BOVESPA in 2004, 2005 and 2006, respectively.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

We were incorporated in Brazil under Brazilian law on November 10, 1981 as Companhia Brasileira de Distribuição. Our principal executive offices are located at Avenida Brigadeiro Luis Antonio, 3,142, CEP 01402-901 São Paulo, SP, Brazil (telephone: 55-11-3886-0421). Our agent for service of process in the United States is CT Corporation, 1633 Broadway, New York, New York, 10019.

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

Brazilian economic reforms implemented in 1994, including the introduction of the *real* as the Brazilian currency and the drastic reduction of inflation rates, resulted in an unprecedented growth in local consumer markets. It has been estimated that more than 19 million people gained access to consumer goods markets for the first time after 1994, as Brazilians, predominantly in lower and middle-income households, generally experienced real income gains. This increase in available income and the resulting increase in consumer confidence broadened our potential customer base and provided us with growth opportunities.

We responded to these changes by strengthening our capital structure, increasing our logistics and technology investments and implementing an expansion strategy focused on the different consumer preferences of the Brazilian population. To support our expansion strategy, consisting of acquisitions and organic growth, we defined the format of our stores in terms of the expectations, consumption patterns and purchasing power of the different income levels in Brazil. In order to implement such strategy and to increase our market share, over the last few years we acquired important chains such as *Barateiro* (currently, we operate these stores under the *CompreBem* banner), *Peralta, Paes Mendonça, ABC Supermercados, Sé Supermercados* and other small chains, such as *São Luiz, Nagumo* and *Rosado.* We also entered into an association called *Sendas Distribuidora S.A.*, with *Sendas S.A.* and investment funds of the AIG Group, of which we currently hold 42.57% . In addition, we established a financial partnership called *Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento*, or FIC, that exclusively offers private label and co-branded credit cards, personal and consumer credit, extended warranties and insurance at our stores.

From 2004 through 2006, we invested approximately R$303.2 million in technology, or about 12.8% of our total investments in the last three years. We also implemented projects designed to improve operational logistics and margins. We operate under centralized commercial and distribution systems, to obtain economies of scale. This has strengthened our negotiating position with suppliers with respect to prices and payment terms. We have also sought to gain efficiencies through improvements in our supply chain, in an effort to decrease stock-outs, breakage and shrinkage, increase productivity in the store, as well as to increase inventory turnover.

Since 2004, we acquired a total of 76 stores and also opened 44 stores. When entering new markets, we have generally sought to acquire local supermarket chains to benefit from existing know-how of the geographic region. For expansion within urban areas where we already have a presence, we have historically opened new stores. Currently, our focus is to expand organically, and not through acquisitions, as in the past. Although acquisitions may occur, it is not the focus. Historically, our organic growth and smaller acquisitions have generally been funded from our cash flow from operations, and larger acquisition opportunities have required external funding or capital increases. We expect to fund future organic growth from our cash flow from operations. Our aggregate sales area has increased by 6.4% since 2004, as a result of our acquisitions and our opening of new stores.

Despite price deflation in some food product categories in 2006, we were able to increase our competitiveness and reduce our operating expenses. During 2006, we implemented an internal restructuring aimed at shaping and consolidating a professional base to support and drive the accelerated growth expected for the coming years. We have implemented important changes in our executive board, which will be essential to reach our goals, and, consequently, greater profitability and returns. Our board of directors appointed a marketing executive officer, who is responsible for guiding and directing the actions for all our banners. Additionally, the commercial department was divided into two different departments food products and non-food products in order to promote specific strategies according to the profile and demand of each of these segments, and, as a result, increase our sales.

During 2006, we opened 21 stores, including four *Extra Perto* units (and opened an additional four *Extra Perto* stores in the beginning of 2007), which represented our entry in the convenience retail segment, the fastest-growing store format in the country according to the ACNielsen research institute. The *Extra Perto* banner will give us greater flexibility to expand and reach a public that is different from the public we already serve through our existing formats. We expect the expansion of *Extra Perto* stores in the future and our objective is to open 10 new hypermarkets and 20 supermarkets in 2007.

Capital Expansion and Investment Plan

As part of our capital expansion and investment plan, we have invested approximately R$2,361.2 billion in our operations since 2004. Our investments have included:

Acquisitions of supermarket and hypermarket chains Since 2004, we have acquired 76 stores, consisting of three supermarket chains. In addition, when entering new markets, we have generally sought to acquire local supermarket chains to benefit from their existing know-how of the geographic region. As a result, these acquisitions have enabled us to expand our operations to locations outside the state of São Paulo, particularly Rio de Janeiro. We have spent an aggregate of R$ 98.4 million on acquisitions since 2004.

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

Year	**Chains Acquired**	**Number of Stores**	**Geographic Distribution**
2004	*Sendas* (*)	68	Rio de Janeiro
2005	Coopercitrus	6	São Paulo
2006	Brotas Stores	2	São Paulo
	Total	76	

(*) Association

Opening of new stores As part of our expansion strategy, we have opened 44 new stores from 2004 through 2006, including 12 *Pão de Açúcar* stores, 11 *CompreBem* stores, 14 *Extra* stores, two *Extra Eletro* stores, one *Sendas* store and four *Extra Perto* convenience stores. The total cost of these new stores was R$668.7 million. We seek real estate properties to construct new stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities that suits one of our formats. We also tend to enter new regional markets with the construction of a hypermarket.

Renovation of existing stores We have remodeled *Pão de Açúcar, CompreBem, Extra* stores, *Sendas* and *Extra Eletro* stores every year. Our renovation program allows us to add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information technology systems. The total cost of renovating these stores was R$922.6 million from 2004 through 2006.

Improvements to information technology We have been committed to technology as an important component in our pursuit of greater efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We implemented a computer automated ordering system, which automatically replenishes our inventory based on consumers shopping habits. We have a proprietary technology system, the *pd@net*, a B2B, or business to business, platform for the on-line integration of approximately 7,000 suppliers. This Internet process enables information to be exchanged rapidly, precisely and transparently among all participants in the supply chain. For more information, see Technology. We have spent an aggregate of R$303.2 million on information technology from 2004 through 2006.

Expansion of distribution facilities Since 2004, we have opened distribution centers in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. The increase and improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have spent an aggregate of R$73.8 million on our distribution facilities from 2004 through 2006.

The following table provides a summary description of our principal capital expenditures disbursed for the three years ended December 31, 2006:

	Year Ended December 31,		
	2006	2005	2004
	(millions of *reais*)		
Opening of new stores	R$ 210.8	R$ 317.3	R$ 140.6
Acquisition of retail chains	74.6	21.5	2.3
Purchases of real estate	182.6	72.0	39.9
Renovations	262.8	359.3	300.5
Information technology	123.8	109.5	69.9
Distribution centers	47.6	20.0	6.2
Total	R$ 902.2	R$ 899.6	R$ 559.4

We invested R$902.2 million in 2006, mostly in opening new stores and remodeling stores. Annual organic growth in 2006 was strong, with the opening of five *Extra* hypermarkets and 12 supermarkets, three *Pão de Açúcar* stores, nine *CompreBem* stores and four *Extra Perto* convenience stores, as well as eight gas stations and 18 drugstores.

4B. Business Overview

The Brazilian Retail Food Sector

The Brazilian retail food sector represented approximately 5.3% of Brazil s GDP (gross domestic product) in 2006. According to ABRAS (Brazil s supermarket association), the food retail sector in Brazil had gross revenues of R$124.1 billion in 2006, representing a 4.8% increase over 2005. The Brazilian retail food sector is highly fragmented. However, despite the consolidation within the Brazilian retail food industry, in 2006, the three largest supermarket chains represented only approximately 34.1% of the retail food sector, as compared to 31.4% in 2002. We believe this consolidation will continue, and this is expected to favor large food retailers, such as us, that can take advantage of better economies of scale in the provision of services, implementation of cost-cutting and efficiency measures, and sourcing from suppliers. According to ABRAS, our gross sales represented 13.3% of the gross sales of the entire retail food sector in 2006.

Foreign ownership in the Brazilian food retail sector began with *Carrefour*, a leading French retail chain, which opened its first hypermarket in Brazil 32 years ago. In the last decade, the international chain *Wal-Mart* has also entered the Brazilian market, mostly through acquisitions of domestic retail food chains, and competition in the industry has intensified. In addition to the organized retail food sector, the industry in Brazil also consists of small food retailers which frequently avail themselves of access to merchandise from irregular and informal distribution channels. This merchandise usually has lower prices than those charged by manufacturers and stores in the conventional supply chain of the organized retail food sector.

Overall supermarket penetration in Brazil today, in terms of the number of supermarkets relative to overall population and area, is estimated to be below the levels that are common in the United States, many western European countries such as France, and some South American countries such as Chile. Management believes that the population of Brazil is an important factor affecting the potential growth in supermarket activity. According to the Brazilian Institute of Geography and Statistics, or IBGE, the total population of Brazil was approximately 186.8 million at the end of 2006, making Brazil the fifth most populous country in the world, with a population currently growing at a rate of 1.7% per year. As approximately 82.8% of the population lives in urban areas, and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from economies of scale deriving from Brazil s urban growth. São Paulo, with a current population of approximately 11.0 million, and Rio de Janeiro, with a population of approximately 6.1 million, are the two largest cities in Brazil. São Paulo State has a total population in excess of 41.1 million, representing approximately 22.0% of the Brazilian population. São Paulo State is the first and Rio de Janeiro is the second largest consumer market in which we operate.

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

The following table sets forth the different income class levels of Brazilian households, according to Ibope (Brazilian Institute of Public Opinion and Statistics).

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

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

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

Our Company

We are one of the largest food retailers in Brazil based on both gross revenues and number of stores. In 2006, we had a market share of approximately 13.3% in the Brazilian food retailing business, according to ABRAS, with annualized gross sales of R$16.5 billion. As of December 31, 2006, we operated 549 stores throughout Brazil, of which 499 were retail food stores. Of our retail food stores, 367 are located in São Paulo State, representing 59.6% of our net sales revenue from our retail food stores in 2006. São Paulo State is Brazil s largest consumer market. We are among the market leaders in the retail food stores in the cities of São Paulo, Rio de Janeiro, Brasília, Curitiba, Belo Horizonte, Salvador and Fortaleza. The Company s sales are effected through different sales formats under six banners: *Pão de Açúcar* (164 supermarkets), *CompreBem* (186 supermarkets), *Sendas* (62 supermarkets), *Extra* (83 hypermarkets), *Extra Eletro* (50 home appliance stores) and *Extra Perto* (four convenience stores).

The following table sets forth the number of our stores by region, as of December 31, 2006:

	City of São Paulo	Rest of the State of São Paulo (1)	State of Rio de Janeiro	South and Southeast (excluding States of São Paulo and Rio de Janeiro)(2)	Northeast	Center- West
Pão de Açúcar	59	38	9	4	37	17
Extra	19	25	17	5	10	7
CompreBem	77	95	14			
Sendas			62			
Extra Eletro	28	22				
Extra Perto(3)	4					
Total	187	180	102	9	47	24

(1) The rest of the state of São Paulo consists of 39 cities, including Campinas, Ribeirão Preto and Santos.
(2) This area comprises the states of Minas Gerais and Paraná.
(3) *Extra Perto* is a convenience store launched in October 2006.

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

	Pão de Açúcar	*CompreBem*	*Extra*	*Extra Eletro*	*Sendas*(1)	*Extra Perto*(2)	Total
At December 31, 2003	208	172	62	55			497
Opened	2	1	2	2	69		76
Closed	(5)	(15)		(2)			(22)
Transferred (to)/from	(9)	7	8		(6)		
At December 31, 2004	196	165	72	55	63		551
Opened	7	9	7				23
Closed	(6)	(7)		(5)			(18)
Transferred (to)/from	(12)	9			3		
At December 31, 2005	185	176	79	50	66		556
Opened	3	9	5			4	21
Closed	(21)	(3)	(1)		(3)		(28)
Transferred (to)/from	(3)	4			(1)		
At December 31, 2006	164	186	83	50	62	4	549

(1) One new store was opened during 2004 and the 68 remaining stores are a result of the association with *Sendas S.A.*

(2) *Extra Perto* is a convenience store launched in October 2006.

Our Competitive Strengths

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

Different retail food store formats

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

In October 2006, we launched a new banner called *Extra Perto*. *Extra Perto* is a convenience store that offers a convenient and pleasant shopping experience to our customers, with essencial day-by-day food products and services, and a clear price-quality perception.

Extensive network of distribution centers

We operate distribution centers strategically located in the cities of São Paulo, Brasília, Fortaleza, Rio de Janeiro, Recife, Salvador and Curitiba. Our distribution centers have a total storage capacity of 385,000 square meters of built-in area. Our management believes that our network of distribution centers is the most extensive and technologically advanced product distribution center network in the Brazilian retail food industry. We believe that our facilities are capable of servicing substantially all of our distribution requirements, both for our existing stores and for the stores that we currently plan to open in the near future. Approximately 85% of our inventory in 2006 came directly from one of our distribution centers, instead of from our suppliers, representing a substantial increase from 77% in 2002, resulting in higher bargaining power with suppliers, fewer inventory shortages, lower shrinkage and improved working capital management. Many of the functions of our distribution centers are automated, allowing for quicker and more efficient handling of products. Our distribution centers are supported by important systems, including *pd@net*, a business-to-business technology platform which links our computer automated ordering system, our suppliers and our distribution centers to automatically replenish our inventory.

Economies of scale

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

Our Strategy

In 2006, we focused on achieving higher efficiency levels and increased competitiveness, two important features that have allowed us to gain market share and trigger a virtuous cycle. We promoted a broad internal restructuring aimed at reducing expenses, which, in turn, allows the transfer of efficiency gains converted into lower prices to end consumers.

In addition, in 2006 we created a five-year strategic plan to be effective until 2010. Among the established targets of this plan, we highlight a significant growth in sales, with gross sales of R$25 billion (less the inflation effects) at year-end and an increase on the return over invested capital (ROIC) from currently 10% to 15%.

For 2007, our strategy is focused on (1) sales leverage and higher profitability, by reinforcement of non-food products, such as management process to absorb our client´s purchasing manner and global sourcing, (2) strengthening our relationship with suppliers by means of business development plans with mutual growth goals, (3) consolidation of our private-label products as a tool to strengthen our banners, (4) improvement of e-commerce as an instrument to integrate our services with all of our stores, (5) development of our Vira Rio project, aiming at, among other things, recovering our results in the state of Rio de Janeiro and (6) organic growth, through the opening of new stores.

Sales leverage and higher profitability

We expect to increase our profitability through: (1) the rationalization and dilution of corporate expenses, (2) the improvement of our marketing strategy and logistic structure , (3) the achievement of better price conditions with our suppliers and (4) the improvement of efficiency in our stores through the application of the same benchmarks used by the stores that achieve better expenses management results in all of our stores.

In addition, we plan to achieve gains on marketing and logistic as well as on productivity by means of the Shared Services Center (Central de Serviços Compartilhados), or CSC, which purpose is to centralize the purchase and the hiring of outsourced services, and of the Non-Saleable Products Purchase Department (Departamento de Compra de Indiretos), which purpose is to centralize our operating services and activities.

Reinforce non-food products and Global Sourcing

We are consolidating our category management process with the development of the "Soluções" (Solutions) concept, aiming at understanding the consumer's shopping behavior by displaying together products from different categories, but related to each other, by a common theme ('Home World', 'Digital World', 'Entertainment World', 'Baby World' etc.), and within the same area of our stores. We will also broaden the assortment reinforced by Global Sourcing and develop closer contact with our suppliers through business development plans with common goals of growth.

Private-Label Products

We plan to increase sales of private-label products as a tool to make the business reliable and profitable, respecting the banners positioning.

Increase E-Commerce Sales

We expect e-commerce sales to increase in the coming years and, therefore, plan to adopt new systems to support the predicted growth for the coming years as well as to broaden the assortment and payment means of e-commerce purchases. In addition, we intend to strengthen the integrated services with the stores and to implement new communication strategy to reinforce the promotional actions in specific areas of the sector.

Increase market share in Rio de Janeiro.

We plan to increase our market share and recover our results in Rio de Janeiro by adopting a decentralized structure with operations focused on the regional areas. We believe a decentralized structure will result in more efficiency and autonomy in local decisions, with an increase in the negotiating power, aiming at maximizing the profitability of our stores in Rio de Janeiro. We named this project Vira Rio.

Organic Growth

We plan to open at least 30 stores in 2007, being five Pão de Açúcar, 15 CompreBem and 10 Extra stores. In order to successfully open a large amount of new stores over the next few years, we implemented an expansion director plan that defined, standardized and documented the store opening process from the searching for and acquisition of a plant, to the opening of the store. To guarantee the monitoring and following-up of the strategic plan, we are introducing the BSC (Balanced ScoreCard), which will allow a continuous evaluation of the financial, market, internal process and performance indexes.

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Operations

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats at December 31, 2006:

	Store Format	Number of Stores	Total Selling Area (in square meters)	Average Selling Area Per Store (in square meters)	Total Number of Employees(1)	Percentage of Our Net Sales Revenues
Pão de Açúcar	Supermarket	164	221,383	1,350	14,037	22.3%
CompreBem	Supermarket	186	225,829	1,214	8,432	16.4%
Extra	Hypermarket	83	629,091	7,579	25,710	50.8%
Extra Eletro	Home appliance store	50	33,713	674	641	2.1%
Extra Perto	Convenience store	4	613	153	22	0.0%
Sendas	Supermarket	62	107,355	1,732	4,653	8.4%
Head office & distribution center					10,112	
Total		549	1,217,984	2,219	63,607	100.0%

(1) Based on the full-time equivalent number of employees calculated by dividing the total number of hours worked by all employees in December 2006 by 220 hours.

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

Pão de Açúcar Stores

Pão de Açúcar operates convenient neighborhood stores. Our *Pão de Açúcar* stores are predominantly located in large urban areas (with over one-third located in the greater São Paulo City area). We believe this is a significant competitive advantage since available sites in those urban areas are scarce. The *Pão de Açúcar* stores target the Brazilian class A and class B household consumers, whose minimum annual household income exceeds R$20,028. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and high level of customer service, with an average of 64 employees per 1,000 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, wine, ready-to-eat dishes, meat, cheese and seafood departments. Many stores offer shopping advisors to assist customers with inquiries about particular food needs, prices, special discounts and brand information.

We had 164 *Pão de Açúcar* stores at December 31, 2006. The *Pão de Açúcar* stores range in size from 331 to 4,730 square meters and averaged 1,350 square meters of selling space at December 31, 2006. The sale of food products represented 92.8% and non-food products represented 7.2% of *Pão de Açúcar* gross sales in 2006. *Pão de Açúcar* customers can also make purchases on-line through *paodeacucar.com.br*, the *Pão de Açúcar* website. This website is available to customers in the cities of São Paulo, Rio de Janeiro and Brasília.

As a result of price deflation verified in food products especially in agricultural commodities the strong competitiveness in certain regions and the store closings and conversions of stores to the *CompreBem* format that occurred in 2006, *Pão de Açúcar* recorded gross sales of R$3.6 billion in 2006, representing a reduction of 7.3% compared to 2005.

We continued the expense reduction process implemented in 2005. Also, we reduced the prices of some products, especially the price of the most relevant items, such as wine, coffee, and cheese. These initiatives provided higher competitiveness to the banner.

With a view to standardizing the *Pão de Açúcar* stores, we rationalized our portfolio with three openings, 42 renovations and three conversions of stores to the *CompreBem* banner. Two new stores, Alphaville and Nautico, were opened following a third generation store concept with a new manner of presenting the products to the consumer, including full purchasing solutions, gourmet space and sushi bar.

In 2006, we were also testing the new *Programa Mais,* in six stores. *Programa Mais* is a self-sustained, preferred shopper/fidelity card. The program was developed starting from three basic requisites: simplicity and flexibility of operation, importance for the consumer and profitability for the banner. Through the segmentation of value and sales behavior, the objective is to know the clients and subsequently, establish a customized communication, offering products and services in accordance with their needs. In order to improve the relationship with the consumer, a personalized communication campaign was developed, with an exclusive site where the participants of this program are able to research promotional offerings and any other information. Another important differential of the new format of the program is to reward the client who accumulates points in each purchase, which can be exchanged for purchase vouchers in *Pão de Açúcar* stores.

In line with the banner´s focus on offering differentiated services to our customers, we introduced, among others, hostess and price research services available in 43 stores in the state of São Paulo, 14 in Brasília and 18 in Fortaleza.

CompreBem Stores

CompreBem supermarkets offer competitive prices and essential services. *CompreBem* stores target the Brazilian class C and class D household consumers, whose annual household income is less than R$20,028 and which collectively make up approximately 71% of all urban households. Accordingly, *CompreBem* stores are located in lower-income neighborhoods compared to *Pão de Açúcar* stores. Generally, *CompreBem* stores offer more competitively priced products than *Pão de Açúcar* stores. In addition, these stores are characterized by a lower level of personal service than *Pão de Açúcar* stores, with an average of 37 employees per 1000 square meters of store space.

We had 186 stores under the *CompreBem* banner at December 31, 2006. *CompreBem* s stores range in size from 300 to 2,060 square meters and averaged 1,214 square meters of selling space at December 31, 2006. Non-food items accounted for approximately 89.9% and food items accounted for approximately 10.1% of *CompreBem* gross sales in 2006.

Total gross sales of the *CompreBem* banner in 2006 reached R$2.7 billion, representing an increase of 3.0% compared to 2005. During 2006, we opened nine *CompreBem* stores, which is the highest number of *CompreBem* store openings in one year since the establishment of the brand.

In 2006, we also invested in the City Supermarket model, which operates as a small hypermarket in towns which do not have this type of establishment. The purpose of this format is to offer non-food product sales to complement food product sales. The new format is being reinforced as an important operational model for the banner, with reduced costs and higher profitability, due to the higher non-food products sales. One example is the store in the city of Barretos, which has 3.5 thousand square meters of floor space and differs from its competitors in its greater focus on non-food lines, including extensive home electronics and appliance offerings, a bigger household/auto/gardening area and a streamlined textile section.

The slump in food sales recorded by the sector during the year was offset by the banner with investments in perishables (technical education and multiplication of training sessions for collaborators) and in non-food products (to leverage same stores sales). Another initiative to this effect was the continuity of in&out actions (non-food products of considerable consumption appeal, which are sold at very aggressive prices and with payment in installments), to boost the low price image and to encourage the sale of non-food items that are not part of the store s mix.

Sendas Stores

We acquired the *Sendas* stores through our association called *Sendas Distribuidora*. Similarly to our *Comprebem* banner, the *Sendas* banner targets middle and lower income consumers, (the Brazilian Class C and D household consumers, whose annual income is less than R$20,028). *Sendas* stores are all located in Rio de Janeiro, in lower-income neighborhoods. *Sendas* stores offer competitively priced products, as done in *CompreBem* stores. *Sendas* ended 2006 with 62 stores and gross sales of R$1.3 billion.

In 2006, the *Sendas* banner faced strong expenses adjustment, and an improvement in competitiveness. Gross sales of the *Sendas* banner in 2006 reached R$1.3 billion, a decrease of 3.5% compared to 2005.

During 2006, three stores were closed and one was converted into the banner ABC *CompreBem.* In addition, 10 stores were adapted to the model *City Supermarket* with a greater assortment of non-food products. The *Sendas* banner also realized the positive effects of price repositioning, reinforcing the price image to the consumer, which resulted in the beginning of an important sales recovering for Sendas.

At year end, aiming at recovering our results in the state of Rio de Janeiro, we began implementing Project *Vira Rio*, which includes a proposal for more efficiency and autonomy in local decisions. This project will focus on actions that provide the operations in Rio de Janeiro with better conditions of purchasing, reaching competitive prices and profitability; optimization of investments in marketing; better regional strategy; alignment of the different departments and also an increase in production.

Extra Hypermarkets

Extra hypermarkets are the largest of our stores. We introduced the hypermarket format in Brazil with the opening of our first 7,000 square meter store in 1971. The *Extra* hypermarkets offer the widest assortment of products of any of our store formats, with approximately 70,000 items and an average selling area of 7,579 square meters at December 31, 2006. The *Extra* stores target the Brazilian class B, C and D household consumers, whose annual household income ranges from R$5,088 to R$33,648. At December 31, 2006, we had 83 *Extra* stores. The sale of food products represented 61.3% and non-food products represented 38.7% of *Extra* s gross sales in 2006. Gross sales of the *Extra* banner in 2006 reached R$8.4 billion, a 6.8% increase compared to 2005, due primarily to the increase in sales of electronics during 2006.

During 2006, we invested in our marketplaces and opened stores in new markets such as Jundiaí (SP), Recife (PE), Ceilândia (DF - Federal District of Brazil) and São José dos Campos (SP). We also opened three stores and adapted other three stores with the 'Soluções' (Solutions) concept.

Extra-Eletro Stores

Extra-Eletro stores are generally small showrooms that sell a broad range of home appliances and consumer electronic products. These stores had an average selling area of 674 square meters at December 31, 2006. Customers place orders in the stores, and products are shipped from a central warehouse. At December 31, 2006, we had 50 stores and gross sales of R$365 million.

Despite the weak performance of the electronics industry, the *Extra-Eletro* banner showed strong growth in 2006, due to the better performance of our electronics category. Gross sales of this banner totaled R$365.44 million, representing an increase of 19.6% compared to 2005. This performance resulted mainly from (1) our efforts to approach middle and lower socio-economic customers; (2) assortment improvement, emphasizing information technology products directed to consumer needs; and (3) the participation of FIC, which improved the financing reputation of the stores through the offering of better credit conditions.

Extra Perto Convenience Stores

Extra Perto is a new store inspired in the European model of convenience retail. The concepts of these stores, which have between 150 and 250 square meters of sales area and an average of two check-outs, are the proximity to our customers and the offering of a pleasant and a convenient shopping experience, with essential products and services.

Three models of store were defined neighborhood, pass-through and work the facilities of which vary according to the profile of the audience from the region. Four units were opened in 2006, and by the end of the first half of 2007, another six stores will be inaugurated. If the performance of these units meets up with the Company s expectations, an expansion plan will be designed for this new format.

Extra.com.br

In line with our strategy to restructure our e-commerce operation, with emphasis on non-food products, we accelerated the development of *Extra.com.br*.

Changes and operational improvements were promoted to develop higher efficiency and speed, with a simplified process. We substantially increased the amount of products offered and have a distribution center specific for e-commerce sales, with an area of three thousand square meters of inventory capacity.

As a result, *Extra.com.br* ended 2006 among the five biggest e-commerce stores of this market in Brazil with a 170% increase in sales compared to 2005.

The strategy of *Extra.com.br* is supported by three main pillars: assortment, operational efficiency and services. Our differential is reinforced by some competitive advantages of the group, as the synergy with physical stores for clients fidelity; broad and efficient logistic structure; use of state-of-the-art technology; communication aligned with *Extra* brand; and sharing of our investments in global sourcing (emphasis on non-food products).

Gas Stations and Drugstores

Over the past several years, we have begun to expand our range of complementary products and services in order to enhance our customers satisfaction, providing them with additional services tailored to their specific needs, such as gas stations (located within the parking area of some of our stores) and drugstores (located inside some of our stores).

Competitiveness

To face competitiveness, we created the marketing executive officer position to concentrate the marketing activities of all of our banners. This action contributed to the improvement of the synergy among the banners and the efficiency of the entire group as well as to the decrease in the price of our products.

Also, we created a pricing area specialized in the analysis and monitoring of market prices to adjust our prices below the market average. A comprehensive assortment review was also organized for the elimination of slow-moving products and a low level of relevance in sales. In addition, we established a price policy to reduce the price of some of our customers top of mind products.

Furthermore, we also improved our sales through our promotional calendars by performing three major marketing actions in the *Pão de Açúcar, Comprebem/Sendas* and *Extra* banners and through the offering of perishable products at low prices which were important tools to attract a higher number of customers to our stores. All of these actions contributed to the increase in our sales and the customer flow at our stores.

These initiatives were adapted to each regional market of our stores, enabling us to better serve its needs and expectations the strategy implementation, also permitted a better positioning of the banners before competitors.

A comprehensive assortment review was also organized for the elimination of slow-moving products and a low level of relevance in sales. To attract and consolidate the image of prices among consumers, the Group adopted another strategic action, with a differentiated price policy in products that are more important to the formation of image to consumers, and positioning them below the market average.

During the year, the promotional calendar was also reinforced with the performance of three major marketing actions in the Pão de Açúcar, Comprebem/Sendas and Extra banners, with the purpose of increasing the flow of customers at the stores. Finally, perishable products were an important tool in pursuit of an increase in the flow of people at the stores. The major differential of this strategy is that all the initiatives were adapted to the micro markets of the stores, which indisputably improved the Company s competitiveness and made it possible to achieve gains of image, an increase of customer traffic and the recovery of food sales in the same stores concept, in spite of the deflation experienced by the sector during the year.

Private-Label

We intend to substantially increase sales of our private-label products in the near future, which will not only give us an extra edge over our competitors, but should also strengthen customer loyalty. The highlights in our private labor products in 2006 were:

Structural change. We promoted a broad structural change so that the private-label products are now integrated with those of all of our areas. In practice, private labels products are no longer treated as a separated area. All commercial procedures related to our products are managed by our group's commercial area and all marketing procedures related to our products are managed by the marketing area along with the private labels development area, providing a sharing of larger expertise and strategies among these areas. Furthermore, the involvement our marketing department will help in disseminating the concept and the use of private-label products by the consumers.

Taeq s. In order to disseminate the concept of healthy life, we launched the Taeq brand. Taeq is present in all banners and is a concept of healthy life. In 2006, 100 items were launched, distributed in five different lines: nutrition, organics, sports, beauty and home. Our expectation is to end 2007 with 350 items. The project still includes the opening of units inside the stores (store-in-store) with the banner Taeq. In 2006, three units were opened inside *Pão de Açúcar* stores and ten are predicted to be opened in 2007.

Products breakage shrinkage. Together with our supply chain, we implemented some changes to our logistics by centralizing the supply of private-label products in São Paulo, resulting in a decrease of 10% in products breakage in the shelves in several categories.

Innovation. In 2006, we developed innovative packaging and flavors in various items. The expectation for 2007 is to initiate a third line of private-label products through an intensification of innovatives premium products, of a distinguished quality and low prices among our consumers. To broaden and consolidate this category, we will also introduce an exclusive line of products of the French group Casino.

New suppliers. In order to achieve more suitable costs and profitability, we will continue searching for new suppliers, especially focused on different regions to attend the specific needs of our diverse regional public.

Endomarketing. We plan to intensify our *endomarketing* through the development of communication actions and products tasting in order to create an internal culture of consumption to reinforce to our customers the distinguished quality of our private-label products.

Seasonality

We have historically experienced seasonality in our results of operations, principally due to traditionally stronger sales in the fourth quarter holiday season. Sales revenues in December are typically

42% above the average sales revenues in the other months. Likewise, our accounts payable to suppliers also significantly increases during the same period.

Supply and Distribution

Supply. We have centralized purchasing for our *Pão de Açúcar*, *CompreBem, Sendas*, *Extra, Extra Eletro* and *Extra Perto* stores. We purchase substantially all of our food products on a spot or short-term basis from unaffiliated suppliers. In the aggregate, we purchase up to 170,000 products from approximately 10,000 suppliers. In 2006, no single supplier accounted for more than 5% of total goods purchased. Our 10 largest suppliers in 2006 collectively accounted for 28% of our purchases, and we believe we are not dependent on any single supplier.

Distribution. In order to distribute perishable food products, grocery items and general merchandise efficiently, we operate 19 distribution centers strategically located within the cities of São Paulo, Brasília, Fortaleza, Curitiba, Rio de Janeiro, Salvador and Recife with a total storage capacity of 385,000 square meters of built-in area. We were the first retailer in Brazil to have a centralized distribution center. The locations of our distribution centers make it possible for us to make frequent shipments to stores, which reduce the need of in-store inventory space, and limits non-productive store inventories. We have an efficient logistics operation, with an 85% centralization level, which enables us to have lower logistics costs and higher productivity gains. In addition, the higher productivity is related to investments in distribution centers: flowers, fish, frozen products, fruits and vegetables. This performance has enabled us to operate the supply chain with the lowest costs of our history.

Supply Chain. In order to reduce products breakages, costs and investments in inventories, we have developed the following actions:

- Regionalization. In order to reduce products breakage, the costs with transport and time of products deliver in the stores, we decided to broaden the centralization of products in the regional distribution centers. For example, we opened a new distribution center in Brasília and a new distribution center dedicated to the operation of e-commerce in São Paulo;

- New means of transportation. strengthened the use of alternative means of transportation, such as coastal navigation and railway, with a reduction of 40% in the transportation cost;

- Optimizing of fleet usage. Starting with integration with our suppliers, we implemented a back-haul system to guarantee a higher productivity in the fleet that renders services for the company. Instead of coming back empty to the distribution center after delivering products to the store, the truck returns loaded with goods of certain supplier and;

- Products breakage shrinkage. In 2007, we plan to invest in actions to better understand the causes of breakages on the shelf, which is the last link in supply chain in the retail sector. We intend to analyze the matter together with our clients, support team and suppliers.

Marketing

Our marketing strategy is to further enhance the quality image of our stores and to emphasize our selection and service and our competitive and fair prices. Each store banner executes its own marketing strategy designed to promote its particular strengths and to appeal to its customer base, under the supervision of our marketing executive officer. In 2006 and 2005, we spent approximately R$ 230.2 million and R$202.3 million, respectively, on advertising (approximately 1.7% and 1.5% of total net sales revenues in each year, respectively).

We spent 31.4% in 2006 and 36.0% in 2005 of our total marketing expenditures on radio, newspaper and magazine advertising. In addition, television accounted for 32.5% of advertising expenses in 2006 and 25.9% in 2005. We spent 36.1% in 2006 and 38.1% in 2005 on other promotional activities.

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

Financeira Itaú CBD

FIC service kiosks in our stores have exclusive rights to offer private label and co-branded credit cards, personal and consumer credit, extended warranties and insurance. Currently, FIC kiosks are present in 340 of our stores. We and Itaú Holding each indirectly hold 50% of FIC s capital stock. However, Itaú Holding is responsible for the management of the company, being entitled to appoint most of the company s officers.

In 2006, FIC s results were affected by the high default rate in the sector, and by the competition that affected the credit market and at December 31, 2006, FIC represented 13% of our total sales, with 5.1 million private-label clients, representing a 27.5% growth compared to 2005 (4 million clients). The number of FIC s service kiosks in our stores increased from 308 in 2005 to 340 in 2006.

FIC continued to implement and consolidate its product portfolio throughout 2006, reaching 3.5 million private-label clients by the end of the year. FIC also launched new products and services in 2006, including interest-bearing installment sales and personal loans.

FIC s receivables portfolio reached R$893 million at December 31, 2006.

In 2006, the performance of FIC was in line with our planning, which sets forth the break even of the operation for the end of 2007. The table below sets forth the breakdown of FIC s clients in 2006.

Total of clients (in thousands)	**2006**
Private label cards	3,493
Co-branded cards	91
CDC agreements	519
Extended Guarantee	863
Personal Loan*	127
Total	5,093

* product launched in 2006.

Credit Sales

In 2006, 50.5% of our net sales revenue was represented by credit sales in the form of credit card sales, installment sales, post-dated checks and purchase vouchers. In 2005, 49.6% of our net sales revenue was represented by credit sales.

Credit card sales. All our store formats accept payment for purchases with MasterCard *(Credicard)*, Visa, Diners Club, American Express or our co-branded credit cards. We also offer private label credit cards, whose use is limited to our stores. Sales to customers using credit cards accounted for 38.6% of our net sales revenue in 2006. In 2005, sales through credit cards accounted for 37.1% of our net sales revenue. An allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties. Our Itaú CBD partnership provides credit products and services at our stores, which involves private label and co-branded credit cards.

Installment sales. Our *Extra Eletro* stores and *Extra* hypermarkets offer attractive consumer financing to our customers who frequently purchase electronic goods or home appliances, respectively, on an installment basis. The consumer credit installment term in 2006 averaged 10 months, with fixed interest payments averaging approximately 4.0% per month throughout 2006. We borrow funds approximately equivalent to the consumer credit financing we extend through our sales of electronics. The consumer financing is generally for a term of up to 24 months and is funded by our borrowing on a shorter-term basis at fixed rates. In 2006, installment sales accounted for 1.9% of our total net sales revenue.

Post-dated checks. Post-dated checks are commonly used financial instruments in Brazil to make purchases. Post-dated checks are executed by a consumer with a future date (up to 90 days) instead of the date of the purchase. The retailer typically deposits the check only as of this future date, and interest for the time elapsed is included in the amount of the check. We currently have post-dated check programs in which interest is computed on the settlement amount based upon a fixed monthly rate of interest (to a lesser extent, for certain promotional programs no interest is charged). We limit the availability of post-dated checks to customers who meet our credit criteria and who hold our identification card. Over 380,000 customers use the programs on at least a monthly basis. Sales to customers using post-dated checks accounted for 2.0% of our net sales revenue in 2006 (3.0% in 2005).

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

Purchase vouchers. We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 8.0% of our net sales revenue in 2006, compared to 7.5% in 2005. An allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties.

Technology

We have been at the forefront of the Brazilian food retail industry with regard to the use of information technology, both at our stores and distribution centers. We invested R$123.8 million in information technology in 2006 and R$109.5 million in 2005. We consider information technology one of the pillars of our company and not only a supporting area. Our information technology department interacts with our other departments, contributing to the consolidation of our several strategic actions. The most recent implementations made by our information technology department are the following:

- the creation of the Shared Services Center;
- the development of new functions and work instrument for non-food systems (household/auto/gardening, electronics and textile), in order to increase their productivity and facilitate their management;
- the development of a new e-commerce system for our website *extra.com.br* (modernization of the website, development of a new supply system, etc);
- the implementation of a new system for the relationship program *Pão de Açúcar Mais* (electronic site, kiosks, card and call center);and

- development of tools to improve our management of categories project. Such project includes, among other things, a better monitoring and assortment review, focusing on products with high productivity, and an adjustment of prices in all regions.

In 2007, the actions of the area will be concentrated in three main projects:

- *Pão de Açúcar* Future Store. In this pilot store, we will apply and test several innovative technologies, such as the wi-fi technology in the whole store, intelligent tags on supermarket shelves and in the wine sections as well as interactive scales;

- Drugstores and Textile: Development of specific management systems for these businesses, in order to obtain higher productivity, efficiency and better inventory management and;

- Financial Management: implementation of an ERP system (Financial) to integrate the administrative, financial, treasury, accounting and planning departments. Besides higher transparency in the numbers, we expect the project to result in higher accuracy, precision and improvement in the management of our results.

Competition

The Brazilian food retailing business is highly competitive and has experienced consolidation in recent years. In 2006, the five largest food retailers in Brazil accounted for 36.5% of the organized sector sales, which consist of sales by companies enrolled in ABRAS, Brazil s supermarket association. In 2006, we accounted for 13.3% of the organized sector sales according to ABRAS. We believe that consolidation will continue to take place, not only within the food retail market but also other segments of the retail industry. For example, hypermarkets are expected to gain market share in apparel, general merchandise, consumer electronics, furniture, home development and other non-food categories because of a general lack of department stores and specialized stores in Brazil. We have continued our growth strategy by focusing on regions where we can reinforce our presence. As part of our expansion strategy, we have also focused on the needs and expectations of different consumers by developing store formats that respond to different household income levels. Although we operate stores in many regions throughout Brazil, the size, wealth and importance of the São Paulo State have led us to concentrate our stores in this particular market. In 2006, sales in São Paulo State accounted for 60.1% of our total sales. In São Paulo State and throughout Brazil, we compete principally on the basis of location, price, image, quality and service. In the food retail market, our competition includes hypermarkets, supermarkets and traditional wholesalers. Our principal competitors are multinational retail food chains, local supermarkets and grocery stores.

The main competitor of our *Extra* hypermarket is *Carrefour*, a leading French retail food chain, which at December 31, 2006 operated retail stores principally in the southeast and south of Brazil. At December 31, 2006, *Carrefour* accounted for 10.4% of the organized sector s sales according to data from ABRAS. In April 2007, Carrefour acquired *Atacadão*, a chain with 34 stores (being 17 in São Paulo) and gross revenue of R$5.0 billion.

Wal-Mart is also a competitor in the hypermarket and supermarket format with a 10.4% market share in Brazil.

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

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

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

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

Other U.S. and international retailers may enter into the Brazilian retail market, either directly, by forming joint ventures or by acquiring existing chains. Some of these potential competitors may have greater financial resources than us. Moreover, to the extent that other large international food retailers enter the Brazilian market or the retail sector continues to consolidate through the acquisition of local supermarket chains, our market share may be adversely affected.

Regulatory Matters

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

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

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

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

Intellectual Property

We consider our trademarks one of our most valuable assets. In order to reach one of our main goals, which is to be the most well-known and admired trademark by consumers, we have worked extensively to define the characteristics of each of our banners: *Extra*, *Extra-Eletro*, *Pão de Açúcar*, *CompreBem and Sendas*. We are pioneers in the food retail industry to determine a clear position and define the format for each banner, so that each banner complements the others, and believe this is a strong competitive advantage.

This strategy also allowed us to better understand the market, consumption patterns and behavior of our clients.

Pursuant to our policy to register all our trademarks, on December 31, 2006 all our most important trademarks (*Pão de Açúcar*, *Companhia Brasileira de Distribuição*, *Barateiro*, *Extra*, *Amélia*, *Qualitá and CompreBem*) were duly registered and we had approximately 1,600 trademarks registered or being registered in Brazil. We did not have any patents as of December 31, 2006.

4C. Organizational Structure

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

4D. Property, Plants and Equipment

We own 60 stores, six warehouses and a part of our headquarters. The remaining 489 stores and 13 warehouses we operate and the remainders of our headquarters are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have seven leases expiring in 2007. Based on our prior experience and Brazilian law and leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31, 2006, we leased 17 properties from members of the Diniz family and 61 stores from Fundo de Investimento Imobiliário Península. Management believes that these leases are on terms at least as favorable to us as we could get from an unrelated party. See Item 7B Major Shareholders and Related Party Transactions Related Party Transactions Leases.

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that is owned and leased as of December 31, 2006:

	Owned		**Leased**		**Total**	
	Number	**Area (in square meters)**	**Number**	**Area (in square meters)**	**Number**	**Area (in square meters)**
Pão de Açúcar	31	48,488	133	172,895	164	221,383
Extra	12	90,013	71	539,078	83	629,091
Extra Eletro	3	3,623	47	30,090	50	33,713
Extra Perto			4	613	4	613
CompreBem	12	16,214	174	209,615	186	225,829
Sendas	2	2,153	60	105,202	62	107,355
Warehouses	6	286,559	13	98,441	19	385,000
Headquarters		28,591		13,043		41,634

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5A. Operating Results

The following discussion should be read in conjunction with our audited consolidated financial statements as of December 31, 2006 and 2005 and for the three years ended December 31, 2006, 2005 and 2004 appearing elsewhere in this annual report, and in conjunction with the financial information statements included under Item 3A. Key Information Selected Financial Data.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

We have prepared our consolidated financial statements at December 31, 2006 and 2005 and for the three years ended December 31, 2006, 2005 and 2004 in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Except as otherwise indicated, all financial information in this annual report has been presented in *reais* and prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. See note 24 to our audited consolidated financial statements included in this annual report for an explanation of these differences.

Discussion of Critical Accounting Policies

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

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

Inventories and payments from suppliers

Inventories are accounted for at the lower of cost or market. We record the inventory losses (shrinkage) throughout the year.

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

Leases

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

Valuation of long-lived assets

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

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

Goodwill

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

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

Deferred Taxes

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

U.S. GAAP Reconciliation

Our net income in accordance with Brazilian GAAP was R$85.5 million in 2006, R$257.0 million in 2005 and R$369.8 million in 2004. Under U.S. GAAP, we would have reported net income of R$ 14.5 million in 2006, R$270.6 million in 2005 and R$488.9 million in 2004.

Our shareholders' equity in accordance with Brazilian GAAP was R$4,842.1 million at December 31, 2006 and R$4,252.4 million at December 31, 2005. Under U.S. GAAP, we would have reported shareholders' equity of R$4,658.0 million at December 31, 2006 and R$4,148.0 million at December 31, 2005.

The principal differences between Brazilian GAAP and U.S. GAAP that affected our net income in 2006, 2005 and 2004, as well as shareholders equity at December 31, 2005 and 2006, are described in note 24 to our audited consolidated financial statements, included in this annual report. The major differences relate to the accounting treatment of the following items:

• supplementary inflation restatement of permanent assets and shareholders equity in 1996 and 1997;

• capitalized interest;

• leasehold improvements;

• deferred gain on FIC transactions;

• deferred charges and other intangible assets;

• business combinations;

• accounting for put options;

• cash consideration received from vendors;

• sale leaseback transactions;

• deferred income taxes;

• consolidation of *Sendas Distribuidora*, and

• stock options SFAS 123R.

Brazilian Economic Environment

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

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

Driven by exports, Brazil s economic growth began to accelerate in 2004, especially in the sectors that are seen as more sensitive to the availability of credit. Signals of recovery in the domestic market were reflected positively in the labor market, as unemployment fell, in an increase in the income of Brazil s populace and in the strengthening of the Brazilian economy. Brazil s gross domestic products, or GDP, grew by 4.9% and the real appreciated by 8.8% against the U.S. dollar between December 31, 2003 and December 31, 2004.

In the same period, the labor market grew with the creation of approximately 1.9 million new jobs, which led to an increase in the demand for goods and services in the economy. Inflation, as measured by the Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo), or the IPCA, was 7.6% .

Exports and foreign investment led to a significant current account surplus of more than US$10 billion (equivalent to 2% of Brazil s GDP).

In September 2004, the Central Bank began to implement a policy of increasing Brazil s base interest rate, known as the reference rate to the Special System for Settlement and Custody (Sistema Especial de Liquidação e Custódia), or SELIC, because the inflationary indicators exceeded the target established by the Treasury Ministry for 2005. The effects of the increase of the SELIC rate were reflected in Brazil s economic growth, as GDP grew by only 2.3% in 2005, as compared with 4.9% in 2004.

Commencing in September 2005, the SELIC rate began to be gradually reduced as the inflation estimates for 2005 and the next 12 months began to converge with the target. The SELIC rate was 18.0% at the end of 2005. The inflation rate, according to the IPCA index, was 5.7%, above the target of 5.1% set by the Central Bank. The real appreciated by 13.4% against the U.S. dollar, reaching R$2.34 to US$1.00 on December 31, 2005.

In 2006, the Central Bank continued the process of reducing the SELIC interest rate, which reached 13.25% on December 31, 2006. In 2006, inflation was 3.1% according to the IPCA and the real appreciated by 9.5% against the U.S. dollar, reaching R$2.138 to US$1.00 on December 31, 2006.

The table below shows real GDP growth, inflation, interest rates and the real/U.S. dollar exchange rate for the years indicated:

	For the year ended December 31,		
	2004	**2005**	**2006**
Real GDP growth	4.9%	2.3%	2.9%
Inflation (General Market Price Index, or IGP-M)(1)	12.4%	1.2%	3.8%
Inflation (IPCA) (2)	7.6%	5.7%	3.1%
SELIC rate at the end of the period	17.8%	18.0%	13.3%
Exchange rate at end of period (US$1.00)	R$2.654	R$2.341	R$2.138
Average exchange rate (US$1.00)	R$2.917	R$2.413	R$2.177
Appreciation of the *real* against the U.S. dollar	8.8%	13.4%	9.5%

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

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

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

The depreciation or appreciation of the *real* against the U.S. dollar has had and may continue to have multiple effects on our results of operations. Exchange gains and losses arising from our transactions in U.S. dollars (excluding transactions which are covered by cross-currency interest rate swaps) are recorded directly in our statement of operations. As shown in the above table, the appreciation of the *real* was 9.5% in 2006, 13.4% in 2005 and 8.8% in 2004.

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

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

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

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

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

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

Tax Environment

We are currently involved in tax proceedings as discussed in note 16 to our audited consolidated financial statements included in this annual report and Item 8A Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. We record provisions for our estimated costs for the resolution of these claims when we consider the loss of our claim to be probable and for existing tax obligations under dispute. The tax contingencies relate primarily to taxes on revenue, social security contributions and income tax. We have identified probable losses and existing tax obligations under dispute in the amount of R$1,209.5 million at December 31, 2006 (R$1,076.9 million in 2005) that have been recorded as liabilities on our consolidated financial statements. This estimate has been developed based on consultation with outside legal counsel handling our defense in these matters and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We do not believe these tax proceedings will have a material adverse effect on our financial position. It is possible, however, that future results of operations could be materially affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings.

Income taxes in Brazil generally include federal income tax and social contribution. The composite tax rate is currently 34%, comprised of income tax (15% plus a surtax of 10% on taxable income exceeding R$20,000 per month, or R$60,000 per quarter, or R$240,000 per year) and social contribution tax (9%).

2006 Business and Economic Environment

During 2006, we perceived a family-income reallocation process, especially among low- and medium-income families, with a higher level of consumption of durable goods and the consolidation of new consumption habits. The likely incorporation of these new habits such as the use of cell phones and the Internet should result in more income being allocated to the acquisition of non-durable consumer goods.

Certain Operating Data

The following table presents the net sales revenue in *reais* for each of our store formats for the years ended December 31, 2006, 2005 and 2004.

	Year Ended December 31,					
		>	>		>	>
	2006		**2005**		**2004**	
		>		>		>
	(millions of *reais*, except percentage amounts)					
Net sales revenue by store format:						
Pão de Açúcar	$3,091.7	22.3%	$3,244.9	24.2%	$3,315.2	26.4%
Extra	7,050.1	50.8	6,532.3	48.7	5,996.2	47.8
Extra Eletro	285.6	2.1	232.8	1.7	240.1	1.9
CompreBem	2,279.4	16.4	2,194.3	16.4	2,015.4	16.0
Sendas	1,173.6	8.4	1,209.1	9.0	998.1	7.9
Total net sales revenue	13,880.4	100.0%	$13,413.4	100.0%	$12,565.0	100.0%

Results of Operations for 2006, 2005 and 2004

The following table summarizes our historical results of operations for the years ended December 31, 2006, 2005 and 2004.

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			Year Ended December 31,			
	>	>		>	>	
	2006		**2005**		**2004**	
	>		>		>	
			(millions of *reais*, except percentages)			
Statement of operations data						
Brazilian GAAP:						
Net sales revenue	13,880.4	100.0	13,413.4	100.0	12,565.0	100.0
Cost of sales	(9,963.0)	(71.8)	(9,438.1)	(70.4)	(8,891.5)	(70.8)
Gross profit	3,917.4	28.2	3,975.3	29.6	3,673.5	29.2
Selling, general and administrative expenses	(3,031.1)	(21.8)	(2,868.8)	(21.4)	(2,690.1)	(21.4)
Depreciation and Amortization	(547.9)	(4.0)	(625.3)	(4.7)	(489.6)	(3.9)
Financial income	382.8	2.8	446.7	3.3	330.3	2.6
Financial expense	(603.4)	(4.3)	(683.5)	(5.1)	(618.3)	(4.9)
Equity	(53.2)	(0.4)	(16.2)	(0.1)	5.3	0.1
Operating income	64.6	0.5	228.2	1.7	211.1	1.7
Non-operating income (expense), net	(323.2)	(2.3)	32.1	0.2	80.3	0.6
Income / (loss) before income taxes	(258.6)	(1.8)	260.3	1.9	291.4	2.3
Income tax (expense) benefit:						
Current	(92.2)	(0.7)	(133.9)	(1.0)	(39.0)	(0.3)
Deferred	90.7	0.7	80.9	0.6	88.5	0.7
Employee profit sharing	(13.4)	(0.1)	(14.5)	(0.1)	(14.3)	(0.1)
Minority interest	359.0	2.5	64.2	0.5	43.2	0.3
Net income	85.5	0.6	257.0	1.9	369.8	2.9

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net sales revenue. Net sales revenue increased by 3.5% to R$13,880.4 million in the year ended December 31, 2006 from R$13,413.4 million in the year ended December 31, 2005 mainly due to the following factors in each of our banners:

Pão de Açúcar net sales revenue decreased by 4.7% to R$ 3,091.7 million in 2006 from R$3,244.9 million in 2005. This decrease was mainly due to the conversion of three stores to the *CompreBem* banner and to the closing of 21 stores during 2006.

CompreBem net sales revenue increased by 3.9% to R$2,279.5 million from R$2,194.3 million in 2005, mainly due to the conversion of four stores from other banners to the *CompreBem* format and to the opening of nine new stores.

Sendas stores net sales revenue decreased by 2.9% to R$1,173.6 million in 2006 from R$1,209.1 in 2005. One of the main factors behind these results was the closing of three *Sendas* stores during 2006.

Extra stores net sales revenue increased by 7.9% to R$7,050.1 million in 2006 from R$6,532.3 million in 2005, due to the opening of five new stores, as well as an increase in non-food products sales, mainly due to the growth in computer products sales.

Extra Eletro stores net sales revenue increased by 22.7% to R$285.6 million in 2006 from R$232.8 million in 2005. This performance was impacted mainly by lower interest taxes and a favorable environment for credit sales.

Gross profit. Gross profit remained stable in 2006, totaling R$3,917.4 million compared to R$3,975.3 million in 2005. The gross margin decreased from 29.6% in 2005 to 28.2% in 2006, due to our strategic decision during the year to focus on reducing prices and adopting more aggressive prices for traffic-generating products.

Selling, General and Administrative Expenses. In 2006, selling, general and administrative expenses reached R$3,031.1 million, a 5% increase over 2005. Total expenses in 2006 were equivalent to 21.8% of net sales, mainly because expense dilution was negatively affected by the sales scenario throughout most of the year.

Depreciation and Amortization. Depreciation and amortization decreased by 12.4% to R$547.9 million in 2006 from R$625.3 million in 2005, due to the sale of 60 real estate properties to Fundo Península and the recalculation of the terms of the leases of previous years that affected the last quarter of 2005 in the amount of R$86.5 million, to comply with the Brazilian Accounting Rules.

Financial Income. Financial income decreased by 14.3% to R$382.8 million in 2006 from R$446.7 million in 2005, due to lower income in financial investments, mainly resulting from lower interest rates in times of specific festivities and holidays during which we expect sales of products in installments to increase.

Financial Expenses. Financial expenses decreased by 11.7% to R$603.4 million in 2006 from R$683.6 million in 2005, due to lower interest taxes compared to 2005.

Operating Income. Operating income decreased by 71.7% to R$64.6 million in 2006 from R$228.2 million in 2005, as a result of the foregoing.

Non-operating Income (Expense). We recorded non-operating income (expense) of R$(323.2) million in 2006 and non-operating income of R$32.1 million in 2005, due to the creation of a provision for partial reduction of goodwill of *Sendas Distribuidora*, with a net effect on our consolidated non-operating income of R$268.9 million in the fourth quarter of 2006. Net non-operating income in 2006 also includes asset write-offs related to the closing of stores.

Income (Expense) Before Income Taxes, Employee Profit Sharing and Minority Interest. Due to the effects described above, we recorded expenses before income taxes, employee profit sharing and minority interest in the amount of R$258.6 million in 2006 and income before income taxes, employee profit sharing and minority interest in the amount of R$260.3 million in 2005.

Income Tax Benefits (Expense). In 2006, we had an income tax expense of R$1.5 million as compared to an income tax expense of R$53 million in 2005. This decrease is primarily a result of two factors: (i) the provision and payment of administrative contingencies related to the soy exports, and (ii) to the non-recurrent operating expenses related to our corporate restructuring.

Employee Profit Sharing. The profit sharing paid in 2006 to employees was R$13.4 million compared to R$14.5 million in 2005.

Net Income. Net income decreased by 66.7% to R$85.5 million in 2006 from R$257 million in 2005 due to the foregoing factors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Tax Benefits (Expense). In 2005, we had an income tax expense of R$53 million as compared to an income tax benefit of R$49.5 million for 2004. The income tax benefit in 2004 increased, primarily due to the benefit from tax-deductible shareholder dilution in our investee Miravalles. In addition, the effective rate in 2005 and 2004 was

(20.4)% and 17.0% in comparison with the statutory rate of 25%.

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

Net Income. Net income decreased by 30.5% to R$257 million in 2005 from R$369.8 million in 2004, mainly due to non-operating income and by the difference in the income tax line.

5B. Liquidity and Capital Resources

We have funded our operations and capital expenditures principally from operating cash flows, loans obtained from the Brazilian National Bank for Economic and Social Development, or BNDES, and issuances of debentures. At December 31, 2006, we had R$1,281.5 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents in order to be in a position to respond immediately to liquidity requirements. In addition, we borrow funds from local Brazilian banks approximately equivalent to the consumer credit financing we extend through our *Extra Eletro* and *Extra* formats and our post-dated check programs for *Pão de Açúcar, CompreBem* and *Extra* and we also securitize receivables. Our fixed rate consumer financing through the *Extra Eletro* and *Extra* formats is generally for a term of up to 24 months (the average term at December 31, 2006, was approximately 24 months). Our post-dated check programs provide our customers with financing for up to 90 days (the average of 90 days at December 31, 2006 was 90 days). In 2006, we noted that customers tended to use principally credit cards as a method of credit purchase instead of installment sales and post-dated checks.

Our main cash requirements include:

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

Our primary sources of liquidity have historically been cash flows from operating activities and borrowings. Net cash from operating activities was R$937.6 million in 2006, R$1,063.5 million in 2005 and R$406.5 million in 2004. Net cash provided by (used in) financing activities was R$(448.5) million in 2006 (after payment of R$62.1 million of dividends), R$(594.3) million in 2005 (after payment of R$89.1 million in dividends) and R$(148.7) million in 2004 (after payment of R$54.8 million in dividends). In 2006, these cash flows were primarily used for investments in the capital expenditures program, totaling R$902.2 million.

At December 31, 2006, our total outstanding debt was R$2,668.2 million, consisting of:

- R$1,388.7 million in *real*-denominated loans,
- R$1,244.8 million in U.S. dollar-denominated debt, and
- R$34.7 million in debt linked to a basket of foreign currencies to reflect BNDES funding portfolio, plus an annual spread.

At December 31, 2006, R$1,244.8 million of our debt was U.S. dollar denominated. In addition, we have R$34.7 million of debt in favor of BNDES that is linked to a basket of foreign currencies, for which we have swap agreements to mitigate foreign currency risk. During the last years we have adopted a treasury policy to manage financial market risk, principally by entering into swaps into *reais* for a substantial part of our U.S. dollar-denominated liabilities. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party that provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we are then effectively liable for amounts in *reais* and interest at a percentage of an interbank variable interest rate (CDI). The reference amounts and maturity periods of these swaps normally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

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

Total debt at December 31, 2006 decreased by R$612.2 million from R$2,056.6 million in 2005 to R$ 2,668.2 million in 2006. Our most significant debt was incurred in connection with the acquisition and construction of new stores, and with the remodeling of the existing stores. Our cash interest expense was R$113.6 million in 2006, R$547.3 million in 2005 and R$384.4 million in 2004.

Several banks provide us with short-term financing; of these, three banks, ABN-Amro, Banco do Brasil and Santander, individually represent 10.2% of the total amount of short-term debt outstanding as of December 31, 2006. Although we have no committed lines of credit with these banks, our management believes we are in good standing with our lenders and have sufficient available credit for our needs. These short-term U.S. dollar-denominated financings are guaranteed by a promissory note.

Our long-term debt net of current portion totaled R$1,382.2 million and R$1,615.4 million at December 31, 2006 and 2005, respectively. The balance consists primarily of long-term expansion program loans from BNDES, working capital loans from Brazilian banks and debentures we issued.

We have entered into nine lines of credit agreements with BNDES, which are either denominated in *reais* and subject to indexation, based on the TJLP plus an annual spread, or are denominated based on a basket of foreign currencies to reflect BNDES funding portfolio, plus an annual spread. Amortizations will be in monthly installments after a grace period. BNDES has been historically an important source of financing for new stores and the acquisition of supermarket chains. For more information regarding our lines of credit with BNDES, see note 13(ii) to our audited consolidated financial statements included in this annual report.

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

We issued a number of convertible and non-convertible debentures between 1997 and 2006, some of which have since been converted into our non-voting preferred shares. At December 31, 2006, the fifth issuance of nonconvertible debentures was still outstanding in part.

On October 4, 2002, the shareholders approved the fifth issuance and public placement of debentures. We received proceeds equivalent to R$411.9 million, for 40,149 non-convertible debentures issued as the first series of this fifth issuance. The debentures are indexed to the average rate of CDI and accrue an annual spread of 1.45%, which is payable semi-annually. The remuneration of the first series was subject to renegotiation or a put exercised in October 2004. The first series was renegotiated to accrue the CDI plus an annual spread of 0.95% as from October 1, 2004, which is payable semi-annually, beginning on April 1, 2005 and ending on October 1, 2007. The debentures will not be subject to renegotiation until the maturity date on October 1, 2007. At December 31, 2006, we had 40,149 non-convertible debentures outstanding from the first series of our fifth issuance, totaling R$414,8 million. We are required to comply with the following negative covenants measured in accordance with Brazilian GAAP: (i) net debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders equity; and (ii) maintenance of a ratio between net debt and EBITDA less than or equal to four.

For more information on our convertible and non-convertible debentures, see note 14 to our audited consolidated financial statements included in this annual report.

On September 19, 2003, we concluded the structure of *Pão de Açúcar Fundo de Investimento em Direitos Creditórios* (or PAFIDC), a receivables securitization fund. The PAFIDC has duration of five years, renewable for one additional five-year period, beginning from the date of the first subscription of quotas. The capital structure of PAFIDC is composed of 80.6% senior quotas held by third parties and 19.4% subordinated quotas held by us. Senior quotas will be divided in two series: Series A for which the benchmark remuneration (i) was 103% of CDI (*Certificado de Depósito Interbancário*), an interbank variable interest rate, during the period beginning on the date of the first subscription of quotas and ending on February 20, 2004 and (ii) is 105% of CDI as from February 21, 2004; and Series B for which the benchmark remuneration is 101% of CDI. The holders of senior quotas series B will redeem on June 23, 2007, the principal amount of R$71.1 million and will redeem the remaining balance at the end of the fund s duration. The series A quota holders will redeem their quotas at the end of the fund s duration. Upon consolidation of PAFIDC, senior quotas are recorded as current and non-current loans and financing. Subordinated quotas have a single series. Beginning in February 2004, the quotas are nominative and could be listed for negotiation the over-the-counter market. We hold a retained interest of 19.4% (subordinated quotas) and will redeem the subordinated quotas only after the redemption of senior quotas (or at the end of the PAFIDC s duration). Subordinated quotas are non-transferable and nominative. Once the senior quotas have been remunerated, the subordinated quotas receive the balance of the PAFIDC s net assets after absorbing any default on the credit rights transferred to PAFIDC and any losses attributed to the PAFIDC.

We invested R$100.0 million in October 2003 and R$29.9 million in July 2004, in subordinated quotas of PAFIDC and transferred credit rights to the securitization fund. In 2006, we transferred to PAFIDC customer credit financing, post-dated check credit sales and accounts receivable from credit card companies, in securitization transactions totaling R$7,299.7 million and R$6,750.1 million in 2005. The outstanding balance of these receivables at December 31, 2006 was R$845.7 million and R$756.8 million in 2005. For all securitizations, we retained servicing responsibilities and subordinated interests. The delinquent credits will be collected by PAFIDC s administrator, which will be assisted by our collection department, for which we do not receive fees for such service. The quota holders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us.

We continue to implement our capital expansion and investment plan and currently intend to invest in 2007 approximately R$1 billion in new projects.

In 2006, our capital expenditures totaled R$902.2 million. These investment projects were financed primarily from our operating cash flow and, to a lesser extent, by third parties. Our capital expenditures were R$899.6 million in 2005 and R$559.4 million in 2004. For specific use of our capital expenditures in 2006, see Item 4A Information on the Company History and Development of the Company Capital Expansion and Investment Plan.

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

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

We do not have any significant research and development policies.

5D. Trend Information

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

5E. Off-balance sheet arrangements

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

5F. Tabular disclosure of contractual obligations

The following table summarizes significant contractual obligations and commitments at December 31, 2006 that have an impact on our liquidity:

	Payment Due by Period				
Contractual Obligations	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**After five years**
	(in millions of U.S. dollars)				
Long term debt	2,253.4	871.3	1,169.2	212.9	
Debentures	414.8	414.8			
Estimated interest payments[1]	485.9	297.8	135.6	52.5	
Taxes, other than on income	313.6	52.7	105.0	96.7	59.2
Leases Agreements[2]	2,453.9	103.0	203.5	193.8	1,953.6
Operating lease[3]	1,466.7	238.5	394.0	245.8	588.4
Other	44.4	44.4			
Total contractual obligations	**7,432.7**	**2,022.5**	**2,007.3**	**801.7**	**2,601.2**

(1) Estimated interest payments include unrealized losses on cross-currency and interest rate swap contracts. Estimated interest payments and foreign currency losses were determined considering the interest rate and exchange rate at December 31, 2006. However, our long- term debt is subject to variable interest rates and inflation indices, and these estimated payments may differ significantly from the payments actually made.
(2) Lease agreements include capital lease obligations which are not distinguished in the Brazilian GAAP.
(3) Operating leases include minimum rental obligations which are not distinguished in the Brazilian GAAP.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

Board of Directors

Our board of directors is currently composed of the following members:

Name	**Position**	**Since**
Valentim dos Santos Diniz	Honorable Chairman	1995
Abilio dos Santos Diniz	Chairman	1995
Ana Maria Falleiros dos Santos Diniz D Avila	Director	2003
João Paulo Falleiros dos Santos Diniz	Director	1999
Pedro Paulo Falleiros dos Santos Diniz	Director	2003
Geyze Marchesi Diniz	Director	2005
Maria Silvia Bastos Marques	Director	2003
Gerald Dinu Reiss	Director	1995
Candido Botelho Bracher	Director	2005
Jean-Charles Henri Naouri	Director	2005
Michel Alain Maurice Favre	Director	2006
Hakim Laurent Aouani	Director	2005
Francis André Mauger	Director	2005
Henri Philippe Reichstul	Director	2005
Xavier Michel Marie Jacques Desjobert	Director	2006

Mr. Valentim dos Santos Diniz is the Honorary Chairman of our board of directors since 2003. He had been our chairman from 1995 to 2003. Mr. Diniz founded the *Pão de Açúcar* Group in 1948.

Mr. Abilio dos Santos Diniz is the chairman of our board of directors since 2003. He had been a director of our board of directors from 1995 to 1999, when he became its vice-chairman. Mr. Abilio Diniz was one of the founders of São Paulo's supermarket association, and was also a founder of ABRAS. He is a former member of the Brazilian

National Monetary Council. Mr. Abilio Diniz holds a bachelor's degree in Business Administration from Fundação Getúlio Vargas and has attended Columbia University in New York and the University of Ohio at Dayton. Mr. Abilio Diniz is the son of Mr. Valentim dos Santos Diniz.

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

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

Mr. Pedro Paulo Falleiros dos Santos Diniz is a member of our board of directors. Mr. Pedro Paulo Diniz is a businessman and the president of PPD Sports. Mr. Pedro Paulo Diniz is the son of Mr. Abilio Diniz.

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

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

Mr. Gerald Dinu Reiss is a member of our board of directors. Mr. Reiss is a partner in the Brazilian consulting firm Reiss & Castanheira Consultoria e Empreendimentos Industriais. He was the former Planning Manager of Metal Leve S.A. and Executive Vice-President of Cevekol S.A. Mr. Reiss has a degree in Electrical Engineering from Escola Politécnica da Universidade de São Paulo - USP and has earned MBA and Ph.D. degrees from the University of California at Berkeley.

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

Mr. Jean-Charles Henri Naouri is a member of our board of directors. Mr. Naouri is Chairman and Chief Executive Officer of Casino group. Mr. Naouri has a degree in sciences from Ecole Normale Supérieure, has studied at Harvard University and at Ecole Nationale d'Administration.

Mr. Michel Alain Maurice Favre is a member of our board of directors. Mr. Favre is Administrative Financial Officer of Casino group. He previously served as Administrative Financial Officer of Grupo Altadis and was member of board of directors and responsible for several divisions of Grupo Valeo. Mr. Favre has a degree in Business Administration from HEC Business School.

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

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

Mr. Henri Philippe Reichstul is a member of our board of directors. Mr. Reichstul is the chairman of - G & R Gestão Empresarial since 2003. He was the CEO of Globopar, Petrobras and vice-president and partner of Banco Inter American Express S.A. He was also vice-minister of the Planning Ministry of Brazil. He has a degree in economics, from Universidade de São Paulo and a post-graduate degree in economics from Hertford College, University of Oxford.

Mr. Xavier Michel Marie Jacques Desjobert is a member of our board of directors. Mr. Desjobert is International Activities Officer of Casino group. He previously served as CEO of Carnaud Metal Box and 3 SUISSES. Mr. Desjobert has a degree in engineering from Polytechnique, Ecole des Mines de Paris, I.E.P. (Institut d Etudes Politiques) and INSEAD.

Executive Officers

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

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Name	Position	First Year Elected
Cássio Casseb Lima	Chief Executive Officer	2006
Enéas César Pestana Neto	Chief Financial Officer	2003
Caio Racy Mattar	Investment and Construction Officer	1995
José Roberto Coimbra Tambasco	*Pão de Açúcar* Supermarket Officer	2003
Hugo Antonio Jordão Bethlem	Hypermarkets and *Comprebem* Supermarkets Officer	2003
Maria Aparecida Fonseca	Human Resources Officer	2003
Daniela Sabbag	Investor Relations Officer	2006
Antonio Ramatis Fernandes Rodrigues	Commercial - Food Executive Officer	2007
Cláudia Jordão Ribeiro Pagnano	Marketing Executive Officer	2007
Pedro Barcellos Janot Marinho	Commercial Non-Food Executive Officer	2007
Alexandre Lodygensky Junior	International Commerce Executive Officer	2007

Mr. Cássio Casseb has been our Chief Executive Officer since 2006. Mr. Casseb has a degree in engineering from Escola Politécnica da Universidade de São Paulo. Mr. Casseb started his career at Bank Boston where he worked for three years. In 1979, he moved to Banco Francês & Brasileiro (Credit Lyonnais), where he worked for several areas during nine years. Mr. Casseb left Credit Lyonnais to work in Banco Mantrust SRL (Manufacturers Hannover and local professionals joint venture), where he stayed for four years, initially serving as Financial Vice President and then, as Executive Vice President. In 1997, Mr. Casseb started working for Credicard S.A. as CEO, where he accumulated sound experience in the retail industry. In May 1999, he started working for the holding company of Vicunha Group, where together with our shareholders, helped to redefine our industrial strategy and focus. From January 2003 to November 2004, Mr. Casseb served as CEO of Banco do Brasil. Before entering our company in 2006, Mr. Casseb had been serving as CEO of Coinbra, a commodities trading company under the French Group Louis Dreyfus. Mr. Casseb is a member of the Superior Council of The Federation of Industries of the State of São Paulo (Fiesp).

Mr. Enéas César Pestana Neto has been our Chief Financial Officer since 2003. He was the Vice-President of Laboratório Delboni Auriemo and has worked for GP Investimentos and *Carrefour*. Mr. Pestana holds a degree in Accounting from Pontifícia Universidade Católica de São Paulo PUC.

Mr. Caio Racy Mattar is our Investment and Construction Officer. He previously served as a member of the executive office of Reúne Engenharia e Construções Ltda. He is also a member of the board of directors of Paramount Lansul S.A., *Sendas Distribuidora S.A.* and Gafisa S.A. Mr. Mattar has an engineering degree from Instituto de Engenharia Paulista and has attended the London Business School. Mr. Mattar began his career with us in 1993 and has been our executive officer since 1995.

Mr. José Roberto Coimbra Tambasco is our *Pão de Açúcar* Supermarket Officer. Mr. Tambasco has a degree in Business Administration from Fundação Getúlio Vargas. Mr. Tambasco began his career with us in 1979 and has been our executive officer since 2003.

Mr. Hugo A. Jordão Bethlem is our *CompreBem* and *Sendas* Supermarket Officer. Mr. Bethlem was the Commercial Officer of DiCicco, Jerônimo Martins, Parque Temático Play Center and *Carrefour*. Mr. Bethlem has a degree in Business Administration from Faculdades Metropolitanas Unidas FMU and has a post-graduate degree in Administration from Cornell University. Mr. Bethlem began his career with us in 2001 and has been our executive officer since 2003.

Mrs. Maria Aparecida Fonseca is our Human Resources Officer. Mrs. Fonseca has a degree in mathematics and a post-graduate degree in finance from Universidade São Judas Tadeu. She also has a postgraduate degree in human resources from Universidade Federal de Pernambuco. Mrs. Fonseca began her career with us in 1985 and has been our executive officer since 2003.

Mrs. Daniela Sabbag is our Investor Relations Officer. Mrs. Sabbag has worked in our Investor Relations area since 2000, and in recent years was the Investor Relations Manager. Mrs. Sabbag has a degree in business administration and holds an MBA from Fundação Getúlio Vargas, with supplementary courses and post-graduate studies in business administration from Fipecafi at the Universidade de São Paulo. Previously, Mrs. Sabbag worked as an investment analyst (equity research) at Deutsche Bank, and with *Sé Supermercados* in Jerônimo Martins. Mrs. Sabbag began her career with us in 2000 and has been our executive officer since 2006.

Mr. Antonio Ramatis Fernandes Rodrigues has been our Commercial Food Executive Officer since 2007. Mr. Rodrigues was the Commercial and Marketing vice-chairman of Grupo Bom Preço, the Commercial and Logistics vice-chairman of Grupo Sonae and the Commercial vice-chairman of C&A. Mr. Rodrigues has a degree in engineering from Fundação Armando Álvares Penteado FAAP and holds a master degree in business administration from Universidade de São Paulo.

Mrs. Cláudia Jordão Ribeiro Pagnano has been our Marketing Executive Officer since 2007. Mrs. Pagnano was the Marketing Executive Officer of BankBoston, Cartão Unibanco, Eastman Kodak Company and Colgate Palmolive. Mrs. Pagnano has a degree in marketing from ESPM Escola Superior de Propaganda e Marketing and holds a post-graduate degree in financing from Fundação Getúlio Vargas.

Mr. Pedro Barcellos Janot Marinho has been our Commercial Non-Food Executive Officer since 2007. Mr. Marinho was the Executive Officer of Zara Brazil. He also worked for some major companies in the retail sector in Brazil such as Richards Cia. de Marcas, Lojas Americanas and Mesbla. Mr. Marinho holds a degree in business administration from Universidade Cândido Mendes, Rio de Janeiro and holds a post-graduate degree in human resources from Pontifícia Universidade Católica do Rio de Janeiro PUC-RJ.

Mr. Alexandre Lodygensky Junior has been our International Commerce Executive Officer since 2007. Mr. Lodygensky was the Executive Officer of Banco Francês e Brasileiro Crédit Lyonnais and HSBC, among others, and of Comexport Trading. He is a member of the board of executive officers of Banco Bladex Panamá. Mr. Lodygensky holds a degree in engineering from Escola Politécnica da Universidade de São Paulo - USP.

6.B. Compensation

For the year ended December 31, 2006, the aggregate compensation paid in cash to all of our directors and executive officers and members of our committees as a group was approximately R$19 million. Other non-cash benefits in 2006 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers, and we do not otherwise publicly disclose this information.

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Stock Option Plan

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

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

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

		Share options (thousands)		
	Capital increase	**2006**	**2005**	**2004**
Options outstanding at beginning of year		**1,621,233**	1,706,870	1,439,340
Options granted				
Series 8 (granted on April 30, 2004)				431,110
Series 9 (granted on April 15, 2005)			494,545	
Series 10 (granted on July 7, 2006)		**450,735**		
Options exercised				
Series 3 March 26, 2004	**R$ 1,797**			(80,000)
Series 7 May 16, 2003	**R$ 6,445**		(145,677)	
Series 6 April 7, 2006	**R$ 7,120**	**(101,400)**		
Series 7 May 9, 2006	**R$ 92**	**(2,063)**		
Options forfeited		**(258,449)**	(197,430)	(83,580)
Options expired		**(239,600)**	(237,075)	
Outstanding options granted at end of year		**1,470,456**	1,621,233	1,706,870

New stock option plan for preferred shares

At the extraordinary general meeting held on December 20, 2006, our shareholders approved an amendment to our stock option plan.

Beginning in 2007, stocks option may be granted to our management and employees as follows:

- shares will be classified into two types: Silver and Gold;
- the quantity of Gold-type shares may be decreased and/or increased (reducer or accelerator), at the discretion of the plan management committee, over 35 months following the granting date granted. The price per each thousand Gold-type shares will correspond to R$0.01;
- the price for each thousand Silver-type shares will correspond to the average closing price of our preferred shares over the last 20 trading sessions of BOVESPA, prior to the date on which the committee grants the option, with negative goodwill of 20%;

- in both cases, the prices will not be restated, and
- the options granted vest as follows: from the 36^{th} month to the 48^{th} month from the grant date or a date to be defined by the committee, the beneficiary will acquire the right to exercise: 1) 100% of the Silver-type options granted; 2) the amount of Gold-type shares to be determined by the committee, after compliance with the granting conditions.

As of April 13, 2007, the series A1 was issued.

6.C. Board Practices

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

Following the implementation of the transactions contemplated by the Joint Venture Agreement celebrated on May 3, 2005 as described in "Item 7A - Major Shareholders and Related Party Transactions - Major Shareholders - Shareholders' Transactions - Holding Company Shareholders' Agreement", our shareholders' meetings held on June 22, 2005 and August 16, 2005 approved our corporate management structure reorganization. As a result of the reorganization, four special committees were created to support the structure of our Board of Directors, which will set forth the committees' attributions, as well as the regulation of our executive officers' duties and titles. For specific information regarding the new corporate structure and competences of our committees, see "- Committees".

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

Our executive officers committee is composed of at least 12 (twelve) and up to 14 (fourteen) members, being one the Chief Executive Officer and the other executive officers, elected by our board of directors. The general responsibilities of our executive officers are determined pursuant to our bylaws, and their duties and titles will be established by our board of directors.

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

Our executive officers are elected by our board of directors for three-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. Currently, the term of all executive officers expires in 2008.

Fiscal Council

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

Committees

Pursuant to our by-laws, we currently have the following four special committees: (i) Audit Committee; (ii) Human Resources and Compensation Committee; (iii) Financial Committee; and (iv) Innovation and Development Committee. The attributions of each committee will be set forth by our board of directors, as well as the members of each committee will be appointed by our board of directors, solely among its members, and will also designate the President of each special committee. Each special committee will be composed of 3 (three) and up to 5 (five) members for a term of office of 3 (three) years, reelection being permitted. In addition to these committees, the board of directors may create other committees with special roles.

Audit Committee

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

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

Human Resources and Compensation Committee

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

Financial Committee

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

Innovation and Development Committee

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

Advisory Board

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

For the year ended December 31, 2006, the aggregate compensation paid in cash to all of our directors and executive officers and members of our committees as a group was approximately R$19 million. Other non-cash benefits in 2006 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers, and we do not otherwise publicly disclose this information.

6D. Employees

Our workforce at December 31, 2006 consisted of 63,607 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our hourly employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management considers our relations with our employees and their unions to be good. We have not had a strike in our history.

The following table sets forth the number of our employees at December 31, for each of the five years ended December 31, 2006, 2005, 2004, 2003 and 2002:

	At December 31(1)				
	2006	**2005**	**2004**	**2003**	**2002**
Operational	53,495	53,187	53,177	46,094	47,623
Administrative	10,112	9,616	10,307	9,463	10,275
Total	63,607	62,803	63,484	55,557	57,898

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

6E. Share Ownership

At May 25, 2007, the board members and executive officers owned an aggregate amount of 85 common shares. The members of our board of directors and our executive officers, on an individual basis and as a group, own less than 1% of our common stock. See Item 7A. Major Shareholders and Related Party Transactions Major Shareholders. As of May 15, 2007, our management and some of our employees also owned options to purchase an aggregate amount of 97,470,000 preferred shares at per-share purchase price of R$57,77. None of the members of our management and our employees holds any options to purchase our common shares. See Item 6B. Directors, Senior management and Employees Compensation for a description of our stock option plan applicable to our management and employees, including those of our subsidiaries.