

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD

Form 6-K

March 06, 2008

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## FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

### Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2008

Brazilian Distribution Company

(Translation of Registrant's Name Into English)

Av. Brigadeiro Luiz Antonio,  
3126 São Paulo, SP 01402-901

Brazil

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F)

Form 20-F  Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1)):

Yes  No

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7)):

Yes  No

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

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*Audited Financial Statements*

*Companhia Brasileira de Distribuição*

*December 31, 2007 and 2006  
with Report of Independent Auditors*

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**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

AUDITED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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**A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil**

**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors and Shareholders  
**Companhia Brasileira de Distribuição**

1. We have audited the accompanying balance sheets of Companhia Brasileira de Distribuição and the consolidated balance sheets of Companhia Brasileira de Distribuição and its subsidiaries as of December 31, 2007 and 2006, and the related statements of income, shareholders' equity and changes in financial for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The financial statements of the investees Pão de Açúcar Fundo de Investimento em Direitos Creditórios and Miravalles Empreendimentos e Participações S.A. for the years ended December 31, 2007 and 2006 were audited by other independent auditors. Our audit opinion, regarding assets, liabilities and results of operations of said investees is based exclusively on the audit opinion of those independent auditors.

2. We conducted our audits in accordance with generally accepted auditing standards in Brazil, which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company and its subsidiaries; (b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by Company management, as well as an evaluation of the overall financial statement presentation.

3. In our opinion, and based on our audit and on the opinion of the other independent auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Companhia Brasileira de Distribuição and the consolidated financial position of Companhia Brasileira de Distribuição and subsidiaries at December 31, 2007 and 2006, and the results of operations, changes in shareholders' equity and changes in financial position for those years, in conformity with accounting practices adopted in Brazil.

4. Our audit was performed for the purpose of issuing an opinion on the financial statements referred to in the first paragraph. The consolidated statements of cash flows and statement for added values for the years ended December 31, 2007 and 2006, prepared in accordance with the accounting practices adopted in Brazil, are presented to provide supplementary information on the Company and investees, despite not being a required component of the financial statements. These statements were submitted to the audit procedures described in the second paragraph and, in our opinion are fairly stated in all material respects in relation to the financial statements taken as a whole.

São Paulo, February 26, 2008.  
ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-6

Sergio Citeroni  
Accountant CRC-1SP170652/O-1

### Message from Management

In 2007, Grupo Pão de Açúcar constructed a sustainable platform that will enable us to achieve more significant results, as we continue with our strategy of pursuing greater efficiency and productivity.

We continued to implement innovative formats, marking our entry into important market segments. We kept on working in the development of Extra Fácil in the Convenience segment; we launched Extra Perto as a compact model; we formed a joint venture with Assai, which allowed us to enter one of the fastest-growing segments in the country, the so-called *atacarejo* (cash & carry - wholesale/retail); and we formed a Purchasing Group partnership with União Brasil. We also restructured the Company's brand architecture, reviving the Grupo Pão de Açúcar corporate trademark, which is now our official name and will serve as a basis for our 60<sup>th</sup> anniversary celebrations in 2008. These strategic undertakings were decisive in ensuring complementarity with our existing formats, and will allow us not only to attract distinct groups of customers, but also to develop a better understanding of their needs and demands.

We implemented in 2007 initiatives designed to improve competitiveness and increase profitability. In this context, the period highlights were the store productivity programs, which helped to cut expenses; the Shrinkage Reduction Program, designed to reduce in-store losses; and the assortment review process, which will lead to more advantageous negotiations with suppliers and more efficient stock out management. After a thorough adaptation process, we were certified as meeting the requirements of the Sarbanes-Oxley Act in June, 2007.

These initiatives have already had an impact on the Company's performance. Annual gross sales amounted to R\$ 17.6 billion, 7.2% up on 2006. Our EBITDA margin also recovered, closing 2007 at 6.9%, versus 6.4% registered last year. In December, the Board of Directors decided on a change of command and we appointed Claudio Galeazzi to take charge of this process. Mr. Galeazzi has already successfully restructured our operations in Rio de Janeiro through the firm Galeazzi e Associados, which was hired in July 2007 and will continue with the process throughout 2008. He has been appointed for two years, during which time he will have to achieve certain targets, the most important of which will be to increase the market value of our shares. The other main challenges of the new CEO are to increase same-store sales, develop and deepen the search for efficiency, ensure an adequate return on investments and prepare his successor.

During this period of transformation, we have succeeded in building a solid platform for future growth. We have consolidated our performance in the food segment and strengthened the Pão de Açúcar banner, which performed better than the Company average.

We believe 2008 will be a year of major challenges, translated into the following initiatives: the consolidation and expansion of the Extra Perto and Extra Fácil formats; the expansion of Assai, particularly through the conversion of existing Group stores; the generation of efficiency gains through simplified procedures and structures and the streamlining of the management model; the acceleration of new partnerships to expand the Purchasing Group; and expanding and increasing the profitability of the non-food category, with investments in various areas: Extra.com, Extra Eletro, global sourcing, consolidation of the subcategories ( Mundo Casa - General Merchandise,; Mundo Entretenimento - Entertainment; Mundo TEC - Textiles, Sports and Children, among others).

With these changes, we are confident in our ability to resume a virtuous business circle in the years to come and generate even better results. Grupo Pão de Açúcar is a solid company with an exceptionally proficient team, thanks to the professionalization program that began five years ago.

Simplicity will be our watchword in the years ahead. We are fully aware of our potential and are prepared to maximize this knowledge that exists inside the Company. We will continue to seek higher productivity and gains in scale, thereby increasing competitiveness and enabling us to fulfill our mission of ensuring the best possible shopping experience for all our customers in every single one of our stores.

The management.

**Sales Performance**  
**Gross sales increase 7.2% in the year**

|               | 2007     | 2006     | Chg. |
|---------------|----------|----------|------|
| (R\$ million) |          |          |      |
| Gross Sales   | 17,642.6 | 16,460.3 | 7.2% |
| Net Sales     | 14,902.9 | 13,880.4 | 7.4% |

Gross sales totaled R\$ 17.6 billion in 2007, 7.2% up on 2006, while net sales grew by 7.4% to R\$ 14.9 billion. In same-store terms, gross sales recorded an increase of 2.8% and net sales moved up by 3.4% .

Food products accounted for 74.8% of the Group's gross sales, led by perishables, which made a major contribution to the 3.1% upturn in same-store food sales over 2006. Non-food items recorded slight same-store growth of 1.8% and were responsible for 25.2% of total sales. Their performance was adversely affected by the audio and video subcategories ( Mundo Entretenimento ), which were jeopardized by price deflation throughout the year and the exceptionally strong comparison base provided by 2006 (World Cup).

In terms of format, the Pão de Açúcar banner was the undoubted highlight, having recorded solid same-store growth above the Group average since 4Q06. The Sendas and CompreBem banners were in line with the Company average, while the Extra and Extra Eletro hypermarkets posted below-average growth, having been affected by the poor performance of electronics products.

### Operating Performance

The numbers below related to the Group's operating performance, refer to the consolidated figures, which include the entire operating result of Sendas Distribuidora (a joint venture with the Sendas chain in Rio de Janeiro) and Assai (a joint venture with the Atacadista Assai chain in São Paulo).

#### 2007 gross margin of 28.0%

|                                      | 2007    | 2006    | Chg.                   |
|--------------------------------------|---------|---------|------------------------|
| (R\$ million)                        |         |         |                        |
| Gross Profit                         | 4,178.4 | 3,917.4 | 6.7%                   |
| Gross Margin - %<br>(3) basis points | 28.0%   | 28.2%   | -20 bps <sup>(3)</sup> |

Grupo Pão de Açúcar's gross profit increased by 6.7%, from R\$ 3,917.4 million in 2006, to R\$ 4,178.4 in 2007, while the gross margin dipped by 20 bps to 28.0% .

However, if we compare 2007 with pro-forma 2006, gross profit grew by 5.2% and the gross margin fell by 60 bps below the previous year's pro-forma gross margin of 28.6% . This reduction occurred because the price revision and improved competitiveness policy only began as of the second half of 2006, whereas in 2007 its effects were reflected throughout the entire year. In addition, the gross margin slide was offset by higher sales volume and the reduction in shrinkage levels.

#### Operating Expenses fall in the year, with a 60 bps reduction as a percentage of net sales

|   | 2007    | 2006    | Chg.                   |
|---|---------|---------|------------------------|
| (R\$ million) <sup>(1)</sup>              |         |         |                        |
| Selling Expenses                          | 2,552.5 | 2,418.9 | 5.5%                   |
| Gen. Adm. Exp.                            | 500.3   | 527.1   | -5.1%                  |
| Operating Exp. (before Taxes and Charges) | 3,052.8 | 2,946.1 | 3.6%                   |
| <b>% of net sales</b>                     | 20.5%   | 21.2%   | -70 bps <sup>(3)</sup> |
| Taxes & Charges                           | 99.6    | 84.9    | 17.3%                  |
| Operating Expenses                        | 3,152.4 | 3,031.0 | 4.0%                   |
| <b>% of net sales</b>                     | 21.2%   | 21.8%   | -60 bps <sup>(3)</sup> |

(1) Totals may not tally as the figures are rounded off

(3) basis points

The comments below refer to operating expenses before taxes and other charges.



Operating expenses amounted to R\$ 3,052.8 million in 2007, 3.6% more than in 2006, equivalent to 20.5% of net sales, 70 bps down on the year before.

This reduction of expenses as a percentage of net sales was due to the expense reduction programs implemented in 2006 and consolidated in 2007. These included alterations to the administrative structure, the consolidation of the Shared Service Center (CSC), which generated scale and productivity gains in various managerial processes, and the in-store productivity programs. Annual selling expenses totaled R\$ 2,552.5 million, 5.5% up on 2006, equivalent to 17.1% of net sales, 30 bps down on the previous year.

Similarly, general and administrative expenses fell by 5.1%, or R\$ 26.8 million, in absolute terms and by 40 bps in percentage of net sales terms, reflecting the important improvements achieved throughout the year.

**EBITDA margin of 6.9% is the result of greater control over expenses in the year**

|   | 2007    | 2006  | Chg.        |
|---|---------|-------|-------------|
| (R\$ million)   |         |       |             |
| EBITDA (after taxes and charges)                            | 1,026.0 | 886.4 | 15.7%       |
| EBITDA Margin (after taxes and charges)<br>(3) basis points | 6.9%    | 6.4%  | 50 bps .(3) |

Annual EBITDA moved up 15.7% over 2006 to R\$ 1,026.0 million, even though the gross margin narrowed by 20 bps.

This growth was mainly due to greater control over expenses in the period.

**Financial Result**  
**Net financial result negative by R\$ 211.2 million in the year**

|                              | 2007    | 2006    | Chg.   |
|------------------------------|---------|---------|--------|
| (R\$ million) <sup>(1)</sup> |         |         |        |
| Financ. Revenue              | 344.4   | 433.4   | -20.5% |
| Financ. Expenses             | (555.6) | (654.0) | -15.1% |
| Net Financial Income         | (211.2) | (220.6) | -4.3%  |

(1) Totals may not tally as the figures are rounded off

Financial income totaled R\$ 344.4 million in 2007, 20.5% less than the R\$ 433.4 million recorded in 2006.

Financial expenses stood at R\$ 555.6 million, 15.1% down on the R\$ 654.0 million reported in the 2006. This reduction was also due to lower period interest rates (average Selic of 12.0% p.a. in 2007, versus 15.1% p.a. in 2006).

The net financial result for the year was R\$ 211.2 million negative, 4.3% down on 2006.

The Company's annual gross indebtedness, excluding PAFIDC (Pão de Açúcar Receivables Securitization Fund), increased by R\$ 407.9 million over 2006, in turn raising the net debt by R\$ 625.3 million. The net debt/EBITDA ratio stood at 1.25x in the last 12 months.



**Equity Income**  
**FIC breaks even in December**

With a 12.5% share of the Group's sales, FIC (Financeira Itaú CBD) reached the break-even point in December 2007 and should report positive results from 2008 on. Consequently, 2007 equity income was negative by only R\$ 2.3 million, versus a negative R\$ 52.9 million in 2006.

The client portfolio closed the year at 5.7 million, 12.6% up on 2006, while the receivables portfolio grew by 50.5% to R\$ 1,344.9 million.

The main initiatives that contributed to the annual performance were:

- absorption of the portfolio of co-branded cards previously belonging to Credicard;
- continuing growth in card activation levels;
- expansion of the private label card portfolio through increased use, new clients and the migration from private label cards to Mastercard co-branded cards;
- reinitiation of co-branded card sales, including a first-purchase-upon-concession option;
- new client-registering and credit-granting initiatives, with higher limits and more extended payment terms than the competition;
- creation of the CDC (direct consumer credit) for private label cards, with a substantial expansion of clients installment payment capacity and a pre-approved credit portfolio of more than R\$ 5.0 billion;
- participation in the Varejo na Alma (Retail in the Soul) campaign, whereby store employees encourage card use by customers; as a result, over 250 stores received awards.

FIC changed its in-store operating concept and it is now physically present in all of the Group's hypermarkets and supermarkets which sell electronic goods (Comprebem da Cidade, for example). In all other stores, it maintains Electronic Service Terminals. In December 2007, it was present and operating in 545 stores.

**Minority Interest: Sendas Distribuidora**

Gross revenue from operations in Rio de Janeiro totaled R\$ 3,209.6 million in 2007, very close to the 2006 figure and equivalent to 18.2% of the Group's total gross sales. Net revenue in the period totaled R\$ 2,783.4 million.

The annual gross margin stood at 26.4%, 30 bps down on the year before. As of the 3Q07, the Company has been seeking a better balance between special offers and regular prices, one of the aims of which being the recovery of profitability through a more appropriate balance between margins and sales.

Operating expenses fell by 70 bps, from 22.7% of net sales in 2006 to 22.0% in 2007, thanks to the implementation of in-store productivity programs, lower expenses from special offers and the creation of a committee to control store-related expenses.

Due to the above-mentioned factors, the EBITDA margin reached 3.4%, versus 3.1% in 2006. In absolute terms, EBITDA moved up 11.7% to R\$ 95.0 million.

The net financial result was negative by R\$ 116.4 million, a substantial improvement of 23.2%, or R\$ 35.2 million, over the previous year, chiefly due to the 32.0% reduction in financial expenses.

The improvement in the operating result, which has been occurring since 3Q07, has allowed the Company to make use of deferred tax credits to such an extent that profit forecasts were reviewed both by Management and the independent auditors. In 2007 as a whole, these credits, deriving from losses in previous fiscal years, totaled R\$ 91.5 million.

As a result of these credits, the reduction in expenses and the improved financial result, Sendas Distribuidora recorded an annual loss of R\$ 19.2 million, versus a loss of R\$ 625.1 million in 2006, when the figure was strongly jeopardized by the review of the financial assumption that backed the future recognition of the goodwill, which resulted in the provisioning of R\$ 474.0 million for the partial reduction in goodwill.

**Minority Interest: Assai Atacadista**

In November 2007, Grupo Pão de Açúcar and the partners of Assai Comercial e Importadora Ltda announced the creation of a joint venture, in which Grupo Pão de Açúcar retains a 60% interest. The stores will continue to operate under the Assai name and under the management of the original partners, with their long-standing experience in the segment, maintaining their primary strengths of low operating costs, competitive prices, attractive product mix and excellent marketing.

In November and December, Assai Atacadista recorded gross sales of R\$ 234.2 million and net sales of R\$ 200.6 million. Gross profit stood at R\$ 29.6 million, with a gross margin of 14.7% .

Operating expenses totaled 10.3% of net sales, while EBITDA amounted to R\$ 8.7 million, with a margin of 4.4% . Net income came to R\$ 3.7 million, generating a negative minority interest of R\$ 1.5 million.

**Net Income**  
**Net income climbs 146.6% year-on-year**

|   | 2007  | 2006 | Chg.                  |
|---|-------|------|-----------------------|
| (R\$ million) <sup>(1)</sup>                            |       |      |                       |
| Net Income  | 210.9 | 85.5 | 146.6%                |
| Net Margin - %  | 1.4%  | 0.6% | 80 bps <sup>(3)</sup> |
| (1) Totals may not tally as the figures are rounded off |       |      |                       |
| (3) basis points  |       |      |                       |

Grupo Pão de Açúcar posted an annual net income of R\$ 210.9 million, 146.6% up on 2006.

Annual net income were impacted by R\$ 152.9 million, in expenses from the amortization of goodwill (intangible). This is a non-cash expense, which has a positive impact on the Group from the fiscal benefit point of view.

**Investments total R\$ 980.6 million in 2007**

Grupo Pão de Açúcar invested R\$ 980.6 million in 2007, 14.4% more than the R\$ 857.2 million invested in the previous year.

Most of the funds went towards the opening of 37 new stores (one Pão de Açúcar, seven Extra hypermarkets, five CompreBem, 10 Extra Perto, 13 Extra Fácil and one Assai). As a result, the Group's total sales area closed the year 9.9% up on the end of 2006.

The main highlights of the year were:

- R\$ 471.1 million in the opening and construction of new stores;
- R\$ 181.1 million in the acquisition of strategic sites;
- R\$ 215.6 million in store renovation;
- R\$ 112.8 million in infrastructure (technology, logistics and others).

**Gross Sales per Format (R\$ thousand)**

| Year                       | 2007              | %             | 2006              | %             | Chg.(%)     |
|----------------------------|-------------------|---------------|-------------------|---------------|-------------|
| <b>Pão de Açúcar</b>       | 3,743,624         | 21.2%         | 3,644,917         | 22.1%         | 2.7%        |
| <b>Extra*</b>              | 9,114,794         | 51.7%         | 8,419,003         | 51.1%         | 8.3%        |
| <b>CompreBem</b>           | 2,910,293         | 16.5%         | 2,692,317         | 16.4%         | 8.1%        |
| <b>Extra Eletro</b>        | 330,061           | 1.9%          | 365,444           | 2.2%          | -9.7%       |
| <b>Sendas**</b>            | 1,309,560         | 7.4%          | 1,338,615         | 8.1%          | -2.2%       |
| <b>Assai</b>               | 234,230           | 1.3%          | -                 | -             | -           |
| <b>Grupo Pão de Açúcar</b> | <b>17,642,562</b> | <b>100.0%</b> | <b>16,460,296</b> | <b>100.0%</b> | <b>7.2%</b> |

\* Include sales of banners Extra Fácil e Extra Perto

\*\* Sendas banner which is part of Sendas Distribuidora S/A

**Net Sales per Format (R\$ thousand)**

| Year                       | 2007              | %             | 2006              | %             | Chg.(%)     |
|----------------------------|-------------------|---------------|-------------------|---------------|-------------|
| <b>Pão de Açúcar</b>       | 3,149,125         | 21.1%         | 3,091,710         | 22.3%         | 1.9%        |
| <b>Extra*</b>              | 7,664,773         | 51.4%         | 7,050,100         | 50.8%         | 8.7%        |
| <b>CompreBem</b>           | 2,477,066         | 16.6%         | 2,279,451         | 16.4%         | 8.7%        |
| <b>Extra Eletro</b>        | 260,799           | 1.8%          | 285,560           | 2.1%          | -8.7%       |
| <b>Sendas**</b>            | 1,150,533         | 7.7%          | 1,173,582         | 8.4%          | -2.0%       |
| <b>Assai</b>               | 200,591           | 1.4%          | -                 | -             | -           |
| <b>Grupo Pão de Açúcar</b> | <b>14,902,887</b> | <b>100.0%</b> | <b>13,880,403</b> | <b>100.0%</b> | <b>7.4%</b> |

\* Include sales of banners Extra Fácil e Extra Perto

\*\* Sendas banner which is part of Sendas Distribuidora S/A

**Stores by Format**

|            | Pão de Açúcar | Extra | Extra- Eletro | CompreBem | Sendas | Extra Perto | Extra Fácil | Assai | Grupo Pão de Açúcar | Sales Area (m <sup>2</sup> ) |
|------------|---------------|-------|---------------|-----------|--------|-------------|-------------|-------|---------------------|------------------------------|
| 12/31/2006 | 164           | 83    | 50            | 186       | 62     | -           | 4           | -     | 549                 | 1,217,9                      |
| Opened     |               | 4     |               | 4         |        | 5           | 8           |       | 21                  |                              |
| Closed     | (4)           |       | (8)           | (11)      |        |             | (1)         |       | (24)                |                              |

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|            |     |    |    |     |    |    |    |     |             |
|------------|-----|----|----|-----|----|----|----|-----|-------------|
| Converted  | (1) |    |    |     |    | 1  |    |     | -           |
| 9/30/2007  | 159 | 87 | 42 | 179 | 62 | 6  | 11 | -   | 546 1,247,8 |
| Opened     | 1   | 3  |    | 1   |    | 5  | 5  | 15* | 30          |
| Closed     | (1) |    |    |     |    |    |    |     | (1)         |
| Converted  | (6) | 1  |    | (2) |    | 4  | 3  |     | -           |
| 12/31/2007 | 153 | 91 | 42 | 178 | 62 | 15 | 19 | 15  | 575 1,338,3 |

\* Includes 14 stores acquired in nov/07.



## Information by Format on December 31, 2007

|                                  | #<br>Checkouts | #<br>Employees | #<br>Stores | Sales<br>Area (m <sup>2</sup> ) |
|----------------------------------|----------------|----------------|-------------|---------------------------------|
| Pão de Açúcar                    | 1,877          | 14,260         | 153         | 202,458                         |
| CompreBem                        | 2,053          | 8,274          | 178         | 226,289                         |
| Sendas                           | 899            | 4,875          | 62          | 105,805                         |
| Extra                            | 3,687          | 23,170         | 91          | 689,887                         |
| Extra Perto                      | 276            | 1,261          | 15          | 40,663                          |
| Extra Eletro                     | 139            | 654            | 42          | 27,611                          |
| Extra Fácil                      | 67             | 150            | 19          | 4,783                           |
| Assai                            | 325            | 2,850          | 15          | 40,833                          |
| <b>Total Stores</b>              | <b>9,323</b>   | <b>55,494</b>  | <b>575</b>  | <b>1,338,329</b>                |
| Headquarters                     |                | 2,435          |             |                                 |
| Prevention of Losses             |                | 3,943          |             |                                 |
| Distribution Centers             |                | 4,293          |             |                                 |
| <b>Total Grupo Pão de Açúcar</b> | <b>9,323</b>   | <b>66,165</b>  | <b>575</b>  | <b>1,338,329</b>                |

## Sales Breakdown (% of Net Sales)

|                   | 2007<br>Year | 2006<br>Year |
|-------------------|--------------|--------------|
| Cash              | 50.1%        | 49.6%        |
| Credit Card       | 39.8%        | 38.6%        |
| Food Voucher      | 7.8%         | 8.0%         |
| Credit            | 2.3%         | 3.8%         |
| Post-dated Checks | 1.5%         | 2.0%         |
| Installment Sales | 0.8%         | 1.8%         |

**Productivity Indexes (in nominal R\$)**

| <b>Gross Sales per m<sup>2</sup> /month</b> |                |                |                |
|---|----------------|----------------|----------------|
|   | <b>2007</b>    | <b>2006</b>    | <b>chg.(%)</b> |
| Pão de Açúcar                               | 1,480          | 1,315          | 12.5%          |
| CompreBem                                   | 1,060          | 1,050          | 1.0%           |
| Sendas                                      | 1,047          | 984            | 6.4%           |
| Extra                                       | 1,072          | 1,162          | -7.7%          |
| Extra Eletro                                | 943            | 903            | 4.4%           |
| <b>Grupo Pão de Açúcar</b>                  | <b>1,135</b>   | <b>1,147</b>   | <b>-1.0%</b>   |
| <b>Gross sales per employee/month</b>       |                |                |                |
|   | <b>2007</b>    | <b>2006</b>    | <b>chg.(%)</b> |
| Pão de Açúcar                               | 22,893         | 22,487         | 1.8%           |
| CompreBem                                   | 29,125         | 27,225         | 7.0%           |
| Sendas                                      | 24,960         | 22,040         | 13.2%          |
| Extra                                       | 28,668         | 29,054         | -1.3%          |
| Extra Eletro                                | 41,657         | 50,565         | -17.6%         |
| <b>Grupo Pão de Açúcar</b>                  | <b>27,003</b>  | <b>26,587</b>  | <b>1.6%</b>    |
| <b>Average ticket - Gross sales</b>         |                |                |                |
|   | <b>2007</b>    | <b>2006</b>    | <b>chg.(%)</b> |
| Pão de Açúcar                               | 27.9           | 25.3           | 10.3%          |
| CompreBem                                   | 20.9           | 19.7           | 6.1%           |
| Sendas                                      | 23.2           | 21.7           | 6.9%           |
| Extra                                       | 46.8           | 49.5           | -5.5%          |
| Extra Eletro                                | 382.8          | 339.3          | 12.8%          |
| <b>Grupo Pão de Açúcar</b>                  | <b>32.6</b>    | <b>32.1</b>    | <b>1.6%</b>    |
| <b>Gross sales per checkout/month</b>       |                |                |                |
|   | <b>2007</b>    | <b>2006</b>    | <b>chg.(%)</b> |
| Pão de Açúcar                               | 161,845        | 144,805        | 11.8%          |
| CompreBem                                   | 116,846        | 133,854        | -12.7%         |
| Sendas                                      | 122,859        | 116,063        | 5.9%           |
| Extra                                       | 183,404        | 182,623        | 0.4%           |
| Extra Eletro                                | 188,863        | 184,568        | 2.3%           |
| <b>Grupo Pão de Açúcar</b>                  | <b>156,935</b> | <b>151,816</b> | <b>3.4%</b>    |

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO****BALANCE SHEETS**

December 31, 2007 and 2006

(In thousands of reais)

|   |             | <b>Parent Company</b> |             | <b>Consolidated</b> |             |
|---|-------------|-----------------------|-------------|---------------------|-------------|
|   | <b>Note</b> | <b>2007</b>           | <b>2006</b> | <b>2007</b>         | <b>2006</b> |
| <b>ASSETS</b>                                 |             |                       |             |                     |             |
| <b>Current assets</b>                         |             |                       |             |                     |             |
| Cash and banks                                |             | <b>271,575</b>        | 146,869     | <b>414,013</b>      | 247,677     |
| Marketable securities                         | 3           | <b>478,957</b>        | 381,785     | <b>650,119</b>      | 1,033,834   |
| Trade accounts receivable                     | 4           | <b>923,165</b>        | 756,359     | <b>1,816,362</b>    | 1,621,592   |
| Inventories                                   | 5           | <b>1,154,303</b>      | 944,147     | <b>1,534,242</b>    | 1,231,963   |
| Recoverable taxes                             | 6           | <b>264,770</b>        | 256,306     | <b>379,980</b>      | 378,849     |
| Deferred income and social contribution taxes | 17          | <b>68,303</b>         | 101,794     | <b>88,128</b>       | 238,676     |
| Receivables securitization fund               | 7           | <b>54,621</b>         | -           | -                   | -           |
| Other   |             | <b>102,670</b>        | 100,037     | <b>126,288</b>      | 125,825     |
| <b>Total current assets</b>                   |             | <b>3,318,364</b>      | 2,687,297   | <b>5,009,132</b>    | 4,878,416   |
| <b>Noncurrent assets</b>                      |             |                       |             |                     |             |
| <b>Long-term assets</b>                       |             |                       |             |                     |             |
| Receivables securitization fund               | 7           | -                     | 164,034     | -                   | -           |
| Trade accounts receivable                     | 4           | -                     | -           | <b>371,221</b>      | 334,247     |
| Recoverable taxes                             | 6           | <b>135,062</b>        | 94,459      | <b>142,159</b>      | 95,970      |
| Deferred income and social contribution taxes | 17          | <b>556,864</b>        | 557,558     | <b>1,026,540</b>    | 837,676     |
| Amounts receivable from related parties       | 8           | <b>332,083</b>        | 578,884     | <b>252,890</b>      | 245,606     |
| Judicial deposits                             | 16          | <b>133,666</b>        | 112,036     | <b>205,000</b>      | 163,065     |
| Other   |             | <b>23,186</b>         | 14,091      | <b>55,969</b>       | 17,634      |
| <b>Total noncurrent assets</b>                |             | <b>1,180,861</b>      | 1,521,062   | <b>2,053,779</b>    | 1,694,198   |
| <b>Permanent assets</b>                       |             |                       |             |                     |             |
| Investments                                   | 9           | <b>1,365,370</b>      | 1,116,870   | <b>110,987</b>      | 79,557      |
| Property and equipment                        | 10          | <b>4,157,570</b>      | 3,569,815   | <b>4,820,179</b>    | 4,241,040   |
| Intangible assets                             | 11          | <b>290,560</b>        | 413,822     | <b>674,852</b>      | 630,945     |
| Deferred charges                              | 12          | <b>77,085</b>         | 76,063      | <b>77,177</b>       | 76,281      |
| <b>Total permanent assets</b>                 |             | <b>5,890,585</b>      | 5,176,570   | <b>5,683,195</b>    | 5,027,823   |
| <b>Total noncurrent assets</b>                |             | <b>7,071,446</b>      | 6,697,632   | <b>7,736,974</b>    | 6,722,021   |
| <b>TOTAL ASSETS</b>                           |             | <b>10,389,810</b>     | 9,384,929   | <b>12,746,106</b>   | 11,600,437  |

These notes are an integral part of the financial statements.

## COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

BALANCE SHEETS  
December 31, 2007 and 2006  
(In thousands of reais)

|  | Note | Parent Company    |           | Consolidated      |            |
|--|------|-------------------|-----------|-------------------|------------|
|  |      | 2007              | 2006      | 2007              | 2006       |
| <b>LIABILITIES</b>                               |      |                   |           |                   |            |
| <b>Current liabilities</b>                       |      |                   |           |                   |            |
| Suppliers  |      | <b>1,838,596</b>  | 1,694,683 | <b>2,324,975</b>  | 2,027,268  |
| Loans and financings                             | 13   | <b>161,698</b>    | 511,321   | <b>1,439,029</b>  | 871,321    |
| Debentures                                       | 14   | <b>27,881</b>     | 414,761   | <b>27,881</b>     | 414,761    |
| Payroll and charges                              |      | <b>137,031</b>    | 146,988   | <b>173,053</b>    | 173,010    |
| Taxes and social contributions payable           | 15   | <b>81,884</b>     | 53,602    | <b>102,418</b>    | 68,675     |
| Dividends proposed                               | 18   | <b>50,084</b>     | 20,312    | <b>50,084</b>     | 20,312     |
| Financing due to purchase of property            |      | <b>15,978</b>     | 44,366    | <b>15,978</b>     | 44,366     |
| Rentals payable                                  |      | <b>29,299</b>     | 27,676    | <b>44,159</b>     | 40,924     |
| Other  |      | <b>136,159</b>    | 97,622    | <b>175,137</b>    | 163,272    |
| <b>Total current liabilities</b>                 |      | <b>2,478,610</b>  | 3,011,331 | <b>4,352,714</b>  | 3,823,909  |
| <b>Noncurrent liabilities</b>                    |      |                   |           |                   |            |
| Loans and financing                              | 13   | <b>683,126</b>    | 139,597   | <b>919,294</b>    | 1,382,152  |
| Debentures                                       | 14   | <b>779,650</b>    | -         | <b>779,650</b>    | -          |
| Provision for capital deficiency                 | 9    | <b>28,623</b>     | 43,673    | -                 | -          |
| Taxes paid by installments                       | 15   | <b>239,896</b>    | 248,163   | <b>250,837</b>    | 261,101    |
| Provision for contingency                        | 16   | <b>1,156,954</b>  | 1,084,722 | <b>1,216,189</b>  | 1,137,627  |
| Other  |      | <b>10,959</b>     | 15,316    | <b>77,612</b>     | 25,105     |
| <b>Total noncurrent liabilities</b>              |      | <b>2,899,208</b>  | 1,531,471 | <b>3,243,582</b>  | 2,805,985  |
| Minority interest                                |      | -                 | -         | <b>137,818</b>    | 128,416    |
| <b>Shareholders Equity</b>                       |      |                   |           |                   |            |
| Capital stock                                    | 18   | <b>4,149,858</b>  | 3,954,629 | <b>4,149,858</b>  | 3,954,629  |
| Capital reserves                                 | 18   | <b>517,331</b>    | 517,331   | <b>517,331</b>    | 517,331    |
| Profit reserves                                  | 18   | <b>344,803</b>    | 370,167   | <b>344,803</b>    | 370,167    |
|  |      | <b>5,011,992</b>  | 4,842,127 | <b>5,011,992</b>  | 4,842,127  |
| <b>Total liabilities and shareholders equity</b> |      | <b>10,389,810</b> | 9,384,929 | <b>12,746,106</b> | 11,600,437 |

These notes are an integral part of the financial statements.

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

## STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006  
(In thousands of reais, except earnings per share)

|   | Note | Parent Company     |             | Consolidated        |             |
|---|------|--------------------|-------------|---------------------|-------------|
|   |      | 2007               | 2006        | 2007                | 2006        |
| <b>Gross operating income</b>   |      | <b>12,787,417</b>  | 11,905,981  | <b>17,642,563</b>   | 16,460,296  |
| Taxes on sales  |      | <b>(2,054,032)</b> | (1,932,528) | <b>(2,739,676)</b>  | (2,579,893) |
| <b>Net sales revenues</b>   |      | <b>10,733,385</b>  | 9,973,453   | <b>14,902,887</b>   | 13,880,403  |
| Cost of goods sold  |      | <b>(7,688,807)</b> | (7,171,308) | <b>(10,724,499)</b> | (9,962,965) |
| <b>Gross profit</b>   |      | <b>3,044,578</b>   | 2,802,145   | <b>4,178,388</b>    | 3,917,438   |
| <b>Operating income (expenses)</b>  |      |                    |             |                     |             |
| Selling   |      | <b>(1,839,518)</b> | (1,729,753) | <b>(2,552,453)</b>  | (2,418,929) |
| General and administrative  |      | <b>(337,381)</b>   | (353,266)   | <b>(500,347)</b>    | (527,145)   |
| Depreciation and amortization   |      | <b>(430,979)</b>   | (399,922)   | <b>(550,696)</b>    | (547,943)   |
| Taxes and charges   |      | <b>(64,993)</b>    | (52,888)    | <b>(99,575)</b>     | (84,923)    |
| Financial expenses  | 19   | <b>(385,547)</b>   | (477,119)   | <b>(555,578)</b>    | (654,025)   |
| Financial income  | 19   | <b>233,589</b>     | 319,772     | <b>344,413</b>      | 433,398     |
| Equity in the results of subsidiaries   | 9    | <b>64,824</b>      | 27,436      | <b>(28,923)</b>     | (53,197)    |
|   |      | <b>(2,760,005)</b> | (2,665,740) | <b>(3,943,159)</b>  | (3,852,764) |
| <b>Operating income</b>   |      | <b>284,573</b>     | 136,405     | <b>235,229</b>      | 64,674      |
| Non-operating income  | 22   | <b>(10,451)</b>    | (17,008)    | <b>(9,084)</b>      | (323,229)   |
| <b>Income (loss) before income and social contribution taxes and employees profit sharing</b> |      | <b>274,122</b>     | 119,397     | <b>226,145</b>      | (258,555)   |
| Income and social contribution taxes  | 17   | <b>(53,919)</b>    | (20,452)    | <b>(11,404)</b>     | (1,472)     |
| <b>Income (loss) before employees profit sharing</b>  |      | <b>220,203</b>     | 98,945      | <b>214,741</b>      | (260,027)   |
| Minority interest   |      | -                  | -           | <b>9,536</b>        | 358,972     |
| Employees profit sharing  |      | <b>(9,325)</b>     | (13,421)    | <b>(13,399)</b>     | (13,421)    |
| <b>Net income for the year</b>  |      | <b>210,878</b>     | 85,524      | <b>210,878</b>      | 85,524      |

|  |                |         |     |
|--|----------------|---------|-----|
| <b>Shares at the end of the year</b>     | <b>227,920</b> | 227,543 | (*) |
| <b>Net income for the year per share</b> | <b>0.925</b>   | 0.376   |     |

(\*) Taking into account the reverse share split mentioned in Note 18.

These notes are an integral part of the financial statements.



**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

## STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY PARENT COMPANY

Years ended December 31, 2007 and 2006

(In thousands of reais)

**Profit reserves**

|                               | <b>Note</b> | <b>Capital stock</b> | <b>Special goodwill reserve</b> | <b>Legal</b> | <b>Expansion</b> | <b>Profit Retention</b> | <b>Retained earnings</b> | <b>Total</b> |
|-------------------------------|-------------|----------------------|---------------------------------|--------------|------------------|-------------------------|--------------------------|--------------|
| Balances at December 31, 2005 |             | 3,680,240            | -                               | 118,797      | 240,460          | 212,875                 | -                        | 4,252,372    |
| Capital stock increase        |             |                      |                                 |              |                  |                         |                          |              |
| Capitalization of reserves    |             | 267,177              | -                               | -            | (240,460)        | (26,717)                | -                        | -            |
| Payment of capital            |             | 7,212                | -                               | -            | -                | -                       | -                        | 7,212        |
| Allocation of reserves        |             | -                    | -                               | -            | 167,542          | (167,542)               | -                        | -            |
| Merger of parent company      |             | -                    | 517,331                         | -            | -                | -                       | -                        | 517,331      |
| Net income for the year       |             | -                    | -                               | -            | -                | -                       | 85,524                   | 85,524       |
| Legal reserve                 |             | -                    | -                               | 4,276        | -                | -                       | (4,276)                  | -            |
| Dividends proposed            |             | -                    | -                               | -            | -                | -                       | (20,312)                 | (20,312)     |
| Reserve for profit retention  |             | -                    | -                               | -            | -                | 60,936                  | (60,936)                 | -            |
| Balances at December 31, 2006 |             | 3,954,629            | 517,331                         | 123,073      | 167,542          | 79,552                  | -                        | 4,842,127    |
| Capital stock increase        |             |                      |                                 |              |                  |                         |                          |              |
| Capitalization of reserves    | 18          | 186,158              | -                               | -            | (167,542)        | (18,616)                | -                        | -            |
| Subscribed capital            | 18          | 9,071                | -                               | -            | -                | -                       | -                        | 9,071        |
| Allocation of reserves        | 18          | -                    | -                               | -            | 54,842           | (54,842)                | -                        | -            |
| Net income for the year       | 18          | -                    | -                               | -            | -                | -                       | 210,878                  | 210,878      |
| Legal reserve                 | 18          | -                    | -                               | 10,544       | -                | -                       | (10,544)                 | -            |
| Dividends proposed            | 18          | -                    | -                               | -            | -                | -                       | (50,084)                 | (50,084)     |
| Reserve for profit retention  | 18          | -                    | -                               | -            | -                | 150,250                 | (150,250)                | -            |

|                          |                  |                |                |               |                |          |                  |
|--------------------------|------------------|----------------|----------------|---------------|----------------|----------|------------------|
| <b>Balances at</b>       |                  |                |                |               |                |          |                  |
| <b>December 31, 2007</b> | <b>4,149,858</b> | <b>517,331</b> | <b>133,617</b> | <b>54,842</b> | <b>156,344</b> | <b>-</b> | <b>5,011,992</b> |

These notes are an integral part of the financial statements.

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO****STATEMENTS OF CHANGES IN FINANCIAL POSITION**

Years ended December 31, 2007 and 2006

(In thousands of reais)

|  | Note | Parent Company   |          | Consolidated     |           |
|--|------|------------------|----------|------------------|-----------|
|  |      | 2007             | 2006     | 2007             | 2006      |
| <b>FINANCIAL RESOURCES WERE PROVIDED BY</b>                                      |      |                  |          |                  |           |
| Operations   |      |                  |          |                  |           |
| Net income for the year  |      | <b>210,878</b>   | 85,524   | <b>210,878</b>   | 85,524    |
| Item not affecting working capital   |      |                  |          |                  |           |
| Deferred income and social contribution taxes                                    | 17   | <b>694</b>       | (3,961)  | <b>(188,864)</b> | 63,202    |
| Interest and long-term monetary variations, net                                  |      | <b>80,597</b>    | 83,467   | <b>82,747</b>    | 184,093   |
| Realization of deferred gain   |      | -                | (58,151) | -                | (58,151)  |
| Equity in the results of subsidiaries  | 9    | <b>(64,824)</b>  | (27,436) | <b>28,923</b>    | 53,197    |
| Depreciation and amortization  |      | <b>430,979</b>   | 399,922  | <b>550,696</b>   | 547,943   |
| Book cost of property and equipment written-off                                  |      | <b>10,201</b>    | 44,586   | <b>11,062</b>    | 84,014    |
| Provision for contingency  | 16   | <b>50,255</b>    | 89,562   | <b>71,103</b>    | 94,010    |
| Provision for property and equipment write-offs and losses                       | 11   | <b>1,860</b>     | 6,535    | <b>2,205</b>     | 12,685    |
| Provision for goodwill amortization  |      | -                | -        | -                | 268,886   |
| Minority interest  |      | -                | -        | <b>(9,536)</b>   | (358,972) |
|  |      | <b>720,640</b>   | 620,048  | <b>759,214</b>   | 976,431   |
| Shareholders   |      |                  |          |                  |           |
| Capital increase   | 18   | <b>9,071</b>     | 7,212    | <b>9,071</b>     | 7,212     |
| Increase in special goodwill reserve   |      | -                | 37       | -                | 37        |
| Third parties  |      |                  |          |                  |           |
| Long-term financing and loans  |      | <b>1,323,207</b> | 6,400    | <b>1,323,208</b> | 6,400     |
| Decrease in other noncurrent assets  |      | <b>351,647</b>   | 299,400  | -                | 57,758    |
| Effect on consolidated net working capital by minority shareholders contribution |      | -                | -        | <b>12,000</b>    | -         |
| <b>Total funds provided</b>  |      | <b>2,404,565</b> | 933,097  | <b>2,103,493</b> | 1,047,838 |
| <b>FINANCIAL RESOURCES WERE USED FOR</b>   |      |                  |          |                  |           |
| Additions to investments   | 9    | <b>208,136</b>   | 1,732    | <b>285,329</b>   | 70,444    |
| Additions to property and equipment  | 10   | <b>909,384</b>   | 783,276  | <b>980,626</b>   | 854,295   |
| Additions to intangible assets   | 11   | <b>500</b>       | 3,687    | <b>8,266</b>     | 3,687     |
| Additions to deferred charges  | 12   | <b>16,387</b>    | 28,512   | <b>16,503</b>    | 28,640    |
| Transfer to current liabilities  | 18   | <b>56,286</b>    | 910,443  | <b>1,033,697</b> | 1,151,050 |

|   |    |                  |           |                  |             |
|---|----|------------------|-----------|------------------|-------------|
| Increase in long-term assets                                    |    | -                | -         | <b>127,077</b>   | -           |
| Dividends proposed  | 18 | <b>50,084</b>    | 20,312    | <b>50,084</b>    | 20,312      |
| <b>Total funds used</b>   |    | <b>1,240,777</b> | 1,747,962 | <b>2,501,582</b> | 2,128,428   |
| <b>Increase (decrease) in net working capital</b>               |    | <b>1,163,788</b> | (814,865) | <b>(398,089)</b> | (1,080,590) |
| <b>Statements of increase (decrease) in net working capital</b> |    |                  |           |                  |             |
| <b>Current assets</b>   |    |                  |           |                  |             |
| At the end of the year  |    | <b>3,318,364</b> | 2,687,297 | <b>5,009,132</b> | 4,878,416   |
| At the beginning of the year                                    |    | <b>2,687,297</b> | 2,637,443 | <b>4,878,416</b> | 4,704,528   |
|   |    | <b>631,067</b>   | 49,854    | <b>130,716</b>   | 173,888     |
| <b>Current liabilities</b>                                      |    |                  |           |                  |             |
| At the end of the year  |    | <b>2,478,610</b> | 3,011,331 | <b>4,352,714</b> | 3,823,909   |
| At the beginning of the year                                    |    | <b>3,011,331</b> | 2,146,612 | <b>3,823,909</b> | 2,569,431   |
|   |    | <b>(532,721)</b> | 864,719   | <b>528,805</b>   | 1,254,478   |
| <b>Increase (decrease) in net working capital</b>               |    | <b>1,163,788</b> | (814,865) | <b>(398,089)</b> | (1,080,590) |

These notes are an integral part of the financial statements.

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

STATEMENTS OF CASH FLOW  
 Years ended December 31, 2007 and 2006  
 (In thousands of reais)

|   |             | <b>Parent Company</b> |             | <b>Consolidated</b> |             |
|---|-------------|-----------------------|-------------|---------------------|-------------|
|   | <b>Note</b> | <b>2007</b>           | <b>2006</b> | <b>2007</b>         | <b>2006</b> |
| <b>Cash flow operating activities</b>                       |             |                       |             |                     |             |
| Net income for the year                                     | 17          | <b>210,878</b>        | 85,524      | <b>210,878</b>      | 85,524      |
| Adjustment for reconciliation of net income                 |             |                       |             |                     |             |
| Deferred income tax   | 17          | <b>34,185</b>         | (38,652)    | <b>(38,316)</b>     | (90,729)    |
| Residual value of written-off permanent assets              |             | <b>10,116</b>         | 30,796      | <b>10,978</b>       | 70,223      |
| Net gains by corporate dilution                             |             | -                     | (58,151)    | -                   | (58,151)    |
| Depreciation and amortization                               |             | <b>430,979</b>        | 399,922     | <b>550,696</b>      | 547,943     |
| Interest and monetary variations, net of payment            |             | <b>(101,202)</b>      | 136,138     | <b>9,518</b>        | 375,519     |
| Equity accounting   | 9           | <b>(64,824)</b>       | (27,436)    | <b>28,923</b>       | 53,197      |
| Provision for contingency                                   | 16          | <b>50,255</b>         | 89,562      | <b>71,103</b>       | 94,010      |
| Provision for property and equipment written-off and losses |             | <b>1,860</b>          | 6,535       | <b>2,205</b>        | 12,685      |
| Provision for goodwill amortization                         |             | -                     | -           | -                   | 268,886     |
| Minority interest   |             | -                     | -           | <b>(9,536)</b>      | (358,972)   |
|   |             | <b>572,247</b>        | 624,238     | <b>836,449</b>      | 1,000,135   |
| <b>(Increase) decrease in assets</b>                        |             |                       |             |                     |             |
| Accounts receivable   |             | <b>(137,654)</b>      | (90,449)    | <b>(211,916)</b>    | (226,079)   |
| Advances to suppliers and employees                         |             | -                     | 4,182       | -                   | 3,755       |
| Inventories   |             | <b>(210,057)</b>      | (104,040)   | <b>(215,623)</b>    | (116,677)   |
| Recoverable taxes   |             | <b>16,248</b>         | 24,098      | <b>(19,291)</b>     | 13,065      |
| Other assets  |             | <b>(38,496)</b>       | 2,614       | <b>(35,030)</b>     | (14,794)    |
| Related parties   |             | <b>246,134</b>        | 185,478     | <b>(2,510)</b>      | (39,079)    |
| Judicial deposits   |             | <b>(9,315)</b>        | 11,232      | <b>(24,844)</b>     | 5,159       |
|   |             | <b>(133,140)</b>      | 33,115      | <b>(509,214)</b>    | (374,650)   |
| <b>Increase (decrease) in liabilities</b>                   |             |                       |             |                     |             |
| Suppliers   |             | <b>112,977</b>        | 353,747     | <b>236,672</b>      | 373,034     |
| Payroll and related charges                                 |             | <b>(10,019)</b>       | 17,372      | <b>(6,910)</b>      | 15,371      |
| Income and social contribution taxes payable                |             | <b>2,507</b>          | (152,232)   | <b>5,853</b>        | (165,468)   |
| Other accounts payable                                      |             | <b>(13,177)</b>       | 55,673      | <b>(417)</b>        | 89,133      |
|   |             | <b>92,288</b>         | 274,560     | <b>235,198</b>      | 312,070     |
| <b>Net cash generated in operating activities</b>           |             | <b>531,395</b>        | 931,913     | <b>562,433</b>      | 937,555     |

These notes are an integral part of the financial statements.

**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

## STATEMENTS OF CASH FLOW (Continued)

Years ended December 31, 2007 and 2006

(In thousands of reais)

|   |      | Parent Company |           | Consolidated |           |
|---|------|----------------|-----------|--------------|-----------|
|   | Note | 2007           | 2006      | 2007         | 2006      |
| <b>Cash flow from investment activities</b>                               |      |                |           |              |           |
| Net cash in merger of subsidiaries  |      | 20             | 1,090     | 20           | -         |
| Receipt of amortization of PAFDIC quotas                                  |      | 134,156        | 28,509    | -            | -         |
| Acquisition of companies  |      | -              | (1,732)   | (224,777)    | (4,107)   |
| Additions to investment   |      | (208,136)      | -         | (60,553)     | (70,445)  |
| Acquisition of property and equipment                                     |      | (937,775)      | (756,649) | (1,009,017)  | (827,665) |
| Increase in intangible assets   | 11   | (500)          | (3,807)   | (8,266)      | (1,322)   |
| Increase in deferred assets   | 12   | (16,387)       | (28,512)  | (16,503)     | (28,640)  |
| Disposal of property and equipment  |      | 85             | 13,790    | 85           | 13,791    |
| <b>Net cash used in investment activities</b>                             |      |                |           |              |           |
|   |      | (1,028,537)    | (747,311) | (1,319,011)  | (918,388) |
| <b>Cash flow from financing activities</b>                                |      |                |           |              |           |
| Capital increase  | 18   | 9,071          | 7,212     | 9,071        | 7,212     |
| Effect on consolidated cash and cash equivalents by                       |      |                |           |              |           |
| capital contribution  |      | -              | -         | 12,000       | -         |
| Increase in capital reserve   |      | -              | 37        | -            | 37        |
| Financing   |      | -              | -         | -            | -         |
| Funding and refinancing   |      | 1,806,676      | 81,967    | 2,455,859    | 199,549   |
| Payments  |      | (1,076,415)    | (413,743) | (1,917,419)  | (593,238) |
| Payment of dividends  | 18   | (20,312)       | (62,053)  | (20,312)     | (62,053)  |
| <b>Net cash generated by (used) in financing activities</b>               |      |                |           |              |           |
|   |      | 719,020        | (386,580) | 539,199      | (448,493) |
| <b>Increase (decrease), net, in cash, banks and marketable securities</b> |      |                |           |              |           |
|   |      | 221,878        | (201,978) | (217,379)    | (429,326) |
| Cash, banks and marketable securities at the end of                       |      |                |           |              |           |
| the year  |      | 750,532        | 528,654   | 1,064,132    | 1,281,511 |
| Cash, banks and marketable securities at the beginning of the year        |      |                |           |              |           |
|   |      | 528,654        | 730,632   | 1,281,511    | 1,710,837 |

|   |                |           |                  |           |
|---|----------------|-----------|------------------|-----------|
| <b>Variation in cash, banks and marketable securities</b> | <b>221,878</b> | (201,978) | <b>(217,379)</b> | (429,326) |
| Cash flow additional information                          |                |           |                  |           |
| Interest paid from loans and financing                    | <b>285,165</b> | 112,018   | <b>490,383</b>   | 113,568   |

These notes are an integral part of the financial statements.



**COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**

STATEMENTS OF ADDED VALUE  
 Years ended December 31, 2007 and 2006  
 (In thousands of reais)

|  | Note | Parent Company      |   |                  |   | Consolidated        |   |                  |   |
|--|------|---------------------|---|------------------|---|---------------------|---|------------------|---|
|  |      | 2007                | % | 2006             | % | 2007                | % | 2006             | % |
| <b>Revenues</b>  |      |                     |   |                  |   |                     |   |                  |   |
| Sales of goods   |      | <b>12,787,417</b>   |   | 11,905,981       |   | <b>17,642,563</b>   |   | 16,460,296       |   |
| Credit written-off                                       |      | <b>5,346</b>        |   | (14,835)         |   | <b>2,138</b>        |   | (15,622)         |   |
| Non-operational  |      | <b>(10,451)</b>     |   | (17,008)         |   | <b>(9,084)</b>      |   | (323,229)        |   |
|  |      | <b>12,782,312</b>   |   | 11,874,138       |   | <b>17,635,617</b>   |   | 16,121,445       |   |
| <b>Inputs acquired from third parties</b>                |      |                     |   |                  |   |                     |   |                  |   |
| Cost of goods sold                                       |      | <b>(9,286,173)</b>  |   | (8,617,840)      |   | <b>(12,905,141)</b> |   | (11,946,357)     |   |
| Materials, electricity, third parties services and other |      | <b>(957,775)</b>    |   | (862,229)        |   | <b>(1,341,285)</b>  |   | (1,238,972)      |   |
|  |      | <b>(10,243,948)</b> |   | (9,480,069)      |   | <b>(14,246,426)</b> |   | (13,185,329)     |   |
| <b>Gross added value</b>                                 |      | <b>2,538,364</b>    |   | <b>2,394,069</b> |   | <b>3,389,191</b>    |   | <b>2,936,116</b> |   |
| <b>Retentions</b>  |      |                     |   |                  |   |                     |   |                  |   |
| Depreciation and amortization                            |      | <b>(454,721)</b>    |   | (408,721)        |   | <b>(578,725)</b>    |   | (559,592)        |   |
| <b>Net added value produced by entity</b>                |      | <b>2,083,643</b>    |   | <b>1,985,348</b> |   | <b>2,810,466</b>    |   | <b>2,376,524</b> |   |
| <b>Received in transfer</b>                              |      |                     |   |                  |   |                     |   |                  |   |
| Equity accounting  |      | <b>64,824</b>       |   | 27,436           |   | <b>(28,923)</b>     |   | (53,197)         |   |
| Minority interest  |      | -                   |   | -                |   | <b>9,536</b>        |   | 358,972          |   |
| Financial income   | 19   | <b>233,589</b>      |   | 271,664          |   | <b>344,413</b>      |   | 382,761          |   |
|  |      | <b>298,413</b>      |   | 299,100          |   | <b>325,026</b>      |   | 688,536          |   |
| <b>Total added value to</b>                              |      |                     |   |                  |   |                     |   |                  |   |

|                                    |    |                  |       |           |       |                    |       |             |       |
|------------------------------------|----|------------------|-------|-----------|-------|--------------------|-------|-------------|-------|
| <b>distribute</b>                  |    | <b>2,382,056</b> | 100.0 | 2,284,448 | 100.0 | <b>3,135,492</b>   | 100.0 | 3,065,060   | 100.0 |
| <b>Distribution of added value</b> |    |                  |       |           |       |                    |       |             |       |
| Payroll and charges                |    | <b>(973,060)</b> | 40.8  | (936,629) | 43.3  | <b>(1,303,257)</b> | 41.6  | (1,259,446) | 43.7  |
| Taxes, fees and contributions      |    | <b>(572,626)</b> | 24.0  | (580,873) | 22.8  | <b>(687,995)</b>   | 21.9  | (728,459)   | 20.5  |
| Interest and rentals               |    | <b>(625,492)</b> | 26.3  | (681,422) | 30.5  | <b>(933,362)</b>   | 29.8  | (991,631)   | 33.4  |
| Dividends                          | 18 | <b>(50,084)</b>  | 2.1   | (20,312)  | -     | <b>(50,084)</b>    | 1.6   | (20,312)    | -     |
| <b>Profit retention</b>            |    | <b>160,794</b>   | 6.8   | 65,212    | 3.4   | <b>160,794</b>     | 5.1   | 65,212      | 2.4   |

These notes are an integral part of the financial statements.

## 1. Operations

Companhia Brasileira de Distribuição ("Company" or GPA ) operates primarily as a retailer of food, clothing, home appliances and other products through its chain of hypermarkets, supermarkets, specialized and department stores principally under the trade names "Pão de Açúcar", "Comprebem", "Extra", "Extra Eletro", Extra Perto , Extra Fácil , Sendas and Assai . At December 31, 2007, the Company had 575 stores in operation (549 stores in 2006), of which 400 are operated by the Parent Company, and the remaining by its subsidiaries, 6 of them operated by the subsidiary Novasoc Comercial Ltda., ("Novasoc"), 52 by Sé Supermercados Ltda. ("Sé"), 102 stores by Sendas Distribuidora S.A. ("Sendas Distribuidora") and 15 stores operated by Barcelona Comércio Varejista e Atacadista S.A. ( Barcelona ).

### a) Sendas Distribuidora

Sendas Distribuidora operations began at February 1, 2004 through the Investment and Partnership Agreement, entered into in December 2003 with Sendas S.A. ("Sendas"). This subsidiary concentrates retailing activities of the Company and of Sendas in the entire state of Rio de Janeiro.

### b) Partnership with Itaú

At July 27, 2004, a Memorandum of Understanding was signed between Banco Itaú Holding Financeira S.A. ("Itaú") and the Company with the objective of setting up Financeira Itaú CBD S.A. ("FIC"). FIC structures and trades financial products, services and related items to GPA customers on an exclusive basis (see Note 9 (e)). The Company has 50% shareholding of the FIC capital through its subsidiary Miravalles Empreendimentos e Participações S.A. ( Miravalles ).

### c) Casino joint venture agreement

At May 3, 2005, the Diniz Group and the Casino Group (headquartered in France) incorporated Vieri Participações S.A. ( Vieri ), which became the parent company of GPA, whose control is shared by both group of shareholders.

The General Meeting held at December 20, 2006, approved the merger of Vieri into the Company, which cancelled shares issued thereby owned by Vieri and consequently issued, in equal number, Company s new common shares, all non-par, registered shares on behalf of Wilkes Participações S.A. ( Wilkes ), sole Vieri s shareholder at the time of merger. Wilkes was incorporated to operate as GPA s holding company.

The accounting records of merger process maintained for corporate and tax purposes show specific accounts related to goodwill, provision, respective amortization and reversal of provision established and tax credit (Note 17 (b) (iii)).

## 1. Operations (Continued)

### d) Acquisition of Rossi Chain

GPA leased five stores from Rossi Monza chain. Four of them are located in the eastward zone of the city of São Paulo and one in the city of Guarulhos. Leased stores amount to 15.5 thousand m<sup>2</sup> sales area. Out of the five units leased of Rossi Monza, 4 of them were converted into the brands Extra Perto and CompreBem. Said leasing was executed within a 5-year term, by means of an advance in the amount of R\$45,500.

### e) Acquisition of Barcelona - ( ASSAI )

At November 1, 2007, GPA, by means of a company controlled by Sé (Sevilha Empreendimentos e Participações Ltda. Sevilha), purchased shares representing 60% of the total and voting capital of Barcelona, recipient company of the spun-off assets of Assai Comercial e Importadora Ltda. ( Assai ) related to activities previously carried out by Assai in the wholesale market. With this partnership, GPA, that already operates with different types of stores, now operates in the cash & carry segment ( atacarejo ), thus, reinforcing its multiformat positioning.

## 2. Basis of Preparation and Presentation of the Financial Statements

The individual and consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil and with the procedures issued by the Brazilian Securities Commission CVM and by the Brazilian Institute of Accountants IBRACON.

The conclusion of the preparation of these financial statements was authorized at the board of executive officers meeting, held at February 26, 2008.

In view of the implementation of guidelines established by IBRACON for presentation and disclosure of financial statements defined in Accounting Standards and Procedures ( NPC ) 27 issued at October 3, 2005, some items of the balance sheet for the year ended December 31, 2006 were reclassified in order to comply with these guidelines and allow the comparison.

## 2. Basis of Preparation and Presentation of the Financial Statements (Continued)

With a view to providing additional information, the following is presented: (a) statement of cash flows, prepared in accordance with NPC 20/99 issued by IBRACON and (b) statement of added value, in accordance with the Resolution of the Federal Accounting Council - CFC 1,010 as of January 21, 2005.

Certain assets, liabilities, revenues and expenses are determined on the basis of estimates when preparing the financial statements. Accordingly, the financial statements of the Company and the consolidated financial statements include various estimates, among which are those relating to calculation of allowance for doubtful accounts, depreciation and amortization, asset valuation allowance, realization of deferred taxes, contingencies and other estimates. Actual results may differ from those estimated.

Significant accounting practices and consolidation criteria adopted by the Company are shown below:

### a) Cash and cash equivalents

#### (i) Cash and Banks

Cash and cash equivalents include the cash and checking account balances.

#### (ii) Marketable securities

Securities are recorded at cost, accrued of earnings verified up to the balance sheet dates and not exceeding the market value. The marketable securities are redeemable at any time.

### b) Accounts receivable

Accounts receivable are stated at estimated realizable values. An allowance for doubtful accounts is provided in an amount considered by Management to be sufficient to meet probable future losses related to uncollectible accounts.

The setting up of provision is mainly based on the historic average of losses, in addition to specific accounts receivable deemed as uncollectible.

The Company's installment sales occur with the intermediation of FIC and financing receivables not remaining in GPA (Note 9 (e)).

The Company carries out securitization operations of its accounts receivable with a special purpose entity, over which it has shared control, the PAFIDC (*Pão de Açúcar Fundo de Investimento em Direitos Creditórios*) (Note 4 (b) and Note 7).

## 2. Basis of Preparation and Presentation of the Financial Statements (Continued)

### c) Inventories

Inventories are carried at the lower of cost or market value, whichever is the shorter. The cost of inventories purchased directly by the stores is based on the last purchase price, which approximates the First In, First Out ( FIFO ) method. The cost of inventories purchased through the warehouse is recorded at average cost, including warehousing and handling costs.

Inventories are also stated by the net value of allowance for losses and breakage, which are periodically reviewed and evaluated as to their efficiency.

### d) Other current and noncurrent assets

Other assets and receivables are stated at cost, including, when applicable, contractual indexation accruals, net of allowances to reflect realizable amounts, if necessary.

### e) Investments

Investments in subsidiaries are accounted for by the equity method, and provision for capital deficiency is recorded, when applicable. Other investments are recorded at acquisition cost.

### f) Property and equipment

These assets are shown at acquisition or construction cost, monetarily restated until December 31, 1995, deducted from the related accumulated depreciation, calculated on a straight-line basis at the rates mentioned in Note 10, which take into account the economic useful lives of the assets or the leasing term, in case of leasehold improvements, whichever is shorter.

Interest and financial charges on loans and financing obtained from third parties directly or indirectly attributable to the process of purchase, construction and operating expansion, are capitalized during the construction and refurbishment of the Company s and its subsidiaries stores in conformity with CVM Deliberation 193. The capitalized interest and financial charges are appropriated to results over the depreciation periods of the corresponding assets.

Expenditures for repairs and maintenance that do not significantly extend the useful lives of related asset are charged to expense as incurred. Expenditures that significantly extend the useful lives of existing facilities and equipment are added to the property and equipment value.

## 2. Basis of Preparation and Presentation of the Financial Statements (Continued)

### g) Intangible assets

Intangible assets include goodwill derived from the acquisition of companies and amounts related to acquisition of commercial rights and outlets. These amounts are supported by appraisal reports issued by independent experts, based on the expectation of future profitability, and are amortized in accordance with projected profitability over a maximum period of ten years.

### h) Deferred charges

The expenditures related to the implementation of projects and development of new products and business models we recorded based on feasibility studies and are amortized for a term not exceeding five years.

### i) Other current and noncurrent liabilities

These liabilities are stated at known or estimated amounts including, when applicable, accrued charges and interest or foreign exchange variations.

### j) Derivative financial instruments

The Company uses derivative financial instruments to reduce its exposure to market risk resulting from fluctuations in interest and foreign currency exchange rates. In the case of financial assets and liability instruments, these are accounted for at the lower of cost or market value, whichever is the shorter.

## 2. Basis of Preparation and Presentation of the Financial Statements (Continued)

### k) Taxation

Revenues from sales and services are subject to taxation by State Value-Added Tax ( ICMS ), Services Tax ( ISS ), Social Contribution Tax on Gross Revenue for Social Integration Program ( PIS ) and Social Contribution Tax on Gross Revenue for Social Security Financing ( COFINS ) at rates prevailing in each region and are presented as sales deductions in the statement of income.

The credits derived from non-cumulative PIS and COFINS are shown deducted from cost of goods sold in the statement of income. The debits derived from financial income and credits derived from financial expenses are shown deducted in these proper items of the statement of income.

The advances or amounts subject to offsetting are shown in the current and noncurrent assets, in accordance with the estimate for their realization.

The taxation on income comprises the Corporate Income Tax ( IRPJ ) and Social Contribution on Net Income ( CSLL ), which are calculated based on taxable income (adjusted income), at rates applicable according to the prevailing laws 15%, accrued of 10% over the amount exceeding R\$240 yearly for IRPJ and 9% for CSLL.

Deferred IRPJ and CSLL assets were recorded under the item deferred IRPJ and CSLL from tax losses, negative basis of social contribution and temporary differences, taking into account the prevailing rates of said taxes, pursuant to the provisions of CVM Deliberation 273, as of August 20, 1998 CVM Ruling 371, as of June 27, 2002 and taking into account the history of profitability and the expectation of generating future taxable income based on a technical feasibility study, annually approved by the Board of Directors.

### l) Provision for contingencies

Provision for contingencies is set up based on legal counsel opinions, in amounts considered sufficient to cover losses and risks considered probable.

As per CVM Deliberation 489/05, the Company adopted the concepts established in NPC 22 on Provisions, Liabilities, Gains and Losses on Contingencies when setting up provisions and disclosures on matters regarding litigation and contingencies (Note 16).



## 2. Basis of Preparation and Presentation of the Financial Statements (Continued)

### m) Revenues and expenses

Revenues from sales are recognized when customer receives/withdraws the goods. Financial income arising from credit sales is accrued over the credit term. Expenses and costs are recognized on the accruals basis. Volume bonuses and discounts received from suppliers in the form of product are recorded as zero-cost additions to inventories and the benefit recognized as the product is sold. Cost of merchandise includes warehousing and handling costs in the warehouses.

### n) Earnings per share

The calculation was made based on the number of outstanding shares at the balance sheet date as if net income of the year was fully distributed. Earnings may be distributed, used for capital increase purposes, or to compose the profit reserve for expansion, based on capital budget.

### o) Allocation of net income

The financial statements reflect the Board of Directors' proposal to allocate the net income for the year in the assumption of its approval by the Annual General Meeting.

### p) Consolidated financial statements

The consolidated financial statements were prepared in conformity with the consolidation principles prescribed by the Brazilian Corporate Law and CVM Ruling 247, and include the annual information of the Company and its subsidiaries Novasoc, S.º, Sendas Distribuidora, PAFIDC, PA Publicidade Ltda. ( PA Publicidade ), Barcelona, Sevilha, CBD Panamá Trading Corp. ( CBD Panamá ) and CBD Holland B.V. ( CBD Holland ). The direct or indirect subsidiaries, included in the consolidation and the percentage of parent company's interest comprise:

**2. Basis of Preparation and Presentation of the Financial Statements (Continued)**p) Consolidated financial statements (Continued)

|                      | <b>Interest %</b> |                 |               |                 |
|----------------------|-------------------|-----------------|---------------|-----------------|
|                      | <b>2007</b>       |                 | <b>2006</b>   |                 |
|                      | <b>Direct</b>     | <b>Indirect</b> | <b>Direct</b> | <b>Indirect</b> |
| Novasoc              | <b>10.00</b>      | -               | 10.00         | -               |
| Sé                   | <b>93.05</b>      | <b>6.95</b>     | 91.92         | 8.08            |
| Sendas Distribuidora | -                 | <b>42.57</b>    | -             | 42.57           |
| PAFIDC               | <b>617</b>        | <b>0.73</b>     | 17.81         | 2.50            |
| PA Publicidade       | <b>99.99</b>      | -               | 99.99         | -               |
| Sevilha              | -                 | <b>99.99</b>    | -             | -               |
| Barcelona            | -                 | <b>60.00</b>    | -             | -               |
| CBD Panamá           | -                 | <b>100.00</b>   | -             | -               |
| CBD Holland          | <b>100.00</b>     | -               | -             | -               |
| Versalhes            | -                 | -               | 90.00         | 10.00           |
| Auto Posto MFP       | -                 | -               | 99.99         | -               |
| Auto Posto Sigua     | -                 | -               | 99.99         | -               |
| Lourenção            | -                 | -               | 99.99         | -               |
| Nova Saper           | -                 | -               | 99.97         | -               |
| Obla Participações   | -                 | -               | 99.99         | -               |

Although the Company's interest in Novasoc is represented by 10% of Novasoc's quotas of interest, Novasoc is included in the consolidated financial statements as the Company effectively has control over a 99.98% beneficial interest in Novasoc. The other members have no effective veto or other participating or protective rights. Under the bylaws of Novasoc, the appropriation of its net income does not need to be proportional to the quotas of interest held in the company.

As of July 2007, the companies Versalhes Comércio de Produtos Eletrônicos Ltda ( Versalhes ), Auto Posto MFP Ltda ( MFP ), Auto Posto Sigua Ltda ( Sigua ), Lourenção Supermercados Ltda ( Lourenção ), Nova Saper Participações Ltda ( Nova Saper ) and Obla Participações Ltda ( Obla ) are presented as part of these operations, in view of the merger of respective subsidiaries into the Company.

The subsidiary Sendas Distribuidora was fully consolidated, in accordance with the shareholders' agreement, which establishes the operating and administrative management by the Company.

The proportional investment of the Parent Company in the income of the investee, the balances payable and receivable, revenues and expenses and the unrealized profit originated in transactions between the consolidated companies were eliminated in the accounting financial statements.

**2. Basis of Preparation and Presentation of the Financial Statements (Continued)**p) Consolidated Financial Statements (Continued)

Pursuant to CVM Ruling 408 as of August 18, 2004, the Company as of the first quarter of 2005, started to consolidate PAFIDC's financial statements, as it understood this is a special purpose entity, organized with exclusive purpose of conducting the securitization of receivables of the Company and its subsidiaries, and most of risks and benefits related to the fund profitability are linked to subordinated quotas, maintained by the Company.

Since prevailing decisions related to the operational management of Miravalles lies on another partner quotaholder, Miravalles is not consolidated in the Company's financial statements.

**3. Marketable Securities**

The marketable securities at December 31, 2007 and 2006 earn interest mainly at the Interbank Deposit Certificate ( CDI ) rate.

**4. Trade Accounts Receivable**a) Breakdown

|   | Parent Company |          | Consolidated     |           |
|---|----------------|----------|------------------|-----------|
|   | 2007           | 2006     | 2007             | 2006      |
| Current                                   |                |          |                  |           |
| Resulting from sales through:             |                |          |                  |           |
| Credit card companies                     | <b>271,123</b> | 222,182  | <b>409,731</b>   | 299,272   |
| Customer credit financing                 | -              | 28       | -                | 30        |
| Sales vouchers and others                 | <b>72,939</b>  | 49,437   | <b>88,107</b>    | 63,422    |
| Credit sales with post-dated checks       | <b>30,523</b>  | 19,921   | <b>45,450</b>    | 28,699    |
| Accounts receivable- subsidiaries         | <b>149,295</b> | 134,121  | -                | -         |
| Allowance for doubtful accounts           | <b>(4,999)</b> | (12,329) | <b>(6,421)</b>   | (12,597)  |
| Resulting from Commercial Agreements      | <b>404,284</b> | 342,999  | <b>453,889</b>   | 397,098   |
|   | <b>923,165</b> | 756,359  | <b>990,756</b>   | 775,924   |
| Accounts receivable - PAFIDC              | -              | -        | <b>825,606</b>   | 845,668   |
|   | -              | -        | <b>825,606</b>   | 845,668   |
|   | <b>923,165</b> | 756,359  | <b>1,816,362</b> | 1,621,592 |
| Noncurrent                                |                |          |                  |           |
| Trade accounts receivable - Paes Mendonça | -              | -        | <b>371,221</b>   | 334,247   |
|   | -              | -        | <b>371,221</b>   | 334,247   |



#### 4. Trade Accounts Receivable (Continued)

##### a) Breakdown (Continued)

Credit card sales are receivable from the credit card companies in installments not exceeding 12 months. Credit sales settled with post-dated checks bear interest of up to 6.50% per month (ditto for 2006) for settlement in up to 60 days.

Accounts receivable from subsidiaries relate to sales of merchandise by the Company, to supply the subsidiaries stores. Sales of merchandise by the Company's warehouses to subsidiaries were substantially carried out at cost.

##### b) Accounts receivable - PAFIDC

The Company carries out securitization operations of its credit rights, represented by customer credit financing, credit sales with post-dated checks and credit card company receivables, to PAFIDC. The volume of operations was R\$7,381,416 in 2007 (R\$7,299,680 in 2006), in which the responsibility for services rendered and subordinated interests was retained. The securitization costs of such receivables amounted to R\$125,487 in 2007 (R\$139,485 in 2006), recognized as financial expenses in income for 2007 and 2006, respectively. Services rendered, which are not remunerated, include credit analysis and the assistance by the collection department to the fund's manager.

The outstanding balance of these receivables at December 31, 2007 and 2006 was R\$825,606 and R\$845,668, respectively, net of allowance.

##### c) Accounts receivable - Paes Mendonça

The accounts receivable of Paes Mendonça relate to credits deriving from the payment of liabilities performed by the subsidiaries Novasoc and Sendas. Pursuant to contractual provisions, these accounts receivable are monetarily restated and guaranteed by commercial rights of certain stores currently operated by the Company. Maturity of accounts receivable is linked to lease agreements (Note 9 (b) (i)).

##### d) Accounts receivable under commercial agreements

Accounts receivable under commercial agreements result from current transactions carried out between the Company and its suppliers, having the volume of purchases as benchmark.

**4. Trade Accounts Receivable (Continued)**e) Allowance for doubtful accounts

The allowance for doubtful accounts is based on average actual losses in previous periods complemented by Management's estimates of probable future losses on outstanding receivables:

|                                     | Parent Company |          | Consolidated |          |
|-------------------------------------|----------------|----------|--------------|----------|
|                                     | 2007           | 2006     | 2007         | 2006     |
| Resulting from:                     |                |          |              |          |
| Credit sales with post-dated checks | (946)          | (101)    | (1,390)      | (106)    |
| Corporate sales                     | (3,804)        | (12,120) | (4,715)      | (12,319) |
| Other accounts receivable           | (249)          | (108)    | (316)        | (172)    |
|                                     | (4,999)        | (12,329) | (6,421)      | (12,597) |

**5. Inventories**

|            | Parent Company |         | Consolidated |           |
|------------|----------------|---------|--------------|-----------|
|            | 2007           | 2006    | 2007         | 2006      |
| Stores     | 685,905        | 594,592 | 995,332      | 817,501   |
| Warehouses | 468,398        | 349,555 | 538,910      | 414,462   |
|            | 1,154,303      | 944,147 | 1,534,242    | 1,231,963 |

**6. Recoverable Taxes**

The balances of recoverable taxes at December 31, 2007 and 2006 refer basically to credits from IRRF (Withholding Income Tax), PIS (Social Contribution Tax on Gross Revenue for Social Integration Program), COFINS (Social Contribution Tax on Gross Revenue for Social Security Financing) and ICMS (State Value-Added Tax):

|                      | Parent Company |         | Consolidated |         |
|----------------------|----------------|---------|--------------|---------|
|                      | 2007           | 2006    | 2007         | 2006    |
| <b>Current</b>       |                |         |              |         |
| Tax on sales         | 198,361        | 167,409 | 299,399      | 278,927 |
| Income tax and other | 66,409         | 88,897  | 80,581       | 99,922  |
|                      | 264,770        | 256,306 | 379,980      | 378,849 |

**Noncurrent**

|                                   |                |         |                |         |
|-----------------------------------|----------------|---------|----------------|---------|
| Taxes on sales                    | <b>57,051</b>  | 87,340  | <b>61,589</b>  | 87,340  |
| ICMS and other                    | <b>78,011</b>  | 7,119   | <b>80,570</b>  | 8,630   |
|                                   | <b>135,062</b> | 94,459  | <b>142,159</b> | 95,970  |
| <b>Total of taxes recoverable</b> | <b>399,832</b> | 350,765 | <b>522,139</b> | 474,819 |

**7. Pão de Açúcar Receivables Securitization fund - PAFIDC**

PAFIDC is a receivables securitization fund formed in compliance with CVM Rulings 356 and 393 for the purpose of acquiring the Company and its subsidiaries' trade receivables, arising from sales of products and services to their customers. Initially, the fund would acquire credit rights derived from credit cards sales, meal ticket, installment system or post-dated checks. In the fourth quarter of 2005, the fund no longer acquired receivables from installment system and in July 2007, receivables from post-dated checks.

PAFIDC has a predetermined duration of five (5) years, renewable for an additional five-year period, maturing on May 26, 2008. The capital structure of the fund, at December 31, 2007, is composed of 10,256 senior quotas (10,126 in 2006), held by third parties in the amount of R\$823,802, which represent 93.1% of the fund's equity (79.7% in 2006) and 2,864 subordinated quotas (2,439 in 2006) held by the Company and subsidiaries in the amount of R\$61,012, which represent 6.9% of the fund's equity (20.3% in 2006).

The net assets of PAFIDC at December 31, 2007 and 2006 are summarized as follows:

|                      | <b>2007</b>    | <b>2006</b> |
|----------------------|----------------|-------------|
| <b>Assets</b>        |                |             |
| Available funds      | <b>64,466</b>  | 75,689      |
| Accounts receivable  | <b>825,606</b> | 845,668     |
| Total assets         | <b>890,072</b> | 921,357     |
| <b>Liabilities</b>   |                |             |
| Accounts payable     | <b>5,258</b>   | 193         |
| Shareholders' equity | <b>884,814</b> | 921,164     |
| Total liabilities    | <b>890,072</b> | 921,357     |

The subordinated quotas were attributed to the Company and are recorded in the current assets as participation in the securitization fund, the balance of which at December 31, 2007 was R\$54,621 (R\$164,034 in 2006 in the noncurrent assets). The retained interest in subordinated quotas represents the maximum exposure to loss under the securitization transactions.

Pursuant to the Quotaholders' General Meeting held at September 18, 2007, the <sup>3</sup> issue of the Fund's quotas was authorized. The issue was concluded at October 5, 2007, composed of one hundred and thirty (130) senior quotas, in a single series, series C, in the total amount of R\$130,000, and four hundred twenty-five (425) subordinated quotas, in the total amount of R\$7,669, amounting to R\$137,669.



## 7. Pão de Açúcar Receivables Securitization fund PAFIDC (Continued)

The purpose of this issue was to recover the fund's equity in view of the extraordinary amortization of subordinated quotas occurred in July 2007, when the Quotaholders' General Meeting, resolved on the reduction of subordinated quotas interest from 20% to 5% of the total Shareholders' Equity. Thus, the fund regained the same capacity of purchasing receivables it had previous to said amortization.

The series A senior quotas reached benchmark profitability of 103.0% of CDI, variable interest interbank fee, from first subscription of quotas to February 20, 2004, and 105.0% of CDI after such date; the series B senior quotas were yielded at 101.0% of CDI; the series C senior quotas were yielded at 100.0% of CDI + 0.5% p.a.. The remaining balance of results will be attributed to the subordinated quotas. The series B quotaholders will redeem the remaining balance of R\$133,682 (R\$238,993 in 2006), at the end of the fund's term at May 26, 2008. The series A quotaholders will redeem their quotas only at the end of the fund's term, the amount of which at December 31, 2007 corresponds to R\$556,776 (R\$495,131 in 2006). The series C quotaholders will redeem the balance of R\$133,344 at the end of the fund's term (Note 13 (iii)).

Subordinated quotas are non-transferable and registered, and were issued in a single series. The Company will redeem the subordinated quotas only after the redemption of senior quotas or at the end of the fund's term. Once the senior quotas have been yielded, the subordinated quotas will receive the balance of the fund's net assets after absorbing any default on the credit rights transferred to the fund and any losses attributed to the fund. Their redemption value is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

The holders of senior quotas have no recourse against the other assets of the Company in the event customers' default on the amounts due. As defined in the agreement between the Company and PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against the Company.

The fund financial information for the years ended at December 31, 2007 and 2006 were audited by other independent auditors and are consolidated into the Company's financial statements. In the year ended at December 31, 2007, total assets and net income of this investee represent 7% and 13.3%, respectively, in relation to the Company's consolidated financial statements (7.9% and 39.2% of total assets and net income, respectively, compared to the Company's consolidated financial statements in the year ended in 2006).

**8. Balances and Transactions with Related Parties**

| Company   | <b>Balances</b>                      |   |  |                          |
|---|--------------------------------------|---|--|--------------------------|
|   | <b>Accounts receivable (payable)</b> | <b>Trade commissions receivable (payable)</b> | <b>Intercompany receivable (payable)</b> | <b>Dividends payable</b> |
| Pão de Açúcar Indústria e Comércio S.A.         | 1.171                                | -   | -  | -                        |
| Casino  | 4.171                                | -   | -  | (6.820)                  |
| Wilkes  | -                                    | -   | -  | (13.606)                 |
| Onyx 2006 Participações Ltda.                   | -                                    | -   | -  | (4.693)                  |
| Rio Plate Empreendimentos e Participações Ltda. | -                                    | -   | -  | (928)                    |
| Península Participações Ltda.                   | (12.522)                             | -   | -  | (1.176)                  |
| Sendas S.A.                                     | -                                    | -   | 17.825                                   | -                        |
| Novasoc   | 29.094                               | 19.206  | -  | -                        |
| Sé  | 69.229                               | 313.197                                       | -  | -                        |
| Sendas Distribuidora                            | 46.871                               | (151.474)                                     | 105.026                                  | -                        |
| FIC   | 14.376                               | -   | -  | -                        |
| Others  | -                                    | 13.927  | -  | (22.861)                 |
| <b>Balance at 12.31.2007</b>                    | <b>152.390</b>                       | <b>194.856</b>                                | <b>122.851</b>                           | <b>(50.084)</b>          |
| <b>Balance at 12.31.2006</b>                    | <b>61.185</b>                        | <b>453.642</b>                                | <b>108.616</b>                           | <b>11.777</b>            |

**Transactions held during the year ended at December 31, 2007**

| Company   | <b>Services rendered and rents</b> | <b>Net sales</b> | <b>Net financial income (expenses)</b> | <b>Dividends paid</b> |
|---|------------------------------------|------------------|--|-----------------------|
| Pão de Açúcar Indústria e Comércio S.A.         | (6.280)                            | -                | -                                      | -                     |
| Wilkes  | -                                  | -                | -                                      | 7.946                 |
| Onyx 2006 Participações Ltda.                   | -                                  | -                | -                                      | 1.906                 |
| Casino  | (6.255)                            | -                | -                                      | 384                   |
| Rio Plate Empreendimentos e Participações Ltda. | -                                  | -                | -                                      | 377                   |
| Fundo de Invest.Imob.Península                  | (117.072)                          | -                | -                                      | 478                   |
| Novasoc   | 7.220                              | 195.741          | -                                      | -                     |
| Sé  | 16.064                             | 490.594          | -                                      | -                     |

|                              |               |                |                |               |
|------------------------------|---------------|----------------|----------------|---------------|
| Sendas Distribuidora         | 126.852       | 220.001        | (2.805)        | -             |
| Versalhes                    | -             | (128.171)      | -              | -             |
| Barcelona                    | (426)         | -              | -              | -             |
| Other                        | (11.830)      | -              | (908)          | 9.221         |
| <b>Balance at 12.31.2007</b> | <b>8.273</b>  | <b>778.165</b> | <b>(3.713)</b> | <b>20.312</b> |
| <b>Balance at 12.31.2006</b> | <b>41.055</b> | <b>504.366</b> | <b>32.237</b>  | <b>32.615</b> |

Accounts receivable and sale of goods relate to the supply of stores Novasoc, Sé, Sendas Distribuidora and Versalhes, by the Company's warehouse and were made at cost; the remaining transactions, described below, are carried out at prices and conditions agreed upon among the parties. The trade commission contracts are subject to an administration fee.

## 8. Balances and Transactions with Related Parties (Continued)

### (i) Leases

The Company leases 20 properties from the Diniz Group (21 in 2006). Payments under such leases in the year ended at December 31, 2007 totaled R\$11,649 (R\$15,180 in 2006), including an additional contingent lease based on 0.5% to 2.5% of revenues from stores.

Sendas Distribuidora leases 57 properties from the Sendas Group and 8 properties from the Company (57 and 7 in 2006, respectively). In the year ended at December 31, 2007, the total lease payments amounted to R\$33,244 and R\$5,832, respectively (R\$29,466 and R\$4,989 in 2006, respectively), including an additional contingent lease based on 0.5% to 2.5% of revenues from stores. In September 2005, the amount of R\$10,529 was advanced to Sendas S.A. regarding the lease of 7 stores, which are being amortized in 37 installments.

The leases were taken out under terms similar to those that would have been established if they had been taken out with non-related parties.

### (ii) Fundo de Investimento Imobiliário Península leases

At October 3, 2005, final agreements were entered into referring to the sale of 60 Company and subsidiary properties to a real estate fund named *Fundo de Investimento Imobiliário Península*. The properties sold were leased back to the Company for a twenty-year term, renewable for two further consecutive periods of ten years each. The Company was granted a long-term lease agreement for all properties that were part of this operation, in addition to periodic reviews of the minimum rent amounts. In addition, the Company has the right to exit individual stores before termination of the lease term, in case of the company be no longer interested in maintaining such leases.

The total amount paid under these leases in the year ended at December 31, 2007 was R\$117,072, of which R\$113,663 was paid by the Company, R\$2,932 paid by Novasoc and R\$477 paid by Sé (R\$114,943 in 2006, of which R\$111,539 was paid by the Company, R\$2,951 paid by Novasoc and R\$453 paid by Sé). These amounts include an additional contingent lease based on 2.0% of revenues from stores.

### (iii) Apportionment of corporate expenses

The corporate services, such as purchases, treasury, accounting, human resources and Shared Services Center ( CSC ) rendered to subsidiaries and affiliated companies are passed on by the cost amount effectively incurred with such services.

**8. Balances and Transactions with Related Parties (Continued)***(iv)* Technical Assistance Agreement with Casino

In the Company's Board of Directors' meeting held on July 21, 2005, a Technical Assistance Agreement was signed with Casino, whereby, through the annual payment of US\$ 2,727, Casino shall provide technical assistance services to the Company in the human resources, private label, marketing and communications, global campaigns and administrative assistance areas. This agreement is effective for 7 years, with automatic renewal for an indeterminate term. This agreement was approved in the Extraordinary General Meeting held at August 16, 2005. In the year ended at December 31, 2007, the Company paid R\$6,255 (R\$6,271 in 2006), in connection with the services provided for in such agreement.

**9. Investments**a) Information on investments at December 31, 2007 and 2006**2007**

|                      | <b>Shares/<br/>quotas held</b> | <b>Interest<br/>in capital<br/>stock %</b> | <b>Capital<br/>stock</b> | <b>Shareholders<br/>equity<br/>(capital<br/>deficiency)</b> | <b>Net income<br/>/<br/>loss<br/>for the<br/>year</b> |
|----------------------|--------------------------------|--|--------------------------|---|---|
| Novasoc              | 1,000                          | 10.00                                      | 10                       | (28,623)  | 14,684  |
| Sé                   | 1,433,671,368                  | 100.00                                     | 1,433,653                | 1,464,250   | 51,980  |
| Sendas Distribuidora | 449,999,994                    | 42.57                                      | 835,677                  | 4,410   | (19,193)  |
| Miravalles           | 127,519                        | 50.00                                      | 279,179                  | 221,363   | (57,818)  |
| PA Publicidade       | 99,999                         | 99.99                                      | 100                      | 1,156   | 723   |
| Sevilha              | 227,009,990                    | 99.99                                      | 226,992                  | 228,250   | 1,257   |
| Barcelona            | 9,006,000                      | 60.00                                      | 15,020                   | 37,778  | 3,717   |
| CBD Panamá           | 1,500                          | 100.00                                     | -                        | 173   | 173   |
| CBD Holland B.V.     | 180                            | 100.00                                     | -                        | 217   | -   |

**2006**

|                      | <b>Shares/<br/>quotas held</b> | <b>Interest<br/>in capital<br/>stock %</b> | <b>Capital<br/>stock</b> | <b>Shareholders<br/>equity<br/>(capital<br/>deficiency)</b> | <b>Net income<br/>/<br/>loss<br/>for the<br/>year</b> |
|----------------------|--------------------------------|--|--------------------------|---|---|
| Novasoc              | 1,000                          | 10.00                                      | 10                       | (43,307)  | 11,285  |
| Sé                   | 1,233,671,368                  | 91.92                                      | 1,233,671                | 1,212,288   | 16,833  |
| Sendas Distribuidora | 450,001,000                    | 42.57                                      | 835,677                  | 23,603  | (625,060)   |
| Miravalles           | 42,250                         | 50.00                                      | 260,888                  | 158,502   | (105,902)   |
| Nova Saper           | 36,362                         | 99.99                                      | -                        | 100   | -   |
| Versalhes            | 10,000                         | 90.00                                      | 10                       | (358)   | 113   |
| Auto Posto MFP       | 14,999                         | 99.99                                      | 15                       | 304   | 289   |

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|                  |           |       |       |       |       |
|------------------|-----------|-------|-------|-------|-------|
| Auto Posto Sigua | 29,999    | 99.99 | 30    | (44)  | (74)  |
| PA Publicidade   | 9,999     | 99.99 | 10    | 433   | 333   |
| Lourenção        | 1,905,615 | 99.99 | 1,906 | 1,496 | (136) |

**9. Investments (Continued)****b) Change in investments**

|                                | Parent Company |           |           |         |           | Consolidated |
|--------------------------------|----------------|-----------|-----------|---------|-----------|--------------|
|                                | Novasoc        | Sé        | Lourenção | Other   | Total     | Total        |
| Balance at December 31 , 2005  | -              | 1,098,863 | -         | 251     | 1,099,114 | 62,355       |
| Additions                      | -              | -         | 1,632     | 100     | 1,732     | 70,444       |
| Write-offs                     | -              | -         | -         | -       | -         | (45)         |
| Equity accounting              | 11,285         | 15,473    | (136)     | 814     | 27,436    | (53,197)     |
| Merger                         | -              | -         | -         | 5,008   | 5,008     | -            |
| Transfer to deferred           | -              | -         | -         | (5,078) | (5,078)   | -            |
| Transfer to capital deficiency | (11,285)       | -         | -         | (57)    | (11,342)  | -            |
| Balances at December 31 , 2006 | -              | 1,114,336 | 1,496     | 1,038   | 1,116,870 | 79,557       |
| Additions                      | -              | 199,982   | -         | 8,154   | 208,136   | 73,910       |
| Write-offs                     | -              | -         | -         | (99)    | (99)      | (99)         |
| Merger                         | -              | -         | (1,308)   | (866)   | (2,174)   | (13,458)     |
| Equity accounting              | 14,684         | 49,418    | (188)     | 910     | 64,824    | (28,923)     |
| Transfer to intangible         | -              | -         | -         | (7,765) | (7,765)   | -            |
| Transfer to capital deficiency | (14,684)       | -         | -         | 262     | (14,422)  | -            |
| Balance at December 31 , 2007  | -              | 1,363,736 | -         | 1,634   | 1,365,370 | 110,987      |

(i) Novasoc: It has, currently, 16 lease agreements with Paes Mendonça with a five-year term, which may be extended twice for similar periods through notification to the leaseholder, with final maturity in 2014. During the term of the contract, the shareholders of Paes Mendonça cannot sell their shares without prior and express consent of Novasoc. Paes Mendonça is by contract fully and solely responsible for all and any tax, labor, social security, commercial and other liabilities prior to the leasing agreement. The operating lease annual rental payments amounted to R\$9,101 in the year ended at December 31, 2007 (R\$8,919 in 2006), including an additional contingent rental based on 0.5% to 2.5% of the stores revenues.

Under Novasoc bylaws, the distribution of its net income need not be proportional to the holding of each shareholder in the capital of the company. As per members decision, the Company holds 99.98% of Novasoc's results as from 2000.

At December 31, 2007, the subsidiary Novasoc recorded capital deficiency. With a view to the future operating continuity and economic feasibility of such subsidiary, assured by the parent company, the Company recorded R\$28,623 (R\$43,307 in 2006), under Provision for capital deficiency to recognize its obligations before creditors.

(ii) Sé It holds direct interest in Miravalles corresponding to 50% of capital stock, which indirectly represents the investment in FIC.



## 9. Investments (Continued)

### b) Change in investments (Continued)

(iii) At November 1, 2007, GPA, by means of subsidiary company controlled by Sé (Sevilha), acquired shares representing 60% of the total and voting capital of Barcelona, a recipient company of Assai's spun-off assets related to the activities previously carried out by Assai in the wholesale market of the food industry by the amount of R\$208,504, originating a R\$206,068 goodwill recorded in the subsidiary Sevilha.

Assai is a chain of stores in the cash & carry segment known as atacarejo (wholesale+retail) with 33 years of activities in this segment. Assai currently has 2,700 employees and 15 stores located in the state of São Paulo, seven in the city of São Paulo and other stores in the cities of Santos, Sorocaba, Jundiaí, Osasco, São Bernardo, Guarulhos (2) and Ribeirão Preto. The stores will continue operating with the Assai banner and will maintain their main distinguished features: low operating cost, competitive prices, mix of goods and communication.

For non-controlling shareholders hold 40% interest in Barcelona, a shareholders agreement was entered into that established a put and call option of such interest, under the following conditions:

#### 1) Criteria for calculation of purchase or sale price for remaining interest of 40%:

- The highest amount between 7 times EBITDA and 35.16% of net sales over the past 12 months immediately prior to the Option exercise date, deducting net indebtedness and probable contingencies of loss. Should EBITDA margin be lower than 4.625%, only the 7 times EBITDA criterion will be taken into account;
- Initial purchase value net of distributed dividend, restated by IPCA + 6.5% p.a.

#### 2) Call Option ( CALL ) of total partners' shares 40%:

- Should GPA require the dismissal of chairman due to performance (by means of specific criteria set forth in the shareholders agreement) by criterion 1 of sales price;
- Should the chairman resign or be absent for more than 1/3 of Board meetings called during a determined fiscal year - by the lowest value between criterion 1 or 125% of criterion 2 of the sales price;

**9. Investments (Continued)**

b) Change in investments (Continued)

- At any moment, up to December 31, 2011 - by the highest value between criterion 1 or 125% of criterion 2 of the sales price;
- From January 1 to 15 of each calendar year between 2012 and 2014 - by the highest value between criterion 1 and criterion 2 of the sales price;
- At any time in the event of disability or decease of the chairman, by criterion 1 of the sales price.

The Board of Directors will be composed of 7 members, with a 3-year term of office. GPA shall be responsible for the appointment of 4 members and former partners of Assai shall be responsible for the appointment of 3 members, appointing among the latter, the Chairman of the Board of Directors. The former partners of Assai may also exercise the Put option as of January 1, 2012 as per conditions set forth in the item abovementioned.

c) Investment agreement – Company and Sendas

In February 2004, based on the Investment and Association Agreement, the Company and Sendas S.A. constituted, by means of transfer of assets, rights and obligations, a new company known as Sendas Distribuidora S.A., with the objective of operating in the retailing market in general, by means of the association of operating activities of both chains in the state of Rio de Janeiro. The Company's indirect interest in Sendas Distribuidora at December 31, 2007 corresponded to 42.57% of total capital. Pursuant to the shareholders' agreement, it is incumbent upon GPA's Board of Executive Officers to conduct the operating and administrative management of Sendas Distribuidora.

Pursuant to its Shareholders' Agreement, as from February 1, 2007, Sendas S.A. had the right to swap its paid-in shares or a portion thereof, for preferred shares of the Company. At December 31, 2007, Sendas S.A. held 42.57% shareholding in the total capital of Sendas Distribuidora, 23.65% of which already paid-in and 18.92% not paid-in yet. Pursuant to the 2<sup>nd</sup> addendum to the Shareholders' Agreement, Sendas S.A. shall pay-in the remaining installment of R\$200,000 up to 2014.

At October 19, 2006, Sendas S.A. notified the Company, expressing the exercise of put, pursuant to Clause 6.7 of Sendas Distribuidora Shareholders' Agreement, related to the transfer of equity control. The Company, understanding that a sale of control was not held, sent a counter-notice to Sendas S.A.

**9. Investments (Continued)**

c) Investment agreement – Company and Sendas (Continued)

At October 31, 2006, the Company was notified by the *Câmara de Conciliação e Arbitragem da Fundação Getúlio Vargas – FGV* (Chamber of Conciliation and Arbitration of the Fundação Getúlio Vargas) informing that Sendas S.A. has filed and appealed and brought the matter to arbitration, authority expected to discuss such matter.

At January 5, 2007, Sendas S.A. notified the Company, expressing the exercise of right to swap the totality of paid-in shares owned thereby with preferred shares of the Company's capital stock, pursuant to Clause 6.9.1 of Sendas Distribuidora Shareholders' Agreement, subjecting the effectiveness of swap to the award of arbitration mentioned above not to acknowledge the put exercise right on the part of Sendas.

At March 13, 2007, the Company and Sendas entered into a commitment, commencing the arbitration proceeding. The arbitration is still in the discovery phase and answers to the initial pleadings, which hinder the legal counsels representing the Company to assess the outcome and eventual settlement amount of the proceeding.

In view of current phase of discussions, the Company's Management did not alter the interest percentage currently used for the purposes of equity accounting calculation and consolidation of Sendas' financial statements.

d) Subscription of capital carried out by AIG Group in Sendas

On November 30, 2004 the shareholders of Sendas Distribuidora and investment funds of AIG group ("AIG"), entered into an agreement by which AIG invested the amount of R\$135,675 in Sendas Distribuidora, by means of subscription and payment of 157,082,802 class B preferred shares, issued by Sendas Distribuidora, representing 14.86% of its capital. AIG waived any rights related to the receipt of dividends, up to November 30, 2008.

Pursuant to the agreement, the Company and AIG mutually granted themselves crossed put and call options of shares acquired by AIG in Sendas Distribuidora, which may be exercised within approximately 4 years.

Upon the exercise of options mentioned above, the shares issued by Sendas Distribuidora shall represent an AIG credit against the Company, which may be used to subscribe up to six million preferred shares issued by the Company that will be created in a future capital increase.

**9. Investments** (Continued)

d) Subscription of capital carried out by AIG Group in Sendas (Continued)

The price of future issue of preferred shares of the Company will be determined based on the market value at the time of issue, and the intention is to enable the subscription by AIG in the maximum amount referred to above. Should the amount of AIG's shares in Sendas Distribuidora be higher than that amount corresponding to six million shares of the Company, it will pay the difference in cash.

The withdrawal of AIG from Sendas Distribuidora is defined based on "Withdrawal Price", which has as calculation basis, the Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), the multiple of EBITDA and the net financial indebtedness of Sendas Distribuidora. This withdrawal price shall entitle AIG to acquire Company's preferred shares according to the following criteria:

Should the "withdrawal price" be lower than that corresponding to four million Company's preferred shares (at market value at the time), the amount of shares to be issued will be defined by "withdrawal price" divided by market value of Company's preferred shares;

Should the "withdrawal price" be higher than that corresponding to four million Company's preferred shares (at market value at the time), the amount of shares to be issued shall be, at the Company's discretion, of at least, four million shares and at most, six million shares, and the difference between the "withdrawal price" and the amount corresponding to the amount of Company's preferred shares issued (defined by the Company) paid in cash.

At December 31, 2007 the total interest of AIG represented a credit of R\$165,440 (R\$151,157 in 2006) which, converted to the average quote of the past thirty quotes in December 2007 of Company's shares, at the Stock Exchange of São Paulo ("BOVESPA"), would correspond to a total of 5,294 shares (4,363 in 2006) in thousands of shares of the Company (2.32% of its capital).

e) Investment agreement the Company and Itaú

Miravalles, a company set up in July 2004 and owner of exploitation rights of the Company's financial activities, received funds from Itaú related to capital subscription, which then started to hold 50% of such company. Also in 2004, Miravalles set up Financeira Itaú Companhia S.A. ( FIC ), with capital stock of R\$150,000. It is a company which operates in structuring and commercialization of financial products and services exclusively to GPA's customers.

**9. Investments** (Continued)e) Investment agreement the Company and Itaú (Continued)

At December 22, 2005, an amendment to the partnership agreement between the Company, Itaú and FIC was signed, and the clauses referring to meeting of performance goals, initially established, were changed. By such amendment, the meeting of goals and the guarantee account are not longer tied, and fines for noncompliance of the referred performance goals were established.

This partnership is effective for 20 years and may be extended for an indeterminate term. The operational management of FIC is under the responsibility of Itaú.

At the Extraordinary General Meeting held at June 28, 2007, September 27, 2007 and December 27, 2007, the shareholders subscribed all the shares issued by Miravalles, in the total amount of R\$86,400, R\$12,300 and R\$21,970 respectively, and the Company paid-in the amount corresponding to the proportion of shares owned, which is 50%. The remaining was paid-in by another shareholder at same date.

The Miravalles financial statements for the year ended at December 31, 2007 and 2006, were audited by other independent auditors. In the year ended at December 31, 2007, total investments and negative equity results of operations of said investee represented 11.5% and 13.7%, respectively, in relation to the Company's consolidated financial statements (8.5% and 62.2% of total assets and net income in the year ended at December 31, 2006, respectively).

## f) Merger of Assets

The Extraordinary General Meeting held on July 30, 2007 approved the merger of the companies Sigua, MFP, Lourenção, Obla, Nova Saper, and Versalhes, the net assets of which on the date of merger are listed below:

|                          | <b>Sigua</b> | <b>MFP</b>   | <b>Lourenção</b> | <b>Obla</b>  | <b>Nova Saper</b> | <b>Versalhes</b> |
|--------------------------|--------------|--------------|------------------|--------------|-------------------|------------------|
| <b>Assets</b>            |              |              |                  |              |                   |                  |
| Current assets           | 346          | 586          | 1,137            | 18           | -                 | 52,270           |
| Noncurrent assets        | -            | -            | -                | -            | -                 | -                |
| Property and equipment   | 89           | 630          | 450              | 153          | 101               | -                |
| Investments              | -            | -            | -                | -            | -                 | -                |
| <b>Total Assets</b>      | <b>435</b>   | <b>1,216</b> | <b>1,587</b>     | <b>171</b>   | <b>101</b>        | <b>52,270</b>    |
| <b>Liabilities</b>       |              |              |                  |              |                   |                  |
| Current liabilities      | 469          | 629          | 272              | -            | -                 | 52,652           |
| Noncurrent liabilities   | -            | -            | -                | -            | -                 | -                |
| <b>Total Liabilities</b> | <b>469</b>   | <b>629</b>   | <b>272</b>       | <b>-</b>     | <b>-</b>          | <b>52,652</b>    |
| <b>Net Assets</b>        | <b>34</b>    | <b>(587)</b> | <b>(1,315)</b>   | <b>(171)</b> | <b>(101)</b>      | <b>382</b>       |



**9. Investments** (Continued)f) Merger of Assets (Continued)

At October 10, 2007, pursuant to the protocol of justification and merger, the Messina Empreendimentos e Participações Ltda. was merged into Sé by the book value. According to the appraisal report, the merged net assets value is R\$13,357.

**10. Property and Equipment**

|                                      | Annual depreciation rates |                  | Cost             | Parent Company           |                  |                  |
|--------------------------------------|---------------------------|------------------|------------------|--------------------------|------------------|------------------|
|                                      | Nominal                   | Weighted average |                  | 2007                     | 2006             |                  |
|                                      |                           |                  |                  | Accumulated depreciation | Net              | Net              |
| Land                                 | -                         | -                | 665,241          | -                        | 665,241          | 552,928          |
| Buildings                            | 3.3                       | 3.3              | 2,170,739        | (426,795)                | 1,743,944        | 1,659,180        |
| Leasehold improvements               | *                         | 6.7              | 1,458,224        | (553,877)                | 904,347          | 771,143          |
| Equipment                            | 10.0 to 33.0              | 13.1             | 938,942          | (558,555)                | 380,387          | 338,458          |
| Installations                        | 25.0 to 20.0              | 20.0             | 427,528          | (334,717)                | 92,811           | 85,293           |
| Furniture and fixtures               | 10.0                      | 10.0             | 215,740          | (93,239)                 | 122,501          | 104,031          |
| Vehicles                             | 20.0                      | 20.0             | 24,716           | (14,561)                 | 10,155           | 7,546            |
| Construction in progress             | -                         | -                | 159,132          | -                        | 159,132          | 35,627           |
| Other                                | 10.0                      | 10.0             | 99,737           | (20,685)                 | 79,052           | 15,609           |
|                                      |                           |                  | <b>6,159,999</b> | <b>(2,002,429)</b>       | <b>4,157,570</b> | <b>3,569,815</b> |
| Annual average depreciation rate - % |                           |                  |                  |                          | <b>5.19</b>      | 5.38             |

|                        | Annual depreciation rates |                  | Cost      | Consolidated             |           |           |
|------------------------|---------------------------|------------------|-----------|--------------------------|-----------|-----------|
|                        | Nominal                   | Weighted average |           | 2007                     | 2006      |           |
|                        |                           |                  |           | Accumulated depreciation | Net       | Net       |
| Land                   | -                         | -                | 706,916   | -                        | 706,916   | 594,585   |
| Buildings              | 3.33                      | 3.3              | 2,270,996 | (454,178)                | 1,816,818 | 1,728,252 |
| Leasehold improvements | *                         | 6.7              | 2,008,241 | (781,179)                | 1,227,062 | 1,114,130 |
| Equipment              |                           | 13.1             | 1,172,235 | (677,224)                | 495,011   | 442,879   |

|                          |         |      |                  |                    |                  |           |
|--------------------------|---------|------|------------------|--------------------|------------------|-----------|
|                          | 10.0 to |      |                  |                    |                  |           |
|                          | 33.0    |      |                  |                    |                  |           |
|                          | 20.0 to |      |                  |                    |                  |           |
| Installations            | 25.0    | 20.0 | 569,713          | (430,659)          | 139,054          | 137,394   |
| Furniture and fixtures   | 10.0    | 10.0 | 312,399          | (130,198)          | 182,201          | 163,101   |
| Vehicles                 | 20.0    | 20.0 | 25,815           | (15,008)           | 10,807           | 7,957     |
| Construction in progress | -       | -    | 163,040          | -                  | 163,040          | 37,115    |
| Other                    | 10.0    | 10.0 | 100,001          | (20,731)           | 79,270           | 15,627    |
|                          |         |      | <b>7,329,356</b> | <b>(2,509,177)</b> | <b>4,820,179</b> | 4,241,040 |

Annual average depreciation rate - % **5.64**      5.92

\* Leasehold improvements are depreciated based on the lower of the estimated useful life of the asset or the lease term of agreements, whichever is shorter.



**10. Property and Equipment** (Continued)a) Additions to property and equipment

|                      | Parent Company |         | Consolidated   |         |
|----------------------|----------------|---------|----------------|---------|
|                      | 2007           | 2006    | 2007           | 2006    |
| Additions            | <b>866,959</b> | 738,073 | <b>935,960</b> | 806,564 |
| Capitalized interest | <b>42,425</b>  | 48,108  | <b>44,666</b>  | 50,632  |
|                      | <b>909,384</b> | 786,181 | <b>980,626</b> | 857,196 |

Additions made by the Company relate to purchases of operating assets, acquisition of land and buildings to expand activities, construction of new stores, modernization of existing warehouses, improvements of various stores and investment in equipment and information technology.

**11. Intangible Assets**

|                                      | Parent Company | Consolidated   |
|--------------------------------------|----------------|----------------|
| Balance at December 31, 2005         | 538,472        | 1,083,501      |
| Additions                            | 3,687          | 3,687          |
| Addition by merger                   | 1,228          | -              |
| Amortization                         | (114,516)      | (172,308)      |
| Provision for goodwill reduction (i) | -              | (268,886)      |
| Write-off                            | (15,049)       | (15,049)       |
| Balance at December 31, 2006         | 413,822        | 630,945        |
| Additions                            | 500            | 198,598        |
| Transfer from investment             | 7,765          | 7,765          |
| Transfer to property and equipment   | (9,551)        | (9,551)        |
| Amortization                         | (121,976)      | (152,905)      |
| Balance at December 31, 2007         | <b>290,560</b> | <b>674,852</b> |

Upon the acquisition of subsidiaries and for consolidation purposes, the amounts originally recorded under investments as goodwill based mainly on expected future profitability, were transferred to intangible assets, and will be amortized over periods consistent with the earnings projections on which they were originally based, limited for 10 years.

**11. Intangible Assets** (Continued)

(i) Provision for goodwill reduction Sendas Distribuidora S.A.

The Company reviewed the economic and financial assumptions sustaining the future realization of goodwill of its subsidiary Sendas Distribuidora. Based on this review, we concluded the need of provision for partial reduction of goodwill, the net effect of which on the consolidated was R\$268,886, recorded under the non-operating result item at December 31, 2006.

**12. Deferred Charges**

|  | <b>Parent<br/>Company</b> | <b>Consolidated</b> |
|--|---------------------------|---------------------|
| Balance at December 31, 2005                       | 61,199                    | 61,691              |
| Additions  | 28,512                    | 28,640              |
| Transfer to property and equipment<br>Amortization | (2,905)<br>(10,743)       | (2,902)<br>(11,148) |
| Balance at December 31, 2006                       | 76,063                    | 76,281              |
| Additions  | 16,387                    | 16,503              |
| Write-offs   | -                         | -                   |
| Transfer to property and equipment<br>Amortization | (2,606)<br>(12,759)       | (2,843)<br>(12,764) |
| Balance at December 31, 2007                       | <b>77,085</b>             | <b>77,177</b>       |

Regarding expenses with specialized consulting fees, incurred during the development and implementation of strategic projects, we point out:

- Categories management;
- Maximum efficiency in supermarket stores;
- Implementation of CSC Shared Service Center;
- Implementation of procurement center of materials and indirect services.

The pre-operational expenditures are also represented by costs incurred in the development of new products by means of creation of Brand TAEQ, which aims at serving the well-being segment and a new business model convenience retail or neighborhood supermarket Extra Fácil. The projects already concluded are being amortized for a minimum term of 5 years.

**13. Loans and Financing**

|                          |   | Parent Company |         | Consolidated     |         |
|--------------------------|---|----------------|---------|------------------|---------|
| Annual financial charges |   | 2007           | 2006    | 2007             | 2006    |
| Short-term               |   |                |         |                  |         |
| In local currency        |   |                |         |                  |         |
| BNDES (ii)               | TJLP + 1.0 to 4.125%  | <b>98,032</b>  | 89,571  | <b>98,032</b>    | 89,571  |
| Working capital (i)      | TJLP + 1.7%   | <b>6,443</b>   | 7,542   | <b>6,443</b>     | 7,542   |
|                          | Weighted average rate of 103.9%<br>of CDI (104% in 2006)                      | <b>10,077</b>  | -       | <b>30,388</b>    | 22,752  |
| PAFIDC Quotas            |   |                |         |                  |         |
| (iii)                    | Senior A - 105% of CDI  | -              | -       | <b>556,776</b>   | -       |
|                          | Senior B - 101% of CDI  | -              | -       | <b>133,682</b>   | 71,100  |
|                          | Senior C - 100% of CDI + 0.5%<br>pa   | -              | -       | <b>133,344</b>   | -       |
| Leasing                  | CDI rate + 0.14% pa   | <b>6,553</b>   | -       | <b>6,553</b>     | -       |
| In foreign currency      |   |                |         |                  |         |
|                          | with swap for Brazilian <i>reais</i><br>Exchange variation + 4.1 to<br>4.125% | <b>7,926</b>   | 15,069  | <b>7,926</b>     | 15,069  |
| BNDES (ii)               | Weighted average rate - 103.5%<br>of  | <b>20,750</b>  | 390,420 | <b>451,598</b>   | 651,231 |
| Working capital (i)      | CDI (103.4% in 2006)  | <b>11,917</b>  | 8,719   | <b>14,287</b>    | 14,056  |
| Imports                  | US dollar exchange variation  |                |         |                  |         |
|                          |   | <b>161,698</b> | 511,321 | <b>1,439,029</b> | 871,321 |
| Long-term                |   |                |         |                  |         |
| In local currency        |   |                |         |                  |         |
| BNDES (ii)               | TJLP + 1.0 to 4.125%  | <b>201,514</b> | 113,524 | <b>201,514</b>   | 113,524 |
| Working capital (i)      | TJLP + 1.7%   | -              | 6,401   | -                | 6,401   |
| PAFIDC Quotas            |   |                |         |                  |         |
| (iii)                    | Senior A - 105% of CDI  | -              | -       | -                | 495,131 |
|                          | Senior B - 101% of CDI  | -              | -       | -                | 167,893 |
| Leasing                  | CDI Rate + 0.14% p.a.   | <b>13,020</b>  | -       | <b>13,020</b>    | -       |
| In foreign currency      |   |                |         |                  |         |
| BNDES (ii)               | with swap for Brazilian <i>reais</i><br>Exchange variation + 4.125%           | <b>8,513</b>   | 19,672  | <b>8,513</b>     | 19,672  |
| Working capital (i)      |   |                |         |                  |         |

|                                |                |         |                |           |
|--------------------------------|----------------|---------|----------------|-----------|
| Weighted average rate - 102.2% |                |         |                |           |
| of                             |                |         |                |           |
| CDI (103.9% in 2006)           | <b>460,079</b> | -       | <b>696,247</b> | 579,531   |
|                                | <b>683,126</b> | 139,597 | <b>919,294</b> | 1,382,152 |

The Company uses swaps operations to convert U.S. dollar-denominated, yen-denominated obligations and fixed interest rate to Brazilian *real* pegged to CDI (floating) interest rate. The Company entered, contemporaneously with the same counterparty, into cross-currency interest rate swaps and has treated the instruments on a combined basis as though the loans were originally denominated in *reais* and accrued interest at floating rates.

The annualized CDI benchmark rate at December 31, 2007 was 11.82% (15.00% in 2006).

(i) Working capital financing

**13. Loans and Financing** (Continued)

Obtained from local banks and part of it is used to fund customer credit (the remaining balance not granted to PAFIDC), or originated from needs of financing of GPA growth. This is made without guarantees, but endorsed by the Company in case of Sendas Distribuidora.

(ii) BNDES credit line

The line of credit agreements, denominated in *reais*, with the Brazilian National Bank for Economic and Social Development (BNDES), are either subject to the indexation based on TJLP rate (long-term rate), plus annual interest rates, or are denominated based on a basket of foreign currencies to reflect the BNDES funding portfolio, plus annual interest rates. Financing is paid in monthly installments after a grace period, as mentioned below.

The Company cannot offer any assets as collateral for loans to other parties without the prior authorization of BNDES and is required to comply with certain debt covenants, calculated on the balance sheet, in accordance with Brazilian GAAP, including: (i) maintenance of a capitalization ratio (shareholders' equity/total assets) equal to or in excess of 0.4 and (ii) maintenance of a current ratio (current assets/current liabilities) equal to or in excess of 1.05. Management effectively controls and monitors covenants, which were fully performed. The parent company offered pledges as a joint and several liable party for settlement of the agreements.

| <b>Consolidated</b>  |                                 |                               |                                       |                 |                |             |
|----------------------|---------------------------------|-------------------------------|---------------------------------------|-----------------|----------------|-------------|
| <b>Contract date</b> | <b>Annual financial charges</b> | <b>Grace period in months</b> | <b>Number of monthly installments</b> | <b>Maturity</b> | <b>2007</b>    | <b>2006</b> |
| January 13, 2000     | TJLP + 3.5%                     | 12                            | 72                                    | January 2007    | -              | 885         |
| November 10, 2000    | TJLP + 1 to 3.5%                | 20                            | 60                                    | May 2007        | -              | 18,849      |
| November 10, 2000    | Basket of currencies + 3.5%     | 20                            | 60                                    | July 2007       | -              | 4,154       |
| November 14, 2000    | TJLP + 2.0%                     | 20                            | 60                                    | June 2007       | -              | 1,358       |
| March 12, 2002       | Basket of currencies + 3.5%     | 12                            | 48                                    | March 2007      | -              | 161         |
| April 25, 2002       | TJLP + 3.5%                     | 6                             | 60                                    | October 2007    | -              | 8,521       |
| April 25, 2002       | Basket of currencies + 3.5%     | 6                             | 60                                    | October 2007    | -              | 1,179       |
| November 11, 2003    | Basket of currencies + 4.125%   | 14                            | 60                                    | January 2010    | <b>16,438</b>  | 29,246      |
| November 11, 2003    | TJLP + 4.125%                   | 12                            | 60                                    | November 2009   | <b>107,845</b> | 163,604     |
| November 11, 2003    | TJLP + 1.0%                     | 12                            | 60                                    | November 2009   | <b>6,513</b>   | 9,879       |
| May 9, 2007          | TJLP+ 3.2%                      | 6                             | 60                                    | November 2012   | <b>161,813</b> | -           |
| May 9, 2007          | TJLP+ 2.70%                     | 6                             | 60                                    | November 2012   | <b>23,376</b>  | -           |

**315,985** 237,836

In the event the TJLP exceeds 6% per annum, the excess is added to the principal. In the years ended at December 31, 2007 and 2006, R\$636 and R\$4,732, were added to the principal, respectively.

**13. Loans and Financing** (Continued)(iii) Redeemable PAFIDC quotas of interest

As per Official Memorandum CVM/SNC/SEP 01/2006, the Company reclassified the amounts under the caption Redeemable PAFIDC quotas of interest, due to their characteristics, to the Loans and financing group of accounts (Note 7).

Characteristics of the PAFIDC quotas of interest:

| Type of quotas | Number | Yield                   | Redemption date |
|----------------|--------|-------------------------|-----------------|
| Senior A       | 5,826  | 105 % of CDI            | 5/26/2008       |
| Senior B       | 4,300  | 101 % of CDI            | 5/26/2008       |
| Senior C       | 130    | 100% of CDI + 0.5% p.a. | 5/26/2008       |

(iv) Maturities long-term

|      | Parent Company | Consolidated |
|------|----------------|--------------|
| 2009 | 107,958        | 109,106      |
| 2010 | 176,278        | 411,298      |
| 2011 | 364,480        | 364,480      |
| 2012 | 34,410         | 34,410       |
|      | 683,126        | 919,294      |

**14. Debentures**a) Breakdown of outstanding debentures:

|                                | Type          | Outstanding Securities | Annual financial charges | Unit price | 2007           | 2006    |
|--------------------------------|---------------|------------------------|--------------------------|------------|----------------|---------|
| 5th issue - 1st series         | Floating      | -                      | CDI + 0.95%              | -          | -              | 414,761 |
| 6th issue - 1st series         | No preference | 54,000                 | CDI + 0.5%               | 10,357     | 559,268        | -       |
| 6th issue - 2nd series         | No preference | 23,965                 | CDI + 0.5%               | 10,357     | 248,201        | -       |
| 6th issue - 1st and 2nd series | Interest swap | -                      | 104.96% of CDI           | -          | 62             | -       |
| <b>Total</b>                   |               |                        |                          |            | <b>807,531</b> | 414,761 |



|                        |                |         |
|------------------------|----------------|---------|
| Noncurrent liabilities | <b>779,650</b> | -       |
| Current liabilities    | <b>27,881</b>  | 414,761 |

**14. Debentures (Continued)**b) Debenture operation:

|  | <b>Number of<br/>debentures</b> | <b>Value</b>   |
|--|---------------------------------|----------------|
| At December 31, 2005                   | 40,149                          | 419,469        |
| Net interest from payments             | -                               | (4,708)        |
| At December 31, 2006                   | 40,149                          | 414,761        |
| Amortization of principal - 5th series | (40,149)                        | (401,490)      |
| 6th issue                              | 77,965                          | 779,650        |
| Net interest from payments and swap    | -                               | 14,610         |
| At December 31, 2007                   | <b>77,965</b>                   | <b>807,531</b> |

c) Additional information

Sixth issue at March 1, 2007, shareholders approved the issue and public placement limited to R\$779,650 of 77,965 non-convertible debentures. The Company received proceeds of R\$551,518, for 54,000 debentures issued from the first series, and R\$245,263 of 23,965 debentures (with negative goodwill of 0.24032%), issued from the second series. Out of proceeds obtained from second series, R\$242,721 were used to amortize 23,965 debentures of the fifth issue and part of interest. The debentures are indexed to the average rate of CDI and accrue annual spread of 0.5% payable every six months, starting at March 1, 2013. The debentures amortization will take place at March 1, 2011, March 1, 2012 and March 1, 2013, amounting to 25,988 debentures for each year. The debentures will not be subject to renegotiation until maturity at March 1, 2013. The Company is in compliance with debt covenants provided for in the 6<sup>th</sup> issue, calculated over the consolidated balance sheet, in accordance with the accounting practices adopted in Brazil: (i) net debt (debt less cash and cash equivalents and accounts receivable) not higher than the balance of shareholders equity; (ii) maintenance of a ratio between net debt and EBITDA (Note 23), lower or equal to 3.25.

**15. Taxes and Social Contribution Payable**

Taxes and contributions are composed of the following:

|  | Parent Company |         | Consolidated   |         |
|--|----------------|---------|----------------|---------|
|  | 2007           | 2006    | 2007           | 2006    |
| Current  |                |         |                |         |
| Taxes paid in installments                       | <b>58,151</b>  | 50,288  | <b>60,443</b>  | 52,553  |
| PIS and COFINS payable                           | <b>18,158</b>  | 3,287   | <b>25,031</b>  | 6,583   |
| Provision for income tax and social contribution | <b>5,575</b>   | 27      | <b>16,944</b>  | 9,539   |
|  | <b>81,884</b>  | 53,602  | <b>102,418</b> | 68,675  |
| Noncurrent                                       |                |         |                |         |
| Taxes paid in installments                       | <b>239,896</b> | 248,163 | <b>250,837</b> | 261,101 |
|  | <b>321,780</b> | 301,765 | <b>353,255</b> | 329,776 |

The Company filed application for the Special Tax Payment Installments Program ( PAES ), pursuant to Law 10,680/2003. These installment payments are subject to the Long-Term Interest Rate TJLP and may be payable in up to 120 months. Out of the amount of R\$311,280, R\$33,258 are under phase of application filed with tax authorities.

The amounts payable in installments were as follows:

|                | Parent Company |         | Consolidated   |         |
|----------------|----------------|---------|----------------|---------|
|                | 2007           | 2006    | 2007           | 2006    |
| Current        |                |         |                |         |
| INSS           | <b>37,440</b>  | 35,668  | <b>37,561</b>  | 35,799  |
| CPMF           | <b>10,028</b>  | 14,238  | <b>12,035</b>  | 16,225  |
| ICMS and other | <b>10,683</b>  | 382     | <b>10,847</b>  | 529     |
|                | <b>58,151</b>  | 50,288  | <b>60,443</b>  | 52,553  |
| Noncurrent     |                |         |                |         |
| INSS           | <b>168,478</b> | 196,172 | <b>169,115</b> | 196,895 |
| CPMF           | <b>45,125</b>  | 48,647  | <b>54,159</b>  | 59,575  |
| ICMS and other | <b>26,293</b>  | 3,344   | <b>27,563</b>  | 4,631   |
|                | <b>239,896</b> | 248,163 | <b>250,837</b> | 261,101 |

**16. Provision for Contingencies**

Provision for contingencies is estimated by management, supported by its legal counsel. Such provision was set up in an amount considered sufficient to cover losses considered probable by the Company's legal counsel and it is stated, net of related judicial deposits, as shown below:

**16. Provision for Contingencies (Continued)****Parent Company**

|                                     | <b>COFINS<br/>and<br/>PIS</b> | <b>Other</b>  | <b>Labor</b>  | <b>Civil and<br/>other</b> | <b>Total</b>     |
|-------------------------------------|-------------------------------|---------------|---------------|----------------------------|------------------|
| <b>Balance at December 31, 2005</b> | <b>873,285</b>                | <b>6,741</b>  | <b>42,419</b> | <b>88,594</b>              | <b>1,011,039</b> |
| Additions                           | 26,737                        | 33,133        | 12,922        | 16,770                     | 89,562           |
| Reversals/Payments                  | -                             | (20,913)      | (23,407)      | (2,126)                    | (46,446)         |
| Monetary Restatement                | 75,979                        | 4,390         | 8,354         | 10,350                     | 99,073           |
| Judicial Deposits                   | -                             | -             | (34,932)      | (33,574)                   | (68,506)         |
| <b>Balance at December 31, 2006</b> | <b>976,001</b>                | <b>23,351</b> | <b>5,356</b>  | <b>80,014</b>              | <b>1,084,722</b> |
| Additions                           | 16,000                        | 1,546         | 12,332        | 20,377                     | 50,255           |
| Reversals/Payments                  | (6,886)                       | -             | (12,971)      | (13,703)                   | (33,560)         |
| Monetary Restatement                | 53,009                        | 2,243         | 5,688         | 9,978                      | 70,918           |
| Judicial Deposits                   | -                             | -             | (8,897)       | (6,484)                    | (15,381)         |
| <b>Balance at December 31, 2007</b> | <b>1,038,124</b>              | <b>27,140</b> | <b>1,508</b>  | <b>90,182</b>              | <b>1,156,954</b> |

**Consolidated**

|                                     | <b>COFINS<br/>and<br/>PIS</b> | <b>Other</b>  | <b>Labor</b>  | <b>Civil and<br/>other</b> | <b>Total</b>     |
|-------------------------------------|-------------------------------|---------------|---------------|----------------------------|------------------|
| <b>Balance at December 31, 2005</b> | <b>921,963</b>                | <b>9,013</b>  | <b>44,567</b> | <b>101,368</b>             | <b>1,076,911</b> |
| Additions                           | 19,577                        | 34,850        | 15,766        | 23,818                     | 94,011           |
| Reversals/Payments                  | (9,862)                       | (23,765)      | (26,367)      | (6,373)                    | (66,367)         |
| Monetary Restatement                | 79,642                        | 4,482         | 8,742         | 12,042                     | 104,908          |
| Judicial Deposits                   | -                             | -             | (36,715)      | (35,121)                   | (71,836)         |
| <b>Balance at December 31, 2006</b> | <b>1,011,320</b>              | <b>24,580</b> | <b>5,993</b>  | <b>95,734</b>              | <b>1,137,627</b> |
| Additions                           | 26,250                        | 2,570         | 19,462        | 22,821                     | 71,103           |
| Reversals/Payments                  | (6,886)                       | -             | (18,087)      | (21,264)                   | (46,237)         |
| Monetary Restatement                | 55,497                        | 2,389         | 6,083         | 11,517                     | 75,486           |
| Judicial Deposits                   | -                             | -             | (11,050)      | (10,740)                   | (21,790)         |
| <b>Balance at December 31, 2007</b> | <b>1,086,181</b>              | <b>29,539</b> | <b>2,401</b>  | <b>98,068</b>              | <b>1,216,189</b> |

## 16. Provision for Contingencies (Continued)

### a) Taxes

Tax-related contingencies are indexed to the Central Bank Overnight Rate ( SELIC ), which stood at 11.25% at December 31, 2007 (14.13% in 2006), and are subject, when applicable, to fines. In all cases, both interest charges and fines, when applicable, have been computed with respect to unpaid amounts and are fully accrued.

#### *COFINS and PIS*

In 1999, the rate for COFINS increased from 2% to 3%, and the tax base of both COFINS and PIS was extended in 1999 to encompass other types of income, including financial income. The Company is challenging the increase in contributions of COFINS and the extension of base of such contributions. Provision for COFINS and PIS includes unpaid amounts, monetarily restated, amounting to R\$971,004 (R\$915,313 in 2006) resulting from the lawsuit filed by the Company and its subsidiaries, claiming the right to not apply Law 9,718/98, permitting it to determine the payment of COFINS under the terms of Complementary Law 70/91 (2% of revenue) and of PIS under Law 9,715/98 (0.65% of revenue) as from February 1, 1999. The lawsuits are in progress at the Regional Federal Court, and up to this moment, the Company has not been required to make judicial deposits.

As the calculation system of such contributions started to use the non-cumulative tax principle, starting by PIS as from December 1, 2002, with the Law 10,637/02, and COFINS, as from February 2004 by means of Law 10,833/03, the Company and its subsidiaries then started to apply said rules, as well as, to question with the Judiciary Branch, the extension of tax base of such contributions, aiming at continuing its application by the concept of sales results, as well as the appropriation of credits not accepted by laws and that the Management understands to be subject to appropriation, such as financial expenses and third parties expenses. The provision recorded in the balance sheet in the amount of R\$115,177 (R\$96,007 in 2006), includes the unpaid installment, monetarily restated. In addition, the Company challenges the limit of percentage and the term for appropriation of COFINS credit over the opening inventory derived from Law 10,833/03, recording in its balance sheet the difference of appropriated credit under such rule by virtue of judicial authorization. There are no judicial deposits for such discussions.

## 16. Provision for Contingencies (Continued)

### a) Taxes (Continued)

#### *Other*

The Company and its subsidiaries have other tax contingencies, which after analysis of its legal counsels, were deemed as probable losses: a) lawsuit questioning the non-levy of excise tax ( IPI ) over codfish imports, which awaits decision by appellate court judge; b) federal administrative assessment about the restatement of equity accounts by an index higher than that accepted by tax authorities, which awaits decision by administrative appellate court judge ( Summer Plan ); c) administrative assessment referring to the collection of debts of withholding tax (IRRF), social contribution on net income (CSLL), which also awaits decision by administrative appellate court judge, d) administrative assessment due to offsetting of INSS credit verified by the Company under the viewpoint of undue payment over allowance not provided for by law, awaiting for court verdict; e) tax assessment related to purchase, manufacturing and sale transactions for export purposes of soybean and its byproducts, in which, in the tax authorities understanding, the circulation of products did not take place. Within the federal scope, the Company was served notice for these operations, in relation to PIS, COFINS and IRPJ. The amount recorded in accounting books for such issues is R\$29,539 (R\$24,580 in 2006). The Company has no judicial deposits related to such issues.

### b) Labor claims

The Company is party to numerous lawsuits involving disputes with its employees, primarily arising from layoffs in the ordinary course of business. At December 31, 2007, the Company recorded a provision of R\$50,166 (R\$42,708 in 2006) assessed as probable risk. Lawsuits the loss of which is deemed as possible by our legal counsels stand at R\$7,151 (R\$9,734 in 2006). Management, assisted by its legal counsels, evaluates these contingencies and provides for losses where reasonably estimable, bearing in mind previous experiences in relation to the amounts sought. Labor claims are indexed to the Referential Interest Rate ( TR ) (2.0% accumulated in the year ended at December 31, 2007) plus 1% monthly interest. The net balance of earmarked judicial deposits amount is R\$2,401 (R\$5,993 in 2006).

### c) Civil and other

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

**16. Provision for Contingencies (Continued)**

c) Civil and other (Continued)

Among these lawsuits, we point out the following:

The Company brought a writ of mandamus in order to be entitled to not pay the contributions provided for by Complementary Law 110/2001 related to the FGTS (Government Severance Indemnity Fund for Employees) financing. The Company obtained a preliminary injunction recognizing the right of not paying such contributions. Subsequently, this preliminary injunction was reversed, determining the judicial deposit of unpaid amounts during the effectiveness period of the preliminary injunction. The enforceability of tax credit is suspended in view of appeal filed, which awaits decision by the Regional Federal Court. The amount accrued is R\$46,896 (R\$43,156 in 2006) and the Company effected a R\$8,036 judicial deposit, protecting the period in which it was not covered by the preliminary injunction.

The Company filed a declaratory action of absence of legal relationship, in what concerns the contribution to SEBRAE, as enacted by Law 8,029/90, in order to also obtain the acknowledgement of restated credit for offsetting with balances payable to SESC (Social Service for Trade) and SENAC (National Service for Commercial Training), excluding the 30% limit. The company was granted the right of not paying the falling due contributions, provided that judicial deposits are made, as usual. The proceeding awaits a decision of the extraordinary appeal. The accrued amount is R\$37,511 (R\$31,122 in 2006), and judicial deposit in the amount of R\$37,328 (R\$30,825 in 2006).

The Company by means of a writ of mandamus is challenging the constitutionality of the FUNRURAL (Rural Workers Assistance Fund) for companies located in urban areas. The lawsuit is in progress at the Regional Federal Court and the amount of the provision is R\$33,141 (R\$30,516 in 2006). There is no judicial deposit for such proceeding.

The Company files and answers various lawsuits in which it requests the review of lease amounts paid by the stores. In these lawsuits, the judge determines a provisional lease amount, which then is paid by the stores, until report and decision define the final lease amount. The set up provision of difference between the amount originally paid by the stores and that defined provisionally in these lawsuits. At December 31, 2007 the accrual amount for these lawsuits is R\$11,955 (R\$11,507 in 2006), for which there are no judicial deposits.



**16. Provision for Contingencies (Continued)**

d) Possible losses

The Company has other contingencies which have been analyzed by the legal counsel and deemed as possible but not probable; therefore, have not been accrued, at December 31, 2007, as follows:

**INSS (Social Security Tax)** The Company was also served notice regarding the non-levy of payroll charges on benefits granted to its employees, and the loss, considered possible, amounts to R\$116,462 (R\$106,117 in 2006). These proceedings are under administrative discussion.

**IRPJ, IRRF, and CSLL** The Company was served several administrative assessment notices regarding the taxes mentioned, with varied subject-matters, such as offsetting proceedings, undeductible provisions, and all of them await decision in the administrative level, the amount of which corresponds to R\$69,309 (R\$49,695 in 2006).

**COFINS, PIS and CPMF** The Company was served notice in the administrative level regarding the taxes mentioned with varied subject-matters, motion for offsetting the Social Investment Fund ( FINSOCIAL ), tax payment discrepancies, in addition to PIS and COFINS in the assessment of soybean operations, previously mentioned. The amount involved in these assessments is R\$243,637 (R\$212,996 in 2006) and await administrative decision.

**ICMS** The Company was served notice by the state tax authorities regarding the appropriation of electricity credits, acquisitions from suppliers considered to be disreputable, refund of tax replacement without due compliance of ancillary obligations brought by CAT Ordinance 17 of the State of São Paulo, among others, not relevant. At the end of 2007, the Company was again served notice by the State of São Paulo, amounting to nearly R\$557,764, of which approximately R\$425,000 were classified by the management and legal counsels, as possible losses. The total amount of these assessments amounts to R\$878,062 (R\$330,894 in 2006), which await a final decision in the administrative and court levels.

**ISS, Municipal Real Estate Tax ( IPTU ), Property Transfer Tax ( ITBI ) and other** These are related to assessments on third parties retention, tax payment discrepancies, fines due to non-compliance of ancillary obligations and sundry taxes, the amount of which is R\$17,891 and await administrative and court decisions. In 2006, these amounts were classified as remote losses by the legal counsels.

**16. Provision for Contingencies** (Continued)d) Possible losses (Continued)

Other contingencies They are related to administrative lawsuits and lawsuits under the civil court scope, special civil court, Consumer Protection Agency ( PROCON ) (in many states), Weight and Measure Institute ( IPEM ), National Institute of Metrology, Standardization and Industrial Quality ( INMETRO ) and National Health Surveillance Agency ( ANVISA ), in great majority related to suits for damages, amounting to R\$45,139 (R\$52,404 in 2006).

Occasional adverse changes in the expectation of risk of the referred to lawsuits may require that additional provision for contingencies be set up.

e) Appeal and judicial deposits

The Company is challenging the payment of certain taxes, contributions and labor-related obligations and has made court escrow deposits (restricted deposits) of equivalent amounts pending final legal decisions, in addition to collateral deposits related to provisions for judicial suits.

f) Guarantees

The company has granted collaterals to some lawsuits of civil, labor and tax nature, as shown below:

| <b>Lawsuits</b> | <b>Real Estate</b> | <b>Equipment</b> | <b>Guarantee</b> | <b>Total</b>   |
|-----------------|--------------------|------------------|------------------|----------------|
| Tax             | 511,920            | 2,198            | 206,202          | 720,320        |
| Labor           | 5,846              | 3,631            | 53,589           | 63,066         |
| Civil and other | 11,003             | 796              | 17,070           | 28,869         |
| <b>Total</b>    | <b>528,769</b>     | <b>6,625</b>     | <b>276,861</b>   | <b>812,255</b> |

g) Tax audits

In accordance with current legislation in Brazil, federal, state and municipal taxes and payroll charges are subject to audit by the related authorities, for periods that vary between 5 and 30 years.

**17. Income and Social Contribution Taxes**a) Income and social contribution tax expense reconciliation

|  | Parent Company  |          | Consolidated    |           |
|--|-----------------|----------|-----------------|-----------|
|  | 2007            | 2006     | 2007            | 2006      |
| Earnings before income and social contribution taxes                 | <b>274,122</b>  | 119,397  | <b>226,145</b>  | (258,555) |
| Employee's profit sharing  | <b>(9,325)</b>  | (13,421) | <b>(13,399)</b> | (13,421)  |
| Earnings before adjusted income and social contribution taxes        | <b>264,797</b>  | 105,976  | <b>212,746</b>  | (271,976) |
| Income and social contribution taxes at nominal rate                 | <b>(66,199)</b> | (26,494) | <b>(64,917)</b> | 89,752    |
| Income tax incentive   | <b>673</b>      | 2,659    | <b>1,081</b>    | 3,562     |
| Income on Sendas' goodwill amortization                              | -               | -        | -               | (161,196) |
| Partial reversal of provision for realization of deferred income tax | -               | -        | <b>55,000</b>   | -         |
| Unrealized capital gain  | -               | -        | -               | 78,961    |
| Equity accounting and provision for capital deficiency of subsidiary | <b>16,206</b>   | 6,860    | <b>(9,834)</b>  | (18,085)  |
| Other permanent adjustments and social contribution rates, net       | <b>(4,599)</b>  | (3,477)  | <b>7,266</b>    | 5,534     |
| Effective income tax   | <b>(53,919)</b> | (20,452) | <b>(11,404)</b> | (1,472)   |
| Income tax for the year  |                 |          |                 |           |
| Current  | <b>(19,734)</b> | (59,400) | <b>(49,720)</b> | (92,200)  |
| Deferred   | <b>(34,185)</b> | 38,948   | <b>38,316</b>   | 90,728    |
| Income tax and social contribution expenses                          | <b>(53,919)</b> | (20,452) | <b>(11,404)</b> | (1,472)   |
| Effective rate   | <b>-19.7%</b>   | -17.1%   | <b>-5.0%</b>    | 0.6%      |

b) Breakdown of deferred income and social contribution taxes

|  | Parent Company |      | Consolidated |      |
|--|----------------|------|--------------|------|
|  | 2007           | 2006 | 2007         | 2006 |
| Deferred income and social contribution tax assets |                |      |              |      |

|   |                |         |                  |           |
|---|----------------|---------|------------------|-----------|
| Tax losses (i)  | <b>4,048</b>   | 12,862  | <b>314,878</b>   | 298,332   |
| Provision for contingencies                           | <b>49,692</b>  | 51,354  | <b>66,673</b>    | 65,294    |
| Provision for hedge and levied on a cash basis        | <b>6,905</b>   | 25,915  | <b>59,975</b>    | 80,188    |
| Allowance for doubtful accounts                       | <b>2,604</b>   | 13,399  | <b>3,088</b>     | 13,490    |
| Goodwill  | <b>26,301</b>  | 21,360  | <b>74,762</b>    | 79,433    |
| Income tax on Vieri goodwill (iii)                    | <b>517,294</b> | 517,294 | <b>517,294</b>   | 517,294   |
| Provision for goodwill reduction (Note 11 (i))        | -              | -       | <b>139,522</b>   | 161,196   |
| Deferred gains from shareholding dilution,<br>net     | -              | 1,518   | -                | 1,518     |
| Other   | <b>18,323</b>  | 15,650  | <b>22,998</b>    | 20,803    |
| Deferred income and social contribution tax<br>assets | <b>625,167</b> | 659,352 | <b>1,199,190</b> | 1,237,548 |
| Provision for deferred income tax realization         | -              | -       | <b>(84,522)</b>  | (161,196) |
|   | <b>625,167</b> | 659,352 | <b>1,114,668</b> | 1,076,352 |
| Current assets  | <b>68,303</b>  | 101,794 | <b>88,128</b>    | 238,676   |
| Noncurrent assets                                     | <b>556,864</b> | 557,558 | <b>1,026,540</b> | 837,676   |
| Deferred income and social contribution tax<br>assets | <b>625,167</b> | 659,352 | <b>1,114,668</b> | 1,076,352 |

## 17. Income and Social Contribution Taxes (Continued)

### b) Breakdown of deferred income and social contribution taxes (Continued)

(i) At December 31, 2007, in compliance with CVM Ruling 371, the Company and its subsidiaries recorded deferred IRPJ and CSLL arising from tax loss carryforwards and temporary differences in the amount of R\$625,167 (R\$659,352 in 2006) in the Parent Company and R\$1,114,668 (R\$1,076,352 in 2006) in Consolidated.

Recognition of deferred IRPJ and CSLL assets refer basically to tax loss carryforwards, acquired from Sé, and those generated by the subsidiary Sendas Distribuidora, realization of which, following restructuring measures, was considered probable, except for the provision for realization of deferred IRPJ shown in the previous table.

(ii) In 2007, deferred IRPJ and CSLL assets were recorded in Sendas in the amount of R\$91,469, all of them resulting from tax losses and decrease in the provision for goodwill reduction in 2007, for which the Management, based on studies carried out, understands that these will be recovered.

(iii) At December 20, 2006, at Extraordinary General Meeting, the Company's shareholders approved the merger operation of its parent company Vieri.

The goodwill special reserve set up at the Company, as a result of such merger, as provided for by provision in paragraph 1 of article 6 of the CVM Ruling 319/99, will be at the end of each fiscal year and to the extent in which the tax benefit to be determined by the Company, as a result of goodwill amortization, represents an effective decrease of taxes paid by the Company, purpose of capitalization at the Company, to the benefit of controlling shareholders, without prejudice to the preemptive right ensured to other shareholders in the subscription of capital increase resulting from said capitalization, all pursuant to article 7, *caput* and paragraphs 1 and 2 of CVM Ruling 319/99.

In order to enable a better presentation of the financial statements, the goodwill net value less provision of R\$515,488, which substantially represents the tax credit balance, plus the amount of R\$1,806, were classified as deferred IRPJ.

**17. Income and Social Contribution Taxes (Continued)**b) Breakdown of deferred income and social contribution taxes (Continued)

The Company prepares annual studies of scenarios and generation of future taxable income, which are approved by management, indicating the capacity of benefiting from the tax credit set up.

Based on studies approved, the Management partially reversed R\$55,000 as provision for realization of deferred IRPJ asset, in view of recovery foreseen in future years. The Company expects to recover these tax credits within a term of up to ten years, as follows:

|              | <b>Parent<br/>Company</b> | <b>Consolidated</b> |
|--------------|---------------------------|---------------------|
| 2008         | 68,303                    | 88,128              |
| 2009         | 73,089                    | 130,217             |
| 2010         | 112,760                   | 190,754             |
| 2011         | 139,368                   | 194,744             |
| 2012 to 2017 | 231,647                   | 510,825             |
| <b>Total</b> | <b>625,167</b>            | <b>1,114,668</b>    |

**18. Shareholders Equity**a) Capital

(i) Authorized capital comprises 400,000 (in thousands of shares) approved at the Extraordinary General Meeting held on November 26, 2007. Fully subscribed and paid-up capital is comprised at December 31, 2007 of 227,920 (113,771,378 in 2006) in thousands of registered shares with no par value, of which 99,680 (49,839,926 in 2006) in thousands of common shares and 128,240 (63,931,453 in 2006) in thousands of preferred shares.

**18. Shareholders Equity** (Continued)a) Capital (Continued)

(ii) The Extraordinary General Meeting held at July 30, 2007, approved the reverse split of one hundred thirteen billion, eight hundred, eighty-five million, four hundred and ninety-three thousand (113,885,493) in thousands of shares with no par value, of which, forty-nine billion, eight hundred thirty-nine million, nine hundred and twenty-six thousand (49,839,926) in thousands of common shares and sixty-four billion, forty-five million, five hundred and sixty-eight thousand (64,045,568) in thousands of preferred shares, representing the Company's capital stock at the ratio of five hundred (500) existing shares to one (01) share of the same type, so that the Company's capital stock to be represented by two hundred, twenty-seven million, seven hundred and seventy-one thousand (227,771) in thousands of shares with no par value, of which ninety-nine million, six hundred and eight thousand (99,680) in thousands of common shares and one hundred, twenty-eight million, ninety-one thousand (128,091) in thousands of preferred shares. The amount of shares and capital stock are already equivalent as per reverse share split.

Breakdown of capital stock and amount of shares:

|                            | <b>Share volume - in thousands</b> |                         |                      |
|----------------------------|------------------------------------|-------------------------|----------------------|
|                            | <b>Capital stock</b>               | <b>Preferred shares</b> | <b>Common shares</b> |
| At December 31, 2006       | 3,954,629                          | 127,863                 | 99,680               |
| Capitalization of reserves | 167,542                            | -                       | -                    |
| Profit                     | 18,616                             | -                       | -                    |
| Stock option               |                                    |                         |                      |
| Series VII                 | 26                                 | 1                       | -                    |
| Series VIII                | 6,173                              | 214                     | -                    |
| Series A1 Silver           | 2,872                              | 117                     | -                    |
| Series A1 Gold             | -                                  | 45                      | -                    |
| At December 31, 2007       | <b>4,149,858</b>                   | <b>128,240</b>          | <b>99,680</b>        |

The amount of shares is already equivalent as per reverse share split.

At the Board of Directors Meetings held at May 15, July 10, November 28 and December 17, 2007, the capital stock increase with the subscription and payment of shares in the Stock Option Plan were approved as follows:

**18. Shareholders Equity** (Continued)

## a) Capital (Continued)

| <b>Meeting</b>    | <b>Series</b>    | <b>Number<br/>(thousand)</b> | <b>Unit values</b> | <b>Total</b> |
|-------------------|------------------|------------------------------|--------------------|--------------|
| July 10, 2007     | Series VII       | 0.55                         | 22.95              | 13           |
| November 28, 2007 | Series VII       | 0.55                         | 23.76              | 13           |
| May 15, 2007      | Series VIII      | 194.94                       | 28.89              | 5,631        |
| July 10, 2007     | Series VIII      | 18.75                        | 28.90              | 542          |
| July 10, 2007     | Series A1 Silver | 10.56                        | 24.63              | 260          |
| November 28, 2007 | Series A1 Silver | 35.67                        | 24.63              | 879          |
| December 17, 2007 | Series A1 Silver | 70.41                        | 24.63              | 1,733        |
| July 10, 2007     | Series A1 Gold   | 3.43                         | 0.01               | 0            |
| November 28, 2007 | Series A1 Gold   | 11.05                        | 0.01               | 0            |
| December 17, 2007 | Series A1 Gold   | 30.72                        | 0.01               | 0            |
|                   |                  | 376.63                       |                    | 9,071        |

The amount of shares is shown taking into account the reverse share split.

b) Share rights

The preferred shares are non-voting and have preference with respect to the distribution of capital in the event of liquidation. Each shareholder has the right pursuant to the Company's bylaws to receive a proportional amount, based on their respective holdings to total common and preferred shares outstanding, of a total dividend of at least 25% of annual net income determined on the basis of financial statements prepared in accordance with Brazilian GAAP, to the extent profits are distributable, and after transfers to reserves as required by Brazilian Corporation Law, and a proportional amount of any additional dividends declared. Beginning in 2003, the preferred shares are entitled to receive a dividend 10% greater than that paid to common shares.

The Company's Bylaws provide that, to the extent funds are available, minimum non-cumulative preferred dividend to the preferred shares in the amount of R\$ 0.08 per share and dividends to the preferred shares shall be 10% higher than the dividends to common shares up to or, if determined by the shareholders, in excess of the mandatory distribution.

Management is required by the Brazilian Corporation Law to propose dividends at year-end, at least, until the amount of mandatory dividend, which can include the interest attributed to equity, net of tax.



**18. Shareholders Equity** (Continued)

c) Capital reserve Goodwill special reserve

This reserve was set up as a result of the corporate restructuring process outlined in Note 1 (c), in contra account to the merged net assets and represents the amount of future tax benefit to be earned by means of amortization of goodwill merged. The special reserve portion corresponding to the benefit earned may be capitalized at the end of each fiscal year to the benefit of the controlling shareholders, with the issue of new shares. The capital increase will be subject to the preemptive right of non-controlling shareholders, in the proportion of their respective interest, by type and class, at the time of the issue, and the amounts paid in the year related to such right will be directly delivered to the controlling shareholder, pursuant to provision in CVM Ruling 319/99 and CVM 349/01.

At December 31, 2006, the tax benefit recorded derived from the goodwill merged amounted to R\$ 517,294, which will be used in the capital increase, upon the realization of reserve.

d) Revenue reserve

(i) Legal reserve: it is formed based on appropriations from retained earnings of 5% of annual net income, before any appropriations, and limited to 20% of the capital.

(ii) Expansion reserve: was approved by the shareholders to reserve funds to finance additional capital investments and working and current capital through the appropriation of up to 100% of the net income remaining after the legal appropriations and supported by capital budget, approved at meeting.

(iii) Profit retention: the balance at December 31, 2007 is available to the Shareholders General Meeting for allocation.

**18. Shareholders Equity** (Continued)e) Dividends Proposed

At February 26, 2008, the Management proposed for resolution of the Annual General Meeting, dividends to be distributed, calculated as follows:

|  | <b>Dividends</b> |             |
|--|------------------|-------------|
|  | <b>2007</b>      | <b>2006</b> |
| Net income for the year                                | <b>210,878</b>   | 85,524      |
| Legal reserves   | <b>(10,544)</b>  | (4,276)     |
| Calculation basis of dividends                         | <b>200,334</b>   | 81,248      |
| Minimum mandatory dividend - 25%                       | <b>50,084</b>    | 20,312      |
| (R\$ 0.16903 per one thousand common shares)           | -                | 8,425       |
| (R\$ 0.18594 per one thousand preferred shares)        | -                | 11,887      |
| (R\$ 0.20804 per common share at December 31, 2007)    | <b>20,737</b>    | -           |
| (R\$ 0.22884 per preferred share at December 31, 2007) | <b>29,347</b>    | -           |

f) Employees profit sharing plan

As provided for by the Company's Bylaws, the Company's Board of Directors approved in meeting held at December 6, 2007, the distribution of the amount of R\$13,399 (R\$13,421 in 2006).

g) Preferred stock option plan

The Company offers a stock option plan for the purchase of preferred shares to management and employees. The exercise of options guarantees the beneficiaries the same rights granted to the Company's other shareholders. The management of this plan was attributed to a committee designated by the Board of Directors.

The granting price for each lot of shares is, at least, 60% of the weighted average price of the preferred shares traded in the week the option is granted. The number of lot of shares may vary for each beneficiary or series.

The right to exercise the options is acquired in the following manner and terms: (i) 50% in the last month of the third year following the granting date (1<sup>st</sup> tranche) and (ii) up to 50% in the last month of the fifth year following the granting date (2<sup>nd</sup> tranche), and the remaining portion of this second lot subject to restraint on alienation until the beneficiary's retirement, as per formula defined in the regulation.

**18. Shareholders Equity** (Continued)

g) Preferred stock option plan (Continued)

Shares subject to restraint on alienation ( $Q$ ), upon the exercise of the options, are calculated by using the following formula outlined in the stock option plan:

where:

$Q$  = Amount of the lot of one thousand (1,000) shares to be encumbered by restraint on alienation.

$QI$  = 50% of the total lots of Company's shares as of the granting date.

$Pm$  = Market price of the lot of Company's shares as of the exercise date.

$Pe$  = Original exercise price of the lot, determined on the granting date, observing the terms of the Plan.

The option price from the date of concession to the date of exercise thereof by the beneficiary is updated by reference to the General Market Price Index - IGP-M variation, less dividends attributed for the period.

Pursuant to Clause 14.5 of the Plan, the application of the mentioned formula shall be adjusted taking into account the reverse share split of shares representing the Company's capital stock, approved at the Extraordinary General Meeting held on July 30, 2007.

**New preferred stock option plan**

The Extraordinary General Meeting held on December 20, 2006, approved the amendment to the Company's Stock Option Plan, approved by the Extraordinary General Meeting held at April 28, 1997.

As from 2007, the granting of preferred stock option plan to management and employees will take place as follows:

Shares will be classified into two types: Silver and Gold, and the quantity of Gold-type shares may be decreased and/or increased (reducer or accelerator), at discretion of the Plan Management Committee, in the course of 35 months following the granting date.

**18. Shareholders Equity (Continued)**g) Preferred stock option plan (Continued)

The price for each Silver-type share will correspond to the average of closing price of negotiations of the Company's preferred shares occurred over the last 20 trading sessions of BOVESPA, prior to the date on which the Committee resolves on the granting of option, with negative goodwill of 20%. The price per each Gold-type share will correspond to R\$0.01 and the granting of these options are additional to the Silver options, and the granting or the exercise of Gold options is not possible separately. In both cases, the prices will not be restated.

The acquisition of rights to the options exercise will occur as follows in the following term: as from the 36<sup>th</sup> month to 48<sup>th</sup> month as from the start date defined as the date of the adhesion agreement of respective series and: a) 100% of granting of Silver-type shares; b) the quantity of Gold-type options to be determined by the Committee, after the compliance with granting conditions.

The series of previous plan continue in force until the respective maturity dates.

(i) Information on the stock option plans is summarized below:

| Series granted                      | Granting date | 1st date of exercise | Breakdown of Series Granted Price   |                      | Amount of shares granted | Lot of shares |                            | Total in effect |         |       |
|-------------------------------------|---------------|----------------------|-------------------------------------|----------------------|--------------------------|---------------|----------------------------|-----------------|---------|-------|
|                                     |               |                      | 2nd date of exercise and expiration | On the granting date |                          | End of period | Not exercised by dismissal |                 | Expired |       |
| <b>Balance at December 31, 2006</b> |               |                      |                                     |                      |                          |               |                            |                 |         |       |
| Series VI                           | 3/15/2002     | 3/15/2005            | 3/15/2007                           | 23.50                | 35.92                    | 825           | (203)                      | (367)           | -       | 255   |
| Series VII                          | 3/16/2006     | 3/16/2006            | 3/16/2008                           | 20.00                | 22.68                    | 1,000         | (295)                      | (246)           | -       | 459   |
| Series VII                          | 4/30/2004     | 4/30/2007            | 4/30/2009                           | 26.00                | 28.55                    | 862           | -                          | (260)           | -       | 602   |
| Series IX                           | 5/15/2005     | 5/15/2008            | 5/15/2010                           | 26.00                | 26.08                    | 989           | -                          | (231)           | -       | 758   |
| Series X                            | 6/7/2006      | 6/7/2009             | 7/6/2011                            | 33.00                | 33.78                    | 901           | -                          | (34)            | -       | 867   |
|                                     |               |                      |                                     |                      |                          | 4,577         | (498)                      | (1,138)         | -       | 2,941 |
| <b>Balance at December 31, 2007</b> |               |                      |                                     |                      |                          |               |                            |                 |         |       |
| Series VI                           | 3/15/2002     | 3/15/2005            | 3/15/2007                           | 23.50                | 35.92                    | 825           | (203)                      | (367)           | (255)   | -     |
| Series VII                          | 3/16/2006     | 3/16/2006            | 3/16/2008                           | 20.00                | 24.34                    | 1,000         | (297)                      | (318)           | -       | 385   |
| Series VII                          | 4/30/2004     | 4/30/2007            | 4/30/2009                           | 13.00                | 30.67                    | 862           | (214)                      | (373)           | -       | 275   |

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|           |           |           |           |       |       |       |       |         |       |       |
|-----------|-----------|-----------|-----------|-------|-------|-------|-------|---------|-------|-------|
| Series IX | 5/15/2005 | 5/15/2008 | 5/15/2010 | 13.00 | 27.99 | 989   | -     | (407)   | -     | 582   |
| Series X  | 6/7/2006  | 6/7/2009  | 6/7/2011  | 16.50 | 36.30 | 901   | -     | (210)   | -     | 691   |
| Series A1 |           |           |           |       |       |       |       |         |       |       |
| - Gold    | 4/13/2007 | 4/30/2010 | 4/29/2011 | 0.01  | 0.01  | 324   | (45)  | (5)     | -     | 274   |
| Series A1 |           |           |           |       |       |       |       |         |       |       |
| - Silver  | 4/13/2007 | 4/30/2010 | 4/29/2011 | 24.63 | 24.63 | 1,122 | (117) | (49)    | -     | 956   |
|           |           |           |           |       |       | 6,023 | (876) | (1,729) | (255) | 3,163 |

The amount of shares at December 31, 2007 and 2006 is already shown as per reverse share split.

**18. Shareholders Equity (Continued)**g) Preferred stock option plan (Continued)

| Series granted              | Granting date | Date of exercise | Series Exercised |                      | Total per thousand (R\$) | Market price (R\$) |
|-----------------------------|---------------|------------------|------------------|----------------------|--------------------------|--------------------|
|                             |               |                  | Amount exercised | Exercise price (R\$) |                          |                    |
| <b>At December 31, 2006</b> |               |                  |                  |                      |                          |                    |
| Series VII                  | 3/16/2003     | 12/13/2005       | 291              | 22.12                | 6,445                    | 37.43              |
| Series VI                   | 3/15/2002     | 4/7/2006         | 203              | 35.11                | 7,120                    | 44.54              |
| Series VII                  | 3/16/2003     | 6/9/2006         | 4                | 22.12                | 92                       | 33.33              |
|                             |               |                  | 498              |                      | 13,657                   |                    |
| <b>At December 31, 2007</b> |               |                  |                  |                      |                          |                    |
| Series VI                   | 3/15/2002     | 4/7/2006         | 203              | 35.11                | 7,120                    | 44.54              |
| Series VII                  | 3/16/2003     | 12/13/2005       | 291              | 22.12                | 6,445                    | 37.43              |
| Series VII                  | 3/16/2003     | 6/9/2006         | 4                | 22.12                | 91                       | 33.33              |
| Series VII                  | 3/16/2003     | 7/10/2007        | 1                | 22.95                | 13                       | 37.15              |
| Series VII                  | 3/16/2003     | 11/28/2007       | 1                | 23.76                | 13                       | 28.56              |
| Series VIII                 | 4/30/2004     | 5/15/2007        | 195              | 28.89                | 5,631                    | 31.60              |
| Series VIII                 | 4/30/2004     | 7/10/2007        | 19               | 28.90                | 542                      | 37.15              |
| Series A1 Silver            | 4/13/2007     | 7/10/2007        | 11               | 24.63                | 260                      | 37.15              |
| Series A1 Silver            | 4/13/2007     | 11/28/2007       | 36               | 24.63                | 878                      | 28.56              |
| Series A1 Silver            | 4/13/2007     | 12/17/2007       | 70               | 24.63                | 1,734                    | 33.26              |
| Series A1 Gold              | 4/13/2007     | 7/10/2007        | 3                | 0.01                 | 0                        | 37.15              |
| Series A1 Gold              | 4/13/2007     | 11/28/2007       | 11               | 0.01                 | 0                        | 28.56              |
| Series A1 Gold              | 4/13/2007     | 12/17/2007       | 31               | 0.01                 | 0                        | 33.26              |
|                             |               |                  | 876              |                      | 22,727                   |                    |

The amount of shares at December 31, 2006 is already shown as per share reverse split.

NB: Pursuant to assignments provided for in the stock option plan regulation, the Plan's Management Committee approved an advanced date of the year of first tranche of series VII options for December 13, 2005.

At March 15, 2007, series VI was cancelled.

At February 23, 2006, series V was cancelled, not existing any conversion.

At March 31, 2005 series IV was cancelled, not existing any conversion.

At March 31, 2004 series III was exercised, capitalized and cancelled.

Series I and II were cancelled in 2001 and 2002, respectively.

**18. Shareholders Equity (Continued)**g) Preferred stock option plan (Continued)

At December 31, 2007, the Company's preferred share price on BOVESPA was R\$34.11 for each share.

There are no treasury shares to be used as spread to the options granted of the Plan.

(ii) The chart below shows the maximum percentage of interest dilution to which current shareholders eventually will be subject to in the event of exercise up to 2011 of all options granted:

|                                     | <b>2007</b>    | 2006    |
|-------------------------------------|----------------|---------|
| Amount of shares                    | <b>227,920</b> | 227,543 |
| Balance of granted series in effect | <b>3,163</b>   | 2,941   |
| Maximum percentage of dilution      | <b>1.39%</b>   | 1.29%   |

(iii) The table below shows the effects on net income if the Company had recognized the expense related to the granting of stock option, applying the market value method, as required by Official Memorandum CVM/SNC/SEP N° 01/2007 paragraph 25.9:

|   | <b>2007</b>       |                             | <b>2006</b>       |                             |
|---|-------------------|-----------------------------|-------------------|-----------------------------|
|   | <b>Net income</b> | <b>Shareholders' equity</b> | <b>Net Income</b> | <b>Shareholders' equity</b> |
| At December 31  | 210,878           | 5,011,922                   | 85,524            | 4,842,127                   |
| Expense related to share-based compensation to employees determined according to market value method. | (8,871)           | (190)                       | (9,744)           | (5,238)                     |
| At December 31 (Pro forma)  | 202,007           | 5,011,802                   | 75,780            | 4,836,889                   |

The market value of each option granted is estimated on the granting date, by using the options pricing model Black-Scholes taking into account: expectation of dividends of 1% at December 31, 2007 (1.42% in 2006), expectation of volatility of nearly 40% at December 31, 2007 (37.2% in 2006), non-risk weighted average interest rate of 6.74% at December 31, 2007 (6.62% in 2006) and expectation of average life of series VII and VIII is four years, whereas for series A1, the expectation is 3.5 years.



**19. Net Financial Income**

|  | Parent Company   |           | Consolidated     |           |
|--|------------------|-----------|------------------|-----------|
|  | 2007             | 2006      | 2007             | 2006      |
| Financial expenses                               |                  |           |                  |           |
| Financial charges - BNDES                        | <b>(25,343)</b>  | (41,296)  | <b>(25,343)</b>  | (41,935)  |
| Financial charges - Debentures                   | <b>(86,658)</b>  | (62,527)  | <b>(86,658)</b>  | (62,527)  |
| Financial charges on contingencies and taxes     | <b>(83,806)</b>  | (103,716) | <b>(93,140)</b>  | (112,937) |
| Swap operations                                  | <b>(19,953)</b>  | (54,628)  | <b>(85,645)</b>  | (138,547) |
| Receivables securitization                       | <b>(101,760)</b> | (105,059) | <b>(125,487)</b> | (139,485) |
| CPMF and other bank services                     | <b>(51,624)</b>  | (61,785)  | <b>(67,959)</b>  | (80,903)  |
| Other financial expenses                         | <b>(16,403)</b>  | (48,108)  | <b>(71,346)</b>  | (77,691)  |
| Total financial expenses                         | <b>(385,547)</b> | (477,119) | <b>(555,578)</b> | (654,025) |
| Financial income                                 |                  |           |                  |           |
| Interest on cash and cash equivalents            | <b>87,728</b>    | 127,641   | <b>155,014</b>   | 231,647   |
| Financial discounts obtained                     | <b>35,942</b>    | 52,979    | <b>40,953</b>    | 58,092    |
| Financial charges on taxes and judicial deposits | <b>36,587</b>    | 33,023    | <b>64,760</b>    | 51,095    |
| Interest on installment sale                     | <b>27,143</b>    | 25,724    | <b>38,054</b>    | 39,669    |
| Interest on loan                                 | <b>3,714</b>     | 32,237    | <b>908</b>       | 2,198     |
| Other financial income                           | <b>42,475</b>    | 48,168    | <b>44,724</b>    | 50,697    |
| Total financial income                           | <b>233,589</b>   | 319,772   | <b>344,413</b>   | 433,398   |
| Net financial result                             | <b>(151,958)</b> | (157,347) | <b>(211,165)</b> | (220,627) |

**20. Financial Instruments**a) General considerations

Management considers that risk of concentration in financial institutions is low, as operations are limited to traditional, highly-rated banks and within limits approved by the Management.

b) Concentration of credit risk

The Company's sales are direct to individual customers through post-dated checks, nearly 1.39% of yearly sales. In such portion, the risk is minimized by the large customer base.

The advances to suppliers are made only to selected suppliers. We do not have credit risk with suppliers, since we discount only own payments of goods already delivered.

In order to minimize credit risk from investments, the Company adopts policies restricting the marketable securities that may be allocated to a single financial institution, and which take into consideration monetary limits and financial institution credit ratings.

**20. Financial Instruments (Continued)**c) Market value of financial instruments

Estimated market value of financial instruments at December 31, 2007 approximates market value, reflecting maturities or frequent price adjustments of these instruments, as shown below:

|                                 | <b>At December 31, 2007</b> |                  |                     |                  |
|---------------------------------|-----------------------------|------------------|---------------------|------------------|
|                                 | <b>Parent Company</b>       |                  | <b>Consolidated</b> |                  |
|                                 | <b>Book</b>                 | <b>Market</b>    | <b>Book</b>         | <b>Market</b>    |
| <b>Assets</b>                   |                             |                  |                     |                  |
| Cash and cash equivalents       | 271,575                     | 271,575          | 414,013             | 414,013          |
| Marketable securities           | 478,957                     | 478,957          | 650,119             | 650,119          |
| Receivables securitization fund | 54,621                      | 54,621           | -                   | -                |
|                                 | <b>805,153</b>              | <b>805,153</b>   | <b>1,064,132</b>    | <b>1,064,132</b> |
| <b>Liabilities</b>              |                             |                  |                     |                  |
| Loans and financings            | 844,824                     | 829,365          | 2,358,323           | 2,335,805        |
| Debentures                      | 807,531                     | 805,399          | 807,531             | 805,399          |
|                                 | <b>1,652,355</b>            | <b>1,634,764</b> | <b>3,165,854</b>    | <b>3,141,204</b> |

Market value of financial assets and of current and noncurrent financing, when applicable, was determined using current interest rates available for operations carried out under similar conditions and remaining maturities.

In order to translating the financial charges and exchange variation of loans denominated in foreign currency into local currency, the Company contracted swap operations, pegging the referred to charges to the CDI variation, which reflects market value.

d) Currency and interest rate risk management

The utilization of derivative instruments and operations involving interest rates aims at protecting the results of assets and liabilities operations of the Company, conducted by the finance operations area, in accordance with the strategy previously approved by management.

The cross-currency interest rate swaps permit the Company to exchange fixed rate interest in U.S. dollars on short-term and long-term debt (Note 13) for floating rate interest in Brazilian *reais*. As of December 31, 2007, the U.S. dollar-denominated short-term and long-term debt balances of R\$1,164,284 (US\$657,305) (R\$1,279,559 US\$598,483 in 2006), at the weighted average interest rates of 5.6% per annum (5.1% in 2006), which are covered by floating rate swaps, linked to a percentage of the CDI in Brazilian *reais*, calculated at weighted average rate of 102.7% of CDI (103.6% of CDI in 2006).

**21. Insurance Coverage (not audited)**

Coverage at December 31, 2007 is considered sufficient by management to meet possible losses and is summarized as follows:

| <b>Insured assets</b>               | <b>Risks covered</b> | <b>Amount insured</b> |
|-------------------------------------|----------------------|-----------------------|
| Property, equipment and inventories | Named risks          | <b>5,801,656</b>      |
| Profit                              | Loss of profit       | <b>1,335,000</b>      |
| Cash                                | Theft                | <b>47,194</b>         |

The Company also holds specific policies covering civil and management liability risks in the amount of R\$142,400 (R\$160,410 in 2006).

**22. Non-Operating Results**

|   | <b>Parent Company</b> |             | <b>Consolidated</b> |             |
|---|-----------------------|-------------|---------------------|-------------|
|   | <b>2007</b>           | <b>2006</b> | <b>2007</b>         | <b>2006</b> |
| <b><u>Expenses</u></b>                          |                       |             |                     |             |
| Net effect of provision for goodwill reduction  | -                     | -           | -                   | (268,886)   |
| Results in the property and equipment write-off | <b>(10,102)</b>       | (30,119)    | <b>(10,854)</b>     | (68,585)    |
| Allowance for losses - other receivables        | -                     | (22,570)    | -                   | (22,570)    |
| Judicial deposits write-off                     | <b>(388)</b>          | (25,844)    | <b>(384)</b>        | (25,844)    |
| Provision for recovery of assets and other      | -                     | (5,435)     | -                   | (4,289)     |
| Other   | -                     | -           | <b>(100)</b>        | -           |
| <b><u>Total non-operating expenses</u></b>      | <b>(10,490)</b>       | (83,968)    | <b>(11,338)</b>     | (390,174)   |
| <b><u>Revenues</u></b>                          |                       |             |                     |             |
| Performance goal achievement                    | -                     | 58,151      | -                   | 58,151      |
| Interest reversal on performance goal           | -                     | 7,260       | -                   | 7,260       |
| Provisions written-off                          | -                     | -           | <b>2,215</b>        | -           |
| Other   | <b>39</b>             | 1,549       | <b>39</b>           | 1,534       |
| <b><u>Total non-operating revenues</u></b>      | <b>39</b>             | 66,960      | <b>2,254</b>        | 66,945      |
| <b><u>Non operating result</u></b>              | <b>(10,451)</b>       | (17,008)    | <b>(9,084)</b>      | (323,229)   |

**23. Statement of EBITDA Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) (not audited)**

|                                   | Parent Company    |           | Consolidated      |            |
|-----------------------------------|-------------------|-----------|-------------------|------------|
|                                   | 2007              | 2006      | 2007              | 2006       |
| Operating income                  | <b>284,573</b>    | 136,405   | <b>235,229</b>    | 64,674     |
| (+) Net financing expenses        | <b>151,958</b>    | 157,347   | <b>211,165</b>    | 220,627    |
| (+) Equity accounting             | <b>(64,824)</b>   | (27,436)  | <b>28,923</b>     | 53,197     |
| (+) Depreciation and amortization | <b>430,979</b>    | 399,922   | <b>550,696</b>    | 547,943    |
| <b>EBITDA</b>                     | <b>802,686</b>    | 666,238   | <b>1,026,013</b>  | 886,441    |
| Net sales revenue                 | <b>10,733,385</b> | 9,973,453 | <b>14,902,887</b> | 13,880,403 |
| % EBITDA                          | <b>7.5%</b>       | 6.7%      | <b>6.9%</b>       | 6.4%       |

**24. Encumbrances, Eventual Liabilities and Commitments**

The Company has commitments assumed with leaseholders of various stores already contracted at December 31, 2007, as follows:

|           | 2007             |                  |
|-----------|------------------|------------------|
|           | Parent Company   | Consolidated     |
| 2008      | 199,852          | 285,158          |
| 2009      | 160,667          | 240,944          |
| 2010      | 129,897          | 199,116          |
| 2011      | 103,029          | 166,054          |
| 2012      | 85,222           | 142,626          |
| from 2013 | 522,707          | 947,550          |
|           | <b>1,201,374</b> | <b>1,981,448</b> |

**25. Private Pension Plan of Defined Contribution**

In July 2007, the Company established a supplementary private pension plan of defined contribution to its employees by retaining the financial institution Brasilprev Seguros e Previdência S.A. for management purposes. When establishing the Plan, the Company will provide monthly contributions on behalf of its employees on account of services rendered to the Company. Contributions made by the Company in the year ended at December 31, 2007, amounted R\$863, employees' contributions amounted to R\$2,054 with 895 participants.



## **26. Amendments to the Preparation and Disclosure of Financial Statements**

At December 28, 2007, Law 11,638 was enacted which amends and revokes certain provisions of Law 6,404 as of December 15, 1976 and Law 6,385 as of December 7, 1976.

The requirements of this new Law are applied to the financial statements related to the fiscal years starting at January 1, 2008, the alterations to these statements for the year to end at December 31, 2008 shall also be applied retroactively to December 31, 2007 for the purposes of presentation and comparison of the financial statements to be disclosed.

It is not possible to anticipate the preparation date of current financial statements, the impacts of these new amendments to the Law on the results of operations and on the equity and accounting condition of the Company and subsidiaries, to be reflected in the Parent and consolidated financial statements related to the fiscal year starting at January 1, 2008 and retroactively, in the financial statements of the year ended at December 31, 2007, upon its preparation for the purposes of comparison with the financial statements for the year to end on December 31, 2008.

**SIGNATURES**

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Date: March 05 , 2008

By: /s/ Enéas César Pestana Neto  
Name: Enéas César Pestana Neto  
Title: Administrative Director

By: /s/ Daniela Sabbag  
Name: Daniela Sabbag  
Title: Investor Relations Officer

**FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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