BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
June 21, 2004

SECURITIES AND EXCHANGE COMMISSION
FORM 20-F
REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2003
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(A) OF THE
SECURITIES AND EXCHANGE ACT OF 1934
Commission file number: 1-14626
COMPANHIA BRASILEIRA DE DISTRIBUICAO
(Exact Name of Registrant as Specified in its Charter)
Brazilian Distribution Company
(Translation of Registrant's Name into English)

Federative Republic of Brazil
(Jurisdiction of Incorporation)

Avenida Brigadeiro Luiz Antonio, no. 3,142
01402-901 Sao Paulo, SP, Brazil
(Address of Principal Executive Offices)

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

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

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*The Preferred Shares are non-voting, except under limited circumstances.
**Not for trading purposes, but only in connection with the listing on the New York Stock Exchange of American Depositary Shares representing those Preferred Shares.

Securities registered or to be registered pursuant
to Section 12(b) of the Act:
None.

Securities for which there is a reporting obligation
pursuant to Section 15(d) of the Act:
None.

The number of issued shares of each class of stock of COMPANHIA BRASILEIRA DE DISTRIBUICAO as of December 31, 2003 was:

63,470,811,399 Common Shares, no par value per share
49,971,428,034 Preferred Shares, no par value per share

Indicate by check mark whether the registrant (1) has filed all reports

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

Yes |X| No __

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

Item 17 __ Item 18 |X|

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INTRODUCTION

All references in this annual report (i) to "CBD," "we," "us" or "our" are references to Companhia Brasileira de Distribuicao and its consolidated subsidiaries, (ii) to the "Brazilian government" are references to the federal government of the Federative Republic of Brazil, or Brazil, and (iii) to "preferred shares" and "common shares" are references to our authorized and outstanding shares of non-voting preferred stock, designated as acoes preferenciais, and common stock, designated as acoes ordinarias, in each case without par value. All references to "ADSs" are to American depositary shares, each representing 1,000 preferred shares. All references herein to the "real," "reais" or "R$" are to Brazilian reais, the official currency of Brazil. All references to "US$," "dollars" or "U.S. dollars" are to United States dollars.

At June 14, 2004, the commercial market rate for purchasing U.S. dollars was R$3.165 to US$1.00.

We have prepared our consolidated financial statements included in this annual report in conformity with generally accepted accounting principles in the United States, or U.S. GAAP.

FORWARD-LOOKING STATEMENTS

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

- our ability to sustain or improve our performance,
- competition in the Brazilian retail food industry,
- government regulation and tax matters,
- adverse legal or regulatory disputes or proceedings,
- credit and other risks of lending and investment activities,
- changes in regional, national and international business and economic conditions and inflation, and
- other risk factors as set forth under "Item 3D - Key Information - Risk Factors."

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

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

3A. Selected Financial Data

The following table presents our selected financial data as of the dates and for each of the periods indicated. Our U.S. GAAP financial statements as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 appear elsewhere in this annual report, together with the report of PricewaterhouseCoopers Auditores Independentes, Sao Paulo, Brazil, independent auditors. The selected financial information at December 31, 2001, 2000 and 1999 and for each of the two years ended December 31, 2000 has been derived from our U.S. GAAP financial statements, not included elsewhere in this annual report.

	At and for the Year Ended December			
	2003	2002	2001	2000
	(millions of U.S. dollars, except share, per ADS amounts)			
Statement of operations data				
Net sales revenue.........................	$ 3,534.6	$ 3,257.6	$ 3,515.4	$ 4,19
Cost of sales.............................	(2,538.1)	(2,345.2)	(2,506.8)	(3,01
Gross profit..............................	996.5	912.4	1,008.6	1,17
Selling, general and administrative expenses.................................	(695.3)	(660.4)	(743.7)	(89
Depreciation and amortization.............	(115.5)	(107.8)	(146.2)	(13
Other operating income, net..............	2.4	1.5	0.7	
Operating income..........................	188.1	145.7	119.4	15
Financial income..........................	179.3	158.3	142.3	18
Financial expense.........................	(221.5)	(222.9)	(161.7)	(17
Income (loss) before taxes................	145.9	81.1	100.0	16
Income tax (expense) benefit:				
Current..................................	(7.9)	(11.8)	(16.5)	(
Deferred.................................	(25.1)	(8.8)	17.2	

Net income (loss).........................	$ 112.9	$ 60.5	$ 100.7	$ 16
Basic earnings (loss) per 1,000 shares (1).				
Preferred.............................	1.05	0.53	0.91	
Common................................	0.96	0.53	0.91	
Diluted earnings (loss) per 1,000 shares...				
Preferred.............................	1.05	0.53	0.91	
Common................................	0.95	0.53	0.91	
Earnings (loss) per ADS...................	1.05	0.53	0.91	
Dividends declared and interest on equity per 1,000 shares (2)................	0.18	0.19	-	
Weighted average number of shares outstanding (in thousands).....				
Preferred............................	49,725,151	49,596,794	46,912,582	38,095
Common...............................	63,470,811	63,470,811	63,168,975	62,858
Total	113,195,962	113,067,605	110,081,557	100,954
Balance sheet data				
Cash and cash equivalents.................	$ 339.9	$ 315.7	$ 451.7	$ 4
Property and equipment, net...............	1,384.0	1,062.7	1,342.0	1,4
Total assets..............................	3,171.2	2,527.7	3,056.4	3,3
Short-term debt (including current portion of long-term debt)..................	613.3	460.9	555.8	5
Long-term debt............................	230.0	385.1	381.6	4
Shareholders' equity......................	1,237.9	932.6	1,396.7	1,4
Capital stock............................	$ 1,670.6	$ 1,498.2	$ 1,288.6	$ 1,1
Number of shares outstanding (in thousands):				
Preferred shares....................	49,971,428	49,715,328	49,590,328	44,513
Common shares.......................	63,470,811	63,470,811	63,470,811	62,858
Other financial information				
Net cash provided by (used in):				
Operating activities......................	231.6	166.5	119.2	12
Investing activities......................	(207.6)	(348.2)	(274.6)	(71
Financing activities......................	(61.3)	181.6	113.8	29
Capital expenditures......................	185.2	348.4	275.2	72

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(1) Beginning in 2003, each preferred share shall receive a dividend 10% higher than the dividend paid to each common share. Both preferred and common shares effectively participate equally in earnings in 2002, 2001, 2000 and 1999. See "Item 8A - Financial Information - Consolidated Financial Statements and Other Financial Information - Dividend Policy and Dividends."

(2) In accordance with Brazilian corporate law, we can distribute a notional, tax-deductible interest charge attributable to shareholders' equity as an alternative form of payment to shareholders. Dividends declared and interest on equity per 1,000 shares in reais were R$0.53 per 1,000 in 2003, R$0.55 in 2002, R$1.93 in 2000 and R$0.19 in 1999. A dividend of R$0.51 per 1,000 preferred shares and R$0.46 per 1,000 common shares was approved and declared at our general shareholders' meeting held on April 30, 2004.

	At and for the Year Ended Dec			
	2003	2002	2001	
Operating Data				
Employees at end of period (1)....................	55,557	57,898	52,060	
Total square meters of selling area at end of period..	982,701	979,723	866,280	
Number of stores at end of period:				
Pao de Acucar................................	208	188	176	
CompreBem Barateiro	172	148	150	
Extra..	62	60	55	
Extra Eletro.................................	55	54	62	
Se and CompreBem (5)..........................	--	50	--	
Total number of stores at end of period........	497	500	443	
Net sales revenues per employee (4)(6)(7):				
Pao de Acucar................................	$ 64,753	$ 67,262	$ 63,149	$
CompreBem Barateiro...........................	67,622	66,345	43,045	
Extra..	86,576	82,829	75,246	
Extra Eletro.................................	121,365	100,434	122,796	
Se and CompreBem (5)..........................	--	20,325	--	
Total net sales revenues per employee..........	$ 75,283	$ 68,619	$ 65,970	$
Net sales revenues by store format (2)(4):				
Pao de Acucar................................	$ 1,122	$ 977	$ 906	$
CompreBem Barateiro...........................	628	530	376	
Extra..	1,702	1,527	1,344	
Extra Eletro.................................	83	115	162	
Se and CompreBem (5)..........................	--	109	--	
Total net sales..............................	$ 3,535	$ 3,258	$ 2,788	
Average monthly net sales revenue per square meter (3)(4)(6):				
Pao de Acucar................................	$ 351.0	$ 372.7	$ 340.9	
CompreBem Barateiro	276.8	258.5	181.0	
Extra..	310.0	294.0	272.4	
Extra Eletro.................................	202.8	246.5	328.6	
Se and CompreBem (5)..........................	--	184.2	--	
CBD average monthly net sales revenue per square meter.................................	$ 311.0	$ 282.8	$ 274.3	
Average ticket amount (4)(6):				
Pao de Acucar................................	$ 6.3	$ 6.5	$ 6.0	
CompreBem Barateiro...........................	4.9	4.8	4.1	
Extra..	13.0	12.8	12.3	
Extra Eletro.................................	91.1	94.2	101.2	
Se and CompreBem (5)..........................	--	4.6	--	
CBD average ticket amount.....................	$ 8.0	$ 8.0	$ 7.9	
Average number of tickets per month:				
Pao de Acucar................................	14,882,404	12,590,382	12,646,836	11,
CompreBem Barateiro...........................	10,694,314	9,206,964	7,600,350	7,
Extra..	10,939,529	9,911,953	9,106,790	8,
Extra Eletro.................................	76,068	101,326	133,445	
Se and CompreBem (5)..........................	--	3,941,203	--	
CBD average number of tickets per month........	36,592,315	33,781,227	29,487,421	27,

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

(2) In millions of U.S. dollars.

(3) Calculated using the average of square meters of selling area on the last day of each of the months in the period; in U.S. dollars.

(4) The financial information for December 31, 2002, 2001, 2000 and 1999 has been translated at the average exchange rates used to translate the December 31, 2002 financial information, thereby minimizing the effects of the devaluation of the real. The real devaluated against the U.S. dollar by 34.3% in 2002, 15.7% in 2001, 8.5% in 2000, and 32.4% in 1999. Had the financial information for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 been translated at the average exchange rates used to translate the December 31, 2003 financial information, the analysis of results would not be significantly different from that presented. For more information on foreign currency effects on our financial results, see "Item 5 - Operating and Financial Review and Prospects."

(5) These stores were converted into one of our formats during 2003.

(6) In U.S. dollars.

(7) Based on the average of the full-time equivalent number of employees calculated by dividing total number of hours worked by all employees at the end of each month by 220 hours.

Exchange Rates

There are two principal foreign exchange markets in Brazil:

- the commercial rate exchange market, or commercial market, and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends with respect to preferred shares or ADSs, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. The floating market rate generally applies to transactions to which the commercial market rate does not apply. Prior to February 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, financial institutions operating in the commercial market have been authorized to unify their positions in the two different markets, which caused a reduction in the difference between their respective rates. These markets are now differentiated solely for regulatory purposes and offer similar pricing and liquidity, despite the potential for distinct treatment for regulatory purposes in the future. In both markets, rates are freely negotiated but may be strongly influenced by Brazilian Central Bank intervention.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the real against the U.S. dollar pursuant to an exchange rate policy that established a band within which the real/U.S. dollar exchange rate could fluctuate.

Responding to pressure on the real, on January 13, 1999 the Central Bank widened the foreign exchange band. Because the pressure did not ease, on January 15, 1999, the Central Bank allowed the exchange rate of the real to float. Since January 1, 1999 and through December 31, 2003, the U.S. dollar appreciated by 139.0% against the real, and as of December 31, 2003, the commercial market rate for purchasing U.S. dollars was R$2.8892 to US$1.00. In the first three months of 2004, the real depreciated by 0.7% to R$2.9086 to US$1.00 at March 31, 2004, and as of June 14, 2004, the commercial market rate for purchasing U.S. dollars was R3.165 to US$1.00, a depreciation of 8.1% since March 31, 2004. We cannot assure you that the real will not devalue substantially in the near future. See "Item 5A - Operating and Financial Review and Prospects - Operating Results - U.S. GAAP Presentation and Reporting Currency - Effects of Exchange Rate Variation and Inflation on Our Financial Condition and Results of Operations."

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

	Exchange Rate of Brazilian Currency per US$1.00			
Year	Low	High	Average (1)	Year-End
1999....................	1.2078	2.1647	1.8514	1.7890
2000....................	1.7234	1.9847	1.8348	1.9554
2001....................	1.9357	2.8007	2.3532	2.3204
2002....................	2.2709	3.9552	2.9983	3.5333
2003....................	2.8219	3.6623	3.0600	2.8892

Source: Central Bank

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

Month	Exchange Rate of Brazilian Currency per US$1.00	
	Low	High
December 2003..................................	2.8883	2.9434
January 2004...................................	2.8022	2.9409
February 2004..................................	2.9042	2.9878
March 2004.....................................	2.8728	2.9410
April 2004.....................................	2.8743	2.9522
May 2004.......................................	2.9569	3.2051

Source: Central Bank

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes drastic and sudden changes in policy. The Brazilian government's actions to control inflation and effect other public policies have involved high interest rate environments, currency devaluations and exchange controls, tariffs and import quotas, electricity consumption controls, among other things. These policies and macroeconomic conditions have had significant effects on the Brazilian economy and on its securities markets, which are illiquid and very volatile, and have at times affected the purchasing power and confidence level of consumers. We may be adversely affected by changes in policy, as well as factors such as:

- inflation,
- interest rate hikes,
- liquidity of domestic capital and lending markets,
- changes in tax laws,
- currency fluctuations, and
- other political, diplomatic, social and economic developments in or affecting Brazil.

At the end of 2002, Brazil elected a new president from the Workers Party, Luis Inacio Lula da Silva. In the period leading up to and following his election, there was substantial uncertainty regarding the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted initially in a loss of confidence in the Brazilian capital markets and the devaluation of the real. The new administration however continued most of the former administration's economic and administrative policies and the initial adverse market sentiment towards the new administration has reversed during 2003. Accompanying this positive sentiment the real appreciated 22.3% against the U.S. dollar in 2003. However, there remains uncertainty over the possibility of different policies being adopted by the government which may, once again, contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities. Any substantial negative reaction to the policies adopted by the Brazilian

government from time to time could adversely affect our business, operations and the market price of our preferred shares and ADSs.

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

Brazil has historically experienced extremely high rates of inflation. Inflation itself, and some governmental measures to curb inflation, have in the past had significant negative effects on the Brazilian economy. Since 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, during this period there have been inflationary pressures and actions taken to curb inflation which, together with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities market. For example, if the Brazilian government implements measures to restrain domestic demand by imposing credit restrictions on banks, credit card companies and retailers and raises interest rates, we could be adversely affected if credit purchasers become less attractive or if government policies curtail the extension of consumer credit. According to the IPCA, the Brazilian government's official consumer price index, the inflation rate was 8.7% in 2003, 12.5% in 2002 and 7.7% in 2001. If Brazil experiences significant inflation in the future, we may be unable to increase our retail prices in line with inflation, and thus our business may be adversely affected.

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

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

The real devalued against the U.S. dollar by 15.7% in 2001 and 34.3% in 2002. In 2003, the appreciation of the real relative to the U.S. dollar totaled 22.3%. In the first three months of 2004, the real depreciated against the U.S. dollar by 0.7%.

Further devaluations of the real relative to the U.S. dollar would reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the preferred shares and the ADSs. Further devaluations of the real relative to the U.S. dollar also create additional inflationary pressures in Brazil that may negatively affect us. They may curtail access to foreign financial markets and may require government intervention, including recessionary governmental policies.

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

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

Since the end of 1997, economic problems in various emerging market countries have resulted in investors' perception of greater risk from investments in emerging markets. During periods of investor concern, Brazil has experienced a significant outflow of U.S. dollars, and Brazilian companies have faced higher costs for raising funds, both domestically and abroad, as well as limited access to international capital markets. The prices of Brazilian securities have been significantly negatively affected. This occurred, most recently, to a significant degree, in 2002 following the default at the end of 2001 by Argentina in the payment of its foreign indebtedness.

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

Risks Relating to CBD

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

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

We are controlled by a small group of shareholders.

The controlling shareholders, consisting of Mr. Abilio Diniz and some members of his family, own or control 76.0% of our voting common shares. Consequently, our controlling shareholders will continue to have the power to control our company, including the power to:

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

We engage in, and expect from time to time in the future to engage in, commercial and financial transactions with our controlling shareholders or their affiliates. We seek to avoid potential conflicts of interest by submitting any related party transactions for approval by the majority of the independent members of our board of directors.

Risks Relating to the Preferred Shares and ADSs

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

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

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

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

ITEM 4 INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

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

Brazilian economic reforms implemented in 1994, including the introduction of the real as the Brazilian currency and the drastic reduction of

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

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

In order to raise funds for our investment needs, we conducted two public offerings of our shares. Our initial public offering in October 1995, which raised US$112.1 million, was the first issuance of preferred shares by a food retailer to begin trading on the Sao Paulo Stock Exchange - BOVESPA. Our public offering of May 1997, which raised US$172.5 million, resulted in the first ADS listing on the New York Stock Exchange by a Brazilian retailer. In August 1999, we entered into a strategic relationship with the Casino Guichard Perrachon Group, or the Casino Group, a leading French retail organization with net sales of EURO23.0 billion (equivalent to US$29.0 billion at December 31, 2003 exchange rate) in 2003 and a presence in 10 countries. The Casino Group invested US$807.8 million in return for approximately 21.3% of our voting stock. At the same time, the Casino Group acquired 2.5 billion of our common shares representing another 2.7% of our common stock from our controlling shareholders. The Casino Group may exercise 6.3 million warrants for our common shares representing an additional 6.85% ownership of our common stock by August 31, 2004, resulting in a further capital investment of US$282.9 million.

In order to support our growth, we have also made substantial investments in constructing distribution centers and redesigning our warehouse and distribution logistics, in information technology, and we have reorganized our purchasing and category management functions.

From 1999 through 2003 we invested approximately US$263.4 million in technology, or about 13.2% of our total investments in the last five years. We also implemented projects designed to improve operational logistics and margins. In 1997, we began substituting our stores' autonomous operating model for a more centralized system under which the responsibility for purchases was transferred to our commercial division. Our distribution and other administrative functions were also centralized to obtain economies of scale. These changes strengthened our negotiating position with suppliers with respect to prices and payment terms. In 2001, we finished implementing our new category management system, under which our commercial division became responsible solely for purchases in order to maximize bargaining power. However, we transferred category management decisions, which relate to the pricing and mix of products, to each of our banners, as they are in a better position to make these determinations for their particular target customers. We have also sought to gain efficiencies through improvements in our supply chain, in an effort to decrease stock-outs, breakage and shrinkage, and packaging and labor costs, as well as to increase product turn.

We also invested in the construction of websites for on-line shopping by our Pao de Acucar and Extra Eletro customers. In 2000, we decided to consolidate all of our on-line shopping for all our customers through one

website, amelia.com.br. In 2001, we discontinued on-line shopping through one centralized website and resumed offering on-line shopping through paodeacucar.com.br for food sales and extra.com.br for non-food sales. We launched our Extra website in 2001.

Since 1999, we have acquired a total of 195 stores. When entering new markets, we have generally sought to acquire local supermarket chains to benefit from existing know-how of the geographic region. For expansion within urban areas where we already have a presence, we have historically opened new stores. We have tried to maintain a balance between acquisitions and organic growth. Since 1999, we have also opened 65 new stores. Historically, our organic growth and smaller acquisitions have generally been funded from our cash flow from operations, and larger acquisition opportunities have required external funding or capital increases. We expect to fund future organic growth from our cash flow from operations. Our aggregate sales area has increased by 48.2% since 1999 as a result of our acquisitions and our opening of new stores.

Also in response to the increased levels of income resulting with the introduction of the real, we realized in 1998 that in order to take full advantage of Brazil's economic growth, we needed to adjust the format of our stores according to the expectations and needs of different segments of the population. We refocused the Pao de Acucar format to cater specifically to the high income classes and sought to target lower income classes with a cost-oriented format, Barateiro, which we acquired in 1998. The acquisition of the Barateiro chain represented a decisive step in carrying out our market segmentation plans, as previous efforts to adapt the Pao de Acucar stores to less affluent neighborhoods had not gained acceptance among those consumers. The Barateiro format, by contrast, had a brand image and operational model focused on costs. This enhanced flexibility benefited our business by allowing us to build on Pao de Acucar's particular strengths, a brand image associated with high level of services and quality products. At the same time, our Barateiro format enabled us to service the increasingly important lower-income segments of the Brazilian population. In 2001, the Barateiro format underwent some operational changes, as the initial performance of the division had fallen short of our management's expectations. We relaunched the Barateiro format to provide a wider product assortment with a greater balance among leading brands, private label products and lower priced products, and to offer greater services. Our diversity of formats allows us to reclassify stores to a more appropriate format within a market from time to time. Some Pao de Acucar stores, particularly in the state of Sao Paulo, were converted into the Barateiro format in 2001, as average income levels dropped in neighborhoods of these stores' original locations.

In 2002, as part of our effort to increase sales of our Barateiro stores, we launched a new store format known as CompreBem Barateiro in certain regions of Brazil. This format, which responded to market research from the target Barateiro audience, focused not only on reduced costs, but also on personal service, organization and increased customer relations. Under the new model, the stores offer new layouts, more modern equipment and a more pleasant shopping environment with a variety of services. In addition, the CompreBem Barateiro format attempts to emphasize the importance of family and community connection, sponsoring community outreach activities such as local artwork competitions and showcase of neighborhood children's artwork in the stores. Due to the great consumer acceptance of this new format, which was evidenced by the performance of CompreBem Barateiro stores as compared to Barateiro ones, we are gradually converting the Barateiro stores into the CompreBem Barateiro format in 2003.

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

In April 2003, we became part of a group of listed companies that adhere to a new index, the IGC-Special Corporate Governance Share Index, created by BOVESPA (the Sao Paulo Stock Exchange), which is a benchmark for portfolios comprised of shares of companies that are part of the Special Corporate Governance Program, or the Program. As part of the Program, we have to comply with several requirements, in additional to those imposed by Brazilian law. The Program seeks to promote strong corporate governance by reducing investor uncertainties and enhancing information disclosure. For the past few years we have been adopting principles relating to disclosure, minority shareholders and availability of updated information as part of our corporate governance initiatives.

In December 2003, we signed a letter of intent to enter into an association with Sendas S.A., or Sendas. The association was named Sendas Distribuidora S.A., or Sendas Distribuidora, and became operational in February 2004. Sendas Distribuidora's voting stock is held 50% by us and 50% by Sendas, and we are responsible for the management of the company. Sendas has been operating in the Brazilian retail market for 43 years, currently operating exclusively in the State of Rio de Janeiro, through a network of 68 multiformat stores comprised of 6

hypermarkets and 62 supermarkets. As we already operated 38 stores in the State of Rio de Janeiro, comprised of 9 hypermarkets and 29 supermarkets, the association with Sendas was an important strategic step towards growth and leadership consolidation in the Brazilian market. Sendas Distribuidora has a total of 106 stores. Besides the strong regional appeal achieved by the Sendas brand in Rio de Janeiro, Sendas Distribuidora is enjoying the benefits from the synergy with our corporate operations. Furthermore, this association is helping us to increase our presence in other business including gas stations (which Sendas had already 16) and drugstores (which Sendas had already around 40).

4B. Business Overview

The Brazilian Retail Food Sector

The Brazilian retail food sector represented approximately 5.8% of Brazil's GDP in 2003. According to ABRAS (Brazil's supermarket association), the food retail sector in Brazil had gross revenues of R$87.2 billion (equivalent at the December 31, 2003 exchange rate to US$30.2 billion) in 2003, a 9.3% increase over 2002. The Brazilian retail food sector is highly fragmented. However, as a result of consolidation within the Brazilian retail food industry, the five largest supermarket chains have accounted for an estimated 38.1 % of the retail food sector in 2003, down from 39.6% in 1999. We believe this consolidation will continue, and this is expected to favor large food retailers, such as us, that can take advantage of better economies of scale in the provision of services, implementation of cost-cutting and efficiency measures, and sourcing from suppliers. According to ABRAS, our gross sales represented 14.7% of the gross sales of the entire retail food sector in 2003.

Foreign ownership in the Brazilian food retail sector began with Carrefour, a leading French retail chain, which opened its first hypermarket 29

years ago. In recent years, international chains such as Wal-Mart, Royal Ahold and Sonae have also entered the Brazilian market, mostly through acquisitions of domestic retail food chains, and competition in the industry has intensified. In 2003, foreign retailers in Brazil accounted for an estimated 24.2% of the food retail industry.

In addition to the organized retail food sector, the Brazilian retail food sector also consists of small food retailers which frequently avail themselves of access to merchandise from irregular and informal distribution channels. This merchandise usually has lower prices than those charged by manufacturers and stores in the conventional supply chain of the organized retail food sector.

Overall supermarket penetration in Brazil today, in terms of the number of supermarkets relative to overall population and area, is estimated to be below the levels common in the United States, many western European countries such as France and some South American countries such as Chile. Management believes that the population of Brazil is an important factor affecting the potential growth in supermarket activity. According to the Brazilian Institute of Geography and Statistics, or IBGE, the total population of Brazil was approximately 177 million at the end of 2003, making Brazil the fifth most populous country in the world, and the population is currently growing at a rate of 1.4% per year. As approximately 78% of the population lives in urban areas, and the urban population has been increasing at a greater rate than the population as a whole, our business is particularly well positioned to benefit from economies of scale deriving from Brazil's urban growth. Sao Paulo, with a population of approximately 10.7 million, and Rio de Janeiro, with a population of approximately 6.0 million, are the two largest cities in Brazil. Sao Paulo State has a total population in excess of 38 million, representing approximately 21.9% of the Brazilian population. Sao Paulo State is the first and Rio de Janeiro is the second largest consumer market in which we operate.

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

The following table sets forth the different income class levels of Brazilian households, according to IBGE.

Class Level	Annual Income (in reais)	Annual Income (in U.S. dollars)
A	Above R$60,000	Above $20,767
B	Between R$24,000 and R$60,000	Between $8,307 and $20,767
C	Between R$9,600 and R$24,000	Between $3,323 and $8,307
D	Below R$9,600	Below $3,323

Class A households account for only 5% of the urban population, and class B households account for 8% of the urban population. Classes C and D

collectively represent 87% of all urban households. In recent years, the class C and class D households have been increasing, and now have greater purchasing power. Notwithstanding the low annual income earned by class D households, studies have indicated that class D households direct approximately 34% of their available income to food purchases. As a result, retailers have become increasingly interested in targeting lower income households.

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

Our Company

We are the largest food retailer in Brazil based on both gross revenues and number of stores. In 2003, we had a market share of approximately 14.7% in the Brazilian food retailing business according to ABRAS, with annualized gross sales of R$12.8 billion (equivalent at the December 31, 2003 exchange rate to US$4.4 billion). As of December 31, 2003, we operated 497 stores throughout Brazil, of which 442 were retail food stores. Of our retail food stores, 328 are located in Sao Paulo State, representing 67% of our net sales revenue from our retail food stores in 2003. Sao Paulo State is Brazil's largest consumer market. We are among the market leaders in the retail food stores in the cities of Sao Paulo, Rio de Janeiro, Brasilia, Curitiba, Belo Horizonte, Salvador and Fortaleza. We operate different store formats through four principal formats: Pao de Acucar (208 supermarkets), CompreBem Barateiro (172 supermarkets), Extra (62 hypermarkets) and Extra Eletro (55 home appliance stores).

The following table sets forth the number of our stores by region, as of December 31, 2003:

	Greater Sao Paulo	Rest of State of Sao Paulo (1)	State of Rio de Janeiro	South and Southeast (excluding States of Sao Paulo and Rio de Janeiro) (2)	Northea
Pao de Acucar.........	72	63	11	11	39
Extra.................	30	9	9	4	5
CompreBem Barateiro...	122	32	18		
Extra Eletro (3)......	43	12			
Total.................	267	116	38	15	44

(1) The rest of the state of Sao Paulo consists of 39 cities, including Campinas, Ribeirao Preto and Santos.
(2) This area comprises the states of Minas Gerais and Parana.
(3) Our Extra Eletro stores, which make up our home appliance format, were placed under the management of the Extra division in November 2002.

Our Competitive Strengths

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

Different retail food store formats

We conduct our retail food operations through three store formats, Pao de Acucar, CompreBem Barateiro and Extra, each of which has a distinct merchandising strategy and a strong brand name. We are the only food retailer in Brazil that offers a variety of formats, which enables us to effectively target different classes of consumers and thus earn their loyalty. This approach, coupled with our intimate understanding of the Brazilian consumer permits us to meet diverse customer needs without confusing consumers as to the marketing or price focus of each format. Each of our brand concepts is clearly identified in the marketplace for a combination of goods and services offered and relative consumer wealth. For example, our Pao de Acucar format are positioned to serve the higher income classes through a combination of store location, store design and product and service offerings. Our second format, CompreBem Barateiro, is targeted to middle and lower income consumer brackets. We originally acquired Barateiro in 1998. Barateiro was a well known food retailer in the lower income market. In 2002, as part of our effort to increase sales of our Barateiro stores, we launched a new store model called CompreBem Barateiro in certain regions of Brazil. This model, which responded to market research from the target Barateiro audience, focused not only on reduced costs, but also on personal service, organization and increased customer relations. Due to the great consumer acceptance of this new model, which was evidenced by the performance of CompreBem Barateiro stores as compared to Barateiro ones, in 2003 we are gradually converting the Barateiro stores into the CompreBem Barateiro format, which we are positioning to be the premier food and service destination brand for the middle and lower income groups. Our third food retail format, Extra, is our hypermarket format which offers the widest assortment of any of our store formats and allows us to target potential customers along the entire income spectrum. Our hypermarket division has the additional advantage of benefiting from the general lack of department stores and specialized stores in Brazil. As a result, a food retailer such as an Extra store that also sells non-food products such as household appliances, consumer electronic products, general merchandise, clothing and textiles is particularly convenient to a Brazilian consumer.

Extensive network of distribution centers

We operate distribution centers strategically located within the cities of Sao Paulo, Brasilia, Fortaleza, Curitiba, Rio de Janeiro and Recife. Our distribution centers have a total storage capacity of 316,000 square meters of built-in area. Our management believes that our network of distribution centers is the most extensive and technologically advanced product distribution center network in the Brazilian retail food industry. We believe that our facilities are capable of servicing substantially all of our distribution requirements, both for our existing stores and for the stores that we currently plan to open in the near future. Approximately 80% of our inventory in 2003 came directly from a distribution center instead of a supplier, a substantial increase from

48% in 1998, resulting in higher bargain power with suppliers, lower lack of inventory, lower shrinkage and improved working capital management. Many of the functions of our distribution centers are automated, allowing for quicker and more efficient handling of products. Our distribution centers are supported by sophisticated systems which other Brazilian retailers lack, including pd@net, a business-to-business technology platform which links our computer automated ordering system, our suppliers and our distribution centers to automatically replenish our inventory.

Economies of scale

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

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

Since we started our operations in 1959, we have been able to accumulate store locations for our Pao de Acucar and Extra stores in prime sites that offer significant competitive advantages. Our older stores in Sao Paulo and Brasilia are located in high traffic residential neighborhoods and, as a result, the average monthly sales per square meter in these stores is substantially higher than that of the average supermarket in Brazil. Since prime real estate in these urban areas in Brazil is scarce, new stores would be prohibitively expensive for competitors. Our recent association with Sendas in the State of Rio de Janeiro enabled us to add numerous high quality locations which would be difficult to obtain independently at this time.

High level of customer service

All of our store formats offer a broad selection of quality products in a pleasant shopping environment that emphasizes customer service. We believe that our emphasis on employee training and our commitment to employee loyalty lead to higher levels of customer service which differentiates us from our competitors. We have also developed customer loyalty and recognition programs which we believe enhance our competitive position. For our Pao de Acucar, CompreBem Barateiro and Extra formats, we offer a preferred shopping card, which customers present at checkout and which collects information on the shopping patterns of our customers and offers credit products. Based on this information, we also offer personalized discounts to our customers. We were also the first Brazilian food retailer to appoint a customer liaison to voice opinions, suggestions and complaints on behalf of customers. We have won several awards from industry associates for our innovative service such as Premio SM Excelencia no Varejo (the excellence in retail award) given by a group of industry professionals.

Offering of additional products and services

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

Our Strategy

Our strategy focuses on our continued efforts to improve upon key ingredients to our success which has led us to become the largest food retailer in Brazil. These include our commitment to increasing profitability through our focus on increasing productivity, reducing costs, technological advancements and, most importantly, customer satisfaction and loyalty. This focus starts with a philosophy of professionalism and pride in the organization which flows from the top management levels through all of our employees. We believe that at all levels of our company, we are committed to our customer, for they are the reason for our existence and success. We strive to create the best possible shopping experience which will feed a long and loyal relationship. In order to execute our strategy, we intend to continue to expand our selling space through store openings and acquisitions, further improve efficiencies, improve our margins, offer new products to increase revenues, customer traffic without increasing our fixed costs, and continued attention to improvements in corporate governance.

Expand our selling space

We seek to continue our expansion plan, which is designed to maximize growth opportunities available to us and to capitalize on the economies of scale afforded large chains in the Brazilian food retail industry. We believe significant opportunities exist to profitably increase our selling space in areas in which we currently operate and in other markets currently underserved by supermarkets. Our objective is to increase our selling space by an average of 10% to 15% each year over the next five years. This range will vary depending on the level of acquisitions during each year. In 2004, we plan to open approximately 13 to 20 stores, including 3 to 5 hypermarkets and 10 to 15 supermarkets. Most of our organic growth will be in regions where we already have a presence in order to increase our area of coverage and, as a result, to achieve greater market penetration and economies of scale. We carefully evaluate potential store sites based on market research, the ability of the relevant geographic market to support a new store at the selected site, as well as our ability to supply the site. We also evaluate a potential site's attractiveness and the appropriate store format through analysis of demographic data covering population and

income shifts, consumption patterns, traffic patterns and the proximity to one of our distribution centers. We continually explore strategic acquisition opportunities of supermarket chains or individual supermarkets for existing markets or new geographic regions to add to or substitute for new store

openings. For example, our recent association with Sendas in the State of Rio de Janeiro resulted in the association of 68 new stores and measurably increased our presence in this market. When entering new markets, we have historically sought to acquire local supermarket chains to benefit from their existing know-how of the geographic region and to begin operating new stores more quickly and in a more cost-efficient manner than through construction.

Further improve efficiencies

We continually seek to improve operating efficiencies in connection with our supply chain. We were one of the first supermarket chains in Brazil to equip its stores with a point of sale, or POS, system and utilize a computer automated ordering system that automatically replenishes our inventory. We intend to improve operating efficiencies in other stages of the supply chain, particularly product outflow, by increasing the volume of merchandise going through our distribution centers. In 2003, approximately 80% of our inventory came directly from one of our distribution centers instead of a supplier. In the past year, we combined our perishable and groceries divisions into one unit in an effort to rationalize and reduce costs and we consolidated our non-food product area and our flower division in order to achieve operating efficiency. Also, as part of our strategy, we intend to substantially increase our cross-docking capability, which should result in working capital savings and lower inventory levels. We also intend to improve handling to further decrease stock-outs, breakage and shrinkage and delivery costs. For example, we are exerting pressure on suppliers to ship their products in amounts that are less than a full pallet which we feel will result in cost savings through lower levels of spoilage. We have already reduced our stock-out levels to approximately 5% in 2003, down from roughly 20% in 1998. Similarly, shrinkage levels were reduced to 1.3% in 2003, down from approximately 2.2% in 1997 and 3.1% in 1995.

Improve our margins

We have been increasing our focus on reductions and dilution of costs to improve our operating and gross margins. We regularly examine our mix of products and product brands in all of our store formats with a view to increasing sales of higher margin products, and we believe that, as total net sales increase, our negotiating position with suppliers will be further strengthened, allowing us to obtain better prices for the products we purchase. We also regularly monitor product layouts at our stores so as to use store space more efficiently, decrease inventory space and make higher margin brands more prominent. We also seek to offer more non-retail services that increase revenues but do not require incurring additional costs, such as the payment of utilities at checkout counters. We recently reevaluated and relaunched our private label product line. We believe we may offer our private label products to customers at approximately a 15% to 25% lower cost than leading brands, but at greater margins in relation to average of each category. From 2001 to 2003, our sales of private label products registered a 188% growth and the number of items increased from 125 in 2001 to approximately 2.4 thousand in 2003.

Offer new products and services to increase revenues and customer traffic without increasing fixed costs

We continue to implement measures to increase revenues and customer traffic without increasing our fixed costs. We have begun to offer high-margin products such as extended warranty policies on household appliances and insurance on the payment of household appliances in the event of unemployment or death. We also offer customers the ability to pay their utility bills at checkout counters, for which we receive a fee. We also intend to continue finding alternative uses of non-sales space at our stores, such as the area in front of our checkout counters. Other initiatives include the addition of commercial outlets inside some of our Extra hypermarkets which offer laundry

services, gasoline stations conveniently located in the parking lots of these stores and the addition of drugstores inside the sales area. Our recent association with Sendas greatly increased our presence in certain of these non-core service and products offerings. We believe these additional features at our stores increase revenues and customer traffic without increasing fixed costs, and we intend to expand these services.

Continued attention to improvements in corporate governance

Our controlling shareholders and our senior management have for several years now sought changes in our governance structure, procedures and documents with a view towards delineating operating responsibilities, separating the oversight and operational functions and enhancing disclosure to our shareholders and the market at large. Our performance is based on transparency, efficiency and security criteria when disclosing information. In order to strengthen our growth strategy, we invest in the continuous improvement of our management practices.

In our continuous transition from our roots as a family-owned regional food retailer to a geographically dispersed multi-segment retailer, we continue to enhance management's range of independence empowerment and authorization. For example, in February 2003, our shareholders approved at a general shareholders' meeting our corporate management structure reorganization. In connection with this reorganization, our then controlling shareholders relinquished their executive officer positions in order to become board members. The founding shareholder, Mr. Valentim dos Santos Diniz, became the Honorary Chairman of the board of directors. In March 2003, Abilio Diniz ceased being our Chief Executive Officer and became the Chairman of the board of directors. Mr. Augusto Marques da Cruz Filho, the former Administrative and Financial Vice President, assumed the Chief Executive Officer position. The Administrative and Financial Vice President position was eliminated and instead divided into two newly-created positions - the Administrative Officer and the Financial and Controller Officer positions.

In addition, as a result of this reorganization, three new committees were created to support our management bodies: the executive committee, the financial committee and the development and marketing committee. Furthermore, in order to comply with international corporate governance standards, we created an audit committee which will be comprised of fully independent members by July 2005. We also implemented an ethical committee in 2004, which revises updates and ensures employees and management are in full compliance with our corporate standards. We are also in the process of implementing our disclosure committee which will adapt the information disclosure policy and management procedures used by us according to the regulatory entities, our shareholders and the market in general. In addition, in 2003, we implemented a working group to analyze internal controls and procedures that may impact our results. This working group is comprised of key employees from several of our areas and is focused on the evaluation of eventual risks and non-conformity situations, which are treated with specific plans aiming to improve internal process.

We will continue to study developments in corporate law and practice to determine what other improvements in transparency, disclosure or governance we should make.

Operations

The following table sets forth the number of stores, the total selling area, the average selling area per store, total number of employees and the net sales revenue as a percentage of our total net sales revenue for each of our store formats at December 31, 2003:

	Store Format	Number of Stores	Total Selling Area (in square meters)	Average Selling Area Per Store (in square meters)
Pao de Acucar.........	Supermarkets	208	273,016	1,313
CompreBem Barateiro...	Supermarkets	172	211,517	1,230
Extra.................	Hypermarkets	62	462,195	7,455
Extra Eletro..........	Home appliance Stores	55	35,973	654
Head office & distribution center..............	---			
Total:		497	982,701	1,977

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(1) Full-time equivalent number of employees calculated by dividing total number of hours worked by all employees in the month of December 2003 by 220 hours.

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

Pao de Acucar Division

The Pao de Acucar division operates convenient neighborhood stores. Our Pao de Acucar stores are predominantly located in large urban areas (with over one-third located in the greater Sao Paulo City area). We

believe this to be a significant competitive advantage since available sites in those urban areas are scarce. The Pao de Acucar stores target the Brazilian class A and class B household consumers, whose minimum annual household income exceeds R$24,000. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and a high level of personal service, with an average of six employees per 100 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, meat, cheese and seafood departments. Many stores offer shopping advisors to assist customers with inquiries about

particular food needs, prices, special discounts and brand information. Pao de Acucar stores also offer private label products, including the Goodlight brand of health food products.

We had 208 Pao de Acucar stores at December 31, 2003. The Pao de Acucar stores range in size from 331 to 4,730 square meters and averaged 1,313 square meters of selling space at December 31, 2003. The sale of food products represented 95% and non-food products represented 5% of this division's net sales revenue in 2003. Pao de Acucar customers can also make purchases on-line through paodeacucar.com.br, the Pao de Acucar website. This site is available to customers in the cities of Sao Paulo, Rio de Janeiro, Brasilia and Curitiba.

Our Pao de Acucar Mais card, the first preferred shopper/fidelity card in the Brazilian retail industry, is an important instrument that allows us to respond better to consumer needs. The presentation of this card by the consumer at the moment of purchase allows us to collect valuable information regarding that consumer's shopping habits. The information eventually assists us in the selection of merchandise for these stores and in the creation of customer-specific sales promotions. We offer client-specific discounts at the moment of purchase in order to promote customer loyalty and offer customers certain credit products of a third-party financial institution. By the end of 2002, more than two million families had registered for this card, which allowed us to identify approximately 60% of our Pao de Acucar sales.

We remodel our stores generally every four years to create a new shopping atmosphere and, where possible, to improve operating efficiency. We remodeled 13 Pao de Acucar stores in 2003 and 90 in the 1999 to 2003 period.

CompreBem Barateiro Division

We acquired the Barateiro chain of supermarkets in 1998. Barateiro was targeted to middle and low-income consumer segments so we decided to use it for supermarkets serving those segments. The Barateiro format, on which our CompreBem Barateiro division is based, further served to strengthen and expand our presence in the Brazilian market. The CompreBem Barateiro supermarkets offer large volumes of basic products and a variety of brands at low prices. CompreBem Barateiro stores target the Brazilian class C and class D household consumers, whose annual household income is less than R$24,000 and which collectively make up approximately 87% of all urban households. Accordingly, CompreBem Barateiro stores are located in lower-income neighborhoods compared to Pao de Acucar stores. Generally, CompreBem Barateiro stores offer more competitively priced products than Pao de Acucar stores. In addition, these stores are characterized by a lower level of personal service than Pao de Acucar stores, with an average of 4.3 employees per 100 square meters of store space.

We relaunched the Barateiro chain in 2001, changing some operational and product assortment decisions we made beginning in 2000. Having originally developed the Barateiro format to be similar to a hard discount retailer, offering many generic brands and private label products and very few leading brands, market reaction indicated that this approach was not gaining acceptance. As a result, we changed the product assortment of this division in order to achieve a more competitive balance among leading brands, private label products and lower priced products.

Another service innovation as part of the Barateiro relaunching was the creation of the brand's own preferred shopper/fidelity card, the Clube CompreBem card, which is currently used by more than 610,000 customers. This card, in addition to assisting us in the collection of consumer shopping data, allows us to offer customers credit products of a third-party financial institution. We have also reevaluated our Barateiro private label product line. We reduced sharply the number of Barateiro private label products, instead focusing on those which we believe can be competitive with the leading brands. We currently

offer approximately 500 private label items. We strive to offer products with the same quality as leading brands, but at a 20% to 25% lower price.

In 2002, as part of our effort to increase sales of our Barateiro stores, we launched a new store format known as CompreBem Barateiro in certain regions of Brazil. This format, which responded to market research from

the target Barateiro audience, focused not only on reduced costs, but also on personal service, organization and increased customer relations. Under the new model, the stores offer new layouts, more modern equipment and a more pleasant shopping environment with a variety of services. In addition, the CompreBem Barateiro format attempts to emphasize the importance of family and community connection, sponsoring community outreach activities such as local artwork competitions and showcase of neighborhood children's artwork in the stores.

We had 172 stores under the CompreBem Barateiro banner at December 31, 2003. CompreBem Barateiro's stores range in size from 300 to 5,092 square meters and averaged 1,230 square meters of selling space at December 31, 2003. In 2003, non-food items accounted for approximately 5% and food items accounted for approximately 95% of net sales revenue of the CompreBem Barateiro division.

Extra Division

The Extra hypermarkets are the largest of our stores. We introduced the hypermarket format to Brazil with the opening of our first 7,000 square meter store in 1971. The Extra hypermarkets offer the widest assortment of products of any of our store formats, with approximately 70,000 items and an average selling area of 7,455 square meters at December 31, 2003. The Extra stores target the Brazilian class B, class C and class D household consumers, whose annual household income ranges from R$4,800 to R$60,000. At December 31, 2003, we had 62 Extra stores. The sale of food products represented 70% and non-food products represented 30% of the Extra division's net sales revenue in 2003.

In 2002, we focused on making operational and product assortment decisions for the Extra hypermarkets. We customized the product line of the hypermarkets according to the region in which they are located to respond better to regional tastes. We also presented new store layouts and changed the product assortment of this division in order to achieve a better margin mix. In addition, we have sought to increase customer traffic at our stores through initiatives aimed at increasing customer loyalty and improving our knowledge of consumer behavior patterns in the hypermarket segment. We have begun to provide additional services tailored to the specific needs of the division's broad base of customers. For example, we added gasoline stations within the parking areas of some Extra stores, and we initiated a pilot project to operate drugstores inside the Extra stores. We also added third parties commercial outlets inside the Extra hypermarkets, which offer laundry, photo development, dining and banking services for the convenience of the customer.

In 2003, we sought to offer more competitively priced products and reduce our operational costs. We created a new model of compact hypermarket called hipermercado compacto, which is smaller than the traditional hypermarket stores and therefore has substantially lower costs of construction. We also pursued the reduction of our Extra stores' energy costs and the number of business hours of some of our 24 hours stores, which allowed us to manage more efficiently our employees' working hours. We also focus on optimizing our marketing initiatives and renegotiating our agreements with service providers,

including public utilities. One of our pilot projects allowed us to reduce the use of computers and enabled our employees to be able to fix minor problems occurring in our checkouts, which also resulted in a reduction of our maintaince costs. We intend to establish more hipermercados compactos in 2004, as well as to convert some stores associated with the Sendas format (Bon Marche banner) into Extra stores.

We also offer customers the brand's own preferred shopper/fidelity card, the Extra card. The Extra card is currently used by approximately 1.6 million customers, who benefit from the credit features and sales promotions in connection with the card. In addition, the Extra card allows us to collect valuable information about consumers' shopping habits.

Similar to our approach to the Barateiro private label line of products, we also reorganized and updated the Extra division's private label products line in 2001, based on extensive market research and customer surveys, in order to offer products which we believed were competitive with leading brands. As a result, we launched over 600 items in 2002 and 630 items in 2003, and the Extra division presented an increase of 66% of the sales volume in 2003 if compared to 2002. Our Extra division has an on-line sales site through extra.com.br. This site sells and delivers non-food products to all regions of the country. These products include household appliances, consumer electronic products, compact discs, toys, information technology products and sports and entertainment items.

We have sought to strengthen the Extra division's presence recently through organic growth in selected areas in Brazil. In 2003, we opened two stores in the greater Sao Paulo metropolitan area, one in the state of Rio de Janeiro.

Extra Eletro

The Extra Eletro stores are generally small showrooms which sell a broad range of home appliances and consumer electronic products. These stores had an average selling area of 654 square meters at December 31, 2003. Customers place orders in the stores, and products are shipped from a central warehouse. At December 31, 2003 we had 55 Extra Eletro stores, all of which are in the state of Sao Paulo. Approximately 74% of the net sales of Extra Eletro stores in 2003 were credit sales, which make the products more accessible to lower-income consumers. See "- Credit Sales."

Until November 2002, the operation of Extra Eletro stores had been conducted as a separate division under the Eletro name. We placed the former Eletro division under the management of the Extra division, with a view to transmitting to the Eletro format the strong name of the Extra hypermarket format. Additional benefits of this integration include enhanced category management decisions, greater bargaining power with suppliers and diluted human resources and marketing expenses. In 2003, our activities were focused on enhancing consumer financings to our customers and improving the sales of computer and telephone products, as well as reducing our expenses in general and increasing the number of promotions.

Capital Expansion and Investment Plan

As part of our capital expansion and investment plan, we have invested approximately US$2.0 billion in our operations since 1999. Our investments have

included:

Acquisitions of supermarket and hypermarket chains - Since 1999, we have acquired 195 stores, consisting of numerous supermarket chains and individual stores. Through our acquisition of the Barateiro chain in 1998, we inaugurated a new store format targeted specifically to lower income consumers. In addition, when entering new markets, we have generally sought to acquire local supermarket chains to benefit from their existing know-how of the geographic region. As a result, these acquisitions have enabled us to expand our operations to locations outside of the state of Sao Paulo, particularly Rio de Janeiro and some northeastern Brazilian states.

We acquired the Se Supermercados chain of supermarkets in 2002. The purchase price was R$386.4 million (US$135.8 million at the acquisition date), including the assumption of debt in the amount of R$124.4 million (US$43.7 million at the acquisition date). On January 23, 2003, we sold the Se tradename for R$0.3 million (US$0.1 million), as requested by the Conselho Administrativo de Defesa Economica (CADE), the principal Brazilian antitrust authority. We have spent an aggregate of US$360.5 million on acquisitions since 1999.

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

Year	Chains Acquired	Number of Stores	Geographic Distribution
1999	Mogiano/Shibata (6 stores), rent of 2 Mappin Department stores and leasing of 25 Paes Mendonca stores for 15 years(1)	33	Sao Paulo: 13 Rio de Janeiro: 19 Minas Gerais: 1
2000	Sao Luiz (9 stores), Nagumo (12 stores), Reimberg (9 stores), Parati (11 stores), Rosado (13 stores), Boa Esperanca (6 stores) and other (4 stores)	64	Ceara: 9 Sao Paulo: 38 Parana: 11 Paraiba: 6

Year	Chains Acquired	Number of Stores	Geographic Distribution
2001	ABC Supermercados	26	Rio de Janeiro: 26
2002	Se Supermercados (60) and CompreBem (12)	72	Sao Paulo: 60 Pernambuco: 12
	Total	195	

(3) We relinquished six of these Paes Mendonca stores and converted another into a regional warehouse from the date we leased the stores through December 31, 2003.

Opening of new stores - As part of our expansion strategy, we have opened 65 new stores since 1999, including 16 Pao de Acucar stores, 21 Comprebem Barateiro stores, 20 Extra stores and eight Extra Eletro stores. The total cost of these new stores was US$543.0 million. We seek real estate properties for constructing or renovating stores under one of our banners in regions where there are no local supermarket chain acquisition opportunities which suits one of our formats. We also tend to enter new regional markets with the construction

of a hypermarket.

Renovation of existing stores - We have remodeled 409 stores since 1999, including 108 Pao de Acucar stores, 223 Comprebem Barateiro stores, 43 Extra stores and 35 Extra Eletro stores. Our renovation program allows us to add refrigeration equipment to our stores, create a more modern, customer-friendly and efficient environment, and outfit our stores with advanced information systems. The total cost of renovating these stores was US$498.4 million.

Improvements to information technology - We have been committed to technology as an important component in our pursuit of greater efficiency and security in the flow of information among stores, distribution centers, suppliers and corporate headquarters. We implemented a computer automated ordering system, which automatically replenishes our inventory based on consumers' shopping habits. We have a proprietary technology system, the pd@net, a B-2-B, or business to business, platform for the on-line integration of 6,000 suppliers. This Internet process enables information to be exchanged rapidly, precisely and transparently among all participants in the supply chain. For more information, see "- Technology." We have spent an aggregate of US$263.4 million on information technology since 1999.

Expansion of distribution facilities - Since 1999, we have opened distribution centers in the cities of Sao Paulo, Brasilia, Fortaleza, Rio de Janeiro and Recife. The increase and improvement in storage space enables us to further centralize purchasing for our stores and, together with improvements to our information technology, improve the overall efficiency of our inventory flow. We have spent an aggregate of US$111.4 million on our distribution facilities since 1999.

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

	Year Ended December 31,		
	2003	2002	2001
	(millions of U.S. dollars)		
Opening of new stores..............	$45.5	$131.4	25.2
Acquisition of retail chains........	-	94.3	40.4
Purchases of real estate...........	10.3	15.8	50.2
Renovations........................	91.9	73.2	71.1
Information technology.............	33.9	29.8	49.4
Distribution centers...............	3.6	3.9	38.9
Total	$185.2	$348.4	$275.2

In 2004, we intend to invest R$500.0 million in new projects (equivalent at the December 31, 2003 exchange rate to US$173.1 million), which includes R$200.0 million (equivalent at the December 31, 2003 exchange rate to US$69.2 million) for the opening of new stores, R$140.0 million (equivalent at the December 31, 2003 exchange rate to US$48.5 million) for store remodeling, R$60.0 million (equivalent at the December 31, 2003

exchange rate to US$20.8 million) for technology and R$100.0 million (equivalent at the December 31, 2003 exchange rate to US$34.6 million) for other investments.

Supply and Distribution

Supply. We have centralized purchasing for our Pao de Acucar, CompreBem Barateiro, Extra and Extra Eletro stores. We purchase substantially all of our food products on a spot or short-term basis from unaffiliated suppliers. In the aggregate, we purchase up to 131,000 products from approximately 6,000 suppliers. In 2003, no single supplier accounted for more than 6% of total goods purchased. Our 10 largest suppliers in 2003 collectively accounted for less than 28% of our purchases, and we believe that we are not dependent on any single supplier.

Distribution. In order to distribute perishable food products, grocery items and general merchandise efficiently, we operate 11 distribution centers strategically located within the cities of Sao Paulo, Brasilia, Fortaleza, Curitiba, Rio de Janeiro and Recife, with a total storage capacity of 316,000 square meters of built-in area. We were the first retailer in Brazil to have a centralized distribution center. The locations of our distribution centers make it possible for us to make frequent shipments to stores, which reduce the need of in-store stockroom space, and limits non-productive store inventories. Approximately 80% of our inventory was delivered to the store from one of our distribution centers instead of a supplier in 2003. Our inventory and distribution management system, which manages inventory and coordinates efficient distribution schedules, allows for direct orders from our stores, which results in increased product turnover.

In 2003, we promoted some adjustments in our store supply operating structure, which resulted in the reduction of product shortage levels at stores, especially during promotional sales. As a result of a recessive economic scenario, we also reduced inventories, which contributed to a more efficient logistics operation through cost reduction.

As far as grocery products are concerned, the target was to improve operating efficiency. The transportation to stores was rationalized, with the revision of procedures such as: delivery frequency to stores, loadings, preparation of truck itineraries that permitted us to reduce freight costs.

In 2003, we consolidated our non-food product area. Operating efficiency was achieved with the consolidation of different product categories - such as batteries, TV sets, textile products, etc. - in a single site. We also consolidated our flower operation, through geographic expansion, becoming the largest flower purchaser in the country.

Marketing

Our marketing strategy is to further enhance the quality image of our stores and to emphasize our selection and service and our competitive and fair prices. Each division executes its own marketing strategy designed to promote its particular strengths and to appeal to its customer base. In 2002 and 2003, we spent approximately US$74.2 million and US$65.8 million, respectively, on advertising (approximately 1.9% of total net sales revenues in each year).

We spent 26.8% in 2002 and 20.9% in 2003 of our total marketing expenditures on radio, newspaper and magazine advertising. In addition, television accounted for 14.1% of advertising expenses in 2002 and 21.7% in 2003. We spent 59.1% in 2002 and 57.4% in 2003 on other promotional activities.

We centralize the purchasing of advertising time or space for all of

our divisions, which enables us to reduce marketing expenditures. We work with a number of major Brazilian advertising agencies. While our primary advertising focus is on specific brand name, price, and quality-related promotions, we also regularly promote our store brands through sponsorships and sporting and cultural events, endorsements and support of environmental activities.

We have further developed our marketing initiatives through the Pao de Acucar Mais card, the first preferred shopper/fidelity relationship card in the Brazilian retail industry, and the Clube CompreBem card. Through these programs we continue to collect customer information in an effort to offer more personalized services and products to shoppers who use our stores. We have also developed a private label strategy pursuant to which our various divisions sell high quality products at competitive prices. The principal advantages of this private label

strategy have been improved brand loyalty to our brands and increased leverage with our suppliers because our private label products are similar in quality to, but more favorably priced than, leading brands.

Credit Sales

In 2003, 46.8% of our net sales revenue were represented by credit sales in the form of credit card sales, installment sales, post-dated checks and purchase vouchers. In 2002, 46.3% of our net sales revenue was represented by credit sales.

Credit card sales. All our store formats accept payment for purchases with MasterCard (Credicard), Visa, Diners Club, American Express or our co-branded credit cards. Sales to customers using credit cards accounted for 33.8% of our net sales revenue in 2003. In 2002, sales through credit cards accounted for 31.9% of our net sales revenue. An allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties.

Installment sales. Our Extra Eletro stores and Extra hypermarkets offer attractive consumer financing to our customers who frequently purchase electronic goods or home appliances, respectively, on an installment basis. The consumer credit installment term in 2003 averaged 10 months, with fixed interest payments averaging approximately 5.5% per month throughout 2003. We borrow funds approximately equivalent to the consumer credit financing we extend through our sales of electronics. The consumer financing is generally for a term of up to 24 months and is funded by our borrowing on a shorter-term basis at fixed rates. In 2003, installment sales accounted for 39.2% of the net sales revenue of Extra Eletro stores, 2.0% of the Extra division's net sales revenues and 2.0% of our total net sales revenue.

Post-dated checks. Post-dated checks are commonly used financial instruments in Brazil to make purchases. Post-dated checks are executed by a consumer with a future date (up to 60 days) instead of the date of the purchase. The retailer typically deposits the check only as of this future date, and interest for the time elapsed is included in the amount of the check. We currently have post-dated check programs in which interest is computed on the settlement amount based upon a fixed monthly rate of interest (to a lesser extent, for certain promotional programs no interest is charged). We limit the availability of post-dated checks to customers who meet our credit criteria and who hold our identification card. Over 350,000 customers use the programs on at least a monthly basis. Sales to customers using post-dated checks accounted for

4.1% of our net sales revenue in 2003 (4.8% in 2002).

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

Purchase vouchers. We accept as payment in our stores vouchers issued by third party agents to participating companies who provide them to their employees as a fringe benefit. Purchase vouchers accounted for 6.9% of our net sales revenue in 2003. An allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties.

Technology

We have been at the forefront of the Brazilian retail industry in using information technology. We were one of the first supermarket chains in Brazil to equip its stores with a POS system and the first major food retailer in Brazil to equip every one of its checkouts with this technology. We invested US$29.8 million in technology in 2002 and US$33.9 million in 2003. We have budgeted approximately R$60.0 million (equivalent at the December 31, 2003 exchange rate to US$20.8 million) for 2004 in order to continue our investment in our management information systems.

In 2003, our information technology area performance was focused on increasing productivity. Among the most important information technology actions are the wireless technology expansion to other applications inside the stores, which increases operating efficiency and improves services provided to consumers; checkout counter technological improvements, in order to make the operation simpler and more agile; platform expansion as part of the Datawarehouse project, which improves management and inventory control; conclusion of the Human Resources

Integrated project with the implementation of Peoplesoft to manage the human resource area; and the restructuring of our internal portal, including new tools and applications which expand even more the access to information and content. Another important project developed in 2003 was the adoption of processes and systems, which permits the implementation of negotiation and supplier replacement alternative models, such as the SBT (Scan Based Trading).

In 2004, the Global Data Synchronization will be concluded and implemented, which will contribute to make product itemization, purchase and distribution more efficient. Also, two new projects are expected to provide us with more profitability and the consumer with more convenience: the adoption of a universal and standardized identification for FLV (frutas, legumes, verduras, or fruits and vegetables products) and the possibility of recharging prepaid cellular phones at stores' checkouts.

Competition

The Brazilian food retailing business is highly competitive and has experienced consolidation in recent years. In 2003, the five largest food

retailers in Brazil accounted for 38.1% of the organized sector sales, which consist of sales by companies enrolled in ABRAS, Brazil's supermarket association. In 2003, we accounted for 14.7% of the organized sector sales according to ABRAS. We believe that consolidation will continue to take place, not only within the food retail market but also other segments of the retail industry. For example, hypermarkets are expected to gain market share in apparel, general merchandise, consumer electronics, furniture, home development and other non-food categories because of a general lack of department stores and specialized stores in Brazil. We have continued our growth strategy by focusing on regions where we can reinforce our presence. As part of our expansion strategy, we have also focused on the needs and expectations of various segments of the Brazilian population by developing store formats that respond to different household income levels. Although we operate stores in many regions throughout Brazil, the size, wealth and importance of the Sao Paulo State has led us to concentrate our stores in this particular market. In 2003, sales in Sao Paulo State accounted for 68% of our total sales. In Sao Paulo State and throughout Brazil, we compete principally on the basis of location, price, image, quality and service. In the retail food market, our competition includes hypermarkets, supermarkets and traditional wholesalers. Our principal competitors are multinational retail food chains, local supermarkets and grocery stores.

The main competitor of the Extra division, our hypermarket division, is Carrefour, a leading French retail food chain, which at December 31, 2003 operated 329 retail stores principally in the southeast and south of Brazil. At December 31, 2003, Carrefour accounted for 12.6% of the organized sector's sales according to data from ABRAS. Wal-Mart, which as of December 31, 2003 operated 143 stores in Brazil, is also a competitor in the hypermarket format with a 6.2% market share after the acquisition of Bompreco.

Our Pao de Acucar division has different competitors in each of the markets where we operate. In Sao Paulo State, we compete principally with a number of local supermarkets and grocery stores. The main competitor of Pao de Acucar in Brasilia is Champion, the supermarket division of Carrefour. In the state of Rio de Janeiro, our Pao de Acucar format competes with Supermercados Mundial.

The CompreBem Barateiro division also faces different competitors depending on the particular regional market. In the state of Sao Paulo, CompreBem Barateiro division faces strong competition from a number of smaller regional chains. The main competitor of CompreBem Barateiro division in the state of Rio de Janeiro is Guanabara and Champion.

In addition, we face intense competition from small food retailers that often can benefit from inefficiencies in the Brazilian tax collection system. These small food retailers also frequently have access to merchandise from irregular and informal distribution channels at lower prices than those charged by manufacturers and stores in the conventional supply chain of the organized retail food sector.

In other regional markets, we compete within the organized food retail sector as well as against several medium and small chains and family-owned and -operated food retail businesses, which are estimated to represent approximately 50% of overall food sales in Brazil. Other organized food retail chains among our competitors include Sonae, a Portuguese supermarket chain, which operated 148 retail stores at December 31, 2003. Bompreco, owned by Royal Ahold, is our main retail food competitor in the Northeast region of Brazil. On March 1, 2004, Wal-Mart announced the acquisition of Bompreco which operated 118 retail stores at December 31, 2003.

According to ABRAS, the market share held by Royal Ahold and Sonae was 4.3% and 3.9%, respectively, of all food sales in the Brazilian retail sector at December 31, 2003.

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

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

Regulatory Matters

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

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

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

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

4C. Organizational Structure

Companhia Brasileira de Distribuicao, which is the controlling and principal operating company, conducts our operations. Our investments in subsidiaries are effected primarily to acquire the share capital of other retail chains from third parties. In most cases, the retail operations are transferred to retail stores under existing banners or the stores acquired begin operating under our banners. All our operations are conducted under the Pao de Acucar, Comprebem Barateiro, Extra and Extra Eletro banners.

4D. Property, Plant and Equipment

We own 88 stores, eight warehouses and a part of our headquarters. The remaining 409 stores and three warehouses we operate and the remainder of our headquarters are leased. Leases are usually for a term of five to 25 years, and provide for monthly rent payments based on a percentage of sales above an agreed minimum value. We have 14 leases expiring in 2004 and 88 expiring in 2005. Based on our prior experience and Brazilian law and

leasing practices, we do not anticipate any material change in the general terms of our leases or any material difficulty in renewing them. As of December 31, 2003, we leased 23 properties from members of the Diniz family. Management believes that these leases are on terms at least as favorable to us as we could get from an unrelated party. See "Item 7B - Major Shareholders and Related Party Transactions - Related Party Transactions - Leases."

The following table sets forth the number and total selling area of our owned and leased retail stores by store format, the number and total storage area of our owned and leased warehouses and the total office area of our headquarters that is owned and leased as of December 31, 2003:

	Owned		Leased		Total
	Number	Area (in square meters)	Number	Area (in square meters)	Number
Pao de Acucar............	45	70,815	163	202,201	208
Extra....................	31	267,501	31	194,694	62
Extra Eletro.............	3	3,624	52	32,349	55
CompreBem Barateiro......	9	10,053	163	201,464	172
Warehouses...............	8	273,830	3	42,170	11
Headquarters.............		28,591		13,043	

As of December 31, 2003, we owned 16 lots of property representing in the aggregate approximately 946,466 square meters. We expect to develop many of these lots, which are principally located in the state of Sao Paulo, into new

stores as part of our capital expansion and investment plan. We believe that all of our facilities are in adequate condition for this purpose.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5A. Operating Results

The following discussion should be read in conjunction with our financial statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003 appearing elsewhere in this annual report, and in conjunction with the financial statements included under "Item 3A - Key information - Selected Financial Data." Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with U.S. GAAP and presented in U.S. dollars. For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the Comissao de Valores Mobiliarios, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP.

Discussion of Critical Accounting Policies

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

- goodwill, intangible assets and amortization, and
- deferred taxes.

Goodwill, Intangible Assets and Amortization

We have made acquisitions that included a significant amount of goodwill and other intangible assets. The balance of these assets at December 31, 2003 was US$226.2 million. See notes 1 and 10 to our financial statements included elsewhere in this annual report.

U.S. Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets," became effective for acquisitions after June 30, 2001, and was applied in connection with our acquisition of the ABC Supermercados S.A. supermarket chain in November 2001. We ceased to amortize goodwill as from January 1, 2002; amortization expense related to goodwill and intangible assets for the year ended December 31, 2001 was US$28.0 million.

The goodwill of our reporting units was aggregated and tested for impairment in 2003, based on estimated fair values. Reassessment of lives of all intangible assets and specific tests for impairment of intangible assets with

finite lives will continue to be performed annually to determine the need for impairment provisions and whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Factors which could trigger an impairment adjustment include the following:

o significant underperformance relative to expected historical or projected future operating results of reporting units,

o significant changes in the manner we use the acquired assets or the strategy for our overall business or use of tradenames, or

o significant negative industry or economic trends.

We performed the impairment test and determined that no goodwill impairment existed at December 31, 2003.

In November 2001, we relaunched the Barateiro banner and in 2002 acquired the CompreBem and Se retail chains. Following a review of our strategy in 2002, we reduced the life over which we are amortizing the Barateiro tradename from 19 years to a remaining life of eight years.

Deferred Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance, as required, based on historical taxable income, projected future taxable income, and expected timing of the reversals of existing temporary differences. If we or one of our subsidiaries operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we will evaluate the need to modify or record a valuation allowance against our deferred tax assets.

Our valuation allowance at December 31, 2002 was US$22.9 million, which was established in June 2002 at the time we acquired our interest in Se Supermercados. Utilization of these losses in the future will be limited to 30% of the annual taxable income generated by Se Supermercados. The valuation allowance was reversed in 2003, because the future offset is considered to be more likely than not. The reversal of valuation allowance recognized for the deferred tax asset at the acquisition date was adjusted to reduce the goodwill related to the acquisition.

Brazilian Economic Environment

As a Brazilian company with all of our operations in Brazil, we are significantly affected by economic and social conditions in the country. In particular, our results of operations and financial condition, as reported in the financial statements included in Item 18, have been affected by the growth rate of the Brazilian gross domestic product and the rate of Brazilian inflation. Our results of operations and financial condition have also been affected by the rate of depreciation of the Brazilian currency against the U.S. dollar. See "- U.S. GAAP Presentation and

Reporting Currency - Effects of Exchange Rate Variation and Inflation on Our

Financial Condition and Results of Operations."

Gross Domestic Product

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

The recovery of the economy in 1999, in the wake of the 32.4% devaluation of the local currency against the U.S. dollar and the strong fiscal adjustment produced by the public sector, led to strengthened consumer confidence. In 2000, GDP grew by 4.4%. GDP increased by only 1.4% in 2001, principally as a result of the electric energy shortage in Brazil, decreased consumer confidence following the Argentina crisis and the September 2001 terrorist attacks. In 2002, GDP increased by only 1.5%, principally as a result of the uncertainties relating to Brazil's own political and economic future, the continued economic and political uncertainties in Argentina, the political uncertainties in Venezuela and the global economic slowdown.

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

In the first half of 2003, the adjustment policies adopted by the Brazilian government caused a decline in the level of economic activity in Brazil. However, in the second half of the year, the changes in the monetary policy caused a positive recovery of the level of economic activity. In 2003, the total GDP decreased 0.2% on average in real terms.

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

Inflation and Devaluation

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

	Three months ended	Year ended Decemb		
	March 31, 2004	2003	2002	2001

Inflation - IGP-M (1).........................	2.7%	8.7%	25.3%	10.4%
Inflation - IPCA (2)..........................	1.9%	8.7%	12.5%	7.7%
Nominal devaluation (appreciation) of the real against the U.S. dollar....................	0.7%	(22.3%)	34.3%	15.7%

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(1) Indice Geral de Precos - Mercado (general price index) compiled by the Fundacao Getulio Vargas.

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

U.S. GAAP Presentation and Reporting Currency

Accounting Presentation

Our functional currency is the real. However, we have elected to present our financial statements in U.S. dollars as our reporting currency, which requires us to translate amounts from reais to U.S. dollars. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured into U.S. dollars in accordance with the methodology set forth in SFAS No. 52, "Foreign Currency Translation."

We remeasure all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date and all accounts in the statements of operations and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency, which were not translated prior to 1998), at the average rates prevailing during each period. The net translation loss resulting from this remeasurement process is included in the cumulative translation adjustment account of shareholders' equity. See "- Effects of Exchange Rate Variation and Inflation on Our Financial Condition and Results of Operations."

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

The devaluation of the Brazilian real has had and will continue to have multiple effects on our results of operations. Our statements of operations expressed in local currency are translated monthly to U.S. dollars at the monthly average rate published by the Central Bank of Brazil for the corresponding period. The current period's U.S. dollar amount in the statements of operations will be reduced at the same rate as the real has devalued in relation to the U.S. dollar over the period to which it is being compared.

The devaluation of the real against the U.S. dollar has had the following effects on our results of operations:

- Exchange gains and losses arising from our transactions in U.S. dollars (excluding transactions which are covered by cross-currency interest

rate swaps) are recorded directly in our statement of operations. Significant foreign exchange losses arose from our U.S. dollar-denominated loans at the time of the devaluation of the real in early 1999. Since the adoption of our treasury policy in late 1999 designed to mitigate the effects of foreign currency variations, we have generally consummated cross-currency interest rate swaps to cover the foreign exchange and interest rate risk on virtually all U.S. dollar-denominated loans, foreign currency exposures and a part of capital lease agreements. We have excluded from this policy our import financing. Our foreign currency gains (losses) were US$47.0 million in 2003, US$(24.5) million in 2002 and US$(8.0) million in 2001. The devaluation (appreciation) of the real was (22.3)% in 2003, 34.3% in 2002 and 15.7% in 2001.

o Any appreciation or depreciation of the real against the U.S. dollar will be reflected as a charge directly to shareholders' equity, included in the cumulative translation adjustment account. Accordingly, in our statement of changes in shareholders' equity for 2003, we recorded a US$209.8 million gain directly to shareholders' equity and a US$505.0 million charge in 2002, without affecting net income, to reflect the higher/lower dollar value of our net assets over the year as the real appreciated by 22.3% in 2003 and devalued by 34.3% in 2002.

Inflation and exchange rate variations have had, and may continue to have, effects on our financial condition and results of operations. One significant effect of inflation and exchange rate variations on us relates to our costs and operating expenses. Substantially all our cash costs (i.e., other than depreciation and amortization) and operating expenses are in reais and tend to increase with Brazilian inflation because our suppliers and service providers generally increase prices to reflect Brazilian inflation. As expressed in U.S. dollars, however, these increases are typically offset at least in part by the effect of the appreciation of the U.S. dollar against the real. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar, then, as expressed in U.S. dollars, our costs and operating expenses may increase and (assuming constant U.S. dollar sales prices) our profit margins decrease. If the rate of appreciation of the U.S. dollar exceeds the rate of inflation, then, as expressed in U.S. dollars, our costs and operating expenses may decrease and, assuming constant U.S. dollar and sales prices, our profit margins may increase.

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

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

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

We use these derivative financial instruments for purposes other than trading and do so only to manage and reduce our exposure to market risk resulting from fluctuations in interest rates and foreign currency exchange rates. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," introduced as from 2001, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities and to measure those instruments at fair value. The unrealized gain and loss from foreign currency and interest rate swaps are recorded on our balance sheet. These swap instruments do not qualify for deferral, hedge, accrual or settlement accounting and are marked to market, with the resulting gains and losses reflected in the statement of operations under "Financial income" and "Financial expense." The fair values of our cross-currency interest rate swaps were estimated based on market prices; prior to adoption of SFAS No. 133, we recognized our cross-currency interest rate swaps on the balance sheet at contract value, and adjustments to contract value were recorded through income.

We record both the interest expense from the original loan and the net realized and unrealized effect of the results of the cross-currency interest rate swaps under "Financial expense - interest expense."

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

Tax Environment

We are currently involved in tax proceedings as discussed in note 17 to our financial statements. We have accrued our estimate of the costs for the resolution of these claims when we consider the loss of our claim to be probable and for existing tax obligations under dispute. The tax contingencies relate primarily to taxes on revenue, social security contributions and income tax. We have identified probable losses and existing tax obligations under dispute in the amount of US$397.5 million at December 31, 2003 which have been provided as liabilities on our financial statements. This estimate has been developed in consultation with outside legal counsel handling our defense in these matters and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We do not believe these tax proceedings will have a material adverse effect on our financial position. It is possible, however, that future results of operations could be materiall affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings. For more information on our tax proceedings, see "Item 8 A - Financial Information - Consolidated Financial Statements and Other Financial

Information - Legal Proceedings."

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

Seasonality

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

2003 Business and Economic Environment

In 2003, the Brazilian economy suffered periods of recession. Therefore, in 2003 retailers were presented with an adverse environment facing an increase in unemployment levels; a decrease in consumption by the customers; changes in consumption habits, resulting from lower consumer incomes, stimulated sales of second line products and private label brands to the detriment of discretionary and high value-added items. According to the Brazilian Supermarket Association (ABRAS), 2003 was the worst year for the Brazilian food industry since 1991. Successive interest rate reductions and credit expansion have been key for non-food products to start increasing their sales performance in the fourth quarter and show first signs of recovery.

Certain Operating Data

The following table presents in U.S. dollars the net sales revenue for each of our store formats for the years ended December 31, 2001, 2002 and 2003. From December 31, 2001 to December 31, 2002, the real devalued against the U.S. dollar by 34.3%. This significantly impairs the comparability of our December 31, 2001 and December 31, 2002 results with its respective prior period. Our functional currency is the Brazilian real, and the reporting currency is the U.S. dollar. As a result, a comparison of the 2002 U.S. dollar results against 2001 U.S. dollar results do not accurately reflect actual changes in our operations that occurred from one period to the next, as the case may be, because the changes include the effects of the devaluation. To mitigate these distortions when comparing our net sales revenue and to isolate the currency effects from the trend analysis, the December 31, 2001 financial information in the "constant dollars" column has been translated at the average exchange rates

used to translate the December 31, 2002 financial information. Had the financial information for the year ended December 31, 2002 been presented in "constant dollars" of 2003, the analysis of results would not be significantly different from that presented.

	Year Ended December 31,						
	2003		2002		2001		
	Actual		Actual		constant Dollars 2002 average exchange rate		Actu
	(millions of U.S. dollars, except percentage amounts)						
Net sales revenue by store format:							
Pao de Acucar..............	$1,121.4	31.7%	$976.8	30.0%	$905.9	32.5%	$1,142.2
Extra.....................	1,701.6	48.1	1,526.7	46.9	1,344.0	48.2	1,694.5
Extra Eletro..............	83.2	2.4	114.6	3.5	162.2	5.8	204.5
Comprebem Barateiro.......	628.4	17.8	529.9	16.3	376.1	13.5	474.2
Se and CompreBem(1).......	-	-	109.6	3.3	-	-	-
Total net sales revenue...	$3,534.6	100.0%	$3,257.6	100.0%	$2,788.2	100.0%	$3,515.4

(1) We converted these stores into Pao de Acucar and CompreBem Barateiro store formats during 2003.

Results of Operations for 2003, 2002 and 2001

The following table summarizes our historical results of operations for the years ended December 31, 2001, 2002 and 2003. To mitigate the distortions of the devaluation of the real described above when comparing our financial information and to isolate the currency effects from the trend analyses, the December 31, 2001 financial information in the "constant dollars" column has been translated at the average exchange rates used to translate the December 31, 2002 financial information.

	Year Ended December 31,		
	2003	2002	2001

	Actual		Actual		constant Dollars 2002 average exchange rate		Actu
Net sales revenue...........	$3,534.6	100.0%	$3,257.6	100.0%	$2,788.2	100.0%	$3,515.4
Cost of sales...............	(2,538.1)	(71.8)	(2,345.2)	(72.0)	(1,988.2)	(71.3)	(2,506.8)
Gross profit................	996.5	28.2	912.4	28.0	800.0	28.7	1,008.6
Selling, general and administrative expenses	(695.3)	(19.7)	(660.4)	(20.3)	(589.9)	(21.2)	(743.7)
Depreciation and amortization............	(115.5)	(3.3)	(107.8)	(3.3)	(116.0)	(4.2)	(146.2)
Other operating income, net................	2.4	0.1	1.5	0.1	0.6	0.1	0.7
Operating income............	188.1	5.3	145.7	4.5	94.7	3.4	119.4
Financial income............	179.3	5.1	158.3	4.9	112.9	4.0	142.3
Financial expense...........	(221.5)	(6.3)	(222.9)	(6.8)	(128.2)	(4.6)	(161.7)
Income before income taxes............	145.9	4.1	81.1	2.6	79.4	2.8	100.0
Income tax (expense) benefit:							
Current.................	(7.9)	(0.2)	(11.8)	(0.4)	(13.1)	(0.5)	(16.5)
Deferred................	(25.1)	(0.7)	(8.8)	(0.3)	13.6	0.6	17.2
Net income..................	$112.9	3.2%	$60.5	1.9%	$79.9	2.9%	$100.7

Year Ended December 31, 2003 (Actual) Compared to Year Ended December 31, 2002 (Actual)

Net Sales Revenue. Net sales revenue increased by 8.5% to US$3,534.6 million in the year ended December 31, 2003 from US$3,257.6 million in the year ended December 31, 2002. Our Se and CompreBem stores were conveted into Pao de Acucar and CompreBem Barateiro stores during 2003 and their sales are now included within their new respective divisions. On a "same store" basis, our net sales revenue increased by 0.4% from 2002 to 2003, as explained below by each of our divisions.

The Pao de Acucar division's net sales revenue increased by 14.8% to US$1,121.4 million in 2003 from US$976.8 million in 2002, due mostly from sales of converted stores from other banners.

The Extra division's net sales revenue increased by 11.5% to US$1,701.6 million in 2003 from US$1,526.7 million in 2002, principally as a result of the opening of new stores in late 2002 and 2003.

The CompreBem Barateiro division's net sales revenue increased by 18.6% to US$628.3 million in 2003 from US$529.9 million in 2002, principally as a result of sales from stores converted from other banners and to a lesser extent due to the opening new stores.

The net sales revenue of Extra Eletro stores decreased by 27.4% to US$83.2 million in 2003 from US$114.6 million in 2002. The performance of the Extra Eletro stores was adversely affected by increased interest rates and the

lower confidence level of Brazilian consumers, which adversely affected sales of household appliances and consumer electronic products in particular. In addition, the net sales of Extra Eletro stores decreased as a result of the closing of some stores during 2003.

Gross Profit. Gross profit increased by 9.2% to US$996.5 million in 2003 from US$912.4 million in 2002. The gross profit registered resulted from the combination of efficient price management, gains of scale with suppliers, besides an increase in sales of higher margin items, such as second line products and private brands. Gross profit as a percentage of net sales revenue increased slightly to 28.2% in 2003 from 28.0% in 2002, despite a more aggressive pricing policy.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses include personnel, marketing, rent and other expenses. Selling, general and administrative expenses increased by 5.3% to US$695.3 million in 2003 from US$660.4 million in 2002, principally as a result of the increase in the number of our stores in late 2002 and in 2003. As a percentage of net sales revenue, selling, general and administrative expenses was 19.7% in 2003 and 20.3% in 2002.

Depreciation and Amortization. Depreciation and amortization increased by 7.1% to US$115.5 million in 2003 from US$107.8 million in 2002, principally due to an increase in depreciation from the remodeling and re-equipping of some existing stores in late 2002 and in 2003, the opening of new stores in late 2002 and in 2003 and our continued investment in information technology and distribution centers.

Operating Income. Operating income increased by 29.1% to US$188.1 million in 2003 from US$145.7 million in 2002, as a result of the effects described above.

Financial Income. Financial income increased by 13.3% to US$179.3 million in 2003 from US$158.3 million in 2002, principally due to increased interest income on our cash equivalents balances and interest income on our credit sales, despite the decrease of interest rates in the second half of 2003.

Financial Expenses. Financial expenses decreased by 0.6% to US$221.5 million in 2003 from US$222.9 million in 2002, resulting from lower funding rates and the decrease of interest rates in the second half of 2003, and the foreign exchange gain on our foreign exchange denominated loans by the appreciation of the real in 2003, which were partially offset by the interest expense from the fifth issue of debentures issued in late 2002.

Income Before Taxes. Income before taxes increased by 79.9% to US$145.9 million in 2003 from US$81.1 million in 2002 due to the effects described above.

Income Tax Benefits (Expense). In 2003, we had an income tax expense of US$33.0 million as compared to an income tax expense of US$20.6 million for 2002. The increase is due to a higher taxable income in 2003 as compared to 2002. As a percentage of income before income taxes, income tax expense was 22.6% in 2003 and 25.4% in 2002. Our effective tax rate in 2003 was decreased by the reversal of valuation allowances held against net operating loss carryforwards of US$5.7 million which were no longer considered to be necessary in 2003.

Net Income. Net income increased by 86.6% to US$112.9 million in 2003 from US$60.5 million in 2002.

Year Ended December 31, 2002 (Actual) Compared to Year Ended December 31, 2001 (Constant Dollars)

Net Sales Revenue. Net sales revenue increased by 16.8% to US$3,257.6 million in the year ended December 31, 2002 from US$2,788.2 million in the year ended December 31, 2001. On a "same store" basis, our net sales revenue increased by 4.3% from 2001 to 2002.

The Pao de Acucar division's net sales revenue increased by 7.8% to US$976.8 million in 2002 from US$905.9 million in 2001, principally as a result of the opening of new stores in 2002 and increased sales from stores we updated and refurbished. The lower confidence level of Brazilian consumers in 2002 did not negatively affect the sales of the division because of the relative stability of its target public's consumption habits.

The Extra division's net sales revenue increased by 13.6% to US$1,526.7 million in 2002 from US$1,344.0 million in 2001, principally as a result of the opening of new stores in 2002 and the inclusion in 2002 of full year sales revenue of stores opened in late 2001. Despite the increase in net sales revenue, the Extra division's performance was adversely affected by the economic uncertainty in Brazil and the resulting increased interest rates and lower consumer confidence level. As a result, Brazilian consumers avoided credit purchases, which affected sales of household appliances and consumer electronic products in particular.

The Comprebem Barateiro division's net sales revenue increased by 40.9% to US$529.9 million in 2002 from US$376.1 million in 2001, principally as a result of the inclusion in 2002 of full year sales revenue of the ABC Supermercados stores we acquired in November 2001, increased sales in the division's stores as a result of customers' positive response to the relaunching in 2001 of this format, and the opening of new stores.

The net sales revenue of Extra Eletro stores decreased by 29.3% to US$114.6 million in 2002 from US$162.2 million in 2001. The performance of the Extra Eletro stores was adversely affected by increased interest rates and the lower confidence level of Brazilian consumers, which adversely affected sales of household appliances and consumer electronic products in particular. In addition, the net sales of Extra Eletro stores decreased as a result of the closing of some stores during 2002.

Gross Profit. Gross profit increased by 14.1% to US$912.4 million in 2002 from US$800.0 million in 2001. Gross profit increased as a result of increased sales, economies of scale gains resulting from more favorable negotiations with our suppliers, efficiency gains from the restructuring of our category management operations begun in 2001 and a reduction in shrinkage. Gross profit as a percentage of net sales revenue decreased slightly to 28.0% in 2002 from 28.7% in 2001 due to our investment in price competitiveness, which resulted in stronger sales, a higher market share and a dilution of operational expenses. Our price competitiveness was particularly evident in the last quarter of 2002 when we celebrated the anniversary of the Extra division, during which we offered special promotions.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses include personnel, marketing, rent and other expenses. Selling, general and administrative expenses increased by 12.0% to US$660.4

million in 2002 from US$589.9 million in 2001, principally as a result of the increase in the number of our stores, including the Se Supermercados stores we acquired in June 2002, and an increase in expenses from the integration of the Se chain. As a percentage of net sales revenue, selling, general and administrative expenses was 20.3% in 2002 and 21.2% in 2001.

Depreciation and Amortization. Depreciation and amortization decreased by 7.1% to US$107.8 million in 2002 from US$116.0 million in 2001, principally due to the ceasing of amortizing goodwill on January 1, 2002 upon the adoption of SFAS No. 142, despite an increase in depreciation from the remodeling and re-equipping of some existing stores, the opening of new stores and our continued investment in information technology and distribution centers. The amortization of goodwill expense was US$20.3 million in 2001.

Operating Income. Operating income increased by 53.9% to US$145.7 million in 2002 from US$94.7 million in 2001, as a result of the effects described above.

Financial Income. Financial income increased by 40.2% to US$158.3 million in 2002 from US$112.9 million in 2001, principally due to increased interest income on our cash balances as a result of higher interest rates.

Financial Expenses. Financial expenses increased by 73.9% to US$222.9 million in 2002 from US$128.2 million in 2001, resulting from higher interest rates, increased interest expense in connection with the assumption of debt resulting from our acquisition of Se Supermercados and our issuance of debentures in October 2002.

Income Before Taxes. Income before taxes increased by 21.4% to US$81.1 million in 2002 from US$79.4 million in 2001 due to the effects described above.

Income Tax Benefits (Expense). In 2002, we had an income tax expense of US$20.6 million as compared to an income tax benefit of US$0.5 million for 2001. Our effective tax rate in 2002 was increased by the deferred income tax expense of US$8.8 million.

Net Income. Net income was US$60.5 million in 2002 against US$79.9 million in 2001 as a result of the foregoing.

5B. Liquidity and Capital Resources

We have funded our operations and capital expenditures principally from operating cash flows, loans obtained from the Brazilian National Bank for Economic and Social Development, or BNDES and issuances of

debentures. At December 31, 2003, we had US$339.9 million in cash and cash equivalents. We have a policy of maintaining substantial cash and cash equivalents in order to be in a position to respond immediately to liquidity requirements. In addition, we borrow funds from local Brazilian banks approximately equivalent to the consumer credit financing we extend through our Extra Eletro and Extra formats and our post-dated check programs for Pao de Acucar, Comprebem Barateiro and Extra and we also securitize receivables. Our fixed rate consumer financing through the Extra Eletro and Extra formats is generally for a term of up to 24 months (with the average term being approximately 10 months at December 31, 2003.) Our post-dated check programs

provide our customers with financing for up to 60 days (with an average of 45 days at December 31, 2003). In 2003, we noted that customers tended to use principally credit cards as a method of credit purchase instead of installment sales and post-dated checks.

Our principal cash requirements include:

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

Our primary sources of liquidity have historically been cash flows from operating activities and borrowings. Net cash from operating activities were US$231.6 million in 2003, US$166.5 million in 2002 and US$119.2 million in 2001. Net cash provided by (used in) financing was US$(61.3) million in 2003 (after payment of US$20.6 million of dividends), US$181.6 million in 2002 (after payment of US$21.2 million of dividends) and US$113.8 million in 2001 (after payment of US$59.1 million in interest attributed to equity to shareholders). In 2003, these cash flows were primarily used for investments in the capital expenditures program totaling US$185.2 million.

At December 31, 2003, our total outstanding debt was US$843.3 million, consisting of:

- US$383.3 million of real-denominated loans,
- US$433.5 million of U.S. dollar-denominated debt, and
- US$26.5 million of debt linked to a basket of foreign currencies to reflect BNDES' funding portfolio, plus an annual spread.

At December 31, 2003, of the US$433.5 million of U.S. dollar-denominated debt, approximately US$428.9 million was covered by swaps into reais, of which US$228.3 million has been treated on a combined basis pursuant to EITF No. 02-02, "When Separate Contracts that Meet the Definition of Financial Instruments Should Be Combined for Accounting Purposes," as if these loans had been originally denominated in reais and accrued an interbank variable rate (CDI). In addition, we have US$26.5 million of debt to BNDES that is linked to a basket of foreign currencies, for which we have swap agreements to mitigate foreign currency risk. Since late 1999, we have adopted a treasury policy to manage financial market risk, principally by entering into swaps into reais for a substantial part of our U.S. dollar-denominated liabilities. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then liable for amounts in reais and interest at a percentage of an interbank variable interest rate (CDI). The reference amounts and maturity periods of these swaps normally correspond to the original U.S. dollar-denominated loan. This policy protects us against losses resulting from currency devaluations.

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

Total debt at December 31, 2003 decreased by US$2.6 million from US$845.9 million at December 31, 2002. Our most significant debt was incurred in connection with the acquisition and construction of new stores and the remodeling of existing stores. Our cash interest expense was US$149.0 million in 2003, US$122.3 million in 2002 and US$102.6 million in 2001. The US$26.7 million increase in cash interest expense in 2003 related directly to the exchange effects by the appreciation of the real against the U.S. dollar in 2003 which offset the decrease of interest rates in the second half of 2003.

Several banks provide us short-term financing; of these, five banks, ABN, Citibank, Rabobank, Safra and Santander, individually represent greater than 10% of the total amount of short-term debt outstanding as of December 31, 2003. Although we have no committed lines of credit with these banks, our management believes we are in good standing with our lenders and have sufficient available credit for our needs. These short-term U.S. dollar-denominated financings are guaranteed by our controlling shareholders by signing a promissory note as guarantors.

Our long-term debt net of current portion aggregated US$230.0 million and US$385.1 million at December 31, 2003 and 2002. The balance consists primarily of long-term expansion program loans from BNDES, working capital loans from Brazilian banks and debentures we issued.

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

In the event the TJLP, or Taxa de Juros de Longo Prazo, a nominal long-term interest rate that includes an inflation factor, exceeds 6% per annum, the surplus is added to the principal. In 2003 and 2002, US$5.9 million and US$5.2 million, respectively, were added to the principal.

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

We issued a number of convertible and non-convertible debentures between 1997 and 2002, some of which have since been converted to our non-voting preferred shares. At December 31, 2003, the fourth and fifth issues were still outstanding in part.

In 2000, we issued the fourth issue of convertible debentures due August 2005. At December 31, 2003, we had 99,908 convertible debentures outstanding from our fourth issue, totaling US$28.4 million. Only 92 of the convertible debentures from our fourth issue have been converted into preferred shares of our capital stock. We received proceeds equivalent to US$52.5 million,

net of commissions of US$0.4 million. The debentures are indexed to the TJLP and accrue annual interest at 3.5% which is payable annually. The portion of TJLP exceeding 4.5% will be capitalized and added to the nominal value of debentures on the dates of interest payment. The debentures may be converted into preferred shares, at the option of the debentureholder, based on the following ratios: (i) September 1, 2000 to August 30, 2003 at 12,821 shares per R$1,000 principal amount, (ii) August 31, 2003 to August 30, 2004 at 8,552 shares per R$1,000 principal amount and (iii) August 31, 2004 to August 31, 2005 at 4,282 shares per R$1,000 principal amount, all subject to adjustment for stock dividends, stock splits and reverse splits.

On October 4, 2002, the shareholders approved the fifth issue and public placement of debentures. We received proceeds equivalent to US$112.8 million, net of commissions of US$1.6 million, for 40,149 non-convertible debentures issued as the first series of this fifth issue. The debentures are indexed to the average rate of CDI and accrue an annual spread of 1.45% which is payable semi-annually. The remuneration of the first series may be renegotiated or a put may be exercised in October 2004. The debentures mature on October 1, 2007. At December 31, 2003, we had 40,149 non-convertible debentures outstanding from the first series of our fifth issue, totaling US$145.5 million. We are required to comply with the following negative covenants measured in accordance with Brazilian GAAP: (i) net debt (debt less cash and cash equivalents and accounts receivable) no

higher than the balance of shareholders' equity; and (ii) maintenance of a ratio between net debt and EBITDA less than or equal to four.

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

On September 19, 2003, we concluded the structure of "Pao de Acucar Fundo de Investimento em Direitos Creditorios" (or "PAFIDC"), a receivables securitization fund. The PAFIDC has duration of five years, renewable for one additional five-year period, beginning from the date of the first subscription of quotas. The capital structure of the PAFIDC is composed of 80% senior quotas and 20% subordinated quotas. Senior quotas will be divided in two series: Series A for which the benchmark remuneration (i) was 103% of CDI (Certificado de Deposito Interbancario), an interbank variable interest rate, during the period beginning on the date of the first subscription of quotas and ending on February 20, 2004 and (ii) is 105% of CDI as from February 21, 2004; and Series B for which the benchmark remuneration is 101% of CDI. The holders of senior quotas series B will redeem both on June 23, 2006 and June 23, 2007, the principal amount of US$ 24.8 million, and will redeem the remaining balance at the end of the fund's duration. The series A quotaholders will redeem their quotas at the end of the fund's duration. Upon consolidation of PAFIDC, senior quotas are recorded as mandatory redeemable equity interest in securitization fund. Subordinated quotas have a single series. Beginning in February 2004, the quotas are nominative and could be listed for negotiation the over-the-counter market. We hold a retained interest of 20% (subordinated quotas) and will redeem the subordinated quotas only after the redemption of senior quotas (or at the end of the PAFIDC's duration). Subordinated quotas are non-transferable and nominative. Once the senior quotas have been remunerated, the subordinated quotas receive the balance of the PAFIDC's net assets after absorbing any default on the credit rights transferred to PAFIDC and any losses attributed to the PAFIDC.

In October 2003, we invested US$ 34.9 million in subordinated quotas of PAFIDC and transferred credit rights to the securitization fund and received US$

158.3 million in cash. From October through December 31, 2003, we transferred to PAFIDC customer credit financing, post-dated check credit sales and accounts receivable from credit card companies, in securitization transactions totaling US$ 440.8 million, the outstanding balance of these receivables at December 31, 2003 was US$ 155.7 million. For all securitizations, we retained servicing responsibilities and subordinated interests. The delinquent credits will be collected by the PAFIDC's administrator which will be assisted by our collection department, for which we do not receive fees for such service. The quotaholders of senior quotas have no recourse to our other assets for failure of debtors to pay when due. As defined in the agreement between us and the PAFIDC, the transfer of credit rights is irrevocable, non-retroactive and the transfer is definitive and not enforceable against us.

PAFIDC is an investment fund that is a variable interest entity (VIE) as defined under FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities, (revised December 2003)" and has been consolidated in our financial statements. At December 31, 2003, our retained interest in subordinated quotas, in the amount of US$ 36.2 million, represents our maximum exposure to loss under the securitization transactions.

We continue to implement our capital expansion and investment plan and currently intend to invest approximately R$500.0 million in new projects (equivalent at the December 31, 2003 exchange rate to US$173.1 million), which includes R$200.0 million (equivalent at the December 31, 2003 exchange rate to US$69.2 million) for the opening of new stores, R$140.0 million (equivalent at the December 31, 2003 exchange rate to US$48.5 million) for store remodeling, R$60.0 million (equivalent at the December 31, 2003 exchange rate to US$20.8 million) for technology and R$100.0 million (equivalent at the December 31, 2003 exchange rate to US$34.6 million) for other investments.

In 2003, our capital expenditures were US$185.2 million. These investment projects were financed primarily from our operating cash flow and, to a lesser extent, by third parties. Our capital expenditures were US$348.4 million for 2002 and US$275.2 million for 2001. For specific use of our capital expenditures in 2003, see "Item 4B - Information on the Company - Business Overview - Capital Expansion and Investment Plan."

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

participate in acquisitions not budgeted in the capital expansion and investment plan, and we may modify these plans.

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

We do not have any significant research and development policies.

5D. Trend Information

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

employment and credit conditions.

5E. Off-balance sheet arrangements

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

5F. Tabular disclosure of contractual obligations

The following table summarizes significant contractual obligations and commitments at December 31, 2003 that have an impact on our liquidity:

Contractual Obligations	Total	Less than one year	One to three years	Three to five years	Afte
		Payment Due by Period (in millions of U.S. dollars)			
Long-term debt......................	$600.9	$370.9	$192.2	$37.8	
Taxes, other than on income.........	52.3	15.0	9.0	8.7	1
Capital lease obligations...........	15.9	9.3	6.6	--	
Operating leases....................	360.2	66.5	117.5	92.1	8
Other...............................	2.7	--	2.7	--	
Total contractual obligations...	$1,032.0	$461.7	$328.0	$138.6	$10

In addition, we have made provisions for total accrued liability for legal proceedings related to some of our unpaid taxes of US$397.5 million at December 31, 2003. Furthermore, see "Item 5B - Liquidity and Capital Resources" for more information on the mandatory redeemable equity interest in securitization fund (PAFIDC).

ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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

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

In February 2003, our shareholders approved our corporate management structure reorganization at a general shareholders' meeting. As a result of the reorganization, three new committees were created to support the management bodies: the executive committee, the financial committee and the development and marketing committee, all of which are described more fully below.

In connection with this reorganization, our then controlling shareholders relinquished their executive officer positions in order to become board members. The founding shareholder, Mr. Valentim dos Santos Diniz, became the Honorary Chairman of the board of directors. In March 2003, Abilio Diniz ceased being our Chief Executive Officer and became the Chairman of the board of directors. Mr. Augusto Marques da Cruz Filho, the former Administrative and Financial Vice President, assumed the Chief Executive Officer position. The Administrative and Financial Vice President position was eliminated and instead divided into two newly-created positions - the Administrative Officer and the Financial and Controller Officer positions.

At our general shareholders' meeting on February 28, 2003, our shareholders appointed new members to our board of directors and renewed the mandate of existing board members. On the same date, our directors appointed new executive officers and renewed the mandate of existing officers.

As a result of our general shareholders' meeting held on April 30, 2004, our board of directors currently consists of fifteen members and one honorary member.

Board of Directors

Our board of directors generally meets at least six times per year. The members of our board of directors are appointed at general shareholders' meetings, serve for three-year terms and are required to be our shareholders. The board's responsibilities include leading the corporate governance process, electing our executive officers and supervising our management. Although our by-laws allow for up to 18 Directors, our board of directors currently consists of one honorary member and fifteen members, consisting of four controlling shareholders, eight external non-executive counselors, two representatives of our minority shareholder the Casino Group and the President of our company, all of whose term of office ends in 2006. Our board of directors is currently made up of the following members:

Name	Position	Since
Valentim dos Santos Diniz(1)	Honorary Chairman	2003
Abilio dos Santos Diniz(2)	Chairman	2003
Ana Maria Falleiros dos Santos Diniz D'Avila	Director	2002
Joao Paulo Falleiros dos Santos Diniz	Director	1999
Pedro Paulo Falleiros dos Santos Diniz	Director	2003
Augusto Marques da Cruz Filho	Director	1995
Arthur Antonio Sendas	Director	2004
Christian Pierre Couvreux	Director	1999
Fernao Carlos Botelho Bracher	Director	1995
Gerald Dinu Reiss	Director	1995
Jose Roberto Mendonca de Barros	Director	1999
Luiz Carlos Bresser Goncalves Pereira	Director	1999
Mailson Ferreira da Nobrega	Director	1995
Maria Silvia Bastos Marques	Director	2003
Pierre Bruno Charles Bouchut	Director	1999
Roberto Teixeira da Costa	Director	1995

(1) Valentim dos Santos Diniz had been our Chairman since 1995 until his appointment as our Honorary Chairman in 2003.
(2) Abilio dos Santos Diniz had been a director of our board of directors from 1995 until 1999 when he became Vice-Chairman and in 2003 he became

Chairman of our board.

Executive Officers

Our executive officers are responsible for the execution of decisions of our board of directors and our day-to-day management. Each executive officer also has individual responsibilities that are determined pursuant to our by-laws.

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

Our executive officers are elected by our board of directors for three-year terms, although any executive officer may be removed by our board of directors before the expiration of his or her term. The current term of all our executive officers ends in 2006. At our board of director' meeting held on February 4, 2004, two members of our executive officers were appointed, Mr. Eneas Cesar Pestana Neto and Mr. Leonardo de Paiva Rocha. Our executive officers are currently as follows:

Name	Position
Augusto Marques da Cruz Filho	Chief Executive Officer
Caio Racy Mattar	Investment and Construction Officer
Cesar Suaki dos Santos	Supply Chain Officer
Eneas Cesar Pestana Neto	Administrative Officer
Fernando Queiroz Tracanella	Investor Relations Officer
Hugo A. Jordao Bethlem	Commercial Officer
Jean Henri A. Duboc(1)	Hypermarket Division Officer
Jose Roberto C. Tambasco	Supermarket Division Officer
Leonardo de Paiva Rocha(2)	Chief Financial Officer and Controller Officer
Maria Aparecida Fonseca	Human Resources Officer

(1) Although Jean Henri A. Duboc was indicated for the position of officer in 2003, he officially became our Hypermarket Division Officer on May 12, 2004, since his definitive appointment depended on the approval by the Brazilian authorities of his permanent working visa.

(2) Leonardo de Paiva Rocha was removed from his position in June 2004.

Board of Auditors

Under the Brazilian corporate law and our by-laws, we are not required to, and currently do not, maintain a permanent board of auditors (conselho fiscal). However, we are required to establish a board of auditors upon the request of shareholders who, in the aggregate, hold at least 10% of the common shares or 5% of the preferred shares. Any such board of auditors would consist of three to five members and an equal number of alternates. The members of the board of auditors would be elected, at the maximum, for one-year terms, but could be reelected. Holders of preferred shares, voting as a class, would be entitled to elect one member (and his or her alternate) by majority vote of the

shareholders present at the meeting at which members of the board of auditors are elected, and holders of common shares would be entitled to elect the other members (and their respective alternates).

Audit Committee

On June 13, 2000, our board of directors approved the creation of an audit committee (comite de supervisao), whose responsibilities are consistent with the U.S. Blue Ribbon Committee and the rules and regulations of the New York Stock Exchange. The primary responsibility of the audit committee, which is independent of our management (except for Mr. Augusto Marques da Cruz Filho who is our chief executive officer) and of our independent auditors, is to review our financial statements and report on them to our shareholders. Our audit committee is comprised of three to five members, which are elected by the board of directors for a period of three years. The audit committee charter requires that one member be independent. Our audit committee is composed by Gerald Dinu Reiss, as President, Roberto Teixeira da Costa, as Vice-President, and Augusto Marques da Cruz Filho, as member, appointed on June 23, 2003 for a period of three years ending on June 23, 2006.

Consulting Committee

Our by-laws provide for an ad hoc consulting committee of up to 13 members, whose purpose is to make recommendations to our board of directors on certain matters. The current term of all members of our consulting committee is three years. Our consulting committee was elected by our shareholders on February 28, 2003 and is

comprised of the following members: Manuel Carlos Teixeira de Abreu, Jose Luiz Bulhoes Pedreira Neto, Candido Botelho Bracher, Luiz Felipe Chaves D'Avila and Luiz Marcelo Dias Sales.

Executive Committee

The executive committee was created in February 2003 as part of the reorganization of our corporate management structure. The executive committee meets on a monthly basis, and its duties include preparing, together with the executive officers, our annual budget and annual capital expansion and investment plan, and subsequently presenting them to the board of directors, presenting the proposed compensation of our administrators to the board of directors, and reviewing, together with the executive officers, our financial statements. According to our by-laws, the committee must have between four to seven members, as well as a coordinator, all of whom are elected by the board and serve for a three-year term. Our executive committee currently consists of Abilio Diniz, who is the coordinator of the committee, Ana Maria Diniz D'Avila, Candido Botelho Bracher, Francis Mauger, Gerald Dinu Reiss, Joao Paulo Diniz, Luiz Carlos Bresser G. Pereira and Maria Silvia Bastos Marques.

Financial Committee

The financial committee was also created in connection with the reorganization of our corporate management structure. The financial committee will meet bi-monthly to review and analyze the financial situation of our company by examining indicators such as cash flow, capital investments and the average cost of our capital structure. The committee also oversees, in conjunction with the executive officers, the implementation of our annual capital expansion and investment plan. According to our by-laws, the committee

must have between four to seven members, as well as a coordinator, all of whom are elected by the board and serve for a three-year term. Our financial committee currently consists of Ana Maria Diniz, who is the coordinator of the committee, Abilio Diniz, Joao Paulo Diniz and Pedro Paulo Diniz.

Development and Marketing Committee

The development and marketing committee was the third committee created as part of the reorganization of our corporate management structure. This committee meets bi-monthly to examine, create and implement, together with the executive officers, marketing methodologies and strategies. According to our by-laws, the committee must have between four to seven members, as well as a coordinator, all of whom are elected by the board and serve for a three-year term. Our development and marketing committee currently consists of Joao Paulo Diniz, who is the coordinator of the committee, Abilio Diniz, Ana Maria Diniz, Pedro Paulo Diniz and Luiz Salles.

Biographical Information

Mr. Valentim dos Santos Diniz is the Honorary Chairman of our board of directors. Mr. Diniz founded the Pao de Acucar Group in 1948 and currently is the Chairman of PAIC.

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

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

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

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

Mr. Augusto Marques da Cruz Filho is a member of our board of directors and our Chief Executive Officer. He has been employed by us since September 1994. Mr. Marques da Cruz Filho is a former Finance Director of Tintas Coral S.A. of the Bunge Born Group. Mr. Marques da Cruz Filho was also a member of the board of directors of Arafertil ISF - Ipiranga Serrana de Fertilizantes. He has a degree in Economics from Universidade de Sao Paulo - USP.

Mr. Arthur Antonio Sendas is a member of our board of directors. He is also the president of Grupo Sendas, which has been operating in the Brazilian

retail market for 43 years. Mr. Sendas is the president of the board of directors of Agencia de Desenvolvimento da Cidade do Rio de Janeiro - Agencia Rio and president of the Development Council of the Ponticia Universidade Catolica do Rio de Janeiro. He is also the former president of several supermarkets associations, including Associacao dos Supermercados do Rio de Janeiro and Associacao Brasileira dos Supermercados.

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

Mr. Cesar Suaki dos Santos is our Supply Chain Officer. Mr. dos Santos previously served as the person-in-charge of one of the business units of Grupo Ultra and was responsible for the acquisition and logistical division of Grupo Martins. Mr. dos Santos has a degree in Engineering from Universidade de Sao Paulo - USP where he earned a master's degree.

Mr. Christian Pierre Couvreux is a member of our board of directors. Mr. Couvreux is the President of the board of directors and Officer-President of the Casino Group. Mr. Couvreux was the President of La Ruche Meridionale in France as well as the Commercial Attache in the French embassies in Norway and Saudi Arabia. He has a master's degree in Business Administration from Hautes Etudes Commerciales - HEC in France and has attended INSEAD.

Mr. Eneas Cesar Pestana Neto is our Administrative Officer. He was the Vice-President of Laboratorio Delboni Auriemo and has worked at GP Investimentos and Carrefour. Mr. Pestana Neto holds a degree in Accounting from Pontificia Universidade Catolica de Sao Paulo - PUC.

Mr. Fernao Carlos Botelho Bracher is a member of our board of directors. Mr. Bracher was a director of Banco da Bahia S.A. and of Banco Central do Brasil (Central Bank) and was the former Executive Vice-President of Atlantica Companhia Nacional de Seguros and of Banco Brasileiro de Descontos S.A. (Bradesco). Mr. Bracher is also a former Chairman of Banco Central do Brasil and Special Counselor for Brazilian external debt affairs, and former Chairman of Banco BBA Creditanstalt S.A. (BBA). Mr. Bracher has a degree in Law from Universidade de Sao Paulo - USP and has attended Freiburg University and Heidelberg University in Germany.

Mr. Fernando Queiroz Tracanella is our Investor Relations Officer. Mr. Tracanella worked at Uniao de Bancos Brasileiros S.A. (Unibanco), Banco Frances e Brasileiro - BFB and Deutsche Bank. Mr. Tracanella holds a degree in Business Administration from Pontificia Universidade Catolica de Sao Paulo - PUC.

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

Mr. Hugo A. Jordao Bethlem is our Commercial Officer. Mr. Bethlem was the Commercial Officer of DiCicco, Jeronimo Martins, Parque Tematico Play Center and Carrefour. Mr. Bethlem has a degree in Business Administration from Faculdades Metropolitanas Unidas - FMU and has a post-graduate degree in Administration from Cornell University.

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

Mr. Jose Roberto Coimbra Tambasco is our Supermarket Division Officer. Mr. Tambasco, who has worked for us since 1979, has a degree in Business Administration from Fundacao Getulio Vargas.

Mr. Jose Roberto Mendonca de Barros is a member of our board of directors. Mr. Mendonca de Barros was the Secretary of Economic Policy of the Ministry of Agriculture and Executive Secretary of the Foreign Chamber of Commerce. He is the managing partner at Mendonca de Barros Associados S/C, where he resumed his activities in January 1999. He has a doctoral degree in Economics from the University of Sao Paulo and has done post-doctoral work at Yale University.

Mr. Leonardo de Paiva Rocha was our Chief Financial Officer and Controller Officer. He previously served as a member of the executive office of Telefonica International S/A and Telecomunicacoes de Sao Paulo S/A. Mr. Rocha has an Engineering degree from Instituto Militar de Engenharia and has a post-graduate degree in Administration from Pontificia Universidade Catolica from Rio de Janeiro.

Mr. Luiz Carlos Bresser Goncalves Pereira is a member of our board of directors. Mr. Pereira is an economics professor at the Fundacao Getulio Vargas in Sao Paulo and an editor of Revista de Economia Politica (Economic Policy Magazine). He was the Minister of Science and Technology, Minister of Finance, Secretary of the State of Sao Paulo and President of the Bank of Sao Paulo - BANESPA. He is also the author of several books. He has a law degree from the University of Sao Paulo, from where he also has a doctoral degree in Economics. In addition, he has a master's degree in Business Administration from Michigan State University.

Mr. Mailson Ferreira da Nobrega is a member of our board of directors. Mr. Ferreira da Nobrega was the Finance Minister of Brazil from 1988 to 1990. He was the chief of the Brazilian delegation for the Paris Club in the negotiation of the Brazil/Japan bilateral treaty and a former member of the Committee of the International Finance Corporation in Washington, D.C. Mr. Ferreira da Nobrega has a degree in Economics from Centro de Ensino Unificado de Brasilia.

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

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

Mr. Pierre Bruno Charles Bouchut is a member of our board of directors. Mr. Bouchut is the Superintendent and a member of the board of directors of the Casino Group. He was a consultant at McKinsey, a Vice President at Bankers Trust in France and a Vice President at Citibank in Paris. He has a degree in Business Administration with a concentration in finance and banking from Etudes

Commerciales - HEC and a post-graduate degree in Economics from Paris IX - Dauphine.

Mr. Roberto Teixeira da Costa is a member of our board of directors. Mr. Teixeira da Costa was the first Chairman of the CVM, the Brazilian securities commission. He is the former Investment Vice-President of Banco de Investimentos do Brasil and Uniao de Bancos Brasileiros S.A. (Unibanco). Mr. Teixeira da Costa is a member of the board of directors of many Brazilian companies such as Brasmotor S.A., Solvay do Brasil S.A. and Sao Paulo Alpargatas S.A. He is also the Chairman of the Brazilian chapter of the Counsel of Executives of Latin America and a member of the Permanent Entrepreneurial Committee of the Brazilian Foreign Relations Ministry and of the board of directors of the Fernand Braudel Institute of World Economics. Mr. Teixeira da Costa has a degree in Economics from Faculdade Nacional de Ciencias Economicas da Universidade do Brasil.

For the year ended December 31, 2003, the aggregate compensation paid in cash to all of our directors and executive officers and members of our committees as a group was approximately US$3.2 million. Other non-cash

benefits in 2003 included reimbursements of medical expenses to our executive officers and the use of our cars during working hours. There are no outstanding loans granted by us to our executive officers or members of our board of directors. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers, and we do not otherwise publicly disclose this information.

6D. Employees

Our workforce at December 31, 2003 consisted of 55,557 employees (calculated on a full-time employee equivalent basis). Virtually all of our employees are covered by union agreements. The agreements are renegotiated annually as part of industry-wide negotiations between a management group representing the major participants in the retail food industry, including our management, and unions representing employees in the retail food industry. We believe we compensate our hourly employees on a competitive basis, and we have developed incentive programs to motivate our employees and reduce employee turnover. Our management considers our relations with our employees and their unions to be good. We have not had a strike in our history.

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

	At December 31(1)				
	2003	2002	2001	2000	
Operational.....................	46,094	47,623	42,599	43,204	3
Administrative..................	9,463	10,275	9,461	6,902	
Total......................	55,557	57,898	52,060	50,106	3

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

6E. Share Ownership

Stock Option Plan

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

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

When share options are exercised, we can grant new shares or transfer treasury shares to the new shareholder. Our stock option plans are accounted for as variable plans as the indexed exercise price of the options is adjusted by dividends declared from the grant date through the exercise date. Our stock option plan stipulates that 50% of the options granted vest and can be exercised at the end of three years and the remaining 50% vest and can be exercised at the end of five years. The exercise term expires after a period of three months after the vesting dates. In 1999, our board of directors approved a new grant of options convertible into an additional 3.4 billion preferred shares to be granted under our stock option plan. On March 31, 2000, we granted 305,975 thousand stock options with an exercise price of US$34.34 per 1,000 shares. On April 2, 2001, we granted 361,660 thousand stock options with an exercise price of US$29.65 per 1,000 shares. On March 15, 2002, we granted 412,600 thousand stock options with an exercise price of US$19.96 per 1,000 shares. On May 16, 2003, we granted 499,840 thousand stock options with an exercise price of US$13.45 per 1,000 shares.

	Share opt
	2003
Options outstanding at beginning of year	1,395,960
Options granted	
Series 6 (granted March 15, 2002)	

Series 7 (granted May 16, 2003)	499,840
Options exercised	
Series 3 - April 10, 2002 - capital increase of U.S.$ 26	
Series 2 - December 19, 2002 - capital increase of U.S.$ 684	
Series 3 - December 19, 2002 - capital increase of U.S.$ 4	
Series 3 - December 17, 2003 - capital increase of U.S.$ 1,916	(256,100)
Options forfeited	(200,360)
Outstanding options granted at end of year	1,439,340
Share options available at end of year for future grants	2,335,999

	2003	2002
Range of year-end exercise prices for outstanding options at balance sheet date exchange rates (US$ per thousand shares)	13.87-32.84	10.69-24.50
Weighted average grant-date exercise price of options (US$ per thousand shares)	22.94	19.30
Weighted average grant-date quoted market price of shares (US$ per thousand shares) (based on quoted market value at date granted)	24.61	22.02
Year-end quoted market price of shares at balance sheet exchange rates (based on quoted market value at the end of each year) (US$ per thousand shares)	24.37	15.42
Compensation cost recognized for the year ended December 31	1,250	912

ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7A. Major Shareholders

The following table sets forth information as of December 31, 2003 with respect to holdings of our capital stock:

	Common Shares		Preferred Shares (1)		
	Number of Common	Percentage	Number of Preferred	Percentage	N

Shareholder	Shares	of Total	Shares	of Total	
PAIC (2)...............	38,334,430,500	60.40%	7,332,819,981	14.67%	45
Valentim dos Santos					

Shareholder	Shares	of Total	Shares	of Total	
Diniz..................	2,280,975,580	3.59	--	--	
Peninsula Participacoes Ltda. (3)	6,458,266,960	10.17	7,746,144	0.02	
Abilio dos Santos Diniz...	253,726,605	0.40	--	--	
Joao Paulo F. dos Santos Diniz..................	10	--	8,900,000	0.02	
Ana Maria F. dos Santos Diniz D'Avila..........	10	--	40,500,000	0.08	
Pedro Paulo F. Dos Santos Diniz..................	360,850	--	--	--	
Lucilia Maria Diniz.......	894,094,860	1.41	1,072,391	--	
Casino Group..............	15,218,575,935	23.98	13,622,650,344	27.26	2
Others (4)................	30,380,089	0.05	28,957,739,174	57.95	2
Total.....................	63,470,811,399	100.00%	49,971,428,034	100.00%	11

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(1) In August 1999 and September 2000, we issued the equivalent of R$303 million and R$100 million, respectively, of principal amount of debentures which are convertible into preferred shares. Some of these debentures have already been converted into preferred shares. See "Item 5B - Operating and Financial Review and Prospects - Liquidity and Capital Resources" and note 13 to the financial statements included in this annual report. The authorized share capital (the number of shares up to which the board of directors can issue shares without the approval of a shareholders' meeting) at December 31, 2003 is 150 billion shares. The balance of unissued shares in relation to the authorized share capital relates to unissued common and preferred shares.

(2) Pao de Acucar S.A. Industria e Comercio-PAIC is controlled by Mr. Abilio dos Santos Diniz and Peninsula Participacoes. Other shareholders include Mr. Valentim dos Santos Diniz and Mrs. Lucilia Maria Diniz.

(3) Peninsula Participacoes Ltda. is controlled by Mr. Abilio dos Santos Diniz and his children. Upon the death of Mr. Abilio dos Santos Diniz, his children, Ana Maria Falleiros dos Santos Diniz D'Avila, Mr. Joao Paulo Falleiros dos Santos Diniz, Mrs. Adriana Falleiros dos Santos Diniz Abrao and Mr. Pedro Paulo Falleiros dos Santos Diniz, will own and control 100% of Peninsula Participacoes' voting quotas (ownership units).

(4) Comprises the shares held by the members of our board of directors, except for shares held by Mr. Valentim dos Santos Diniz, Mr. Abilio dos Santos Diniz, Mrs. Ana Maria Falleiros dos Santos Diniz D'Avila, Mr. Joao Paulo Falleiros dos Santos Diniz and Mr. Pedro Paulo Falleiros dos Santos Diniz.

Subscription Warrants

In 1999, we issued 12,571,751 common share warrants (the proceeds from which totaled US$181.9 million) and 4,127 preferred share warrants (the proceeds from which totaled US$47,000). Each warrant provides the right to purchase 1,000 shares. The amount paid for the warrants cannot be applied against the purchase price of the future shares to be issued. The exercise price per share under the common share warrants is the greater of (i) R$82.13 per 1,000 shares, adjusted for the higher of the IGP-M (general price index) variation or the variation of the real to the U.S. dollar (price in U.S. dollars equal to US$45.00), or (ii) the average between the variation of the IGP-M or of the real with respect to the U.S. dollar and the trading price of our shares in the five days prior to the exercise. Preferred share warrants are exercisable at R$65.70 per 1,000 shares, adjusted for IGP-M.

On August 31, 2003, 6,285,876 common share warrants and 2,064 preferred share warrants were not exercised and were forfeited. The remaining 6,285,875 common share warrants may be exercised through August 31, 2004. The ratio will be adjusted proportionately in the event of any reverse splits, splits or distribution of stock dividends. The common subscription warrants were acquired by the minority shareholder, the Casino Group, while the preferred subscription warrants were acquired by the public.

Shareholders' Transactions

In September 1999, the Casino Group purchased 2,500,000,000 of our common shares from PAIC and another 12,571,750,000 of our then issued shares of common stock, representing, in the aggregate, an ownership interest of approximately 24.0% of total common stock.

The Casino Group also had the right to purchase an aggregate of 2.5 billion common shares from PAIC, Peninsula Participacoes and Abilio dos Santos Diniz at the higher of US$45.00 or the average of the market price

and US$45.00 per 1,000 shares. Of these 2.5 billion common shares, the Casino Group had the option to purchase up to 1.25 billion common shares until August 31, 2003, which option was not exercised and the Casino Group continues to have the option to purchase up to 1.25 billion common shares from August 31, 2002 through August 31, 2004. The Casino Group will be required to purchase a portion of these 2.5 billion common shares if it exercises any of its common share warrants. If the Casino Group exercises the common share warrants described above and exercises its right to purchase the additional 1.25 billion common shares, the Casino Group may increase its ownership interest in us to approximately 32.6% of our total issued and outstanding common shares. In 1999, our controlling shareholders also sold 1.5 billion shares of preferred stock to the Casino Group.

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

Shareholders' Agreements

The Casino Group

Our controlling shareholders, Mr. Abilio dos Santos Diniz, Peninsula Participacoes and PAIC, are party to a shareholders' agreement dated August 9, 1999 with the Casino Group, a copy of which has been filed previously with the Commission.

Pursuant to this agreement, the Casino Group:

- is assigned preemptive rights with respect to issuances of convertible debt or preferred stock to achieve a participation of up to a 35.5% ownership interest on a fully diluted basis,
- has the right to appoint two directors to our board of directors,
- has the right to appoint a person to serve both as a member of our executive committee and a member of our board of executive officers,
- has the right to veto major corporate decisions, including amendments to the annual investment program; some types of related party transactions; changes to provisions in our by-laws regarding business purpose, capital stock and issuance of securities, corporate governance and dividends; mergers, spin-offs and other corporation reorganizations; and assumption of financial debt or acquisitions of businesses or assets beyond certain thresholds,
- is subject to limitations on the purchase of shares of preferred stock on the open market,
- has tag-along rights with respect to offers of shares or convertible securities by our controlling shareholders to third parties, with special price terms in the event of offers resulting in a change of control of our company, and
- has the right to be assigned the controlling shareholders' preemptive rights with respect to any offer for securities issued by certain of our affiliates.

Under the shareholders' agreement, the Casino Group has the right to sell its shares (including warrants) under certain circumstances. If our controlling shareholders sell their shares or convertible securities, the Casino Group has the option to sell, totally or partially, its shares and convertible securities to the acquiring party with terms similar to those offered to our controlling shareholders. In addition, if the sale of the shares held by our controlling shareholders results in a change of control, the acquiring party has the option to buy all shares and convertible securities held by the Casino Group.

Both the Casino Group and our controlling shareholders have the right of first offer with respect to shares or convertible securities to be disposed of by any of the parties under the shareholders' agreement.

Our controlling shareholders and the Casino Group have also agreed pursuant to the shareholders' agreement not to compete with each other in the food retailing business in Mercosul (Brazil, Argentina, Uruguay and Paraguay) and in Colombia, as long as they remain our shareholders. They also agreed not

to engage in the food

retailing business in Brazil through any Brazilian retailer other than us, as long as this shareholders' agreement remains in force.

Except for some provisions governing the transfer of equity interests in us, the shareholders' agreement will terminate and cease to be in effect upon the occurrence of the following events:

- Mr. Jean-Charles Naouri or his successor ceases to hold majority voting rights in the Casino Group, and
- the new controlling shareholder of the Casino Group is a competitor of ours whose net sales revenues equal or exceed 20% of ours.

Alternatively, except for some provisions governing the transfer of equity interests in us, the agreement will terminate upon the occurrence of the following events:

- the current ownership interest of the controlling shareholder of the Casino Group is diluted to the benefit of a competitor of ours whose net revenues from its operations in Brazil equal or exceed 3% of ours,
- the ownership interest of that competitor equals 5% or more of the voting rights in the Casino Group, and
- a shareholders' agreement with that competitor grants full access to information on us or one vacancy in the board of directors of the Casino Group.

If our equity ownership changes as a result of the events described in the immediately preceding two paragraphs and the net sales of the new shareholder are less than 20% of our net operating sales, or the conditions referred to in the immediately preceding paragraph are not fulfilled, then this new shareholder, together with the Casino Group, our controlling shareholders and us, must, on a best efforts basis, merge or combine the operations of the Brazilian subsidiary owned by the new shareholder with our operations.

If we do not reach an agreement to merge or combine our operations within six months, the shareholders' agreement will terminate and the parties will use their best efforts to sell the Casino Group's interest in us. If this sale is not effected within one year from the termination of the shareholders' agreement, we will be required to list our common shares on a stock exchange and conduct a public offering of our common shares.

The Sendas Association

We and our controlling shareholders, Mr. Abilio dos Santos Diniz, Peninsula Participacoes and PAIC are parties to a shareholders' agreement dated February 29, 2004 with Sendas and its direct and indirect controlling shareholders Sendas Empreendimentos e Participacoes Ltda. and Mr. Arthur Antonio Sendas, a copy of which is being filed as an exhibit to this annual report. The purpose of the shareholders' agreement is to regulate our relations with Sendas as shareholders of Sendas Distribuidora, a joint participation of which we hold 50% of the voting stock and Sendas holds the remaining 50% of the voting stock.

Pursuant to this agreement:

- as long as we and Sendas continue to own shares representing 50% of the joint participation (defined under the shareholders' agreement as the sum of ours and Sendas equity interests in the voting capital of Sendas Distribuidora), we and Sendas are entitled to separately appoint four members and two alternates of the board of directors of Sendas Distribuidora, while the remaining four members are jointly indicated by mutual agreement;

- two directors appointed by us or two directors appointed by Sendas can veto specific business decisions of Sendas Distribuidora, including certain transactions involving amounts greater than R$20 million, the performance by the Sendas Distribuidora of activities outside its corporate purpose or the approval or review of the Sendas Distribuidora's annual investment programs;

- Sendas Distribuidora must have four board committees with specific functions related to the supervision of tasks performed by the board of executive officers. Each of these committees must consist of an equal number of members indicated by us and by Sendas, but we are entitled to appoint the coordinators of the executive and audit committees while Sendas is entitled to appoint the coordinators of the finance and development and marketing committees;

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

- as long as we and Sendas continue to own fifty percent of the joint participation, our resolutions as shareholders of Sendas Distribuidora must be taken by consensus. However, if the equity participation of any of us falls below fifty percent of the joint participation, the shareholders' resolutions will have to be decided by a simple majority vote, having the minority shareholder in this case the right to veto certain major corporate decisions, such as changes to provisions in the by-laws of Sendas Distribuidora regarding its capital stock, issuance of securities and dividends policies, as well as the mergers, spin-offs and other corporate reorganizations, among others. This veto right will be valid provided that the minority shareholder continues to own more than twenty five percent of the joint participation.

The shareholders' agreement also establishes certain rights relating to the transfer to third parties of Sendas Distribuidora's shares owned by us or by Sendas as described below:

- we and Sendas have rights of first refusal in connection with

the offer of shares (or respective subscription rights) to third parties, except when such offer is made to our or Sendas' controlling shareholders or controlled companies or when it involves the transfer of one share to each director appointed by us or by Sendas; and

o in addition to offering the right of first refusal described above, we and Sendas, as the case may be, are also required to offer a tag along right to the other shareholder if the proposed sale involves common shares representing more than 10% of the joint participation. In this case, such shareholder has the right to sell the same amount of Sendas Distribuidora's shares being offered by the other shareholder at the same terms and conditions.

In addition, if our controlling shareholders decide to transfer, either direct or indirectly, our own equity control, Sendas will be entitled, pursuant to the shareholders' agreement, to exercise a put option right against the prospective purchaser and therefore to sell the totality of its Sendas Distribuidoras' shares to such purchaser at the price fixed by the shareholders' agreement. On the other hand, if Sendas' controlling shareholder receives from a third party an offer for Sendas' control, we are entitled to either exercise a right of first refusal and acquire the shares at the terms an conditions offered by such third party or to acquire, at the price fixed under the shareholders' agreement, the totality of shares in the capital stock of Sendas Distribuidora owned by Sendas.

The shareholders' agreement also provides that Sendas may at any time as of February 1, 2007 exercise the right to exchange the totality or a portion of its paid-in shares in Sendas Distribuidora for preferred shares representing our capital stock. In such case, we can alternatively (i) carry out the share exchange; (ii) purchase in cash, at the price fixed under the shareholders' agreement, the shares upon which the right of share exchange has been exercised; or (iii) accomplish the exchange transaction through several corporate procedures such as capital increases, mergers of shares and others. In addition to the cash or shares received, as the case may be, Sendas would also have the right, in case all its shares in Sendas Distribuidora were exchanged for our preferred shares, to subscribe to one class A common share that would be issued by Sendas Distribuidora. This special share would allow it to appoint, in a separate voting procedure, one member of the Sendas Distribuidora's board of directors. However, if Sendas transferred more than seventy five percent of our preferred shares following the exchange, it would be required to sell back such share to us and therefore it would cease to have the special rights provided therein. In addition, Sendas would also be subject to limitations in the amount of our preferred shares which it could sell in the open market.

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

7B. Related Party Transactions

From time to time we have entered into transactions with our controlling shareholders and other related parties for the provision of certain

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

Leases

We currently lease properties from some members of the Diniz family, some of whom are our shareholders. These properties include one store from Mr. Valentim dos Santos Diniz and two stores from Mr. Abilio dos Santos Diniz, who are among our controlling shareholders, six stores from Mr. Arnaldo dos Santos Diniz, five stores from Mrs. Vera Lucia dos Santos Diniz and nine stores from Mrs. Sonia Maria dos Santos Diniz Bernandini, all children of Mr. Valentim dos Santos Diniz. Aggregate payments in 2003 under those leases equaled approximately US$4.9 million. We believe that all such leases are on terms at least as favorable to us as those which could be obtained from unrelated parties on an arm's-length basis.

Related Party Financing

In November 2000, the Casino Group subscribed 41,962 convertible debentures from our fourth issue out of a total of 100,000 convertible debentures. Interest expense related to the debentures was US$2.1 million in 2003, and the loan in the amount of US$11.9 million was outstanding at December 31, 2003. See note 18 to the financial statements.

7C. Interests of Experts and Counsel

Not applicable.

ITEM 8 FINANCIAL INFORMATION

8A. Consolidated Financial Statements and Other Financial Information

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

Legal Proceedings

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business described below. These include general civil, tax and employee litigation and administrative proceedings. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimable losses in the event of unfavorable court decisions and that the ultimate outcome of these matters will not have a material effect on our financial condition or results of operations. We cannot estimate the amount of all potential costs that we may incur or penalties that may be imposed on us other than those amounts for which we have provisions. See note 17 to the financial statements.

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

	2003	2002
	(millions of U.S. dollars)	
Taxes:		
Taxes on revenues............................	$262.7	$151.1
Social security..............................	94.1	66.7
Income tax...................................	26.4	16.0
Tax on bank account transactions and other.....	7.6	32.3
Labor claims.....................................	6.7	3.6
Total accrued liabilities for legal proceedings.....	$397.5	$269.7

Taxes on Revenues

We are questioning the constitutionality of the increase of the tax rate of the PIS and the COFINS taxes, which accrue on revenues, as well as the expansion of their tax basis as of February 1, 1999 because we believe these changes could only be introduced by a law complementary to the Federal Constitution. On September 1999, the lower court issued a ruling in our favor. The federal government appealed the decision and is awaiting a final judgment. At December 31, 2003, we had a provision of US$262.7 million that we believe corresponds to the amount of PIS and COFINS we did not collect, based on the lower court decision, and this provision is monetarily updated.

Social Security Taxes

We are challenging the constitutionality of some social security contributions, such as the contributions for education allowance (salario educacao) and for worker's compensation insurance (SAT), as well as our right to offset the amount we believe was overpaid with other social security contributions. Based on preliminary orders issued in our favor by the lower courts, we have not been collecting some of these contributions and/or we have been offsetting overpaid contributions with other social security contributions. The lower courts provided a favorable decision in both lawsuits. The federal government appealed these decisions and is awaiting a final judgment. Since it is probable that we will not prevail in these lawsuits, as of December 31, 2003, we had a provision of US$94.1 million that we believe corresponds to the amount of the social security contributions we did not collect, based on the preliminary orders, and this provision is monetarily updated.

Following judicial precedent in decision which were unfavorable for other tax payers in similar lawsuits, we decided to withdraw certain claims and legal actions, opting to join the Special Installments Program (Parcelamento Especial - PAES) pursuant to Law 10,680/2003 and pay the amount of US$88.8 million of social security contributions in installments.

Income Tax

In January 1995, we filed an injunction to obtain a judicial authorization to adjust our 1989 balance sheet using a rate relating to the inflationary index for January and February 1989 (70.3%), which generated an additional tax-deductible depreciation charge. In July 2000, a lower court issued a ruling, which was partially favorable to us, acknowledging our right to use a tax inflation index for the month of January 1989 of 42.7% for purposes of determining the depreciation charge. We appealed the decision and asserted the right to adjust our 1989 balance sheet according to the inflationary index of 6.3% for February 1989. The federal government also appealed the decision and is awaiting a final judgment. Since it is probable that we will not prevail in this lawsuit, as of December 31, 2003, we had a provision of US$11.6 million that we believe corresponds to the difference between the 42.7% inflationary index for January 1989 and the 6.3% inflationary index for February 1989 and the 70.3%

rate. These assessments are supported by our outside legal counsel.

We were challenging a limitation on tax loss offsets imposed by Brazilian law. Federal income tax regulations determine that tax losses available for offsetting income are limited to 30% of annual income before tax. We were challenging this limitation on the grounds that it is unconstitutional, and have obtained a legal injunction providing protection against possible fines. We had a provision of US$13.4 million at December 31, 2003 and the amount of US$9.6 million is recorded as recoverable deferred taxes.

Tax on Bank Account Transactions

On June 15, 1999, we filed an injunction seeking protection for non-payment of the Contribuicao Provisoria sobre Movimentacao Financeira, or CPMF, a tax levied on banking account transactions and redemption of financial operations on the grounds that the tax is unconstitutional. We obtained a preliminary order and the lower court issued a decision in our favor on September 10, 1999. Since the federal government appealed the decision, we presented appeals to the Superior Justice Court and to the Supreme Federal Court, all of which are pending judgment. Since it was probable that we would not prevail in this lawsuit, as of December 31, 2002, we had a provision of US$28.5 million that we believed corresponded to the amount of CPMF that the banks did not withhold based on the lower court decision, and this provision was indexed for inflation. Based on an unfavorable decision rendered by the court on February 19, 2003, we filed a request on March 13, 2003 to pay the amount provided on that date in installments. At December 31, 2003, the amounts of US$3.8 million and US$32.7 million are recorded as Taxes, other than on income, in our current liabilities and long-term liabilities, respectively.

Labor Claims

We are party to numerous lawsuits involving disputes with our employees, primarily arising from layoffs in the ordinary course of our business. At December 31, 2003, we had a provision of US$6.7 million for labor related loss contingencies, since it is probable that we will not prevail in these lawsuits and the damages are reasonably estimable.

Dividend Policy and Dividends

General

Pursuant to the Brazilian corporate law, shareholders of a Brazilian corporation have the right to receive, as a mandatory dividend for each fiscal year, a part of the corporation's net profits as established under its by-laws or, if not provided under such by-laws, an amount equal to that established pursuant to the Brazilian corporate law. Currently, the Brazilian corporate law generally requires that each Brazilian corporation distribute as a mandatory dividend an aggregate amount equal to at least 25% of the adjusted net profits, i.e. 25% of the net profits decreased or increased by (a) any amounts attributable to the legal reserve, (b) any amounts attributable to the contingency reserve and (c) any amounts attributable to the reserves of retained earnings, as more fully described below. In accordance with the Brazilian corporate law, a Brazilian corporation is required to maintain a legal reserve, to which it must allocate a minimum of 5% of its net profits for each fiscal year until such reserve reaches an amount equal to 20% of its capital stock

(calculated in accordance with the Brazilian corporate law). In addition to deducting amounts for the legal reserve, under the Brazilian corporate law, net profits may also be adjusted by deducting amounts allocated to two other reserves. One is a contingency reserve against future losses. The other is a reserve for specified categories of earnings that are required to be recognized currently, but will be realized in subsequent periods. Those reserves are not mandatory and may only be established if they are proposed by the board of directors or board of executive officers at a shareholders' meeting and a resolution creating those reserves is adopted at that shareholders' meeting. Accordingly, under our by-laws, the mandatory dividend has been fixed at an amount equivalent to not less than 25% of the adjusted net profits.

Pursuant to the Brazilian corporate law, in addition to the mandatory dividend, the board of directors may recommend to the shareholders payment of dividends from other funds legally available therefore. See "Item 10B - Additional Information - Memorandum and Articles of Association - Allocation of Net Profits and Distribution of Dividends - Distribution of Dividends." In addition, any payment of interim dividends or payments of interest on equity charges will be netted against the amount of the mandatory dividend for that fiscal year. Under the Brazilian corporate law, if the board of directors of a Brazilian company determines prior to the annual shareholders' meeting that payment of the mandatory dividend for the preceding fiscal year would be incompatible in view of that company's financial condition, the company would not be required to pay the mandatory dividend. This determination must be reviewed by the board of auditors, if any, and reported to the CVM. The amount of mandatory dividends not distributed as a consequence of the Brazilian corporation's financial condition will be registered on a special account and, if not netted against future losses, in subsequent years, will be distributed as mandatory dividend as soon as the corporation's financial condition so permits.

In addition, the Brazilian corporate law establishes that the holders of the preferred shares will be entitled to priority in receiving a fixed or minimum annual preferred dividend and/or reimbursement of capital, with or

without a premium. Accordingly, under our by-laws, the preferred shares are entitled to: (i) priority in receiving a minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 preferred shares, (ii) priority in reimbursement of capital, without premium, in case of liquidation, (iii) participation on equal terms with common shares in the distribution of bonus shares resulting from capitalization of reserves of retained earnings and (iv) receipt of the mandatory dividend after common shares are assured a dividend equal to the minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares. However, upon the first issuance of new preferred shares that occurs after the date of approval of our new by-laws on February 28, 2003, holders of the preferred shares will be entitled to the same advantages and preferences as established above, except that, in respect of item (iv), holders of preferred shares will be entitled to participate in the mandatory dividend that will be distributed for the common shares and the preferred shares so that each preferred share receives a dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 preferred shares. This new dividend will apply to all of our preferred shares, including existing preferred shares and newly issued preferred shares. In addition, pursuant to the Brazilian corporate law and our by-laws, the preferred

shares will acquire the right to vote in the event that the minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares is not paid for a period of three consecutive years, which voting right will cease upon the payment of such minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares.

Consequently, under our by-laws, to the extent funds are available therefore, dividends and/or interest on equity are paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares in the amount of R$0.15 per 1,000 preferred shares and (ii) after common shares are assured a dividend equal to the minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares, dividends in respect of the preferred shares and our common shares in equal amounts per share up to (or, if determined by the shareholders, in excess of) the mandatory dividend and, upon the first issuance of new preferred shares that occurs after the date of approval of our new by-laws on February 28, 2003, dividends so that each preferred share receives a dividend that is 10% higher than the dividend of each common share, as described above, including, for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 preferred shares, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition. We are authorized, but not required, to distribute a greater amount of dividends.

Pursuant to the Brazilian corporate law, Brazilian corporations are required to hold an annual shareholders' meeting by April 30 of each year at which an annual dividend may be declared. Additionally, interim dividends may be declared by the board of directors. Under the Brazilian corporate law, dividends generally are required to be paid to the holder of record on the date of the annual shareholders' meeting at which the dividend was declared, within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which such dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which the Brazilian company has no liability for such payment. Brazilian companies are not required to adjust the amount of the dividend for inflation for the period from the date of declaration to the payment date.

Payments of cash distributions by us on preferred shares underlying the ADSs, if any, will be made in Brazilian currency to the custodian on behalf of the depositary, which will then convert these proceeds into U.S. dollars and will cause these U.S. dollars to be delivered to the depositary for distribution to you. Dividends paid to shareholders, including holders of the ADSs, are currently not subject to Brazilian withholding tax. See "Item 10E - Additional Information - Taxation - Brazilian Tax Considerations."

Dividend Policy and History of Dividend Payments

The following table sets forth the distributions paid to holders of our common shares and preferred shares since 1999:

Period	Description	First pament date	R$ per 1,000 preferred shares	R$ per 1,000 common shares	in
1999..........	Dividends	June 2000	0.1880 (1)	0.1880 (1)	
2000..........	Dividends and interest on equity	June 2001	1.8161	1.8161	
2001..........	Dividends	June 2002	0.5375	0.5375	
2002..........	Dividends	June 2003	0.5252	0.5252	
2003..........	Dividends	June 2004 (2)	0.5088	0.4626	

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(1) Each 1,000 shares newly issued to the Casino Group during the year were entitled to receive R$0.05469.

(2) The proposed dividend was approved at the annual shareholders' meeting on April 30, 2004. According to Brazilian corporate law, we must pay declared dividends within 60 days after the approval.

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

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the custodian on behalf of the depositary, which will then convert the payments in Brazilian currency into U.S. dollars and thereafter will cause the U.S. dollars to be delivered to the depositary for distribution to holders of ADSs as described above. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends and/or interest on equity attributable to shareholders into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that occur before the distributions are converted and remitted. See "Item 3A - Key Information - Selected Financial Data - Exchange Rates." Dividends and interest on equity in respect of the preferred shares paid to shareholders, including holders of ADSs, are exempt from Brazilian withholding tax in respect to profits accrued as of January 1, 1996. See "Item 10E - Additional Information - Taxation - Brazilian Tax Considerations."

8B. Significant Changes

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

ITEM 9 THE OFFER AND LISTING

9A. Offer and Listing Details

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

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

At December 31, 2003, there were:

- an aggregate of 49,971,428,034 preferred shares issued and outstanding and 63,470,811,399 common shares issued and outstanding, and

- 18,178,522,000 preferred shares held by foreign investors (to our knowledge based in each case on their addresses only as indicated in our records for the shares in our custody), representing 36.4% of the total of preferred shares outstanding.

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

Calendar Period	High	Low	High	Low
	R$ per 1,000 Preferred Shares		US$ per 1,000 Preferred Shares (1)	
1999	64.00	14.00	35.77	8.13
2000	73.30	50.50	37.49	25.83
2001	75.43	33.25	32.51	14.33
2002:				
1st quarter	56.00	48.51	24.75	20.88
2nd quarter	56.70	46.60	19.93	16.38
3rd quarter	53.00	40.00	13.61	10.27
4th quarter	60.00	44.62	16.98	12.63
2003:				
1st quarter	55.20	40.00	16.46	11.93
2nd quarter	48.50	41.02	16.89	14.28
3rd quarter	60.10	44.00	20.56	15.05
4th quarter	71.00	53.40	24.57	18.48
2004:				
1st quarter	77.47	56.60	26.63	19.46

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

December 2003	71.00	65.01	24.57	22.50
January 2004	77.47	67.37	26.34	22.91

February 2004....................................	69.23	63.70	23.76	21.86
March 2004.......................................	64.95	56.60	22.33	19.46
April 2004.......................................	63.20	50.50	21.46	17.15
May 2004...	52.85	42.94	16.89	13.72

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(1) Converted into U.S. dollars at the U.S. dollar-Brazilian real exchange rate in effect at the end of each period presented. There was a significant devaluation of the Brazilian real as from mid-January 1999, and another devaluation in early 2001 and 2002. See "Item 3A - Key Information - Selected Financial Data - Exchange Rates."

On June 14, 2004, the closing sale price for the preferred shares on the Sao Paulo Stock Exchange was R$47.85 per 1,000 preferred shares, equivalent to US$15.12 per ADS translated at the exchange rate of R$3.165 per US$1.00, the commercial market rate on such date.

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

Calendar Period	High	Low	High	Low	US
	US$ ADSs		R$ ADSs		
1999.............................	35.00	9.31	62.62	16.03	
2000.............................	39.31	27.63	76.87	54.03	
2001.............................	38.88	12.50	90.22	29.01	
2002:					
1st quarter.....................	24.67	19.60	57.32	45.54	
2nd quarter.....................	25.05	16.60	71.25	47.22	
3rd quarter.....................	18.20	11.84	70.89	46.12	
4th quarter.....................	16.80	11.48	59.36	40.56	
2003:					
1st quarter..................	16.25	11.44	54.49	38.36	
2nd quarter..................	16.46	13.04	47.27	37.45	
3rd quarter..................	20.29	15.50	59.32	45.31	
4th quarter..................	25.15	18.71	72.66	54.06	
2004:					
1st quarter..................	27.74	19.30	80.68	56.14	

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

December 2003.....................	25.15	22.55	72.66	65.15
January 2004......................	27.74	22.99	81.58	67.61
February 2004.....................	23.98	21.80	69.87	63.52
March 2004........................	22.78	19.30	66.26	56.14

April 2004.........................	22.00	17.80	64.78	52.41
May 2004...........................	18.02	13.37	56.39	41.84

9B. Plan of Distribution

Not applicable.

9C. Markets

Trading on the Brazilian Stock Exchanges

On January 27, 2000, the Sao Paulo Stock Exchange, the Rio Stock Exchange and their respective affiliated clearinghouses entered into a memorandum of understanding relating to a restructuring of each of their trading systems, clearinghouse services and corporate structures to establish a single, national stock exchange under the management of the Sao Paulo Stock Exchange. The memorandum of understanding also describes changes in the corporate organization of the Sao Paulo Stock Exchange designed to facilitate access to membership by brokers in the Rio Stock Exchange. On April 28, 2000, the Rio Stock Exchange ceased to operate. The Sao Paulo Stock Exchange has entered into similar memoranda of understanding with several other regional exchanges.

Settlement of transactions is effected three business days after the trade date. Delivery of and payment for shares are made through the facilities of separate clearinghouses for each exchange, which maintain accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the clearinghouse on the second business day following the trade date. The clearinghouse for the Sao Paulo Stock Exchange is Companhia Brasileira de Liquidacao de Custodia, or CBLC, which is wholly owned by that exchange.

At April 30, 2004, the aggregate market capitalization of the 364 companies listed on the Sao Paulo Stock Exchange was equivalent to approximately US$210 billion and the ten largest companies listed on the Sao Paulo Stock Exchange represented approximately 46% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, governmental entities or one principal shareholder.

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

Regulation of the Brazilian Securities Markets

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

Under the Brazilian corporate law, a company is either public, a

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

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

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

Corporate Governance Practices

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

On November 4, 2003, the SEC approved the new corporate governance rules established by the NYSE. Pursuant to these rules, foreign private issuers that are listed on the NYSE, such as we are, must disclose any significant ways in which its corporate governance practices differ from those followed by US domestic companies under the listing rules of the NYSE.

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

Independence of Directors and Independence Tests

The Brazilian corporate law and our bylaws require that our directors be elected by our shareholders at a general shareholders meeting. Fourteen of our directors are appointed by our controlling shareholder, and the remaining two directors are appointed by representatives of our minority shareholders.

Neither our board of directors nor our management test the independence of the directors before such elections are made. However, both the Brazilian corporate law and CVM establish rules in relation to certain qualification requirements and restrictions, investiture, compensation, duties and responsibilities of the companies'

executives and directors. Although we believe these rules provide adequate assurances that our directors are independent, we believe such rules would permit us to have directors that would not otherwise pass the independence tests established by the NYSE.

Executive Sessions

According to the Brazilian corporate law, up to 1/3 of the members of the board of directors can be elected into executive positions. The remaining non-management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management. Notwithstanding, our board of directors consists only fifteen of non-management directors and as such we believe we are in compliance with this standard.

Committees

We are not required under applicable Brazilian corporate law to have, and accordingly we do not have, a Nominating Committee, Corporate Governance Committee and Compensation Committee. Pursuant to our bylaws our directors are elected by our shareholders at a general shareholders meeting. Compensation for our directors and executive officers is established by our shareholders.

Audit Committee and Audit Committee Additional Requirements

Under the Brazilian corporate law and our by-laws, we are not required to, and currently do not, maintain a permanent board of auditors (conselho fiscal). The board of auditors operates independently from our management and from our external auditors. Its main function is to examine the financial statements of each fiscal year and provide a formal report to our shareholders. We do not maintain a permanent board of auditors, however we must install one upon the vote of 1/10 of our common shares shareholders or 5% of the holders of our shares with voting rights. In order to comply with the requirements of the Sarbane-Oxley Act and the rules and regulations of the NYSE, we are starting to implement an independent audit committee composed by a majority of independent members of our board, which we expect to be fully independent by July 2005.

Shareholder Approval of Equity Compensation Plans

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

Corporate Governance Guidelines

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

Code of Business Conduct and Ethics

Although the adoption of a code of ethics is not required by Brazilian

corporate law, we implemented our Code of Ethics in 2000 to regulate our employee's conduct with us and our customers, suppliers, competitors and the public at large. In order to comply with the requirements of the Sarbanes-Oxley Act and New York Stock Exchange rules, we later implemented rules applicable to our managers' conduct in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data. For more information about our Code of Ethics, see "Item 16B - Code of Ethics".

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

9D. Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of the Issue

Not applicable.

ITEM 10 ADDITIONAL INFORMATION

10A. Share Capital

Not applicable.

10B. Memorandum and Articles of Association

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

Objects and Purposes

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

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

Preferred Shares and Common Shares

General

Pursuant to the Brazilian corporate law and our by-laws, each common

share entitles the holder thereof to one vote at meetings of our shareholders. Holders of common shares are not entitled to any preference relating to our dividends or other distributions or any preference upon our liquidation.

Pursuant to the Brazilian corporate law, each preferred share is non-voting, except under limited circumstances, and is entitled to (i) priority in the receipt of fixed or minimum dividend, (ii) priority in the reimbursement of capital, with or without premium, and (iii) cumulative preferences and advantages established in items (i) and (ii). Furthermore, the preferred shares will only be admitted for trading on the Brazilian stock exchanges if they are entitled to at least one of the following preferences: (i) right to participate in the distribution of the mandatory dividend of 25% of net profits decreased or increased by (a) any amounts attributable to the legal reserve, (b) any amounts attributable to the contingency reserve and (c) any amounts attributable to the reserves of retained earnings, pursuant to the following criteria: (a) priority in the receipt of dividends corresponding to at least 3% of the shares' book value, and (b) right to participate in the profit distribution together with the common shares under equal conditions, after the common shares have received dividends as set forth in (a) above, (ii) right to receive dividends in an amount per share at least 10% higher than the amount per share paid to holders of common shares, or (iii) tag-along right of at least 80% of the price paid to the controlling shareholder in case of transfer of control.

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

(a) priority in receiving a minimum non-cumulative annual preferred dividend equal to R$0.15 per lot of 1,000 preferred shares;

(b) priority in the reimbursement of capital, without premium, in the event of our liquidation;

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

(d) receipt of the mandatory dividend after common shares are assured a dividend equal to the minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares.

However, in order to adjust to the Brazilian corporate law, we had to alter the rights of our preferred shares until March 1, 2003. In order to comply with this provision, we approved at the general meeting of our shareholders on February 28, 2003, that, upon the first issuance of new preferred shares that occurs after the date of approval of our new by-laws on February 28, 2003, holders of the preferred shares will be entitled to the same advantages and preferences as established under items (a) through (d) above, except that, in respect of item (d), holders of preferred shares will be entitled to participate in the mandatory dividend that will be distributed for the common shares and the preferred shares so that each preferred share receives a dividend that is 10% higher than the dividend of each common share, including, for purposes of this calculation, in the sum of the total dividend amount paid to the preferred shares, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 preferred shares. This new dividend will apply to all

of our preferred shares, including existing preferred shares and newly issued preferred shares.

Under the Brazilian corporate law, amendments reducing the rights of preferred shares entitle the holders of those shares to withdrawal rights. See "- Other Changes Implemented Under the Brazilian Corporate Law" for a description of other changes.

Allocation of Net Profits and Distribution of Dividends

Allocation of Net Profits

The allocation of our net profits is proposed by our management and is subject to approval by our shareholders at a general shareholders' meeting. The discretion of our management and our shareholders to determine the allocation of our net profits, however, is limited by certain rules that determine whether such net profits should be distributed as dividends or allocated to certain profit reserves or carried forward to future fiscal years, as follows:

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

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

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

If our board of directors determines prior to a general shareholders' meeting that payment of mandatory dividends with respect to the preceding fiscal year would not be advisable in view of our financial condition, our shareholders would decide at the shareholders' meeting whether or not to make that distribution. If our shareholders decide at the shareholders' meeting not to make that distribution, the board of auditors, if it is convened, must issue an opinion on the recommendation of the board of directors, and our management must report to the CVM within five days from the date of the shareholders' meeting that approved it.

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

Discretionary reserve accounts. We are permitted to provide for the allocation of part of our net profits to discretionary reserve accounts set forth in our by-laws. Currently, our by-laws provide for an expansion reserve

which shall be made of up to 100% of the net profits after (i) the allocations to the legal reserve, (ii) the amounts allocated to contingency reserves and/or unrealized income reserve account, and (iii) the payment of the mandatory dividend. The total amount of this reserve may not exceed the amount corresponding to our share capital. Our shareholders may amend our by-laws in order to establish one or more other discretionary reserves. The allocation of our net profits to discretionary reserve accounts may not be made if it prevents the distribution of our mandatory dividends.

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

Retention of our net profits based on a capital expenditure budget. A portion of our net profits may be retained for discretionary appropriations for capital expenditure projects, the amount of which is based on a capital expenditure budget previously presented by our management and approved by our shareholders. If a project relating to this approved capital expenditure budget has a term exceeding one year, the budget relating to the project must be submitted to the general shareholders' meeting each fiscal year until the relevant investment is completed. The allocation of our net profits to discretionary reserve accounts and to investment project reserve accounts may not be made if it prevents the distribution of our mandatory dividends.

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

The unrealized income reserve account must be used first to offset accrued losses and the remaining portion must be used for the payment of mandatory dividends.

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

Distribution of Dividends

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

- our net profits earned in a given fiscal year - that is, our after-tax income reduced by:
  - our losses carried forward from prior fiscal years, and
  - distributions to holders of founders' shares and to managers pursuant to profit-sharing arrangements (the latter two, participacoes estatutarias). Our by-laws authorize a profit sharing plan for management and employees as well as a stock option plan. The amount to be paid is set by our board of directors and must not exceed an amount equal to 15% of after-tax income, net of accumulated losses in any fiscal year. Under Brazilian corporate law, this profit sharing may only be paid to management with respect to a fiscal year in

which the mandatory dividend has been declared to the shareholders;

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

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

Under our by-laws, our preferred shares are entitled to a minimum non-cumulative annual preferred dividend of R$0.15 per 1,000 shares, as described above. The minimum non-cumulative annual preferred dividend of R$0.15 per 1,000 shares must be paid in each fiscal year in which there are amounts to be distributed. The minimum non-cumulative annual preferred dividend of R$0.15 per 1,000 shares is accounted for as a portion of the mandatory dividends. The possibility of not paying the mandatory dividends is based on our financial condition (see "- Mandatory Dividends"). Consequently, under our by-laws, to the extent funds are available therefor, dividends and/or interest on equity are to be paid in the following order: (i) a minimum non-cumulative annual preferred dividend in respect of the preferred shares in the amount of R$0.15 per 1,000 preferred shares and (ii) after common shares are assured the dividend equal to the minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 shares, dividends in respect of the preferred shares and our common shares in equal amounts per share up to (or, if determined by the shareholders, in excess of) the mandatory dividend and, upon the first issuance of new preferred shares that occur after the date of approval of our new by-laws on February 28, 2003, dividends so that each preferred share receives a dividend that is 10% higher than the dividend of each common share, as described above, including, for purposes of this calculation, the amount paid as a minimum non-cumulative annual preferred dividend equal to R$0.15 per 1,000 preferred shares, subject to any determination by our board of directors that such distribution would be incompatible in view of our financial condition. We are authorized, but not required, to distribute a greater amount of dividends.

Dividends are generally to be declared at general shareholders' meetings in accordance with the recommendation of the board of directors. Our board of directors may declare interim dividends out of the accrued profits recorded in our financial statements most recently approved by our shareholders or out of the accrued profits of the first six months of the fiscal year in which the declaration of dividends will be made. Further, we may pay dividends out of the net profits accounted for in our quarterly financial statements. These quarterly interim dividends may not be greater than the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividends relating to the net profits earned in the year the interim dividends were paid.

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

Dividends are generally required to be paid within 60 days after the date the dividends were declared to the holder of record on the declaration date, unless a shareholders' resolution sets forth another date of payment. This date must, in either case, be prior to the end of the fiscal year in which the dividend is declared.

A shareholder has a three-year period following the dividend payment date to claim a dividend in respect of its shares, after which we have no liability for such payment. We are not required to adjust the amount of the dividend for inflation for the period from the date of declaration to the payment date.

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

Other Matters Relating to Our Shares

Our by-laws do not provide for the conversion of preferred shares into common shares. In addition, the preferred shares have priority in reimbursement of capital in the event of our liquidation and there are no redemption provisions associated with the preferred shares. In accordance with our by-laws, our shareholders may at any time

convert shares from common into preferred, provided that they are paid up and that the limit of two-thirds mentioned above (see "- Preferred Shares and Common Shares - General") be observed. Requests for conversion shall be submitted in writing to our executive board and, after being accepted, shall be ratified at the next general meeting that is held.

Interest on Shareholders' Equity

We are allowed to pay interest on net worth as an alternative form of payment to shareholders. This interest is limited to the daily pro rata variation of the TJLP, the Brazilian long-term interest rate, and the expense referred to this distribution cannot exceed, for tax purposes, the greater of (i) 50% of net income (after deduction of social contribution on profits and before taking such distribution and any deduction for corporate income tax) for the year in respect of which the payment is made or (ii) 50% of the sum of retained earnings and profit reserves for the year prior to the year in respect of which the payment is made. Distribution of interest on net worth may also be accounted for as our tax deductible expense, and any payment of interest on preferred shares to shareholders, whether Brazilian residents or not, including holders of ADSs, is subject to Brazilian withholding tax at the rate of 15%. See "Item 10E - Taxation - Brazilian Tax Considerations - Interest Attributed to Shareholders' Equity." The amount paid to shareholders as interest on net worth, net of any withholding tax, may be included as part of the mandatory distribution. We are required to distribute to shareholders an amount sufficient to ensure that the net amount received by the shareholders, after the payment by us of applicable withholding taxes in respect of the distribution of interest on

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

Voting Rights

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

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

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority over the preferred shares, would require the approval of holders of a majority of the outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares. This meeting would be called by publication of a notice on at least three occasions in the Diario Oficial do Estado de Sao Paulo, as well as in a newspaper of wide circulation in Sao Paulo, our principal place of business, at least 15 days prior to the meeting but would not generally require any other form of notice. We have designated Folha de Sao Paulo for this purpose.

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

Shareholders' Meetings

Under the Brazilian corporate law, at a general meeting of shareholders, or a general meeting, convened and held in accordance with such law and our by-laws, the shareholders are empowered to decide all matters relating to our business purposes and to pass such resolutions as they deem necessary for our protection and our well-being.

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

- defining our directives and overall objectives,
- amend our by-laws,

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- elect or dismiss members of our board of directors (and members of the board of auditors) at any time,
- receive the yearly accounts by management and accept or reject management's financial statements, including the allocation of net profits and the distributable amount for payment of the mandatory dividend and allocation to the various reserve accounts,
- suspend the rights of a shareholder,

- accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock,

- pass resolutions to reorganize the legal form of, merge, consolidate or split our company, to dissolve and liquidate our company, to elect and dismiss our liquidators and to examine their accounts, and

- authorize management to declare our company insolvent and to request a concordata (a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code).

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

- to approve or alter the annual investment plan,

- to resolve the ratification, within 15 days of the date of execution of the respective agreements, of the purchase, sale and encumbrance of business or fixed assets, when the individual value or the aggregate annual value exceeds (i) 5% of our shareholders' equity or an aggregate value of (ii) US$100 million, provided that the lesser of (i) and (ii) will prevail,

- to enter into and amend any agreement or contract directly or indirectly between our company and/or our affiliates and any of our controlling shareholders or their relatives or connections or any of their controlling or affiliate companies, except in the event of inter-company loans, which will be contracted on an arm's-length basis,

- to resolve any cancellation of listing of our shares for trading on a stock exchange or requests for new listings, and

- to resolve any change in our dividend distribution policy.

Preemptive Rights on Increase in Preferred Share Capital

Under the Brazilian corporate law, each shareholder has a general preemptive right to subscribe for shares in any capital increase, in proportion to its shareholding, except in the event of the grant and exercise of any option to acquire shares of our capital stock under our stock option program. A shareholder has a general preemptive right to subscribe for debentures convertible into shares of our company. A minimum period of 30 days following the publication of notice of the capital increase is allowed for the exercise of the right, and the right is negotiable. However, our board of directors is authorized to eliminate preemptive rights with respect to the issuance of new preferred shares up to the limit of the authorized share capital, provided that the distribution of such shares is effected (i) through a stock exchange or in a public offering or (ii) through an exchange of shares in a public offering, the purpose of which is to acquire control of another company. In this case, we may entitle shareholders with a priority right to subscribe shares during a term we determine.

In the event of a capital increase, which would maintain or increase the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to subscribe only to newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to

subscribe for preferred shares, in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in us. For risks associated with preemptive rights, see "Item 3D - Key Information - Risk Factors."

Withdrawal Rights

Neither the common shares nor the preferred shares are redeemable. A dissenting or abstaining shareholder under Brazilian law may seek withdrawal following a decision made at a shareholders' meeting by shareholders representing at least 50% of the voting shares (i) to create preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by the by-laws, (ii) to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares, (iii) to reduce the mandatory distribution of dividends, (iv) to change our corporate purposes, (v) to transfer all of the shares to another company in order to make us a wholly owned subsidiary of such company or vice versa (incorporacao de acoes), (vi) to acquire another company, the price of which exceeds certain limits set forth in the Brazilian corporate law, (vii) to merge into another company, including if we are merged into one of our controlling companies, or are consolidated with another company, (viii) to participate in a group of companies as defined under the Brazilian corporate law and subject to the conditions set forth therein, (ix) to approve a spin-off of our company if it entails a change in the corporate purpose, a reduction in mandatory dividends or the participation in a centralized group of companies, or (x) in the event that the entity resulting from (a) an "incorporacao de acoes" as described above, (b) a spin-off, (c) a merger or (d) a consolidation of a Brazilian publicly listed company fails to become a Brazilian publicly listed company within 120 days of the general shareholders' meeting in which such decision was taken. The actions resulting from items (i) through (v) and items (vii) through (x) give the dissenting shareholder the right to withdraw. The right to withdraw lapses 30 days after publication of the minutes of the relevant shareholders' meeting unless, in items (i) and (ii) above, the resolution is subject to confirmation by the preferred shareholders (which must be made at a special meeting to be held within one year), in which case the 30-day term is counted from the date the minutes of the special meeting are published. In any event, we are entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of the 30-day term mentioned above if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

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

Our preferred shares may be withdrawn at their book value, determined on the basis of the last balance sheet approved by the shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs more than sixty days after the date of the last approved balance sheet, a shareholder may demand

that its shares be valued on the basis of a new balance sheet that is of a date within sixty days of such shareholders' meeting.

Form and Transfer of Shares

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

Transfer of shares by a foreign investor is made in the same way and is requested by the investor's local agent on the investor's behalf. If the original investment is registered with the Central Bank pursuant to Resolution 2,689, the foreign investor should also seek an amendment, if necessary, through its local agent, of the relevant registration with the Central Bank to reflect the new ownership.

The Sao Paulo Stock Exchange operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system, and all shares elected to be put into the system will be deposited in custody with the stock exchange (through a Brazilian institution that is duly authorized to operate by the Central Bank and maintains a clearing account with the stock exchange). The fact that these shares are subject to custody with the stock exchange will be reflected in our registry of shareholders. Each participating shareholder will, in

turn, be registered in our register of beneficial shareholders maintained by the stock exchange and will be treated in the same way as registered shareholders.

Other Changes Implemented Under the Brazilian Corporate Law

Besides the changes already described in this annual report, Law No. 10,303, which amended the Brazilian corporate law and current regulations, provides for the following changes:

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

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

- upon the occurrence of a tender offer aiming at delisting our company or through which our controlling shareholders acquire more than one-third of the float shares on September 4, 2000, the purchase price shall be equal to the fair value of the shares considering the total number of outstanding shares;

- minority shareholders that hold either (i) preferred shares representing at least 10% of our total share capital, or (ii) common shares representing at least 15% of our voting capital, have the right to appoint one member and an alternate to our board of directors. If no common or preferred shareholder meets the thresholds described above, shareholders holding

preferred shares or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. Until 2005, a director appointed by the preferred shareholders as a group, or collectively with the common shareholders, is to be chosen from a list of three names drawn up by the controlling shareholder;

- members of our board of directors elected by the non-controlling shareholders will have the right to veto the choice of the independent auditor of the controlling shareholder;
- our controlling shareholders, the shareholders that elect members to our board of directors and to the board of auditors, the members of our board of directors and board of auditors and our executive officers will be required to disclose any purchase or sale of our shares to the CVM and to the Sao Paulo Stock Exchange; and
- the chairman of any shareholders' or board of directors' meeting shall disregard any vote that is rendered against provisions of any shareholders' agreement if that shareholders' agreement has been duly filed with us.

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

10C. Material Contracts

Other than the shareholders' agreement between our controlling shareholders and the Casino Group and between us and Sendas described under "Item 7A - Major Shareholders and Related Party Transactions - Major Shareholders - Shareholders' Agreement," we have not entered into any material contracts outside the normal course of our business.

10D. Exchange Controls

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

The right to convert dividend payments and proceeds from the sale of common shares or preferred shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and

foreign investment legislation which generally requires, among other things, obtaining an electronic registration before the Central Bank.

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

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

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

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

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

- appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment,

- complete the appropriate foreign investor registration form,

- register as a foreign investor with the CVM, the Brazilian securities commission, and

- register the foreign investment with the Central Bank.

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

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

10E. Taxation

This summary contains a description of the principal Brazilian and U.S.

federal income tax consequences of the purchase, ownership and disposition of preferred shares or ADSs, but it does not purport to be a

comprehensive description of all the tax considerations that may be relevant to these matters based upon the particular circumstances of a holder. In particular, this summary deals only with holders that will hold preferred shares or ADSs as capital assets, and does not address the tax treatment of holders that may be subject to special tax rules, including, but not limited to, banks, insurance companies, dealers in securities, persons that will hold, for tax purposes, preferred shares or ADSs as a position in a "straddle" or "conversion transaction," U.S. persons that have a "functional currency" other than the U.S. dollar and persons that own or are treated as owning 10% or more of our voting shares. Investors in and holders of preferred shares or ADSs should consult their own tax advisers as to the tax consequences to them of the purchase, ownership and disposition of preferred shares or ADSs, including, in particular, the effect of any state, local or other national tax laws.

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

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

Brazilian Tax Considerations

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

A holder of ADSs may withdraw them in exchange for preferred shares in Brazil. The investment may be registered under Resolution 2,689, of January 26, 2000, of the National Monetary Council.

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

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

Registered Capital

The amount of an investment in preferred shares held by a non-Brazilian holder who qualifies under Resolution 2,689 and obtains registration with the CVM, or by the depositary representing such holder, is eligible for registration with the Central Bank; such registration (the amount so registered is referred to as "Registered Capital") allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized with respect to dispositions of, such preferred shares. The Registered Capital for each preferred share purchased in the form of an ADS, or purchased in Brazil after the date hereof, and deposited with the depositary will be equal to its purchase price (in U.S. dollars). The Registered Capital for a preferred share that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the greatest number of such shares was sold on the day of withdrawal, or (ii) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar value of the preferred shares is

determined on the basis of the average commercial market rates quoted by the Central Bank on such date (or, if the average price of preferred shares is determined under clause (ii) of the preceding sentence, the average of such quoted rates on the same fifteen dates used to determine the average price of the preferred shares).

A non-Brazilian holder of preferred shares may experience delays in effecting such registration which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Taxation of Dividends

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

Taxation of Gains

Gains realized outside Brazil by a non-Brazilian holder on the disposition of ADSs to another non-Brazilian holder may be subject to Brazilian

tax. According to Law No. 10,833 of December 2003, the disposition of assets located in Brazil by a non-Brazilian holder, whether to other non-Brazilian holder or Brazilian holders, may become subject to taxation in Brazil. Although we believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of this rule, considering the general and unclear scope of it and the lack of judicial court ruling in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil.

The withdrawal of ADSs in exchange for preferred shares is not subject to Brazilian income tax. The deposit of preferred shares in exchange for ADSs may be subject to Brazilian capital gain tax at the rate of 15% or 25%, in case the holder is located in a "tax haven" (as described below), if the amount previously registered with the Central Bank as a foreign investment in the preferred shares is lower than (1) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the fifteen trading sessions immediately preceding such deposit. In this case, the difference between the amount previously registered and the average price of the preferred shares, calculated as above, shall be considered a capital gain. Upon receipt of the underlying preferred shares, the non-Brazilian holder registered under Resolution 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described above in "- Registered Capital." However, if this non-Brazilian holder does not register under Resolution 2,689, it will be subject to the less favorable tax treatment described below.

Non-Brazilian holders are generally subject to income tax imposed at a rate of 15% or 25%, in case the holder is located in a "tax haven" (as described below) on gains realized on sales or exchanges of preferred shares that occur, off of Brazilian stock, future and commodities exchanges. In the case of gains obtained on Brazilian stock, future and commodities exchanges, the general applicable rate is 20%, except as described below. Non-Brazilian holders are subject to income tax currently at a rate of 20% on gains realized on sales in Brazil of preferred shares that occur on the Brazilian stock exchanges unless such a sale is made by a non-Brazilian holder who is not resident in a "tax haven" (as described below) and: (1) such sale is made within five business days of the withdrawal of such preferred shares in exchange for ADSs and the proceeds thereof are remitted abroad within such five-day period, or (2) such sale is made under Resolution 2,689 by registered non-Brazilian holders who obtain registration with the CVM. In the two latter cases, the gains realized are exempt from income tax. Such "gain realized" arising from transactions on the Brazilian stock exchanges is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost, measured in Brazilian currency, without any correction for inflation, of the shares sold. The "gain realized" as a result of a transaction that occurs other than on a Brazilian stock exchange will be the positive difference between the amount realized on the sale or exchange and the acquisition cost of the preferred shares, both such values to be taken into account in reais; there are grounds, however, to hold that the "gain realized" should be calculated based on the foreign currency amount registered with the Central Bank, such foreign currency amount to be translated into Brazilian currency at the commercial market rate. There is no assurance that the current preferential treatment for holders of ADSs and non-Brazilian holders of

preferred shares under Resolution 2,689 will continue in the future or that it will not be changed in the future. Reductions in the rate of tax provided for by Brazil's tax treaties do not apply to the tax on gains realized on sales or exchange of preferred shares.

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

Interest Attributed to Shareholders' Equity

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

Beneficiaries Resident or Domiciled in Tax Havens or Low Tax Jurisdiction

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

Other Brazilian Taxes

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

or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of preferred shares or ADSs.

Tax on Bank Account Transactions (CPMF)

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

Taxation of Foreign Exchange Transactions (IOF/Cambio)

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

Tax on Bonds and Securities Transactions (IOF/Titulos)

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

U.S. Federal Income Tax Considerations

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

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

(i) a citizen or resident alien individual of the United States;

(ii) a corporation or partnership created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);

(iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or

(iv) a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

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

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

Taxation of Distributions

In general, distributions with respect to the preferred shares or the ADSs (which likely would include distributions of interest on equity charges attributed to shareholders' equity, as described above under "- Brazilian Tax Considerations - Interest Attributed to Shareholders' Equity") will, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. If a distribution exceeds the amount of our current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred shares or ADSs, and thereafter as capital gain. As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends represent "qualified dividend income." Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company ("PFIC"), foreign personal holding company ("FPHC") or foreign investment company ("FIC"). The ADSs are listed on the New York Stock Exchange, and may qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Based on our audited financial statements as well as relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC or FIC for United States federal income tax purposes with respect to our 2003 taxable year. In addition, based on the our audited financial statements and current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, we do not anticipate becoming a PFIC, FPHC or FIC for its 2004 taxable year. Because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC, FPHC, or FIC for the current, or any past or future tax year.

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

Dividends paid by us generally will constitute passive (or possibly, financial services) income from non-U.S. sources for U.S. foreign tax credit purposes. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian withholding tax imposed on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability (or at a U.S. holder's election, all foreign income taxes paid may instead be deducted in computing such holder's taxable income). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax pursuant to recently enacted legislation. U.S. holders should be aware that the U.S. Internal Revenue Service ("IRS") has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian withholding tax on dividends could be affected by future actions that may be taken by the IRS.

Taxation of Capital Gains

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

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

Passive Foreign Investment Company Rules

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

U.S. Backup Withholding and Information Reporting

A U.S. holder of preferred shares or ADSs may, under certain circumstances, be subject to "backup withholding" with respect to certain payments to such U.S. holder, such as dividends paid by our company or the proceeds of a sale of preferred shares or ADSs, unless such holder (i) is a corporation or comes within certain other exempt categories, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against a U.S. holder's U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

10F. Dividends and Paying Agents

Not applicable.

10G. Statement by Experts

Not applicable.

10H. Documents on Display

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the Commission. Reports and other information filed by us with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. You may obtain copies of this material by mail from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may also inspect these reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which our ADSs are listed.

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

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

10I. Subsidiary Information

Not required.

ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to market risks from changes in foreign currency and interest rates. Market risk is the potential loss arising from adverse changes in market rates, such as foreign currency exchange rates and interest rates. See notes 2(s) and 16 to our financial statements for additional information regarding derivative financial instruments and our foreign exchange and interest rate risk management.

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

Since late 1999, we have adopted a treasury policy designed to manage financial market risk, principally by swapping a substantial part of our U.S. dollar-denominated liabilities to obligations denominated in reais. We engage in cross-currency interest rate swaps under which we enter into an agreement typically with the same counter-party which provides the original U.S. dollar-denominated financing. A separate financial instrument is signed at the time the loan agreement is consummated, under which we effectively are then

liable for amounts in reais and interest at a percentage of an interbank (Certificado de Deposito Interbancario - CDI) variable interest rate. Amounts are normally consummated with the same financial institutions and for the same maturity periods. See "Item 5B - Operating and Financial Review and Prospects - Liquidity and Capital Resources."

We use derivative financial instruments, usually cross-currency interest rate swaps, to mitigate risk caused by fluctuating currency and interest rates. We enter into cross-currency interest rate swaps to protect foreign currency exposure. Decisions regarding swap contracts are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. We use the fair-value method of accounting, recording realized and unrealized gains and losses on these contracts which are included within "financial income" and "financial expense," respectively.

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

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

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

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

Interest Rate Risk

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

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

The table below provides information about our significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2003. See notes 2(d), 12, 13 and 16 to our financial statements.

	As of Decemb			
	Expected Matur			
	2004	2005	2006	2
			(mill	
Assets:				
Cash and banks in reais.....................................	$50.0	-	-	
Cash equivalents denominated in reais......................	289.9	-	-	
Total cash and cash equivalents.....................	339.9	-	-	
Liabilities:				
Short-term debt:				
Denominated in U.S. dollars..............................	4.6	-	-	
Floating rate, denominated in U.S. dollars(1)	52.4	-	-	
Floating rate, denominated in reais......................	131.2	-	-	
Floating rate, denominated in reais......................	48.7	-	-	
Unrealized losses on cross-currency interest rate swaps(2)	5.6	-	-	
Total short-term debt..............................	242.5	-	-	
Long-term debt:				
Floating rate, denominated in foreign currency...........	4.8	6.5	6.6	
Floating rate, denominated in U.S. dollars(1)............	64.8	79.1	4.4	
Floating rate, denominated in reais......................	86.0	11.1	-	
Floating rate, denominated in reais......................	58.9	54.1	28.6	
Floating rate, denominated in reais......................	145.5	-	-	
Unrealized losses on cross-currency interest rate swaps(2)	10.9	1.8	-	
Total long-term debt...............................	370.9	152.6	39.6	
Capital lease obligations:				
Fixed rate, denominated in U.S. dollars..................	8.0	3.8	0.7	
Floating rate, denominated in reais......................	1.3	1.4	0.7	
Total capital lease obligations.....................	9.3	5.2	1.4	

As of December 31,

	Total	Fair Value	(A
Assets:			
Cash and banks in reais	$50.0	$50.0	
Cash equivalents denominated in reais	289.9	289.9	
Total cash and cash equivalents	339.9	339.9	
Liabilities:			
Short-term debt:			
Denominated in U.S. dollars	4.6	4.6	
Floating rate, denominated in U.S. dollars(1)	52.4	54.0	
Floating rate, denominated in reais	131.2	131.3	
Floating rate, denominated in reais	48.7	48.9	
Unrealized losses on cross-currency interest rate swaps(2)	5.6	5.6	
Total short-term debt	242.5	244.4	
Long-term debt:			
Floating rate, denominated in foreign currency	26.5	26.3	
Floating rate, denominated in U.S. dollars(1)	148.3	157.4	
Floating rate, denominated in reais	97.1	96.9	
Floating rate, denominated in reais	170.8	169.4	
Floating rate, denominated in reais	145.5	145.3	
Unrealized losses on cross-currency interest rate swaps(2)	12.7	12.7	
Total long-term debt	600.9	608.0	
Capital lease obligations:			
Fixed rate, denominated in U.S. dollars	12.5	13.3	
Floating rate, denominated in reais	3.4	3.4	
Total capital lease obligations	15.9	16.7	

(1) We entered into cross-currency interest rate swaps in the same amount to exchange the U.S. dollars exposure for CDI.
(2) Fair value liabilities on cross-currency interest rate swap contracts.
(3) Based on a basket of foreign currencies to reflect BNDES's funding portfolio.

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

	2003	2002	2001
First quarter..................	11.00%	10.00%	9.25%
Second quarter.................	12.00	9.50	9.25
Third quarter..................	12.00	10.00	9.50
Fourth quarter.................	11.00	10.00	10.00

The TJLP was 10.00% and 9.75% in the first and second quarters of 2004, repectively.

	Annualized Rate			
		As of December 31		
	Three months ended March 31, 2004	2003	2002	2001
IGP-M (1).........	2.7%	8.7%	25.3%	10.4%
CDI (2)...........	16.0%	16.3%	24.8%	19.0%
TR................	0.4%	4.6%	2.8%	2.3%

(1) Indice Geral de Precos -- Mercado (general price index) compiled by the Fundacao Getulio Vargas.
(2) Certificado de Deposito Interbancario (interbank variable interest rate), annualized rate at the end of each period.

We have not experienced, and we do not expect to experience, difficulty obtaining financing or refinancing existing debt. As of December 31, 2003, we had no committed line of credit agreements, other than the BNDES contracts. See "Item 5B - Operating and Financial Review and Prospects - Liquidity and Capital Resources" for a discussion of these agreements.

Foreign Exchange Risk

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

Since January 1, 1999 and through December 31, 2003, the U.S. dollar appreciated by 139.0% against the real, and as of December 31, 2003, the commercial market rate for purchasing U.S. dollars was R$2.8892 to US$1.00. In the first three months of 2004, the real depreciated by 0.7% against the U.S. dollar, and as of March 31, 2004, the commercial market rate for purchasing U.S. dollars was R$2.9086 to US$1.00.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency-denominated liabilities at December 31, 2003 included debt denominated mainly in U.S. dollars. Our net foreign currency exposure (U.S. dollar-denominated debt less our cross-currency interest rate swaps in our U.S. dollar-denominated debt) was US$10.6 million at December 31, 2003 compared to US$13.7 million at December 31, 2002. Our net foreign currency exposure is represented by the debt due to import financing and capital lease agreements. Our cross-currency interest rate swaps partially protect our exposure arising from our U.S. dollar-denominated debt.

The table below provides information on our debt outstanding as of December 31, 2003. The amounts have been translated into U.S. dollars based on

the exchange rate prevailing on December 31, 2003 determined by the Brazilian Central Bank (R$2.8892 to US$1.00).

	As of December 31, 2003					
	Expected Maturity Date					
	2004	2005	2006	2007	2008	Th
	(millions of U.S. dollars)					
Short-term debt:						
U.S. dollars..................	$ 4.6	-	-	-	-	
U.S. dollars (1)............	52.4	-	-	-	-	
Reais.........................	185.5	-	-	-	-	
Total short-term debt....	242.5	-	-	-	-	
Long-term debt:						
Foreign currencies (2).........	4.8	6.5	6.6	4.4	2.1	
U.S. dollars (1).............	64.8	79.1	4.4	-	-	
Reais........................	301.3	67.0	28.6	15.0	7.5	
Total long-term debt.....	370.9	152.6	39.6	19.4	9.6	
Capital lease obligations:						
U.S. dollars.................	8.0	3.8	0.7	-	-	
Reais........................	1.3	1.4	0.7			
Total capital lease obligations...............	9.3	5.2	1.4			

(1) Originally U.S. dollar-denominated and swapped to CDI.
(2) Based on a basket of foreign currencies to reflect BNDES's funding portfolio.

Our utilization of derivative financial instruments is substantially limited to the use of cross-currency interest rate swap contracts to mitigate foreign currency risks. Foreign currency swap contracts allow us to swap fixed rate U.S. dollar-denominated short-term and long-term debt for Brazilian real-denominated floating rate debt, based on the CDI rate variation. See notes

12, 13 and 16 to the financial statements. As of December 31, 2003, the U.S. dollar-denominated short-term and long-term debt balance of US$433.5 million (2002 - US$538.5 million) includes US$428.9 million (2002 - US$533.6 million), which were covered by floating rate swaps in Brazilian reais, based on the CDI rate, including US$228.3 million (2002 - US$414.9 million) which has been treated on a combined basis pursuant to EITF No. 02-02 as if these loans had been originally denominated in reais and accrued CDI. In addition, the swap agreements do not provide for collateral.

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

	As of December 31, 2003					
	Expected Maturity Date					
	2004	2005	2006	2007	2008	Thereaf
	(millions of U.S. dollars)					
Cross-currency and interest rate swap contracts notional amount:						
Current assets:						
TR to CDI..............	$48.7	-	-	-	-	-
Other assets:						
U.S. dollar to reais....	7.5	9.1	7.4	4.9	2.4	2.3
Short-term debt:						
U.S. dollars to reais..	57.1	2.3	0.5	-	-	-
Long-term debt:						
U.S. dollars to reais..	64.8	79.1	4.4	-	-	-

	As of December 31, 2003	
	Average Paying Rate in Reais	Average Receiving Rate
Cross-currency and interest rate swap contracts notional amount:		
Current assets:		
TR to CDI..............	95.0% of CDI	TR plus 15.4%

Other assets:		
U.S. dollar to reais....	95.8% of CDI	U.S. dollar
Short-term debt:		
U.S. dollars to reais..	96.1% of CDI	7.7% over U.S. dollar
Long-term debt:		
U.S. dollars to reais..	99.8% of CDI	10.5% over U.S. dollar

ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

No matters to report.

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

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

ITEM 15 CONTROLS AND PROCEDURES

Our Chief Executive Officer, or CEO, and our Acting Chief Financial Officer, or Acting CFO, are responsible for establishing and maintaining our disclosure controls and procedures. These controls and procedures were designed to ensure that information relating to us required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed summarized and reported within the time periods specified in the rules and forms of the SEC. We evaluated these disclosures controls and procedures under the supervision of our CEO and Acting CFO as of December 31,2003. Based on this evaluation, our CEO and Acting CFO concluded that our disclosure controls and procedures are effective in timely alerting them to information required to be included in our periodic reports to the SEC.

As of today, there has been no change in our internal control over financial reporting during the year ended December 31, 2003 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 16 [Reserved]

16A. Audit Committee Financial Expert

As of yet, we have not appointed an "audit committee financial expert", as defined by the SEC. As disclosed in item 16D below, we are in the process of implementing a fully independent audit committee as a best corporate governance

practice, and presently, our current audit committee does not follow the independence requirements of such rule as we are still exempt from the independence requirements until July 2005 according to Exchange Act Rule 10A-3 (a)(5)(A).

16B. Code of Ethics

We implemented in 2000 our Code of Ethics regulating the ethical relationship of our professionals with us and our customers, suppliers, competitors and the public at large. Pursuant to our Code of Ethics:

- our employees are not allowed to accept any kind of personal benefit from suppliers, and any supplier that feels discriminated against any of our employees may contact directly the ombudsman to take the necessary measures;

- our employees are not allowed to carry out parallel activities, except if different from our business and previously authorized by our management;

- all professional contact with any media publication must be authorized by us in advance;

- any decision on hiring new professionals at management level who have relatives in competitor companies must be taken after authorization by our Executive Committee; and

- employees who do not comply with the rules of our Code of Ethics, as well as other employees who deliberately fail to notify violations or omit relevant information in connection with such violations, are subject to disciplinary actions.

In addition, we later amended our Code of Ethics in order to comply with the requirements of the Sarbanes-Oxley Act and New York Stock Exchange rules. These rules intend to regulate the conduct of our managers in connection with the registration and control of financial and accounting information and their access to privileged and non-public information and data, and establish that:

- our managers are not allowed to perform any activities which may affect their ability to decide or to act in the Company's interests or which may result in professional advantages due to the use of information or work-related situation deemed to be a business opportunity or prospect identified by our Company;

- our managers must be aware of and comply with the laws and regulations applicable to their position within our Company, as well as promote the compliance of our Company with the laws and regulations applicable to its business;

- every document and confidential information to which the managers have access must be exclusively used in our Company's business and commercial activities;

- our managers are responsible for the security and accuracy of the information contained in the records and documents that support our business, being also responsible for the autonomy of our independent auditors in dealing with information and data of our Company;

- any inappropriate conduct or undue access to privileged information, as well as any violation to the rules and principles provided for in out Code of Ethics, must be promptly informed to our Ethical Committee, which may impose to our managers sanctions, including warnings, suspensions and the filings of civil and criminal liabilities, after the approval by our Board of Executive Officers; and

- our managers must motivate their collaborators and promote their knowledge of, and compliance with, the Code of Ethics.

A copy of our code of ethics is filed as an exhibit to this annual report. A copy of this document is also available on our website (www.cbdri.com.br).

16C. Principal Accountant Fees and Services

PricewaterhouseCoopers Auditores Independentes, acted as our independent auditor for the fiscal years ended December 31, 2003 and 2002. The chart below sets forth the total amount billed to us by PricewaterhouseCoopers Auditores Independentes for services performed in the years 2003 and 2002, and breaks down these amounts by category of service:

	2003	2002
	(millions of U.S. dollars) (1)	
Audit Fees......................	$ 1.3	$ 1.2
Audit-Related Fees..............	1.2	0.7
Tax Fees........................	0.1	0.1
All Other Fees..................	-	-
Total...........................	$ 2.6	$ 2.0

(1) Fees including out-of-pocket expenses, translated to U.S. dollars at December 31, 2003 exchange rate.

Audit Fees

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

Audit-Related Fees

Audit-related fees in 2003 and 2002 were comprised of assurance and related services that are related to the performance of the audit or review of the financial statements, including due diligence related to mergers and

acquisitions, audit in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees

Tax fees in 2003 and 2002 were related to services for tax compliance, tax planning and tax advice.

Pre-Approval Policies and Procedures

The audit committee approves all audit, audit-related, tax and other services provided by PricewaterhouseCoopers Auditores Independentes. Any services provided by PricewaterhouseCoopers Auditores Independentes that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. The audit committee is permitted to approve certain fees for audit-related services, tax services and other services pursuant to a de minimis exception before the completion of the engagement. In 2003, none of the fees paid to PricewaterhouseCoopers Auditores Independentes were approved pursuant to the de minimis exception.

16D. Exemptions from the Listing Standards for Audit Committees

On June 13, 2000, our board of directors approved the creation of an audit committee (comite de supervisao), whose responsibilities are consistent with the U.S. Blue Ribbon Committee and the rules and regulations of the New York Stock Exchange. The primary responsibility of the audit committee, which is independent of our management (except for Mr. Augusto Marques da Cruz Filho who is our chief executive officer) and of our independent auditors, is to review our financial statements and report on them to our shareholders. Although we are in the process of implementing a fully independent audit committee, presently our current audit committee (comite de supervisao) does not follow the independence requirements of such rule as we are still exempt from the independence requirements until July 2005 according to Exchange Act Rule 10A-3 (a)(5)(A).

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

Not required for the year ended December 31, 2003.

PART III

ITEM 17 FINANCIAL STATEMENTS

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

ITEM 18 FINANCIAL STATEMENTS

The following financial statements, together with the Report of Independent Auditors thereon, are filed as part of this annual report:

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Report of Independent Auditors................................F-2

Consolidated Balance Sheets at December 31, 2003 and 2002......F-3

Consolidated Statements of Operations for the years ended December 31, 2003, F-6 2002 and 2001..................................F-6

Consolidated Statements of Cash Flows for the years ended December 31, 2003, F-8 2002 and 2001..................................F-8

Statements of Changes in Shareholders' Equity for the years ended December 31, F-10 2003, 2002 and 2001........................F-10

Notes to Consolidated Financial Statements...................F-14

ITEM 19 EXHIBITS

Exhibit Number	Description
1.1	Unofficial English translation of our Estatuto Social (by-laws), as amended.***
2.(a)	Form of Amended Deposit Agreement, among us, The Bank of New York, as depositary, and each Owner and Beneficial Owner from time to time of ADRs issued thereunder, including the form of American Depositary Receipt.*
4.(b)(1)	Shareholders' Agreement dated August 9, 1999, among Pao de Acucar S.A. Industria e Comercio-PAIC, Peninsula Participacoes S.A., Abilio dos Santos Diniz, Geant International B.V., Nova Peninsula S.A. and Casino Guichard Perrachon.**
4(b)(2)	Shareholders' Agreement dated January 29, 2004, among us, Sendas S.A., Se Supermercados Ltda., Novasoc Comercial Ltda., Sendas Distribuidora S.A., Athur Antonio Sendas, Sendas Empreendimentos e Participacoes Ltda., Pao de Acucar S.A. Industria e Comercio, Peninsula Participacoes Ltda., Nova Peninsula Participacoes S.A. and Abilio dos Santos Diniz ***
6.1	See notes 2(r) and 15(g) to our financial statements for information explaining how earnings per share information was calculated.
8.1	List of Subsidiaries. See note 2(c) to our financial statements for information regarding our subsidiaries.
11.1	Unofficial English translation of our Code of Ethics and Annex***
12.1	Section 906 Certification of the Chief Executive Officer***
12.2	Section 906 Certification of the Chief Financial Officer***
13.1	Section 302 Certification of the Chief Executive Officer***
13.2	Section 302 Certification of the Chief Financial Officer***

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* Incorporated herein by reference to our registration statement on Form F-1 (No. 333-6860).

** Incorporated herein by reference to our registration statement on Form 20-F filed on May 10, 2002.
*** Filed herewith.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheets at December 31, 2003 and 2002.....F-3

Consolidated Statements of Operations for the years ended December 31, 2003, F-6 2002 and 2001.................................F-6

Consolidated Statements of Cash Flows for the years ended December 31, 2003, F-8 2002 and 2001.................................F-8

Statements of Changes in Shareholders' Equity for the years ended December 31, F-10 2003, 2002 and 2001...F-10

Notes to Consolidated Financial Statements....................F-14

Report of Independent Auditors

To the Board of Directors and Shareholders
Companhia Brasileira de Distribuicao

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Companhia Brasileira de Distribuicao and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. As discussed in Note 1(b) to the consolidated financial statements, the Company adopted FASB Statement No. 142, "Goodwill and Other Intangible Assets", at January 1, 2002 and for acquisitions after June 30, 2001.

PricewaterhouseCoopers
Auditores Independentes

Sao Paulo, Brazil
February 9, 2004

Companhia Brasileira de Distribuicao

Consolidated Balance Sheets
Expressed in thousands of U.S. dollars, except number of shares

	December 31	
Assets	2003	2002
Current assets		
Cash and cash equivalents	339,856	315,712
Restricted cash and marketable securities	28,680	
Unrealized gains from cross-currency interest rate swaps	242	13,587
Accounts receivable, net	364,745	307,897
Inventories	326,607	277,586
Recoverable taxes	138,146	98,461
Prepaid expenses	7,115	4,674
Deferred income tax	11,769	5,290
Advances to suppliers and employees	14,939	3,496
Other	75,407	40,981
Total current assets	1,307,506	1,067,684
Property and equipment, net	1,383,987	1,062,707
Other assets		
Unrealized gains from cross-currency interest rate swaps	2,401	2,455
Customer credit financing	5,480	5,431
Other receivables	91,325	67,796
Restricted deposits for legal proceedings	52,237	33,739
Goodwill and other acquired intangible assets, net	226,206	203,768
Deferred income tax, net	100,327	81,840
Related parties	108	73
Other	1,613	2,218
	479,697	397,320
Total assets	3,171,190	2,527,711

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Companhia Brasileira de Distribuicao

Consolidated Balance Sheet
Expressed in thousands of U.S. dollars, except number of shares (continued)

Liabilities and shareholders' equity	December 31 2003	2002
Current liabilities		
Short-term debt	242,459	228,560
Current portion of long-term debt	370,864	232,309
Capital lease obligations	9,338	9,178
Accounts payable	411,954	398,952
Payroll and related charges	38,833	27,745
Deferred income tax	1,577	
Taxes, other than on income	14,975	9,439
Tax on income	3,568	
Related parties	295	444
Other	18,887	16,747
Total current liabilities	1,112,750	923,374
Long-term liabilities		
Long-term debt	230,022	385,069
Capital lease obligations	6,547	9,189
Mandatorily redeemable equity interest in securitization fund	144,569	
Deferred income tax	1,873	
Taxes, other than on income	37,364	3,494
Accrued liability for legal proceedings	397,462	269,717
Other	2,715	4,312
Total long-term liabilities	820,552	671,781
Total liabilities	1,933,302	1,595,155

Commitments and contingencies (Note 17)

Companhia Brasileira de Distribuicao

Consolidated Balance Sheet
Expressed in thousands of U.S. dollars, except number of shares (continued)

	December 31	
	2003	2002
Shareholders' equity		
Preferred shares - no par value, 49,971,428,034 shares issued and outstanding and 69,712,996,269 shares authorized at December 31, 2003 (49,715,328,034 shares issued and outstanding and 69,712,996,269 shares authorized at December 31, 2002)	1,186,985	1,014,640
Common shares - no par value, 63,470,811,399 shares issued and outstanding and 80,287,003,731 shares authorized at December 31, 2003 and 2002	483,588	483,588
Additional paid-in capital	114,902	204,719
Deferred compensation	(1,395)	(1,504)
Appropriated retained earnings	33,374	25,485
Unappropriated retained earnings	323,317	318,337
Accumulated other comprehensive income		
Cumulative translation adjustment	(902,883)	(1,112,709)
Total shareholders' equity	1,237,888	932,556
Total liabilities and shareholders' equity	3,171,190	2,527,711

The accompanying notes are an integral part of these financial statements.

Companhia Brasileira de Distribuicao

Consolidated Statements of Operations
Expressed in thousands of U.S. dollars, except per-share amounts

	Year ended December 31		
	2003	2002	2001
Gross sales	4,183,377	3,843,686	4,153,389
Sales and value-added tax	(648,782)	(586,120)	(638,001)

Net sales revenue	3,534,595	3,257,566	3,515,388
Cost of sales	(2,538,150)	(2,345,245)	(2,506,791)
Gross profit	996,445	912,321	1,008,597
Selling, general and administrative expenses	(695,321)	(660,395)	(743,706)
Depreciation and amortization	(115,478)	(107,828)	(146,248)
Other operating income, net	2,486	1,567	728
Operating income	188,132	145,665	119,371
Non-operating income (expenses)			
Financial income	179,267	158,300	142,339
Financial expenses	(221,480)	(222,869)	(161,722)
Income before income taxes	145,919	81,096	99,988
Income tax benefit (expense)			
Current	(7,937)	(11,824)	(16,471)
Deferred	(25,073)	(8,795)	17,154
	(33,010)	(20,619)	683
Net income	112,909	60,477	100,671
Net income applicable to each class of shares			
Preferred	52,263	26,528	42,902
Common	60,646	33,949	57,769
Net income	112,909	60,477	100,671

Companhia Brasileira de Distribuicao

Consolidated Statements of Operations
Expressed in thousands of U.S. dollars,
except per-share amounts (continued)

	Year ended December 31		
	2003	2002	2001

Weighted-average number of shares outstanding (thousands)			
Basic			
Preferred	49,725,151	49,596,794	46,912,582
Common	63,470,811	63,470,811	63,168,975
Diluted			
Preferred	49,988,708	50,115,825	47,859,191
Common	63,470,811	63,470,811	63,168,975
Basic earnings per thousand shares			
Preferred - U.S.$	1.05	0.53	0.91
Common - U.S.$	0.96	0.53	0.91
Diluted earnings per thousand shares			
Preferred - U.S.$	1.05	0.53	0.91
Common - U.S.$	0.95	0.53	0.91

The accompanying notes are an integral part of these financial statements.

Companhia Brasileira de Distribuicao

Consolidated Statements of Cash Flows
Expressed in thousands of U.S. dollars

	Year ended December 31		
	2003	2002	2001
Cash flows from operating activities			
Net income	112,909	60,477	100,671
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	110,085	104,109	118,216
Amortization of goodwill and tradename	5,393	3,719	28,032
Loss (gain) on sale of property and equipment	(1,309)	234	(60)
Unrealized losses (gains) from cross-currency interest rate swaps	14,709	(19,230)	
Stock based compensation	1,250	912	1,853
Deferred income tax (benefit) expense	25,073	8,795	(17,154)
Unrealized foreign exchange (gain) loss	(26,537)	11,865	4,307
Decrease (increase) in assets			
Accounts receivable	3,199	(33,257)	(50,706)
Inventories	12,077	(52,916)	72,242
Recoverable taxes	(16,645)	(79,957)	(10,870)
Advances to suppliers and employees	(10,009)	(3,716)	2,270

Other	(31,724)	(37,272)	11
Increase (decrease) in liabilities			
Accounts payable	(71,273)	103,589	(138,257)
Payroll and related charges	4,593	(4,566)	724
Taxes payable	37,623	(308)	(8,795)
Accrued liability for legal proceedings, net of restricted deposits	44,164	90,270	42,144
Accrued interest	20,306	22,413	(20,214)
Other	(2,270)	(8,635)	(5,192)
Net cash provided by operating activities	231,614	166,526	119,222
Cash flows from investing activities			
Property and equipment	(184,778)	(254,078)	(234,748)
Purchase of subsidiaries, less cash acquired	(449)	(94,274)	(40,414)
Proceeds from sale of property and equipment	6,090	149	592
Proceeds from sale of intangible assets	97		
Other	(28,572)		
Net cash used in investing activities	(207,612)	(348,203)	(274,570)

Companhia Brasileira de Distribuicao

Consolidated Statements of Cash Flows
Expressed in thousands of U.S. dollars (continued)

	Year ended December 31		
	2003	2002	2001
Cash flows from financing activities			
Loans with original maturities of less than 90 days, net	(2,122)	(8,873)	(53,575)
Short-term debt			
Issuances	206,458	362,756	442,165
Repayments	(242,511)	(483,608)	(331,107)
Long-term debt			
Issuances	114,559	392,412	223,938
Repayments	(258,844)	(60,591)	(112,676)
Dividends paid	(20,569)	(21,232)	
Interest attributed to equity paid			(59,114)
Proceeds from stock options exercised	1,916	714	4,126
Proceeds from subscription of mandatorily redeemable equity			

interest in securitization fund	139,787		
Net cash provided by (used in) financing activities	(61,326)	181,578	113,757
Effect of exchange rate changes on cash	61,468	(135,874)	37,084
Net increase (decrease) in cash and cash equivalents	24,144	(135,973)	(4,507)
Cash and cash equivalents, beginning of year	315,712	451,685	456,192
Cash and cash equivalents, end of year	339,856	315,712	451,685
Cash paid during the year for			
Interest (net of amount capitalized)	148,994	122,272	102,636
Income taxes	3,323		

Non-cash transactions (Note 19)

The accompanying notes are an integral part of these financial statements.

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Companhia Brasileira de Distribuicao

Statements of Changes in Shareholders' Equity
Expressed in thousands of U.S. dollars, except per-share amounts

	Year ended December 31		
	2003	2002	2001
Share capital			
Preferred shares			
At beginning of year	1,014,640	804,992	718,928
Capitalization of retained earnings	79,471	208,934	
Capital increase with share warrants forfeited	90,958		
Capital issued for interest attributed to equity (2001 - 310,993,184 shares)			8,505
Stock options exercised (2003 - 256,100,000 shares; 2002 - 125,000,000 shares; 2001 - 591,385,000 shares)	1,916	714	4,126
Debenture conversion (2001 - 4,174,671,130 shares)			73,433

At end of year	1,186,985	1,014,640	804,992
Common shares			
At beginning of year	483,588	483,588	461,829
Capital issued for interest attributed to equity (2001 - 612,056,784 shares)			21,759
At end of year	483,588	483,588	483,588
Additional paid-in capital			
Share warrants			
At beginning of year	181,915	181,915	181,915
Share warrants forfeited			
Preferred shares warrants (2,064 warrants)	(24)		
Common shares warrants (6,285,876 warrants)	(90,934)		
At end of year	90,957	181,915	181,915

Companhia Brasileira de Distribuicao

Statements of Changes in Shareholders' Equity
Expressed in thousands of U.S. dollars,
except per-share amounts (continued)

	Year ended December 31		
	2003	2002	2001
Other			
At beginning of year	22,804	21,752	24,389
Stock issuance costs, net of taxes			(3,055)
Stock options granted	1,141	1,052	418
At end of year	23,945	22,804	21,752
Total at end of year	114,902	204,719	203,667
Deferred compensation			
At beginning of year	(1,504)	(1,364)	(2,799)
Stock options granted	(1,141)	(1,052)	(418)
Amortization of deferred compensation	1,250	912	1,853

At end of year	(1,395)	(1,504)	(1,364)

Companhia Brasileira de Distribuicao

Statements of Changes in Shareholders' Equity
Expressed in thousands of U.S. dollars,
except per-share amounts (continued)

	Year ended December 31		
	2003	2002	2001
Appropriated retained earnings			
Statutory reserve			
At beginning of year	21,560	27,548	26,279
Transfer (to) from unappropriated retained earnings	8,710	(5,988)	1,269
At end of year	30,270	21,560	27,548
Tax incentive reserve			
At beginning of year		1,746	2,071
Capital increase		(1,710)	
Transfer to unappropriated retained earnings		(36)	(325)
At end of year			1,746
Unrealized income reserve			
At beginning of year	3,925	8,087	12,102
Transfer to unappropriated retained earnings	(821)	(4,162)	(4,015)
At end of year	3,104	3,925	8,087
Total at end of year	33,374	25,485	37,381

Companhia Brasileira de Distribuicao

Statements of Changes in Shareholders' Equity
Expressed in thousands of U.S. dollars, except per-share amounts

	2003	
Unappropriated retained earnings		
At beginning of year	318,337	
Net income for year	112,909	
Capital increase	(79,471)	(
Dividends declared, per thousand shares (2003 - U.S.$ 0.18; 2002 - U.S.$ 0.19)	(20,569)	
Transfers (to) from appropriated retained earnings and additional paid-in-capital	(7,889)	
At end of year	323,317	
Cumulative translation adjustment		
At beginning of year	(1,112,709)	(
Net translation gain (loss)	209,826	(
At end of year	(902,883)	(1,
Total shareholders' equity	1,237,888	
Comprehensive income (loss)		
Net income	112,909	
Net translation gain (loss)	209,826	(
Comprehensive income (loss)	322,735	(

The accompanying notes are an integral part of these financial statements.

Companhia Brasileira de Distribuicao

Notes to the Consolidated Financial Statements
Expressed in thousands of U.S. dollars, unless otherwise stated

1 The Company

(a) Operations

Companhia Brasileira de Distribuicao is a corporation organized under the laws of the Federative Republic of Brazil, the shares of which are traded on the New York, Luxembourg and Sao Paulo stock exchanges.

The principal business of Companhia Brasileira de Distribuicao and its subsidiaries (collectively referred to as the "Company") comprises the retailing of food, general merchandise, electronic goods, home appliances and other products from its supermarkets, hypermarkets, and home appliance stores. The Company's stores operate in Brazil primarily under the tradenames Pao de Acucar, Extra, Barateiro, CompreBem and Extra-Eletro.

(b) Business combinations

On June 30, 2002, the Company acquired Se Supermercados Ltda.("Se") and Companhia Pernambucana de Alimentacao ("CIPAL").

The acquisitions were recorded using the purchase method of accounting. The purchase price has been allocated to assets acquired and liabilities assumed based on the estimated fair market values at the date of acquisition. Amounts allocated to goodwill related to these acquisitions have not been amortized. Amortization of goodwill ceased on January 1, 2002 upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", including acquisitions after June 30, 2001.

The combined fair value of the assets acquired and liabilities assumed of Se, the total purchase consideration and allocated and unallocated goodwill are summarized below:

	2002
Current assets	32,679
Property and equipment, net	89,733
Other assets	926
Deferred tax assets, net	59,167
Current liabilities	(53,050)
Long-term liabilities	(24,264)

Net assets (liabilities) at fair value	105,191
Less: Purchase consideration	135,841
Goodwill on acquisition of Se	30,650
Goodwill from other acquisitions	720
Total goodwill arising from acquisitions in 2002	31,370

Selected pro forma unaudited combined financial data of the Company prepared as though the acquisitions of the more significant companies acquired had occurred on January 1, 2001, are presented below:

	Year ended December 31	
	2002	2001
Net sales revenue	3,388,939	4,033,334
Net income	4,136	51,566
Basic pro forma earnings per thousand preferred and common shares - U.S.$	0.04	0.47
Diluted pro forma earnings per thousand preferred and common shares - U.S.$	0.04	0.46

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisitions been consummated on January 1, 2001.

2 Summary of Significant Accounting Policies

(a) Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in certain respects from the accounting principles applied by the Company in its statutory financial statements prepared in accordance with accounting practices adopted in Brazil ("Brazilian GAAP").

Shareholders' equity and results of operations included in these financial statements differ from those included in the statutory accounting records as a result of differences between the rate of devaluation of the Brazilian real (R$ or reais) against the United States dollar and the indexes mandated for indexation of statutory

financial statements in Brazil through 1995 and adjustments made to reflect the requirements of accounting principles generally accepted in the United States of America.

Certain amounts in the comparative financial statements for the year ended December 31, 2002 and the notes thereto have been reclassified to be consistent with the current year presentation.

(b) Translation of financial statements

The Company transacts the majority of its business in Brazilian reais and has selected the United States dollar as its reporting currency. The U.S. dollar amounts for all periods presented have been remeasured (translated) from reais amounts in accordance with the criteria set forth in U.S. accounting standards (SFAS No. 52 "Foreign Currency Translation"). As the Brazilian economy ceased to be highly-inflationary as from 1998, the Company adopted the Brazilian real as the functional currency, and applied the following translation method:

. Assets and liabilities are translated from the functional currency to the reporting currency using the official exchange rates reported by the Brazilian Central Bank at the balance sheet date (R$ 2.8892 and R$ 3.5333 to U.S.$ 1.00 at December 31, 2003 and 2002, respectively);

. Revenue, expenses, gains and losses, and cash flows, including exchange gains and losses on foreign currency assets and liabilities, are translated from the functional currency to the reporting currency using the monthly weighted-average exchange rates for the period;

. Capital transactions, warrants, dividends and interest attributed to equity distributions are recorded at historical exchange rates;

. Translation gains and losses are recorded in the cumulative translation adjustment account in shareholders' equity; and

. Foreign exchange transaction gains or losses resulting from foreign currency denominated assets and liabilities are reflected directly in results of operations.

(c) Consolidation

The consolidated financial statements include the financial statements of Companhia Brasileira de Distribuicao and its subsidiaries. Although the Company's interest in Novasoc Comercial Ltda. ("Novasoc") is represented by 10% of Novasoc's quotas, Novasoc is included in the consolidated financial statements as the Company has effective control and a 99.98% beneficial interest. The other quotaholders have no effective veto or other participating or protective rights. Under the bylaws of Novasoc, the appropriation of its net income need not be proportional to the quotaholding in the company. At the quotaholders' meeting on December 29, 2000 it was agreed that the Company would

participate retrospectively from inception and prospectively in 99.98% of Novasoc's results.

With the exception of CBD Technology Inc., a minor U.S. non-operating subsidiary incorporated under the laws of Delaware, all subsidiaries were incorporated under the laws of Brazil. All significant intercompany balances and transactions are eliminated.

Pao de Acucar Fundo de Investimentos em Direitos Creditorios ("PAFIDC") is a special purpose entity which is treated as a variable interest entity under FASB Interpretation No. ("FIN") 46R, "Consolidation of Variable Interest Entities, (revised December 2003)" and has been consolidated in the financial statements as at and for the year ended December 31, 2003.

(d) Cash and cash equivalents

Cash and cash equivalents are carried at cost plus accrued interest. Cash equivalents consist principally of time deposits and certificates of deposit in Brazilian currency having a ready market and an original maturity of 90 days or less. Cash and cash equivalents and marketable securities held by the PAFIDC are classified as Restricted cash and marketable securities.

(e) 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 Company's post-dated check credit sales program accrues interest and permits customers to settle credit sales in up to two monthly installments. Customer credit financing is generally for a term of up to 24 months. Financial income is earned with respect to such interest and taken to income over the period of the loan. Third party service providers carry credit card and purchase voucher credit risk.

(f) Inventories

Inventories are composed of goods held for sale in the stores and in the distribution centers. Inventories are carried at the lower of cost or market. 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 by the distribution centers is the average cost, including warehousing and handling costs.

(g) Securitization of receivables

PAFIDC was incorporated in September 2003 and received from the Company certain accounts receivable under a securitization program. The Company

retained an interest in the form of subordinated quotas and services the receivables (Note 6). For purposes of U.S. GAAP, the transfer of the receivables to PAFIDC was not considered as a sale, nor did PAFIDC meet the pre-requisites of a qualifying special purpose entity ("QSPE"), as defined by SFAS No. 140 "Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities - a replacement of FASB Statement 125". Because the subordinated quotas have a disproportional percentage of the expected losses, PAFIDC was considered a variable interest entity under FIN 46R (Note 2(v)) and was fully consolidated in the financial statements. The senior quotas held by a third party are presented in the consolidated balance sheet as Mandatorily redeemable equity interest in securitization fund, as required by SFAS No. 150 "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity".

(h) Property and equipment

Property and equipment are recorded at cost. Expenditures for repairs and maintenance that do not significantly extend the useful lives of the related asset are charged to expense as incurred. Expenditures that significantly extend the useful lives of existing facilities and equipment are capitalized. Interest incurred during the construction period of property and equipment is capitalized. Interest on construction-period borrowings denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange gains or losses. Depreciation, which includes depreciation of property held under capital leases, is computed based upon the estimated useful lives of the respective assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the estimated useful life of the assets or the lease terms.

Depreciation is computed over the useful lives of the assets as follows:

	Years
Buildings	30
Refurbishments and improvements	5-20
Equipment and software	3-10
Equipment under capital lease (*)	3
Fixtures and installations	5-10
Vehicles	5
Other	5-10

(*) Primarily electronic point-of-sale equipment, hardware and software.

The Company has adopted the guidance of American Institute of Certified Public Accountants Executive Committee Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", for the costs related to its software and

website development. The SOP requires certain costs incurred in connection with developing or obtaining internal-use software to be capitalized and other costs to be expensed. Costs incurred in the development of core software for the Company's websites and infrastructure are capitalized in accordance with SOP No. 98-1. Costs incurred in the development of website content and maintenance costs are expensed as incurred. Costs include direct labor and related overhead for software developed and amounts paid to third party consultants to develop the websites. All costs which are classified as research and development are expensed as incurred. Capitalized amounts are stated at cost and are being amortized on a straight-line basis over the estimated useful lives which vary between 3 to 5 years. The Company capitalized U.S.$ 1,038 of software and website development costs in the year ended December 31, 2001. No costs were capitalized in the years ended December 31, 2002 and December 31, 2003.

(i) Intangible assets related to businesses acquired

SFAS No. 141, "Business Combinations", requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies criteria that must be met in order for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. Intangible assets related to businesses acquired principally represent goodwill and tradenames. Acquisitions from third parties have been accounted for under the purchase method of accounting. Accordingly, the purchase price, including the direct costs of acquisition, is allocated to assets acquired and liabilities assumed based upon the estimated fair values at the date of acquisition. Results of operations are included as from the acquisition date.

SFAS No. 142, "Goodwill and Other Intangible Assets", prohibits amortization of goodwill and identifiable indefinite-lived intangible assets as from January 1, 2002 but instead requires these assets to be tested for impairment at least annually. SFAS No. 142 requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". In connection with the adoption of SFAS No. 142, the Company performed a transitional goodwill impairment test as required and determined that no goodwill impairment existed at January 1, 2002. The Company also reviewed the lives of its intangible assets in 2003 and as a result has determined that none of its intangible assets, other than goodwill, have indefinite lives. As discussed in Note 10, management reduced the expected useful lives of a certain tradename following a strategy review in 2002.

Goodwill and other intangible assets are stated at cost and through December 31, 2001 were being amortized on a straight-line basis over the estimated future periods to be benefited, between 5 and 20 years. Effective January 1, 2002, only the other intangible assets are being

amortized.

(j) Recoverability of long-lived assets

Management reviews long-lived assets, primarily buildings and equipment to be held and used in the businesses, and tradenames from businesses acquired, for the purpose of determining and measuring impairment on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable, measured on the basis of an undiscounted cash flow model. Assets are grouped and evaluated for possible impairment at a store and distribution facility level. As from January 1, 2002 impairment is assessed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", to identify circumstances that might require assessment of the recoverability of long-lived assets and to measure any potential impairment charge.

No impairment losses have been recorded for any of the periods presented. Write-down of the carrying value of assets or groups of assets will be made if and when appropriate.

(k) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

(l) Interest attributed to equity

Brazilian corporations are permitted to attribute tax-deductible interest expense on shareholders' equity in the form of a dividend, up to certain limits. The distribution is treated as declared once the credit is made available to the shareholders (and the withholding tax becomes payable) or when formally approved by the shareholders. For financial reporting purposes, the notional interest attributed to equity is recorded as a deduction from unappropriated retained earnings. The Company is required to withhold income tax (15%) on these amounts.

(m) Share warrants

The proceeds from share warrant issuance are recorded as additional paid-in capital when proceeds from the share warrant issue are received. When share warrants are exercised or forfeited, the amount originally recorded as additional paid-in capital is transferred to share capital (Note 15(c)).

(n) Revenues and expenses

Sales are recognized as customers receive the goods. Financial income arising from credit sales is accrued over the credit term. Expenses and

costs are recognized on the accrual 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. Discounts and bonuses in cash are recorded to income ("Cost of sales") when the conditions are fulfilled. Cost of sales includes warehousing and handling costs.

(o) Advertising costs

Advertising costs are expensed as incurred. Selling, general and administrative expenses for the years ended December 31, 2003, 2002 and 2001 include U.S.$ 65,772, U.S.$ 74,230 and U.S.$ 79,780, respectively, for advertising expenses. No advertising-related assets are deferred at the balance sheet dates.

(p) Income taxes

Income taxes in Brazil generally comprise Federal income tax and social contribution, a Federal tax based on income, as recorded in the Company's statutory accounting records (Note 3(a)).

For the purposes of these financial statements, the Company has applied SFAS No. 109, "Accounting for Income Taxes", for all periods presented. The effect of adjustments made to reflect the requirements of accounting principles generally accepted in the United States of America, as well as differences between the tax basis of non-monetary assets as stated in the statutory accounting records, prepared in accordance with the Brazilian tax law, and the amounts included in these financial statements, have been recognized as temporary differences for the purpose of recording deferred income taxes. Valuation allowances are established against tax assets, when necessary, based on management's expectation as to whether realization is more likely than not.

(q) Stock-based compensation

SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The plans are accounted for as variable plans as the indexed exercise price of the options is adjusted by dividends declared from the grant date through to the exercise date. Under variable plan accounting, periodic changes in the differences between the market price of the Company's stock and the exercise prices of the outstanding options are recognized

as compensation expense, charged ratably over a period of the expected average terms of four years from grant-date, the period over which the employee services are rendered.

(r) Earnings per share

Pursuant to SFAS No. 128, "Earnings per Share", the Company has presented its earnings per share for each class of share (Note 15(g)). Earnings per share are disclosed in amounts per thousand shares, as a lot of one thousand shares is the minimum number of the Company's shares that can be traded.

Beginning in 2003, preferred shares are entitled to a dividend 10% greater than that distributed to the common shares. As such earnings may be capitalized or otherwise appropriated; there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed, and, accordingly, earnings per share have been calculated using the "two class" method. The "two class" method is an earnings allocation formula that determines earnings per share for preferred and common share according to the dividends declared and participation rights in undistributed earnings. The Company computes earnings per share by dividing the net income pertaining to each class of share by the weighted-average number of the respective class of shares outstanding during the period.

From 1997 to 2000, the Company issued debentures convertible into preferred shares (Note 13(ii)). For convertible securities, diluted earnings per share should be calculated using the "if-converted" method, i.e., as if the debentures had been converted to shares at the beginning of the period. As the effects of applying the "if-converted" method are antidilutive, considering the interest expense (net of tax and nondiscretionary adjustments) which would be avoided if converted, diluted earnings per share are not affected by the convertible securities.

The Company has issued employee stock options (Note 15(d)), the dilutive effects of which are reflected in diluted earnings per share by application of the "treasury stock" method. Under the treasury stock method, earnings per share are calculated as if options were exercised at the beginning of the period, or at time of issuance, if later, and as if the funds received were used to purchase the Company's own stock. When the stock options' exercise price was greater than the average market price of the preferred shares, diluted earnings per share are not affected by the stock options. During 1999, the Company issued share warrants giving the holder the right to subscribe capital from August 31, 2001 over a period of two to three years. As the effects of applying the treasury stock method are antidilutive, diluted earnings per share are not affected by the share warrants.

(s) Derivative financial instruments

The Company uses derivative financial instruments for purposes other than trading and does so to manage and reduce its exposures to market risk resulting from fluctuations in interest rates and foreign currency exchange rates. SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments and for hedging activities and requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value.

The Company has entered into cross-currency interest rate swaps to minimize its exposure to certain foreign currency fluctuations and fixed interest rates (Note 16). These instruments do not qualify for deferral, hedge, accrual or settlement accounting and are marked to market, with the resulting gains and losses reflected in the statement of operations within "Financial income" and "Financial expense". The Company has a policy of only entering into contracts with parties that have credit ratings. The counterparties to these contracts are major financial institutions and the Company does not have significant exposure to any single counterparty.

(t) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to: accounting for allowance for doubtful accounts, depreciation and amortization, asset impairments, depreciable lives of assets, useful lives of intangible assets, fair values of financial instruments, tax valuation allowances and contingencies.

(u) Industry segment

The Company has adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". The Company operates principally in the retail trade; the Company's other activities are not significant.

(v) Recently issued accounting pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued FIN 46R - "Consolidation of Variable Interest Entities, (revised December 2003)". The primary objectives of FIN 46R are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities or VIEs) and how to determine when and which business

enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures regarding the nature, purpose, size and activities of the VIE and the enterprise's maximum exposure to loss as a result of its involvement with the VIE.

The implementation date of FIN 46R is the first period ending after December 15, 2003 for Special Purpose Entities (SPEs) and as from January 1, 2004 for previously existing variable interest entities which are not SPEs. FIN 46R may be applied prospectively with a cumulative adjustment as of the date on which it is first applied or by restating previously issued financing statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The adoption of FIN 46R resulted in the consolidation of PAFIDC (Note 2(g)) at December 31, 2003. The Company is evaluating if it has any continuing transactions or agreements which existed before January 31, 2003 which may be required to be consolidated as from 2004.

In May 2003, the FASB issued SFAS No. 150 - "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The FASB decided to make this statement effective shortly after issuance for contracts entered into or modified after it is issued and for existing contracts at the beginning of the first interim period beginning after June 15, 2003. The Company has applied SFAS 150 in relation to the classification in the consolidated balance sheet of the Mandatorily redeemable equity interest in securitization fund (Note 6).

3 Income Taxes

(a) Tax rates

Income taxes in Brazil generally include Federal income tax and social contribution. The composite tax rate is 34%, comprised of income tax (25%) and social contribution tax (9%). However, the Company, but not its subsidiaries, obtained an injunction seeking protection from non-payment of the existing social contribution tax (Note 17(a)(v)). Accordingly, no social contribution tax has been provided by the Company for the periods presented.

(b) Analysis of tax balances

The major components of the deferred tax accounts in the balance sheet are as follows:

	December 31	
	2003	2002
Current deferred income tax asset		
Net operating loss carryforwards	11,395	
Allowance for doubtful accounts	374	2,234
Other		3,056
	11,769	5,290
Non-current net deferred income tax asset		
Net operating loss carryforwards	63,103	52,994
Temporary differences		
Goodwill on acquisitions	19,982	25,233
Provisions	8,218	13,401
Interest capitalization	1,119	1,046

	December 31	
	2003	2002
Other	7,905	12,059
Valuation allowance		(22,893)
	100,327	81,840
Total deferred income tax asset	112,096	87,130
Current deferred income tax liability		
Fair value of swap contracts	(1,577)	
Long-term deferred income tax liability		
Fair value of swap contracts	(1,873)	

Total deferred income tax liability	(3,450)	
Total deferred income tax, net	108,646	87,130

(c) Net operating loss carryforwards

Net deferred income tax assets include net operating losses, primarily losses from the ABC and Se acquisitions, which have no expiration dates, but may offset only up to 30% of annual taxable income.

	2003	2002
At beginning of year	52,994	39,667
Current net operating losses, net (*)	9,683	32,296
Translation gains (losses)	11,821	(18,969)
At end of year	74,498	52,994
Current deferred income tax asset	11,395	
Non-current net deferred income tax asset	63,103	52,994

(*) Including pre-acquisition losses (before valuation allowances) of subsidiaries acquired in 2002 (U.S.$ 43,587) which were considered in the determination of goodwill.

(d) Valuation allowances

The valuation allowance related primarily to income tax and social contribution losses available for offset and against certain temporary tax differences:

	2003	2002
At beginning of year	(22,893)	(23,062)
Reversal (provision) of valuation allowance, net (*)	26,277	(9,287)
Translation gains (losses)	(3,384)	9,456
At end of year		(22,893)

(*) Including valuation allowances against net operating loss carryforwards of subsidiaries acquired in 2002 (U.S.$ 22,893) which were no longer considered to be necessary in 2003, of which U.S.$

17,690 was released against goodwill.

(e) Income tax reconciliation

The amount reported as income tax benefit or charge for the years ended December 31 is reconciled to the statutory rates as follows:

	2003	2002	2001
Income before income taxes	145,919	81,096	99,988
Federal income tax statutory rate	25%	25%	25%
Tax expense at statutory rates	(36,480)	(20,274)	(24,997)
Adjustments to derive effective rate			
Reversal of valuation allowance (i)	5,664		18,702
Nondeductible expenses	(516)	(725)	(1,615)
Tax incentives	400	36	844
Prepayment of inflationary profit			1,508
Other permanent and tax rate differences	(2,078)	344	6,241
Tax benefit (expense) per statement of operations	(33,010)	(20,619)	683

(i) 2001 - in prior periods, certain contingency provisions relating to taxes under dispute were treated as temporary differences; however, in view of the uncertainty as to the future deductibility of these taxes, a valuation allowance had been recorded. In 2001, following a clear trend of interpretations by the tax authorities, these amounts were treated as deductible.

4 Financial Income and Expense

	2003	
Financial income		
Interest income	134,972	11
Credit card and customer credit financing	34,374	3
Interest on post-dated check program	6,796	
Other	3,125	
	179,267	15

Financial expense		
Interest expense	(257,650)	(18
Foreign exchange gains (losses)	46,950	(2
Related parties - debenture interest (Note 18)	(2,136)	(
Other financial charges	(8,644)	(1
	(221,480)	(22
Net financial expense	(42,213)	(6

5 Accounts Receivable

	2003	2002
Current assets		
Credit card companies	262,285	182,291
Customer credit financing	68,874	73,134
Post-dated check credit sales	24,030	32,918
Unrealized interest income	(8,394)	(6,960)
Purchase vouchers and others	24,900	35,097
Related parties	292	244
Allowance for doubtful accounts	(7,242)	(8,827)
	364,745	307,897
Other assets		
Customer credit financing (non-current)	5,480	5,431

Customer credit financing accrues interest from 5.0% to 7.5% per month (2002 - 4.0 % to 7.5%) and with payment terms of up to 24 months for installment plans. Credit card sales relate to sales settled by customers with third party credit cards including co-branded credit cards and are normally receivable from the credit card companies in the same number of installments as the customer pays the credit card company, up to 12 months. Sales settled with post-dated checks (a common financial instrument in Brazil) accrue interest of up to 6.9% per month for settlement in up to 60 days.

Activity relating to the allowance and analysis of the balance was as follows:

	2003	2002

At beginning of year	(8,827)	(17,998)
Provision for doubtful accounts	(18,355)	(27,725)
Recoveries and provision written off	21,763	32,100
Translation gain (loss)	(1,823)	4,796
At end of year	(7,242)	(8,827)
Customer credit financing	(7,077)	(8,089)
Post-dated check credit sales	(165)	(738)

The policies for establishing and relieving this allowance are as follows:

(i) customer credit financing and sales settled with post-dated checks - based on historical loss indices over the past 12 months; the actual loss history is applied to the current aging of delinquencies to determine the percentage of receivables which require provision; and

(ii) credit card and purchase vouchers - an allowance for doubtful accounts is not required as credit risks are substantially assumed by third parties.

6 Receivables securitization fund

In October 2003, the Company subscribed U.S.$ 34,947 in subordinated quotas of PAFIDC, a receivables securitization fund. PAFIDC has a predetermined duration of five years renewable for one additional five-year period, beginning in October 2003. The capital structure of the fund is composed of 80% senior quotas held by third parties and 20% subordinated quotas held by the Company.

PAFIDC is a special purpose entity that is a variable interest entity as defined under FIN 46R and has been consolidated in the Company's financial statements. At December 31, 2003, the retained interest of U.S.$ 36,170 in subordinated quotas represents the maximum exposure to loss under the securitization transactions. The net assets which have been consolidated in the Company's financial statements as at and for the year ended December 31, 2003 are summarized as follows:

	2003
Current assets	
Restricted cash and marketable securities	28,680
Accounts receivable, net	155,695
Other assets	103

Current liabilities	(3,739)
Long-term liabilities	
Mandatorily redeemable interest in securitization fund	(144,569)
Net assets	36,170

Senior quotas are divided into two series: Series A for which the benchmark remuneration is 103.0% of CDI (Certificado de Deposito Interbancario), an interbank variable interest rate; and Series B for which the benchmark remuneration is 101.0% of CDI. The quotaholders of senior quotas series B will redeem both on June 23, 2006 and June 23, 2007, the principal amount of U.S.$ 24,816, and will redeem the remaining balance at the end of the fund's duration. The Series A quotaholders will redeem their quotas at the end of the fund's duration. Upon consolidation of PAFIDC, senior quotas are recorded as Mandatorily redeemable equity interest in securitization fund in the long-term liabilities.

Subordinated quotas were issued in a single series, are non-transferable and nominative. The Company will redeem the subordinated quotas only after the redemption of senior quotas or at the end of the fund's duration. Once the senior quotas have been remunerated, the subordinated quotas 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.

Between October and December 2003, the Company transferred credit rights to PAFIDC represented by customer credit financing, post-dated check credit sales and credit card companies receivables totaling U.S.$ 440,827 in which it retained servicing responsibilities and subordinated interests. The outstanding balance of these receivables at December 31, 2003 was U.S.$ 155,695. Servicing responsibilities which are not remunerated include the assistance by the Company's collection department to the fund's administrator in the collection of delinquent credits. The holders of senior quotas have no recourse to the Company's other assets in the event of failure by customers to pay 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.

7 Inventories

	2003	2002
Stores	233,550	178,213
Distribution centers	93,057	99,373

	326,607	277,586

8 Recoverable Taxes

	2003	2002
Income tax and value-added sales taxes recoverable	134,230	93,715
Other	3,916	4,746
	138,146	98,461

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9 Property and Equipment

	2003			
	Cost	Accumulated depreciation	Net	Cost
Land	283,569		283,569	223,074
Buildings	724,705	(107,525)	617,180	511,588
Refurbishments and improvements	379,608	(114,883)	264,725	317,843
Equipment and software	312,732	(187,476)	125,256	226,839
Equipment under capital lease	36,744	(25,028)	11,716	23,189
Fixtures and installations	193,497	(116,717)	76,780	139,043
Vehicles	8,391	(7,353)	1,038	7,658
Other	766	(679)	87	2,771
Construction in progress	3,636		3,636	3,901
	1,943,648	(559,661)	1,383,987	1,455,906

Interest capitalized on construction in progress during the year ended December 31, 2003 totaled U.S.$ 10,301 (U.S.$ 10,666 and U.S.$ 12,913, for 2002 and 2001, respectively).

10 Goodwill and Other Acquired Intangible Assets

Goodwill and identifiable intangible assets determined on acquisition are as follows:

	2003	2002
Goodwill	255,152	222,782
Tradenames	37,233	30,445
	292,385	253,227
Amortization	(66,179)	(49,459)
	226,206	203,768

In connection with the adoption of SFAS No. 142, goodwill is no longer amortized in periods after December 31, 2001. Had goodwill not been amortized in the year ended December 31, 2001, net income and basic and diluted earnings per thousand shares would have been as follows:

	Year Ended December 31, 2001
Net income - as reported	100,671
Add back: Goodwill amortization	25,617
Adjusted net income	126,288
Earnings per thousand shares (preferred and common):	
Basic - as reported	0.91
Basic - adjusted	1.15
Diluted - as reported	0.91
Diluted - adjusted	1.14

Following a strategy review in 2002, the expected useful life of certain tradename was reduced prospectively from 19 to 8 years.

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11 Other Receivables

In May 1999, the Company leased 25 stores from Paes Mendonca S.A., a retail chain, through its subsidiary, Novasoc. The initial lease term for the stores is for a five-year period renewable at the Company's option for two additional five-year periods. At December 31, 2003, 18 stores are leased pursuant to this agreement and subsequent contract amendments. The operating lease annual rental payments are equivalent to U.S.$ 2,575 in 2003 (2002 - U.S.$ 2,300; 2001 - U.S.$ 2,821) including an additional contingent rent based on 0.5% to 2.5% of store revenues. The contingent rental element totaled U.S.$ 246, U.S.$ 355 and U.S.$ 109 in each of the periods ended December 31, 2003, 2002 and 2001, respectively.

In 1999 Novasoc paid expenses on behalf of Paes Mendonca S.A. totaling U.S.$ 53,166 which are contractually recoverable from Paes Mendonca S.A. at the end of the lease term. The receivable is remunerated based on the Indice Geral de Precos de Mercado - IGP-M (General Price Index), which increased by 8.7% (2002 - 25.3%) in reais in 2003. The Company continues to discharge obligations to third parties on behalf of Paes Mendonca S.A. under the agreement. Total receivables at December 31, 2003, which will be due at the end of the lease term, are U.S.$ 91,325 (2002 - U.S.$ 67,796).

The receivables are collateralized by lease renewal rights owned by Paes Mendonca S.A. for stores currently leased to Novasoc. The Company also has an option to purchase the shares of Paes Mendonca S.A. if certain trigger events occur. Paes Mendonca S.A. has a put option to require, under certain conditions, the Company to purchase its shares. Management does not expect to exercise its call option or expect conditions to prevail permitting the put option to be exercised before 2014.

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12 Short-term Debt

	Annual charges (i)	2003

Foreign-currency-denominated		
Import financing	Foreign exchange (U.S.$)	4,578
Working capital (ii)	U.S. dollars + 4.1 to 14.7% swapped to 76.0 to 104.5% of CDI	183,550
Brazilian reais		
Working capital (iii)	TR + 15.4%	48,699
Unrealized losses from cross-currency interest rate swaps		5,632
Other		
		242,459

(i) Annualized benchmark rate at December 31, 2003: CDI - Certificado de Deposito Interbancario, an interbank variable interest rate - 16.3% (2002 - 24.8%).

(ii) Substantially U.S. dollar-denominated, which was swapped into obligations denominated in Brazilian reais. The Company utilizes cross-currency interest rate swaps to manage its exposure on certain loans (Note 16(b)). Pursuant to Emerging Issue Task Force ("EITF") No. 02-02, "When Separate Contracts That Meet the Definition of Financial Instruments Should Be Combined for Accounting Purposes", although the loan balances at December 31, 2003 of U.S.$ 131,174 (2002 - U.S.$ 194,236) were originally denominated in U.S. dollars and accrued fixed interest rates, the Company entered, contemporaneously with the same counter-parties, 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. Unrealized gains from cross-currency interest rate swaps from the remaining balance are reported at fair value and recorded in current assets.

(iii) The Company entered into interest rate swaps in the same amount to exchange the TR (Taxa Referencial) for 95.0% of the CDI.

Working capital financing is obtained from local banks and is used primarily to fund customer credit. Working capital financing is mostly secured by promissory notes and shareholders' sureties. Collateral for other borrowings comprises liens and mortgages on properties and shareholders' sureties.

13 Long-term Debt

	Annual charges	2003
Foreign-currency-denominated		
BNDES lines of credit	(i)	26,487
Working capital (*)	U.S. dollars + 5.0 to 18.9% swapped to 61.9 to 104.5% of CDI	245,361

	Annual charges	2003
	CDI	
Brazilian reais		
BNDES lines of credit	(i)	141,320
Debentures	(ii)	173,902
Unrealized losses from cross-currency interest rate swaps		12,683
Other		1,133
		600,886
Current portion of long-term debt		(370,864)
		230,022

(*) Substantially U.S. dollar-denominated which was swapped into obligations denominated in Brazilian reais (Note 16(b)). Pursuant to EITF No. 02-02, although the loan balances at December 31, 2003 of U.S.$ 97,102 (2002 - U.S.$ 220,712) were originally denominated in U.S. dollars and accrued fixed interest rates, the Company entered, contemporaneously with the same counter-parties, 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. Unrealized gains from cross-currency interest rate swaps from the remaining balance, in addition to gains from swaps on the BNDES lines of credit and capital leases, are reported at fair value and recorded in current or other assets, as appropriate.

(i) BNDES line of credit

The line of credit agreements, denominated in reais, granted by the Brazilian National Bank for Economic and Social Development (BNDES), are either subject to the TJLP (Taxa de Juros a Longo Prazo) rate plus an annual spread, or are denominated based on a basket of foreign currencies reflecting the BNDES's funding portfolio, plus an annual spread. Repayments are in monthly installments after expiration of a grace period.

Contract dated	Annual finance charge	Grace period in months	Number of monthly installments	Due monthly through
October 23, 1997	TJLP + 3.5%	12	60	August 2003
October 23, 1997	Foreign currencies + 3.5%	12	60	November 2003
October 23, 1997	TJLP + 3.5%	12	60	August 2004
November 16, 1999	TJLP + 3.5%	12	60	December 2005
January 13, 2000	TJLP + 3.5%	12	72	January 2007
November 10, 2000	TJLP + 1 to 3.5%	20	60	May 2007
November 10, 2000	Foreign currencies + 3.5%	20	60	July 2007
December 14, 2000	TJLP + 2.0%	20	60	June 2007
April 16, 2001	TJLP + 3.5%		60	April 2006
April 16, 2001	Foreign currencies + 3.5%		60	April 2006
March 12, 2002	Foreign currencies + 3.5%	12	48	March 2007
April 25, 2002	TJLP + 3.5%	6	60	October 2007
April 25, 2002	Foreign currencies + 3.5%	6	60	October 2007
November 11, 2003	Foreign currencies + 4.1%	14	60	January 2010
November 11, 2003	TJLP + 4.1%	12	60	November 2009
November 11, 2003	TJLP + 1.0%	12	60	November 2009

In the event the TJLP exceeds 6% per annum, the excess is added to the principal. In 2003 and 2002, U.S.$ 5,920 and U.S.$ 5,254, respectively, were added to the principal. The controlling shareholders provided sureties with respect to the amount drawn down.

The Company may not offer any assets as collateral for loans to other parties without the prior authorization of BNDES and is required to comply with certain negative covenants measured in accordance with Brazilian GAAP,

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including: (i) maintenance of a capitalization ratio (shareholders' equity/total assets) equal to or in excess of 0.40 and (ii) maintenance of a current ratio (current assets/current liabilities) equal to or in excess of 1.05.

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(ii) Debentures

The balance of debentures outstanding was as follows:

	Outstanding	Annual charges	2003
2nd issue - 1st series		IGP-M + 13%	
2nd series		IGP-M + 13%	
4th issue - single series	99,908	TJLP + 3.5%	28,381
5th issue - 1st series	40,149	CDI + 1.45%	145,521
	140,057		173,902
Current portion			160,084
Long-term portion			13,818

Activity in the debentures was as follows:

	Number of debentures
At December 31, 2001	126,758
Issuance - Fifth issue	40,149
Amortization - Second issue/First series	
Interest, net of payments	
Translation gain	
At December 31, 2002	166,907
Amortization - Second issue	(26,850)

Amortization - Fourth issue	
Interest, net of payments	
Translation loss	
At December 31, 2003	140,057

- Fourth issue - On October 17, 2000, the shareholders approved the issue and private placement of R$ 100,000 thousand convertible debentures due August 2005. The Company received proceeds equivalent to U.S.$ 52,480, net of commissions of U.S.$ 477. The debentures are indexed to the TJLP and accrue annual interest of 3.5%. The portion of TJLP exceeding 4.5% will be capitalized and added to the nominal value of debentures on the dates of interest payment. Beginning September 1, 2000, at the option of the debentureholder, they may be converted into preferred shares based on the following ratios: (i) September 1, 2000 to August 30, 2003 - 12,821 shares per R$ 1,000 principal amount, (ii) August 31, 2003 to August 30, 2004 - 8,552 shares per R$ 1,000 principal amount and (iii) August 31, 2004 to August 31, 2005 - 4,282 shares per R$ 1,000 principal amount, all subject to adjustment for stock dividends, stock splits and reverse splits. In 2001, 92 convertible debentures outstanding were converted into 1,179,532 preferred shares.

- Fifth issue - On October 4, 2002, the shareholders approved the issue and public placement limited to R$ 600,000 thousand of 60,000 non-convertible debentures. The Company received proceeds equivalent to U.S.$ 112,767, net of commissions of U.S.$ 1,586, for 40,149 non-convertible debentures issued from the first series. The debentures are indexed to the average rate of Interbank Deposits ("Depositos Interfinanceiros" - DI) and accrue annual spread of 1.45% payable each six months. The remuneration of the first series may be renegotiated or a put exercised at October 2004. The debentures of the first series fall due on October 1, 2007. The Company is require to comply with certain negative covenants measured in accordance with Brazilian GAAP: (i) Net Debt (debt less cash and cash equivalents and accounts receivable) no higher than the balance of shareholders' equity; (ii) maintenance of a ratio between Net Debt and EBITDA, less than or equal to 4.

(iii) Maturities

Long-term portion of long-term debt maturities:

	2003	2002

2004		278,552
2005	157,573	70,151
2006	34,672	20,538
2007	19,429	15,828
2008	9,603	
Thereafter	8,745	
	230,022	385,069

14 Leases

A significant portion of retail units are leased under operating lease agreements, generally for terms from five to 25 years with varying renewal options to extend the terms of the leases for up to 10 years beyond the initial noncancellable term. Most of the leases include contingent rentals based on a percentage of sales. For the year ended December 31, 2003, the effective rate of rentals was 1.46% (2002 - 1.66%) of gross sales. Also, certain leases provide for the payment by the lessee of certain costs (taxes, maintenance and insurance). Some selling

space has been sublet to other retailers in certain of the Company's leased facilities. Penalties are incurred on lease cancellations.

Certain store and computer equipment leases are accounted for as capital leases, which are generally for terms of three years and allow the Company the option to purchase such equipment at the termination of the leases. Future minimum annual lease payments with respect to noncancellable capital and operating leases and imputed interest on capital leases as of December 31, 2003 are summarized below:

	Capital leases	Operating leases
2004	10,554	66,529
2005	5,635	62,004
2006	1,325	55,460
2007		50,705
2008		41,456
Thereafter		84,057
Total minimum lease payments	17,514	360,211
Imputed interest	(1,629)	

Present value of minimum capitalized lease payments	15,885
Current portion	9,338
Long-term capitalized lease obligations	6,547

Net rental expense, included in selling, general and administrative expenses, consists of the following:

	2003	2002	2001
Minimum rentals	62,547	60,092	68,021
Contingent rentals	10,911	13,264	11,759
Sublease rentals	(12,375)	(9,616)	(6,651)
	61,083	63,740	73,129

15 Shareholders' Equity

(a) Share capital

At December 31, 2003, subscribed and paid-in capital was comprised of 49,971,428 thousand (2002 - 49,715,328 thousand) preferred shares and 63,470,811 thousand (2002 - 63,470,811 thousand) common shares. The shares have no par value. Total authorized share capital, up to which shares may be issued without changing the Company's charter, is 150,000,000 thousand shares.

Activity in the number of shares in 2003:

	Number of shares - thousand	
	Preferred	Common
At January 1, 2003	49,715,328	63,470,811
Subscription - stock options (Note 15(d))	256,100	

At December 31, 2003	49,971,428	63,470,811

The Annual and Extraordinary General Meetings held on April 26, 2001 approved the subscription of 612,056,784 common shares and 310,993,184 preferred shares. At the shareholders' option, part of the interest attributed to equity, which had been recorded as an obligation at December 31, 2000, was capitalized in the amount of U.S.$ 30,264.

(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 charter 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 the Brazilian GAAP, to the extent profits are distributable, and after transfers to reserves as required by Brazilian Corporate 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 charter provides that, to the extent funds are available, dividends are to be paid in the following order: (i) a minimum non-cumulative preferred dividend to the preferred shares in the amount of R$ 0.15 per thousand preferred shares, (ii) a dividend to the common shares in the amount of R$ 0.15 per thousand common shares up to (or if determined by the shareholders, in excess of) the mandatory distribution (25% of adjusted net income as determined under accounting principles prescribed in the Brazilian Corporate Law), (iii) 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, subject, in the case of clauses (ii) and (iii), to any determination by the Board of Directors ("Conselho de Administracao") that such distribution would be inadvisable in view of the Company's financial condition.

Management is required by the Brazilian Corporate Law to propose dividends at year-end to conform with the mandatory minimum dividend regulations, which can include the interest attributed to equity, net of tax. At December 31, 2003, the proposed dividend of U.S.$ 18,964 (Note 15(f)) was provided as a liability in the statutory financial statements, but will only be reflected as an obligation in these financial statements once approved and declared by the shareholders.

(c) Share warrants

In 1999, 4,127 preferred share warrants (the proceeds from which totaled U.S.$ 47) and 12,571,751 common share warrants (the proceeds from which totaled U.S.$ 181,868) were issued. Each share warrant is exercisable for 1,000 shares. The amount paid for the warrants may not be applied against the purchase price of the future shares to be issued. The price to be paid for the common shares will be the greater of (i) R$ 82.13 adjusted for the higher of the general price index (IGP-M) variation or the variation of the real to the U.S. dollar (price in U.S. dollars equal to U.S.$ 45.00) or, (ii) the average trading price of the common shares in the five days prior to exercise as adjusted by higher of the average of the IGP-M variation or U.S. dollar variation. Preferred share warrants are exercisable at R$ 65.70 adjusted by the IGP-M index.

On August 31, 2003, 6,285,876 common share warrants and 2,064 preferred share warrants which had not been exercised were forfeited. The remaining 6,285,875 common share warrants may be exercised through August 31, 2004. This ratio will be adjusted proportionately in the event of any reverse splits, splits or distribution of stock dividends. The common share subscription warrants were acquired by the minority shareholder, the Casino Group.

(d) Stock option plan

In 1997, the shareholders approved a compensatory stock option plan for management and certain employees of the Company. The Company's stock option plan (the "Plan") is designed to obtain and retain the services of executives and certain employees. Only options covering preferred shares are granted under the Plan.

The Plan is administered by a committee elected by the Board of Directors. This committee periodically grants share options setting the terms thereof and determining the employees to be included. When share options are exercised, the Company can issue new shares or transfer treasury shares to the new shareholder. The Plan stipulates that 50% of the granted options will vest and can be exercised at the end of three years and the remaining 50% will vest and can be exercised at the end of five years. The exercise term expires three months after the vesting dates.

Companhia Brasileira de Distribuicao

Notes to the Consolidated Financial Statements
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In 1999, the Board of Directors approved a new issue of options convertible into 3,400,000 thousand preferred shares to be granted under the Plan. On March 31, 2000, the Company granted 305,975 thousand stock options with an exercise price of R$ 60.00 per thousand shares (equivalent to U.S.$ 34.34 at the grant date). On April 2, 2001, the Company granted 361,660 thousand stock options with an exercise price of R$ 64.00 per thousand shares (equivalent to U.S.$ 29.65 at the grant date). On March 15, 2002, the Company granted 412,600 thousand stock options with an exercise price of R$ 47.00 per thousand shares (equivalent to U.S.$ 19.96 at the grant date). On May 16, 2003, the Company granted 499,840 thousand stock options with an exercise price of R$ 40.00 per thousand shares (equivalent to U.S.$ 13.45 at the grant date).

	Share opt
	2003
Options outstanding at beginning of year	1,395,960
Options granted	
Series 6 (granted on March 15, 2002)	
Series 7 (granted on May 16, 2003)	499,840
Options exercised	
Series 3 - April 10, 2002 - capital increase of U.S.$ 26	
Series 2 - December 19, 2002 - capital increase of U.S.$ 684	
Series 3 - December 19, 2002 - capital increase of U.S.$ 4	
Series 3 - December 17, 2003 - capital increase of U.S.$ 1,916	(256,100)
Options forfeited	(200,360)
Outstanding options granted at end of year	1,439,340
Share options available at end of year for future grants	2,335,999

The Company has chosen to account for stock-based compensation using the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The plans are accounted for as variable plans as the indexed exercise price of the options is adjusted by dividends declared from the grant date through to the exercise date. Under variable plan accounting, periodic changes in the differences between the market price of the Company's stock and the exercise prices of the outstanding options are recognized as compensation expense, charged ratably over a period of four years from grant-date, the period over which the employee services are rendered.

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	2003	
Range of year-end exercise prices for outstanding options at balance sheet date exchange rates (U.S.$ per thousand shares)	13.87-32.84	10.69
Weighted average grant-date exercise price of options (U.S.$ per thousand shares)	22.94	
Weighted average grant-date quoted market price of shares (U.S.$ per thousand shares) (based on quoted market value at date granted)	24.61	
Year-end quoted market price of shares at balance sheet exchange rates (based on quoted market value at the end of each year) (U.S.$ per thousand shares)	24.37	
Compensation cost recognized for the year ended December 31	1,250	

The following table illustrates the effect on net income and earnings per thousand shares if the Company had applied the fair value method to its stock-based compensation, as required under the disclosure provisions of SFAS No. 123.

	2003	
Net income - as reported	112,909	
Add: stock-based employee compensation included in reported net income	1,250	
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(3,686)	
Net income - pro forma	110,473	

	Year ended December 31		
	2003	2002	2001
Earnings per thousand shares:			
Basic - as reported			
Preferred	1.05	0.53	0.91
Common	0.96	0.53	0.91
Basic - pro forma			
Preferred	1.03	0.51	0.87
Common	0.93	0.51	0.87
Diluted - as reported			
Preferred	1.05	0.53	0.91
Common	0.95	0.53	0.91
Diluted - pro forma			
Preferred	1.03	0.50	0.87
Common	0.93	0.50	0.87

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model assuming: expected dividend yield of 1.45% in 2003, 1.65% in 2002, 1.78% in 2001, expected volatility of approximately 38.72% in 2003, 40.85% in 2002, 53.36% in 2001, weighted average risk-free interest rate of 12.44% in 2003, 13.43% in 2002, 12.57% in 2001, and an expected average life of four years.

(e) Appropriated retained earnings

These reserve balances reflect the amounts in the financial statements prepared in accordance with Brazilian GAAP, which are restricted as to distribution. The tax incentive and statutory reserves may be transferred to capital or used to absorb losses in the statutory accounting records, but are not, generally, available for distribution as cash dividends.

The statutory reserve is formed based on appropriations from retained earnings of 5% of annual net income as stated in the Company's financial statements prepared in accordance with Brazilian GAAP.

The tax incentive reserve arises from an option to apply a portion of income tax otherwise payable for the acquisition of capital stock of companies undertaking specified government-approved projects. The amount so applied is credited to income tax and subsequently appropriated from retained earnings to this reserve. No recapture provisions are required to be satisfied unless the corresponding capital reserve presented in the financial statements prepared in accordance with Brazilian GAAP is used to pay dividends, at which time the income tax not previously paid on such credits would become due, together with penalties. The Company does not intend to pay dividends out of its capital reserves. As such amounts are generally restricted as to distribution in the form of dividends, an equal amount is appropriated from retained earnings.

The unrealized income reserve represents inflationary profits arising from the system of indexation of Brazilian GAAP financial statements in force up to December 31, 1995. The Company transfers this reserve to unappropriated retained earnings as the underlying assets are depreciated or disposed of, at which time it becomes available for dividend distributions.

(f) Unappropriated retained earnings

Brazilian law permits the payment of dividends only in reais and these are limited to the retained earnings balances in the financial statements prepared in accordance with the Brazilian GAAP. Distributable retained earnings (summation of the following accounts in the statutory financial statements: Reserva para expansao and Reserva de retencao de lucros), net of the proposed dividend distribution of R$ 54,792 thousand (U.S.$ 18,964 at December 31, 2003), aggregated R$ 342,698 thousand at December 31, 2003, equivalent to U.S.$ 118,613 at the current rate of exchange. Accordingly, the unappropriated retained earnings balance in the U.S. GAAP balance sheet at December 31, 2003 of U.S.$ 323,317 is not immediately available for distribution.

(g) Earnings per share

	Year ended December 31, 2003			Ye
	Preferred	Common	Total	Preferr
Basic numerator				
Actual dividends declared	9,521	11,048	20,569	9,31
Basic allocated undistributed				

earnings	42,742	49,598	92,340	17,21
Allocated net income available for common and preferred shareholders	52,263	60,646	112,909	26,52
Basic denominator (in thousands of shares)				
Weighted-average number of shares	49,725,151	63,470,811	113,195,962	49,596,79
Basic earnings per thousand shares (U.S.$)	1.05	0.96		0.5
Diluted numerator				
Actual dividends declared	9,548	11,021	20,569	9,36
Diluted allocated undistributed earnings	42,864	49,476	92,340	17,31
Allocated net income available for common and preferred shareholders	52,412	60,497	112,909	26,68
Diluted denominator (in thousands of shares)				
Weighted-average number of shares	49,725,151	63,470,811	113,195,962	49,596,79
Stock options	263,557		263,557	519,03
Diluted weighted-average number of shares	49,988,708	63,470,811	113,459,519	50,115,82
Diluted earnings per thousand shares (U.S.$)	1.05	0.95		0.5

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	Year ended	
	Preferred	Common

Basic numerator		
Actual dividends declared		
Basic allocated undistributed earnings	42,902	57,769
Allocated net income available for common and preferred shareholders	42,902	57,769
Basic denominator (in thousands of shares)		
Weighted-average number of shares	46,912,582	63,168,975
Basic earnings per thousand shares (U.S.$)	0.91	0.91
Diluted numerator		
Actual dividends declared		
Diluted allocated undistributed earnings	43,395	57,27
Allocated net income available for common and preferred shareholders	43,395	57,276
Diluted denominator (in thousands of shares)		
Weighted-average number of shares	46,912,582	63,168,975
Stock options	946,609	
Diluted weighted-average number of shares	47,859,191	63,168,975
Diluted earnings per thousand shares (U.S.$)	0.91	0.91

16 Financial Instruments and Risk Management

(a) Concentration of credit risk

The Company's sales are direct to customers. Credit risk is minimized due to the large customer base and ongoing control procedures that monitor the creditworthiness of customers. Advances to suppliers are made only to select long-standing suppliers. The financial condition of suppliers is analyzed on an ongoing basis to limit credit risk.

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

(b) Foreign exchange and interest rate risk management

All derivative financial instruments at December 31, 2003 and 2002 were recorded on the balance sheet and include cross-currency interest rate swaps.

The Company enters into cross-currency interest rate swaps to mitigate foreign exchange risk on U.S. dollar denominated fixed interest debt. The realized and unrealized gains and losses on the swap agreements used to manage risks related to foreign currency cash flow exposures are reported in the statement of operations and included in the amounts reported in "Financial expense - interest expense". At December 31, 2003, the Company has cross-currency interest rate swaps outstanding of which the fair value asset (liability) amount was U.S.$ 2,643 and U.S.$ (18,315), respectively (2002 - U.S.$ 16,042).

The cross-currency interest rate swaps also permit the Company to exchange fixed rate interest in U.S. dollars on short-term debt (Note 12) and long-term debt (Note 13) for floating rate interest in Brazilian reais. As of December 31, 2003, the U.S. dollar-denominated short-term and long-term debt balances of U.S.$ 433,489 (2002 - U.S.$ 538,530), include financings of U.S.$ 428,911 (2002 - U.S.$ 533,612) at weighted average interest rates of 9.1% per annum (2002 - 11.8%) which were covered by floating rate swaps, linked to a percentage of an interbank variable interest rate (CDI), in Brazilian reais, accruing an average weighted rate of 100.9% of CDI (2002 - 103.6% of CDI). Pursuant to EITF No. 02-02, the amount of U.S.$ 228,276 (2002 - U.S.$ 414,948) was treated on a combined basis as though the loans were originally denominated in reais and linked to a percentage of CDI.

At December 31 the notional amounts of the cross-currency and interest rate swaps and the fair market value amounts were as follows:

	2003			
	Notional outstanding	Fair market value (*)		Notio outstand
	amount	Asset	Liability	amo
Interest rate swaps	48,699	242		
Cross-currency interest rate swaps	241,765	2,401	(18,315)	156,
		2,643	(18,315)	
Current assets		242		
Other assets		2,401		
Short-term debt			(5,632)	
Long-term debt			(12,683)	

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(*) Fair market value gain (loss) under outstanding cross-currency and interest rate swaps.

The notional amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the Company's exposure through its use of derivatives. The amounts exchanged during the term of the derivatives are calculated on the basis of the notional amounts and the other contractual conditions of the derivatives, which relate to interest rates and foreign currency exchange rates. Gains (losses) from derivative activities totaled U.S.$ (64,840), U.S.$ 147,429, and U.S.$ (24,195) in the years ended December 31, 2003, 2002, and 2001, respectively, and are included in "Financial expense - interest expense".

(c) Fair value of financial instruments

The carrying value of the Company's financial instruments, at each balance sheet date, approximates fair value, reflecting the short-term maturity or frequent repricing of these instruments. In estimating the fair value of the derivative positions, quoted market prices are used, if available, or quotes are obtained from outside sources.

Fair value estimates are made at a specific date, based on relevant market information about the financial instrument and based on quotations made on similar issues. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17 Commitments and Contingencies

The following probable losses and unextinguished tax obligations under dispute have been identified based on the advice of outside legal counsel and are provided in Accrued liability for legal proceedings:

	2003	2002
Taxes		
Taxes on revenues	262,692	151,091
Social security	94,130	66,702
Income tax	26,341	15,996
Tax on bank account transactions and other	7,628	32,347
Labor claims	6,671	3,581
Total accrued liability for legal proceedings	397,462	269,717

(a) Taxes

The Company is party to certain lawsuits and administrative proceedings before various courts and governmental agencies, including with respect to certain tax liabilities arising from the ordinary course of business.

(i) Taxes on revenues

The Company considers certain taxes levied are unconstitutional; however, as it is required by law to pay these taxes, in certain cases amounts are deposited into court escrow accounts, although provisions are maintained, as the obligations have not been extinguished.

Taxes on revenues include the Programa de Integracao Social ("PIS") and the Contribuicao para Financiamento da Seguridade Social ("COFINS"). The rate for COFINS increased from 2% to 3% in 1999 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 to the COFINS and PIS taxes, based on the Company's understanding that the increases are unconstitutional.

(ii) Social security

The Company had been prosecuting a claim against the social security authorities ("INSS"), asserting that it had overpaid certain amounts relating to the contributions for education allowance and workers' compensation. The Company had obtained an injunction providing protection while the case is decided and allowing the Company to offset the amounts against payroll taxes. The Company has recorded a provision of U.S.$ 94,130 at December 31, 2003 (2002 - U.S.$ 66,702) which will be maintained until a favorable ruling is obtained against which the authorities are unable to appeal.

Due to recent judicial precedent formed in decisions which were unfavorable for other taxpayers in similar lawsuits, the Company decided to withdraw certain claims and legal actions, opting to join the Special Installments Program (Parcelamento Especial - PAES), pursuant to Law 10,680/2003, and to pay social security liabilities of U.S.$ 88,801 in installments. The payment in installments has not yet been approved.

(iii) Income tax

During 1997, the Company deducted additional depreciation expense arising from an inflation indexation adjustment to reduce income tax payable, although a full provision has been recorded for the benefits of the deduction. The balance of the provision at December 31, 2003 and 2002 was U.S.$ 11,598 and U.S.$ 12,458, respectively.

The Company had been challenging a limitation on tax loss offsets imposed by Brazilian law. Federal income tax regulations determine that tax losses available for offsetting income are limited to 30% of annual

income before tax. The Company had challenged this limitation on the grounds that it is unconstitutional, and had obtained a legal injunction providing protection against possible fines. The Company has recorded a provision of U.S.$ 13,432 at December 31, 2003 and the amount of U.S.$ 9,585 is recorded as deferred taxes recoverable. The deferred tax asset represents the net operating loss carryforwards which are available for offset. Due to recent judicial precedent formed in decisions which were unfavorable for other taxpayers in similar lawsuits, the Company decided to withdraw this claim, opting to join the PAES program, and to pay the income tax liabilities of U.S.$ 13,432 in installments. The payment in installments has not yet been approved.

(iv) Tax on bank account transactions and other

A tax levied on bank account transactions and redemption of financial investments (Contribuicao Provisoria sobre Movimentacao Financeira ("CPMF")), was enacted in 1999. The rate has varied between 0.20% to 0.38% for the period from June 1999 through December 2003. The Company, based on advice of legal counsel, was prosecuting legal action against the tax authorities claiming that this tax is unconstitutional and has instructed its banking agents not to withhold the tax on its behalf. The Company had obtained an injunction to avoid the withholding and payment of the CPMF taxes.

Based on unfavorable decisions rendered by the court on February 19, 2003, the Company filed a request on March 13, 2003 to pay the CPMF in installments, at December 31, 2002 the amount provided was U.S.$ 28,548. At December 31, 2003, the amounts of U.S.$ 3,843 and U.S.$ 32,659 are recorded as Taxes, other than on income, in current and long-term liabilities, respectively.

(v) Other tax related matters

The Company filed an injunction seeking protection from non-payment of the Contribuicao Social sobre o Lucro ("Social contribution") in 1990, in which it claimed the tax was unconstitutional since the tax should have been enacted by a complementary law to the Brazilian Constitution. The social contribution is a Federal tax on income levied at rates of between 8% and 12%. The Federal government filed a legal action against a number of companies in Brazil, but the Company was not included among the companies subject to such appeal. Based on the advice of counsel, the Company believes that the Federal government does not have the legal grounds to claim the Social contribution tax.

(vi) Tax audits

Direct and indirect taxes are open to audit by the tax authorities for varying prescriptive periods which, with the exception of labor related taxes, normally do not exceed five years.

(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, 2003, such lawsuits collectively involve claims equivalent to U.S.$ 39,238 (2002 - U.S.$ 27,857). At December 31, 2003 the Company has a provision of U.S.$ 6,671 (2002 - U.S.$ 3,581) for labor related loss contingencies. At each period end, management, with advice from external and internal counsel, evaluates these contingencies in light of SFAS No. 5, "Accounting for Contingencies", and provides for losses where probable and reasonably estimable.

(c) Government severance and indemnity plan

The Company maintains no private pension plans for its employees but makes monthly contributions based on payroll to the government pension, social security and severance indemnity plans, and such payments are expensed as incurred. The Company is required to contribute 8.5% of each employee's gross pay to an account maintained in the employee's name in the Government Severance Indemnity Fund (FGTS). No other contributions to the FGTS are required. Under Brazilian law, the Company is also required to pay termination benefits to employees dismissed without just cause. The amount of the benefit is calculated as 50% of the accumulated contributions made by the Company to the FGTS during the employee's period of service. The Company does not accrue for these termination payments before a decision to terminate has been made, since the benefits are neither probable nor reasonably estimable. Terminations occur in the ordinary course of business and are not material to the consolidated statement of financial condition, statement of operations or liquidity. Amounts paid to former employees on dismissal totaled U.S.$ 11,527, U.S.$ 11,293 and U.S.$ 14,467 for the years ended December 31, 2003, 2002 and 2001, respectively.

(d) Restricted escrow deposits

The Company is contesting 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. Deposits that relate to taxes contested for which the Company has received favorable rulings or for which loss is not considered probable, in the amount of U.S.$ 3,774 and U.S.$ 2,636 at December 31, 2003 and 2002, respectively, have no offsetting provisions. The remaining restricted deposits are related to the Accrued liability for legal proceedings, which is sufficient to meet probable and reasonably estimable losses from such deposits in the event of unfavorable rulings. Although there can be no assurance that the Company will prevail in every case, management does not believe that the ultimate disposition of these matters will have a material effect on its financial condition or results of operation.

(e) Profit sharing plan

The Company's charter authorizes the use of a profit sharing plan for management and employees, which has not been formally implemented.

(f) Possible losses

The Company has other possible (unprovided) contingencies, based on the reports of legal advisors, amounting to U.S.$ 11,075.

18 Related Party Balances and Transactions

Leases - The Company currently leases properties from certain shareholders and their immediate families. Aggregate payments in 2003 under these operating leases were U.S.$ 4,905 (2002 - U.S.$ 4,610 and 2001 - U.S.$ 5,284).

In November 2000, the Casino Group subscribed 41,962 convertible debentures issued by the Company. The amount of U.S.$ 11,922 is recorded in long-term debt (2002 - U.S.$ 13,686). Interest expense related to these debentures was U.S.$ 2,136, U.S.$ 2,180 and U.S.$ 1,582 in 2003, 2002 and 2001, respectively.

19 Major Non-cash Transactions

In 2003, the Company acquired equipment under capital lease agreements in the amount of U.S.$ 7,752 (2002 - U.S.$ 13,075 and 2001 - U.S.$ 8,275).

The capital subscription in 2001 was made through the capitalization of U.S.$ 30,264 (U.S.$ 8,505 subscribed for preferred shares and U.S.$ 21,759 for common shares) relating to part of the interest attributed to equity which had been recorded as an obligation at December 31, 2000.

The conversions of debentures into share capital are non-cash transactions (Note 13(ii)).

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20 Subsequent events

On December 3, 2003, Sendas S.A. and the Company signed a Letter of Intent with a view to merging the operating activities of the two chains in the State of Rio de Janeiro, as from February 2004. A new company will be formed with equally divided voting rights.

* * *

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Annual Report on Form 20-F and has duly caused this Annual Report or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA BRASILEIRA DE DISTRIBUICAO

By: /s/ Augusto Marques da Cruz Filho

Name: Augusto Marques da Cruz Filho
Title: Chief Executive Officer

By: /s/ Fernando Queiroz Tracanella

Name: Fernando Queiroz Tracanella
Title: Investor Relations Officer

Dated: June 21, 2004

Exhibit Index

Exhibit Number	Description
1.1	Unofficial translation of our Estatuto Social (by-laws), as amended
4.(b)(2)	Shareholders' Agreement dated January 29, 2004, among us, Sendas S.A., Se Supermercados Ltda., Novasoc Comercial Ltda., Sendas Distribuidora S.A., Athur Antonio Sendas, Sendas Empreendimentos e Participacoes Ltda., Pao de Acucar S.A. Industria e Comercio, Peninsula Participacoes Ltda., Nova Peninsula Participacoes S.A. and Abilio dos Santos Diniz
11.1	Unofficial translation of our Code of Ethics and Annex.
12.1	Section 906 Certification of Chief Executive Officer
12.2	Section 906 Certification of Chief Financial Officer
13.1	Section 302 Certification of Chief Executive Officer
13.2	Section 302 Certification of Chief Financial Officer