PROSPECT CAPITAL CORP
Form EFFECT
July 23, 2008

ctuation-wrap: simple" align=right>**Previous Year**

4/1/2010 to 6/30/2010

YTD

Previous Year

1/1/2010 to 6/30/2010

4.01

Net Income/Loss for the Period

0

0

0

0

4.03

Comprehensive Income for the Period

0

0

0

0

4.03.01

Attributed to Partners of Parent Company

0

0

0

0

4.03.02

Attributed to Non-Controlling Shareholders

	0
	0
	0
	0

(CONVENIENCE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

ITR — Quarterly Financial Information – June 30, 2011 – COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Version: 1

Consolidated Financial Statements/Statement of Cash Flows – Indirect Method

R$ (in thousands)

Code	Description	YTD Current Year 1/1/2011 to 6/30/2011	YTD Previous Year 1/1/2010 to 6/30/2010
6.01	Cash Flow provided by Operating Activities	-310,399	-583,472
6.01.01	Cash Generated in the Operations	841,804	626,625
6.01.01.01	Net Income for the Year	196,981	226,092
6.01.01.02	Deferred Income Tax (Note 21)	-40,746	91,928
6.01.01.03	Loss or disposal of properties and equipment	-28,643	-5,991
6.01.01.04	Depreciation/Amortization (Note 16)	308,148	210,654
6.01.01.05	Unedited Financial Expenses	319,500	90,839
6.01.01.06	Adjustment to Present Value	-11,616	0
6.01.01.07	Equity Pickup (Note 14)	-13,231	-40,508
6.01.01.08	Provision for Contingencies (Note 22)	62,466	39,477
6.01.01.09	Provision for Write-offs and Losses in Property and Equipment	36,158	863
6.01.01.10	Share-Based Payment	12,787	13,721
6.01.02	Changes in Assets and Liabilities	-1,152,203	-1,210,097
6.01.02.01	Accounts Receivable	-863,099	63,337
6.01.02.02	Inventories	18,919	10,215
6.01.02.03	Recoverable Taxes	-443,569	-219,444
6.01.02.04	Other Assets	293,066	-182,114
6.01.02.05	Related Parties	-203,152	-23,158
6.01.02.06	Judicial Deposits	-87,409	-39,839
6.01.02.07	Vendors	-831,264	-747,026
6.01.02.08	Payroll Charges	56,241	-63,324

6.01.02.09	Taxes and Social Contributions Payable	381,522	-38,362
6.01.02.10	Other Accounts Payable	-132,236	29,618
6.01.02.11	Marketable Securities	658,778	0
6.02	Cash flow used in Investing Activities	-584,220	-474,192
6.02.01	Acquisition of Subsidiaries	0	-28,546
6.02.02	Capital Increase in Subsidiaries	0	-971
6.02.03	Acquisition of Property and Equipment	-531,733	-424,759
6.02.04	Increase in Intangible Assets	81,512	-22,654
6.02.05	Proceeds From sale of Property and Equipment	29,025	2,738
6.03	Net Cash provided by (used in) from Financing Activities	1,039,692	481,664
6.03.01	Capital Increase/Decrease	11,797	29,300
6.03.02	Funding and Refinancing	4,009,834	880,341
6.03.03	Payments	-2,394,201	-241,409
6.03.04	Interest Paid	-451,096	-74,893
6.03.05	Payment of Dividends	-136,642	-111,675
6.05	Increase (Decrease) in Cash and Cash Equivalents	145,073	-576,000
6.05.01	Cash and Cash Equivalents, Beginning of Year	3,817,994	2,344,200
6.05.02	Closing Balance of Cash and Cash Equivalents, end of Year	3,963,067	1,768,200

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ITR — Quarterly Financial Information – June 30, 2011 – COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Version: 1

Consolidated Financial Statements/Statement of Changes in Shareholders' Equity / DMPL – 1/1/2011 to 6/30/2011

R$ (in thousands)

Code	Description	Paid-in Capital	Capital Reserves, Options Granted and Treasury Shares	Profit Reserves	Accumulated Profit/Losses	Other Comprehensive Income	Shareholders Equity	Non-Contr In
5.01	Opening Balances	5,579,259	463,148	1,056,182	0	0	7,098,589	2,48
5.03	Adjusted Opening Balance	5,579,259	463,148	1,056,182	0	0	7,098,589	2,48
5.04	Capital Transactions with Partners	538,973	-92,888	-421,501	-22,485	0	2,099	-
5.04.01	Capital Increases	11,797	0	0	0	0	11,797	
5.04.03	Recognized Granted Options	0	12,787	0	0	0	12,787	
5.04.06	Dividends	0	0	0	-22,485	0	-22,485	
5.04.08	Reserve Capitalization	527,176	-105,675	-421,501	0	0	0	
5.04.09	Non-Controlling Interest	0	0	0	0	0	0	-
5.05	Total Comprehensive Income	0	0	0	223,442	0	223,442	-2
5.05.01		0	0	0	223,442	0	223,442	-2

	Net Income for the Period							
5.06	Internal Changes of Shareholders' Equity	0	0	3,468	0	0	3,468	
5.06.01	Reserves	0	0	3,468	0	0	3,468	
5.07	Closing Balances	6,118,232	370,260	638,149	200,957	0	7,327,598	2,44

(CONVENIENCE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

ITR — Quarterly Financial Information – June 30, 2011 – COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Version: 1

Consolidated Financial Statements/Statement of Changes in Shareholders' Equity / DMPL – 1/1/2010 to 6/30/2010

R$ (in thousands)

Code	Description	Paid-in Capital	Capital Reserves, Options Granted and Treasury Shares	Profit Reserves	Accumulated Profit/Losses	Other Comprehensive Income	Shareholders Equity	Non-Contr In
5.01	Opening Balance Adjusted	5,374,751	647,232	602,237	0	0	6,624,220	3
5.03	Opening Balance	5,374,751	647,232	602,237	0	0	6,624,220	3
5.04	Capital Transactions with Partners	198,687	-70,637	-81,440	-19,215	0	27,395	
5.04.01	Capital Increases	29,299	0	0	0	0	29,299	
5.04.03	Recognized Granted Options	0	13,271	0	0	0	13,271	
5.04.05	Treasury Shares Sold	0	0	4,040	0	0	4,040	
5.04.06	Dividends	0	0	0	-19,215	0	-19,215	
5.04.08	Reserve Capitalization	169,388	-83,908	-85,480	0	0	0	
5.05	Total Comprehensive Income	0	0	0	230,379	0	230,379	
5.05.01		0	0	0	230,379	0	230,379	

	Net Income for the Period							
5.06	Internal Changes of Shareholders' Equity	0	0	0	0	0	0	-2
5.06.04	Non-Controlling Interest	0	0	0	0	0	0	-2
5.07	Closing Balance	5,573,438	576,595	520,797	211,164	0	6,881,994	

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ITR — Quarterly Financial Information – June 30, 2011 – COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Version: 1

Consolidated Financial Statements/Statement of Value Added

R$ (in thousands)

Code	**Description**	**YTD Current Year 1/1/2011 to 6/30/2011**	**YTD Previous Year 1/1/2010 to 6/30/2010**
7.01	Gross Sales	24,917,667	15,666,190
7.01.01	Sales of Goods, Products and Services	24,977,380	15,599,380
7.01.02	Other Revenues	16,292	66,685
7.01.04	Allowance for/Reversal of Doubtful Accounts	-76,005	125
7.02	Input Acquired from Third Parties	-19,279,981	-13,007,162
7.02.01	Costs of Products, Goods and Services Sold	-16,943,355	-11,785,360
7.02.02	Materials, Energy, Outsourced Services and Other	-2,336,626	-1,221,802
7.03	Gross Added Value	5,637,686	2,659,028
7.04	Retention	-308,148	-210,654
7.04.01	Depreciation, Amortization and Depletion	-308,148	-210,654
7.05	Net Added Value Produced	5,329,538	2,448,374
7.06	Added Value Received in Transfers	285,404	182,765
7.06.01	Equity in the Earnings of Subsidiaries and Associated Companies	13,231	40,508
7.06.02	Financial Income	272,173	142,257
7.07	Total Added Value to Distribute	5,614,942	2,631,139
7.08	Distribution of Added Value	5,614,942	2,631,139
7.08.01	Personnel	2,433,998	1,075,124
7.08.01.01	Direct Compensation	1,859,318	762,884
7.08.01.02	Benefits	370,374	227,471
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	179,230	66,570

7.08.01.04	Other	25,076	18,199
7.08.01.04.01	Interest	25,076	18,199
7.08.02	Taxes, Fees and Contributions	1,510,546	591,732
7.08.02.01	Federal	496,890	377,880
7.08.02.02	State	917,911	143,416
7.08.02.03	Municipal	95,745	70,436
7.08.03	Value Distributed to Providers of Capital	1,473,417	738,192
7.08.03.01	Interest	933,910	420,031
7.08.03.02	Rentals	539,507	318,161
7.08.04	Value Distributed to Shareholders	196,981	226,091
7.08.04.03	Retained Earnings/Accumulated Losses for the Period	223,442	230,378
7.08.04.04	Non-Controlling Interest in Retained Earnings	-26,461	-4,287
7.08.05	Other	0	0
7.08.05.01	Company’s Shareholders	0	0

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

1. Corporate information

Companhia Brasileira de Distribuição, directly or through its subsidiaries ("Company" or “GPA”) operates in the food retailer, clothing, home appliances and other products segment through its chain of hypermarkets, supermarkets, specialized and department stores principally under the trade names "Pão de Açúcar", "Comprebem", "Extra", "Extra Eletro", “Extra Perto”, “Extra Fácil”, “Sendas”, “Assai”, “Ponto Frio,” “Casas Bahia,” “Casas Bahia.com,” “Extra.com” and “Ponto Frio.Com”. The registered office is located at São Paulo, SP, Brazil.

Founded in 1948, the Company has 143,931 employees, 1,604 stores in 19 Brazilian states and 1 in the Federal District and a logistics infrastructure comprised of 28 warehouses located in seven states as of June 30, 2011.The Company’s shares are traded on the Level 1 Corporate Governance segment of the São Paulo Stock Exchange and its shares are listed at the São Paulo and New York Stock Exchanges (ADR level III).

The Diniz Group and the Casino Group share the Company’s control through their ownership of the holding company named Wilkes Participações S.A., pursuant to an agreement entered into in May 2005.

2. Basis of preparation

The interim financial statements of the parent company and consolidated have been prepared on a historical cost basis, except for the derivative financial instruments, which have been measured at fair value.

The interim financial statements of the parent company and the consolidated financial statements are stated in Brazilian Reais, which is the functional and reporting currency of the Company and its subsidiaries.

The items included in the interim financial information of the parent company and the consolidated financial information of each one of the Company's subsidiaries were measured by adopting the currency of the main economic scenario where the subsidiary operates ("functional currency").

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

2. Basis of preparation - Continued

The interim financial information for the period ended June 30, 2011 was approved by the Board of Directors at July 25, 2011.

The individual and consolidated interim financial information was prepared and has been presented according to the technical pronouncement CPC 21 Interim Financial Statements and pursuant to the international standard IAS 34, Interim Financial Reporting, issued by the International Accounting Stardard Board – IASB, respectively, applyed the preparing of Interim Financial Statement and presented according to the CVM rules.

In the individual interim financial information, the investments in subsidiary are stated at the equity method, while for the purposes of international accounting standards issued by the International Accounting Standard Board (“IASB”), these would be stated at cost or fair value.

However, there are no differences between shareholders’ equity and consolidated result reported by the Company, shareholders’ equity and results of controlling entity in its individual interim financial information.

For a better presentation and comparability, certain balances of December 31,2010 were reclassified.

(CONVENIENCE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. Basis for consolidation

a) Interest in subsidiaries, associates and joint ventures

	Interest in investees - %			
	6.30.2011		**12.31.2010**	
Holdings	**CBD**	**Other**	**CBD**	**Other**
Subsidiaries:				
Novasoc	**10.00**	**-**	10.00	-
Sé	**93.10**	**6.90**	93.10	6.90
Sendas Distribuidora	**18.33**	**81.67**	14.86	42.57
PAFIDC	**9.33**	**1.09**	9.58	1.12
PA Publicidade	**99.99**	**-**	99.99	-
Barcelona	**-**	**100.00**	-	100.00
CBD Holland	**100.00**	**-**	100.00	-
CBD Panamá	**-**	**100.00**	-	100.00
Xantocarpa	**-**	**100.00**	-	100.00
Vedra	**99.99**	**-**	99.99	-
Bellamar	**-**	**100.00**	0.01	99.99
Vancouver	**100.00**	**-**	100.00	-
Dallas	**99.99**	**0.01**	99.99	-
Bruxellas	**99.99**	**-**	99.99	-
Monte Tardelli	**99.00**	**1.00**	99.00	-

GPA 1	**99.90**	**0.10**	99.99	-
GPA 2	**99.90**	**0.10**	99.99	-
GPA 4	**99.00**	**1.00**	99.00	-
GPA 5	**99.00**	**1.00**	99.00	-
GPA 6	**99.90**	**0.10**	99.99	-
ECQD	**100.00**	**-**	100.00	-
API SPE Imobiliários	**100.00**	**-**	100.00	-
Lake Niassa	**-**	**100.00**	-	100.00
Globex Utilidades	**52.41**	**-**	52.41	-
Globex Adm e Serviços	**-**	**100.00**	-	100.00
Nova Casa Bahia	**-**	**100.00**	-	100.00
Ponto Frio Adm e Impot. de Bens	**-**	**99.99**	-	99.99
Rio Expresso Com. Atacad. Eletro	**-**	**100.00**	-	100.00
Globex Adm. Consórcio	**-**	**100.00**	-	100.00
PontoCred Negócio de Varejo	**-**	**100.00**	-	100.00
Nova Extra Eletro	**0.10**	**99.90**	0.01	99.99
PontoFrio.com Comércio Eletrônico	**39.05**	**54.95**	39.05	54.95
E-HubConsult. Particip. e Com.	**-**	**100.00**	-	100.00
Saper	**24.21**	**75.79**	24.21	75.79
Sabara	**-**	**100.00**	-	100.00

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ITR — Quarterly Financial Information – June 30, 2011 – COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. **Basis for consolidation -** Continued

a) Interest in subsidiaries, associates and joint ventures

	6.30.2011		**12.31.2010**	
Holdings	**CBD**	**Other**	**CBD**	**Other**
Associates and Joint Ventures:				
Financeira Itaú CBD – FIC	**-**	**50.00**	-	50.00
GPA - FIDC	**9.33**	**1.09**	9.47	1.11
Globex – FIDC	**-**	**13.61**	-	13.70
Móveis Bartira Ltda.	**-**	**25.00**	-	25.00
Dunnhumby Brasil	**2.00**	**98.00**	2.00	98.00
Banco Investcred Unibanco	**-**	**-**	-	50.00
Casas Bahia Contact Center Ltda.	**-**	**100.00**	-	100.00
FIC Promotora	**-**	**99.96**	-	99.96
PFLeasing	**-**	**100.00**	-	100.00

b) Subsidiaries

The consolidated interim financial statements include the interim financial statements of all subsidiaries over which the parent company exercises control either directly or indirectly.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies and generally holds shares of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control. They are de-consolidated from the date that control ceases.

The interim financial statements of the subsidiaries are prepared on the same closing date as those of the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Gains or losses resulting from changes in equity interest in subsidiaries, not resulting in loss of control are directly recorded in shareholders' equity.

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. Basis for consolidation – Continued

b) Subsidiaries - continued

Losses are attributed to the non-controlling interest, even if it results in a deficit balance.

The primary direct or indirect subsidiaries, included in the consolidation and the percentage of the company's interest comprise:

i. Novasoc

Although the Company's interest in Novasoc Comercial Ltda. ("Novasoc") represents 10% of its shares, Novasoc is included in the consolidated interim financial statements as the Company controls 99.98% of the Novasoc's voting rights, pursuant to the shareholders' agreement. Moreover, under the Bylaws of Novasoc, the appropriation of its net income does not require to be proportional to the shares of interest held in the company.

ii. PAFIDC and Globex FIDC

The Company consolidates the interim financial statements of Pão de Açúcar Fundo de Investimentos em Direitos Creditórios (“PAFIDC”) and Globex Fundo de Investimentos em Direitos Creditórios (“Globex FIDC”), special purpose entities organized with the exclusive purpose of conducting the securitization of receivables of the Company and its subsidiaries. The consolidation is justified by the fact that most of the risks and benefits related to the fund are linked to subordinated shares owned by the Company and its subsidiaries.

iii. Globex

The Company consolidates the interim financial statements of Globex, a subsidiary that concentrates the Group’s electric and electronic products, operating under the banners “Ponto Frio”, “Extra-Eletro”, and as of November 2010, “Casas Bahia”. The Company also operates in e-commerce through. Its controlled entity through PontoFrio Comércio Eletronico S.A the websites www.extra.com.br, www.pontofrio.com and www.casabahia.com.br

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Companhia Brasileira de Distribuição

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June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. Basis for consolidation - Continued

iv. Sendas

The Company indirectly holds 100% of Sendas Distribuidora's capital, its wholly-owned subsidiary, which operates in retail trade and cash-and-carry segments, mainly in the State of Rio de Janeiro. For further information on the acquisition of non-controlling interest, see Note 14 (aii).

c) Associates – BINV and FIC

The Company's investments in its associates FIC and BINV, both entities that finance sales directly to GPA customers, and are result of an association between Banco Itaú Unibanco with GPA and Globex are accounted for using the equity method. An associate is an entity in which the Company has significant influence, but not the control.

Prevailing decisions related to the operational and financial management of BINV and FIC rely on Banco Itaú – Unibanco S.A. (Itaú-Unibanco). Therefore, the Company poses material influence on its investments and recognized them by the equity accounting method.

Under the equity method, the investment in the associate is carried in the statement also reflecting changes in the Company's share of net assets of the associate following the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income for the period reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the shareholders' equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of income for the period as equity pickup results, corresponding to the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates. The interim financial statements of the associates are prepared for the same closing date as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. Basis for consolidation - Continued

c) Associates – BINV and FIC

After application of the equity method, the Company determines whether it is necessary to recognize an additional loss due to non-recoverability on the Company's investment in its associates. The Company determines at each balance date whether there is any evidence that the investment in the associate will not be recoverable. If applicable, the Company calculates the impairment amount as the difference between the investment recoverable value of the associate and its carrying amount and recognizes the loss in the statement of income for the period.

Upon loss of significant influence over the associate, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from write-off are recognized in the statement of income for the period.

d) Interest in joint venture – Bartira

The Company maintains an indirect joint venture with a jointly-owned subsidiary named Indústria de Móveis Bartira Ltda. (“Bartira”), in which the participants (GPA through its subsidiary Nova Casa Bahia S.A. (“NCB”), with 25% and Klein family through Casa Bahia commercial Ltda. with 75%) entered into a partnership agreement setting forth the joint control over the entity’s operational activities.

The partnership agreement requires the unanimous resolution of participants in the financial and operational decision-making process. The Company recognizes its interest in the joint venture using the proportional consolidation method. In addition, it combines the proportional amount of each asset, liabilities, income and expenses of joint venture with similar items– line by line – in its consolidated interim financial statements. The joint venture interim financial statements are prepared for the same period adopted by the Company. Adjustments are made when necessary in order to be in line with the accounting practices.

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

3. **Basis for consolidation -** Continued

d) Interest in joint venture – Bartira

Follows below the condensed financial information of the entity jointly controlled by the Company:

	6.30.2011	**12.31.2010**
Current assets	**91,438**	109,120
Noncurrent assets	**64,297**	64,836
Total assets	**155,735**	173,956
Current liabilities	**61,424**	80,288
Noncurrent liabilities	**3,020**	5,858
Shareholders' equity	**91,291**	87,810
Total liabilities and shareholders' equity	**155,735**	173,956
Resulted (i)		
Net sales and services	**232,224**	71,188
Income (loss) before income tax	**(5,494)**	(2,528)
Income (loss) before income tax	**(3,481)**	(1,880)

The balances presented on December 31, 2010 include the profit and loss of two months.

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Explanatory Notes

Companhia Brasileira de Distribuição

Notes to the interim financial statements

June 30, 2011

(In thousands of Reais, except when otherwise stated)

4. Main accounting practices

a) Financial instruments

Financial instruments are recognized as of the date on which the Company enters into the contract. When recognized, these are recorded at their fair value plus the transaction costs that are directly attributable to their acquisition or issuance. Their subsequent measurement occurs every balance sheet date according to the rules established for each type of financial asset and liability.

(i) Financial assets

Initial recognition and measurement

Financial assets held by the Company within the scope of CPC 38 (IAS 39), are classified as financial assets measured at their fair value through income statement, loans, receivables and derivatives financial instruments designated as hedge instruments. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value, and in the case of investments not at fair value through income statement, plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (negotiations under regular conditions) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, trade and other receivables, related party receivables, judicial deposits and derivatives financial instruments.

Subsequent measurement

Assets are classified among categories mentioned below, according to the purpose to which they were acquired or issued:

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4. Main accounting practices – Continued

a) Financial instruments -continued

(i) Financial assets -continued

Subsequent measurement -- continued

- Financial assets measured at fair value through income statement: are measured at their fair value at each balance sheet date. Interest rates, monetary restatement, exchange variation and variations deriving from the valuation at fair value are recognized in the statement of income for the period when incurred as financial revenues or expenses. The financial assets are classified as financial assets by the fair value in the income if acquired for the purpose of selling or repurchasing in the near term. Financial assets measured by fair value through income statement are recorded at fair value through income statement, with changes recognized in financial income or financial expense. Cash and cash equivalents balances held by the Company are classified into this category.

- Held-to-maturity financial assets

Assets and liabilities held to maturity: are financial assets and liabilities which cannot be classified as loans and receivables, for being negotiable in the active market. In this case, these financial assets are acquired with the intention and financial capacity to their maintenance in the Company portfolio until maturity. They are measured at acquisition cost, plus monetary restatement through income, using the effective interest rate.

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4. Main accounting practices --Continued

Held-to-maturity financial assets -- continnued

- Loans granted and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, these are measured using amortized cost through the effective interest rate method. Interest income, monetary restatement, exchange variation, less impairment losses, where applicable, are recognized in the income statement when incurred as financial income or expenses.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; and

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party under a “pass-through” arrangement; and either (a) the Company has transferred substantially all the risks and benefits related to the asset, or (b) the Company has neither transferred nor retained substantially all the risks and benefits related to the asset, but has transferred its control.

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4. Main accounting practices - Continued

a) Financial instruments -continued

(i) Financial assets -continued

Derecognition of financial assets -continued

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and benefits related to the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Company.

Financial assets impairment

On the balance sheets dates, the Company verifies if there is any sign of impairment of an asset or group of financial assets. The impairment of an asset or group of financial assets is only considered if there are objective pieces of evidence resulting from one or more events occurred after the asset initial recognition ("loss event"), and if said event affects the estimated future cash flows of asset or group of financial assets, which can be safely estimated. The evidence of impairment may include signs that debtors (or group of debtors) are going through relevant financial constraints, moratorium or default in the amortization of interest or principal, probability of filing for bankruptcy or another type of financial reorganization and when these data point a measurable drop in future cash flows, such as, default interest variations or economic conditions related to defaults.

The loss amount is measured as the difference between the carrying amount of asset and the present value of the estimated future cash flows (excluding future credit losses not incurred) discounted by the original effective interest rate of the financial asset. The asset's carrying amount decreases when provision is used and the loss is recognized in the income statement. Interest income is recorded in the interim financial statements as part of the financial income.

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4. Main accounting practices - Continued

a) Financial instruments -continued

(i) Financial assets -continued

Financial assets impairment -continued

If, in subsequent period, the impairment decreases and this reduction can be objectively associated with an event occurred after the recognition of the provision (such as an improved debtor's credit rating), the reversal of impairment previously recognized is recognized in the consolidated statement of income for the period. If the write-off is later recovered, this recovery is also recognized in the statement of income for the period.

Held-to-maturity financial assets

Referring to the held-to-maturity financial assets, the Company firstly verifies if there is objective evidence of impairment individually for the financial assets which are individually relevant or collectively for the assets, which individually, are not relevant. If the Company determines the non-existence of objective evidence of impairment of a financial asset evaluated on an individual basis, whether or not this loss is material, the Company classifies it into a group of financial assets with similar credit risk characteristics, which are evaluated collectively. The assets evaluated on an individual basis as to impairment or to which the impairment is (or still is) recognized are not included in the loss collective evaluation.

In the event of objective evidence of impairment, the corresponding loss amount is calculated as the difference between the carrying amount of assets and the present value of estimated cash flows (excluding estimated credit losses and not incurred yet). The present value of estimated cash flows is discounted at the financial assets original interest rate. If a financial asset bears variable interest rates, the discount to measure eventual impairment will be the interest rate effective at the present date.

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4. Main accounting practices - Continued

a) Financial instruments -continued

(i) Financial assets –continued

Held-to-maturity financial assets -continued

The asset's carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognized in the statement of income for the period. The financial income is still accumulated over the carrying amount less the interest rate used to discount the future cash flows in order to measure the impairment. In addition, the interest income is recorded as part of the financial result in the statement of income for the period. Loans and receivables, together with respective provisions, are written off when there is no real prospect of future recovery and all guarantees have been realized or transferred to the Company. If in the subsequent year, the amount of estimated loss of recoverable value suffers any variation due to an event occurred after its recognition, an adjustment is made in the allowance account. If a write-off is later recovered, it is credited to financial expenses in the statement of income for the period.

Trade accounts receivable

Trade accounts receivable are non-derivative financial assets with fixed payments or that may be calculated, without quote on the active market. After initial measurement, these financial assets are subsequently measured at the amortized cost according to the effective interest rate method (“TEJ”), less impairment. The amortized cost is calculated taking into account eventual discounts or premiums over the acquisition and tariffs or costs composing the TEJ. The TEJ amortization is included in the net financial result under the statement of income for the period. Impairment expenses are recognized in the statement of income for the period.

The Company securitizes its accounts receivable through special purpose entities, the PAFIDC and Globex FIDC. (See Note 10).

Accounts receivable deriving from business agreements are related to bonus and rebates granted by vendors, contractually established and calculated over purchase volumes, marketing actions, freight cost reimbursements, etc.

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4. **Main accounting practices -** Continued

a) Financial instruments -continued

(ii) Financial liabilities

The financial liabilities under the scope of CPC 38 (IAS 39) are classified as financial liabilities measured by fair value through the income statement, loans or borrowing or derivatives financial instruments designated as hedge instruments in an effective hedge relationship, where applicable. The Company defines the classification of the financial assets and liabilities in the initial recognition.

The Company defines the classification of the financial assets and liabilities in the initial recognition.

All financial liabilities are recognized initially at fair value, and in the case of loans and borrowing, plus directly attributable transaction cost.

The Company's financial liabilities include trade and other payables, bank overdraft accounts, loans and borrowings, debentures and derivative financial instruments.

Subsequent measurement

The measurement depends on the classification of liabilities as follows:

- Loans and borrowings: After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income for the period when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

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4. Main accounting practices - Continued

a) Financial instruments -continued

(ii) Financial liabilities -continued

Offsetting of financial instruments

Financial assets and financial liabilities are offset and stated net in the quarterly financial information only if recognized amounts can be offset and if there is an intention of settling them on a net basis or realize the assets and settle the liabilities simultaneously.

The Note 19 contains an analysis of the financial instruments' fair value and further details on how these are measured.

Put options granted to non-controlling shareholders

- The classification of equity instruments issued by the Company in equity or debt depends on each instrument's specific characteristics. An instrument is deemed to be an equity instrument when the following two conditions are met: (i) the instrument does not contain a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; and (ii) in the case of a contract that will or may be settled in the Company's own debt instruments, it is either a non-derivative that does not include a contractual obligation to deliver a variable number of the Company's own equity instruments, or a derivative that should be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Accordingly, instruments that are redeemable at the Company's discretion and for which the remuneration depends on the payment of a dividend are classified in shareholders' equity.

When the Company has a present ownership interest in the shares subject to an option agreement, no non-controlling interest is recorded and the shares subject to the instrument are accounted for as own shares.

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4. Main accounting practices – Continued

a) Financial instruments -continued

(ii) Financial liabilities -continued

Put options granted to minority shareholders -continued

The Company’s policy is to treat any liability associated with the instrument as a liability under CPC 15 (IFRS 3) with changes recognized as contingent consideration against goodwill. Changes to the liability related to the passage of time such as the unwinding of a discount rate or monetary restatement are recognized as finance expense.

Reclassification of debt and equity instruments

In order to reclassify debt and equity instrument, the Company shall record them as follows:

- reclassify an equity instrument (shareholders' equity) as debt instrument (financial liability) as of the date the instrument no longer shows all its characteristics and conditions necessary to support its recognition. The financial liability shall be measured by fair value of instrument on the reclassification date. The Company shall recognize in shareholders' equity any difference between the carrying amount of equity instrument and the fair value of financial liability on the reclassification date; and

- reclassify a debt instrument as equity instrument (shareholders' equity) as of the date it shows all the characteristics and meets all the conditions related to its recognition, as set forth by CPC 39 (IAS 32). The equity instrument shall be measured by carrying amount of debt instrument on the reclassification date.

b) Hedge accounting

The Company uses derivative financial instruments such as, interest rate swaps and exchange variation. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is

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4. Main accounting practices --Continued

b) Hedge accounting -continued

positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income statement.

For the purposes of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, and its risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine if they actually have been highly effective throughout the periods of the financial reports for which they were designated.

Hedges which meet the criteria for hedge accounting are accounted, for the transactions held by the Company, as fair value hedges, observing the following procedures:

- The change in the fair value of a derivative financial instrument classified as interest rate hedging is recognized as financial result. The change in the fair value of the hedged item is recorded as a part of the carrying amount of the hedged item and is recognized in the income statement for the period;

- For fair value hedges relating to items carried at amortized cost, the adjustment to carrying amount is amortized in the income statement over the remaining term to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged; and

- If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

4. Main accounting practices – Continued

c) Cash and cash equivalents

In accordance with CPC 03 (IAS 7), cash and cash equivalents consist of cash, investments that are short-term, highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value with an original maturity of three months or less. Bank overdrafts are included within current liabilities in the quarterly financial information.

d) Inventories

Inventories are carried at the lower of cost or net realizable value. The cost of inventories purchased is recorded at average cost, including warehouse and handling costs, to the extent these costs are necessary so that make inventories available for sale in the Company's stores.

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

Inventories are also reduced by an allowance for losses and breakage, which are periodically reviewed and evaluated as to it is adequacy.

e) Present value adjustment of assets and liabilities

Current monetary assets and liabilities and noncurrent assets and liabilities, when relevant, are adjusted to their present value. The present value adjustment is calculated taking into account contractual cash flows and the respective explicit or implied interest rates.

Embedded interest rates on revenues, expenses and costs associated with said assets and liabilities are adjusted to the appropriate recognition in conformity with the accrual basis of accounting. The present value adjustment is recorded in those items, subject to the application of rule and "financial result" as corresponding entry.

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4. **Main accounting practices -** Continued

f) Impairment of non-financial assets

The Company assesses at each balance date whether there is an indication that an asset may be impaired. When impairment indicators exist, or when there is the annual impairment testing for an asset, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the highest between the asset's fair value or the value in use of its cash-generating unit's (CGU) fair value; the recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for subsidiaries, whose shares are traded in the organized market or other available fair value indicators.

Impairment losses are recognized in the statement of income for the period in those expense categories consistent with the function of the respective impaired asset.

For assets excluding goodwill, an assessment is made at each balance date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount in its mostly recent initial recognition. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous periods. Such reversal is recognized in the income for the period.

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4. **Main accounting practices -** Continued

f) Impairment of non-financial assets -continued

The following criteria are also applied when assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as of December 31) or when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Recoverable amount is the highest of a CGU's fair value less costs to sell and its value in use.

Intangible assets

The intangible assets with indefinite useful lives are not amortized, but tested annually in relation to impairment losses, individually or at the level of the CGU. The evaluation of indefinite useful life is reviewed annually in order to determine if this evaluation is still justifiable. Otherwise, the change in the indefinite useful life to definite useful life occurs prospectively.

Gains and losses resulting from the write-off of an intangible asset are measured as the difference between the net amount obtained from the sale and the asset's carrying amount and recognized in the statement of income for the period upon the asset write-off.

g) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such amount includes the cost of replacing a component of the equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant components of property and equipment are replaced, the Company recognizes such components as individual assets with specific useful lives and depreciation. Likewise, when a major replacement is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the

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4. Main accounting practices – Continued

g) Property and equipment -continued

recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

	Annual depreciation rate %
Assets category	**6.30.2011**
Buildings	2.50%
Improvements	4.20%
Data processing equipment	10.00 to 50.00%
Facilities	4.20 to 10.00%
Furniture and fixtures	8.30 to 33.30%
Vehicles	20.00%
Machinery and equipment	2.80 to 50.00%

Items of property and equipment and any significant part are derecognized when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is written-off.

h) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized software development costs, are not capitalized and the expenditure is reflected in the statement of income for the period when incurred.

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4. Main accounting practices –Continued

i) Intangible assets -continued

Intangible assets consist mainly of purchased software acquired from third parties, software developed for internal use and commercial rights (stores' right to use), list of customers, profitable lease agreements, profitable supply agreements of furniture and trade names.

Intangible assets with definite useful lives are amortized by the straight-line method. Assets with definite useful lives represented by profitable lease agreement and profitable supply agreement of furniture are amortized according to the economic benefits raised by agreements and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method are reviewed, at least, at the end of each year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting assumptions. The amortization expense on intangible assets with definite useful lives is recognized in the income statement for the year in the corresponding category consistent with the function of the intangible asset.

Software development costs recognized as assets are amortized over their estimated useful lives. Software is amortized over five years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at each year-end or whenever there is an indication that their carrying amount cannot be recovered, either individually or at the cash generating unit level. The assessment is reviewed annually to determine whether the indefinite useful life continues to be valid. If not, the change in useful life from the indefinite to definite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, being recognized in the income statement for the period.

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4. Main accounting practices – Continued

j) Classification of assets and liabilities as current and non-current

Assets (excluding deferred income and social contribution tax) that are expected to be realized in or are intended for sale or consumption within twelve months after the balance sheet date, are classified as current assets. Liabilities (excluding deferred income and social contribution tax) that are expected to be settled within twelve months as of the balance sheet date are classified as current. All others assets and liabilities (including deferred taxes) are classified as “noncurrent”.

All deferred tax assets and liabilities are classified as noncurrent assets or liabilities.

k) Leasing

The determination of whether an arrangement is, or contains leasing, is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Financial lease agreements, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are allocated between finance charges and reduction of leasing liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shortest of the estimated useful life of the asset and the lease term.

Lease agreements are classified as operating leasing when there is no transfer of risk and benefits incidental to ownership of the leased item.

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4. Main accounting practices – Continued

k) Leasing –continued

Company as a lessee -- Continued

The installment payments of leasing (excluding costs of services, such as insurance and maintenance) classified as operating lease agreements are recognized as expenses, according to their accrual basis, during the lease term.

Company as a lessor

Lease agreements where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the agreement term on the same bases as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

l) Provisions

Provisions are recognized when the Company has a present obligation (legal or not formalized) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement for the period, net of any reimbursement.

m) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability at the year-end, based on the minimum mandatory dividends established by the statutory law. Any amount above of that amount is only recorded at the date on which such incremental dividends are approved by the Company's shareholders.

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4. Main accounting practices – Continued

n) Shareholders' equity

Common and preferred shares are classified as shareholders' equity.

n) Shareholders' equity -continued

When any related party purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from capital of Company's shareholders until the shares are cancelled or reissued.

When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in capital to the Company's shareholders. No gain or loss is recognized on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

o) Share-based payment

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in shareholders' equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity instruments at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments to be acquired.

The expense or income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognized for services that will not complete its acquisition period, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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4. Main accounting practices – Continued

o) Share-based payment -continued

Equity-settled transactions –continued

Where an equity instrument is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity instrument is cancelled, it is treated as if it totally vested on the date of cancellation, and any expense not yet recognized for the premium, recognized immediately in the income statement. This includes any premium where non-vesting conditions within the control of either the Company or the employee are not met. However, if the cancelled plan is replaced by another plan and designated as a replacement grants on the date that it is granted, the cancelled grant and new plan are treated as if they were a modification of the original grant, as described in the previous paragraph. All cancellations of equity-settled transaction are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (See Note 24).

p) Earnings per share

Basic earnings per share are calculated based on the weighted average number of shares outstanding during the period, excluding shares issued in payment of dividends and treasury shares.

Diluted earnings per share are calculated by the treasury stock method, as follows:

- numerator: earnings for the period; and
- denominator: the number of shares is adjusted to include potential shares corresponding to dilutive instruments (stock options), less the number of shares that could be bought back at market, if applicable.

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4. Main accounting practices – Continued

Equity instruments that will or may be settled in Company's shares are included in the calculation only when their settlement would have a dilutive impact on earnings per share.

q) Determination of net income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured

at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements, except for those referring to extended warranty and insurance policy brokerage. Specifically in this case, the Company operates as an agent, and revenue is recognized on a net basis, which reflects the commission received from insurance companies. The following specific recognition criteria must also be met before revenue is recognized:

(i) Revenue

a) Sales of goods

Revenues are recognized at the fair value of the consideration received or receivable for the sale of goods and service. Revenues from the sale of products are recognized when their value can be measured reliably, all risks and benefits inherent to the product are transferred to the buyer, the Company no longer has the control or responsibility over the goods sold and the economic benefits generated to the Company are probable. Revenues are not recognized if their realization is uncertain.

b) Interest income

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the financial result under the statement of income for the period.

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4. Main accounting practices –Continued

(ii) Gross profit

Gross profit corresponds to the difference between net sales and the cost of goods sold. The cost of goods sold comprises the cost of purchases net of discounts and bonuses received from vendors, changes in inventory and logistics costs.

Bonus received from vendors is measured based on contracts and agreements signed with vendors.

Cost of sales includes the cost of logistics operations managed or outsourced by the Company, comprising warehousing, handling and freight costs incurred until the availability of goods for sale. Transport costs are included in the acquisition costs.

(iii) Selling expenses

Selling expenses consist of all store expenses, such as salaries, marketing, occupancy, maintenance, etc.

(iv) General and administrative expenses

General and administrative expenses correspond to overheads and the cost of corporate units, including the purchasing and procurement, IT and finance functions.

(v) Other operating expenses, net

Other operating income and expense correspond to the effects of major events occurring during the period that do not meet the Company's definition for the other income statement lines.

(vi) Financial result

Finance expenses include, substantially, all expenses generated by net debt and the receivables securitization during the period offset by capitalized interest, losses related to the measurement of derivatives at fair value, losses on disposals of financial assets, finance charges on lawsuits and taxes interest charges on financial lease, and discounting adjustments.

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4. Main accounting practices – Continued

(vi) Financial result - Continued

Finance income includes income generated by cash and cash equivalents and judicial deposits, gains related to the measurement of derivatives at fair value, purchase discounts obtained from vendors, and revenues referring to discounts.

r) Taxation

Current income and social contribution taxes

Current income and social contribution tax assets and liabilities, for the current and prior periods, are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the tax are those that are enacted or substantially enacted, at the balance sheet dates.

The taxation on income comprises the Corporate Income Tax ("IRPJ") and Social Contribution on Net Income ("CSLL"), being calculated based on taxable income (adjusted income), at rates applicable in the prevailing laws – 15% over taxable income and 10% surcharge over the amount exceeding R$ 240 in taxable income yearly for IRPJ and 9% for CSLL.

Deferred income and social contribution taxes

Deferred income and social contribution taxes are generated by temporary differences at the balance sheet date, between the tax basis of assets and liabilities and their carrying amounts.

Deferred income tax and social contribution tax assets are recognized for all deductible temporary differences, and unused tax losses, to the extent that it is probable that taxable profit will be available against which to deduct the temporary differences and unused tax credits and losses except where the deferred income and social contribution tax assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor tax profit or loss.

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4. Main accounting practices –Continued

r) <u>Taxation</u> -continued

<u>Deferred income and social contribution taxes -</u>continued

Deferred income and social contribution taxes liabilities referring to all temporary taxable differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in an operation, rather than a business combination and, at the time of the operation, affects neither the accounting profit nor taxable loss.

With respect to deductible temporary differences associated with investments in subsidiaries and associates, deferred income and social contribution taxes are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income and social contribution tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income and social contribution taxes to be utilized. Unrecognized deferred income and social contribution tax assets are reassessed at the balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow these assets to be recovered.

Deferred income and social contribution tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred taxes related to items directly recognized in shareholders' equity are also recognized in shareholders' equity and not in the income statement.

Deferred income and social contribution tax assets and liabilities are offset if there is a legal or contractual right to offset the tax assets against the income tax liabilities and deferred taxes refer to the same taxpayer company and to the same tax authority.

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4. Main accounting practices –Continued

r) Taxation -continued

Other taxes

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

The amounts recoverable derived from non-cumulative ICMS, PIS and COFINS are deducted from cost of goods sold.

Taxes recoverable or prepaid taxes are shown in the current and noncurrent assets, in accordance with the estimated timing of their realization.

Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the balance sheets.

s) Business combinations and goodwill

Business combinations are recorded using the acquisition method. The cost of an acquisition is measured as the sum between the consideration transferred, measured at fair value on the acquisition date and the remaining amount of non-controlling interest in the acquired company. For each business combination, the acquirer measures the non-controlling interest in the acquired company at fair value or through the proportional interest in acquired company's identifiable net assets. The acquisition costs incurred are treated as expense and included in the administrative expenses.

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4. Main accounting practices – Continued

s) Business combinations and goodwill -continued

When the Company acquires a business, it assesses financial assets and liabilities to the appropriate classification and designation according to contractual terms, economic circumstances and relevant conditions on the acquisition date. This includes the separation of derivatives embedded in agreements by the acquired company.

If the business combination occur in phases, the fair value on the acquisition date of interest previously held by acquirer in acquired company is adjusted to fair value on if the acquisition date through income statement.

Any contingent payment to be transferred by acquirer will be recognized at fair value on the acquisition date. Subsequent changes in fair value of contingent payment considered as an asset or liability will be recognized under CPC 38 (IAS 39) through income statement or as change in other comprehensive income. If the contingent payment is classified as equity, it will not be adjusted until it is finally settled under shareholders' equity.

Goodwill is initially measured at cost and the excess between the consideration transferred and the amount recognized for non-controlling interest over assets acquired and liabilities assumed. If this payment is lower than the fair value of net assets of acquired subsidiary, the difference is recognized in the income statement as gain due to profitable purchase.

After initial recognition, the goodwill is measured at cost, less eventual impairment losses. For the purposes of impairment test, the goodwill acquired in a business combination is, as of the acquisition date, allocated to each one of the Company's cash generating units which shall reap the business combination benefits, regardless if other assets or liabilities of the acquired company will be assigned to these units.

In cases the goodwill composes a cash generating unit and part of the operation at this unit is sold, the goodwill related to the sold operation is included in the book amount of the operation when profit or loss earned with the sale of operation is calculated. This goodwill is then measured based on the sold operation-related amounts and part of the cash generating unit which was maintained.

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4. Main accounting practices – Continued

t) Pension plan

The pension plan is funded through payments to insurance companies, which are classified as defined contribution plan according to CPC 33 (IAS 19). A defined contribution plan is a pension plan through which the Company pays fixed contributions to a separate legal entity. The Company has no legal or constructive obligation to pay additional contributions if the fund does not have sufficient assets to pay the benefits to all employees referring to length of service in current and previous periods.

u) Customer loyalty programs

These are used by the Company to provide incentives to its customers in the sale of products or services. If customer buys products or services, the Company grants them credits. Customer may redeem the credits free of charge as a discount in the amount of products or services.

The Company estimates the fair value of scores granted according to the customer loyalty program, applying statistical techniques, considering the maturity of the plan defined in the regulation.

5. Rules issued but not effective yet

There are no CPCs issued which are not effective yet, but there are IFRS issued to which there is no change in CPCs in force, but we expect the Brazilian standards will be in conformity with the international standards until the start date thereof. Below a summary of the IFRS main standards issued but not effective yet, as well as our expectations of their effects on the Company’s interim financial statements:

IFRS 9 – Financial Instruments – Classification and Measurement - IFRS 9 concludes the first part of the replacement project of “IAS 39 Financial Instruments: Recognition and Measurement”. IFRS 9 uses a simple approach to determine if a financial asset is measured at the amortized cost or fair value, based on the way how an entity administers its financial instruments (its business model) and the contractual cash flow, which is a characteristic of the financial assets. The standard also requires the adoption of only one method to determinate asset impairment. This standard will be effective for the fiscal years starting as of January 1, 2013. The Company does not expect that this change will adversely affect its financial statements.

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5. Rules issued but not effective yet - continued

IFRS 10 Consolidate financial statements - IFRS 10 as issued reflects the replacement of SIC 12 and IAS 27 and applies to consolidated financial statements when an entity controls one or more other entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 11 Joint arrangements - IFRS 11 as issued reflects the replacement of SIC 13 and IAS 31 and applies to Joint controlled entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 12 Disclosure of interests in other entities - IFRS 12 as issue applies to Disclosure of interests in other entities, which is intended to enable users to know the risks, the nature, and the effects in the financial statements of the interest in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRS 13 Fair value measurements - IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). The standard is effective for annual periods beginning on or after January 1, 2013. The Company will analyze the effect of the adoption of the standard.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. If this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.
Improvements to IFRSs (issued in May 2010).

IASB issued clarifications on the IFRS rules and amendments applicable as of July 1, 2011. Below, the main amendments:

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5. Rules issued but not effective yet - continued

- IAS 19 – Employee benefits;
- IAS 24 – Related party disclosures;
- IAS 27 – Separate financial statements;
- IAS 28 – Investments in associates;
- IFRS 1 – First time adoption of the International Financial Reporting Standards.

The Company will evaluate the effects on the adoption of these pronouncements and interpretations and expects to not adversely affect its individual and consolidated interim financial statements.

There are no other rules or interpretations issued that have not been adopted yet that according to the Management's opinion, may adversely affect the Company's results or shareholders' equity.

6. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Company's interim individual and consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognized in the individual and consolidated interim financial statements:

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6. Significant accounting judgments, estimates and assumptions - continued

Judgments -continued

a) Financial lease commitments – Company as lessee -continued

The Company has entered into commercial property leasing agreements in its leased property portfolio and, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and recorded the agreements as financial lease.

b) Impairment

According to the financial statements for the year ended at December 31, 2010, the Company assessed if there was indication of assets impairment and in the period ended June 30, 2011, no signs or facts were identified for a new assessment.

Estimates and assumptions

a) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the nature and complexity of Company's business, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to income tax and expense already recorded. The Company establishes provisions, based on reasonable estimates, for eventual consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as

experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred income and social contribution tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred income and social contribution tax assets that can be recognized, based upon the profit estimates and the level of future taxable profits, based on the business plan approved by the Board of Directors.

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