

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 20-F
September 09, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

- .. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
- .. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- .. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-14626

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

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

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

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(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

99,679,851 Common Shares, no par value per share

165,789,276 Preferred Shares, no par value per share

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

U.S. GAAP

**International Financial Reporting Standards as issued
by the International Accounting Standards Board**

x

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

All references in this annual report to (i) “CBD,” “we,” “us,” “our,” “Company,” “Grupo Pão de Açúcar” and “GPA” are references to Companhia Brasileira de Distribuição and its consolidated subsidiaries, unless the context requires otherwise, (ii) the “Brazilian government” are references to the federal government of the Federative Republic of Brazil, or Brazil, and (iii) “preferred shares” and “common shares” are references to our authorized and outstanding shares of non-voting preferred stock, designated as *ações preferenciais*, and common stock, designated as *ações ordinárias*, respectively, in each case without par value. All references to “ADSs” are to American depositary shares, each representing one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or “ADRs,” issued by The Bank of New York Mellon. Additionally, unless the context indicates otherwise, the following definitions apply throughout this annual report:

Name	Definition
Casino	Casino, Guichard Perrachon S.A.
Casino Group	Casino, Guichard Perrachon S.A. and its subsidiaries and, where appropriate, the controlling holding companies of Casino, including Rallye S.A. and Euris S.A.S. which are ultimately controlled by Mr. Jean Charles Naouri
Cdiscount	Cdiscount S.A. and, where appropriate, its subsidiaries
Cdiscount Group	Cdiscount Group S.A.S. (formerly Casino Entreprise S.A.S.) and, where appropriate, its subsidiaries
Cnova Brazil	CNova Comércio Eletrônico S.A., a wholly owned subsidiary of Cnova owning the Brazilian non food e-commerce businesses of CBD and Via Varejo following the completion of the 2014 Reorganization
Cnova	Cnova N.V. and, where appropriate, its subsidiaries
Dutch HoldCo	Marneylectro B.V., a wholly owned subsidiary of Lux HoldCo, organized under Dutch law
Euris	Euris S.A.S.
Éxito	Almacenes Éxito S.A. and, where appropriate, its subsidiaries
Lux HoldCo	Marneylectro S.à r.l., a company organized under Luxembourg law and whose entire issued share capital is held by CBD, Via Varejo and former managers of Nova Pontocom
Nova HoldCo	Nova Pontocom Comércio Eletrônico S.A., following the completion of the 2014 Reorganization, which was spun off to CBD, Via Varejo and minority holders in 2015 and subsequently liquidated (as detailed in “Item 4A. History and Development of the Company - E-Commerce Business Reorganization”)
Nova Pontocom	Nova Pontocom Comércio Eletrônico S.A. and, where appropriate, its subsidiaries, prior to completion of the 2014 Reorganization
Rallye	Rallye S.A. and, where appropriate, its subsidiaries
Via Varejo	Via Varejo S.A. and, where appropriate, its subsidiaries

All references herein to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “US\$,” “dollars” or “U.S. dollars” are to United States dollars. All references to “€” or “euro” are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the

European Community, as amended.

We have prepared our consolidated financial statements included in this annual report in conformity with accounting practices adopted by the International Financial Reporting Standards, or IFRS, issued by the International Accounting Standards Board, or IASB, in *reais*.

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate the amounts in respect of December 31, 2015 was R\$3.266 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of August 26, 2015, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at that rate or at any other rate. See “Item 3A. Selected Financial Data—Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

In addition, this annual report contains translations of euro amounts into U.S. dollars at specific rates. Unless otherwise noted, all translations from euros to U.S. dollars and from U.S. dollars to euros in this annual report were made at a rate of \$1.0859 per euro, the exchange rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2015.

FORWARD-LOOKING STATEMENTS

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

- global economic conditions and their impact on consumer spending patterns, particularly in Brazil and France;
- our ability to sustain or improve our performance;
- competition in the Brazilian and French retail industry in the sectors in which we operate;
- government regulation and tax matters;
- adverse legal or regulatory disputes or proceedings;
- credit and other risks of lending and investment activities;
- ability to expand our operations outside of our existing markets; and
- other risk factors as set forth under “Item 3D. Risk Factors.”

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

EXPLANATORY NOTE

In December 2015, the board of directors of Cnova, one of our subsidiaries, engaged legal counsel and forensic accountants to perform an internal investigation of alleged employee misconduct related to inventory management at Cnova Brazil’s distribution centers. Subsequently, the scope of the investigation at Cnova Brazil was expanded to include: (i) an overstatement of Cnova Brazil net sales and accounts receivable; (ii) inconsistencies linked to the amount and valuation of damaged and/or returned items in Cnova Brazil’s inventory; (iii) incorrect entries recorded at Cnova Brazil concerning primarily accounts payable; (iv) altered account reconciliations that were intentionally prepared by Cnova Brazil accounting staff at the direction of former Cnova Brazil personnel and provided to mislead Cnova Brazil’s independent registered public accounting firm; (v) the unsupported capitalization of software development costs related to certain vendor expenses and employee payroll expenses into intangible asset accounts; and (vi) the improper deferral of certain operating expenses at Cnova Brazil (the “Investigation”). The Investigation also identified (i) a nonrecurring Brazilian *Imposto sobre Operações relativas à Circulação de Mercadorias e Prestação de Serviços* (“ICMS”) tax credit of 75 million Brazilian *reais* related to the sale of certain products by Cnova Brazil, which was recognized by Cnova in December 2014, the impact of which on Cnova’s results of operations for

the three months ended December 31, 2014, was not previously disclosed; (ii) misconduct by Cnova Brazil IT personnel who intentionally altered records related to user access to certain of Cnova Brazil's IT systems to mislead the independent registered public accounting firm.

In February 2016, Cnova disclosed that its audit committee, in consultation with its management, determined that Cnova's financial statements contained in its previously filed annual report on Form 20-F for the year ended December 31, 2014 should no longer be relied upon and would need to be restated in connection with the issues discovered in the course of the Investigation. Cnova also reported the matter to the staff of the Division of Enforcement of the United States Securities and Exchange Commission (the "SEC") and to the French Autorité des Marchés Financiers and the Netherlands Authority for the Financial Markets.

In June 2016, Cnova’s legal advisors and external forensic accountants completed the internal review. Based on their findings, which have been shared with the SEC, Cnova has restated its consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014 and selected financial information as of and for the year ended December 31, 2012. Cnova’s restated consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014 were also revised to reflect in the proper periods certain previously recorded out of period adjustments.

In July 2016, we disclosed that as a result of the adjustments in Cnova’s financial statements for the fiscal years ended December 31, 2014 and 2013, which totaled R\$557 million, our consolidated financial statements as of and for the years ended December 31, 2014 and 2013, contained in the previously filed annual report on Form 20-F for the year ended December 31, 2014, should no longer be relied upon and would be restated. We recorded the effect of R\$504 million in statement of income and R\$53 million directly in shareholders’ equity. For further information on the effect in our consolidated financial statements, see note 1.5, “Cnova’s investigation and restatement of comparative periods in the financial statements,” to our audited consolidated financial statements included elsewhere in this annual report.

As a result of the foregoing, we have identified material weaknesses in our internal controls and procedures. For information on the material weaknesses identified in our internal controls and procedures, see “Item 15. Controls and Procedures.”

Furthermore, the consolidated balance sheet data as of December 31, 2011, 2012 and 2013 and consolidated statement of income data for the years ended December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which have not been restated as a result of the issues found in Cnova’s Investigation due to overall immateriality of the adjustments made (R\$ 95 million on net income from 2012 and previous years).

Restatement of Previously Issued Consolidated Financial Statements

As a result of the internal review of Cnova Brazil, Cnova identified several errors in its financial statements that resulted in the same errors in our previously issued financial statements as of and for the years ended December 31, 2014 and 2013, which have been restated.

We evaluated and concluded that the deferred income tax would not be recoverable and therefore there is no income tax impact on the adjustments to our financial statements.

The total adjustments in Cnova were R\$557 million, of which R\$504 million were recorded in statement of income and R\$53 million in shareholders’ equity, comprising (i) the adjustments resulting from the Investigation, (ii) the adjustments related to changes in accounting practice, and (iii) the evaluation on the recoverability of deferred income taxes at Cnova and its subsidiaries.

The table below reconciles the final adjustments of the Investigation and other related effects that were recorded in our financial statements and their allocation by year:

Total	Effect recorded	Effect in net income and net income	Effect in net income	Effect in net income	Effect in net income	Effect in net income
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		directly in shareholders' equity	shareholders' equity	of 2015	of 2014	of 2013	of 2012 and before
Adjustments related to the investigation	357	-	357	83	186	5	83
Change in accounting practice	18	-	18	5	(10)	10	13
Evaluation of recoverability of deferred income tax of Cnova Brasil	84	-	84	84	-	-	-
Evaluation of recoverability of deferred income tax of Cnova N.V. and Cdiscount	98	(53)	45	45	-	-	-
Total	557	(53)	504	217	176	15	96

For a breakdown of the Investigation adjustments and for further information relating to the restatement of our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2014, see note 1.5,

“Cnova’s investigation and restatement of comparative periods in the financial statements,” to our audited consolidated financial statements included elsewhere in this annual report.

Additionally, as a result of the Investigation, on July 27, 2016 we also restated our consolidated financial statements for the years ended December 31, 2015 and 2014 that had been previously filed with the Brazilian Securities Commission on February 24, 2016.

PART I

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

We present in this section summary financial and operating data derived from our audited consolidated financial statements as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015 included elsewhere in this annual report and prepared in accordance with IFRS as issued by the IASB. Our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2014 have been adjusted for the effects of the restatement more fully described in the “Explanatory Note” on page 2 of this annual report and in note 1.5 (“Cnova’s investigation and restatement of comparative periods in the financial statements”) to our audited consolidated financial statements.

As a result of Cnova Brazil's Investigation, Cnova identified several errors in the financial statements that resulted in the same errors in the previously issued financial statements of the Company as of December 31, 2014 and 2013, which have been restated.

The consolidated balance sheet data as of December 31, 2011, 2012 and 2013 and consolidated statement of income data for the years ended December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which have not been restated as a result of the issues found in Cnova’s Investigation due to overall immateriality of the adjustments made (R\$ 95 million on net income from 2012 and previous years).

The following tables present certain of our summary historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2015 have been translated into U.S. dollars at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Central Bank, as of August 26, 2016, of R\$3.266 to US\$1.00 (subject to rounding adjustments).

As of and for the Year Ended December 31,

2013 2014

As As

2011⁽¹⁾ 2012⁽¹⁾ restated⁽²⁾ restated⁽²⁾ 2015 2015
(millions of R\$, except as indicated) (millions of US\$, except as indicated)

Statement of income data

Net operating revenue	46,594	51,016	57,871	65,407	69,220	21,194
Cost of sales	(33,935)	(37,210)	(42,779)	(48,610)	(52,934)	(16,208)
Gross profit	12,659	13,806	15,092	16,797	16,286	4,986
Selling, general and administrative expenses	(9,620)	(10,164)	(10,748)	(11,819)	(13,030)	(3,990)
Depreciation and amortization	(678)	(751)	(785)	(819)	(961)	(294)
Other operating expenses, net	(259)	(33)	(673)	(441)	(684)	(209)
Operating expenses, net	(10,557)	(10,948)	(12,206)	(13,079)	(14,675)	(4,493)
Profit from operations before financial income (expenses) and share of profit of associates	2,102	2,858	2,886	3,718	1,611	493
Financial income	593	593	643	689	776	238
Financial expenses	(1,926)	(1,786)	(1,836)	(2,195)	(2,429)	(744)

	As of and for the Year Ended December 31,					
	2011 ⁽¹⁾	2012 ⁽¹⁾	2013 As restated ⁽²⁾	2014 As restated ⁽²⁾	2015	2015
	(millions of R\$, except as indicated)			(millions of US\$, except as indicated)		
Financial expenses, net	(1,333)	(1,193)	(1,193)	(1,506)	(1,653)	(506)
Share of profit of associates	35	11	47	108	112	34
Profit (loss) before income tax and social contribution	805	1,676	1,740	2,320	70	21
Income tax and social contribution	(85)	(520)	(360)	(736)	(346)	(106)
Net income (loss) for the year	719	1,156	1,380	1,584	(276)	(85)
Attributed to controlling shareholders	718	1,051	1,040	1,207	265	81
Attributed to noncontrolling shareholders	1	105	340	377	(541)	(166)
Other comprehensive income for the year, net of income tax	—	—	—	4	(222)	(68)
Total comprehensive income for the year	719	1,156	1,380	1,588	(498)	(152)
Attributed to controlling shareholders	718	1,051	1,040	1,208	177	54
Attributed to noncontrolling shareholders	1	105	340	380	(675)	(207)
Basic earnings per share (weighted average for the year) (in R\$)						
Preferred	2.87	4.15	4.08	4.72	1.03	0.32
Common	2.61	3.78	3.71	4.29	0.94	0.29
Diluted earnings per share (weighted average for the year) (in R\$)						
Preferred	2.85	4.12	4.06	4.71	1.03	0.32
Common	2.61	3.78	3.71	4.29	0.94	0.29
Basic earnings per ADS (in R\$)	2.87	4.15	4.08	4.72	1.03	0.32
Diluted earnings per ADS (in R\$)	2.85	4.12	4.06	4.71	1.03	0.32
Weighted average number of shares outstanding (in thousands)						
Preferred	159,775	162,417	164,325	165,103	165,640	165,640
Common	99,680	99,680	99,680	99,680	99,680	99,680
Total	259,455	262,097	264,005	264,783	265,320	265,320
Dividends declared (in R\$)						
Preferred	0.68	0.65	0.98	1.18	0.47	0.14
Common	0.62	0.59	0.89	1.07	0.42	0.13
Dividends declared (in R\$) ⁽³⁾	0.68	0.65	0.98	1.18	0.47	0.14
Balance sheet data						
Cash and cash equivalents	4,970	7,086	8,367	11,149	11,015	3,373
Property and equipment	7,358	8,114	9,053	9,699	10,377	3,177
Total assets	33,443	34,832	37,989	45,345	47,241	14,464
Current borrowings and financing	4,918	4,211	5,172	6,594	4,869	1,491

Noncurrent borrowings and financing	6,241	6,281	4,323	3,134	4,164	1,275
Shareholders' equity	10,094	11,068	12,601	14,194	13,352	4,088
Share capital	6,129	6,710	6,764	6,792	6,806	2,084
Other financial information						
Net cash provided by (used in):						
Operating activities	1,128	5,299	4,876	4,990		