

BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD

Form 6-K/A

March 13, 2017

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## FORM 6-K/A

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

### Report of Foreign Private Issuer

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

For the month of March, 2017

Brazilian Distribution Company

(Translation of Registrant's Name Into English)

Av. Brigadeiro Luiz Antonio,  
3142 São Paulo, SP 01402-901

Brazil

(Address of Principal Executive Offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

Yes  No

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

Yes  No

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*(Free Translation into English from the Original Previously Issued in Portuguese)*

*Companhia Brasileira  
de Distribuição*

*Individual and Consolidated  
Financial Statements for the  
Year Ended December 31, 2016 and  
Independent Auditor's Report*

*Deloitte Touche Tohmatsu Auditores Independentes*

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## Companhia Brasileira de Distribuição

### Consolidated Financial Statements

Years ended December 31, 2016 and 2015

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Directors and Management of  
Companhia Brasileira de Distribuição

**Opinion**

We have audited the accompanying individual and consolidated financial statements of Companhia Brasileira de Distribuição ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2016 and the related statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Companhia Brasileira de Distribuição as at December 31, 2016, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and International Financial Reporting

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Key audit matters**

Key audit matters ("KAM") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not provide a separate opinion on these matters.

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*Realization of recoverable State VAT (ICMS) credits*

Why is it a KAM?

Due to the specific requirements set out in the State ICMS legislations, especially those prevailing in those States that require ICMS payment under the reverse charge system, and considering the procedures related to the purchase and distribution of products in stores, the Company has recognized accumulated ICMS credits, the realization of which is dependent upon the occurrence of future operating events and compliance with the State legislation requirements. In this regard, based on its internal policies, the Company assesses the technical feasibility analysis on the realization of those credits at least annually.

Such matter was considered a key audit matter in our audit because: (i) the approximate amount of R\$2,700 million, as at December 31, 2016, is considered material for the audit work, of which R\$545 million of "Recoverable taxes" and R\$2,154 million allocated as "Held-for-sale assets"; (ii) it was considered a significant risk in our audit plan; and (iii) the technical feasibility analysis prepared by Management involves a significant degree of judgment and estimate, based on assumptions that are affected by expected future economic and retail market conditions, as well as Management's internal decisions, primarily encompassing changes in the logistic distribution of its products and request for special tax regimes.

How the matter was addressed in our audit

Accordingly, our audit procedures included, but were not limited to: (i) assessing internal control activities designed with respect to the technical feasibility analysis preparation and approval; (ii) using our tax specialists to support the assessment of key assumptions and criteria adopted by the Company so as to comply with the prevailing State legislation and the special tax regimes obtained; and (iii) assessing the potential impact that would arise from reasonable changes in the growth assumptions used by the Company.

In view of the criteria and assumptions adopted to realize recoverable balances, the outcome of our procedures was considered appropriate in the context of the financial statements taken as a whole.

Disclosures on the nature of those credits and their expected realization are described in Note 11.1 to the financial statements.

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*Tax legislation applicable to the taxes on revenue (PIS and COFINS)*

Why is it a KAM?

The tax legislation applicable to taxes on revenue (PIS and COFINS), when applied to the retail segment, brings a certain degree of complexity to the current legislation interpretation, further requiring considerable judgment from Management, especially with respect to the assessment of amounts to be considered as a basis for tax credit utilization and the assessment of products subject to taxation upon the corresponding sale.

In 2016, the Company exercised considerable judgment with respect to the assessed assumptions used to recognize PIS and COFINS credits calculated on ICMS amounts paid upon the acquisition of products for resale and to maintain the tax benefit that eliminated PIS and COFINS rates levied on gross revenue from retail sales of certain technology products, known as “Lei do Bem” (Tax Incentive Law).

Such matter was considered a key audit matter in our audit because: (i) the approximate amounts of R\$641 million (PIS and COFINS calculated on ICMS amounts) and R\$600 million (Tax Incentive Law), as at December 31, 2016, are considered material for the audit work, of which R\$321 million refer to continuing operations and R\$920 million to discontinued operations; and (ii) the technical material prepared by Management required internal assessment containing Management’s considerable judgment on: (a) the interpretation of PIS and COFINS tax legislation; (b) the assessment of its outside legal counsel’s opinion; and (c) judgments at different court levels.

How the matter was addressed in our audit

Our audit procedures included: (i) assessing internal control activities designed with respect to the applicable legislation interpretation; (ii) involving the most senior members of the engagement team in the analysis of documentation comprising important elements that required our considerable judgment, such as the outside legal counsel’s opinions and available court rulings; (iii) analyzing available market inputs and court information, including judgments of similar issues; and (iv) assessing the criteria adopted by Management and the contradictory information, as well as challenging the arguments upon which Management relied to conclude on how PIS and COFINS tax legislation and related tax regulations should be applied, drawing on the support provided by our tax specialists.

In view of the criteria and assumptions adopted in calculating PIS and COFINS, the outcome of our procedures was considered appropriate in the context of the financial statements taken as a whole.

Disclosures on the nature of those credits are described in Note 11.2 to the financial statements.

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*Divestiture process in Via Varejo S.A.*

**Why is it a KAM?**

On November 23, 2016, the Company's Board of Directors authorized the beginning of the divestiture process in Via Varejo S.A. ("Via Varejo") and its subsidiaries. Such process is supported by a formal divestiture plan, including the location and assessment of potential buyers and the schedule of activities. This divestiture process is expected to be completed during 2017.

Such matter was considered a key audit matter in our audit because: (i) it involves the disposal of a substantial portion of operations and represents an important business line within the Company; (ii) the net balance of held-for-sale assets and liabilities, amounting to R\$4,671 million as at December 31, 2016, is considered material for our audit; (iii) it was considered a significant risk in our audit plan, since it involves Management's considerable judgment and estimate to calculate the fair value of assets and liabilities classified as available for sale; and (iv) it caused a material impact on the consolidated financial statements, including the assessment disclosures by business segment and fair value measurement.

**Other matters**

*Statements of value added*

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2016, prepared under the responsibility of the Company's Management and disclosed as supplemental information for purposes of the IFRS, were subject to audit procedures performed together with the audit of the Company's financial statements. In forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added. In our opinion, these DVA were fairly prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

**How the matter was addressed in our audit**

Our audit procedures included: (i) involving our specialists in technical and professional accounting standards to assist with the assessment and challenge of the technical literature and elements used to conclude that such operations are discontinued; (ii) assessing internal control activities designed with respect to the preparation and approval of fair value measurement, as well as the accounting treatment of the transaction; and (iii) using our financial support specialists to assess the key assumptions and criteria adopted by the Company for fair value measurement purposes. <0 }

In view of the criteria and key assumptions adopted to assess and disclose discontinued operations and available-for-sale assets, the outcome of our procedures was considered appropriate in the context of the financial statements taken as a whole.

Disclosures on the divestiture process of Via Varejo are described in Note 35 to the financial statements.

**Other information accompanying the individual and consolidated financial statements and the independent auditor's report**

Management is responsible for such other information. The other information comprises the "Management Report" and the "Earnings Release", obtained prior to this report date, and also the "2016 Initiatives Report", which should be provided after this report date.

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Our opinion on the individual and consolidated financial statements does not cover the “Management Report”, the “Earnings Release” and the “2016 Initiatives Report” and we do not express any form of audit conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information referred to above and, in doing so, consider whether such other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information obtained prior to this report date, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and the IFRS, issued by the IASB, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and its subsidiaries’ financial reporting process.

### **Auditor’s responsibilities for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Concluded on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as going concerns.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that might reasonably be thought to bear on our independence, and, when applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 23, 2017

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Eduardo Franco Tenório  
Engagement Partner

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## MESSAGE FROM MANAGEMENT

As the preceding year, 2016 was marked by a challenging period in which the macroeconomic scenario remained recessionary and consumers more selective, following a decade of accelerated expansion in Brazil's retail industry.

GPA's response to this transformation in market conditions began with a comprehensive review of the key fundamentals of retailing, such as store assortment, how we manage the product mix and our capacity to improve procurement and offer customers more attractive promotions and conditions.

Going back to basics, while capturing efficiency gains and prioritizing agility and simplicity, was one of our guiding principles. This effort extended to include GPA's corporate structure and corporate governance practices: we streamlined our internal structures and made the relationship between our executive Committees and the Board of Directors more robust and effective.

At our businesses, we made progress on analyzing our portfolio from a strategic standpoint, which will ensure more balanced growth, especially in higher-return formats. This led us to prioritize new store openings in models best suited to their environments (Assaí cash & carry, Minuto Pão de Açúcar proximity stores and Pão de Açúcar) and to shut down unprofitable units.

We also began a process to change the banners of existing assets, by converting two Extra Hiper stores into Assaí, whose initial results have surpassed our expectations. For 2017, we will accelerate this timetable by opening approximately 15 new Assaí store conversions. In addition to the 6 to 8 new Assaí stores to be opened, the conversions will help accelerate the expansion of GPA's cash-and-carry banner into new cities and states across Brazil.

Our results in 2016 show that we're on the right path. GPA's food segment posted net sales growth of 11.4% on the prior year, which is even more significant considering the recessionary macro environment. Assaí made the strongest contributions to our consolidated results, with sales growth of 38.6% on 2015. This growth shows that the expansion carried out in 2016, with 13 new stores opened, and was the right choice and that our positioning is aligned with the current economic context.

In the Proximity segment, we were pleased to see our Minuto Pão de Açúcar stores featured by the website Canadian Grocer as one of the 25 grocery stores to visit before you die. We also launched Aliados CompreBem, a partnership between GPA and small and midsized retailers that already has reached 102 stores in operation.

At Multivarejo, we adjusted our commercial actions and operations at the Extra banner to improve alignment with consumer trends, who are increasingly sensitive to promotions and to protecting their purchasing power. The new actions launched in 2016 have begun to bear fruit, with growing sales and consistent market share gains.

We took an important strategic decision in 2016: to concentrate our efforts on the food segment (our core business), which led us to announce, at year-end, the divestment of Via Varejo. The proceeds from the transaction, which should be concluded in 2017, will be invested in actions to consolidate and expand GPA's market share in the Food segment, given the opportunities for future investments and the prospects for growth, as well as the expected recovery in food retail consumption over the coming years.

In sustainability, we also made important advances in 2016, which included incorporating diversity and energy efficiency indicators into the variable compensation calculation. We also dedicated greater efforts to fostering diversity, with a focus on the company's strategic stakeholders. And we made progress on reducing the social and environmental impacts of our activities. The group's new Beef Sourcing Policy, which was launched this year, allows us to control 98% of the beef we sell, which ensures social and environmental compliance in terms of the direct product origin. Meanwhile, the project Reutilizar, which allows consumers to shop using their own reusable containers, reduces unnecessary packaging waste, while enabling them to buy just the amount they need.



We begin 2017 facing an economic scenario as challenging as last year's, but with our company now better prepared and structured. We remain cautious, yet confident that the scenario will improve throughout the year, and that the second half will bring a more promising outlook.

We will maintain the same rigor and discipline in our actions and investments to protect the interests of shareholders, ensure the Company's sustainable growth and accomplish our mission: to grow sustainably, with a focus on the customer, while streamlining our operations and adopting best management practices in all our activities.

## **INDEPENDENT AUDITORS**

The parent company and consolidated financial statements of GPA were audited by Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte"). The engagement of independent auditors is based on the following principles that safeguard the independence of the auditor: (a) auditors may not audit their own work; (b) auditors may not exercise managerial functions; and (c) auditors should not advocate on behalf of GPA or provide any services that may be considered prohibited by the regulations in force. In compliance with Instruction 381/03 issued by the Securities and Exchange Commission of Brazil (CVM), we hereby declare that for the fiscal year ended December 31, 2016, Deloitte did not provide any services other than those related to the independent audit of the financial statements.

## **Report of the Audit Committee - Fiscal year 2016**

### **Introductory remarks**

The Audit Committee (the "Committee") of Companhia Brasileira de Distribuição (the "Company") is defined in the bylaws as a statutory advisory body linked directly to the Board of Directors, which was created in the Board of Directors' meeting held on September 27, 2012 and formally included in the Bylaws as approved by the Extraordinary Shareholders' Meeting of October 18, 2012. The Audit Committee started to function effectively from the beginning of 2014.

Such Committee is currently composed of four members; three of them were elected on May 9, 2016, while one of them was elected on July 27, 2016. All of them have a unified term of office of two years, and may be reelected. All members are independent, and one of them also holds the position of Director in the Company. The Audit Committee members are elected by the Company's Board of Directors based on criteria contained in the applicable laws and regulations, as well as best international practices.

### **Duties and Responsibilities**

#### Company's Management (Board of Officers, or "Direx")

The Company's Management is responsible for determining and implementing processes and procedures to collect data to prepare its financial statements in compliance with the Brazilian corporations act, the accounting practices adopted in Brazil, in addition to the standards issued by the International Accounting Standards Board (IASB), the relevant regulatory acts of the Brazilian Securities and Exchange Commission, and be listed on the New York Stock Exchange, the standards set by the US Securities and Exchange Commission (SEC) and the Sarbanes-Oxley Act (SOx).

The Management is also responsible for the processes, policies and internal control procedures to ensure the safeguarding of assets, the timely recognition of liabilities and the elimination of risk factors or the mitigation thereof to acceptable levels.

#### Board of Risks

The Board in charge of managing risks has as mission to identify and monitor, together with the business areas, the main risks that could jeopardize the Company's strategies in achieving its goals, structuring the process to manage such risks and to mitigate their impact on operations. This area also provides the Management with support to manage strategic risks to ensure that they are kept at acceptable levels. At the end of year 2016, after an adjustment of the organizational structure the Company's areas of Risk and Compliance were relocated to the Internal Audit Board, while the Internal Control area, responsible for

coordinating and monitoring internal controls tests to meet the requirements of the Sarbanes-Oxley Act (SOx), came under the Accounting Board management.

### Internal Auditors

The Internal Audit's responsibilities, in addition to newly-assigned task of monitoring the risk and compliance areas as referred to above, consist in checking the quality of the Company's internal control systems and the compliance with policies and procedures determined by the Management (i.e., Executive Officers), including those controls adopted in the main accounting records used for preparing financial reports. For that purpose, the Internal Audit develops its activities widely and independently focusing particularly the areas and activities having the most sensitive risks to operations. The Internal Audit submits to the Audit Committee for review and discussion their work plans, training programs, and conclusions of audits performed.

### Independent Auditors

The Independent Auditors that examine the Company's financial statements since the period ended on December 31, 2012 is Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte"), which is responsible for examining such statements to issue a report containing an opinion about its compliance with the applicable standards. Because of their work, the Independent Auditors also issue a report with recommendations for accounting procedures and internal controls to be adopted by the Company, without prejudice to other reports prepared thereby, as the special reports of the quarterly financial statements. Deloitte is also responsible for auditing the internal controls as required by the Sarbanes-Oxley Act (SOx).

Due to the standards currently in force requiring that all Listed Companies in Brazil adopt a rotation of auditors, the financial statements of Companhia Brasileira de Distribuição (CBD) as of December 31, 2016 will be the last ones audited by Deloitte under the current auditing contract. The Audit Committee took part directly in the selection process of the next auditors that will undertake the audit of CBD starting in the first quarter of 2017, making their hiring recommendations to the Board of Directors.

### Audit Committee

According to the provisions of paragraph 3, Article 20 of the Company's Bylaws and also of Article 13 of the Audit Committee's Internal Regulations (available at [www.gpari.com.br](http://www.gpari.com.br)), among the main functions of this body are to ensure the quality and integrity of the accounting and financial statements, and also the Management's Report, to ensure the compliance with legal and regulatory requirements, the performance, independence and quality of work of both the external auditing companies and the Internal Auditors, the quality and effectiveness of internal control systems, evaluation and monitoring of risks, to take notice and review the adequacy of the Board's annual report to be submitted with the financial statements; finally, the Audit Committee is responsible for checking, within the limits set by the Company, whether the transactions with related parties are proposed to the Board of Directors in compliance with the corresponding policies defined therefor. The Committee also reviews the 20-F Form and the Reference Form in what falls within its responsibilities.

The Audit Committee bases its judgment and form its opinions considering the information received from the Management, the presentations about information systems, financial statements and internal controls, as well as the outcome of the works performed by the Board of Risks and Compliance (which is now under the responsibility of the Internal Audit area), the Accounting Board (which, besides the issues of its own, is also responsible for the Internal Controls area already mentioned above), Legal (Counsel) Board, and Internal and Independent Auditors.

As it is public knowledge, the independent auditors of the Company Deloitte Touche Tohmatsu Auditores Independentes, in Brazil, were subject to revisions of audit procedures by the Public Company Accounting Oversight Board (PCAOB), a fiscal agency of the activities of the audit companies in the United States of America. As a result of such revisions, and as a consequence of the audits performed on specific clients in Brazil, Deloitte has received sanctions, as disclosed in report published on December 05th, 2016 by the PCAOB.

To assure the maintenance and quality of the services provided, and to protect the development of the audit in a context of normality, together with other Company's managers, the Audit Committee has engaged specific discussions, requested additional information, together with those responsible for the Company's audit, and other senior partners of Deloitte in Brazil.

The Committee considers that the adopted procedures are appropriated, due to the conclusions and the report of the Company's independent audit in compliance with the expected standards and the required independence principles, for the fiscal year ended in December 31st, 2016.

### **Audit Committee's Activities in 2016**

The Audit Committee met on 25 regular sessions, in which 108 meetings were held with members of the senior Management, internal and independent auditors, and other members of the Company's Management. The Audit Committee, represented by its Coordinator, periodically reported the main topics discussed at such meetings to the Board of Directors at its regular meetings.

The Company's Audit Committee members take turns to attend the meetings of the Fiscal Council of Via Varejo S.A. as permanent guests, in the capacity of observers (as defined by the Brazilian Corporations Act), seeking to keep informed and updated on relevant issues concerning the financial statements and/or internal controls of the Company, in particular the issues that should be considered upon receipt of the financial and accounting data of that subsidiary of the Company for equity purposes and accounting consolidation. From the end of 2015 the Coordinator of the Audit Committee began a dialogue with managers and members of the Audit Committee of the company CNOVA N.V., a company that was previously - by October 31, 2016 - a subsidiary of the Company, established on May 30, 2014 with headquarters in Amsterdam, Netherlands, and listed on stock exchanges of the USA and France. In addition, such Committee's Coordinator meets regularly with the Internal Audit Director of Casino Group, based in France. On the other hand, the Chairman of the Corporate Governance Committee of the Board of Directors is a permanent guest to the Audit Committee meetings as an observer, and she attends them whenever possible.

At the request of the Audit Committee of CNOVA N.V., the Board of Directors of CBD has authorized its Audit Committee to cooperate with the investigations into inventory issues of CNOVA BRASIL as disclosed in the Notice to the Market of CNOVA N.V. of November 18, 2015 (see "Subsidiaries and affiliated companies - CNOVA NV / CNOVA Brasil" further ahead in this Report).

### **Meetings with the Management (Officers)**

The Committee met in 2016 with the officers and their corresponding teams to discuss the structures and operations of all areas, their work processes, any weaknesses found in the control systems, mitigating mechanisms in place and improvement plans.

Among the issues that required more attention of the Committee are the following:

### Contingencies and Allowances

In line with the work performed in 2015, throughout the entire year 2016 the Committee monitored the amounts of allowances connected to lawsuits and administrative proceedings involving the Company. The Committee has also monitored the implementation of an action plan established by the General Counsel, aiming at adopting more efficient and modern systems and processes to monitor lawsuits in which the Company is a party. Accordingly, the Audit Committee followed up, with the Legal Department (i.e., the General Counsel), the implementation of a new system (including software) that will enable improvements in the management of administrative and judicial proceedings involving the Company, as well as a reduction in tax allowances, since it enables reviewing the basis of such cases. Such system was delivered along with the integration and consolidation of the mass lawsuits control system of the subsidiary Via Varejo, as well as the review of such cases on a macro basis. For year 2017 the Committee was informed that the Legal Department staff intends to implement improvements by customizing the system, as a result of what was learned during the implementation thereof.

Furthermore, based on inferred perceptions over such monitoring, the Committee held meetings with the General Counsel, the Boards of Accounting, Tax, and also with the Independent Auditors in order to resume discussions on the criteria used to rank the estimate of success rates of all lawsuits and administrative proceedings, which could serve as basis for the corresponding accounting allowances at issue, especially with regard to civil and labor lawsuits. Because of such discussions, the Legal Department conducted during year 2016 an extensive work to review and improve the criteria used by Grupo Pão de Açúcar for classification of contingencies between unfavorable, possible, probable, or remote outcome, and it has also formalized the creation of a committee to evaluate contingency process with the participation of the above-mentioned Boards of Officers. The Audit Committee monitored the progress of such study, offering suggestions when appropriate. Early in the second half of 2016 the study was completed and new classification criteria were defined and adopted for the Pão de Açúcar Group as a whole.

The Committee continued monitoring the developments of the arbitration procedure initiated at the request of Morzan Empreendimentos e Participações Ltda., the accounting allowance effects of which were monitored by the Committee.

In addition, during year 2016 the Committee gave special attention to the progress of tax claims and other related risks involving the lease by the Company of goodwill owned by third parties.

#### Transactions with Related Parties

The year 2016 reinforced the progress of the implementation of the Policy on Transactions with Related Parties. Accordingly, pursuant to the procedures and responsibilities described therein, the Audit Committee was responsible for evaluating concrete cases of compliance with the procedures set out in such Policy to discuss and decide on cases subsequently forwarded to the Board of Directors. Furthermore, as requested by the Company's Board of Directors and according to the Policy for Transactions with Related Parties, the Committee reviewed and discussed the procedures for approvals of transactions in force that have a continuous basis.

#### Information Technology and Security

The Committee kept giving priority to monitor the progress of processes and controls involving information technology issues in order to become aware of the action plans in the long and medium terms aiming at improving Information Security. Such works are still in the implementation process. Accordingly, the Committee monitored very closely the auditing process of internal controls connected to Information Security carried out both by the internal auditors and the Independent Auditor.

As regards IT governance at corporate level, several interactions were conducted among the Committee members and the Company's Management, when the tasks carried out by the team concerning the sharing of structures, economies of scale, and harmonization of architecture between the business units were recognized and highlighted. Despite the developments found, the Committee highlights the need for the Company to invest efforts in reviewing and modernizing the definition of roles and responsibilities of the IT management at corporate level; this issue was subject of formal commitments by the Company's executives directly responsible for the IT area about targets and timetables, and will continue to be followed up by the Audit Committee throughout 2017.

Moreover, during year 2016 the Committee's analysis focused on a new topic within the IT area, which relates to the obsolescence of IT assets in the various business units. In this regard, the Committee monitored the obsolescence rates and the corresponding investments made by business units. This issue will continue to be monitored in 2017.

#### Human Resources area

The Committee followed up the implementation and completion of the new system of management and control of information on employees of the entire Pão de Açúcar Group (GPA), which will enable a better control of aspects connected to employment history and documentation of its associates, improving the People Management processes, in addition to assisting the General Counsel in obtaining data and grounds for labor claims, and thereby increasing the Company's chances of success in such claims. After the implementation of such system was completed in 2016, the Committee was committed to monitor the operation of the system after its implementation. The Committee has also followed up the adaptation of such system to the new requirements of e-Social ("e-Social" is an integrated system for Brazilian employers to comply with all labor-related obligations).

#### Accounting

With the Accounting Board, the Committee has reviewed and discussed with the Management, prior to the release of quarterly results and the results for the fiscal year ended on December 31, 2016, the information contained in the Financial Statements and the Notes thereto, and the Independent Auditors have always followed it up.

Furthermore, the Committee followed up in 2016 the implementation of a system designed to consolidate the Company's financial information. In this regard, the Committee noted the progress of the system step by step, as well as the adoption of improvements from the original plan submitted in 2014, in line with the Management's planning; it is expected to be completed during the year 2017. Among the expected benefits of the budget data integration enabled by such system, the following ones are worth highlighting:

The integration of the Company's budget with accounting and financial reports;

The management of Business Units based on projections made, as the projected numbers will be loaded into the consolidation system;



The lack of differentiation between the granularity and details of data between the phases of actual numbers (monthly report showing actual numbers) and budget stages;

Ensuring good-quality information for the budget data;

Automated consistency controls within the system, applicable to the loading of budget balances and that will prevent the process of consolidation progress, so as not to be possible to continue the validation steps without solving the consistency controls; and

The cash flow production having criteria and quality identical to the actual stages.

This project had its scope expanded; accordingly, its completion was postponed to enable interaction and integration with the Group's systems.

Aspects connected to manual journal accounting entries have also been discussed, trying to analyze and discuss the controls used in the quality of corrective entries and/or manual interventions in legacy systems not integrated up to now. In this sense, a reduction in the total volume of manual journal entries was observed, because of the use and improvement of policies on levels of responsibility per criteria of materiality and nature in the different business units of Grupo Pão de Açúcar, as well as the implementation of projects that were not aimed directly at reducing the volume of manual accounting entries, but the implementation of which brought benefits that resulted in the reduction of manual interference. Anyway, Committee members have maintained the close monitoring of manual entries throughout year 2016, with the assistance of the Internal Audit and Independent Auditors to perform validation tests.

### Tax Issues

The Committee monitored throughout year 2016 the development of the system for controlling taxes on purchases, transfers, and sales, which includes an action plan aiming at implementing systemic solutions and the review/creation of processes to standardize and organize the generation of information connected to tax rules, product payment, calculation of taxes, accounting inventory management, and basic registration data. The Committee was informed that such system is still in the design phase, and the delivery schedule of such tool is expected for mid-August 2017. Such delivery will undergo an implementation schedule in all facilities, starting in all Distribution Centers (CDs), and might be extended until mid-2019. It is worth highlighting that such tool and other major deliveries should take place in 2017.

Committee members have also discussed with the Company's Management about the monetization/realization methodology of tax credits, and they also monitor on a quarter basis the compliance of the credit consumption schedule.

In parallel, the Committee kept interactions with the Company's Management to keep up with the solutions developed to manage documentation involving mainly tax matters, an issue that will continue to be followed up by the Committee in 2017.

### Inventory Control, Loss and Breakage, Checking of Products, and Risk Management Related to Logistics

During 2016 the Committee monitored the work Loss Prevention and logistics areas to optimize inventory management involving Distribution Centers, Transfer to Stores, Control in Stores. In this regard, the Committee noted the efforts of the team and also the progress achieved in contemplating significant improvements in matters connected to losses due to inventory shortage, breakage (risk of lack of products on the shelves), checking of amounts between the exit from Distribution Centers and the arrival at the stores, scheduled physical counts and logistics procedures relating to such items, review of perishables value chain and reducing exposure to risk, with cleaning slow-moving inventory, off-line products, and products that are not purchased.

### Property Management Activities ("GPA Malls")

The Committee followed up the work carried out by the new management of GPA Malls, especially the risk management efforts ascribed to such team, monitoring the implementation of the actions required to mitigate such risks. In addition, the Committee dealt with the staff of the main lawsuits faced by the Company with respect to real estate issues and the strategies adopted to conduct them.

### Risk Management and Internal Controls

During year 2016 the Committee kept a constant supervision of the Company's areas of internal controls and risk management, being particularly strict about the Company's adequacy to the Brazilian Anti-Corruption Law (Federal Law No. 12.846), seeking to analyze and discuss, together with the Corporate Governance Committee, all the procedures to be put in place and the corresponding controls thereof, as well as the consolidation of the Compliance area of Pão de Açúcar Group (as in 2016 such area became part of the Internal Audit department), whose duties include assisting the Management in monitoring compliance with laws, regulations, policies, codes, and commitments applicable to the Company in order to ensure the training of the various business areas to fulfill such obligations.

Furthermore, about the issue of internal controls (that at the end of 2016 started to be managed by the Accounting Board), the following matters were monitored and recommendations were made by the Audit Committee throughout year 2016:

- Company's policies and codes, such as the insurance policy, policy for hiring external auditors, and letter of internal controls;
- Company's procedures for full compliance with the Sarbanes-Oxley legislation requirements;
- Receipt of periodic reports received by the Company and submitted by regulatory agencies and public bodies, as well as their corresponding answers given, regarding matters within the Audit Committee's competence.

Finally, the Committee have also monitored the work carried out by the risk team (that at the end of 2016 became part of the Internal Audit Board) regarding the Company's new risk management cycle and also the prioritized risks for year 2016 (top risks) by the Board of Directors for each of the business units and for the Company. The Committee have also discussed with the Company's Management the possibility of adopting a timetable to follow up risk indicators from 2017 on.

### Subsidiaries and affiliates - CNOVA NV / CNOVA Brasil

On December 18, 2015, CNOVA N.V. published a Notice to the Market reporting that problems had been found in the inventories management of CNOVA Comércio Eletrônico S.A. ("CNOVA Brasil"), which gave rise to investigations to detect the extent thereof and possible responsibilities. The conclusion of such investigation led to the need to make adjustments to the financial statements of CNOVA Brasil, with impacts on the financial statements and quarterly information of the Company related to previous years. Accordingly, the Company performed the resubmission of the yearly financial statements for the period ended on December 31, 2015 and also the quarterly financial statements for the first quarter 2015, second quarter 2015, third quarter 2015, and first quarter 2016, which were reviewed by the Committee and submitted to the Board of Directors and to the Company's shareholders for approval.

At the request of the Company's Board of Directors, the Committee has followed up very closely the above-mentioned investigation, promoting discussions about internal controls and "financial reporting" consistency with the Audit Committee of Cnova N.V. and its independent auditors. The investigation was completed in July 2016 and the findings were reported by the Committee coordinator to the Board of Directors at a meeting held on July 27, 2016.

### **Independent Auditors**

Among the work performed by the Independent Auditors which had the strict supervision and monitoring of the Committee, it is worth highlighting the analysis and debate on the review of the draft of the financial statements before being disclosed to the market, with the examination and discussion of the implementation of the recommendations and suggestions made by the Independent Auditors.

Furthermore, the Committee held discussions with the Independent Auditors on fraud risk management, in particular on the financial statements, transactions with related parties, and unusual transactions.

The Committee has also followed up the work of the Independent Auditors regarding the review of the Company's internal controls, and to resubmit the financial statements for the period ended on December 31, 2015 and the quarterly accounting information for the first, second, and third quarters 2015, and first quarter 2016.

Finally, in order to address the demands raised by Committee members from the assessment of the Independent Auditors' performance that they carried out, the Independent Auditors held special meetings with the Committee to discuss specific topics such as Information Technology, Tax matters, and Internal Controls.

## **Internal Auditors**

The Committee had an intensive and constant interaction with the Company's Internal Auditors, who attended much of the Committee meetings during year 2016. Moreover, the Committee approved the Internal Audit's Work Plan for 2016 and over the year it followed up the implementation of remedial measures resulting from the recommendations made by the Internal Auditors.

In addition, representatives of the Internal Audit have also presented to Committee members periodic reports of complaints made by whistle-blowers and received by the Company through the proper internal communication channel (Ombudsman) confidentially and without identifying the whistle-blower. In this sense, in addition to examining the concrete case subject of the complaint itself, the responsible persons analyzed and discussed the flows to investigate such claims and whistle-blowing, the results of investigations and the measures to be taken in the case such events are confirmed, as well as the financial impacts of each confirmed wrongdoing.

Finally, the Officer of Internal Audit followed, together with the Committee, the development of research in Cnova Brasil, presenting, at the request of the latter, the mitigating action plans for the risks identified during the investigation.

## **Recommendations from the Audit Committee**

The Committee recommends to the Executive Officers the following actions:

- Reviewing one more time the potential convenience, from the point of view of organizational structure, to establish a separated board of risks, compliance, and internal controls, reporting to the Company's CEO.
- Intensifying the risk management process, particularly as to the monitoring and reporting of results achieved.
- Systematically monitoring the improvements sought by the Legal Department in the management of the Group's administrative processes and lawsuits.
- Considering and discussing measures for review, modernization and centralization of corporate IT management covering all business units.
- Systematically monitoring all steps from the start to their completion and effective implementation of the Group's consolidated budget and financial information system, when such project is resumed.
- Taking the due measures to complete the current project phase of the system for controlling taxes on purchases, transfers, and sales, so that such system can be implemented in a timely manner.
- Systematically monitoring the improvement plans regarding Document Management.

## **Conclusion**

The Audit Committee is of the opinion that all items featured in the "Recommendations" section hereinabove whose Action Plans are still in progress were subject of and surrounded by satisfactory mitigating procedures aiming at minimizing any Internal Controls risks that might impact the Company's Financial Statements as of December 31, 2016.

The Audit Committee understands further that all relevant facts which came to its knowledge as a result of the works performed as described in this Report are properly disclosed in the Management's Report and the audited Financial Statements as of December 31, 2016; accordingly, the Audit Committee recommends the approval thereof by the Board of Directors.

São Paulo, February 23rd, 2017.

Luiz Nelson Guedes de Carvalho - Coordinator of the Committee; Accounting, Financial and Auditing Specialist.

Celso Clemente Giacometti.

Eleazar de Carvalho Filho, Representative of the Board of Directors on the Audit Committee.

Pedro Oliva Marcilio de Sousa.

**Management statement on the financial statements**

In accordance with the item V of article 25 of Instruction CVM no. 480, of December 7, 2009, the Directors stated that have reviewed, discussed and agreed with the Company's Financial Statement related to the year ended December 31, 2016, authorizing the conclusion on this date.

São Paulo, February 23, 2017.

Directors

Ronaldo Iabrudi

President

Christophe José Hidalgo