ISTAR FINANCIAL INC
Form 424B3
September 11, 2001

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

As Filed Pursuant to Rule 424(b)(3)
Reg No. 333-32946

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS SUPPLEMENT DATED SEPTEMBER 6, 2001

P R O S P E C T U S ____ S U P P L E M E N T
(TO PROSPECTUS DATED SEPTEMBER 6, 2001)

15,000,000 SHARES

[LOGO]

COMMON STOCK

All of the shares of iStar Financial common stock are being offered by the selling stockholders identified in this prospectus supplement. iStar Financial will not receive any of the proceeds from the offering.

Our common stock trades on the New York Stock Exchange under the symbol "SFI." The last reported sale price of our common stock on September 5, 2001 was $26.99 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS THAT ARE DESCRIBED IN THE RISK FACTORS SECTION BEGINNING ON PAGE S-8 OF THIS PROSPECTUS SUPPLEMENT AND PAGE FOUR OF THE ACCOMPANYING PROSPECTUS.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discount	$	$
Proceeds to selling stockholders	$	$

The underwriters may also purchase up to an additional 2,250,000 shares from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The common stock will be ready for delivery on or about September , 2001.

JOINT LEAD MANAGERS

MERRILL LYNCH & CO.
SOLE BOOK-RUNNING MANAGER

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC

BEAR, STEARNS & CO. INC.

SALOMON SMITH BARNEY

UBS WARBURG

The date of this prospectus supplement is September , 2001.

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

i

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference that are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as "will," "anticipates," "believes," "estimates," "expects," "projects," "plans," "intends," "should" or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. We have discussed in this prospectus supplement and the accompanying prospectus some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from the forward-looking statements we make in these documents.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the SEC, and you should not place undue reliance on those statements.

ii

SUMMARY

THIS SUMMARY MAY NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS SUPPLEMENT AND ACCOMPANYING PROSPECTUS, AS WELL AS THE DOCUMENTS INCORPORATED BY REFERENCE IN THEM, BEFORE MAKING AN INVESTMENT DECISION. ALL REFERENCES TO "WE" OR "US" IN THIS PROSPECTUS SUPPLEMENT REFER TO ISTAR FINANCIAL INC. AND ITS CONSOLIDATED SUBSIDIARIES, UNLESS THE CONTEXT OTHERWISE REQUIRES.

ISTAR FINANCIAL INC.

OVERVIEW

We are the largest publicly-traded finance company focused exclusively on the commercial real estate industry. We provide structured financing to private and corporate owners of high-quality real estate nationwide, including senior and junior mortgage debt, corporate net lease financing and corporate mezzanine and subordinated capital. Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial finance companies. As of June 30, 2001, our total enterprise value (market value of equity plus book value of preferred stock and debt, less cash balances) was $4.9 billion, and our annualized revenue and adjusted earnings for the quarter ended June 30, 2001 were $483.3 million and $254.2 million, respectively.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our eight-year history, we have structured or originated nearly $5 billion of financing commitments. During this period, we have generated a realized internal rate of return of 28.3% on the approximately $1.6 billion of investments that we have funded and which have since been repaid. We have never realized a loss of principal or interest on any loan investment we have funded.

Since becoming a public company in March 1998, we have expanded our platform by making a limited number of strategic corporate acquisitions. In September 1998, we acquired the loan origination and servicing business of Phoenix Home Life Insurance Company. In December 1998, we acquired the structured finance portfolio of our largest private competitor, an affiliate of Lazard Freres & Co. LLC. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., the then largest publicly-traded company specializing in corporate tenant leasing for owners of office and industrial facilities. In March 2000, we acquired American Corporate Real Estate, Inc., a leading privately-held investment firm whose senior management team had extensive experience in the corporate tenant leasing industry.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financial solutions for our customers. We have consistently grown our adjusted earnings and dividends since June 1998, our first quarter as a public company. Between that quarter and the quarter ended June 30, 2001, we grew our adjusted earnings on a diluted basis by 75.6%, from approximately $0.41 to $0.72 per share, and increased our common stock dividend by 75.0%, from $0.35 to $0.6125. Based on the last reported sale price of our common stock on September 5, 2001, our current annualized dividend yield is 9.1%.

The graph below shows our quarterly adjusted earnings per share since our first full quarter as a public company.

S-1

QUARTERLY ADJUSTED EARNINGS PER SHARE(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	$0.41
9/30/98	$0.43
12/31/98	$0.45
3/31/99	$0.46
6/30/99	$0.49
9/30/99	$0.52
12/31/99	$0.60
3/31/00	$0.64
6/30/00	$0.66
9/30/00	$0.68
12/31/00	$0.69
3/31/01	$0.71
6/30/01	$0.72

----

(1) We generally define "adjusted earnings" as GAAP net income before depreciation and amortization. For a further discussion of our adjusted earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish our business model from other commercial finance enterprises and contribute to our ability to generate attractive risk-adjusted returns to our common stockholders.

CREATIVE CAPITAL SOLUTIONS

We target markets where customers require a knowledgeable provider of capital which is capable of originating customized and flexible financial products. We provide our customers with a level of service and creativity generally unavailable from other lenders. We do not participate in distribution-based commercial finance businesses, which are typically characterized by intense price competition and lower profit margins, such as conduit lending and mortgage-backed securities.

We believe that we have a reputation in the marketplace for delivering unique financing solutions and a high level of service to our customers in a reliable and credible fashion. Since beginning our business in 1993, we have provided more than $1.6 billion in financing to customers who have sought our expertise more than once.

As a result of our focus, we have generated consistent and attractive returns on our asset base. The graph below shows our returns on average book assets, after interest expense, since June 1998, our first full quarter as a public company.

RETURN ON AVERAGE BOOK ASSETS(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	7.2%
9/30/98	6.0%
12/31/98	5.3%
3/31/99	5.9%
6/30/99	6.0%
9/30/99	6.4%
12/31/99	6.5%
3/31/00	6.6%
6/30/00	6.7%
9/30/00	6.7%
12/31/00	6.8%
3/31/01	7.0%
6/30/01	7.2%

----

(1) We define "return on average book assets" as the sum of annualized quarterly adjusted earnings and preferred dividends divided by the average book value of assets outstanding during the quarter.

S-2

EXPERIENCED MANAGEMENT

The ten members of our executive management team have an average of more than 20 years of experience in the fields of real estate finance, private investment, capital markets, transaction structuring, risk management and loan servicing, providing us with significant expertise in the key disciplines required for success in our business. We emphasize long-term, incentive-based compensation, such as stock options and grants of restricted common stock, rather than cash compensation, and none of our employees is compensated based on the volume of investment originations. Our directors and employees directly own approximately 7% of our outstanding common stock on a diluted basis, which had a market value of $162 million based upon the last reported sale price of our common stock on September 5, 2001. Our executive management team is supported by approximately 125 employees operating from six primary offices nationwide.

SIGNIFICANT EQUITY BASE

We had approximately $1.8 billion of tangible book equity and a consolidated debt-to-book equity ratio of 1.2x as of June 30, 2001. We believe that we are one of the most strongly capitalized asset-based finance companies. We target a maximum consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. We believe that operating within this targeted range enables us to maintain a well-balanced, conservative and flexible capital structure. Our tax-advantaged structure as a real estate investment trust and our ability to operate with less overhead, as a percentage of revenues, than many other commercial finance companies enhance risk-adjusted returns on equity for our common stockholders.

TAX-ADVANTAGED CORPORATE STRUCTURE

Because of our focus on commercial real estate finance, we are able to qualify as a real estate investment trust, or "REIT," under the Internal Revenue Code. Since we are taxed as a REIT, we do not pay corporate-level taxes in most circumstances. This tax-advantaged structure enables us to produce superior returns on equity for our stockholders compared to taxable finance companies, while utilizing significantly less leverage than most taxable finance companies. The graphs below show our returns on average common book equity and our debt-to-equity ratios since our first full quarter as a public company.

RETURN ON AVERAGE COMMON BOOK EQUITY(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	11.7%
9/30/98	12.3%
12/31/98	13.0%
3/31/99	13.6%
6/30/99	14.1%
9/30/99	14.7%
12/31/99	14.8%
3/31/00	15.1%
6/30/00	15.5%
9/30/00	16.1%
12/31/00	16.7%
3/31/01	17.3%
6/30/01	17.5%

----

(1) We define "return on average common book equity" as annualized quarterly adjusted earnings divided by the average common book value of equity outstanding during the quarter.

DEBT-TO-BOOK EQUITY

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	0.7X
9/30/98	1.3x
12/31/98	1.1x
3/31/99	1.2x
6/30/99	1.2x
9/30/99	1.1x
12/31/99	1.1x
3/31/00	1.1x
6/30/00	1.2x
9/30/00	1.2x
12/31/00	1.2x
3/31/01	1.2x
6/30/01	1.2x

ASSET QUALITY AND DIVERSIFICATION

Throughout our operating history, we have focused on maintaining diversification of our asset base by product line, asset type, obligor, property type and geographic region. Asset diversification is a key part of our risk management strategy. The graphs below depict the diversification of our asset base based upon the total gross book value of our assets of approximately $4.0 billion as of June 30, 2001.

ASSET TYPE DIVERSIFICATION	PROPERTY TYPE DIVERSIFICATION	GEOGRAPHIC DIVERSIFICATION
Pie Chart	Pie Chart	Pie Chart

Secured first mortgages and corporate tenant lease assets together comprise approximately 70% of our asset base. The weighted average "first dollar" and "last dollar" loan-to-value ratios on our loan assets were 31.8% and 71.4%, respectively, as of June 30, 2001. "First dollar" and "last dollar" loan-to-value ratios represent the average beginning and ending points of our lending exposure in the aggregate capitalization of the underlying assets or companies that we finance.

In addition, as of June 30, 2001, 52% of our corporate tenants, based on GAAP annual lease payments, had actual or implied investment grade credit ratings. Our corporate tenants include leading companies such as FedEx Corporation, Hilton Hotels Corporation, International Business Machines Corporation, Nike, Inc., Verizon Communications, Inc. and Wells Fargo Bank.

MATCH FUNDING DISCIPLINE

Our objective is to match fund our liabilities and assets with respect to maturities and interest rates. This means that we seek to match the maturities of our financial obligations with the maturities of our investments. Match funding allows us to reduce the risk of having to refinance our liabilities prior to the maturities of our assets. In addition, we match fund interest rates with like-kind debt (i.e., fixed-rate assets are financed with fixed-rate debt, and floating-rate assets are financed with floating-rate debt), through the use of hedges such as interest rate swaps, or through a combination of these strategies. This allows us to reduce the impact of changing interest rates on our earnings. Our objective is to limit volatility from a 100 basis point move in short-term interest rates to no more than 2.5% of annual adjusted earnings per share. As of June 30, 2001, a 100 basis point change in short-term interest rates would have impacted our second quarter adjusted earnings per share of $0.72 by approximately 1.4%.

OUR TARGET MARKETS AND PRODUCT LINES

We believe we are the largest dedicated participant in a $100-$150 billion niche of the approximately $2.1 trillion commercial real estate market, consisting of the $1.5 trillion commercial mortgage market and the $600 billion single-user market for corporate office and industrial facilities.

Our primary product lines include structured finance, portfolio finance, corporate tenant leasing, corporate finance and loan acquisition. Our real estate lending assets consist of mortgages secured by real estate collateral, loans secured by equity interests in real estate assets, and secured and unsecured loans to corporations engaged in real estate or real estate-related businesses. Our corporate tenant lease assets consist of office and industrial facilities that we typically purchase from, and lease back to, a diversified group of creditworthy corporate tenants as a form of financing for their businesses. Our leases are generally long-term, and typically provide for all expenses at the facility to be paid by the corporate tenant on a "triple net" basis. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses, including taxes, maintenance and insurance.

The graph below shows the composition of our asset base by product line, based on the total gross book value of our assets of approximately $4.0 billion as of June 30, 2001.

PRODUCT LINE DIVERSIFICATION

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

CORPORATE TENANT LEASING	44%
Loan Acquisition	9%
Corporate Finance	13%
Structured Finance	25%
Portfolio Finance	9%

INVESTMENT STRATEGY

Our investment strategy focuses on the origination of structured mortgage, corporate and lease financings backed by high-quality commercial real estate assets located in major U.S. metropolitan markets. Because we deliver the intensive structuring expertise required by our customers, we are able to avoid significant direct competition from other capital providers. We focus on developing direct relationships with borrowers and corporate tenants, as opposed to sourcing transactions through intermediaries, and offer our customers added value in the form of specific lending expertise, flexibility, certainty and post-closing support. We also take advantage of market anomalies in the real estate financing markets when we believe credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations. In addition, we have developed a disciplined process for screening potential investments prior to beginning our formal underwriting and commitment process called the "Six Point Methodology(SM)." We also have an intensive underwriting process in place for all potential investments.

RISK MANAGEMENT

We have comprehensive, pro-active and hands-on risk management systems centered around a fully-integrated risk management team of over 50 professionals, including dedicated expertise in asset management, corporate credit, loan servicing, project management and engineering. We manage our risk exposure by diversifying our asset base and using conservative assumptions during our underwriting of potential investments. We utilize information received from our risk management professionals on a real-time basis to monitor the performance of our asset base and to quickly identify and address potential credit issues. In addition, although we have not realized any losses of principal or interest on

S-5

any loan investments we have funded since our inception, we nonetheless maintain and regularly evaluate financial reserves to protect against potential future losses.

FINANCING STRATEGY

Our financing strategy revolves around three primary principles. First, we maintain significantly lower leverage than other commercial finance companies and a large tangible equity capital base. We target a consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. Second, we maintain access to a broad array of capital resources from a diverse group of lending sources, such as committed secured and unsecured credit facilities, term loans, corporate bonds and our own proprietary matched funding program, iStar Asset Receivables, or "STARs." In doing so, we seek to insulate our business from potential fluctuations in the availability of capital. Third, we seek to match fund our liabilities and assets to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings.

RECENT DEVELOPMENTS

Subsequent to the end of the second quarter 2001, we completed a $350.0 million public offering of seven-year unsecured senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay our secured revolving credit facilities. Subsequent to the quarter end, we also completed a $300.0 million revolving credit facility with a group of leading financial institutions. This new facility matures in 2004, including a one-year extension at our option, and replaces two prior credit facilities maturing in 2002. For a further discussion of this new facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is www.istarfinancial.com. Our six primary regional offices are located in Atlanta, Boston, Dallas, Denver, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

S-6

THE OFFERING

Common stock offered by the selling stockholders...........................	15,000,000 shares
Shares outstanding before and after the offering...............................	86,485,250 shares
Use of proceeds..........................	We will not receive any proceeds from the sale of sha by the selling stockholders.
Risk factors............................	See "Risk Factors" and other information contained in this prospectus supplement and in the accompanying prospectus for a discussion of the factors you should carefully consider before purchasing our common stock the offering.
NYSE symbol..............................	SFI

The number of shares outstanding before and after the offering excludes

7,898,939 shares reserved for issuance under our stock option plans, of which options to purchase 5,875,874 shares at an average option price of $18.22 have been issued. The number of shares outstanding before and after the offering also excludes 6,113,167 shares reserved for issuance upon exercise of warrants held by affiliates of Lazard Freres & Co. LLC that have an exercise price of $34.35 per share. After the offering, assuming that the underwriters' overallotment option is exercised, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C. and B Holdings, LLC, the selling stockholders, will collectively own 36,113,338 shares of common stock, which will represent approximately 41.1% of our shares of common stock on a diluted basis, or 41.8% based on our outstanding shares of common stock. If the overallotment option is not exercised, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C. and B Holdings, LLC will collectively own 38,363,338 shares of common stock, which will represent approximately 43.7% of our shares of common stock on a diluted basis, or 44.4% based on our outstanding shares of common stock.

RISK FACTORS

THIS SECTION DESCRIBES SOME, BUT NOT ALL, OF THE RISKS OF PURCHASING OUR COMMON STOCK IN THE OFFERING. YOU SHOULD CAREFULLY CONSIDER THESE RISKS, AND THE RISK DESCRIBED UNDER THE CORRESPONDING HEADING BEGINNING ON PAGE FOUR OF THE ACCOMPANYING PROSPECTUS, BEFORE PURCHASING OUR COMMON STOCK IN THE OFFERING. IN CONNECTION WITH THE FORWARD-LOOKING STATEMENTS THAT APPEAR IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS, YOU SHOULD ALSO CAREFULLY REVIEW THE CAUTIONARY STATEMENTS REFERRED TO IN "FORWARD-LOOKING STATEMENTS."

OUR OWNERSHIP IS CONCENTRATED

The selling stockholders will hold approximately 41.1%, on a diluted basis, or 41.8% on an outstanding basis, of our shares of common stock (or 43.7% and 44.4%, respectively, if the overallotment option is not exercised) after the offering. The selling stockholders are under common control, and four of the 16 members of our Board of Directors are employed by an affiliate of the selling stockholders. As a result of their ownership interests, the selling stockholders may have significant influence over our business and affairs, including decisions regarding:

- Mergers or other business combinations.

- Issuance of equity securities, including additional shares of our common stock.

- Payment of dividends.

The influence held by these affiliated entities may result in various conflicts of interest between them and us or between them and the holders of our common stock. Certain individuals who own interests (direct or indirect) in these affiliated entities, including Jay Sugarman, who serves as our Chairman and Chief Executive Officer; and Barry Sternlicht, Jeffrey Dishner, Madison Grose and Merrick Kleeman, each of whom is a director of our Company, own directly an aggregate of 2.5% of our common stock and hold options to purchase an additional 0.7% of our common stock, assuming cashless option exercises, in addition to their interests in the selling stockholders and their affiliates. These people may be faced with decisions that have different implications for the selling stockholders and their affiliates, on the one hand, and us or the holders of our common stock, on the other hand, which could create, or appear to create, potential conflicts of interest.

FUTURE SALES OF OUR COMMON STOCK BY THE SELLING STOCKHOLDERS COULD ADVERSELY AFFECT OUR STOCK PRICE

If the selling stockholders were to sell a substantial number of the shares of our common stock which they will own after this offering, the prevailing market prices for our common stock could be adversely affected. Each of the selling stockholders has agreed not to sell or transfer any shares of common stock or to engage in certain hedging transactions with respect to the common stock for a period of 180 days after the date of this prospectus supplement, except in certain circumstances. The selling stockholders are permitted to include shares for sale in a public primary equity offering by us, subject to certain limitations. SOFI-IV SMT Holdings, L.L.C. has pledged 22,500,000 shares of common stock owned by it under a $150.0 million margin loan that is fully recourse to SOFI-IV SMT Holdings, L.L.C. In the event that SOFI-IV SMT Holdings, L.L.C. were to default in the performance of its obligations under that loan, the lender could foreclose upon those pledged shares and sell them in the open market at any time. In addition, unless Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P. (the entity which owns SOFI-IV SMT Holdings, L.L.C.), are able to extend their terms, they will have to begin, on November 1, 2002 and February 27, 2005, respectively, distributing their investments to their investors, selling their investments to third parties, or a combination of the two. Any such sales or distributions could adversely affect the prevailing market prices for our common stock. See "Selling Stockholders."

WE ARE SUBJECT TO RISKS RELATING TO OUR ASSET CONCENTRATION

As of June 30, 2001, the average size of our lending and leasing investments was $22.1 million. No single investment represented more than 4.0% of our total revenues for the fiscal quarter ended June 30, 2001. While our asset base is diversified by product line, asset type, obligor, property type and geographic location, it is possible that if we suffer losses on a portion of our larger assets, our financial performance could be adversely impacted. See "iStar Financial Inc.--Competitive Strengths--Asset Quality and Diversification."

BECAUSE WE MUST DISTRIBUTE A PORTION OF OUR INCOME, WE WILL CONTINUE TO NEED ADDITIONAL DEBT AND/OR EQUITY CAPITAL TO GROW

We must distribute at least 90% of our taxable net income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to fund investment activities. We have historically funded our investments by borrowing from financial institutions and raising capital in the public and private capital markets. We expect to continue to fund our investments this way. If we fail to obtain funds from these sources, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock. Our taxable net income has historically been lower than the cash flow generated by our business activities, primarily because our taxable net income is reduced by non-cash expenses, such as depreciation and amortization. As a result, our dividend payout ratio as a percentage of free cash flow has generally been lower than our payout ratio as a percentage of taxable net income. Our common stock dividends for the quarter ended June 30, 2001 represented approximately 83.3% of our adjusted earnings for that quarter.

QUARTERLY RESULTS MAY FLUCTUATE AND MAY NOT BE INDICATIVE OF FUTURE QUARTERLY PERFORMANCE

Our quarterly operating results could fluctuate; therefore, you should not rely on past quarterly results to be indicative of our performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in our investment origination volume, variations in the timing of prepayments, the degree to which we encounter competition in our markets and general economic conditions.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from selling the common stock offered hereby. See "Selling Stockholders." We will not receive any of the proceeds from this offering.

S-9

SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a consolidated historical basis as of and for the six months ended June 30, 2001 and 2000, and as of and for the years ended December 31, 2000, 1999 and 1998.

In November 1999, we completed a number of significant corporate transactions which increased the size of our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Operating results for the year ended December 31, 1999 reflect the effects of these transactions subsequent to their consummation.

	SIX MONTHS ENDED JUNE 30,		YEA DEC
	2001	2000	2000
	(IN THOUSANDS, EXCEPT PER SHA		
OPERATING DATA:			
Interest income	$130,816	$126,947	$268,011
Operating lease income	98,767	93,495	185,956
Other income	13,861	8,360	17,855
Total revenue	243,444	228,802	471,822
Interest expense	87,728	80,559	173,891
Operating costs-corporate tenant lease assets	6,510	6,284	12,809
Depreciation and amortization	17,586	17,871	34,514
General and administrative	12,600	14,711	25,706
Provision for possible credit losses	3,500	3,000	6,500
Stock-based compensation expense	2,060	1,134	2,864
Advisory fees	--	--	--
Costs incurred in acquiring external advisor(1)	--	--	--
Total expenses	129,984	123,559	256,284
Income before minority interest	113,460	105,243	215,538
Minority interest in consolidated entities	(136)	(82)	(195)
Gain on sale of corporate tenant lease assets	1,599	974	2,948
One-time effect of change in accounting principle	(282)	--	--
Extraordinary loss on early extinguishment of debt	(1,037)	(317)	(705)
Net income	$113,604	$105,818	$217,586
Preferred dividend requirements	(18,454)	(18,454)	(36,908)
Net income allocable to common shareholders	$95,150	$87,364	$180,678
Basic earnings per common share(2)	$1.11	$1.03	$2.11
Diluted earnings per common share	$1.09	$1.02	$2.10

Dividends declared per common share..................	$0.6125	$0.6000	$2.40	

	SIX MONTHS ENDED JUNE 30,		YEA DEC	
	2001	2000	2000	
	(IN THOUSANDS, EXCEPT PER SHA			
SUPPLEMENTAL DATA:				
Dividends declared on preferred shares................	$9,144	$9,144	$36,576	
Dividends declared on common shares..................	104,087	99,611	205,477	
Adjusted earnings allocable to common shareholders(3)...................................	125,267	111,779	230,688	
Adjusted earnings per common share--basic............	$1.45	$1.31	$2.69	
Adjusted earnings per common share--diluted..........	$1.42	$1.30	$2.67	
Cash flows from:				
Operating activities............................	115,937	99,788	192,469	
Investing activities............................	10,604	(186,540)	(176,652)	
Financing activities............................	(122,992)	85,062	(27,473)	
EBITDA(4)..	218,774	203,673	423,943	
Ratio of EBITDA to interest expense..................	2.5x	2.5x	2.4x	
Ratio of EBITDA to combined fixed charges(6)..........	2.1x	2.1x	2.0x	
Weighted average common shares outstanding--basic(7)..............................	85,958	85,184	85,441	
Weighted average common shares outstanding--diluted(7)............................	87,584	85,725	86,151	
Efficiency ratio(8)..................................	6.0%	6.9%	6.1%	
Total debt to shareholders' equity(9)................	1.2x	1.2x	1.2x	
BALANCE SHEET DATA:				
Loans and other lending investments, net.............	$2,252,255	$2,253,339	$2,225,183	$2
Real estate subject to operating leases, net..........	1,634,524	1,653,512	1,670,169	1
Total assets...	4,053,350	4,041,269	4,034,775	3
Debt obligations.....................................	2,153,031	2,138,060	2,131,967	1
Minority interest in consolidated entities...........	2,649	2,565	6,224	
Shareholders' equity.................................	1,831,125	1,842,883	1,787,885	1

----

(1) This amount represents a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

(2) Earnings per common share excludes 1% of net income allocable to our class B shares prior to November 4, 1999. The class B shares were exchanged for common stock on November 4, 1999. As a result, we have a single class of common stock outstanding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(3) See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

(4) EBITDA is calculated as total revenue minus the sum of general and

administrative expenses, provision for possible credit losses, stock-based compensation expense, operating costs on corporate tenant lease assets and, prior to November 1, 1999, advisory fees.

(5) Excludes a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

(6) Combined fixed charges are comprised of interest expense, amortization of loan costs and preferred stock dividend requirements.

(7) As adjusted for the one-for-six reverse stock split we effected on June 19, 1998.

(8) Efficiency ratio reflects: (a) the sum of general administrative expense, stock option compensation expense and, for the period prior to November 4, 1999, advisory fees; divided by (b) total revenue for the period.

(9) Total shareholders' equity is defined as the sum of the book value of common equity and preferred equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. In March 1998, our private investment funds contributed their approximately $1.1 billion of assets to our predecessor, Starwood Financial Trust, in exchange for a controlling interest in that public company. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., our leasing subsidiary, which was then the largest publicly-traded company specializing in the net leasing of corporate office and industrial facilities. Concurrent with the acquisition of our leasing subsidiary, we also acquired our external advisor in exchange for shares of our common stock and converted our organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, we replaced our dual-class common stock structure with a single class of common stock. This single class of common stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE THREE-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME. Interest income decreased to approximately $63.9 million for the three months ended June 30, 2001 from approximately $66.9 million for the same period in 2000. This decrease in interest income is primarily a result of the decrease in average LIBOR rates on our variable-rate lending investments, which was partially offset by the increase in the average balance of loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to $49.2 million for the three months ended June 30, 2001 from $47.2 million for the same period in 2000. Of this increase, $1.3 million was attributable to new corporate tenant lease investments and $3.6 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. These increases in operating lease income from assets owned were partially offset by a $2.9 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME. Other income for the three-month period ended June 30, 2001 is primarily comprised of approximately $8.5 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans. Other income was offset by approximately $1.2 million in losses from iStar Operating, Inc. Other income for the three-month period ended June 30, 2000 included a prepayment penalty of approximately $2.1 million resulting from a partial repayment of a senior mortgage.

INTEREST EXPENSE. Our interest expense decreased by $1.4 million for the three months ended June 30, 2001 over the same period in the prior year. The decrease was primarily due to lower average LIBOR rates on our outstanding floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS. For the three months ended June 30, 2001, operating costs associated with corporate tenant lease assets increased by approximately $315,000 to approximately $3.3 million, from $3.0 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased by approximately $84,000 to $8.8 million for the three months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the three months ended June 30, 2001 decreased by approximately $1.3 million to $6.5 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $1.8 million from $1.5 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio. We have not realized any actual losses on any loan investments we have funded to date. However, we have considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since our first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $614,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. On April 18, 2001, we disposed of one corporate tenant lease asset for total proceeds of $4.5 million, and recognized a gain of approximately $1.0 million. During the second quarter of 2000, we disposed of three assets for total proceeds of $102.3 million, and recognized gains of approximately $440,000.

SIX-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE SIX-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME. Interest income increased to approximately $130.8 million for the six months ended June 30, 2001 from approximately $126.9 million for the same period in 2000. This increase in interest income is a result of a higher average balance of loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to $98.8 million for the six months ended June 30, 2001 from $93.5 million for the same period in 2000. Of this increase, $2.7 million was attributable to new corporate tenant lease investments and $7.4 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. In addition, joint venture income contributed $1.8 million to the increase. These increases in operating lease income from assets owned were partially offset by a $6.7 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME. Other income for the six-month period ended June 30, 2001 is primarily comprised of approximately $9.2 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans, $3.0 million in participation payments and advisory fees of approximately $868,000. Other income was offset by approximately $842,000 in losses from iStar Operating. Other income for the six-month period ended June 30, 2000 included prepayment fees of approximately $5.4 million resulting from the full or partial repayments of three loans and a fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully-performing status.

INTEREST EXPENSE. Our interest expense increased by $7.2 million for the six months ended June 30, 2001 over the same period in the prior year. The increase was primarily due to higher average borrowings on our credit facilities, other term loans and unsecured notes, in addition to the amortization of deferred financing costs on our credit facilities. This increase was partially offset by the lower average LIBOR rates on our floating rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. For the six months ended June 30, 2001, operating costs increased by approximately $226,000 to $6.5 million, from $6.3 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets. The increase is offset by a reduction of general and administrative costs related to the facilities.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased by approximately $285,000 to $17.6 million for the six months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the six months ended June 30, 2001 decreased by approximately $2.1 million to $12.6 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $3.5 million from $3.0 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $926,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. During the six months ended

June 30, 2001, we disposed of two corporate tenant lease assets for total proceeds of $8.4 million, and recognized gains of approximately $1.6 million. During the first six months of 2000, we disposed of five assets for total proceeds of $148.3 million, and recognized gains of approximately $973,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT. During the six months ended June 30, 2001, we repaid a secured term loan which had an original maturity date of December 2004. In connection with this early repayment, we incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of approximately $1.0 million during the first quarter of 2001. During the first quarter of 2000, certain of the proceeds from an asset disposition were used to partially repay $8.1 million of a secured term loan. In connection with this partial paydown, we incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of $317,000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

INTEREST INCOME. Interest income increased to approximately $268.0 million for the year ended December 31, 2000 from approximately $209.8 million for the same period in 1999. This increase is a result of the interest generated by $721.2 million of newly-originated loan investments during fiscal 2000 and an additional $56.0 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $584.5 million made to us on our loan investments during the year ended December 31, 2000. In addition, the increase was in part due to higher average interest rates on our variable-rate loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to approximately $186.0 million for the year ended December 31, 2000 from approximately $42.2 million for the same period in 1999. Approximately $134.2 million of this increase is attributable to operating lease income generated from

corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in fiscal 1999. In addition, approximately $5.4 million resulted from income generated by $128.4 million of new corporate tenant lease investments.

OTHER INCOME. Included in other income for fiscal year 2000 are prepayment fees of approximately $7.9 million resulting from the full or partial repayments of several loans, recognition of $2.1 million in connection with loan defeasances, a forbearance fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully performing status, a prepayment penalty of approximately $1.2 million resulting from the refinancing of a senior mortgage and corporate loan, and approximately $1.4 million resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to us in connection with our original investment in the asset.

INTEREST EXPENSE. Our interest expense increased by $82.7 million for the year ended December 31, 2000 over the same period in the prior year. Approximately $44.1 million of this increase is attributable to interest expense incurred by our leasing subsidiary subsequent to its acquisition, which was included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999. In addition, the increase was in part due to higher average aggregate borrowings under our credit facilities, other term loans and secured notes, the proceeds of which were used to fund additional investments. The increase was also attributable to higher average interest rates on our variable-rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. For the year ended December 31, 2000, operating costs associated with corporate tenant lease assets increased by approximately $10.6 million to approximately $12.8 million, net of recoveries from corporate tenants. Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets. This increase is primarily attributable to operating costs generated from corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased by approximately $24.2 million to $34.5 million for the year ended December 31, 2000 over the same period in the prior year. Approximately $24.0 million of this increase is attributable to depreciation and amortization relating to the corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the year ended December 31, 2000 increased by approximately $19.4 million to $25.7 million compared to the same period in 1999. These increases were generally the result of the increased scope of our operations associated with the acquisition of our leasing subsidiary and the direct overhead costs associated with our former external advisor, which impacted operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $6.5 million from $4.8 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $2.5 million as a result of charges relating to grants of stock options to our employees,

S-15

including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

ADVISORY FEES. There were no advisory fees during the year ended December 31, 2000 because, as a result of our acquisition of our external advisor, we became internally-managed. No further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR. Included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. During the year ended 2000, we disposed of 14 corporate tenant lease assets, including six assets held in joint venture partnerships, for a total of $256.7 million in proceeds, and recognized total gains of $2.9 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT. Certain of the proceeds from an asset disposition were used to partially repay $8.1 million of a mortgage loan. In connection with this partial paydown, we incurred prepayment penalties, which resulted in an extraordinary loss of $317,000 during the first quarter of 2000. Additionally, proceeds from a joint venture asset disposition were used to repay $16.4 million of the third-party debt of the joint venture. In connection with this paydown, the venture incurred certain prepayment penalties, which resulted in an extraordinary loss of $388,000 during the third quarter of 2000. There were no comparable early extinguishments of debt during the year ended December 31, 1999, including by our leasing subsidiary subsequent to its acquisition on November 4, 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

INTEREST INCOME. During fiscal year 1999, interest income increased by approximately $96.9 million over interest income for fiscal year 1998. This increase is a result of the interest generated by the loans and other investments contributed in the 1998 recapitalization, as well as approximately $663.4 million of loans and other lending investments newly-originated or acquired by us during 1999 and an additional $46.4 million funded under existing commitments. The increase was partially offset by principal repayments of approximately $561.9 million made to us during fiscal year 1999.

OPERATING LEASE INCOME. Operating lease income increased by $29.8 million from fiscal year 1998 to fiscal year 1999 due to approximately $26.8 million in operating lease income generated from corporate tenant lease assets acquired in the acquisition of our leasing subsidiary.

OTHER INCOME. Included in other income for fiscal year 1999 is a fee associated with the repayment of a construction loan of approximately $1.9 million, yield maintenance payments of approximately $8.1 million resulting from the repayment of three loans, and approximately $1.0 million in additional revenue from certain cash flow participation features on five of our loan investments.

S-16

INTEREST EXPENSE. Our interest expense increased by $46.5 million as a result of higher average borrowings by us on our credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. The increase was also attributable to higher average interest rates on our variable-rate debt obligations. Further, interest expense includes interest incurred by our leasing subsidiary subsequent to its acquisition.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. These operating costs represent unreimbursed operating expenses incurred by our leasing subsidiary subsequent to its acquisition.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased as a result of a full year's depreciation on our pre-existing corporate tenant leasing portfolio, as well as depreciation on our leasing subsidiary's corporate tenant lease assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE. General and administrative costs increased by approximately $3.7 million as a result of the direct overhead costs associated with our former external advisor, as well as additional administrative expenses associated with our leasing subsidiary subsequent to its acquisition.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased by approximately $2.0 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense declined by approximately $5.6 million as a result of the non-recurring charge relating to the original grant of stock options to our former external advisor in fiscal 1998 concurrently with the merger of our private business into a public company in March 1998.

ADVISORY FEES. Advisory fees increased by approximately $8.4 million as a result of fees being incurred from June 16, 1998 through year end in the prior year and through November 4, 1999 in fiscal 1999, as well as a result of our expanded operations. As a result of the acquisition of our external advisor, we became internally-managed. No further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR. Included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

LIQUIDITY AND CAPITAL RESOURCES

We require capital to fund our investment activities and operating expenses. We have significant access to capital resources to fund our existing business plan, which includes the expansion of our real estate lending and corporate tenant leasing businesses. Our capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by our assets, unsecured financing and the issuance of common, convertible and/or preferred equity securities. Further, we may acquire other businesses or assets using our capital stock, cash or a combination of the two.

The distribution requirements under the REIT provisions of the Internal Revenue Code limit our ability to retain earnings and thereby replenish capital committed to our operations. However, we believe that our significant capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

We believe that our existing sources of funds will be adequate for purposes of meeting our short-and long-term liquidity needs. Our ability to meet long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of our credit lines and/or obtaining other sources of financing,

including issuing additional debt or equity from time to time. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as compliance with the terms of our existing credit arrangements, our financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

In July 2001, we completed a $300.0 million revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at our option and another one-year extension at the lenders' option, and replaces two prior credit facilities maturing in 2002. The facility bears interest at LIBOR plus 2.125% based on our current credit ratings. In August 2001, we completed a $350.0 million public offering of unsecured seven-year senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay our secured revolving credit facilities.

The table below reflects our debt obligations under various arrangements with financial institutions as of June 30, 2001. All of our indebtedness shown below which has not subsequently been repaid is non-recourse to us, except for the $60.0 million term loan due January 2004 and the $16.6 million of "Other debt obligations," which are fully recourse to us.

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF JUNE 30, 2001	STATED INTEREST RATES	SCHE
	(IN THOUSANDS, UNAUDITED)			
SECURED REVOLVING CREDIT FACILITIES(1):				
Line of credit....................	$700,000	$194,100	LIBOR + 1.75%-2.25%	Marc
Line of credit....................	700,000	514,503	LIBOR + 1.40%-2.15%	Janu
Line of credit....................	500,000	81,248	LIBOR + 1.50%-1.75%	Augu
UNSECURED REVOLVING CREDIT FACILITIES:				
Line of credit....................	350,000	153,000	LIBOR + 1.55%	May
Line of credit....................	100,000	6,000	LIBOR + 2.25%	Janu
Total revolving credit facilities......................	$2,350,000	$948,851		
SECURED TERM LOANS:				
Secured by real estate under operating leases...		$149,113	7.44%	Marc
Secured by corporate lending investments........		60,000	LIBOR + 2.50%	Janu
Secured by real estate under operating leases...		40,720	Fixed: 6.00%-11.38%	Vari
Secured by real estate under operating leases...		193,000	LIBOR + 1.85%	July
Total principal of term loans..................		442,833		
Add: debt premiums.............................		379		
Total secured term loans.......................		443,212		
iStar Asset Receivables secured notes:				
Class A..		105,216	LIBOR + 0.30%	Augu
Class B..		94,055	LIBOR + 0.50%	Octo
Class C..		105,813	LIBOR + 1.00%	Janu
Class D..		52,906	LIBOR + 1.45%	June
Class E..		123,447	LIBOR + 2.75%	Janu
Class F..		5,000	LIBOR + 3.15%	Janu
Total iStar Asset Receivables secured notes.....		486,437		

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF JUNE 30, 2001	STATED INTEREST RATES	SCHE
	(IN THOUSANDS, UNAUDITED)			
UNSECURED NOTES(6):				

6.75% Dealer Remarketable Securities(7).........	125,000	6.75%	Marc
7.70% Notes....................................	100,000	7.70%	July
7.95% Notes....................................	50,000	7.95%	May
Total principal of unsecured notes(1)...........	275,000		
Less: debt discount(8).........................	(17,091)		
Total unsecured notes..........................	257,909		
OTHER DEBT OBLIGATIONS:	16,622	Various	Var
TOTAL DEBT OBLIGATIONS:	$2,153,031		

----

(1) Subsequent to June 30, 2001, we completed a $350.0 million public offering of unsecured seven-year senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay borrowings under our secured revolving credit facilities that had a weighted average interest rate of 5.93% and a weighted average maturity of 3.6 years.

(2) Includes a one-year "term-out" extension at our option.

(3) Subsequent to June 30, 2001, we replaced both of these facilities with a new $300.0 million revolving credit facility bearing interest at LIBOR + 2.125% (based on our current credit ratings). The new facility has an initial maturity of July 2003 with a one-year extension at our option and another one-year extension at the lenders' option.

(4) Includes a one-year extension at our option.

(5) Principal payments on these bonds are a function of the principal repayments on loan assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on Classes A, B, C, D, E and F is September 25, 2022.

(6) The notes are callable by us at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.

(7) Subject to mandatory tender on March 1, 2003, to either the dealer or our leasing subsidiary. The initial coupon of 6.75% applies to the first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset upon remarketing.

(8) These obligations were assumed as part of our acquisition of our leasing subsidiary. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which our leasing subsidiary could issue new debt obligations and, accordingly, we ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.70% Notes and 7.95% Notes, respectively.

At June 30, 2001, we had pay-fixed interest rate swaps with a total notional amount of $325.0 million and a fair value (liability) of ($12.8) million. Our pay-fixed interest rate swaps have rates ranging from 5.58% to 7.06%, and have maturities ranging from June 2003 to December 2004. Interest rate swaps allow us to effectively fix the rate on a portion of our outstanding floating-rate debt. At June 30, 2001, we also had interest rate caps with a net notional amount of $110.0 million and a fair value of $399,875. Our interest rate caps have strike prices ranging from 7.75% to 10.00%, and have maturities ranging from December 2004 to May 2007. Interest rate caps enable us to limit our exposure to rising interest rates.

On May 17, 2000, we closed the inaugural offering under our proprietary matched funding program, STARs(SM), Series 2000-1. In the initial transaction, one of our wholly-owned subsidiaries issued $896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. We initially purchased the Class F bonds at a par value of $38.2 million, which we financed with a $27.8 million repurchase agreement maturing in May 2001. This repurchase agreement was repaid in April 2001. On July 17, 2000, we sold, at par, $5.0 million of the Class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

Moody's Investors Service, Inc., Fitch Inc. and Standard & Poor's Ratings Services have each upgraded the ratings of the STARs(SM) bonds. The STARs(SM) Class B bonds were upgraded to "Aaa," "AAA" and "AAA" from "Aa2," "AA" and "AA" by Moody's, Fitch and Standard & Poor's, respectively. The STARs(SM) Class C bonds were upgraded to "Aa3" and "AA-" from "A2" and "A+" by Moody's and Fitch, respectively. In addition, Fitch also upgraded the STARs(SM) Class D, E and F bonds by one notch to "A+," "BBB+" and "BBB," respectively.

In January 2001, Moody's upgraded our corporate senior unsecured credit rating to "Ba1" from "Ba2," and the credit ratings on our perpetual preferred stock to "Ba3" from "B1." In addition, in April 2001, Standard & Poor's upgraded our corporate senior unsecured credit rating to "BB+" from "BB," and the credit ratings on our perpetual preferred stock to "B+" from "B."

On July 2, 2001, we declared a regular quarterly cash dividend of $0.6125 per common share for the quarter ended June 30, 2001. The second quarter 2001 dividend, which was paid on July 30, 2001 to holders of record as of July 16, 2001, represented approximately 83.3% of basic adjusted earnings per share for the second quarter.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and we have implemented, a stock repurchase program under which we are authorized to repurchase up to 5.0 million shares of our common stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under our credit facilities if we determine that it is advantageous to do so. As of both June 30, 2001 and December 31, 2000, we had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.7 million.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gains (losses) on sales of corporate tenant lease assets, extraordinary items and cumulative effect of change in accounting principle, plus depreciation and amortization, less preferred stock dividends, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect adjusted earnings on the same basis.

We believe that to facilitate a clear understanding of our historical operating results, adjusted earnings should be examined in conjunction with net income as shown in our consolidated statements of operations. Adjusted earnings should not be considered as an alternative to GAAP net income as an indicator of our performance, or to cash flows from operating activities, as determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs.

	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)			
Adjusted earnings:				
Net income	$113,604	$105,818	$217,586	$38,886
Add: Depreciation	17,586	17,871	34,514	11,016
Add: Allocated share of joint venture depreciation	1,905	1,442	3,662	365
Add: Amortization of deferred financing costs	10,432	5,288	13,140	6,121
Add: Costs incurred in acquiring external advisor	--	--	--	94,476
Less: Preferred dividends	(18,454)	(18,454)	(36,908)	(23,843)
Less: Net income allocable to class B shares(1)	--	--	--	(826)
Add: Cumulative effect of change in accounting principle(2)	282	--	--	--
Less: Gain on sale of corporate tenant lease assets	(1,599)	(974)	(2,948)	--
Add: Extraordinary loss -- early extinguishment of debt	1,037	317	705	--
Adjusted earnings allocable to common shareholders:				
Basic	$124,793	$111,308	$229,751	$126,195
Diluted	$125,267	$111,779	$230,688	$127,798
Adjusted earnings per common share:				
Basic	$1.45	$1.31	$2.69	$2.19
Diluted	$1.42	$1.30	$2.67	$2.07

----

(1) For the year ended December 31, 1999, net income allocable to class B shares represents 1% of net income allocable to our class B shares. On November 4, 1999, the class B shares were exchanged for common shares in connection with our acquisition of our leasing subsidiary and related transactions. As a result, we now have a single class of common shares

outstanding.

(2) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities" as of January 1, 2001.

ISTAR FINANCIAL INC.

OVERVIEW

We are the largest publicly-traded finance company focused exclusively on the commercial real estate industry. We provide structured financing to private and corporate owners of high-quality real estate nationwide, including senior and junior mortgage debt, corporate net lease financing and corporate mezzanine and subordinated capital. Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial real estate finance companies.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our eight-year history, we have structured or originated nearly $5 billion of financing commitments. During this period, we have generated a realized internal rate of return of 28.3% on the approximately $1.6 billion of investments that we have funded and which have since been repaid. We have never realized a loss of principal or interest on any loan investment we have funded.

Since becoming a public company in March 1998, we have also expanded our platform by making a limited number of strategic corporate acquisitions. In September 1998, we acquired the loan origination and servicing business of Phoenix Home Life Insurance Company. In December 1998, we acquired the structured finance portfolio of our largest private competitor, an affiliate of Lazard Freres & Co. LLC. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., the then largest publicly-traded company specializing in corporate tenant leasing for owners of office and industrial facilities. In March 2000, we acquired American Corporate Real Estate, Inc., a leading privately-held investment firm whose senior management team had extensive experience in the corporate tenant leasing industry.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financing solutions for our customers. We have consistently grown our adjusted earnings and dividends since June 1998, our first quarter as a public company. Between that quarter and the quarter ended June 30, 2001, we grew our adjusted earnings on a diluted basis by 75.6%, from approximately $0.41 to $0.72 per share, and increased our common stock dividend by 75.0%, from $0.35 to $0.6125.

The graph below shows our quarterly adjusted earnings per share since our first full quarter as a public company.

QUARTERLY ADJUSTED EARNINGS PER SHARE(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	$0.41
9/30/98	$0.43
12/31/98	$0.45
3/31/99	$0.46
6/30/99	$0.49
9/30/99	$0.52
12/31/99	$0.60
3/31/00	$0.64
6/30/00	$0.66
9/30/00	$0.68
12/31/00	$0.69
3/31/01	$0.71
6/30/01	$0.72

----

(1) We generally define "adjusted earnings" as GAAP net income before depreciation and amortization. For a further discussion of our adjusted earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish our business model from other commercial finance enterprises and contribute to our ability to generate attractive risk-adjusted returns to our common stockholders.

CREATIVE CAPITAL SOLUTIONS

We target markets where customers require a knowledgeable provider of capital which is capable of originating customized and flexible financial products. We provide our customers with a level of service and creativity generally unavailable from other lenders. We do not participate in distribution-based commercial finance businesses, which are typically characterized by intense price competition and lower profit margins, such as conduit lending and mortgage-backed securities.

We believe that we have a reputation in the marketplace for delivering unique financing solutions and a high level of service to our customers in a reliable and credible fashion. Since beginning our business in 1993, we have provided more than $1.6 billion in financing to customers who have sought our expertise more than once.

As a result of our focus, we have generated consistent and attractive returns on our asset base. The graph below shows our return on average book assets, after interest expenses, since June 1998, our first full quarter as a public company.

S-23

RETURN ON AVERAGE BOOK ASSETS(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	7.2%
9/30/98	6.0%
12/31/98	5.3%
3/31/99	5.9%
6/30/99	6.0%
9/30/99	6.4%
12/31/99	6.5%
3/31/00	6.6%
6/30/00	6.7%
9/30/00	6.7%
12/31/00	6.8%
3/31/01	7.0%
6/30/01	7.2%

----

(1) We define "return on average book assets" as the sum of annualized quarterly adjusted earnings and preferred dividends divided by the average book value of assets outstanding during the quarter.

EXPERIENCED MANAGEMENT

The ten members of our executive management team have an average of more than 20 years of experience in the fields of real estate finance, private investment, capital markets, transaction structuring, risk management and loan servicing, providing us with significant expertise in the key disciplines required for success in our business. Our culture is also highly-focused toward on-going asset risk management. We emphasize long-term, incentive-based compensation, such as stock options and grants of restricted common stock, rather than cash compensation, and none of our employees is compensated based on the volume of investment originations. Our directors and employees directly own approximately 7% of our outstanding common stock on a diluted basis, which had a market value of $162 million based upon the last reported sales price of our common stock on September 5, 2001. Our executive management team is supported by approximately 125 employees operating from six primary offices nationwide.

SIGNIFICANT EQUITY BASE

We had approximately $1.8 billion of tangible book equity and a consolidated debt-to-book equity ratio of 1.2x as of June 30, 2001. We believe that we are one of the most strongly capitalized asset-based finance companies. Our business model is premised on maintaining significantly lower leverage than other traditional commercial finance companies. We target a maximum consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. We believe that operating within this targeted range enables us to maintain a well-balanced, conservative and flexible capital structure. In addition, our tax-advantaged structure as a REIT and our ability to operate with less overhead, as a percentage of revenues, than many other commercial finance companies enhance risk-adjusted returns on equity for our common stockholders.

TAX-ADVANTAGED CORPORATE STRUCTURE

Because of our focus on commercial real estate finance, we are able to qualify as a REIT under the Internal Revenue Code. Since we are taxed as a REIT, we do not pay corporate-level taxes in most circumstances. This tax-advantaged structure enables us to produce superior returns on equity for our stockholders compared to taxable finance companies while utilizing significantly less leverage than most taxable finance companies. The graphs below show our returns on average common book equity and our debt-to-equity ratios since our first full quarter as a public company.

RETURN ON AVERAGE COMMON BOOK EQUITY(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	11.7%
9/30/98	12.3%
12/31/98	13.0%
3/31/99	13.6%
6/30/99	14.1%
9/30/99	14.7%
12/31/99	14.8%
3/31/00	15.1%
6/30/00	15.5%
9/30/00	16.1%
12/31/00	16.7%
3/31/01	17.3%
6/30/01	17.5%

----

(1) We define "return on average common book equity" as annualized quarterly adjusted earnings divided by the average common book value of equity outstanding during the quarter.

DEBT-TO-BOOK EQUITY

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	0.7X
9/30/98	1.3x
12/31/98	1.1x
3/31/99	1.2x
6/30/99	1.2x
9/30/99	1.1x
12/31/99	1.1x
3/31/00	1.1x
6/30/00	1.2x
9/30/00	1.2x
12/31/00	1.2x
3/31/01	1.2x
6/30/01	1.2x

ASSET QUALITY AND DIVERSIFICATION

Throughout our operating history, we have focused on maintaining diversification of our asset base by product line, asset type, obligor, property type and geographic region. Asset diversification is a key part of our risk management strategy. Our borrower and corporate tenant base includes more than 170 customers in a wide range of industries, and our assets are backed by over 580 underlying properties of varying types located throughout the U.S. The graphs below depict the diversification of our asset base, based upon the total gross book value of our assets of approximately $4.0 billion as of June 30, 2001.

ASSET TYPE DIVERSIFICATION PIE CHART   PROPERTY TYPE DIVERSIFICATION PIE CHART   GEOGRAPHIC DIVERSIFICATION PIE CHART

The table below reflects the diversification of our asset base as represented by our 25 largest assets. The table shows the percentage these assets represent of the total carrying value of our assets as of June 30, 2001, and the percentage these assets represent of our total revenues for the three months ended June 30, 2001.

	TOP 25 ASSETS	
	% ASSETS	% REVENUE
PROPERTY TYPE		
Office	18%	15%
Hotel	15%	11%
Mixed Use	3%	2%
Retail	5%	4%
Residential	4%	5%
Other	6%	5%
ASSET TYPE		
First Mortgages	21%	15%
Second Mortgages	5%	4%
Corporate Tenant Leases	12%	11%
Corporate/Partnership Loans	12%	12%
GEOGRAPHIC REGION		
West	15%	12%
South	11%	12%
Northeast	9%	7%
Southeast	3%	3%
Mid-Atlantic	2%	2%
Northwest	4%	3%
Other	5%	4%

Secured first mortgages and corporate tenant lease assets together comprise approximately 70% of our asset base. The weighted average "first dollar" and "last dollar" loan-to-value ratios on our loan assets were 31.8% and 71.4%, respectively, as of June 30, 2001. "First dollar" and "last dollar" loan-to-value ratios represent the average beginning and ending points of our lending exposure in the aggregate capitalization of the underlying assets or companies that we finance.

In addition, as of June 30, 2001, 52% of our corporate tenants, based on GAAP annual lease payments, had actual or implied investment grade credit ratings. Our corporate tenants include leading companies such as Federal Express, Hilton Hotels, IBM, Nike, Verizon and Wells Fargo Bank.

We employ an in-depth review process and grading system to monitor the credit quality of our asset base over time. We assign to each asset a risk rating ranging from "one," which indicates superior credit quality, to "five," which indicates inferior credit quality. Each newly-originated asset is typically assigned an initial rating of "three," or average. Based upon our second quarter 2001 review, the weighted average risk rating of our loan assets and corporate tenant lease assets was 2.68 and 2.79, respectively.

MATCH FUNDING DISCIPLINE

Our objective is to match fund our liabilities and assets with respect to maturities and interest rates. This means that we seek to match the maturities of our financial obligations with the maturities of our investments. Match funding allows us to reduce the risk of having to refinance our liabilities prior to the maturities of our assets. In addition, we match fund interest rates with like-kind debt (i.e., fixed-rate assets are financed with fixed-rate debt, and floating-rate assets are financed with

floating-rate debt), through the use of hedges such as interest rate swaps, or through a combination of these strategies. This allows us to reduce the impact of changing interest rates on our earnings.

Our objective is to limit volatility from a 100 basis point move in short-term interest rates to no more than 2.5% of annual adjusted earnings per share. As of June 30, 2001, a 100 basis point change in short-term interest rates would have impacted our second quarter adjusted earnings per share by approximately ($0.01), or approximately 1.4% of our second quarter adjusted earnings per share of $0.72.

ASSET BASE

The table below sets forth certain financial characteristics of our asset base as of June 30, 2001.

FINANCIAL CHARACTERISTICS OF OUR ASSET BASE

	LOANS	LEASES
	($ IN MILLIONS)	
Gross Carrying Value	$2,274	$1,698
Total Financing Commitments	$2,401	Not applicable
Number of Investments	61	116
Number of Underlying Properties	426	161
Average Asset Size per Investment	$37.3	$14.6
Average Asset Size per Property	$5.3	$10.5
Weighted Average Maturity/Lease Term	4.1 years	8.6 years
Average First Dollar Loan-to-Value(1)	31.8%	Not applicable
Average Last Dollar Loan-to-Value(2)	71.4%	Not applicable
Percentage Investment Grade Credits(3)	Not available	52%

----

(1) "Average First Dollar Loan-to-Value" means the weighted average beginning point of our lending exposure in the aggregate capitalization of the underlying properties or companies we finance.

(2) "Average Last Dollar Loan-to-Value" means the weighted average ending point of our lending exposure in the aggregate capitalization of the underlying properties or companies we finance.

(3) Includes customers with implied investment grade ratings such as Accenture, Alcatel USA, Cisco Systems and Volkswagen of America.

OUR TARGET MARKETS AND PRODUCT LINES

We believe we are the largest dedicated participant in a $100-$150 billion niche of the approximately $2.1 trillion commercial real estate market, consisting of the $1.5 trillion commercial mortgage market and the $600 billion single-user market for corporate office and industrial facilities. Our primary product lines include structured finance, portfolio finance, corporate tenant leasing, corporate finance and loan acquisition. Our real estate lending assets consist of mortgages secured by real estate collateral, loans secured by equity interests in real estate assets, and secured and unsecured loans to corporations engaged in real estate or real estate-related businesses. Our corporate tenant lease assets consist of office and industrial facilities that we typically purchase from, and lease-back to, a diversified group of creditworthy corporate tenants as a form of financing for their businesses. Our leases are generally long-term, and typically provide for all expenses at the facility to be paid by the corporate tenant on a "triple net" basis. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses, including taxes, maintenance and insurance.

The graph below shows the composition of our asset base by product line, based on the total gross book value of our assets of approximately $4.0 billion as of June 30, 2001.

PRODUCT LINE DIVERSIFICATION

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

CORPORATE TENANT LEASING	44%
Loan Acquisition	9%
Corporate Finance	13%
Structured Finance	25%
Portfolio Finance	9%

STRUCTURED FINANCE

We provide custom-tailored senior and subordinated loans ranging in size from $20 million to $100 million to borrowers controlling institutional-quality real estate. These loans are collateralized by single assets that are strategically positioned within their respective market. Structured finance loans may be either fixed- or floating-rate and are structured to meet the specific financing needs of the borrowers, including financing related to the acquisition, refinancing, repositioning or construction of large, high-quality real estate. We offer borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim/bridge facilities.

PORTFOLIO FINANCE

We provide funding to regional and national borrowers who own a geographically diverse portfolio of properties. Portfolio finance loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize the inherent diversification provided by multiple assets. Property types generally include multifamily, suburban office, all-suite, extended stay and limited service hotels. We structure loan terms to meet the specific requirements of the borrower. These loans typically range in size from $25 million to $150 million.

CORPORATE TENANT LEASING

We provide capital to corporate owners of office and industrial facilities. Net leased facilities are generally subject to long-term leases to creditworthy corporate tenants, and typically provide for all property expenses to be paid by the tenant on a "triple-net" basis. Corporate tenant lease transactions typically range in size from $20 million to $200 million.

We pursue the origination of corporate tenant lease transactions by structuring purchase/ leasebacks and by acquiring facilities subject to existing long-term net leases. In a purchase/leaseback transaction, we purchase the property from the corporate tenant and lease it back to the tenant on a triple-net basis. The purchase/ leaseback structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while we capitalize on our structured financing expertise.

Our corporate tenant lease investments primarily represent a diversified portfolio of strategic office and industrial facilities subject to net lease agreements with creditworthy corporate tenants. The corporate tenant lease investments we target generally involve: (1) high-quality, general-purpose real estate with residual values that represent a discount to current market values and replacement costs;

and (2) corporate tenants that are established companies with stable core businesses or market leaders in growing industries with investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient.

Since acquiring our leasing subsidiary in November 1999, we have increased the weighted average lease term of our corporate tenant lease assets from 5.6 to 8.6 years. During that time we have also executed over 7.2 million square feet of new and renewal leases in 86 total transactions with a weighted average lease term of 9.9 years. Throughout this leasing activity, we have emphasized early lease renewals. Of the 2.4 million square feet of leases renewed since June 1999, approximately 1.1 million square feet (44%) represented early renewals where there were more than 12 months left on the primary lease term. As of June 30, 2001, our corporate tenant lease portfolio was 96.7% leased.

As of June 30, 2001, we had more than 170 corporate customers operating in more than ten major industry sectors, including aerospace, energy, financial services, healthcare, hospitality, technology, manufacturing and telecommunications. These customers include well-recognized national and international companies, such as Accenture Ltd., Federal Express, Hilton Hotels, IBM, Nike, Nokia Corporation, Verizon, Volkswagen of America and Wells Fargo Bank.

The table below summarizes our corporate tenant lease assets as of June 30, 2001.

	% ANNUALIZED SECOND QUARTER 2001 TOTAL REVENUE	SIGNIFICANT CUSTOMERS
Technology............................	16.6%	IBM, Cisco, Mitsubishi Electronics, Hewlett-Packard, Unisys, Microsoft.
Telecommunications....................	8.0%	Nokia, Verizon, Avaya, Alcatel Networks, Nortel Networks, AT&T Wireless.
Transportation Services...............	1.0%	Federal Express, ABX Logistics (USA).
Energy & Utilities....................	2.5%	Entergy Services, Exxon-Mobil, Bay State Gas.
Hospitality...........................	3.1%	Hilton Hotels.
Food & Related Services...............	2.9%	Caterair, Ralphs Grocery, Unified, Western Grocers, Welch Foods.
Financial Services....................	2.7%	Wellpoint Health Networks, Arbella Capital Corp., Blue Cross & Blue Shield, Wells Fargo Bank.
Manufacturing.........................	1.9%	Nike, adidas America, Mast Industries.
Automotive, Aerospace & Defense............................	1.9%	Volkswagen of America, Unison Industries, Honeywell, TRW Space Communications.
Professional Services.................	1.8%	Accenture, PricewaterhouseCoopers, Parsons Infrastructure & Technology, The Mitre Corp.
Healthcare............................	1.0%	Avitar, Fresenius USA, Haemonetics.
Government Services...................	0.3%	Massachusetts Lottery, State of CA Dept. of Transportation.
Consumer Goods........................	0.6%	Sears Logistics, Rex Stores, Dunham's Athleisure, Lever Brothers.
Other Industry Sectors................	0.9%	Central Parking System, Modern Graphics Arts, Universal Technical Institute.
Total.................................	45.3%	

The table below illustrates our corporate tenant lease expirations as of June 30, 2001.

LEASE EXPIRATIONS

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES EXPIRING	ANNUALIZED SECOND QUARTER 2001 EXPIRING OPERATING LEASE REVENUES ($ IN THOUSANDS)	% OF ANNUALIZED SECOND QUARTER 2001 TOTAL REVENUE
2001	6	$2,627	0.5%
2002	28	11,143	2.3%
2003	20	15,276	3.2%
2004	27	24,276	5.0%
2005	16	13,984	2.9%
2006	27	27,547	5.7%
2007	15	18,562	3.8%
2008	6	7,086	1.5%
2009	11	13,703	2.8%
2010	5	7,268	1.5%
2011 and thereafter	24	77,380	16.0%
Total	185	$218,852	45.3%

CORPORATE FINANCE

We provide senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Corporate finance loans may be either secured or unsecured and typically range in size from $20 million to $150 million. These corporate loans are typically backed by real estate collateral and/or corporate guaranty.

LOAN ACQUISITION

We acquire whole loans and loan participations which we believe present attractive risk-reward opportunities. These loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. We restructure many of these loans on favorable terms. In other cases, we negotiate a payoff at a price above our basis in the loan. Loan acquisitions typically range from $5 million to $100 million and are collateralized by a variety of property types.

S-30

OUR STRATEGY

Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We believe we have established a market leadership position for highly structured mortgage, corporate and mezzanine financing backed by high-quality commercial real estate nationwide. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial real estate lenders.

INVESTMENT STRATEGY

In order to accomplish our objective, we have implemented the following investment strategy:

- We focus on the origination of structured mortgage, corporate and lease financings backed by high-quality commercial real estate assets located in major U.S. metropolitan markets.

- We offer sophisticated borrowers and corporate customers added value in the form of specific lending expertise, flexibility, certainty and post-closing support.

- We seek to develop direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries.

- We avoid businesses in which there is significant direct competition from other providers of capital.

- We take advantage of market anomalies in the real estate financing markets when we believe credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

- We stress test potential investments for adverse economic and real estate market conditions.

We source our investment transactions from our existing relationships with real estate owners, through other direct relationships within the real estate and corporate finance communities, and from other capital providers and advisors who refer customers to us. We also utilize information obtained from our risk management group to generate leads on potential investment opportunities. We have completed over $1.6 billion of financing transactions with borrowers who have sought our expertise more than once.

We discuss and analyze investment opportunities during regular weekly meetings which are attended by all of our investment professionals, as well as representatives from our legal, risk management and capital markets areas. We have developed a process for screening potential investments called the Six Point Methodology(SM). The Six Point Methodology(SM) reflects the six fundamental criteria by which we evaluate an investment opportunity prior to beginning our formal underwriting and commitment process.

S-31

THE SIX POINT METHODOLOGY(SM)

- First, we evaluate the source of the opportunity. We prefer opportunities where we have a direct relationship with the customer or an intermediary who has worked with us before, because we believe that such relationships enable us to add more value to a transaction.

- Second, we evaluate the quality of the collateral or corporate credit, as well as its market or industry dynamics.

- Third, we evaluate the equity or corporate sponsor, including factors such as its reputation, financial strength and commitment to the collateral.

- Fourth, we determine whether we can implement an appropriate legal and financial structure for the transaction given its risk profile, including our ability to control the collateral under various circumstances.

- Fifth, we perform an alternative investment test. If we believe that we can earn a better risk-adjusted return in a comparable asset class or different part of the customer's capital structure, then the proposed investment will score poorly in this category.

- Sixth, we evaluate the liquidity of the investment and our ability to match fund the asset. A security that is too highly structured is less desirable because it may limit our ability to obtain appropriately priced financing for the asset, or our ability to sell it if we ever so desire.

We have an intensive underwriting process in place for all potential investments. This process provides for comprehensive feedback and review by all the disciplines within our Company, including investments, credit, risk management, legal/structuring and capital markets. Participation is encouraged from all professionals throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodology(SM) and into the preparation and distribution of a comprehensive memorandum for our internal and Board of Directors investment committees.

Commitments of less than $30 million require the unanimous consent of our internal investment committee, consisting of senior management representatives from each of our key disciplines. For commitments between $30 million and $50 million, the further approval of our Board of Directors' investment committee is also required. All commitments of $50 million or more must be approved by our full Board of Directors.

S-32

The following flow chart illustrates our formal investment origination process, beginning with the identification of an investment opportunity through the closing and on-going servicing of the asset:

[LOGO]

S-33

RISK MANAGEMENT

In addition to mitigating risk through the careful underwriting and structuring of our investments, we further pro-actively manage risk by: (1) generating, analyzing and distributing information on-line to all our employees about our collateral and our customers on a continuous, real-time basis; (2) holding weekly Company-wide meetings to identify and address risk management issues; (3) applying a comprehensive risk rating process; (4) establishing loan loss reserves and asset impairment procedures; and (5) managing our assets and liabilities through match funding. We believe these risk management measures enable us to effectively manage our asset base and minimize our risk of loss. More than 50 of our approximately 135 employees are dedicated to our risk management platform.

COLLATERAL AND CUSTOMER MONITORING

We have comprehensive real-time risk management systems that enable us to pro-actively monitor the performance of our asset base and to quickly identify and address potential issues with any of our assets. Risk management information, which is generated from numerous collateral-level controls, extensive customer reporting requirements and on-site asset monitoring programs, is accessible to all our employees nationwide via computer.

Our comprehensive risk management systems require the active participation of each of our senior professionals and other employees within our regional office infrastructure. Every employee nationwide has access, via our computer network, to various risk management reports which provide real-time information regarding the performance of our asset base. These reports, which are continually updated as new customer information is received, are based on information that is: (1) required to be provided by our customers; (2) generated by our risk management professionals; and (3) obtained from the public domain. Examples of risk management reports include daily payment reports, monthly covenant reviews, monthly reserve balance reports, monthly budget-versus-actual analyses of collateral and corporate customer performance, leasing activity reports and quarterly risk ratings reviews. This process ensures that risk management issues are quickly identified and that decisions are based on the most current information available.

iStar Asset Services, or "iSAS," our rated loan servicing subsidiary, and iStar Real Estate Services, or "iRES," our corporate tenant lease asset management division, are critical to our asset and customer monitoring efforts. Together, they are principally responsible for managing our asset base, including monitoring our customers' compliance with their respective loan and leasing agreements, collecting customer payments, and efficiently analyzing and distributing customer performance information throughout our Company on a real-time basis. iSAS and iRES provide daily information on the performance and condition of our asset base. iSAS is currently rated "above average" by Standard & Poor's and is "approved" by Fitch as a master servicer. In addition to servicing our asset base, iSAS also provides loan servicing to third-party institutional owners of loan portfolios.

Our loan customers are required to comply with periodic covenant tests, and typically must submit extensive collateral performance information such as monthly operating statements and operating budgets. We also may require customers to deposit cash into escrow accounts to cover major capital expenditures, such as expected re-tenanting costs, and we typically require approval rights over major decisions impacting collateral cash flows. In many cases, collateral cash receipts must be deposited into lock-box bank accounts that we control. We then distribute the net cash, after our debt service, to our customers.

We furnish on-site asset management services for most of our corporate tenant lease customers, providing us with daily information regarding the condition of our assets. In addition, we have a formal annual inspection program that ensures that our corporate tenant lease customers are complying with their lease terms. Customer lease payments are deposited directly into lock-box accounts managed by

our treasury group, and corporate customers are required to submit financial statements on a regular basis to our corporate credit professionals. In addition, our risk management group monitors the wire services for important news on our customers, including press releases, earnings announcements, credit ratings changes, research reports relating to our corporate customers and local market conditions, and distributes this information via email to all of our employees. All new corporate tenant leases must be approved by our Chief Operating Officer who evaluates, with the assistance of our credit professionals, the creditworthiness and appropriate security, if any, required by us.

WEEKLY RISK MANAGEMENT MEETINGS

We hold weekly Company-wide meetings to identify current issues, and conduct monthly meetings to review actual collateral performance compared to our customers' budgets. During the weekly meetings, our regional offices connect via videoconference with our headquarters and we review asset-specific issues in detail. At these meetings, we develop an action plan to resolve any issues which arise. We also conduct systematic, asset-specific reviews of both our loan and corporate tenant lease assets on a quarterly basis, as discussed below.

RISK RATING PROCESS

We have a comprehensive risk rating process that enables us to evaluate, monitor and pro-actively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. We conduct a detailed credit review of each asset on a quarterly basis, and we assign individual risk ratings to each asset ranging from "one" to "five." Attendance is mandatory for all of our professionals, including those in our regional offices. A "one" indicates superior credit quality, a "two" signifies better than average credit quality, a "three" serves as an average rating, a "four" indicates that management time and attention is required for the asset, and a "five" denotes a problem asset with potential principal risk to us. In addition to the ratings system, we maintain a "watch list" of assets which are generally rated "four," but which require highly pro-active asset management to preserve their current ratings. Each newly-originated asset is typically assigned an initial rating of "three," or average.

Risk ratings provide a common language and uniform framework by which we can discuss and evaluate risk and relative levels of risk across our asset base. This is our primary early warning system and provides us with a means of identifying assets that warrant a greater degree of monitoring and senior management attention. In addition, this process provides a useful forum to identify assets or markets that may offer opportunities for new business. Lastly, the risk ratings process serves as a basis for determining our quarterly loan loss provision and evaluating the adequacy of our reserves.

Based upon our second quarter 2001 review, the weighted average risk rating of our loan assets and corporate tenant lease assets was 2.68 and 2.79, respectively.

WEIGHTED AVERAGE LOAN ASSET RISK RATINGS

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

DEC-98	2.7
Mar-99	2.6
Jun-99	2.6
Sep-99	2.6
Dec-99	2.5
Mar-00	2.6
Jun-00	2.6
Sep-00	2.6
Dec-00	2.5
Mar-01	2.5
Jun-01	2.7

1=LOWEST RISK 5=HIGHEST RISK

We consider several primary variables in determining which rating to assign to an asset. For our loans, the seven primary risk attributes are:

- Trailing and projected collateral operating performance and debt service coverage ratios.

- Current and estimated loan-to-value ratios.

- Local and regional economic and real estate market trends.

- Loan structure.

- Collateral condition, location and marketability.

- Borrower's source of repayment funds or ability to refinance or seace=arial,sans-serif>10,1

2.03.01

Share Capital

6,823,000

6,822,000

2.03.02

Capital Reserves

400,000

355,000

2.03.02.04

Stock Option

393,000

348,000

2.03.02.07

Capital Reserve

7,000

7,000

2.03.04

Earnings Reserve

3,161,000

3,174,000

2.03.04.01

Legal Reserve

457,000

457,000

2.03.04.05

Earnings Retention Reserve

233,000

233,000

2.03.04.07

Tax Incentive Reserve

49,000

0

2.03.04.10

Expansion Reserve

2,666,000

2,728,000

2.03.04.12

Transactions with non-controlling interests

-94,000

-94,000

2.03.04.14

Settlement of Equity Instrument

-150,000

-150,000

2.03.05

Retained Earnings/ Accumulated Losses

438,000

-114,000

2.03.08

Other comprehensive income

-71,000

-49,000

Individual Interim Financial Information / Statement of Operations

R$ (in thousands)

Code	**Description**	**Current Quarter 04/01/2018 to 06/30/2018**	**Year to date current period 01/01/2018 to 06/30/2018**	**Previous Quarter 04/01/2017 to 06/30/2017**
3.01	Net operating revenue	6,443,000	12,681,000	6,341,000
3.02	Cost of sales	-4,595,000	-9,073,000	-4,094,000
3.03	Gross Profit	1,848,000	3,608,000	2,247,000
3.04	Operating Income/Expenses	-1,277,000	-2,775,000	-1,905,000
3.04.01	Selling Expenses	-1,304,000	-2,566,000	-1,349,000
3.04.02	General and administrative expenses	-180,000	-357,000	-196,000
3.04.05	Other Operating Expenses	-213,000	-408,000	-434,000
3.04.05.01	Depreciation and Amortization	-152,000	-307,000	-149,000
3.04.05.03	Other operating expenses	-61,000	-101,000	-285,000
3.04.06	Share of Profit of associates	420,000	556,000	74,000
3.05	Profit From Operations Before Net Financial and Income Tax	571,000	833,000	342,000
3.06	Net Financial Expenses	-136,000	-255,000	-170,000
3.07	Income Before Income Tax and Social Contribution	435,000	578,000	172,000
3.08	Income tax and social contribution	28,000	46,000	-33,000
3.08.01	Current	5,000	1,000	-24,000
3.08.02	Deferred	23,000	45,000	-9,000
3.09	Net Income For The Period From Continued Operations	463,000	624,000	139,000
3.10	Net Income (Loss) For The Period From Discontinued Operations	15,000	4,000	-6,000
3.10.01	Net Income (loss) from Descontinued Operations	15,000	4,000	-6,000
3.11	Net Income for the period	478,000	628,000	133,000
3.99	Earnings per Share - (Reais/Share)			
3.99.01	Basic Earnings per Share			
3.99.01.01	ON	1.68762	2.21689	0.58022
3.99.01.02	PN	1.85638	2.43858	0.64166
3.99.02	Diluted Earnings per Share			
3.99.02.01	ON	1.68439	2.21366	0.57910
3.99.02.02	PN	1.84454	2.42347	0.63820

Individual Interim Financial Information / Statement of Comprehensive Income

R$ (in thousands)

Code	**Description**	**Current Quarter 04/01/2018 to 06/30/2018**	**Year to date current period 01/01/2018 to 06/30/2018**	**Previous Quarter 04/01/2017 to 06/30/2017**	**Year to date previous period 01/01/2017 to 06/30/2017**
4.01	Net income for the Period	478,000	628,000	133,000	253,000
4.02	Other Comprehensive Income	-12,000	-22,000	5,000	-35,000
4.02.02	Foreign currency translation	-24,000	-31,000	-10,000	-10,000
4.02.04	Fair value of trade receivables	17,000	13,000	21,000	-32,000
4.02.05	Income Taxes Related to Other Comprehnsive Income	-5,000	-4,000	-6,000	7,000
4.03	Total Comprehensive Income for the Period	466,000	606,000	138,000	218,000

Individual Interim Financial Information / Statement of Cash Flows - Indirect Method

R$ (in thousands)

Code	**Description**	**Year to date current period 01/01/2018 to 06/30/2018**	**Year to date previous period 01/01/2017 to 06/30/2017**
6.01	Net Cash Provided by (Used in) Operating Activities	-1,128,000	-1,287,000
6.01.01	Cash Provided by the Operations	638,000	261,000
6.01.01.01	Net Income (Loss) for the Period	628,000	253,000
6.01.01.02	Deferred Income Tax	-45,000	3,000
6.01.01.03	Losses (Gain) on Disposal of Property and Equipment	1,000	37,000
6.01.01.04	Depreciation/Amortization	327,000	321,000
6.01.01.05	Financial charges	210,000	295,000
6.01.01.07	Share of Profit of Subsidiaries and Associates	-556,000	-205,000
6.01.01.08	Provision for Contingencies	63,000	-9,000
6.01.01.09	Provision for Disposals and Impairment	0	1,000
6.01.01.10	Share-based Payment	28,000	18,000
6.01.01.11	Allowance for Doubtful Accounts	0	5,000
6.01.01.13	Allowance for Obsolescence and Damages	1,000	-5,000
6.01.01.14	Other Operating Expenses	-13,000	-447,000
6.01.01.15	Deferred Revenue	-6,000	-6,000
6.01.02	Changes in Assets and Liabilities	-1,766,000	-1,548,000
6.01.02.01	Accounts Receivable	307,000	-52,000
6.01.02.02	Inventories	-141,000	262,000
6.01.02.03	Recoverable Taxes	-51,000	91,000
6.01.02.04	Other Assets	-80,000	-66,000
6.01.02.05	Related Parties	-17,000	11,000
6.01.02.06	Restricted Deposits for Legal Proceeding	-13,000	-47,000
6.01.02.07	Trade Payables	-1,606,000	-1,771,000
6.01.02.08	Payroll and Related Taxes	-41,000	-23,000
6.01.02.09	Taxes and Social Contributions Payable	-102,000	131,000
6.01.02.10	Payment of Contingencies	-46,000	-27,000
6.01.02.11	Deferred Revenue	11,000	0
6.01.02.12	Other Payables	6,000	-57,000
6.01.02.15	Received Dividends and Interest on shareholders' equity	7,000	0
6.02	Net Cash Provided by (Used in) Investing Activities	-244,000	-261,000
6.02.01	Capital Increase/Decrease on Subsidiaries	0	-53,000
6.02.02	Purchase of Property and Equipment	-243,000	-267,000
6.02.03	Purchase of Intangible Assets	-61,000	-32,000
6.02.04	Sales of Property and Equipment	60,000	91,000
6.03	Net Cash Provided by (Used in) Financing Activities	706,000	-1,209,000
6.03.01	Capital Increase	1,000	7,000
6.03.02	Proceeds from Borrowings and Financing	1,488,000	1,868,000
6.03.03	Payments of Borrowings and Financing	-617,000	-3,084,000
6.03.05	Payment of Dividends	-166,000	0
6.05	Net Increase (Decrease) in Cash and Cash Equivalents	-666,000	-2,757,000
6.05.01	Cash and Cash Equivalents at the Beginning of the Period	2,868,000	4,496,000

6.05.02	Cash and Cash Equivalents at the End of the Period	2,202,000	1,739,000

Individual Interim Financial Information / Statement of Changes in Shareholders' Equity 01/01/2018 to 06/30/

R$ (in thousands)

Code	**Description**	**Share Capital**	**Capital Reserves, Options Granted and Treasury Shares**	**Earnings Reserve**	**Retained Earnings Accumulated Losses**	**compr**
5.01	Opening Balance	6,822,000	355,000	3,174,000	0	
5.02	Prior Year Adjustments	0	0	0	-114,000	
5.03	Adjusted Opening Balance	6,822,000	355,000	3,174,000	-114,000	
5.04	Capital Transactions with Shareholders	1,000	45,000	-13,000	-76,000	
5.04.01	Capital Increases	1,000	0	0	0	
5.04.03	Share-Based Expenses	0	34,000	0	0	
5.04.07	Interest on Own Capital	0	0	-13,000	-76,000	
5.04.08	Share-Based Expenses Subsidiaries	0	11,000	0	0	
5.05	Total Comprehensive Income	0	0	0	628,000	
5.05.01	Net Income for the Period	0	0	0	628,000	
5.05.02	Other Comprehensive Income	0	0	0	0	
5.05.02.04	Foreing Currency Translation	0	0	0	0	
5.05.02.07	Fair Value of Trade Receivables	0	0	0	0	
5.05.02.08	Income Taxes Related to Other Comprehensive	0	0	0	0	
5.07	Closing Balance	6,823,000	400,000	3,161,000	438,000	

Individual Interim Financial Information / Statement of Changes in Shareholders' Equity 01/01/2017 to 06/30/

R$ (in thousands)

Code	Description	Share Capital	Capital Reserves, Options Granted and Treasury Shares	Earnings Reserve	Retained Earnings Accumulated Losses	compr
5.01	Opening Balance	6,811,000	331,000	2,718,000	0	
5.02	Prior Year Adjustments	0	0	0	-75,000	
5.03	Adjusted Opening Balance	6,811,000	331,000	2,718,000	-75,000	
5.04	Capital Transactions with Shareholders	7,000	18,000	0	0	
5.04.01	Capital Increases	7,000	0	0	0	
5.04.03	Share-Based Expenses	0	14,000	0	0	
5.04.08	Share-Based Expenses Subsidiaries	0	4,000	0	0	
5.05	Total Comprehensive Income	0	0	0	253,000	
5.05.01	Net Income for the Period	0	0	0	253,000	
5.05.02	Other Comprehensive Income	0	0	0	0	
5.05.02.04	Foreing Currency Translation	0	0	0	0	
5.05.02.07	Fair Value of Trade Receivables	0	0	0	0	
5.05.02.08	Income Taxes Related to Other Comprehensive	0	0	0	0	
5.07	Closing Balance	6,818,000	349,000	2,718,000	178,000	

Individual Interim Financial Information / Statement of Value Added

R$ (in thousands) Code	Description	Year to date current period 01/01/2018 to 06/30/2018	Year to date previous period 01/01/2017 to 06/30/2017
7.01	Revenues	13,755,000	14,071,000
7.01.01	Sales of Goods, Products and Services	13,728,000	13,870,000
7.01.02	Other Revenues	24,000	205,000
7.01.04	Allowance for/Reversal of Doubtful Accounts	3,000	-4,000
7.02	Products Acquired from Third Parties	-10,828,000	-10,653,000
7.02.01	Costs of Products, Goods and Services Sold	-9,273,000	-8,999,000
7.02.02	Materials, Energy, Outsourced Services and Other	-1,555,000	-1,654,000
7.03	Gross Value Added	2,927,000	3,418,000
7.04	Retention	-327,000	-321,000
7.05	Net Value Added Produced	2,600,000	3,097,000
7.06	Value Added Received in Transfer	602,000	271,000
7.06.01	Share of Profit of Subsidiaries and Associates	556,000	205,000
7.06.02	Financial Income	42,000	90,000
7.06.03	Other	4,000	-24,000
7.07	Total Value Added to Distribute	3,202,000	3,368,000
7.08	Distribution of Value Added	3,202,000	3,368,000
7.08.01	Personnel	1,549,000	1,572,000
7.08.01.01	Direct Compensation	960,000	1,009,000
7.08.01.02	Benefits	297,000	330,000
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	93,000	96,000
7.08.01.04	Other	199,000	137,000
7.08.02	Taxes, Fees and Contributions	360,000	763,000
7.08.02.01	Federal	173,000	892,000
7.08.02.02	State	94,000	-256,000
7.08.02.03	Municipal	93,000	127,000
7.08.03	Value Distributed to Providers of Capital	665,000	780,000
7.08.03.01	Interest	321,000	422,000
7.08.03.02	Rentals	344,000	358,000
7.08.04	Value Distributed to Shareholders	628,000	253,000
7.08.04.01	Interest on shareholders' equity	76,000	0
7.08.04.03	Retained Earnings/ Accumulated Losses for the Period	552,000	253,000

Consolidated Interim Financial Information /Balance Sheet - Assets

R$ (in thousands)

Code	**Description**	**Current Quarter 06.30.2018**	**Previous Year 12.31.2017**
1.	Total Assets	46,493,000	47,707,000
1.01	Current Assets	31,238,000	33,016,000
1.01.01	Cash and Cash Equivalents	3,054,000	3,792,000
1.01.03	Accounts Receivable	553,000	885,000
1.01.03.01	Trade Receivables	296,000	618,000
1.01.03.02	Other Receivables	257,000	267,000
1.01.04	Inventories	5,136,000	4,822,000
1.01.06	Recoverable Taxes	532,000	596,000
1.01.07	Prepaid Expenses	183,000	112,000
1.01.08	Other Current Assets	21,780,000	22,809,000
1.01.08.01	Assets Held for Sale	21,698,000	22,775,000
1.01.08.03	Other	82,000	34,000
1.01.08.03.01	Financial Instruments - Fair Value Hedge	38,000	34,000
1.01.08.03.02	Others Assets	44,000	0
1.02	Noncurrent Assets	15,255,000	14,691,000
1.02.01	Long-term Assets	4,145,000	3,452,000
1.02.01.04	Accounts Receivable	660,000	722,000
1.02.01.04.01	Trade Receivables	3,000	80,000
1.02.01.04.02	Other Receivable	657,000	642,000
1.02.01.07	Deferred taxes	174,000	125,000
1.02.01.08	Prepaid Expenses	60,000	43,000
1.02.01.09	Related Parties	31,000	25,000
1.02.01.10	Other Noncurrent Assets	3,220,000	2,537,000
1.02.01.10.04	Recoverable Taxes	2,335,000	1,747,000
1.02.01.10.05	Restricted Deposits For Legal Proceedings	784,000	762,000
1.02.01.10.06	Financial Instruments - Fair Value Hedge	101,000	28,000
1.02.02	Investments	209,000	177,000
1.02.02.01	Investments in Associates and Subsidiaries	188,000	156,000
1.02.02.02	Investment properties	21,000	21,000
1.02.03	Property and Equipment	8,975,000	9,138,000
1.02.04	Intangible Assets	1,926,000	1,924,000

Consolidated Interim Financial Information / Balance Sheet - Liabilities

R$ (in thousands)

Code	**Description**	**Current Quarter 06.30.2018**	**Previous Year 12.31.2017**
2.	Total Assets	46,493,000	47,707,000
2.01	Current Liabilities	26,016,000	28,992,000
2.01.01	Payroll and Related Taxes	615,000	640,000
2.01.02	Trade payables	6,369,000	8,128,000
2.01.03	Taxes and Contributions Payable	264,000	301,000
2.01.04	Borrowings and Financing	1,820,000	1,251,000
2.01.05	Other Liabilities	666,000	845,000
2.01.05.01	Related Parties	144,000	153,000
2.01.05.02	Other	522,000	692,000
2.01.05.02.01	Dividends and Interest On Own Capital Payable	0	78,000
2.01.05.02.04	Utilities	27,000	23,000
2.01.05.02.05	Rent Payable	67,000	128,000
2.01.05.02.06	Advertisement Payable	43,000	26,000
2.01.05.02.07	Pass-through Liabilities	10,000	14,000
2.01.05.02.08	Financing of property	39,000	116,000
2.01.05.02.09	Deferred Revenue	151,000	146,000
2.01.05.02.12	Other Accounts Payable	167,000	161,000
2.01.05.02.13	Customer Loyalty Programs	18,000	0
2.01.06	Provisions	13,000	3,000
2.01.07	Liabilities Related to Assets Held for Sale	16,269,000	17,824,000
2.02	Noncurrent Liabilities	6,737,000	5,674,000
2.02.01	Borrowings and Financing	4,171,000	3,337,000
2.02.02	Other Liabilities	877,000	814,000
2.02.02.02	Other	877,000	814,000
2.02.02.02.03	Taxes payable in installments	517,000	566,000
2.02.02.02.07	Other Accounts Payable	56,000	53,000
2.02.02.02.08	Provision For Losses on Investiments in Associates	304,000	195,000
2.02.03	Deferred tax	548,000	394,000
2.02.04	Provisions	1,126,000	1,107,000
2.02.06	Deferred Revenue	15,000	22,000
2.02.06.02	Deferred Revenue	15,000	22,000
2.03	Shareholders' Equity	13,740,000	13,041,000
2.03.01	Share Capital	6,823,000	6,822,000
2.03.02	Capital Reserves	400,000	355,000
2.03.02.04	Stock Option	393,000	348,000
2.03.02.07	Capital Reserve	7,000	7,000
2.03.04	Earnings Reserve	3,161,000	3,174,000
2.03.04.01	Legal Reserve	457,000	457,000
2.03.04.05	Earnings Retention Reserve	233,000	233,000
2.03.04.07	Tax Incentive Reserve	49,000	0
2.03.04.10	Expansion Reserve	2,666,000	2,728,000
2.03.04.12	Transactions with Non-Controlling Interests	-94,000	-94,000
2.03.04.14	Settlement of Equity Instrument	-150,000	-150,000
2.03.05	Retained Earnings/ Accumulated Losses	438,000	-114,000

2.03.08	Other comprehensive income	-71,000	-49,000
2.03.09	Non-Controlling interests	2,989,000	2,853,000

Consolidated Interim Financial Information / Statement of Operations

R$ (in thousands)

Code	Description	Current Quarter 04/01/2018 to 06/30/2018	Year to date current period 01/01/2018 to 06/30/2018
3.01	Net operating revenue	11,775,000	23,118,000
3.02	Cost of sales	-8,677,000	-17,473,000
3.03	Gross Profit	3,098,000	5,645,000
3.04	Operating Income/Expenses	-2,348,000	-4,614,000
3.04.01	Selling Expenses	-1,787,000	-3,526,000
3.04.02	General and administrative expenses	-251,000	-492,000
3.04.05	Other Operating Expenses	-299,000	-552,000
3.04.05.01	Depreciation and Amortization	-209,000	-419,000
3.04.05.03	Other operating expenses	-90,000	-133,000
3.04.06	Share of Profit of associates	-11,000	-44,000
3.05	Profit From Operations Before Net Financial and Income Tax	750,000	1,031,000
3.06	Net Financial Expenses	-147,000	-279,000
3.07	Income Before Income Tax and Social Contribution	603,000	752,000
3.08	Income tax and social contribution	-172,000	-213,000
3.08.01	Current	-80,000	-112,000
3.08.02	Deferred	-92,000	-101,000
3.09	Net Income For The Period From Continued Operations	431,000	539,000
3.10	Net Income (Loss) For The Period From Discontinued Operations	94,000	212,000
3.10.01	Net Income (loss) From Descontinued Operations	94,000	212,000
3.11	Net Income For The Period	525,000	751,000
3.11.01	Attributable to Controlling Shareholders	478,000	628,000
3.11.02	Attributable to Non-controlling shareholders	47,000	123,000
3.99	Earnings per Share - (Reais/Share)		
3.99.01	Basic Earnings per Share		
3.99.01.01	ON	1.68762	2.21689
3.99.01.02	PN	1.85638	2.43858
3.99.02	Diluted Earnings per Share		
3.99.02.01	ON	1.68439	2.21366
3.99.02.02	PN	1.84454	2.42347

Consolidated Interim Financial Information / Statement of Comprehensive Income

R$ (in thousands)

Code	Description	Current Quarter 04/01/2018 to 06/30/2018	Year to date current period 01/01/2018 to 06/30/2018	Previous Quarter 04/01/2017 to 06/30/2017	Year to date previous period 01/01/2017 to 06/30/2017
4.01	Net income for the Period	525,000	751,000	116,000	324,000
4.02	Other Comprehensive Income	-4,000	-17,000	31,000	-52,000
4.02.02	Foreign currency translation	-24,000	-31,000	-10,000	-10,000
4.02.04	Fair value of trade receivables	29,000	20,000	56,000	-53,000
4.02.05	Income Taxes Related to Other Comprehnsive Income	-9,000	-6,000	-15,000	11,000
4.03	Total Comprehensive Income for the Period	521,000	734,000	147,000	272,000
4.03.01	Attributable to controlling shareholders	466,000	606,000	138,000	218,000
4.03.02	Attributable to Non-Controlling shareholders	55,000	128,000	9,000	54,000

Consolidated Interim Financial Information / Statement of Cash Flows - Indirect Method

R$ (in thousands)

Code	Description	Year to date current period 01/01/2018 to 06/30/2018	Year to date previous period 01/01/2017 to 06/30/2017
6.01	Net Cash Provided by (Used in) Operating Activities	-2,891,000	-3,762,000
6.01.01	Cash from Operations	2,554,000	1,178,000
6.01.01.01	Net Income (Loss) for the Period	751,000	324,000
6.01.01.02	Deferred Income Tax	196,000	-187,000
6.01.01.03	Losses (Gain) on Disposal of Property and Equipment	103,000	51,000
6.01.01.04	Depreciation/Amortization	444,000	406,000
6.01.01.05	Financial charges	396,000	486,000
6.01.01.07	Share of Profit (Loss) of Subsidiaries and Associates	32,000	31,000
6.01.01.08	Provision for Contingencies	143,000	299,000
6.01.01.09	Provision for Disposals and Impairment	0	1,000
6.01.01.10	Share-based Payment	28,000	18,000
6.01.01.11	Allowance for Doubtful Accounts	322,000	377,000
6.01.01.13	Allowance for Obsolescence/breakage	-15,000	-18,000
6.01.01.14	Other Operating Expenses	369,000	-447,000
6.01.01.15	Deferred Revenue	-215,000	-163,000
6.01.02	Changes in Assets and Liabilities	-5,445,000	-4,940,000
6.01.02.01	Accounts Receivable	324,000	-1,238,000
6.01.02.02	Inventories	-1,321,000	-497,000
6.01.02.03	Recoverable Taxes	-1,317,000	33,000
6.01.02.04	Other Assets	-54,000	-85,000
6.01.02.05	Related Parties	56,000	129,000
6.01.02.06	Restricted Deposits for Legal Proceeding	-12,000	-177,000
6.01.02.07	Trade Payables	-2,359,000	-2,921,000
6.01.02.08	Payroll and Related Taxes	-128,000	-46,000
6.01.02.09	Taxes and Social Contributions Payable	6,000	-6,000
6.01.02.10	Payment of Contingencies	-440,000	-184,000
6.01.02.11	Deferred Revenue	117,000	-10,000
6.01.02.12	Other Payables	-68,000	-62,000
6.01.02.13	Income Tax and Social contribution paid	-249,000	-31,000
6.01.02.15	Received Dividends and Interest on shareholders' equity	0	155,000
6.02	Net Cash Provided by (Used in) Investing Activities	-842,000	-576,000
6.02.02	Purchase of Property and Equipment	-711,000	-553,000
6.02.03	Purchase of Intangible Assets	-212,000	-120,000
6.02.04	Sales of Property and Equipment	81,000	97,000
6.03	Net Cash Provided by Financing Activities	381,000	-1,688,000
6.03.01	Capital Increase/Decrease	1,000	7,000
6.03.02	Proceeds from Borrowings and Financing	4,362,000	4,703,000
6.03.03	Payments of Borrowings and Financing	-3,806,000	-6,390,000
6.03.05	Payment of Dividends	-176,000	0
6.03.07	Acquisition of Subsidiary	0	-8,000
6.05	Increase (Decrease) in Cash and Cash Equivalents	-3,352,000	-6,026,000

6.05.01	Cash and Cash Equivalents at the Beginning of the Period	7,351,000	9,142,000
6.05.02	Cash and Cash Equivalents at the End of the Period	3,999,000	3,116,000

Consolidated Interim Financial Information / Statement of Changes in Shareholders' Equity 01/01/2018 to 06

R$ (in thousands)

Code	Description	Share Capital	Capital Reserves, Options Granted and Treasury Shares	Earnings Reserves	Reta Earni Accumula Lo
5.01	Opening Balance	6,822,000	355,000	3,174,000	
5.02	Prior Year Adjustments	0	0	0	-114
5.03	Adjusted Opening Balance	6,822,000	355,000	3,174,000	-114
5.04	Capital Transactions with Shareholders	1,000	45,000	-13,000	-76
5.04.01	Capital Increases	1,000	0	0	
5.04.03	Share-Based Expenses	0	34,000	0	
5.04.07	Interest on Own Capital	0	0	-13,000	-76
5.04.08	Share-Based Expenses Subsidiaries	0	11,000	0	
5.05	Total Comprehensive Income	0	0	0	628
5.05.01	Net Income (loss) for the Period	0	0	0	628
5.05.02	Other Comprehensive Income	0	0	0	
5.05.02.04	Foreing Currency Translation	0	0	0	
5.05.02.07	Fair Value of Trade Receivables	0	0	0	
5.05.02.08	Income Taxes Related to Other Comprehensive	0	0	0	
5.07	Closing Balance	6,823,000	400,000	3,161,000	438

Consolidated Interim Financial Information / Statement of Changes in Shareholders' Equity 01/01/2017 to 06

R$ (in thousands)

Code	Description	Share Capital	Capital Reserves, Options Granted and Treasury Shares	Earnings Reserves	Retained Earnings/ Accumulated Losses	compr
5.01	Opening Balance	6,811,000	331,000	2,718,000	0	
5.02	Prior Year Adjustments	0	0	0	-75,000	
5.03	Adjusted Opening Balance	6,811,000	331,000	2,718,000	-75,000	
5.04	Capital Transactions with Shareholders	7,000	18,000	0	0	
5.04.01	Capital Increases	7,000	0	0	0	
5.04.03	Share-Based Expenses	0	14,000	0	0	
5.04.08	Share-Based Expenses Subsidiaries	0	4,000	0	0	
5.05	Total Comprehensive Income	0	0	0	253,000	
5.05.01	Net Income (loss) for the Period	0	0	0	253,000	
5.05.02	Other Comprehensive Income	0	0	0	0	
5.05.02.04	Foreing Currency Translation	0	0	0	0	
5.05.02.06	Fair Value of Trade Receivables	0	0	0	0	
5.05.02.07	Income Taxes Related to Other Comprehensive	0	0	0	0	
5.07	Closing Balance	6,818,000	349,000	2,718,000	178,000	

Consolidated Interim Financial Information / Statement of Value Added

R$ (in thousands)

Code	Description	Year to date current period 01/01/2018 to 06/30/2018	Year to date previous period 01/01/2017 to 06/30/2017
7.01	Revenues	25,103,000	23,260,000
7.01.01	Sales of Goods, Products and Services	25,071,000	23,052,000
7.01.02	Other Revenues	29,000	210,000
7.01.04	Allowance for/Reversal of Doubtful Accounts	3,000	-2,000
7.02	Products Acquired from Third Parties	-20,354,000	-18,631,000
7.02.01	Costs of Products, Goods and Services Sold	-18,290,000	-16,630,000
7.02.02	Materials, Energy, Outsourced Services and Other	-2,064,000	-2,001,000
7.03	Gross Value Added	4,749,000	4,629,000
7.04	Retention	-443,000	-406,000
7.04.01	Depreciation and Amortization	-443,000	-406,000
7.05	Net Value Added Produced	4,306,000	4,223,000
7.06	Value Added Received in Transfer	228,000	152,000
7.06.01	Share of Profit of Subsidiaries and Associates	-44,000	-40,000
7.06.02	Financial Income	60,000	105,000
7.06.03	Others	212,000	87,000
7.07	Total Value Added to Distribute	4,534,000	4,375,000
7.08	Distribution of Value Added	4,534,000	4,375,000
7.08.01	Personnel	2,112,000	2,036,000
7.08.01.01	Direct Compensation	1,333,000	1,296,000
7.08.01.02	Benefits	441,000	444,000
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	126,000	121,000
7.08.01.04	Other	212,000	175,000
7.08.01.04.01	Profit (cost) sharing	212,000	175,000
7.08.02	Taxes, Fees and Contributions	855,000	1,093,000
7.08.02.01	Federal	476,000	1,081,000
7.08.02.02	State	264,000	-128,000
7.08.02.03	Municipal	115,000	140,000
7.08.03	Value Distributed to Providers of Capital	816,000	922,000
7.08.03.01	Interest	369,000	468,000
7.08.03.02	Rentals	447,000	454,000
7.08.04	Value Distributed to Shareholders	751,000	324,000
7.08.04.01	Interest on shareholders' equity	76,000	0
7.08.04.03	Retained Earnings/ Accumulated Losses for the Period	552,000	253,000
7.08.04.04	Noncontrolling Interest in Retained Earnings	123,000	71,000

***São Paulo, July 24, 2018 - GPA** [B3: PCAR4; NYSE: CBD] announces its results for the 2nd quarter of 2018. Due to the ongoing divestment of the interest held by GPA in Via Varejo S.A., as announced in the material fact notice of November 23, 2016, the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit or loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Non-current assets held for sale and discontinued operations. The following statements are related to the results of continuing operations. All comparisons are with the same period in 2017, except where stated otherwise.*

2Q18 RESULTS

GPA Food:

- **Gross sales revenue of R$12.8 billion, up 9.9%, driven by the accelerated growth at Multivarejo and the solid performance of Assaí, despite a relevant food deflation;**

- **Adjusted EBITDA(*) reached R$679 million (+25.5% vs. 2Q17), with margin expanding from 5.1% to 5.8%, maintaining a strong pace of growth;**

- **Net income attributed to controlling shareholders of R$462 million 2.4 times higher than 2Q17 profit. Ex-tax credits, profit reached R$ 185 million, reversing the loss of the same period of the previous year;**

- **Maintenance of solid financial structure, with a leverage ratio of around 1 time EBITDA.**

Multivarejo:

§ **Gross sales revenue of R$7.0 billion**, with solid **same-store sales growth excluding the calendar effect of 5.3%.** Sales improved significantly across all banners, supporting a market share gain of 100 bps in the quarter;

§ **Gross margin(*)** remained stable at 28.1%, striking a good balance between successful promotional campaigns and price competitiveness;

§ **Operating expenses** as a percentage of net revenue decreased from 23.9% to 23.1% in 2Q18, due to the ongoing efficiency gains, led by productivity gains in stores;

§ **Adjusted EBITDA(*)** of R$358 million, up 18.6%, as a result of the significant evolution of sales and greater operational efficiency. EBITDA margin(*) stood at 5.6%, expanding 90 bps.

Assaí:

- **Gross sales revenue of R$5.7 billion**, up 22.8%, maintaining the banner's strong performance. This growth translated into a market share gain of around 200 bps in the quarter;

- **Gross margin[(*)] reached 16.4%**, mainly due to the successful organic expansion and the consequent rapid maturation of the stores opened in recent years;

Adjusted EBITDA margin[(*)] reached 6.1%, expanding a robust 50 bps;

- **Net income reached R$412 million** (R$ 168 million ex tax credits), registering strong growth of 4.3 times vs 2Q17 (or 1.8 times ex tax credits)

(R$ million)[(1)]	2Q18	2Q17	Δ	2Q18	2Q17	Δ	2Q18	2Q17	
Gross Revenue	12,772	11,623	9.9%	12,772	11,623	9.9%	7,030	6,945	
Net Revenue Ex. tax credits(*)	11,730	10,663	10.0%	11,730	10,663	10.0%	6,452	6,390	
Gross Profit Ex. tax credits[(*)]	2,684	2,489	7.8%	2,684	2,489	7.8%	1,816	1,812	
Gross Margin Ex. tax credits[(*)]	**22.9%**	**23.3%**	**-40 bps**	**22.9%**	**23.3%**	**-40 bps**	**28.1%**	**28.3%**	**-2**
Adjusted EBITDA Ex. tax credits[(2)(3)(*)]	648	505	28.3%	679	541	25.5%	358	302	
Adjusted EBITDA Margin Ex. tax credits[(*)]	**5.5%**	**4.7%**	**80 bps**	**5.8%**	**5.1%**	**70 bps**	**5.6%**	**4.7%**	**9**
Net Income - Controlling Shareholders - continuing operations	431	160	169.9%	462	196	136.1%	50	99	-
Net margin - continuing operations	**3.7%**	**1.5%**	**220 bps**	**3.9%**	**1.8%**	**210 bps**	**0.8%**	**1.6%**	**-8**
Net Income (Loss) - Controlling Shareholders - continuing operations ex. tax credits[(*)]	153	(177)	n.a	185	(141)	n.a	16	(237)	
Net Margin - continuing operations ex. tax credits [(*)]	**1.3%**	**-1.7%**	**300 bps**	**1.6%**	**-1.3%**	**290 bps**	**0.3%**	**-3.7%**	**40**

[(1)] Sums and percentages may present discrepancies due to rounding. All margins were calculated as a percentage of net sales. [(2)] Earnings before interest, taxes, depreciation and amortization. [(3)] EBITDA adjusted by Other Operating Income and Expenses.

[(*)] Excluding tax credits, as detailed in the section "Tax Credits" on page 4.

Outlook:

GPA's performance in **2Q18** enabled it to reaffirm its **guidance for 2018**:

§ **Same-store sales growth:** above inflation at Assaí and in line with food inflation at Multivarejo, with continued market share gains;

§ **Adjusted EBITDA margin:** 5.5%-5.6% at Multivarejo and 5.8%-5.9% at Assaí;

§ **Financial Result:** around 1% of net sales;

§ **LATAM synergies:** should surpass US$85 million in savings for the Brazil perimeter.

"We closed the second quarter of the year with great prospects for the GPA business. Driven by the assertiveness of the new promotional dynamics and adjustments made in the operation of the Multivarejo business, we registered a significant acceleration of the sales level, with gains in market share and improved profitability in all brands. This result reaffirms a new trend of revenue for the business. Assaí continues to deliver consistent sales growth, with market share evolution, coupled with a solid result."

Peter Estermann – Chief Executive Officer, GPA

(R$ million)[1]	2Q18	2Q17	Δ	2Q18	2Q17	Δ
Gross Revenue	12,772	11,623	9.9%	12,772	11,623	9.9%
Net Revenue Ex. tax credits(*)	11,730	10,663	10.0%	11,730	10,663	10.0%
Gross Profit Ex. tax credits(*)	2,684	2,489	7.8%	2,684	2,489	7.8%
Gross Margin Ex. tax credits(*)	**22.9%**	**23.3%**	**-40 bps**	**22.9%**	**23.3%**	**-40 bps**
Selling, General and Adm. Expenses	(2,037)	(1,969)	3.5%	(2,037)	(1,969)	3.5%
% of Net Revenue	**17.4%**	**18.5%**	**-110 bps**	**17.4%**	**18.5%**	**-110 bps**
Other Operating Revenue (Expenses)	(90)	(307)	0.0%	(90)	(307)	-7057.7%
% of Net Revenue	**0.8%**	**2.9%**	**-2 bps**	**0.8%**	**2.9%**	**-210 bps**
EBITDA [2]	972	645	50.7%	1,003	681	47.3%
EBITDA Margin	**8.3%**	**6.0%**	**230 bps**	**8.6%**	**6.4%**	**220 bps**
Adjusted EBITDA[2][3]	1,062	952	11.5%	1,093	988	10.6%
Adjusted EBITDA Margin	**9.1%**	**8.9%**	**20 bps**	**9.3%**	**9.3%**	**0 bps**
Adjusted EBITDA Ex. tax credits[2][3](*)	648	505	28.3%	679	541	25.5%
Adjusted EBITDA Margin Ex. tax credits(*)	**5.5%**	**4.7%**	**80 bps**	**5.8%**	**5.1%**	**70 bps**
Net Financial Revenue (Expenses)	(148)	(188)	-21.5%	(148)	(188)	-21.5%
% of Net Revenue	**1.3%**	**1.8%**	**-50 bps**	**1.3%**	**1.8%**	**-50 bps**
Net Income - Controlling Shareholders - continuing operations	431	160	169.9%	462	196	136.1%
Net Margin- continuing operations	**3.7%**	**1.5%**	**220 bps**	**3.9%**	**1.8%**	**210 bps**
Net Income (Loss) - Controlling Shareholders - continuing operations ex. tax credits(*)	153	(177)	n.a	185	(141)	n.a
Net Margin - continuing operations ex. tax credits (*)	**1.3%**	**-1.7%**	**300 bps**	**1.6%**	**-1.3%**	**290 bps**

(1) Sums and percentages may present discrepancies due to rounding. All margins were calculated as a percentage of net sales. (2) Earnings before interest, taxes, depreciation and amortization. (3) EBITDA adjusted by Other Operating Income and Expenses.

(*) Excluding tax credits, as detailed in the section "Tax Credits" on page 4.

OPERATING PERFORMANCE BY BUSINESS

Tax Credits

2Q18

Multivarejo sold a portion of the tax credits related to the exclusion of ICMS from the PIS / COFINS calculation bases. The gain from this sale amounted to approximately R$ 50 million (R$ 45 million net of tax). The amount was recognized as deduction from net revenue.

In the quarter, **Assaí** reversed R$369 million of a provision accrued in 2Q17 related to ICMS ST credits for periods prior to the Supreme Court (STF) decision. The changes in the monetization prospects motivated by the new legislation made it possible to justify this reversal of the provision. The amount was recognized as a deduction from cost of good sold.

2Q17

In the second quarter of last year there was recognition of non-recurring tax credits in **Multivarejo** related to the restitution of ICMS ST (Tax Substitution). The amount of R$ 447 million was recognized as a deduction from cost of good sold.

Multivarejo

Gross sales revenue of R$7.0 billion, with solid **same-store sales growth excluding the calendar effect of 5.3%.** Multivarejo captured 100 bps in market share in the quarter (source: Nielsen), led by the banners Extra Hiper and Pão de Açúcar. The expansion of commercial actions and more-successful promotional campaigns drove the strong growth at Multivarejo, with sales volumes recovering and accelerating across all banners.

Gross profit excluding tax credits amounted to R$1,816 million, with gross margin of **28.1%.** The success of these actions combined with the increased customization of offerings (My Discount) enabled the segment to maintain gross margin at similar levels to 2Q17, despite more promotional activations in the period.

Selling, general and administrative expenses amounted to R$1,489 million, **reduction of 2.7% from 2Q17**. As a ratio of net revenue, these expenses **decreased 80 bps** (23.1%) compared to 2Q17. This improvement was due to the closing of hypermarket stores and ongoing initiatives to capture efficiency gains to mitigate the effects from inflation, led by productivity gains in stores.

Adjusted EBITDA excluding tax credits amounted to R$358 million, **improving 18.6% from 2Q17,** as result of the significant evolution of sales and greater operational efficiency. **Margin reached 5.6%, improving 90 bps.**

Assaí

Gross margin came to R$5.7 billion, representing robust growth of 22.8%. This growth translated into a market share gain of around 200 bps in the quarter (source: Nielsen). **Same-store net sales ex-calendar grew 4.7% (2.5% ex-conversions).**

Gross profit excluding tax credits came to R$868 million, with gross margin of **16.4%.** Despite the negative effect from food deflation in the quarter of around -2.8%, the gross margin expansion of 50 bps was mainly due to the successful expansion over the past two years:

o 17 organic stores with accelerated maturation, reflecting a well-defined business model and market demand;

o Positive impact from store conversions, resulting in more attractive stores that better meet the needs of target market.

Regarding the new tax framework for ICMS-ST, it is important to note that 2Q17 and 2Q18 are on a comparable basis.

Selling, general and administrative expenses corresponded to 10.4% of net revenue, in line with 2Q17, reflecting the maturation of stores, despite the increase in expenses due to stronger individual customer and the higher number of stores.

Adjusted EBITDA excluding tax credits amounted to R$321 million, with margin **expanding 50 bps to 6.1%**.

FINANCIAL PERFORMANCE

Other Income and Expenses

Other Operating Income and Expenses came to R$90 million and were mainly related to:

- Expenses associated with store closures/conversions (Extra Hiper into Assaí and Extra Super into Compre Bem), in the amount of R$46 million;

- Expenses with the integration and restructuring of Multivarejo, in the amount of R$43 million.

Financial result

The Company's financial result amounted to R$148 million, or 1.3% of net sales, improving 50 bps from 2Q17. The main variations were as follows:

§ Decrease in **debt cost:** in line with the decline in the CDI interest rate, from 10.9% in 2Q17 to 6.4% in 2Q18;

§ Increase in the **cost of selling receivables**: despite the lower interest rate there was an increase in the volume anticipated due to the growth of sales and greater participation of non-food;

§ Variations in **contingencies and other expenses:** corresponded to 0.4% of net revenue, in line with 1Q18.

Net Income

In the Food segment, the profit of the controlling shareholders of continuing operations totaled R$ 462 million, 2.4 times higher than 2Q17. Excluding tax credits reached R$ 185 million, reversing the loss of the same period of the previous year.

Consolidated net income of controlling shareholders of continuing operations reached R$ 431 million, 2.7 times higher than 2Q17. Excluding tax credits totaled R$ 153 million, reversing the loss in 2Q17.

Earnings per Share

Diluted earnings per common share was R$ 1.68439 and earnings per preferred share was R$ 1.84454 in the quarter.

Net Debt

Net debt, adjusted for the balance of unsold receivables, stood at R$2,711 million. The Company maintained its low financial leverage, with the ratio of net debt to EBITDA falling from -1.16x in June 2017 to -1.03x in June 2018.

The Company's cash balance stood at R$3,054 million and R$88 million in unsold receivables, representing R$3,143 million in cash and equivalents. The Company also has around R$1.3 billion in pre-approved/confirmed credit facilities.

Contingencies

Following the trend of the last quarters, there was a reduction of R$ 340 million in the quarter in total of possible and probable contingencies. This decrease is the result of favorable decisions regarding tax contingencies and a reduction in the volume of labor lawsuits.

Capital Expenditure

CAPEX in the Food segment came to R$ 330 million, 15.1% higher than in 2Q17, mainly due to the following:

o Expansion of Assaí: 3 Assaí stores were opened, one of which was converted from an Extra Hiper. Around 20 stores are slated to open this year, including new and converted ones.

o Renovation of Pão de Açúcar stores: 6 stores were renovated in the quarter under the Generation 7 concept, as part of the plan to renovate around 20 stores in 2018. Furthermore, 30 stores will be included in the Premium Project to offer customers a high-end experience with higher quality perishables and customer service and a unique assortment.

The Company also announced two pilot projects for the Extra Super banner to increase penetration in its target public:

- Compre Bem: The pilot project involves the conversion of 20 stores in order to enter a market niche currently dominated by regional supermarkets. The store model will be better adapted to the needs of consumers in the regions where the stores are located. The service and assortment of the perishables category will be strengthened, while other categories will have a leaner assortment. Compre Bem will be managed independent of the Extra Super banner, with the focus on simplifying operating costs, especially logistics and IT.
- Mercado Extra: pilot project at 10 stores, with 4 stores already opened in 2T18. The goal is to reinvigorate Extra Super by reinforcing the quality of perishables and customer service, with the focus on the B and C income groups. There will be no change in the operating model of the stores, which will continue to be managed by the Extra banner.

2Q18 Results Conference Call and Webcast

Wednesday, July 25, 2018
10:30 a.m. (Brasília) | 9:30 a.m. (New York) | 2:30 p.m. (London)

Conference call in Portuguese (original language)
+55 (11) 3193-1001 or (11) 2820-4001

Conference call in English (simultaneous translation)
+1 (646) 828-8246

Webcast: http://www.gpari.com.br

Replay
+55 (11) 3193-1012 or +55 (11) 2820-4012
Access code for audio in Portuguese: 127474#
Access code for audio in English: 389567#

http://www.gpari.com.br

Investor Relations Contacts

Daniela Sabbag

Isabela Cadenassi

GPA
Telephone: 55 (11) 3886-0421
Fax: 55 (11) 3884-2677
gpa.ri@gpabr.com
www.gpari.com.br

About GPA: GPA is Brazil's largest retailer, with a distribution network comprising over 2,000 points of sale as well as electronic channels. Established in 1948 in São Paulo, it has its head office in the city and operations in 18 Brazilian states and the Federal District. With a strategy of focusing its decisions on customers and better serving them based on their consumer profile in the wide variety of shopping experiences it offers, GPA adopts a multi-business and multi-channel platform consisting of brick-and-mortar stores and e-commerce operations, divided into three business units: Multivarejo, which operates the supermarket, hypermarket and Minimercado store formats, as well as gas stations and drugstores under the Pão de Açúcar and Extra banners; Assaí, which operates in the cash-and-carry wholesale segment; GPA Malls, responsible for the management of real estate assets, expansion projects and inauguration of new stores; and Via Varejo's discontinued operations, with its brick-and-mortar electronics and home appliances stores under the Casas Bahia and Pontofrio banners, and the e-commerce segment.

Disclaimer: Statements contained in this release relating to the business outlook of the Company, projections of operating/financial results, growth prospects of the Company and market and macroeconomic estimates are merely forecasts and are based on the beliefs, plans and expectations of Management in relation to the Company's future. These expectations are highly dependent on changes in the market, the general economic performance of Brazil, the industry and international markets, and hence are subject to change.

Glossary

Food Segment: Represents the combined results of Multivarejo and Assaí, excluding equity income (loss) from Cdiscount, which is not included in the operating segments reported by the Company. Includes retail and wholesale activities of products in general, including - but not limited to - food products, clothing, hygiene, medicines, fuel, furniture, consumer electronics and domestic utilities. These activities are carried out in both physical and virtual establishments.

Discontinued Operations: Due to the ongoing divestment of the interest held by GPA in Via Varejo S.A., the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit or loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Non-current assets held for sale and discontinued operations.

Growth and changes: The growth and changes presented in this document refer to variations from the same period last year, except where stated otherwise.

EBITDA: EBITDA is calculated in accordance with Instruction 527 issued by the Securities and Exchange Commission of Brazil (CVM) on October 4, 2012.

Adjusted EBITDA: Measure of profitability calculated by excluding Other Operating Income and Expenses from EBITDA. Management uses this measure in its analyses as it believes it eliminates nonrecurring expenses and revenues and other nonrecurring items that could compromise the comparability and analysis of results.

Earnings per share: Diluted earnings per share are calculated as follows:

- Numerator: profit for the year adjusted by dilutive effects from stock options granted by subsidiaries.

- Denominator: the number of shares of each category adjusted to include potential shares corresponding to dilutive instruments (stock options), less the number of shares that could be repurchased in the market, as applicable.

Equity instruments that must or may be settled with the shares of the Company and its subsidiaries are only included in the calculation when their settlement has a dilutive impact on earnings per share.

CONSOLIDATED FINANCIAL STATEMENTS

1. Balance Sheet

(R$ million)	**06.30.2018**	**03.31.2018**	**06.30.2017**	**06.30.20**
Current Assets	**31,240**	**30,612**	**26,714**	**9,8**
Cash and Marketable Securities	3,054	1,701	2,366	3,
Accounts Receivable	296	857	477	
Credit Cards	86	594	307	
Sales Vouchers and Trade Account Receivable	160	206	127	
Allowance for Doubtful Accounts	(4)	(4)	(6)	
Resulting from Commercial Agreements	54	61	49	
Inventories	5,136	4,758	4,427	5,
Recoverable Taxes	532	573	449	
Noncurrent Assets for Sale	21,698	22,133	18,568	
Prepaid Expenses and Other Accounts Receivables	523	590	427	
Noncurrent Assets	**15,255**	**14,805**	**14,035**	**15,2**
Long-Term Assets	4,143	3,546	2,898	4,
Accounts Receivables	3	42	-	
Credit Cards	3	42	-	
Recoverable Taxes	2,335	1,785	1,278	2,
Deferred Income Tax and Social Contribution	174	147	178	
Amounts Receivable from Related Parties	31	52	19	
Judicial Deposits	784	788	738	
Prepaid Expenses and Others	817	733	684	
Investments	209	188	265	
Property and Equipment	8,976	9,150	8,985	8,
Intangible Assets	1,927	1,920	1,887	1,
TOTAL ASSETS	**46,494**	**45,417**	**40,749**	**25,0**

	06.30.2018	**03.31.2018**	**06.30.2017**	**06.30.20**
Current Liabilities	**26,016**	**25,610**	**22,161**	**9,9**
Suppliers	6,370	5,510	5,172	6,
Loans and Financing	1,321	883	1,439	1,
Debentures	500	506	47	
Payroll and Related Charges	615	664	602	
Taxes and Social Contribution Payable	264	272	363	

Dividends Proposed	0	78	-	
Financing for Purchase of Fixed Assets	39	24	28	
Rents	67	77	75	
Debt with Related Parties	145	160	160	
Advertisement	43	39	32	
Provision for Restructuring	13	3	2	
Advanced Revenue	151	125	79	
Non-current Assets Held for Sale	16,269	17,057	13,885	
Others	221	211	277	
Long-Term Liabilities	**6,738**	**6,536**	**5,872**	**6,7**
Loans and Financing	834	766	669	
Debentures	3,338	3,336	2,980	3,
Deferred Income Tax and Social Contribution	548	424	258	
Tax Installments	517	540	765	
Provision for Contingencies	1,127	1,155	1,016	1,
Advanced Revenue	15	19	19	
Provision for loss on investment in Associates	304	246	108	
Others	56	49	57	
Shareholders' Equity	**13,740**	**13,271**	**12,715**	**8,4**
Capital	6,823	6,822	6,818	5,
Capital Reserves	400	379	349	
Profit Reserves	3,599	3,198	2,888	2,
Other Comprehensive Results	(71)	(60)	(47)	(
Minority Interest	2,989	2,932	2,707	
TOTAL LIABILITIES	**46,494**	**45,417**	**40,749**	**25,0**

2.1 Income Statement - 2Q18

The table below represents the full of reported results and does not exclude any adjustment or other non-recurring item.

R$ - Million	**2Q18**	**2Q17**	**Δ**	**2Q18**	**2Q17**	**Δ**	**2Q18**	**2Q17**	**Δ**

Gross Revenue	**12,772**	**11,623**	**9.9%**	**12,772**	**11,623**	**9.9%**	**7,030**	**6,945**	**1.2%**
Net Revenue	**11,775**	**10,663**	**10.4%**	**11,775**	**10,663**	**10.4%**	**6,497**	**6,390**	**1.7%**
Cost of Goods Sold	**(8,665)**	**(7,713)**	**12.3%**	**(8,665)**	**(7,713)**	**12.3%**	**(4,626)**	**(4,120)**	**12.3%**
Depreciation (Logistic)	(12)	(14)	-9.2%	(12)	(14)	-9.2%	(10)	(12)	-17.2%
Gross Profit	**3,098**	**2,936**	**5.5%**	**3,098**	**2,936**	**5.5%**	**1,861**	**2,259**	**-17.6%**
Selling Expenses	(1,787)	(1,722)	3.8%	(1,787)	(1,722)	3.8%	(1,307)	(1,336)	-2.1%
General and Administrative Expenses	(250)	(246)	1.4%	(250)	(246)	1.4%	(181)	(194)	-6.5%
Selling, General and Adm. Expenses	**(2,037)**	**(1,969)**	**3.5%**	**(2,037)**	**(1,969)**	**3.5%**	**(1,489)**	**(1,529)**	**-2.7%**
Equity Income(2)	(11)	(29)	-62.0%	20	7	175.6%	20	7	175.6%
Other Operating Revenue (Expenses)	(90)	(307)	-70.6%	(90)	(307)	-70.6%	(80)	(272)	-70.7%
Depreciation and Amortization	(209)	(190)	9.8%	(209)	(190)	9.8%	(153)	(149)	2.2%
Earnings before interest and Taxes - EBIT	**750**	**441**	**70.2%**	**782**	**477**	**63.9%**	**161**	**316**	**-49.0%**
Financial Revenue	39	41	-4.8%	39	41	-4.8%	31	33	-6.4%
Financial Expenses	(186)	(229)	-18.6%	(186)	(229)	-18.6%	(174)	(203)	-14.4%
Net Financial Result	**(148)**	**(188)**	**-21.5%**	**(148)**	**(188)**	**-21.5%**	**(143)**	**(170)**	**-15.9%**
Income (Loss) Before Income Tax	**603**	**253**	**138.4%**	**634**	**289**	**119.4%**	**18**	**146**	**-87.6%**
Income Tax	(172)	(93)	85.7%	(172)	(93)	85.7%	32	(46)	-169.9%
Net Income (Loss) Company - continuing operations	431	160	168.9%	462	196	135.4%	50	100	-50.0%
Net Result from discontinued operations	95	(45)	n.a.	14	1	n.a.	14	1	n.a.
Net Income (Loss) - Consolidated Company	**526**	**115**	**356.1%**	**476**	**197**	**142.0%**	**64**	**101**	**-36.1%**
Net Income (Loss) -	431	160	169.9%	462	196	136.1%	50	99	-49.7%

Controlling Shareholders - continuing operations(3)									
Net Income (Loss) - Controlling Shareholders - discontinued operations(3)	47	(27)	n.a	14	2	840.9%	14	2	840.9%
Net Income (Loss) - Consolidated Controlling Shareholders(3)	**478**	**133**	**260.1%**	**476**	**197**	**141.5%**	**64**	**101**	**-36.3%**
Minority Interest - Non-controlling - continuing operations	-	1	n.a.	-	1	n.a.	-	1	n.a.
Minority Interest - Non-controlling - discontinued operations	48	(18)	n.a	-	(1)	n.a.	-	(1)	n.a.
Minority Interest - Non-controlling - Consolidated	**48**	**(17)**	**n.a**	**-**	**(0)**	**n.a.**	**-**	**(0)**	**n.a.**

% of Net Revenue								
	2Q18	**2Q17**		**2Q18**	**2Q17**		**2Q18**	**2Q17**
Gross Profit	**26.3%**	**27.5%**		**26.3%**	**27.5%**		**28.6%**	**35.3%**
Selling Expenses	15.2%	16.2%		15.2%	16.2%		20.1%	20.9%
General and Administrative Expenses	2.1%	2.3%		2.1%	2.3%		2.8%	3.0%
Selling, General and Adm. Expenses	**17.3%**	**18.5%**		**17.3%**	**18.5%**		**22.9%**	**23.9%**
Equity Income(2)	-0.1%	-0.3%		0.2%	0.1%		0.3%	0.1%
Other Operating Revenue (Expenses)	0.8%	2.9%		0.8%	2.9%		1.2%	4.3%
Depreciation and Amortization	1.8%	1.8%		1.8%	1.8%		2.3%	2.3%

EBIT	**6.4%**	**4.1%**	**6.6%**	**4.5%**	**2.5%**	**4.9%**
Net Financial Revenue (Expenses)	**1.3%**	**1.8%**	**1.3%**	**1.8%**	**2.2%**	**2.7%**
Income Before Income Tax	**5.1%**	**2.4%**	**5.4%**	**2.7%**	**0.3%**	**2.3%**
Income Tax	-1.5%	-0.9%	-1.5%	-0.9%	0.5%	-0.7%
Net Income (Loss) Company - continuing operations	**3.7%**	**1.5%**	**3.9%**	**1.8%**	**0.8%**	**1.6%**
Net Income (Loss) - Consolidated Company	**4.5%**	**1.1%**	**4.0%**	**1.8%**	**1.0%**	**1.6%**
Net Income (Loss) - Controlling Shareholders - continuing operations(3)	3.7%	1.5%	3.9%	1.8%	0.8%	1.6%
Net Income (Loss) - Consolidated Controlling Shareholders(3)	4.1%	1.2%	4.0%	1.8%	1.0%	1.6%
Minority Interest - Non-controlling - continuing operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest - Non-controlling - Consolidated	0.4%	-0.2%	0.0%	0.0%	0.0%	0.0%

(1) Multivarejo includes the results of Malls and Corporate. (2) Equity income from Cdiscount is included in the Consolidated results and not in the Retail and Cash-and-Carry segments. (3) Net income after non-controlling interest.

2.1 Income Statement – 1H18

The table below represents the full of reported results and does not exclude any adjustment or other non-recurring item.

R$ - Million	1H18	1H17	Δ	1H18
Gross Revenue	**25,072**	**23,053**	**8.8%**	**25,072**
Net Revenue	**23,118**	**21,215**	**9.0%**	**23,118**
Cost of Goods Sold	**(17,449)**	**(15,835)**	**10.2%**	**(17,449)**
Depreciation (Logistic)	(25)	(26)	-4.9%	(25)
Gross Profit	**5,645**	**5,355**	**5.4%**	**5,645**
Selling Expenses	(3,526)	(3,423)	3.0%	(3,526)
General and Administrative Expenses	(491)	(489)	0.5%	(491)
Selling, General and Adm. Expenses	**(4,018)**	**(3,912)**	**2.7%**	**(4,018)**
Equity Income(2)	(44)	(40)	9.2%	32
Other Operating Revenue (Expenses)	(133)	(274)	-51.3%	(133)
Depreciation and Amortization	(419)	(380)	10.2%	(419)
Earnings before interest and Taxes - EBIT	**1,031**	**749**	**37.7%**	**1,107**
Financial Revenue	79	98	-19.5%	79
Financial Expenses	(358)	(468)	-23.5%	(358)
Net Financial Revenue (Expenses)	**(279)**	**(370)**	**-24.6%**	**(279)**
Income Before Income Tax	**752**	**379**	**98.5%**	**828**
Income Tax	(213)	(142)	n.a.	(213)
Net Income (Loss) Company - continuing operations	539	237	127.5%	615
Net Result from discontinued operations	212	88	142.6%	4
Net Income (Loss) - Consolidated Company	**751**	**324**	**131.6%**	**618**
Net Income (Loss) - Controlling Shareholders - continuing operations(3)	539	237	127.6%	615
Net Income (Loss) - Controlling Shareholders - discontinued operations(3)	89	17	435.8%	4
Net Income (Loss) - Consolidated Controlling Shareholders(3)	**628**	**253**	**147.8%**	**618**
Minority Interest - Non-controlling - continuing operations	-	-	n.a.	-
Minority Interest - Non-controlling - discontinued operations	124	71	74.2%	-
Minority Interest - Non-controlling - Consolidated	**124**	**71**	**74.2%**	**-**

% Net Sales Revenue

	1H18	1H17	1H18
Gross Profit	**24.4%**	**25.2%**	**24.4%**
Selling Expenses	15.3%	16.1%	15.3%
General and Administrative Expenses	2.1%	2.3%	2.1%
Selling, General and Adm. Expenses	**17.4%**	**18.4%**	**17.4%**
Equity Income(2)	-0.2%	-0.2%	0.1%
Other Operating Revenue (Expenses)	0.6%	1.3%	0.6%
Depreciation and Amortization	1.8%	1.8%	1.8%
EBIT	**4.5%**	**3.5%**	**4.8%**
Net Financial Revenue (Expenses)	**1.2%**	**1.7%**	**1.2%**
Income Before Income Tax	**3.3%**	**1.8%**	**3.6%**
Income Tax	-0.9%	-0.7%	-0.9%
Net Income (Loss) Company - continuing operations	**2.3%**	**1.1%**	**2.7%**
Net Income (Loss) - Consolidated Company	**3.2%**	**1.5%**	**2.7%**
Net Income (Loss) - Controlling Shareholders - continuing operations(3)	2.3%	1.1%	2.7%
Net Income (Loss) - Consolidated Controlling Shareholders(3)	2.7%	1.2%	2.7%
Minority Interest - Non-controlling - continuing operations	0.0%	0.0%	0.0%
Minority Interest - Non-controlling - Consolidated	0.5%	0.3%	0.0%

(1) Multivarejo includes the results of Malls and Corporate. (2) Equity income from Cdiscount is included in the Consolidated results and not in the Retail and Cash-and-Carry segments. (3) Net income after non-controlling interest.

3. Financial income/expenses

(R$ million)	2Q18	2Q17	Δ	1H18
Financial Revenue	**39**	**41**	**-4.8%**	**79**
Financial Expenses	**(186)**	**(229)**	**-18.6%**	**(358)**
Cost of Debt	(86)	(137)	-37.0%	(184)
Cost of Receivables Discount	(51)	(33)	52.1%	(86)
Restatement of Contingent Liabilities and Other financial expenses	(48)	(58)	-15.9%	(88)
Net Financial Revenue (Expenses)	**(148)**	**(188)**	**-21.5%**	**(279)**
% of Net Revenue	**1.3%**	**1.8%**	**-50 bps**	**1.2%**

*In the financial statements of GPA on June 30, 2018, due to the ongoing divestment of the interest held by GPA in Via Varejo S.A. as announced in the material fact notice of November 23, 2016, **the operations of Via Varejo are treated as discontinued operations**. Accordingly, net sales and other profit and loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Sale of non-current assets and discontinued operations*

4. Net income

(R$ million)	2Q18	2Q17	Δ	1H18
Financial Revenue	**39**	**41**	**-4.8%**	**79**
Financial Expenses	**(186)**	**(229)**	**-18.6%**	**(358)**
Cost of Debt	(86)	(137)	-37.0%	(184)
Cost of Receivables Discount	(51)	(33)	52.1%	(86)
Restatement of Contingent Liabilities and Other financial expenses	(48)	(58)	-15.9%	(88)
Net Financial Revenue (Expenses)	**(148)**	**(188)**	**-21.5%**	**(279)**
% of Net Revenue	**1.3%**	**1.8%**	**-50 bps**	**1.2%**

*In the financial statements of GPA on June 30, 2018, due to the ongoing divestment of the interest held by GPA in Via Varejo S.A. as announced in the material fact notice of November 23, 2016, **the operations of Via Varejo are treated as discontinued operations**. Accordingly, net sales and other profit and loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Sale of non-current assets and discontinued operations*

4. Net income

(R$ million)	**2Q18**	**2Q17**	**Δ**	**1H18**
EBITDA	**972**	**645**	**50.7%**	**1,475**
Depreciation (Logistic)	(12)	(14)	-9.2%	(25)
Depreciation and Amortization	(209)	(190)	9.8%	(419)
Net Financial Revenue (Expenses)	(148)	(188)	-21.5%	(279)
Income (Loss) before Income Tax	**603**	**253**	**138.4%**	**752**
Income Tax	(172)	(93)	85.7%	(213)
Net Income (Loss) Company - continuing operations	**431**	**160**	**168.9%**	**539**
Net income from discontinued operations	95	(45)	n.a.	212
Net Income (Loss) Consolidated Company	**526**	**115**	**356.1%**	**751**
Net Income (Loss) - Controlling Shareholders - continuing operations	431	160	169.9%	539
Net Income (Loss) - Controlling Shareholders - descontinuing operations	47	(27)	n.a	89
Net Income (Loss) - Controlling Shareholders - Consolidated	**478**	**133**	**260.1%**	**628**
Other Operating Revenue (Expenses)	414	447	-7.4%	414
Income Tax from Other Operating Revenues (Expenses)	(137)	(110)	23.7%	(137)
Net Income (Loss) - Controlling Shareholders - continuing operations ex tax credits	**153**	**(177)**	**n.a**	**261**
Net Margin - Controlling Shareholders ex tax credits	**1.3%**	**-1.7%**	**300 bps**	**1.1%**

In the financial statements of GPA on June 30, 2018, due to the ongoing divestment of the interest held by GPA in Via Varejo S.A. as announced in the material fact notice of November 23, 2016, the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit and loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 - Sale of non-current assets and discontinued operations.

5. Debt

(R$ million)	**06.30.2018**	**06.30.2017**
Short Term Debt	**(1,783)**	**(1,437)**
Loans and Financing	(1,283)	(1,390)
Debentures and Promissory Notes	(500)	(47)
Long Term Debt	**(4,070)**	**(3,638)**
Loans and Financing	(733)	(658)
Debentures	(3,338)	(2,980)
Total Gross Debt	**(5,853)**	**(5,075)**
Cash and Financial investments	**3,054**	**2,366**
Net Debt	**(2,799)**	**(2,709)**
EBITDA[(1)]	**2,634**	**2,077**
Net Debt / EBITDA[(1)]	**-1.06x**	**-1.30x**
On balance Credit Card Receivables not discounted	88	307
Net Debt incl. Credit Card Receivables not discounted	**(2,711)**	**(2,402)**
Net Debt incl. Credit Card Receivables not discounted / EBITDA[(1)]	**-1.03x**	**-1.16x**

In the financial statements of GPA on June 30, 2018, due to the ongoing divestment of the interest held by GPA in Via Varejo S.A. as announced in the material fact notice of November 23, 2016, the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit and loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 - Sale of non-current assets and discontinued operations. However, said technical standard does not require restatement of the balance sheet in such situations.

(1) EBITDA in the last 12 months.

6. Cash Flow - Consolidated (including Via Varejo)

(R$ million)	06.30.2018	06.30.2017
Net Income (Loss) for the period	**751**	**324**
Adjustment for reconciliation of net income		
Deferred income tax	196	(187)
Loss (gain) on disposal of fixed and intangible assets	103	51
Depreciation and amortization	444	406
Interests and exchange variation	396	486
Equity Income	32	31
Provision for contingencies	143	299
Share-Based Compensation	28	18
Allowance for doubtful accounts	322	377
Provision for obsolescence/breakage	(15)	(18)
Deferred revenue	(215)	(163)
Other Operating Expenses	-	(447)
	2,185	**1,178**
Asset (Increase) decreases		
Accounts receivable	324	(1,238)
Inventories	(1,321)	(497)
Taxes recoverable	(948)	33
Other Assets	(54)	(85)
Related parties	56	129
Restricted deposits for legal proceeding	(12)	(177)
	(1,955)	**(1,680)**
Liability (Increase) decrease		
Suppliers	(2,359)	(2,921)
Payroll and charges	(128)	(46)
Taxes and Social contributions payable	6	(6)
Other Accounts Payable	(68)	(62)
Contingencies	(440)	(184)
Deferred revenue	117	(10)
Taxes and Social contributions paid	(249)	(31)
	(3,121)	**(3,260)**
Net cash generated from (used) in operating activities	**(2,891)**	**(3,762)**
Acquisition of property and equipment	(711)	(553)
Increase Intangible assets	(212)	(120)
Sales of property and equipment	81	97
Net cash flow investment activities	**(842)**	**(576)**
Cash flow from financing activities		
Increase of capital	1	7

Funding and refinancing	4,362	4,703
Payments of loans and financing	(3,806)	(6,390)
Net cash generated from (used) in financing activities	**381**	**(1,688)**
Increase (decrease) in cash and cash equivalents	**(3,352)**	**(6,026)**
Cash and cash equivalents at the beginning of the year	7,351	9,142
Cash and cash equivalents at the end of the year	3,999	3,116
Change in cash and cash equivalents	**(3,352)**	**(6,026)**

6.1. Simplified Cash Flow Statement – Consolidated (including Via Varejo)

(R$ million)	1H18	1H17
Cash Balance at Beginning of Exercise	**7,351**	**9,142**
Cash Flow from Operating Activities	**(2,891)**	**(3,855)**
EBITDA	2,192	1,631
Cost of Sale of Receivables	(418)	(450)
Working Capital	(3,356)	(4,656)
Assets and Liabilities Variation	(1,309)	(380)
Cash Flow from Investment Activities	**(842)**	**(576)**
Net Investment	(842)	(576)
Change on net cash after investments	**(3,733)**	**(4,431)**
Cash Flow from Financing Activities	**381**	**(1,595)**
Dividends Payments and Others	(176)	-
Net Payments	557	(1,595)
Change on Net Cash	**(3,352)**	**(6,026)**
Cash Balance at End of Exercise	**3,999**	**3,116**
Cash includes "Assets held for sale and op. Discontinued"	**945**	**750**
Cash t as balance sheet (excluding Via Varejo)	**3,054**	**2,366**

In the financial statements of GPA on June 30, 2018, due to the ongoing divestment of the interest held by GPA in Via Varejo S.A. as announced in the material fact notice of November 23, 2016, the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit and loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Sale of non-current assets and discontinued operations. Assets held for sale and the corresponding liabilities were reclassified only on the reporting date. Accordingly, movements in the above equity accounts include Via Varejo, however, the final cash position is reconciled so as to show only continuing operations.

7. Capital Expenditure

(R$ million)	2Q18	2Q17	Δ	1H18	1H17	Δ
New stores, land acquisition and conversions	157	127	23.8%	245	154	58.3%
Store renovations and Maintenance	101	103	-2.2%	179	177	1.0%
Infrastructure and Others	84	45	87.0%	152	88	73.7%
Non-cash Effect						
Financing Assets	(12)	11	n.a	84	135	-38.1%
Total	**330**	**286**	**15.1%**	**659**	**554**	**18.9%**

8. Breakdown of Sales by Business

(R$ million)	2Q18	%	2Q17	%	Δ	1H18	%	1H17	%
Multivarejo	**7,030**	**55.0%**	**6,945**	**59.8%**	**1.2%**	**13,831**	**55.2%**	**13,975**	**60.6**
Pão de Açúcar	1,886	14.8%	1,766	15.2%	6.8%	3,639	14.5%	3,484	15.1
Extra [(1)]	4,144	32.4%	4,316	37.1%	-4.0%	8,295	33.1%	8,732	37.9
Convenience Stores [(2)]	315	2.5%	293	2.5%	7.5%	600	2.4%	589	2.6
Other Businesses [(3)]	685	5.4%	569	4.9%	20.3%	1,297	5.2%	1,169	5.1
Cash & Carry	**5,742**	**45.0%**	**4,678**	**40.2%**	**22.8%**	**11,241**	**44.8%**	**9,078**	**39.4**
Assaí	5,742	45.0%	4,678	40.2%	22.8%	11,241	44.8%	9,078	39.4
Food Business	**12,772**	**100.0%**	**11,623**	**100.0%**	**9.9%**	**25,072**	**100.0%**	**23,053**	**100.0**

(R$ million)	2Q18	%	2Q17	%	Δ	1H18	%	1H17	%
Multivarejo	**6,497**	**55.2%**	**6,390**	**59.9%**	**1.7%**	**12,783**	**55.3%**	**12,904**	**60.8**
Pão de Açúcar	1,732	14.7%	1,615	15.1%	7.2%	3,345	14.5%	3,200	15.1
Extra [(1)]	3,802	32.3%	3,950	37.0%	-3.8%	7,606	32.9%	8,015	37.8
Convenience Stores [(2)]	295	2.5%	273	2.6%	8.3%	560	2.4%	549	2.6
Other Businesses [(3)]	669	5.7%	553	5.2%	21.0%	1,271	5.5%	1,139	5.4
Cash & Carry	**5,278**	**44.8%**	**4,273**	**40.1%**	**23.5%**	**10,336**	**44.7%**	**8,312**	**39.2**
Assaí	5,278	44.8%	4,273	40.1%	23.5%	10,336	44.7%	8,312	39.2
Food Business	**11,775**	**100.0%**	**10,663**	**100.0%**	**10.4%**	**23,118**	**100.0%**	**21,215**	**100.0**

(1) Includes sales by Extra Supermercado and Extra Hiper.

(2) Includes sales by Minimercado Extra and Minuto Pão de Açúcar.

(3) Includes sales by Gas stations, Drugstores, Delivery and rental revenue from commercial centers.

9. Breakdown of Sales (% of Net Sales)

	2Q18	2Q17	1H18	1H17
Cash	48.2%	51.5%	49.0%	51.5%
Credit Card	41.2%	38.4%	40.3%	38.3%
Food Voucher	10.6%	10.1%	10.7%	10.2%

10. Store Portfolio Changes by Banner

	03/31/2018	Opened	Opened by conversion	Closed	Closed to conversion	06/31/2018
Pão de Açúcar	186	-	-	-	-	186
Extra Hiper	113	-	-	-	-	113
Extra Supermercado	187	-	-	-	-	187
Minimercado Extra	183	-	-	-	-	183
Minuto Pão de Açucar	82	-	-	-	-	82
Assaí	127	2	1	-	-	130
Other Business	194	-	-	(1)	-	193
Gas Station	*71*	-	-	(1)	-	*70*
Drugstores	*123*	-	-	-	-	*123*
Food Business	**1,072**	**2**	**1**	**(1)**	**-**	**1,074**
Sales Area ('000 m^2)						
Food Business	1,788					1,802
# of employees ('000)						
Food Business	91					91

Companhia Brasileira de Distribuição

Notes to the interim financial information

June 30, 2018

(In millions of Brazilian reais, unless otherwise stated)

1. Corporate information

Companhia Brasileira de Distribuição ("Company" or “CBD”), directly or through its subsidiaries (“Group” or “GPA”) is engaged in the retail of food, clothing, home appliances, electronics and other products through its chain of hypermarkets, supermarkets, specialized stores and department stores especially under the trade names "Pão de Açúcar, “Minuto Pão de Açúcar”, "Extra Hiper", “Extra Super”, “Minimercado Extra”, “Assai”, and the neighborhood shopping mall brand “Conviva”. The activities related to the segments of electronics and e-commerce are presented as discontinued operations (note 31) and represent the stores under the brands “Ponto Frio” and “Casas Bahia", as well as the e-commerce platforms “CasasBahia.com,” “Extra.com”, “Pontofrio.com” and “Barateiro.com”. The Group’s headquarters are located in the city of São Paulo, State of São Paulo, Brazil.

The Company’s shares are listed on the São Paulo Stock Exchange (“B3”) Level 1 of Corporate Governance under the ticker symbol “PCAR4” and on the New York Stock Exchange (ADR level III), under the ticker symbol “CBD”.

The Company is indirectly controlled by Almacenes Éxito S.A., through Wilkes Participações S.A. (“Wilkes”), and its ultimate parent company is Casino Guichard Perrachon (“Casino”), French company listed on Paris Stock Exchange.

1.1. Arbitration Península

On September 12, 2017, the Company received a notice from the Brazil-Canada Chamber of Commerce regarding a request for arbitration filed by Banco Ourinvest S.A., a financial institution, in its capacity as fund manager and acting in the exclusively interest of the quotaholders of Fundo de Investimento Imobiliário Península ("Península" and the "Proceeding").

The Proceeding aims to discuss the calculation of the rental fees and other operational matters related to the stores owned by Peninsula, which are under several lease agreements and contracts entered into between the Company and Peninsula during 2005 (the "Agreements"). The Agreements assure to CBD the rent of the stores for a period of twenty (20) years as from their respective execution, which may be extended for an additional 20-year term, at CBD’s exclusive criteria, and rules the calculation of the rental fees.

The Proceeding refers to certains terms and conditions of the Agreements and does not affect the continuity of the leasing of the stores, which are contractually assured. The Company and its legal advisors understand that the Proceeding will be decided favorably to CBD.

2. Basis of preparation

The individual and consolidated interim financial information has been prepared in accordance with IAS 34 - Interim Financial Reporting issued by the International Accounting Standard Board ("IASB") and CPC 21 (R1) - Interim Financial Reporting and presented consistently with the standards approved and issued by the Brazilian Securities and Exchange Commission ("CVM") applicable to the preparation of interim financial information – ITR.

The individual and consolidated interim financial information is being presented in millions of Brazilian Reais.The reporting currency of the Company is Real and for subsidiaries located abroad is the local currency of each jurisdiction.

The accounting information intermediate and consolidated regarding the semester ended June 30, 2018 were approved by the Board of Directors on July 24, 2018.

2. **Basis of preparation** - Continued

As a result of the process in progress for the sale of the subsidiary Via Varejo S.A. (note 32 on the financial statements for year ended December 31, 2017, presented in February 19, 2018) and in accordance to the CPC 31 / IFRS 5 – Non current assets held for sale and discontinued operation, the individual and consolidated interim financial information of the statement of the operations and the statement of the added value for the semesters ended June 30, 2018 and June 30, 2017 were presented with the effects of the transaction.

The cash flow statements presented include the continuing and discontinued operations in line with technical pronouncement CPC31 / IFRS 5. The cash for flow discontinued operations are presented in Note 31.1.

3. Basis of consolidation

The information on the basis of consolidation did not have significant modification and was presented in the annual financial statements for 2017, in Note 3. In the period, a new company was established named SCB Distribuição e Comércio (SCB) controlled by CBD.

4. Significant accounting policies

The significant accounting policies adopted by the Company in the preparation of the individual and consolidated interim financial information are consistent with those adopted and disclosed on Note 4 of the financial statements for the year ended December 31, 2017 and therefore should be read in conjunction with those annual financial statements, in note 5.1. and the policy of recognition and measurement of income tax in the interim period described in Note 19.1.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018

The changes in accounting policies were also reflected in the Company's consolidated quarterly information for the semester ended June 30, 2017.

The Company adopted for the first time CPC 47 / IFRS 15 Revenue from Contracts with Customers (see 5.1.1), CPC 48 /IFRS 9 Financial Instruments (see 5.1.2) as of January 1, 2018 and the Revision of Technical Pronouncements – No. 12/2017 as of January 1, 2018. A series of other new standards are effective as of January 1, 2018, although they have no material impact on the Company’s financial statements.

The effect of the first-time adoption of these standards is mainly due to the following:

- Reclassification of bonuses received from suppliers;
- Reclassification of financial assets, with impacts on shareholders' equity (see note 5.1.2);
- Reclassification of the impacts of withheld taxes on share-based compensation (see Note 5.1.3);
- An increase in impairment losses recognized in financial assets (see Note 5.1.2).

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 - Continued

5.1.1 . CPC 47 / IFRS 15 Revenue from contracts with customers

CPC 47 / IFRS 15 establishes a comprehensive framework to determine if, when and for how long revenue is recognized. It substitutes CPC 30 / IAS 18 Revenue, CPC 17 / IAS 11 Construction Contracts and their respective interpretations.

The Company adopted CPC 47 / IFRS 15, with the effect of first-time adoption of the standard with retrospective effects (i.e. January 1, 2017). Consequently, we restated the Statement of income, statement of added value, statement of changes in shareholders equity and balance sheet, for the period reported previously in accordance with CPC 30 / IAS 18, CPC 17 / IAS 11 and the respective interpretations.

The effect of the adoption of CPC 47 / IFRS 15 is related to the classification of bonuses received from suppliers as deductions from the cost of sales instead of from administrative and selling expenses.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the diverse goods and services of the Company are described below:

(i) Revenue

a) Sales of goods

Revenue from sale of goods is recognized at its fair value and, when control over the products is transferred to the buyer, the Company and its subsidiaries cease to hold control or liability over the goods sold and the economic benefits generated for the Company and its subsidiaries are probable. No revenue is recognized if its realization is uncertain.

b) Service revenue

Since the Company and its subsidiaries are holders of policies on extended warranty insurance, financial protection insurance and personal accident insurance, and are sales agents in technical assistance and prepaid phone recharge, revenues earned are presented net of related costs and recognized as profit or loss when it is probable that the economic benefits will flow to the Company and its subsidiaries and their amounts can be measured reliably.

c) Financial services revenue

Since consumer financing is an essential part of the business of the Company and its subsidiaries, for all financial instruments measured at amortized cost, financial revenue is recognized using the effective interest rate method, which discounts exactly the estimated future cash receipts through the expected life of the financial instrument, or in a shorter period of time, when applicable, from the carrying amount of the asset. Interest income is included under financial services, comprising gross profit in the income statement for the year. This practice is substantially related to discontinued activities.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 - Continued

5.1.1 CPC 47 / IFRS 15 Revenue from contracts with customers - Continued

d) Interest income

For all the financial assets measured at their amortized cost, interest income is recorded using the effective interest rate method, which is the discount rate of the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, as applicable, from the carrying amount of the financial asset or liability. Interest income is included in the financial result in the income statement for the year.

e) Returns and cancellations

Returns and cancellations are recognized when the sale is concluded. Estimates are based on sales volumes and the history of returns in each reporting segment. Revenue is recognized net of returns and cancellations.

(ii) Cost of goods sold

The cost of goods sold comprises the cost of purchases net of discounts and bonuses received from suppliers, changes in inventories and logistics costs.

Bonuses received from suppliers are measured based on the contracts and agreements between the parties.

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

5.1.2 CPC 48 / IFRS 9 Financial Instruments

CPC 48 / IFRS 9 establishes the requirements for recognition and measurement of financial assets, financial liabilities and some contracts for purchase and sale of non-financial items. This standard replaces CPC 38 / IAS 39 – Financial Instruments: Recognition and Measurement.

CPC 48 / IFRS 9 retains most of the current requirements of CPC 38 / IAS 39 for the classification and measurement of financial liabilities. However, it eliminates previous categories of CPC 38 / IAS 39 for financial assets: held-to-maturity, loans and receivables and available-for-sale.

The adoption of CPC 48 / IFRS 9 did not have a significant impact on the Company’s accounting policies related to financial liabilities and derivative instruments (for derivatives used as hedging instruments, see item (iii) below). The impact of CPC 48 / IFRS 9 on the Classification and Measurement of Financial assets is described below.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.2 CPC 48 / IFRS 9 Financial Instruments - Continued

In accordance with CPC 48 / IFRS 9, upon initial recognition, a financial asset is classified as measured: at its amortized cost, at fair value through other comprehensive income ("FVOCI") – debt instrument; FVOCI – equity instrument; or fair value through profit or loss ("FVPL"). The classification of financial assets according to CPC 48 / IFRS 9 is generally based on the business model in which a financial asset is managed and on the characteristics of its contractual cash flows. Embedded derivatives in which the main contracts is a financial asset under the scope of the standard are never separated. Instead, the hybrid financial instrument is fully evaluated for classification.

Details of the new significant accounting policies and the nature of changes to previous accounting policies in relation to the Company's goods and services is described below:

i) Classification and measurement of Financial Assets and Liabilities

A financial asset is measured at its amortized cost if it meets both of the following conditions and is not designated as measured at FVPL:

- It is held within a business model whose goal is to maintain financial assets to receive contractual cash flows; and

- Its contractual terms generate, on specific dates, cash flows that are related to the payment of principal and interest on the outstanding principal amount.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVPL:

- It is held within a business model whose goal is achieved both through the receipt of contractual cash flows and through the sale of financial assets; and

- Its contractual terms generate, on specific dates, cash flows that are exclusively related to the payment of principal and interest on the outstanding principal amount.

Upon initial recognition of an investment in an equity instrument that is not held for trading, the Company may irrevocably choose to present subsequent changes in the fair value of the investment under other comprehensive income ("OCI"). This choice is made on an investment-by-investment basis.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.2.CPC 48 / IFRS 9 Financial Instruments - Continued

Any financial asset not classified as measured at their amortized cost or through FVOCI, as described above, are classified as FVPL. This includes all derivative financial assets. Upon initial recognition, the Company may irrevocably designate a financial asset that would otherwise meet the requirements to be measured at amortized cost or as FVOCI as FVPL if this eliminates or significantly reduces an accounting mismatch that would occur otherwise (fair value option available in CPC 48 / IFRS 9).

A financial asset (unless it refers to trade accounts receivable without a significant component of financing that is initially measured at the transaction price) is initially measured at fair value, plus, for an item that is not measured at FVPL, any transaction costs directly attributable to its acquisition.

<u>Financial assets measures at FVPL</u> – These assets are subsequently measured at fair value. The net result, including interest or revenue from dividends, is recognized in the result.

<u>Financial assets at amortized cost</u> – These assets are measured subsequent to amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, exchange gains and losses, and losses are recognized as profit or loss. Any gain or loss from derecognition is recognized as profit or loss.

<u>Debt instruments at FVOCI</u> – These assets are measured subsequently at fair value. Interest income calculated using the effective interest rate method, exchange gains and losses, and impairment losses are recognized as profit or loss. Other net income is recognized under OCI. In derecognition, the accumulated result under OCI is reclassified to result. On December 31, 2017, the amount under continuing operations was R$11 at the parent company and R$12 at the consolidated, and the amount under discontinued operation was R$64.

ii) Impairment of financial assets

CPC 48 / IFRS 9 replaces the "incurred loss" model of CPC 38 / IAS 39 with an expected credit losses model. The new impairment loss model applies to financial assets measured at amortized cost, contractual assets and debt instruments measured at FVOCI, but does not apply to investments in equity instruments (shares) or financial assets measured at FVPL, as per CPC 48 / IFRS 9, loan losses are recognized earlier than under CPC 38 / IAS 39.

According to CPC 48 / IFRS 9, provisions for losses are measured at one of the following bases:

- Credit losses expected for 12 months (general model): these are credit losses that result in possible default events within 12 months from the balance sheet date and, subsequently, in case of deterioration of the credit risk, throughout the life of the instrument.

- Full lifetime expected credit losses (simplified model): these are credit losses resulting from all possible default events over the expected life of a financial instrument.

---

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.2.CPC 48 / IFRS 9 Financial Instruments - Continued

ii) Impairment of financial assets - Continued

- Practical expedient: these are expected credit losses that are consistent with reasonable and sustainable information available, on the balance sheet date about past events, current conditions and forecasts of future economic conditions, which enable the verification of probable future loss based on the historical credit loss occurred in accordance with the maturity of securities.

The Company chose to measure provisions for losses from accounts receivable and other receivables and contractual assets at an amount that equals the credit loss expected for the full lifetime, and for trade accounts receivable, whose portfolio of receivables is fragmented, CDCI, rents receivable, wholesale accounts receivable and accounts receivable from freight companies, the practical expedient was applied through the adoption of a matrix of losses for each maturity range.

When determining whether the credit risk of a financial asset increased significantly since its initial recognition and while estimating the expected credit losses, the Company takes into account reasonable and sustainable information that is relevant and available free of cost or excessive effort. This includes quantitative and qualitative information and analysis, based on the Company's historical experience, during credit appraisal and considering information about projections.

The Company assumes that the credit risk of a financial asset increased significantly if the asset is overdue more than 90 days.

The Company considers a financial asset as in default when:

- there is little likelihood that the debtor will fully pay their obligations to the Company, without resorting to actions such as execution of guarantees (if any); or

- the financial asset is overdue more than 90 days.

The Company determined the credit risk of a debt security by analyzing the payment history, financial and macroeconomic conditions of the counterparty and the assessment of rating agencies, when applicable, thereby assessing each debt security individually.

The maximum period considered when estimating the expected credit loss is the maximum contractual period during which the company is exposed to the credit risk.

<u>Measurement of expected credit losses</u> – Expected credit losses are estimates weighted by the probability of credit losses based on historical losses and projections of related assumptions. Credit losses are measured at present value based on all cash insufficiencies (i.e. the differences between the cash flows owed to the

Company according to contracts and the cash flows the Company expects to receive).

Expected credit losses are discounted by the effective interest rate of the financial asset.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.2.CPC 48 / IFRS 9 Financial Instruments - Continued

ii) Impairment of financial assets - Continued

Financial assets with credit recovery problems – On each reporting date, the Company evaluates whether the financial assets recorded at amortized cost and the debt securities measured at FVOCI show any indication of impairment. A financial asset shows “indication of impairment loss” in the occurrence of one or more events with adverse impact on the estimated future cash flows of the financial asset.

Presentation of impairment loss – Provision for losses for financial assets measured at amortized cost are deducted from the gross book value of the assets.

For financial instruments measured at FVOCI, the provision for losses is recognized in OCI, instead of deducting the book value of the asset.

Impairment losses related to trade accounts receivable and other receivables, including contractual assets, are presented separately in the statement of income and OCI. As a result, the Company reclassified impairment losses of R$2 to selling expenses June 30, 2017, recognized under CPC 38/IAS 39.

Impairment of other financial assets is reported under “selling expenses”, similarly to the presentation under CPC 38 / IAS 39.

Impact of the new impairment loss model – For assets within the scope of the loss model of CPC 48 / IFRS 9, impairment should increase and become more volatile. The Company determined that the application of the requirements for impairment under CPC 48 / IFRS 9 on January 1, 2018 resulted in an additional provision of R$6 in continuing operations.

The additional Provision of R$175 in discontinued operations is composed as follows:

	Discontinued operations **12.31.2017**
Accounts receivable from credit card operators	24
Consumer financing CDCI	131
Accounts receivable from freight companies	9
Accounts receivable b2b	11
Total	**175**

Accounts receivable and contractual assets – The following analysis provides greater details on the calculation of expected credit losses related to accounts receivable and contractual assets when adopting CPC 48 / IFRS 9. The Company considers the model and some of the assumptions used in the calculation of these expected credit losses as the main sources of uncertainty in the estimate.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.2.CPC 48 / IFRS 9 Financial Instruments - Continued

ii) Impairment of financial assets – Continued

Expected credit losses were calculated based on real experiences of credit loss in recent years. The Company calculated the rates of expected credit loss separately for lessees of wholesale properties, accounts receivable from credit card operators and other clients.

The positions within each group were segmented based on common credit risk characteristics, such as:

- Credit risk level and historical losses – for wholesale clients and property rental; and
- Delinquency status, default risk and historical losses – for credit card operators and other clients.

Transition – Changes in accounting policies resulting from the adoption of CPC 48 / IFRS 9 were applied retrospectively, except as described below.

- The following assessments were made based on facts and circumstances that existed on the date of initial adoption.

o Determination of the business model in which a financial asset is held.

o Designation and cancellation of prior designations of certain financial assets and liabilities measured at FVPL.

o Determinations of variables related to estimates of impairment.

o Designation of certain investments in equity instruments not held for trading at FVOCI.

o All hedge relationships designated in CPC 38 / IAS 39 on December 31, 2017 met the criteria for hedge accounting pursuant to CPC 48 / IFRS 9 on January 1, 2018 and are, therefore, considered as continuing hedge relationships.

5.1.3 Revision of Technical Pronouncements – no.12/2017

The entity must apply the change set forth in IFRS 2 / CPC 10 – "Share-based payment" to account for the withholding of share funds to pay the tax authority for the tax obligation of the employee associated with the share-based payment. Consequently, the payment made must be accounted for as a deduction from capital for the retained shares, except to the extent that the payment exceeds the fair value on the date of settlement by the net value of the own equity instruments withheld. As such, the liability related to the withheld liabilities in the amount of R$10 at the parent company and R$13 in the consolidated of continuing operations, and R$8 in discontinued operations was reclassified to shareholders equity on the initial date of adoption, i.e. January 1, 2018.

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.4.Presentation of the retrospective effects of the application of pronouncements

The effect of retrospective adoption of CPC 47 / IFRS 15 Revenue from Contracts with Customers, CPC 48 /IFRS 9 Financial Instruments as of January 1, 2017, with impacts on the statement of income for the semesters ended June 30, 2017, balance sheets on December 31, 2017, statements of cash flows on June 30, 2017, and statements of value added on June 30, 2017 are as follows:

Balance Sheet	**Parent Company 12.31.2017**			
	Originally reported	Effects IFRS9	Equity effects (*)	**Restated**
Trade receivables	440	(12)	-	**428**
Other receivables	256	(3)	-	**253**
Assets held for sale	2,090	(77)	(4)	**2,009**
Total current assets	9,175	(92)	(4)	**9,079**
Deferred income tax and social contribution	108	4	-	**112**
Investments	3,368	(2)	(21)	**3,345**
Total noncurrent assets	13,803	2	(21)	**13,784**
Total assets	22,978	(90)	(25)	**22,863**
Provision for losses on investiment in associates	165	-	30	**195**
Total noncurrent liabilities	4,483	-	30	**4,513**
Shareholders' equity	10,333	(90)	(55)	**10,188**
Non-controlling interest	-	-	-	**-**
Total shareholders' equity	10,333	(90)	(55)	**10,188**
Total liabilities and shareholders' equity	22,978	(90)	(25)	**22,863**

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.4.Presentation of the retrospective effects of the application of pronouncements – Continued

Statement of Operations	**Parent Company 06.30.2017**				
	Originally reported	Effects IFRS15	Effects IFRS9	Equity effects (*)	**Restated**
Cost of Sales	(8,846)	116	-	-	**(8,730)**
Gross Profit	3,953	116	-	-	**4,069**
Operating income (expenses)					
Selling Expenses	(2,584)	(86)	(2)	-	**(2,672)**
General and Administrative Expenses	(356)	(30)	-	-	**(386)**
Share of Profit of Subsidiaries and Associates	240	-	(16)	(19)	**205**
Income (loss) Before Income Tax and Social Contribution	355	-	(18)	(19)	**318**
Income Tax and Social Contribution	(41)	-	-	-	**(41)**
Net Income (loss) from Continued Operations	314	-	(18)	(19)	**277**
Net Income (loss) from Discontinued Operations	(24)	-	-	-	**(24)**
Net Income (loss) for the Period	290	-	(18)	(19)	**253**
Attributed to:					
Net Income (loss) from Continued Operations	314	-	(18)	(19)	**277**
Net Income (loss) from Discontinued Operations	(24)	-	-	-	**(24)**
Total of controlling shareholders	290	-	(18)	(19)	**253**

Balance Sheet	**Consolidated 12.31.2017**			
	Originally reported	Effects IFRS9	Equity effects (*)	**Restated**
Trade receivables	632	(14)	-	**618**
Other receivables	271	(4)	-	**267**
Assets held for sale	22,961	(178)	(8)	**22,775**
Total current assets	33,220	(196)	(8)	**33,016**
Deferred income tax and social contribution	121	4	-	**125**
Investments	176	-	(21)	**155**
Total noncurrent assets	14,708	4	(21)	**14,691**
Total assets	47,928	(192)	(29)	**47,707**
Provision for losses on investiment in associates	165	-	30	**195**
Total noncurrent liabilities	5,644	-	30	**5,674**

Shareholders’ equity	10,333	(90)	(55)	**10,188**
Non-controlling interest	2,959	(101)	(5)	**2,853**
Total shareholders’ equity	13,292	(191)	(60)	**13,041**
Total liabilities and shareholders’ equity	47,928	(191)	(30)	**47,707**

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.4.Presentation of the retrospective effects of the application of pronouncements – Continued

Statements of Operations	**Consolidated 06.30.2017**				
	Originally reported	Effects IFRS15	Effects IFRS9	Equity effects (*)	**Restated**
Cost of Sales	(15,982)	121	-	-	**(15,861)**
Gross Profit	5,233	121	-	-	**5,354**
Operating income (expenses)					
Selling Expenses	(3,329)	(91)	(2)	-	**(3,422)**
General and Administrative Expenses	(459)	(30)	-	-	**(489)**
Share of Profit of Subsidiaries and Associates	(23)	-	-	(17)	**(40)**
Income (loss) Before Income Tax and Social Contribution	398	-	(2)	(17)	**379**
Income Tax and Social Contribution	(142)	-	-	-	**(142)**
Net Income (loss) from Continued Operations	256	-	(2)	(17)	**237**
Net Income (loss) from Discontinued Operations	128	-	(37)	(4)	**87**
Net Income (loss) for the Period	384		(39)	(21)	**324**
Attributed to:					
Net Income (loss) from Continued Operations	256	-	(2)	(17)	**237**
Net Income (loss) from Discontinued Operations	34	-	(16)	(2)	**16**
Total of controlling shareholders	290	-	(18)	(19)	**253**
Non-controlling shareholders from discontinued operations	94	-	(21)	(2)	**71**
Total of non-controlling shareholders	94	-	(21)	(2)	**71**

Statement of Cash Flows

	Parent Company 06.30.2017			
	Originally reported	Effects IFRS9	Equity effects (*)	**Restated**
Net Cash Operating Activities	(1,287)	-	-	**(1,287)**
Cash Provided by the Operations	261	-	-	**261**
Net Income (Loss) for the Period	290	(18)	(19)	**253**
Deferred Income Tax	3	-	-	**3**
Share of Profit of Subsidiaries and Associates	(240)	16	19	**(205)**
Impairment	-	1	-	**1**

Estimated loss on doubtful accounts	4	1	-	**5**

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.4.Presentation of the retrospective effects of the application of pronouncements – Continued

Statement of Cash Flows

	Consolidated 06.30.2017			
	Originally reported	Effects IFRS9	Equity effects (*)	**Restated**
Net Cash Operating Activities	(3,762)	-	-	**(3,762)**
Cash Provided by the Operations	1,178	-	-	**1,178**
Net Income (Loss) for the Period	384	(38)	(22)	**324**
Deferred Income Tax	(184)	(3)	-	**(187)**
Share of Profit of Subsidiaries and Associates	9	-	22	**31**
Impairment	-	1	-	**1**
Estimated loss on doubtful accounts	337	40	-	**377**

Statement of Value Added

	Parent Company 06.30.2017				
	Originally reported	Effects IFRS15	Effects IFRS9	Equity effects (*)	**Restated**
Products Acquired from Third Parties					
Costs of Products, Goods and Services Sold	(9,115)	116	-	-	**(8,999)**
Materials, Energy, Outsourced Services and Other	(1,536)	(116)	(2)	-	**(1,654)**
	(10,651)	-	(2)	-	**(10,653)**
Gross Value Added	3,420	-	(2)	-	**3,418**
Net Value Added Produced	3,099	-	(2)	-	**3,097**
Share of Profit of Subsidiaries and Associates	240	-	-	(35)	**205**
Others	(24)	-	-	-	**(24)**
	306	-	-	(35)	**271**

Total Value Added to Distribute	3,405	-	(2)	(35)	**3,368**
Value Distributed to Shareholders	290	-	(2)	(35)	**253**
Total Value Added Distributed	3,405	-	(2)	(35)	**3,368**

5. Adoption of new procedures, amendments and interpretations of pronouncements issued by IASB and CPC and standards published and not yet in force – Continued

5.1. Amendments to IFRS and new interpretations applicable mandatorily as of January 1, 2018 – Continued

5.1.4. Presentation of the retrospective effects of the application of pronouncements – Continued

Statement of Value Added

	Consolidated 06.30.2017				
	Originally reported	Effects IFRS15	Effects IFRS9	Equity effects (*)	**Restated**
Products Acquired from Third Parties					
Cost of Sales	(16,751)	121	-	-	**(16,630)**
Materials, Energy, Outsourced Services and Other	(1,878)	(121)	(2)	-	**(2,001)**
	(18,629)	-	(2)	-	**(18,631)**
Gross Value Added	4,631	-	(2)	-	**4,629**
Net Value Added Produced	4,225	-	(2)	-	**4,223**
Value Added Received in Transfer					
Share of Profit of Associates	(23)	-	-	(17)	**(40)**
Net Income from Discontinued Operations	128	-	(41)	-	**87**
	210	-	(41)	(17)	**152**
Total Value Added to Distribute	4,435	-	(43)	(17)	**4,375**
Value Distributed to Shareholders	384	-	(41)	(19)	**324**
Retained Earnings/ Accumulated Losses for the Period	290	-	(18)	(19)	**253**
Noncontrolling Interest in Retained Earnings	94	-	(23)	-	**71**
Distribution of Value Added	4,435	-	(43)	(17)	**4,375**

(*) Effects of the application of IFRS 9 and IFRS 15 in associates.

5.2 New and revised standards and interpretations already issued and not yet adopted

The Company is assessing the impacts of adopting "IFRS 16 – Lease," and significant impacts are expected, which are currently being measured and are expected to be concluded by the end of 2018.

There are no other standards and interpretations issued and not yet adopted that could, in the Management's opinion, have a significant impact on the results for the year or in the shareholders' equity reported by the Company in its separate and consolidated financial statements.

6. Significant accounting judgments, estimates and assumptions

Judgments, estimates and assumptions

The preparation of the Company's individual and consolidated interim financial information 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 reporting period; however, uncertainties about these assumptions and estimates may result in outcomes that require adjustments to the carrying amount of the affected asset or liability in future periods.

The significant assumptions and estimates for interim financial information for the semester ended June 30, 2018 were the same as those adopted in the individual and consolidated financial statements for the year ended December 31, 2017, except for the application of CPC 48 / IFRS 9 described in Note 5.1.

7. Cash and cash equivalents

The detailed information on cash and cash equivalents was presented in the annual financial statements for 2017, in note 7.

		Parent Company		**Consolidated**	
	Rate	**06.30.2018**	**12.31.2017**	**06.30.2018**	**12.31.2017**
Cash and banks - Brazil		**132**	251	**213**	396
Cash and banks - Abroad	(*)	**79**	68	**79**	68
Short-term investments - Brazil	(**)	**1,991**	2,549	**2,762**	3,328
		2,202	2,868	**3,054**	3,792

(*) Refers to amounts deposited in the United States of America in US Dollars.

(**) Short-term investments as June 30, 2018 refer substantially to highly liquid investments accruing interest corresponding to a weighted average rate of 94.22% (98.07% on December 31, 2017) of the Interbank deposit Certificate ("CDI") and redeemable in terms of less than 90 days as of investment date.

8. Trade receivables

The detailed information on trade receivables was presented in the annual financial statements for 2017, in note 8.

Parent Company		**Consolidated**	
06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
	Restated		**Restated**

Credit card companies	**34**	134	**50**	234
Credit card companies - related parties (note 12.2)	**29**	162	**39**	170
Sales vouchers	**54**	84	**116**	147
Private label credit card	**42**	74	**43**	74
Receivables from related parties (note 12.2)	**14**	11	**1**	-
Receivables from suppliers	**38**	46	**54**	79
Allowance for doubtful accounts (note 8.1)	**(1)**	(3)	**(4)**	(6)
	210	508	**299**	698
Current	**207**	428	**296**	618
Noncurrent	**3**	80	**3**	80

8. Trade receivables - Continued

8.1. Allowance for doubtful accounts

	Parent Company		Consolidated	
	06.30.2018	06.30.2017 Restated	06.30.2018	06.30.2017 Restated
At the beginning of the period	**(2)**	(1)	**(4)**	(2)
Adjustment related to IFRS 9	(1)	(1)	(2)	(2)
Restated opening balance	**(3)**	(2)	**(6)**	(4)
Loss/reversal in the period	**-**	(5)	**(322)**	(377)
Write-off of receivables	**2**	4	**322**	288
Assets held for sale and discontinued operations (note 31)	**-**	-	**2**	87
At the end of the period	**(1)**	(3)	**(4)**	(6)

Below is the aging list of consolidated gross receivables, by maturity period:

			Overdue receivables - Consolidated			
	Total	**Not overdue**	**<30 days**	**30-60 days**	**61-90 days**	**>90 days**
06.30.2018	**303**	**281**	**13**	**2**	**1**	**6**
12.31.2017-Restated	704	673	15	5	2	9

9. Other receivables

The detailed information on other receivables was presented in the annual financial statements for 2017, in note 9.

	Parent Company		Consolidated	
	06.30.2018	12.31.2017 Restated	06.30.2018	12.31.2017 Restated
Receivable from Paes Mendonça	**337**	337	**532**	532
Accounts receivable from insurers	**206**	208	**206**	208
Receivable from sale of subsidiaries	**86**	81	**86**	81
Rental receivable	**34**	47	**36**	48
Other	**54**	37	**65**	52
Allowance for doubtful other receivables	**(10)**	(10)	**(11)**	(12)
	707	700	**914**	909
Current	**247**	253	**257**	267
Noncurrent	**460**	447	**657**	642

9. Other receivables - Continued

	Parent Company		Consolidated	
	06.30.2018	06.30.2017	06.30.2018	06.30.2017
At the beginning of the period	**(10)**	(6)	**(12)**	(7)
Allowance for losses on inventory	**-**	-	**-**	(4)
Write-off of receivables	**-**	-	**13**	-
Assets held for sale and discontinued operations (note 31)	**-**	-	**(12)**	4
At the end of the period	**(10)**	(6)	**(11)**	(7)

10. Inventories

The detailed information on inventories was presented in the annual financial statements for 2017, in note 10.

	Parent Company		Consolida	
	06.30.2018	12.31.2017	06.30.2018	12.3
Stores	**2,037**	2,013	**3,644**	
Distribution centers	**1,181**	1,065	**1,543**	
Real estate inventories	**-**	-	**9**	
Allowance for losses on inventory obsolescence and damages (note 10.1)	**(37)**	(36)	**(60)**	
	3,181	3,042	**5,136**	

10.1.Allowance for losses on inventory obsolescence and damages

	Parent Company		Consolidated	
	06.30.2018	06.30.2017	06.30.2018	06.30.2017
At the beginning of the period	**(36)**	(41)	**(73)**	(75)
Additions	**(3)**	(15)	**(47)**	(64)
Write-offs	**2**	20	**62**	82
Assets held for sale and discontinued operations (note 31)	**-**	-	**(2)**	4
At the end of the period	**(37)**	(36)	**(60)**	(53)

11. Recoverable taxes

The detailed information on recoverable taxes was presented in the annual financial statements for 2017, in note 11.

	Parent Company		Consolidated	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
State value-added tax on sales and services – ICMS	**1,250**	1,187	**2,012**	1,886
Provision for non-realization to ICMS	**-**	-	**(13)**	(369)
Social Integration Program/Contribution for Social Security Financing-PIS/COFINS	**286**	286	**478**	424
Social Security Contribution - INSS	**287**	281	**315**	312
Income tax and Social Contribution	**50**	62	**61**	71
Other	**3**	9	**14**	19
Total	**1,876**	1,825	**2,867**	2,343
Current	**402**	360	**532**	596
Noncurrent	**1,474**	1,465	**2,335**	1,747

11.1. ICMS is expected to be realized as follows (net of provision for not realizing in consolidated):

	Parent Company	**Consolidated**
In one year	**150**	**244**
From 1 to 2 years	**149**	**247**
From 2 to 3 years	**145**	**249**
From 3 to 4 years	**137**	**246**
From 4 to 5 years	**116**	**231**
More than 5 years	**553**	**782**
	1,250	**1,999**

For the ICMS tax credits, management, based on technical feasibility studies, based on growth projections and related tax payments in the normal course of the operations, understand be viable the future compensation. The studies mentioned are prepared and reviewed periodically based on information extracted from Strategic Planning report, previously approved by the Board of Directors of the Company. For the financial information as of June 30, 2018, management has monitoring controls over the progress of the plan annually established, revaluating and including eventual new elements that contribute to the realization of ICMS tax credits, net of provision of R$13, as shown above. On the occasion of a new ordinance (CAT 42, issued in May 2018) in the state of São Paulo, there were new prospects for the realization of ICMS in the State, which resulted in the reversal of the provision for non-realization of R$ 369.

12. Related parties

12.1.Management and Advisory Committees compensation

The expenses related to management compensation (officers appointed pursuant to the Bylaws including members of the Board of Directors and the related support committees) for the period of six months ended June 30, 2018 and 2017, were as follows:

In thousands of Brazilian reais

	Base salary		Variable compensation		Stock option plan		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Board of directors (*)	**4,083**	2,944	**-**	-	**-**	-	**4,083**	2,944
Executive officers	**12,046**	11,865	**22,676**	11,953	**6,393**	18,002	**41,115**	41,820
Fiscal Council	**228**	114	**-**	-	**-**	-	**228**	114
	16,357	14,923	**22,676**	11,953	**6,393**	18,002	**45,426**	44,878

(*) The compensation of the Board of Directors' advisory committees (Human Resources and Compensation, Audit, Finance, Sustainable Development and Corporate Governance) is included in this line.

12. Related parties – Continued

12.2.Balances and transactions with related parties.

The detailed information on related parties was presented in the annual financial statements for 2017, in note 12.

	Parent company									
	Balances								Transactions	
	Trade receivables		Other assets		Trade payables		Other liabilities		Revenues (expenses)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Controlling shareholders:										
Casino	**1**	-	**-**	-	**2**	1	**2**	4	**(26)**	(17)
Euris	**-**	-	**-**	-	**-**	-	**-**	-	**(1)**	(2)
Exito	**-**	-	**-**	-	**-**	-	**-**	-	**1**	-
Helicco	**-**	-	**-**	-	**-**	-	**-**	-	**(1)**	-
Subsidiaries:										
Novasoc Comercial	**-**	-	**43**	45	**-**	-	**2**	5	**-**	-
Sendas Distribuidora	**9**	4	**82**	83	**8**	7	**-**	-	**42**	-
Via Varejo	**4**	7	**18**	4	**5**	4	**195**	202	**(7)**	(50)
VVLOG Logística Ltda.	**-**	-	**-**	-	**-**	-	**-**	1	**-**	-
Cnova Brasil	**-**	-	**17**	19	**-**	-	**-**	-	**2**	36
GPA M&P	**-**	-	**5**	6	**-**	-	**12**	-	**-**	-
GPA Logística	**-**	-	**49**	30	**16**	17	**42**	26	**-**	-
Associates										
FIC	**29**	162	**26**	18	**14**	21	**-**	-	**61**	(8)
Other related parties										
Greenyellow do Brasil Energia e Serviços Ltda(“Greenyellow”) (i)	**-**	-	**-**	-	**-**	-	**142**	149	**(22)**	(17)
Others	**-**	-	**1**	1	**-**	-	**-**	-	**-**	-
Total	**43**	**173**	**241**	**206**	**45**	**50**	**395**	**387**	**49**	**(58)**

(i) Amount refers to acquisition of products and services with purpose the Company’s energy efficience.

12. Related parties – Continued

12.2.Balances and transactions with related parties – Continued

	Consolidated									
	Balances								Transactions	
	Trade receivables		Other assets		Trade payables		Other liabilities		Revenues (expenses)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Controlling shareholder:										
Casino	**1**	-	**-**	-	**2**	1	**2**	4	**(26)**	(17)
Euris	**-**	-	**-**	-	**-**	-	**-**	-	**(1)**	(2)
Exito	**-**	-	**-**	-	**-**	-	**-**	-	**1**	-
Helicco	**-**	-	**-**	-	**-**	-	**-**	-	**(1)**	-
Associates:										
FIC	**39**	170	**30**	24	**18**	22	**-**	-	**83**	40
Other related parties:										
Greenyellow do Brasil Energia e Serviços Ltda (Greenyellow)	**-**	-	**-**	-	**-**	-	**142**	149	**(22)**	(17)
Others	**-**	-	**1**	1	**-**	-	**-**	-	**-**	-
Total	**40**	170	**31**	25	**20**	23	**144**	153	**34**	4

13. Investments in subsidiaries and associates

The detailed information on investments was presented in the annual financial statements for 2017, in note 13.

13.1.Breakdown of investments

	Parent Company					
	Sendas	**Novasoc**	**Via Varejo**	**Bellamar**	**Others**	**Total (*)**
Balances at 12.31.2017	3,122	5	-	176	(100)	3,203
Adjustment related to IFRS 9	(3)	-	-	(21)	(29)	(53)
Balances at 12.31.2017 - restated	3,119	5	-	155	(129)	3,150
Share of profit of subsidiaries and associates	**527**	**(2)**	**95**	**32**	**(96)**	**556**
Stock options	**5**	**-**	**5**	**-**	**1**	**11**
Share of other comprehensive income	**-**	**-**	**8**	**-**	**(32)**	**(24)**
Assets held for sale and discontinued operations (note 31)	**-**	**-**	**(108)**	**-**	**-**	**(108)**
Balances at 06.30.2018	**3,651**	**3**	**-**	**187**	**(256)**	**3,585**

(*) Includes the effects of on the provision for losses on investments in associates in Luxco of R$304 on June 30, 2018 (R$195 on December 31, 2017) and R$12 relating to SCB.

	Parent Company					
	Sendas	**Novasoc**	**Via Varejo**	**Bellamar**	**Others**	**Total (*)**
			Restated			
Balances at 12.31.2016	2,330	168	-	443	73	3,014
Adjustment related to IFRS 9	(2)	-	-	(5)	(14)	(21)
Balances at 01.01.2017 - restated	2,328	168	-	438	59	2,993
Share of profit of subsidiaries and associates	180	9	55	22	(61)	205
Stock options	2	-	2	-	-	4
Capital increase	53	-	-	-	-	53
Share of other comprehensive income	-	-	(13)	-	(10)	(23)
Assets held for sale and discontinued operations (note 31)	-	-	(44)	-	-	(44)
Balances at 06.30.2017	2,563	177	-	460	(12)	3,188

(*) Includes the effects of provision for losses on investments in associates in Luxco of R$108.

13. Investments in subsidiaries and associates - Continued

13.1.Breakdown of investments - Continued

	Consolidated	
	06.30.2018	06.30.2017 Restated
Balances in the beginning of the period	**12**	294
Adjustement related to IFRS 9	(51)	(19)
Balances in the beginning of the period – restated	**(39)**	275
Share of profit of associates – Continued operations	**(44)**	(40)
Share of profit of associates – Discontinued operations	**12**	10
Share of other comprehensive income	**(33)**	(10)
Dividends and interests on own capital – continued operations	**-**	(90)
Dividends and interests pn own capital - discontinued operations	**-**	(36)
Assets held for sale and discontinued operations (note 31)	**(12)**	26
Balances at the end of the period	**(116)**	135

14. Property and equipment

	Parent company					
	Balance at 12.31.2017	Additions	Depreciation	Write-offs	Transfers(*)	Balance at 06.30.2018
Land	1,094	**-**	**-**	**-**	**(49)**	**1,045**
Buildings	1,333	**2**	**(23)**	**25**	**(105)**	**1,232**
Leasehold improvements	2,142	**6**	**(100)**	**(4)**	**45**	**2,089**
Machinery and equipment	904	**4**	**(85)**	**(12)**	**32**	**843**
Facilities	306	**3**	**(19)**	**(1)**	**3**	**292**
Furniture and fixtures	365	**4**	**(29)**	**(11)**	**14**	**343**
Vehicles	2	**-**	**(1)**	**-**	**-**	**1**
Construction in progress	79	**145**	**-**	**-**	**(163)**	**61**
Other	39	**8**	**(6)**	**-**	**(9)**	**32**
Total	6,264	**172**	**(263)**	**(3)**	**(232)**	**5,938**
Finance lease						
IT equipment	5	**-**	**(1)**	**-**	**-**	**4**
Buildings	17	**-**	**-**	**-**	**-**	**17**
	22	**-**	**(1)**	**-**	**-**	**21**
Total	6,286	**172**	**(264)**	**(3)**	**(232)**	**5,959**

(*) See note 31.

14. Property and equipment - Continued

	Parent company					
	Balance at 12.31.2016	Additions	Depreciation	Write-offs	Transfers	Balance at 06.30.2017
Land	1,261	-	-	(31)	-	1,230
Buildings	1,611	2	(26)	(125)	(1)	1,461
Leasehold improvements	2,226	12	(88)	(46)	77	2,181
Machinery and equipment	1,047	15	(89)	(15)	49	1,007
Facilities	319	30	(17)	(4)	3	331
Furniture and fixtures	396	-	(30)	(4)	12	374
Vehicles	3	-	(1)	-	-	2
Construction in progress	113	147	-	(2)	(137)	121
Other	45	6	(7)	(1)	(3)	40
Total	7,021	212	(258)	(228)	-	6,747
<u>Finance lease</u>						
IT equipment	5	-	-	-	-	5
Buildings	17	-	-	-	-	17
	22	-	-	-	-	22
Total	**7,043**	212	(258)	(228)	-	6,769

	Parenty Company					
	Balance at 06.30.2018			Balance at 12.31.2017		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	**1,045**	**-**	**1,045**	1,094	-	1,094
Buildings	**2,096**	**(864)**	**1,232**	2,190	(857)	1,333
Leasehold improvements	**3,683**	**(1,594)**	**2,089**	3,659	(1,517)	2,142
Machinery and equipment	**2,196**	**(1,353)**	**843**	2,273	(1,369)	904
Facilities	**600**	**(308)**	**292**	596	(290)	306
Furniture and fixtures	**930**	**(587)**	**343**	962	(597)	365
Vehicles	**8**	**(7)**	**1**	8	(6)	2
Construction in progress	**61**	**-**	**61**	79	-	79
Other	**127**	**(95)**	**32**	127	(88)	39
	10,746	**(4,808)**	**5,938**	10,988	(4,724)	6,264
<u>Finance lease</u>						
IT equipment	**38**	**(34)**	**4**	37	(32)	5
Buildings	**39**	**(22)**	**17**	40	(23)	17
	77	**(56)**	**21**	77	(55)	22
Total	**10,823**	**(4,864)**	**5,959**	11,065	(4,779)	6,286

14. Property and equipment – Continued

	Consolidated						
	Balance at 12.31.2017	Additions	Depreciation	Write-offs	Transfers	Assets held for sale and discontinued operations (*)	Balance at 06.30.2018
Land	1,362	**10**	**-**	**-**	**(47)**	**-**	**1,325**
Buildings	1,770	**60**	**(29)**	**26**	**(131)**	**-**	**1,696**
Leasehold improvements	3,492	**165**	**(145)**	**(61)**	**85**	**1**	**3,537**
Machinery and equipment	1,262	**54**	**(120)**	**(30)**	**87**	**(53)**	**1,200**
Facilities	487	**26**	**(27)**	**(12)**	**12**	**(3)**	**483**
Furniture and fixtures	540	**34**	**(43)**	**(13)**	**32**	**(14)**	**536**
Vehicles	1	**-**	**-**	**(24)**	**-**	**24**	**1**
Construction in progress	126	**269**	**-**	**(2)**	**(285)**	**(6)**	**102**
Other	63	**16**	**(11)**	**-**	**(3)**	**(2)**	**63**
Total	9,103	**634**	**(375)**	**(116)**	**(250)**	**(53)**	**8,943**
Finance lease							
Equipment	6	**-**	**(1)**	**(1)**	**-**	**-**	**4**
IT equipment	5	**-**	**(1)**	**-**	**-**	**-**	**4**
Furniture and fixtures	4	**-**	**-**	**-**	**-**	**-**	**4**
Buildings	20	**-**	**-**	**-**	**-**	**-**	**20**
	35	-	**(2)**	**(1)**	**-**	**-**	**32**
Total	9,138	**634**	**(377)**	**(117)**	**(250)**	**(53)**	**8,975**

	Consolidated						
	Balance at 12.31.2016	Additi-ons	Depre-ciation	Write-offs	Transfers	Assets held for sale and discontinued operations (*)	Balance at 06.30.2017
Land	1,414	-	-	(31)	-	-	1,383
Buildings	1,856	26	(30)	(124)	33	-	1,761
Leasehold improvements	3,284	63	(120)	(52)	105	(8)	3,272
Machinery and equipment	1,340	51	(116)	(18)	64	(14)	1,307
Facilities	433	44	(22)	(7)	11	(1)	458
Furniture and fixtures	543	14	(39)	(5)	15	(4)	524
Vehicles	2	-	(1)	(6)	-	6	1
Construction in progress	204	216	-	(2)	(232)	(2)	184
Other	63	9	(11)	(2)	(2)	(1)	56
Total	9,139	423	(339)	(247)	(6)	(24)	8,946

Finance lease

Equipment	9	-	(1)	-	(1)	-	7
IT equipment	8	-	(1)	(1)	-	-	6
Furniture and fixtures	6	-	-	-	-	-	6
Buildings	20	-	-	-	-	-	20
	43	-	(2)	(1)	(1)	-	39
Total	9,182	423	(341)	(248)	(7)	(24)	8,985

(*) See note 31.

14. Property and equipment – Continued

	Consolidated					
	Balance at 06.30.2018			Balance at 12.31.2017		
	Cost	**Accumulated depreciation**	**Net**	**Cost**	**Accumulated depreciation**	**Net**
Land	**1,325**	**-**	**1,325**	1,362	-	1,362
Buildings	**2,638**	**(942)**	**1,696**	2,705	(935)	1,770
Leasehold improvements	**5,457**	**(1,920)**	**3,537**	5,310	(1,818)	3,492
Machinery and equipment	**2,776**	**(1,576)**	**1,200**	2,828	(1,566)	1,262
Facilities	**835**	**(352)**	**483**	817	(330)	487
Furniture and fixtures	**1,208**	**(672)**	**536**	1,209	(669)	540
Vehicles	**8**	**(7)**	**1**	8	(7)	1
Construction in progress	**102**	**-**	**102**	126	-	126
Other	**194**	**(131)**	**63**	183	(120)	63
	14,543	**(5,600)**	**8,943**	14,548	(5,445)	9,103
Finance lease						
Equipment	**26**	**(22)**	**4**	26	(20)	6
IT equipment	**45**	**(41)**	**4**	46	(41)	5
Facilities	**1**	**(1)**	**-**	1	(1)	-
Furniture and fixtures	**13**	**(9)**	**4**	13	(9)	4
Buildings	**43**	**(23)**	**20**	43	(23)	20
	128	**(96)**	**32**	129	(94)	35
Total	**14,671**	**(5,696)**	**8,975**	14,677	(5,539)	9,138

14.1. Capitalized borrowing costs

The consolidated capitalized borrowing costs for the semester ended June 30, 2018 were R$6 (R$6 for the semester ended June 30, 2017). The rate used to determine the borrowing costs eligible for capitalization was 101.50% of the CDI (102.21% of the CDI for the period ended June 30, 2017), corresponding to the effective interest rate on the Company's borrowings.

14.2. Additions to property and equipment for cash flow presentation purposes:

	Parent Company		Consolidated	
	06.30.2018	**06.30.2017**	**06.30.2018**	**06.30.2017**
Additions	**172**	212	**634**	423
Finance lease	**-**	-	**-**	-
Capitalized borrowing costs	**(2)**	(3)	**(6)**	(6)
Property and equipment financing - Additions	**(157)**	(22)	**(412)**	(205)
Property and equipment financing - Payments	**230**	80	**495**	341
Total	**243**	267	**711**	553

14. **Property and equipment** – Continued

14.3. Other information

On June 30, 2018, the Company and its subsidiaries recorded in the cost of sales the amount of R$20 in the parent company (R$23 on June 30, 2017) and R$25 in consolidated (R$26 on June 30, 2017) related to the depreciation of its fleet of trucks, machinery, buildings and facilities related to the distribution centers.

The Company monitored the plan for impairment test performed on December 31, 2017 and there were no significatives discrepancies indicating loss or need to perform a new impairment test on June 30, 2018.

15. Intangible assets

The detailed information on intangible assets was presented in the annual financial statements for 2017, in note 15.

	Parent Company			
	Balance at 12.31.2017	**Additions**	**Amortization**	**Balance at 06.30.2018**
Goodwill - retail	501	**-**	**-**	**501**
Commercial rights - retail	46	**-**	**-**	**46**
Software and implementation	509	**61**	**(42)**	**528**
Software capital leasing	137	**-**	**(21)**	**116**
Total	**1,193**	**61**	**(63)**	**1,191**

	Consolidated						
	Balance at 12.31.2017	**Addi-tions**	**Amorti-zation**	**Write-offs**	**Transfer**	**Assets held for sale and discontinued operations (*)**	**Balance at 06.30.2018**
Goodwill - retail	1,107	**-**	**-**	**-**	**-**	**-**	**1,107**
Tradename - cash and carry	39	**-**	**-**	**-**	**-**	**-**	**39**
Commercial rights - retail	86	**-**	**-**	**-**	**-**	**-**	**86**
Software	551	**212**	**(45)**	**(8)**	**6**	**(141)**	**575**
Software capital leasing	141	**-**	**(22)**	**-**	**-**	**-**	**119**
Total	**1,924**	**212**	**(67)**	**(8)**	**6**	**(141)**	**1,926**

(*) See note 31.

In the Parent Company, the balance of accumulated cost on June 30, 2018 is R$2,816 (R$2,754 on December 31, 2017) and of accumulated amortization R$1,625 (R$1,561 on December 31, 2017). In the Consolidated the balance of accumulated cost on June 30, 2018 is R$3,828 (R$3,757 on December 31, 2017) and of accumulated amortization R$1,902 (R$1,833 on December 31, 2017).

15. Intangible assets – Continued

15.1. Impairment testing of goodwill, brands and intangible assets with indefinite useful life

Goodwill and intangible assets were tested for impairment as of December 31, 2017 according to the method described in note 4 - Significant accounting policies, in the financial statements for the year ended December 31, 2017.

The Company has not observed any significant changes that would indicate to perform a new impairment test as of June 30, 2018.

15.2. Additions to intangible assets for reconcile cash flow presentation purposes:

	Parent Company		**Consolidated**	
	06.30.2018	**06.30.2017**	**06.30.2018**	**06.30.2017**
Additions	**61**	28	**212**	56
Finance lease	**-**	-	**-**	(5)
Intangible assets financing - Payments	**-**	4	**-**	69
Total	**61**	32	**212**	120

16. Borrowings and financing

The detailed information on borrowings and financing was presented in the annual financial statements for 2017, in note 17.

16.1. Debt breakdown

		Parent Company	
	Weighted average rate	**06.30.2018**	**12.31.20**
Debentures and promissory note			
Debentures and Certificate of Agribusiness Receivables (note 16.4)	100.89% of CDI	**3,838**	3,0
		3,838	3,0
Borrowings and financing			
Local currency			
BNDES	3.89% per year	**6**	
Working capital	105.90% of CDI	**286**	2
Working capital	TR + 9.80% per year	**19**	
Finance lease (note 21)		**156**	1
Swap contracts (note 16.7)	101.44% of CDI	**(3)**	
Borrowing cost		**(1)**	
		463	4
Foreign currency (note 16.5)			
Working capital	USD + 3.33% per year	**655**	3
Working capital	EURO + 1.56% per year	**226**	2
Swap contracts (note 16.7)	103.26% of CDI	**(59)**	
Borrowing cost		**-**	
		822	5
Total		**5,123**	4,0
Current assets		**32**	
Noncurrent assets		**34**	
Current liabilities		**1,521**	1,2
Noncurrent liabilities		**3,668**	2,8

16. Borrowings and financing – Continued

16.2.Changes in borrowings

	Parent Company	Consolidated
At December 31, 2017	4,087	4,560
Additions - working capital	**1,488**	**4,362**
Accrued interest	**138**	**307**
Accrued swap	**(62)**	**(157)**
Mark-to-market	**2**	**3**
Monetary and exchange rate changes	**81**	**182**
Borrowing cost	**6**	**6**
Interest paid	**(110)**	**(303)**
Payments	**(451)**	**(3,441)**
Swap paid	**(56)**	**(62)**
Liabilities related to assets held for sale (note 31)	**-**	**395**
At June 30, 2018	**5,123**	**5,852**

	Parent Company	Consolidated
At December 31, 2016	5,538	5,869
Additions - working capital	1,868	4,708
Accrued interest	197	410
Accrued swap	38	74
Mark-to-market	13	12
Monetary and exchange rate changes	21	7
Borrowing cost	4	4
Interest paid	(491)	(761)
Payment	(2,468)	(5,403)
Swap paid	(125)	(226)
Liabilities related to assets held for sale (note 31)	-	381
At June 30, 2017	4,595	5,075

16.3.Maturity schedule of borrowings and financing recorded in noncurrent liabilities

Year	Parent Company	Consolidated
From 1 to 2 years	**2,609**	**2,965**
From 2 to 3 years	**990**	**1,011**
From 3 to 4 years	**5**	**23**
From 4 to 5 years	**5**	**21**
After 5 years	**30**	**58**
Subtotal	**3,639**	**4,078**
Borrowing costs	**(5)**	**(8)**
Total	**3,634**	**4,070**

16. Borrowings and financing – Continued

16.4. Debentures, Promissory Note and Certificate of Agribusiness Receivables

	Type	Issue Amount	Outstanding debentures (units)	Date Issue	Date Maturity	Annual financial charges	Unit price (in reais)	Paren C 06.30
12th Issue of Debentures – CBD	No preference	900	900,000	09/17/14	09/12/19	107.00% of CDI	1,020	
13th Issue of Debentures – CBD and CRA	No preference	1,012	1,012,500	12/20/16	12/20/19	97.50% of CDI	1,002	
14th Issue of Debentures – CBD and CRA	No preference	1,080	1,080,000	04/17/17	04/13/20	96.00% of CDI	1,013	
15th Issue of Debentures – CBD	No preference	800	800,000	01/17/18	01/15/21	104.75% of CDI	1,030	
Borrowing cost								
Parent Company/Consolidated								
Current liabilities								
Noncurrent liabilities								

16. Borrowings and financing – Continued

16.5.Borrowings in foreign currencies

On June 30, 2018 GPA had loans in foreign currencies (dollar and euro) to strengthen its working capital, maintain its cash strategy, lengthening its debt profile and make investments, being the last due date in September, 2020.

16.6.Guarantees

The Company has signed promissory notes for some loan contracts.

16.7. Swap contracts

The Company and its Brazilian subsidiaries use swap transactions for 100% of its borrowings denominated in US dollars, euros and fixed interest rates, exchanging these obligations for Real linked to CDI (floating) interest rates. These contracts include amount of the debt with the objective toprotect the interest and principal and are signed, generally, with the same due dates and in the same economic group. The weighted average annual rate of CDI in June 2018 was 7.35% (12.85% in June 30, 2017).

16.8.Financial covenants

In connection with the debentures and a portion of borrowings denominated in foreign currencies, GPA is required to maintain certain debt financial covenants. These ratios are quarterly calculated based on consolidated financial statements of the Company prepared in accordance with accounting practices adopted in Brazil, as follows: (i) net debt (debt minus cash and cash equivalents and trade accounts receivable) should not exceed the amount of equity and (ii) consolidated net debt/EBITDA ratio should be lower than or equal to 3.25. At June 30, 2018, GPA was in compliance with these covenants.

17. Financial instruments

The detailed information on financial instruments was presented in the annual financial statements for 2017, in note 18.

The main financial instruments and their carrying amounts in the interim financial information, by category, are as follows:

	Parent Company Carrying amount		Consolidated Carrying amount	
	06.30.2018	**12.31.2017 Restated**	**06.30.2018**	**12.31.2017 Restated**
Financial assets:				
Amortized cost				
Related parties - assets	**241**	206	**30**	25
Trade receivables and other receivables	**839**	872	**1,080**	1,133
Fair value through profit or loss				
Cash and cash equivalents	**2,202**	2,868	**3,054**	3,792
Financial instruments – Fair value hedge	**66**	12	**139**	28
Fair value through other comprehensive income				
Trade receibles with credit card companies and sales vouchers	**79**	336	**133**	474
Financial liabilities:				
Other financial liabilities - amortized cost				
Related parties -liabilities	**(395)**	(387)	**(144)**	(153)
Trade payables	**(3,771)**	(5,377)	**(6,369)**	(8,128)
Financing for purchase of assets	**(29)**	(95)	**(39)**	(116)
Debentures	**(3,838)**	(3,015)	**(3,838)**	(3,015)
Borrowings and financing	**(448)**	(470)	**(490)**	(520)
Fair value through profit or loss				
Loans and financing	**(899)**	(552)	**(1,652)**	(989)
Financial instruments – Fair Value Hedge	**(4)**	(62)	**(11)**	(64)

The fair value of other financial liabilities detailed in table above approximates the carrying amount based on the existing terms and conditions. The borrowings and financing measured at amortized cost, the related fair values of which differ from the carrying amounts, are disclosed in note 17.3.

17.1. Considerations on risk factors that may affect the business of the Company and its subsidiaries

(i) Capital risk management

The main objective of the Company's capital management is to ensure that the Company sustains its credit rating and a well-defined equity ratio, in order to support businesses and maximize shareholder value. The

Company manages the capital structure and makes adjustments taking into account changes in the economic conditions.

17. Financial instruments - Continued

17.1. Considerations on risk factors that may affect the business of the Company and its subsidiaries - Continued

There were no changes as to objectives, policies or processes during the period ended on June 30, 2018. The capital structure is presented as follows:

	Parent Company		**Consolidated**	
	06.30.2018	**12.31.2017 Restated**	**06.30.2018**	**12.31.2017 Restated**
Cash and cash equivalents	**2,202**	2,868	**3,054**	3,792
Financial instruments – Fair value hedge	**66**	12	**139**	28
Borrowings and financing	**(5,189)**	(4,099)	**(5,991)**	(4,588)
Other liabilities with related parties (note 12.2) (*)	**(139)**	(145)	**(139)**	(145)
Net debt	**(3,060)**	(1,364)	**(2,937)**	(913)
Shareholders' equity	(10,751)	(10,188)	(13,740)	(13,041)
Net debt to equity ratio	28%	13%	21%	7%

(*) Represents the trade payable to Greenyellow related purchase of equipment.

(ii) Liquidity risk management

The Company manages liquidity risk through the daily analysis of cash flows, control of maturities of financial assets and liabilities.

The table below summarizes the aging profile of the Company's financial liabilities as of June 30, 2018.

a) Parent Company

	Up to 1 Year	**1 – 5 years**	**More than 5 years**	**Total**
Borrowings and financing	**995**	**231**	**9**	**1,235**
Debentures and promissory note	**693**	**3,631**	**-**	**4,324**
Derivative financial instruments	**(10)**	**(26)**	**-**	**(36)**
Finance lease	**58**	**121**	**146**	**325**
Trade payables	**3,771**	**-**	**-**	**3,771**
Total	**5,507**	**3,957**	**155**	**9,619**

b) Consolidated

	Up to 1 Year	**1 – 5 years**	**More than 5 years**	**Total**
Borrowings and financing	**1,315**	**722**	**63**	**2,100**
Debentures and promissory note	**693**	**3,631**	**-**	**4,324**
Derivative financial instruments	**3**	**(71)**	**(1)**	**(69)**

Finance lease	**65**	**130**	**150**	**345**
Trade payables	**6,369**	**-**	**-**	**6,369**
Total	**8,445**	**4,412**	**212**	**13,069**

17. Financial instruments – Continued

17.1. Considerations on risk factors that may affect the business of the Company and its subsidiaries - Continued

(iii) Derivative financial instruments

		Consolidated			
		Notional value		**Fair value**	
		06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
Swap with hedge					
Hedge object (debt)		**1,542**	1,039	**1,652**	989
Long position (buy)					
Prefixed rate	TR+9.80% per year	**127**	127	**118**	125
US$ + fixed	USD+3.33% per year	**1,195**	692	**1,307**	663
EUR + fixed	EUR+1.56%per year	**220**	220	**227**	200
		1,542	1,039	**1,652**	988
Short position (sell)					
	103.13% of CDI	**(1,542)**	(1,039)	**(1,524)**	(1,024)
Hedge position - asset		-	-	**139**	28
Hedge position - liability		-	-	**(11)**	(64)
Net hedge position		-	-	**128**	(36)

Realized and unrealized gains and losses on these contracts during the semester ended on June 30, 2018 are recorded in financial income (expenses), net and the balance receivable at fair value is R$128 (balance payable of R$36 as of December 31, 2017), recorded in line item “Financial Instruments – Fair Value Hedge” in the assets and “Borrowings and financing” in the liabilities.

The effects of the fair value hedge recorded in the Statement of Operations for the semester ended June 30, 2018 were a gain of R$151 (gain of R$95 as of June 30, 2017).

17.2. Sensitivity analysis of financial instruments

According to the Management’s assessment, the most probable scenario is what the market has been estimating through market curves (currency and interest rates) of B3, on the maturity dates of each transaction. Therefore, in the probable scenario (I), there is no impact on the fair value of financial instruments. For scenarios (II) and (III), for the sensitivity analysis effect, according to CVM rules, a deterioration of 25% and 50%, respectively, on risk variables, up to one year of the financial instruments.

For the probable scenario, weighted exchange rate was R$4.10 on the due date, and the weighted interest rate weighted was 7.41% per year.

In case of derivative financial instruments (aiming at hedging the financial debt), changes in scenarios are accompanied by respective hedges, indicating effects are not significant, in note 17.2.

17. Financial instruments – Continued

17.2.Sensitivity analysis of financial instruments – Continued

The Company disclosed the net exposure of the derivatives financial instruments, corresponding to financial instruments and certain financial instruments in the sensitivity analysis table below, to each of the scenarios mentioned.

			Market projecti		
Operations	**Risk (CDI variation)**	**Balance at 06.30.2018**	**Scenario I**	**Scenario II**	**S**
Fair value hedge of fixed rate	101.44% do CDI	**(98)**	**(196)**	**(200)**	
Fair value hedge of exchange rate	103.26% do CDI	**(1,426)**	**(1,628)**	**(1,652)**	
Debentures	105.94% do CDI	**(1,742)**	**(1,884)**	**(1,919)**	
Debentures (1st issue CRA)	97.50% do CDI	**(1,014)**	**(1,097)**	**(1,117)**	
Debentures (2nd issue CRA)	96.00% do CDI	**(1,094)**	**(1,183)**	**(1,205)**	
Bank loans	105.09% do CDI	**(287)**	**(308)**	**(313)**	
Leases	100.19% do CDI	**(49)**	**(53)**	**(54)**	
Leases	100.00% do CDI	**(4)**	**(4)**	**(4)**	
Leases	95.00% do CDI	**(72)**	**(77)**	**(79)**	
Total borrowings and financing exposure		**(5,786)**	**(6,430)**	**(6,543)**	
Cash and cash equivalents (*)	94.22% of CDI	**2,762**	**2,950**	**2,997**	
Net exposure		**(3,024)**	**(3,480)**	**(3,546)**	
Net effect - loss			**(456)**	**(522)**	

(*) Weighted average

17.3.Fair value measurements

The Company discloses the fair value of financial instruments measured at fair value and of financial instruments measured at amortized cost, the fair value of which differ from the carrying amount, in accordance with CPC 46 (“IFRS13”), which refer to the requirements of measurement and disclosure.

The fair values of cash and cash equivalents, trade receivables and trade payables are equivalent to their carrying amounts.

17. Financial instruments – Continued

17.3.Fair value measurements - Continued

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value and of financial instruments measured at amortized cost, the fair value of which is disclosed in the financial statements:

	Carrying amount 06.30.2018	**Fair value 06.30.2018**	**Level**
Financial assets and liabilities			
Trade receibles with credit card companies and sales vouchers (FVOCI)	**133**	**133**	**2**
Swaps	**128**	**128**	**2**
Borrowings and financing (FVPL)	**(1,652)**	**(1,652)**	**2**
Borrowings and financing and debentures (amortized cost)	**(4,328)**	**(4,305)**	**2**
Total	**(5,719)**	**(5,696)**	

There were no changes between the fair value measurements levels in the semester ended June 30, 2018.

Cross-currency and interest rate swaps and borrowings and financing are classified in level 2 since the fair value of such financial instruments was determined based on readily observable market inputs, such as expected interest rate and current and future foreign exchange rate.

17. Financial instruments – Continued

17.4.Consolidated position of derivative transactions

The consolidated position of outstanding derivative financial instruments are presented in the table below:

Outstanding					Amount payable or receivable		Fair value	
Description	**Counterparties**	**Notional value**	**Contractual date**	**Maturity**	**06.30.2018**	**12.31.2017**	**06.30.2018**	**12.31.2017**
***Exchange swaps* registered with CETIP (US$ x CDI)**								
	Agricole	EUR 50	10/07/2015	10/08/2018	**3**	(24)	**5**	(20)
	Scotiabank	US$ 50	01/15/2016	01/16/2018	**-**	(42)	**-**	(42)
	Scotiabank	US$ 50	09/29/2017	09/29/2020	**36**	9	**31**	9
	Scotiabank	US$ 50	02/16/2018	12/21/2018	**27**	-	**28**	-
	Bradesco	US$ 70	06/11/2018	12/27/2018	**(6)**	-	**(4)**	-
	Banco Tokyo	US$ 100	12/12/2017	12/12/2019	**50**	(3)	**42**	(2)
	Bradesco	US$ 70	06/18/2018	06/13/2019	**4**	-	**6**	-
Interest rate swap registered with CETIP (pre-fixed rate x CDI)								
	Itaú BBA	R$ 21	11/11/2014	11/05/2026	**1**	1	**3**	3
	Itaú BBA	R$ 54	01/14/2015	01/05/2027	**3**	3	**9**	8
	Itaú BBA	R$ 52	05/26/2015	05/05/2027	**2**	2	**8**	8
					120	(54)	**128**	(36)

18. Taxes and contributions payable and taxes payable in installments

The detailed information on taxes and contributions payable and taxes payable in installments was presented in the annual financial statements for 2017, in note 19.

18.1. Taxes and contributions payable and taxes payable in installments

	Parent Company		Consolidated	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
Taxes payable in installments - Law 11,941/09	**469**	511	**469**	511
Taxes payable in installments – *PERT*	**171**	174	**171**	176
ICMS	**45**	42	**60**	65
PIS and COFINS	**14**	49	**15**	52
Provision for income tax and social contribution	**-**	-	**49**	38
Withholding Income Tax	**-**	12	**-**	13
INSS	**3**	2	**4**	4
Other	**3**	4	**13**	8
	705	794	**781**	867
Current	**188**	228	**264**	301
Noncurrent	**517**	566	**517**	566

18.2. Maturity schedule of taxes payable in installments in noncurrent liabilities:

	Parent Company and Consolidated
From 1 to 2 years	**150**
From 2 to 3 years	**100**
From 3 to 4 years	**83**
From 4 to 5 years	**77**
After 5 years	**107**
	517

19. Income tax and social contribution

19.1. Income tax and social contribution expense reconciliation

The detailed information on income tax and social contribution was presented in the annual financial statements for 2017, in note 20.

	Parent Company		**Consolidated**	
	06.30.2018	**06.30.2017 Restated**	**06.30.2018**	**06.30.2017 Restated**
Incomet before income tax and social contribution	**578**	318	**752**	379
Credit (expense) of income tax and social contribution at the nominal rate of 25% for the Company and 34% for subsidiaries	**(144)**	(80)	**(259)**	(130)
Tax penalties	**(7)**	(12)	**(9)**	(12)
Share of profit of associates	**139**	51	**(8)**	(6)
Interest on own capital (*)	**42**	-	**42**	-
Tax credits	**12**	-	**12**	-
Other permanent differences (nondeductible)	**4**	-	**9**	6
Effective income tax and social contribution	**46**	(41)	**(213)**	(142)
Income tax and social contribution for the period:				
Current	**1**	(38)	**(112)**	(201)
Deferred	**45**	(3)	**(101)**	59
Deferred income tax and social contribution expense	**46**	(41)	**(213)**	(142)
Effective rate	**-7,96%**	12,89%	**28,32%**	37,47%

CBD does not pay social contribution based on a final favorable court decision in the past; therefore its nominal rate is 25%.

(*) Effect of income tax on interest on own capital paid.

The semester income tax expense is calculated in accordance with IAS 34 / CPC 21 (R1). This rule requests the companies recognize the income tax expense in its interim statements with the same base used in the complete annual financial statement.

19. Income tax and social contribution - Continued

19.2.Breakdown of deferred income tax and social contribution

	Parent Company					
	06.30.2018			12.31.2017		
	Asset	Liability	Net	Asset	Liability Restated	Net
Tax losses and negative basis of social contribution	**244**	**-**	**244**	178	-	178
Provision for contingencies	**205**	**-**	**205**	204	-	204
Goodwill tax amortization	**-**	**(56)**	**(56)**	-	(54)	(54)
Mark-to-market adjustment	**-**	**-**	**-**	-	(1)	(1)
Technological innovation – future realization	**-**	**(12)**	**(12)**	-	(13)	(13)
Depreciation of fixed assets as per tax rates	**-**	**(125)**	**(125)**	-	(111)	(111)
Unrealized gains with tax credits	**-**	**(184)**	**(184)**	-	(185)	(185)
Other	**87**	**(5)**	**82**	95	(1)	94
Deferred income tax and social contribution assets (liabilities) gross	**536**	**(382)**	**154**	477	(365)	112
Compensation	**(382)**	**382**	**-**	(365)	365	-
Deferred income tax and social contribution assets (liabilities), net	**154**	**-**	**154**	112	-	112

	Consolidated					
	06.30.2018			12.31.2017		
	Asset	Liability	Net	Asset	Liability Restated	Net
Tax losses and negative basis of social contribution	**260**	**-**	**260**	200	-	200
Provision for contingencies	**290**	**-**	**290**	289	-	289
Goodwill tax amortization	**-**	**(593)**	**(593)**	-	(585)	(585)
Mark-to-market adjustment	**-**	**(3)**	**(3)**	-	(7)	(7)
Technological innovation – future realization	**-**	**(12)**	**(12)**	-	(13)	(13)
Depreciation of fixed assets as per tax rates	**-**	**(126)**	**(126)**	-	(112)	(112)
Unrealized gains with tax credits	**-**	**(314)**	**(314)**	-	(185)	(185)
Other	**134**	**(10)**	**124**	149	(5)	144
Deferred income tax and social contribution assets (liabilities) gross	**684**	**(1,058)**	**(374)**	638	(907)	(269)
Compensation	**(510)**	**510**	**-**	(513)	513	-
Deferred income tax and social contribution assets (liabilities), net	**174**	**(548)**	**(374)**	125	(394)	(269)

19. Income tax and social contribution – Continued

19.2. Breakdown of deferred income tax and social contribution – Continued

The Company estimates to recover these deferred tax assets as follows:

	Parent Company	Consolidated
Up to one year	**190**	**237**
From 1 to 2 years	**47**	**84**
From 2 to 3 years	**51**	**84**
From 3 to 4 years	**54**	**85**
From 4 to 5 years	**194**	**194**
	536	**684**

19.3.Changes in deferred income tax and social contribution

	Parent Company		Consolidated	
	06.30.2018	06.30.2017 Restated	06.30.2018	06.30.2017 Restated
At the beginning of the period	**108**	155	**(273)**	(147)
Adjustment related to IFRS 9	**4**	3	**4**	3
Restated opening balance	**112**	158	**(269)**	(144)
Expense for the period – continued operations	**45**	(3)	**(101)**	59
Expense for the period – discontinued operations	**-**	-	**(95)**	128
Income Tax related to OCI - continued operations	**(2)**	4	**(2)**	12
Income Tax related to OCI - discontinued operations	**-**	-	**(4)**	-
Special program on tax settlements - PERT	**(1)**	-	**(2)**	(89)
Assets held for sale and discontinued operations (see note 31)	**-**	-	**99**	(46)
At the end of the period	**154**	159	**(374)**	(80)

20. Provision for contingencies

The provision for contingencies is estimated by the Company's management, supported by its legal counsel. The provision was recognized in an amount considered sufficient to cover probable losses.

20.

20.1. Parent Company

	PIS/COFINS	Taxes and other	Social security and labor	Civil	Regulatory	Total
Balance at December 31, 2017	73	363	274	81	21	812
Additions	**-**	**71**	**50**	**33**	**15**	**169**
Payments	**-**	**(2)**	**(27)**	**(6)**	**(11)**	**(46)**
Reversals	**-**	**(14)**	**(38)**	**(42)**	**(12)**	**(106)**
Monetary adjustment	**2**	**4**	**17**	**6**	**2**	**31**
Balance at June 30, 2018	**75**	**422**	**276**	**72**	**15**	**860**

	PIS/COFINS	Taxes and other	Social security and labor	Civil	Regulatory	Total
Balance at December 31, 2016	109	428	254	80	20	891
Additions	25	16	64	18	14	137
Payments	-	-	(20)	(4)	(3)	(27)
Reversals	(50)	(42)	(29)	(20)	(5)	(146)
Monetary adjustment	(18)	1	17	6	2	8
Transfer to installments taxes	-	(89)	-	-	-	(89)
Balance at June 30, 2017	66	314	286	80	28	774

20.2. Consolidated

	PIS/COFINS	Taxes and o
Balance at December 31, 2017	74	
Additions	**35**	
Payments	**-**	
Reversals	**-**	
Monetary adjustment	**3**	
Liabilities related to assets available to sell and discontinued operations (see Note 31)	**(37)**	
Balance at June 30, 2018	**75**	

	PIS/COFINS	Taxes and o
Balance at December 31, 2016	148	
Additions	146	
Payments	(15)	
Reversals	(89)	
Monetary adjustment	(30)	
Transfer to installments taxes	-	
Liabilities related to assets available to sell and discontinued operations (see Note 31)	(95)	
Balance at June 30, 2017	65	

20. Provision for contingencies - Continued

20.3.Tax

As per prevailing legislation, tax claims are subject to monetary indexation, which refers to an adjustment to the provision according to the indexation rates used by each tax jurisdiction. In all cases, both the interest charges and fines, when applicable, were computed and fully provisioned with respect to unpaid amounts.

The main provisioned tax claims are as follows:

20.3.1. PIS and COFINS

Since the adoption of the noncumulative regime to calculate PIS and COFINS, Company and its subsidiaries have challenged the right to deduct ICMS from the calculation basis for both contributions. On March 15, 2017, STF ruled that ICMS should be excluded from the calculation basis of PIS/Cofins, in accordance to the thesis pleaded by the Company.

Since the decision of the STF on March 15, 2017, the procedural steps were within the anticipated by our legal advisors without any change in the management's judgment regarding the reversal of the provision for lawsuits on this previously registered subject, however without there being a final decision expected on the subject, related to the judgment of the appeal filed by the prosecution. The Company and its external legal counsel estimate that the decision related to the application of the effects will not limit the right of the judicial claim proposed by the Company, nevertheless, the elements of the process still pending of decision do not allow the recognition of the asset related to the credits to be measured since the Company started the claim in 2003. According to the preliminary evaluation, based on the available information on December 31, 2017, the Company estimates the potential of its tax credits for the retail activity in the second quarter of 2018 to be between R$1,300 to R$1,650. The portion related to Assai are in process of calculation.

Still in relation to the theme, as disclosed in Via Varejo's financial statements of June 30, 2018, the tax credits for this subsidiary, classified as discontinued operations, were estimated approximately R$1,382, begin R$949 of discontinued operations and R$ 433 of continued operations is attributed to the Company due to an agreement between shareholders and the Company.

Regarding the remainder accrued amount for other discussions related to PIS and COFINS includes challenging of tax offset and other small amounts, as of June 30, 2018 represent R$222, being R$75 of continued operations and R$147 of discontinued operations (R$184 as of December 31, 2017, being R$74 of continued operation and R$110 of discontinued operations).

20. Provision for contingencies – Continued

20.3.Tax – Continued

20.3.2. Tax claims

After entering in the special program on tax settlements, the Company analyzed the other tax claims, together with its external legal counsel, and determined them to be as probable losses and accrued by the Company. These refer to: (i) challenge on the non-application of the Accident Prevention Factor - FAP for 2011; (ii) challenge on the State Finance Department on the ICMS tax rate calculated on electric energy bills; (iii) other minor issues. The amount accrued for these matters as of June 30, 2018 is R$177 of continued operation (R$184 as of December 31, 2017, beging R$183 of continued (operation and R$1 of discontinued operations).

ICMS

The Federal Supreme Court ("STF") on October 16, 2014 decided that ICMS taxpayers that trade products included in the “basked of food staples” have no right to fully utilize the ICMS credits. The Company, with the assistance of its legal counsel, decided to record a provision for this matter amounting to R$125 as of June 30, 2018 (R$142 as of December 31, 2017) since this claim was considered a “probable” loss. The amounts accrued represent Management’s best estimate of the probable cash disbursement to settle this claim.

Additionally, there are cases assessed by São Paulo State tax authorities related to the refund of ICMS over tax substitution without proper compliance with accessory tax obligations introduced by CAT Administrative Rule 17. Considering recent court decisions the Company accrued R$205 (R$167 in December 31, 2017) representing the best estimation of probable loss evaluated by management based on documentation evidence aspect of the claims.

20.3.3. Supplementary Law 110/2001

The Company claims in court the eligibility to not pay the contributions provided for by Supplementary Law 110/01, referring to the FGTS (Government Severance Indemnity Fund for Employees) costs. The accrued amount as of June 30, 2018 is R$88 being R$80 of continued operation and R$8 of discontinued operations (R$72 of continued operation as of December 31, 2017 being R$71 of continued operation and R$1 of discontinued operations).

20.3.4. Others contingent tax liabilities - Via Varejo

Provisions for contingent tax liabilities were recorded as a result of the business combination with Via Varejo, as required by CPC 15 (IFRS 3). As of June 30, 2018, the recorded amount is R$91 (R$90 as of December 31, 2017). These accrued claims refer to administrative proceedings related to the offset of tax debts against credits from the contribution levied on coffee exports.

20. Provision for contingencies – Continued

20.4.Labor

The Company and its subsidiaries are parties to various labor lawsuits mainly due to termination of employees in the ordinary course of business. At June 30, 2018, the Company recorded a provision of R$1,024, being R$337 for continued operations and R$687 for discontinued operations (R$1,284 as of December 31, 2017, being R$331 for continued operations and R$953 for discontinued operations). Management, with the assistance of its legal counsel, assessed these claims and recorded a provision for losses when reasonably estimable, based on past experiences in relation to the amounts claimed.

20.5.Civil and others

The Company and its subsidiaries are parties to civil lawsuits at several court levels (indemnities and collections, among others) and at different courts. The Company's management records provisions in amounts considered sufficient to cover unfavorable court decisions, when its legal counsel considers the loss as probable.

Among these lawsuits, we point out the following:

- The Company and its subsidiaries are parties to various lawsuits requesting the renewal of rental agreements and the review of the current rent paid. The Company recognizes a provision for the difference between the amount originally paid and the amounts claimed by the adverse party in the lawsuit, when internal and external legal counsel consider that it is probable that the rent amount will be changed by the Company. As of June 30, 2018, the amount accrued for these lawsuits is R$114, being R$64 for continued operations and R$50 for discontinued operations (R$125 as of December 31, 2017, being R$61 for continued operations and R$64 for discontinued operations), for which there are no escrow deposits.

- The Company and its subsidiaries answer to legal claims related to penalties applied by regulatory agencies, from the federal, state and municipal administrations, among which includes Consumer Protection Agencies (Procon), National Institute of Metrology, Standardization and Industrial Quality (INMETRO) and Municipalities and some lawsuits involving contract terminations with suppliers. Company supported by its legal counsel, assessed these claims, and recorded a provision according to probable cash expending and estimative of loss .On June 30, 2018 the amount of this provision is R$41, being R$28 for continued operations and R$13 for discontinued operations (R$43 on December 31, 2017, being R$34 for continued operations and R$9 for discontinued operations).

- As of June 30, 2018, the amount accrued related to other civil matters is R$131, being R$35 for continued operation R$96 for discontinued operations (R$146 as of December 31, 2017, being R$ 44 for continued operation R$102 for discontinued operations).

Total civil lawsuits and others as of June 30, 2018 amount to R$286, being R$127 for continued operations and R$159 for discontinued operations (R$314 as of December 31, 2017, being R$139 for continued operations and R$175 for discontinued operations).

20. Provision for contingencies – Continued

20.6. Other non-accrued contingent liabilities

The Company has other litigations which have been analyzed by the legal counsel and considered as possible loss and, therefore, have not been accrued. The possible litigations updated balance from shareholders is of R$11,840, being R$10,230 for continued operations and R$1,610 for discontinued operations as of June 30, 2018 (R$11,778 as of December 31, 2017, being R$10,159 for continued operations and R$1,619 for discontinued operations), and are mainly related to:

- INSS (Social Security Contribution) – GPA was assessed for non-levy of payroll charges on benefits granted to its employees, among other matters, for which possible loss amounts to R$496, being R$464 for continued operations and R$32 for discontinued operations as of June 30, 2018 (R$474 as of December 31, 2017, being R$443 for continued operations and R$31 for discontinued operations). The lawsuits are under administrative and court discussions.

- IRPJ, withholding income tax - IRRF, CSLL, tax on financial transactions - IOF, withholding income tax on net income – GPA has several assessment notices regarding offsetting proceedings, rules on the deductibility of provisions, payment divergences and overpayments; fine for failure to comply with accessory obligations, among other less significant taxes. Among those claims, there are one tax assessment related to the tax deduction of goodwill in the years of 2012 and 2013, originated by the acquisition of Ponto Frio (goodwill Mandala) accrued in the year of 2009. The restated amount of the assessment notice correspond to R$87 of income tax and social contribution (R$85 at December 31, 2017). The lawsuits await administrative and court ruling. The amount involved is R$987, being R$846 for continued operations and R$141 for discontinued operations as of June 30, 2018 (R$964 as of December 31, 2017, being R$826 for continued operations and R$138 for discontinued operations).

- COFINS, PIS, provisional contribution on financial transactions – CPMF and IPI – the Company has been challenged about offsets of IPI credits acquired from third parties with a final and an-appeal over the decision, fine for failure to comply with accessory obligations, disallowance of COFINS and PIS credits on one-phase products (“produtos monofásicos”), among others less significant taxes. These lawsuits await decision at the administrative and court levels. The amount involved in these assessments is R$2,352, being R$1,917 for continued operations and R$435 for discontinued operations as June 30, 2018 (R$2,124 as of December 31, 2017, being R$1,705 for continued operations and R$419 for discontinued operations).

20. Provision for contingencies – Continued

20.6. Other non-accrued contingent liabilities – Continued

- ICMS – GPA received tax assessment notices by the State tax authorities regarding: (i) utilization of electric energy credits; (ii) purchases from suppliers considered not qualified in the State Finance Department registry; (iii) levied on its own operation of merchandise purchase (own ICMS)) – article 271 of ICMS by-law; (iv) resulting from sale of extended warranty, (v) resulting from financed sales; and (vi) among other matters. The total amount of these assessments is R$7,020, being R$6,274 for continued operations and R$746 for discontinued operations as of June 30, 2018 (R$7,246 as of December 31, 2017, being R$6,493 for continued operations and R$753 for discontinued operations), which await a final decision at the administrative and court levels. With the amendment of the ICMS Regulation of the State of São Paulo, the Company filed a request for a debt review, in the face of the fines when there were changes in the criterion, which was accepted by SEFAZ, resulting in a reduction of R$ 431 through payment of R$5, which occurred in April and May 2018.

- Municipal service tax - ISS, Municipal Real Estate Tax ("IPTU"), Fees, and others – these refer to assessments on withholdings of third parties, IPTU payment divergences, fines for failure to comply with accessory obligations, ISS – reimbursement of advertising expenses and sundry taxes, in the amount of R$304 being R$164 for continued operations and R$140 for discontinued operations as June 30, 2018 (R$281 as of December 31, 2017, being R$150 for continued operations and R$131 for discontinued operations), which await decision at the administrative and court levels.

- Other litigations – these refer to administrative proceedings and lawsuits in which the Company claims the renewal of rental agreements and setting of rents according to market values and actions in the civil court, special civil court, Consumer Protection Agency - PROCON (in many States), Institute of Weights and Measure - IPEM, National Institute of Metrology, Standardization and Industrial Quality - INMETRO and National Health Surveillance Agency - ANVISA, among others, amounting to R$681, being R$565 for continued operations and R$116 for discontinued operations as June 30, 2018 (R$689 as of December 31, 2017, being R$542 for continued operations and R$147 discontinued operations).

The Company has litigations related to challenges by tax authorities on the income tax payment, for which, based on management and legal assessment, the Company has the right of indemnization from its former and current shareholders, related to years from 2007 to 2013, under allegation that had improper deduction of goodwill amortizations. These assessments amount R$1,248 on June 30, 2018 (R$1,223 on December 31, 2017).

The Company engages external attorneys to represent it in the tax assessments, whose fees are contingent upon a percentage to be applied to the amount of success in the final outcome of these lawsuits. This percentage may vary according to qualitative and quantitative factors of each claim, and as of June 30, 2018 the estimated amount, in case of success in all lawsuits, is approximately R$198, being R$178 for continued operations and R$20 for discontinued operations (R$201 as of December 31, 2017, being R$182 for continued operations and R$19 for discontinued operations).

20. Provision for contingencies – Continued

20.7. Restriced deposits for legal proceedings

The Company is challenging the payment of certain taxes, contributions and labor-related obligations and has made judicial deposits in the corresponding amounts, as well as escrow deposits related to the provision for legal proceedings.

	Parent Company		Consolidated	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
Tax	**159**	138	**228**	204
Labor	**432**	423	**481**	474
Civil and other	**24**	33	**33**	42
Regulatory	**15**	15	**42**	42
Total	**630**	609	**784**	762

20.8.Guarantees

Lawsuits	Property and equipment		Letter of Guarantee		Total	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**	**06.30.2018**	**12.31.2017**
Tax	**835**	858	**7,663**	7,324	**8,498**	8,182
Labor	**3**	3	**123**	91	**126**	94
Civil and other	**9**	-	**200**	125	**209**	125
Regulatory	**3**	6	**168**	154	**171**	160
Total	**850**	867	**8,154**	7,694	**9,004**	8,561

The cost of letter of guarantees is approximately 0.75% per year of the amount of the lawsuits and is recorded as expense.

20.9. Cnova N.V. litigation

Our subsidiary Cnova N.V., a Dutch public limited company, certain of its current and former officers and directors, and the underwriters of Cnova's initial public offering, or IPO, were named as defendants in a securities class action lawsuit in the United States Federal District Court for the Southern District of New York, related to the assumption of internal investigation, concluded on July 22, 2016, conducted by Cnova N.V., Cnova Brasil e its advisors. In October 11, 2017 the Court for the Southern District of New York approved preliminarily an agreement with the plaintiffs' shareholders.

Subject to the settlement agreement's terms, a fund of $28.5 million will become available by Cnova N.V. for distribution amongst the former Cnova shareholders as well as to the plaintiffs' lawyers. A portion of this amount will be used to cover the settlement fund's administrative costs. In addition, subject to the terms of the settlement, all defendants are acquitted of all liability emanating from the allegations made in the class action suit. Following the March 15, 2018 hearing, the court entered on March 19, 2018 the final order giving the definitive approval to the settlement, closing the judicial proceedings with the United States District Court for the Southern District of New York and releasing defendants of the claims alleged against them accordingly. In the coming period, notices will be sent by the plaintiffs' lawyer with more information concerning the settlement. The vast majority of this settlement amount was funded by Cnova N.V. insurers. The remainder as well as all expected related costs were covered by Cnova's provision recorded in 2016 representing insurance deductible and total legal costs. Accordingly, the settlement has no material impact on Cnova N.V. net results.

20. Provision for contingencies – Continued

20.9. Cnova N.V. litigation - Continued

In a separate potential action the SEC might eventually take, sanctions might be imposed on the Cnova N.V. as a result of the analysis of facts from the internal review concluded at the end of the first half of 2016 by the Company and the advisors retained by the Board of Directors.

21. Leasing transactions

21.1.Operating lease

(i) Minimum rental payment on termination of lease agreements

The Company analyzed and concluded that the rental agreements are cancelable over their term. In case of termination, minimum payments will be due as a termination fee, which can vary from 1 to 12 months of rental through the end of the agreements, as demonstrated in the table below:

	Parent Company		**Consolidated**	
	06.30.2018	**06.30.2017**	**06.30.2018**	**06.30.2017**
Minimum rental payments				
Minimum payments on the termination date	**362**	334	**405**	367
	362	334	**405**	367

(ii) Contingent payments

Management considers the payment of additional rents as contingent payments, which vary between 0.1% and 4.5% of sales.

	Parent Company		**Consolidated**	
Expenses (income) for the period	**06.30.2018**	**06.30.2017**	**06.30.2018**	**06.30.2017**
Contingent payments	**202**	235	**215**	252
Non contingent payments	**142**	123	**232**	202
Sublease rentals (*)	**(86)**	(78)	**(94)**	(81)

(*) Refers to lease agreements receivable from commercial shopping malls.

21. Leasing transactions - Continued

21.2.Finance lease

Finance lease agreements amounted to R$167 as of June 30, 2018 (R$195 on December 31, 2017), as shown in the table below:

	Parent Company		Consolidated	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
Financial lease liability –minimum rental payments:				
Up to 1 year	**45**	46	**50**	51
1 - 5 years	**87**	110	**92**	117
Over 5 years	**24**	25	**25**	27
Present value of finance lease agreements	**156**	181	**167**	195
Future financing charges	**169**	175	**178**	185
Gross amount of finance lease agreements	**325**	356	**345**	380

22. Deferred revenue

The Company received amounts from business partners on exclusivity in the intermediation of additional or extended warranty services, and the subsidiary Sendas received amounts for the rental of back lights for exhibition of products from its suppliers.

The detailed information on Deferred revenue was presented in the annual financial statements for 2017, in note 23.

	Parent Company		Consolidated	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**
Future commitment (*)	**59**	-	**59**	-
Back lights	**-**	-	**53**	104
Additional or extended warranties	**23**	27	**23**	27
Barter agreement	**-**	-	**-**	14
Services rendering agreement - Allpark	**12**	13	**12**	13
Lease income	**11**	-	**11**	-
Others	**8**	10	**8**	10
	113	50	**166**	168
Current	**98**	28	**151**	146
Noncurrent	**15**	22	**15**	22

(*) Regarding to the commitment of sale a distribution center.

23. Shareholders' equity

The detailed information on shareholders' equity was presented in the annual financial statements for 2017, in note 24.

23.1. Capital stock

The subscribed and paid-up capital as of June 30, 2018 is represented by 266,630 (266,579 on December 31, 2017) in thousands of registered shares with no par value, of which 99,680 in thousands of common shares (99,680 on December 31, 2017) and 166,950 in thousands of preferred shares (166,899 on December 31, 2017).

The Company is authorized to increase its capital stock up to the limit of 400,000 (in thousands of shares), regardless of any amendment to the Company's Bylaws, upon resolution of the Board of Directors, which will establish the issue conditions.

At the Board of Directors' Meetings held on February 19, 2018 and April 26, 2018, was approved capital increases amounting to R$1 (R$11 on December 31, 2017) through the issuance of 50 thousands preferred shares (487 thousands of preferred shares on December 31, 2017). On June 30, 2018, the capital stock is R$ 6,823 (R$ 6,822 on December 31, 2017).

23.2. Stock option plan for preferred shares

The fair value of each option granted is estimated at the grant date using the option pricing model Black & Scholes, taking into account the following assumptions for the B5 and C5 series: (a) dividend expectation of 0.41%, (b) volatility expectation of nearly 36.52% and (c) the weighted average interest rate of 9.29%.

				Exercise price		Lot of shares			
Series granted	**Grant date**	**1st date of exercise**	**Expiration date**	**At the grant date**	**End of the year**	**Number of shares granted (in thousands)**	**Exercised**	**Not exercised by dismissal**	**Total in effect**
Balance at June 30, 2018									
Série B2	05/29/2015	06/01/2018	11/30/2018	0.01	0.01	**337**	**(129)**	**(38)**	**170**
Série C2	05/29/2015	06/01/2018	11/30/2018	77.27	77.27	**337**	**-**	**(82)**	**255**
Série B3	05/30/2016	05/30/2019	11/30/2019	0.01	0.01	**823**	**(262)**	**(56)**	**505**
Série C3	05/30/2016	05/30/2019	11/30/2019	37.21	37.21	**823**	**(255)**	**(72)**	**496**
Série B4	05/31/2017	05/31/2020	11/30/2020	0.01	0.01	**537**	**(155)**	**(35)**	**347**
Série C4	05/31/2017	05/31/2020	11/30/2020	56.78	56.78	**537**	**(155)**	**(44)**	**338**
Série B3 –Tranche 2	04/27/2018	05/30/2019	11/30/2019	0.01	0.01	**95**	**-**	**-**	**95**
Série C3 - Tranche 2	04/27/2018	05/30/2019	11/30/2019	56.83	56.83	**95**	**-**	**-**	**95**
Série B5	05/31/2018	05/31/2021	11/30/2021	0.01	0.01	**499**	**-**	**-**	**499**

Série B5	05/31/2018	06/30/2018	06/30/2018	0.01	0.01	**95**	**(95)**	**-**	**-**
Série C5	05/31/2018	05/31/2021	11/30/2021	62.61	62.61	**499**	**-**	**-**	**499**
Série C5	05/31/2018	06/30/2018	06/30/2018	62.61	62.61	**95**	**(95)**	**-**	**-**
						4,772	**(1,146)**	**(327)**	**3,299**

23. Shareholders' equity– Continued

23.2.Stock option plan for preferred shares - Continued

The movimentation of the quantity of exercised options, the weighted average of the exercise price, and the weighted average of the remaining term are presented at the chart below:

	Shares	**Weighted average of exercise price**	**Weighted average of remaining contractual term**
	in thousands	**R$**	
At December 31, 2017	2,539	29,48	1.53
Granted during the period	**1,378**	**30,91**	
Cancelled during the period	**(114)**	**34,09**	
Exercised during the period	**(504)**	**39,10**	
Outstanding at the end of the period	**3,299**	**28,49**	**1.61**
At June 30, 2018	**3,299**	**28,49**	**1.61**

The weighted average of the provided options fair value at June 30, 2018 were R$46,57 (R$39.07 on December 31, 2017).

The recorded amounts at the Parent Company and Consolidated's statement of operations at the June 30, 2018 were R$10 (R$14 at the June 30, 2017).

23.3.Foreign exchange variation of investment abroad

Cumulative effect of exchange gains and losses on the translation of assets, liabilities and profit (loss) of Euros to Brazilian reais, corresponding to the investment in subsidiary Cnova N.V.. The effect in the Parent Company was R$31 (R$17 at the December 31, 2017).

23.4.Tax incentive reserve

On June 29, 2018, was approved in extraordinary shareholders' meeting the proposal the management to reallocate the amount R$48 arising from tax incentives treated as subsidies for investments granted to the Company in the years of 2013 to 2017, initially destined to the expansion reserve.

24. Net operating revenue

	Parent Company	**Consolidated**

	06.30.2018	06.30.2017	**06.30.2018**	06.30.2017
Gross sales				
Goods	**13,733**	13,948	**25,075**	23,146
Services rendered and others	**229**	172	**251**	174
Sales returns and cancellations	**(234)**	(250)	**(255)**	(267)
	13,728	13,870	**25,071**	23,053
Taxes on sales	**(1,047)**	(1,071)	**(1,953)**	(1,838)
Net operating revenues	**12,681**	12,799	**23,118**	21,215

25. Expenses by nature

	Parent Company		Consolidated	
	06.30.2018	**06.30.2017 Restated**	**06.30.2018**	**06.30.2017 Restated**
Cost of inventories	**(8,427)**	(8,083)	**(16,703)**	(15,127)
Personnel expenses	**(1,669)**	(1,761)	**(2,322)**	(2,271)
Outsourced services	**(248)**	(255)	**(320)**	(305)
Functional expenses	**(896)**	(961)	**(1,182)**	(1,196)
Selling expenses	**(486)**	(459)	**(634)**	(576)
Other expenses	**(270)**	(269)	**(330)**	(297)
	(11,996)	(11,788)	**(21,491)**	(19,772)
Cost of sales	**(9,073)**	(8,730)	**(17,473)**	(15,861)
Selling expenses	**(2,566)**	(2,672)	**(3,526)**	(3,422)
General and administrative expenses	**(357)**	(386)	**(492)**	(489)
	(11,996)	(11,788)	**(21,491)**	(19,772)

26. Other operating expenses, net

	Parent Company		Consolidated	
	06.30.2018	**06.30.2017**	**06.30.2018**	**06.30.2017**
Tax installments and other tax risks	**(40)**	(180)	**(19)**	(155)
Restructuring expenses	**(60)**	(45)	**(62)**	(74)
Losses on disposal of fixed assets	**(1)**	(37)	**(52)**	(44)
Others	**-**	(2)	**-**	(1)
Total	**(101)**	(264)	**(133)**	(274)

27. Financial income (expenses), net

	Parent Company		Consolidated	
	06.30.2018	**06.30.2017**	**06.30.2018**	**06.30.2017**
Finance expenses:				
Cost of debt	**(166)**	(294)	**(184)**	(311)
Cost of the discounting receivables	**(66)**	(52)	**(86)**	(73)
Monetary restatement loss	**(65)**	(43)	**(52)**	(46)
Other finance expenses	**(22)**	(33)	**(36)**	(38)
Total financial expenses	**(319)**	(422)	**(358)**	(468)
Financial income:				
Income from short term instruments	**14**	25	**15**	27
Monetary restatement gain	**44**	54	**58**	68
Other financial income	**6**	7	**6**	3
Total financial income	**64**	86	**79**	98
Total	**(255)**	(336)	**(279)**	(370)

The hedge effects are recorded as cost of debt and disclosed in Note 17.

28. Earnings per share

The information on earnings per share was presented in the annual financial statements for 2017, in note 29.

The table below presents the determination of net income available to holders of common and preferred shares and the weighted average number of common and preferred shares outstanding used to calculate basic and diluted earnings per share in each reporting exercise:

	06.30.2018	
	Preferred	**Common**
Basic numerator		
Net income (loss) allocated to common and preferred shareholders - continued operations	**349**	**190**
Net income (loss) allocated to common and preferred shareholders - discontinued operations	**57**	**32**
Net income (loss) allocated to common and preferred shareholders	**406**	**222**
Basic denominator (millions of shares)		
Weighted average of shares	**167**	**100**
Basic earnings per millions of shares (R$) - continued operations	**2.09376**	**1.90342**
Basic earnings per millions of shares (R$) - discontinued operations	**0.34481**	**0.31347**
Basic earnings per millions of shares (R$) - total	**2.43858**	**2.21689**
Diluted numerator		
Net income (loss) allocated to common and preferred shareholders - continued operations	**349**	**190**
Net income (loss) allocated to common and preferred shareholders - discontinued operations	**57**	**32**
Net income (loss) allocated to common and preferred shareholders	**406**	**222**
Diluted denominator		
Weighted average of shares (in millions)	**167**	**100**
Stock options	**1**	
Diluted weighted average of shares (millions)	**168**	**100**
Diluted earnings per millions of shares (R$) – continued operations	**2.08131**	**1.90181**
Diluted earnings per millions of shares (R$) – discontinued operations	**0.34216**	**0.31185**
Diluted earnings per millions of shares (R$) – total	**2.42347**	**2.21366**

29. Segment information

The information about segments was presented in the annual financial statements of 2017, in note 30 Management considers the following segments:

- Food retail – includes the banners “Pão de Açúcar”, “Minuto Pão de Açúcar”, “Extra Hiper”, “Extra Supermercado”, “Minimercado Extra”, “Posto Extra”, “Drogaria Extra” and “GPA Malls & Properties”.

- Cash & Carry – includes the brand “ASSAÍ”.

Home appliances and e-commerce segments are presented as discontinued operations at the June 30, 2018 and 2017 (as per note 31) and kept in this note for purposes of reconciliation as consolidated accounting information.

Information on the Company’s segments as of June 30, 2018 is included in the table below:

29. Segment information – Continued

Description	**Food Retail (*)**		**Cash & Carry**		**Assets held for sale and discontinued operations (**)**		**Subtotal**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
		Restated		Restated		Restated		Restated
Net operating revenues	**12,782**	12,903	**10,336**	8,312	**-**	-	**23,118**	21,215
Gross profit	**3,631**	4,093	**2,014**	1,261	**-**	-	**5,645**	5,354
Depreciation and amortization	**(308)**	(298)	**(111)**	(82)	**-**	-	**(419)**	(380)
Share of profit of subsidiaries and associates	**32**	22	**-**	-	**-**	-	**32**	22
Operating income	**302**	517	**805**	294	**-**	-	**1,107**	811
Net financial expenses	**(264)**	(334)	**(15)**	(36)	**-**	-	**(279)**	(370)
Profit(loss) before income tax and social contribution	**38**	183	**790**	258	**-**	-	**828**	441
Income tax and social contribution	**50**	(56)	**(263)**	(86)	**-**	-	**(213)**	(142)
Net income (loss) for continued operations	**88**	127	**527**	172	**-**	-	**615**	299
Net income (loss) for discontinued operations	**3**	(24)	**-**	-	**209**	111	**212**	87
Profit (loss)	**91**	103	**527**	172	**209**	111	**827**	386
Current assets	**6,742**	7,187	**3,056**	3,090	**21,656**	22,996	**31,454**	33,273
Noncurrent assets	**10,898**	11,150	**4,397**	3,569	**-**	-	**15,295**	14,719
Current liabilities	**6,420**	7,966	**3,532**	3,414	**16,320**	17,897	**26,272**	29,277
Noncurrent liabilities	**5,893**	4,973	**844**	701	**-**	-	**6,737**	5,674
Shareholders' equity	**5,327**	5,398	**3,077**	2,544	**5,336**	5,099	**13,740**	13,041

(*) Food retail includes GPA Malls & Properties.

(**) See note 31.

(***) The eliminations consist of intercompany balances. In the management's view, the net earnings eliminations are made inside of own segment, besides, the equity pickup of the Company in Luxco.

29. Segment information – Continued

The Company and its subsidiaries operate primarily as a retailer of food, clothing, home appliances and other products. Total revenues are composed of the following brands:

	06.30.2018	**06.30.2017**
Assaí	**10,336**	8,312
Extra	**7,606**	8,015
Pão de Açúcar	**3,345**	3,200
Proximidade	**561**	549
Other business	**1,270**	1,139
Total net operating revenue	**23,118**	21,215

30. Non cash transactions

During the semesters ended at June 30, 2018 and 2017 the Company had transactions that was not presented at the statement of cash flows as presented below:

- Purchase of fixed assets not paid yet as note 14.3;
- Purchase of intangible assets not paid yet as per note 15.3;
- Deferred income tax as per note 19;
- Additions of provisions for contingencies as per note 20;
- Recognition of ICMS tax credits, according to note 11.

31. Non current assets held for sale and discontinued operations

The detailed information about assets held for sale and discontinued operations were presented in the annual financial statements of 2017, in note 32.

Composition:	
Net assets Via Varejo (see note 31.1)	21,443
Property/lands held for sale CBD (*)	255
Total	21,698

(*) The Company began a process of sale the assests with carrying amount of R$255 composed of, two distribution centers and three lands, duly approved in the necessary administrative instances, with a high probability of sale. There is no evidence of sale of these assets in amount smaller than their carrying amount.

31.1.Ongoing transaction to dispose of Via Varejo subsidiary

The Board of Directors held on November 23, 2016 approved a process to dispose of the Company's interest in Via Varejo's capital stock, in line with its long-term strategy of focusing on the development of the food activity.

During 2017, due to certain external factors out of the control of the Company, mainly related to the macro economic scenario, the process of sale of Via Varejo was not concluded within one year as initially planned. The plan to sell Via Varejo remains unchanged, and at the end of 2017, the Company revised the next steps and expects, along with its financial advisors, to close the sales process during 2018.

31. Non current assets held for sale and discontinued operations – Continued

31.1.Ongoing transaction to dispose of Via Varejo subsidiary - Continued

Therefore, as required by CPC 31 – “Non-current assets held for sale and discontinued operations” (IFRS 5), the net results, of Via Varejo (and its subsidiary Cnova Brasil) is included in statement of operations as a single line, after taxes, and assets and liabilities balances are disclosed as held for sale and discontinued operations.

Statement of value added on June 30, 2018 and 2017 also discloses the discontinued operations as a single line, nevertheless, for cash flows there were no effects as per IFRS 5 being disclosed at this note the effect of discontinued operations. Non current assets and liabilities held for sale on June 30, 2018 were R$21,443 (R$22,753 on December 31, 2017) and R$16,269 (R$17,824 on December 31, 2017), respectively. The net effects on discontinued operations were a net income of R$212 at June 30, 2018 (net proft of R$87 at June 30, 2017).

Via Varejo shares are listed on B3 under ticker symbol “VVAR11” and “VVAR3”.

See below the summary of the consolidated statement of operations, balance sheet and cash flow statements of Via Varejo before the eliminations, including effects of the purchase price allocation of Globex and Casa Bahia acquisition.

Balance sheet (*):

	06.30.2018	**12.31.2017 Restated**
Assets		
Current		
Cash and cash equivalents	**945**	3,559
Trade receivables (i)	**3,545**	3,750
Inventories	**5,400**	4,379
Recoverable taxes	**570**	219
Other current assets	**174**	168
Total current assets	**10,634**	12,075
Noncurrent		
Trade receivables	**181**	201
Recoverable taxes	**2,806**	2,725
Other accounts receivable	**980**	962
Deferred income tax and social contribution	**317**	415
Related parties	**454**	539
Investment properties	**92**	81
Property and equipment	**1,764**	1,711
Intangible assets	**4,428**	4,287
Total noncurrent assets	**11,022**	10,921
Total assets	**21,656**	22,996

31. Non current assets held for sale and discontinued operations – Continued

31.1. Ongoing transaction to dispose of Via Varejo subsidiary – Continued

Balance sheet (*):

	06.30.2018	12.31.2017 Restated
Liabilities		
Current		
Trade payable, net	**7,446**	7,726
Structured payable program	**114**	437
Borrowings and financing (i)	**3,488**	3,802
Related parties	**140**	139
Other current liabilities (ii)	**1,870**	2,176
Total current liabilities	**13,058**	14,280
Noncurrent		
Borrowings and financing (i)	**358**	397
Deferred income tax and social contribution	**840**	840
Other noncurrent liabilities (ii)	**2,064**	2,380
Total noncurrent liabilities	**3,262**	3,617
Shareholders' equity	**5,336**	5,099
Total liabilities and shareholders' equity	**21,656**	22,996

(*) Before intercompany eliminations with GPA in the amount R$213 of assets and R$51 of liabilities.

(i) Includes financed sales through CDCI, whose value on June 30, 2018 is R$ 2,388 in assets (R$ 2,251 at December 31, 2017) and R$ 3,411 in liabilities (R$ 3,466 on December 31, 2017).

(ii) Includes balance of R$1,338 on June 30, 2018 (R$1,374 on December 31, 2017) of deferred revenue related to the advance received from Zurich Seguros (extended warranty and insurance) and from Bradesco (cards transactions and banking correspondent).

Parent Company's effects	**Note**	**06.30.2018**	**12.31.2017**
Reclassification of investment for held for sale	13.1	**1,910**	1,808
Reclassification of goodwill for held for sale	15	**179**	179
Assets held for sale and discontinued operations		**2,089**	**1,987**

31. Non current assets held for sale and discontinued operations – Continued

31.1. Ongoing transaction to dispose of Via Varejo subsidiary – Continued

Statement of operations (*)	**06.30.2018**	**06.30.2017** Restated
Net operating revenue	**13,209**	12,344
Cost of sales	**(9,097)**	(8,477)
Gross profit	**4,112**	3,867
Operating income (expenses)		
Selling, general and administrative expenses	**(3,323)**	(3,235)
Share of profit of associates	**11**	10
Other operating expenses, net	**(83)**	(189)
	(3,395)	(3,414)
Profit from operations before net financial result	**717**	453
Financial expenses, net	**(373)**	(338)
Income (loss) before income tax and social contribution	**344**	115
Income tax and social contribution	**(127)**	11
Net income (loss) for the year	**217**	126
Attributed to:		
Controlling shareholders	**94**	54
Non-controlling shareholders	**123**	72

(*) Before eliminations of amounts of related parties with GPA.

Description	**06.30.2018**	**06.30.2017**
Net operating revenue	**(20)**	(16)
Cost of sales	**(5)**	(4)
Selling costs	**1**	1
General and administrative expenses	**2**	-
Financial result, net	**10**	1
Income tax and social contribution	**3**	4
Total	**(9)**	(14)

Additionally a reclassification was made of incurred costs on Parent Company basically related to indemnity costs of contingences from prior periods to acquisition, paid to Via Varejo. According to IFRS 5, these costs were reclassified to discontinued operations in the amount of R$4 as of June 30, 2018 (R$(24) as of June 30, 2017).

Cash flow	**06.30.2018**	**06.30.2017**
Cash flow used in operating activities	**(1,804)**	(2,657)
Net cash used in investing activities	**(242)**	(116)
Net cash used in financing activities	**(568)**	(507)
Cash variation in the period	**(2,614)**	(3,280)

32. Subsequent events

32.1 Conversion of sharea Via Vajo

In a Board of Directors meeting of the subsidiary Via Varejo, happened on July 23rd, 2018, the Company proposed, and it was approved, the beginning of the conversion process of Via Varejo into the New Market of B3, covering the totality of the share of Via Varejo and consequent conversion of preferred shares into ordinary shares in the proportion of one to one. Moreover, the units program of Via Varejo will be terminated, having so forth each holder of an unit, which is currently represented by one ordinary share and two preferred, to have three ordinary shares of Via Varejo.

The next Board of Directors´ meeting of Via Varejo is supposed to happen until August 15 th, 2018, when it will be deliberated over the rules of the New Market, and immediately after, call a General Assembly to decide over the migration process and any other action required to implement the migration. There is no impacts of this decision in the Quarterly Financial Information as of June 30th, 2018.

Other information deemed as relevant by the Company

Shareholding at 6/30/2018

SHAREHOLDING OF CONTROLLING PARTIES OF THE COMPANY'S SHARES. UP TO THE INDIVIDUAL LEVEL

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO (Publicly-held company)					**Shareholding at 6/30/2018 (In units)**	
	Common Shares		**Preferred Shares**		**Total**	
Shareholder	**Number**	**%**	**Number**	**%**	**Number**	**%**
Wilkes Participações S/A	94,019,178	94.32%	-	0.00%	94,019,178	35.26%
Jean-Charles Naouri	-	0.00%	1	0.00%	1	0.00%
Geant International BV*	-	0.00%	9,423,742	5.64%	9,423,742	3.53%
Segisor*	5,600,050	5.62%	-	0.00%	5,600,050	2.10%
Casino Guichard Perrachon*	1	0.00%	-	0.00%	1	0.00%
Almacenes Éxito S.A.*	1	0.00%	-	0.00%	1	0.00%
King LLC*	-	0.00%	852,000	0.51%	852,000	0.32%
Helicco Participações Ltda.	-	0.00%	581,600	0.35%	581,600	0.22%
Carmignac Gestion*	-	0.00%	13,576,698	8.13%	13,576,698	5.09%
Brandes Investment Partners, LP*	-	0.00%	8,510,442	5.10%	8,510,442	3.19%
Board of Executive Officers	-	0.00%	432,236	0.26%	432,236	0.16%
Board of Directors	-	0.00%	37,896	0.02%	37,896	0.01%
Treasury Shares	-	0.00%	232,586	0.14%	232,586	0.09%
Others	60,621	0.06%	133,302,687	79.85%	133,363,308	50.02%
TOTAL	**99,679,851**	**100.00%**	**166,949,888**	**100.00%**	**266,629,739**	**100.00%**

(*) Foreign Company

CORPORATE'S CAPITAL STOCK DISTRIBUTION (COMPANY'S SHAREHOLDER). UP TO THE INDIVIDUAL LEVEL

	WILKES PARTICIPAÇÕES S.A				**Shareholding in units**	
Shareholder/Quotaholder	**Common Shares**		**Preferred Shares**		**Total**	
	Number	**%**	**Number**	**%**	**Number**	**%**
Casino Guichard Perrachon*	1	0.00%	-	0.00%	1	0.00%
Segisor*	217,402,606	97.23%	-	0.00%	217,402,606	97.23%
Bengal LLc*	2,119,162	0.95%	-	0.00%	2,119,162	0.95%
Oregon LLc*	2,119,162	0.95%	-	0.00%	2,119,162	0.95%
Pincher LLc*	1,961,612	0.88%	-	0.00%	1,961,612	0.88%
Almanacenes Éxito S.A.*	1	0.00%	-	0.00%	1	0.00%
Treasury Shares	-	0.00%	-	0.00%	-	0.00%
TOTAL	**223,602,544**	**100.00%**	**-**	**0.00%**	**223,602,544**	**100%**

Other information deemed as relevant by the Company

SHAREHOLDING OF CONTROLLING PARTIES OF THE COMPANY'S SHARES. UP TO THE INDIVIDUAL LEVEL

	SEGISOR				Shareholding in units	
Quotaholder	**Quotas**	**%**	**Preferred Shares**	**%**	**Number**	**%**
Onper Investimentos 2015 S.L.*	887,239,543	50.00%	-	0.00%	887,239,543	50.00%
Casino Guichard Perrachon*	887,239,543	50.00%	**-**	**0.00%**	887,239,543	50.00%
TOTAL	**1,774,479,086**	**100%**	**-**	**0%**	**1,774,479,086**	**100%**

(*) Foreign Company

SHAREHOLDING OF CONTROLLING PARTIES OF THE COMPANY'S SHARES. UP TO THE INDIVIDUAL LEVEL

	ONPER INVESTIMENTOS 2015 S.L.				Shareholding in units	
Shareholder	**Common Shares**	**%**	**Preferred Shares**	**%**	**Number**	**%**
Almanacenes Éxito S.A.*	3,000	100.00%	-	0,00%	3,000	100,00%
TOTAL	**3,000**	**100%**	**-**	**0%**	3,000	100,00%

SHAREHOLDING OF CONTROLLING PARTIES OF THE COMPANY'S SHARES. UP TO THE INDIVIDUAI

	ALMANACENES ÉXITO S.A.				Share 6/30/20
Shareholders*	**Common Shares**	**%**	**Preferred Shares**	**%**	**Numl**
Geant International B.V.	187,689,792	51.52%	-	0.00%	187,68
Geant Fonciere B.V.	47,725,428	13.10%	-	0.00%	47,72
Fondo de Pensiones Obligatorias Porvenir Moderado	24,518,315	6.73%	-	0.00%	22,04
Other Shareholders	104,351,552	28.65%	-	0.00%	104,35
TOTAL	364,285,087	100.00%	-	0.00%	364,28

Other information deemed as relevant by the Company

CONSOLIDATED SHAREHOLDING OF CONTROLLING PARTIES AND MANAGEMENT AND OUTSTANDING SHARES

	Shareholding at 6/30/2018				Shareholding (In units)	
	Common Shares		**Preferred Shares**			
Shareholder	**Number**	**%**	**Number**	**%**	**Number**	**%**
Controlling parties	99,619,230	99.94%	10,857,343	6.52%	110,476,573	41.49%
Management						
Board of Directors	-	0.00%	432,236	0.26%	432,236	0.16%
Board of Executive Officers	-	0.00%	37,896	0.02%	37,896	0.01%
Treasury Shares	-	0.00%	232,586	0.14%	232,586	0.09%
Other Shareholders	60,621	0.06%	155,389,827	93.08%	155,450,448	58.30%
Total	**99,679,851**	**100.00%**	166,949,888	100.00%	266,629,739	100.00%

Outstanding Shares	**60,621**	**0.06%**	155,859,959	93.36%	155,920,580	58.48%

CONSOLIDATED SHAREHOLDING OF CONTROLLING PARTIES AND MANAGEMENT AND OUTSTANDING SHARES					**Shareholding at 6/30/2018 (In units)**	
Shareholder	**Common Shares**		**Preferred Shares**			
	Number	**%**	**Number**	**%**	**Number**	**%**
Controlling parties	99,619,230	99.94%	10,857,343	6.54%	110,476,573	41.58%
Management						
Board of Directors	-	0.00%	217,762	0.13%	217,762	0.08%
Board of Executive Officers	-	0.00%	262,469	0.16%	262,469	0.10%
Treasury Shares	-	0.00%	232,586	0.14%	232,586	0.09%
Other Shareholders	60,621	0.06%	154,997,476	93.05%	155,058,097	58.24%
Total	**99,679,851**	**100.00%**	166,567,636	100.00%	266,247,487	100.00%
Outstanding Shares	**60,621**	**0.06%**	155,477,707	93.34%	155,538,328	58.42%

SIGNATURES

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

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Date: July 25, 2018

By: /s/ Peter Estermann
Name: Peter Estermann
Title: Chief Executive Officer

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

FORWARD-LOOKING STATEMENTS

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