Operator:

Good morning ladies and gentlemen. At this time we would like to welcome everyone to the Aliansce's 2Q16 earnings conference call. Today with us, we have Mr. Eduardo Prado, IRO, Mr. Renato Botelho, CFO, and Mr. Mauro Junqueira, CIO.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the Company's remarks are completed, there will be a question and answer section for investors and analysts. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of the Company's management, and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company's and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Eduardo Prado, who will start the presentation. Mr. Prado, you may begin the conference.

Eduardo Prado:

Good morning. I would like to welcome everyone to the 2Q results conference call of Aliansce Shopping Centers. Financial indicators and most of the Company's operating figures presented in the 2Q demonstrate the resilience in the quality of the portfolio. However, the current market scenario continues to impact sales of our tenants in the last quarter.

It is noteworthy that the major sales indicators show an improvement in the last month of the quarter, in July, in comparison to April and May.

I would like to begin the presentation on slide number three, talking about operating indicators. The first graph shows the evolution of the occupancy rate since the 2Q15. There was a slight improvement in the last quarter in comparison to the 1Q of the year.

Despite the current scenario, the leasing process of spaces in our malls is still very active. Further on in this presentation we will have the opportunity to talk more about leasing activity in the quarter.

The occupancy rate remains quite high in most of the Company's shopping centers, especially the ones that are most relevant in terms of NOI. On the graph on the right hand side the net late payments during the 2Q, which shows a slight increase in comparison to the 1Q16.

There is always a seasonal effect in the 1Q, which causes bad debt to be higher in this period in comparison to the rest of the year, maintaining the late payment rate to a level which is considered by the Company, a low level, another indicator of the strength of our malls.

Comparing now to the 2Q15, the net late payment, it's worth highlighting the impact of the group of anchor stores.

The Company's, besides negotiating the payment of overdue rents of these tenants, the company has been discussing with them the possibility of receiving back a few of these areas, either total or partial areas they currently occupy.

This return, these areas the Company will receive back, the decision will always be aligned with the leading team, who will be searching for new tenants again, to improve the overall mix of the mall.

As an example, one of the companies' assets, we are negotiating the two anchor stores, they will return part of the area they currently occupy, and, at the same time, these spaces are being negotiated with restaurants. In this specific property, restaurants, important part of the wish list of the consumers who attend the mall.

The result as of this process, it not only improves the mix, but inventories will have a higher sales productivity per square meter, because the reduced areas without having an equivalent impact on sales.

Now, speaking about the occupancy cost in the bottom of the slide, looking not only at total occupancy cost, but also looking at occupancy cost per satellite stores, we saw that despite the increase identified in the last 12 months, the occupancy cost of the portfolio is still below the market average, and retailers in most cases have an occupancy cost allowing the Company to increase rent without sacrificing the operation of these tenants.

Now, moving on to slide number four, it shows the sales performance in the quarter. As was already mentioned, the current macro scenario has impacted sales of the Company's shopping malls in the quarter. It is important to note once again the spread between the major sales indicators in the current scenario.

The gap between same-store sales, same-area sales and sales per m² tends to be more representative. In the first chart, basically what is shown is the impact of mix improvement and occupancy of vacant stores in those indicators.

The Company's same-store sales in the 2Q was -7%, same-area sales fell -6.3%. There is already an impact of a better tenants mix. Sales per m² increased by 4.3% in the quarter, also reflecting the areas that have been occupied by tenants with a higher sales per m².

It is important to note that the management of the mall's tenant mix is a continuous process and it has always happened. Looking at five years and even for a longer period, there has always been an impact of changing, improving the mix, changing stores, and occupying vacant spaces.

More specifically the chart on the left side, at the bottom of the slide, the comparison between same-store sales and same-area sales, sales per m² versus same-area sales. In the last 12 months on average, same-area sales have grown close to 70 p.p. above same-store sales growth, and sales per m² have a nearly 1% higher growth than same-area sales on average.

In the 2Q16 sales growth per m² were 3 p.p. higher than same-store sales growth. And the last graph of this slide shows that total sales in the last five years have an average growth of approximately 10%.

It is important to note that this performance, this significant sales growth we have seen in recent years resulted in the occupancy cost we mentioned in the previous slide, which is below the market average. And basically the main reason for the resilience shown in rent revenues, which remain the case in the 2Q.

Turning to page five, talking now about leasing activities during the last quarter. There were 120 stores leasing during the last quarter, versus 94 stores in the same period of 2015. The total GLA leased was close to 14,000 m², a growth of 120%.

Here what is possible to highlight, the main opening scheduled between the 2Q and the end of the year with names such as Forever 21, which will be the first in the state of Bahia, Zara, which is the second one in Belo Horizonte, one of the largest cities in Brazil, also other stores to be opened such as Renner, Camicado and restaurants, one example is Outback.

All of those operations listed here add quality to the tenant mix of our malls. They bring traffic, benefit sales of other tenants in general. They benefit parking revenue as well.

Moving on to slide number six, some highlights on the main properties of the portfolio, which is currently comprised of 19 malls and extend the tenement process of the portfolio accounted for more than 80% of the NOI in the 2Q.

Those properties have an occupancy rate of above 97%, which is above our average. We also had a satellite sales per m² in the last 12 months close to R$2.000 per m², which is around 8% above average.

It is also important to mention that the occupancy cost of this group of assets is below average. The reason for that is the sales growth accumulated over the last four, five years. Those assets are mature assets with an average age of 11 years.

Going to slide seven, it shows the breakdown of gross revenues in the quarter. Regarding rental revenue, the overage rent was impacted by sales. On the other hand, kiosks continue to post a higher than average growth. Regarding other types of revenues, highlight to services and parking.

Parking was again impacted in the beginning of the collection of Shopping da Bahia, which started at the end of 2Q15, and also by the increase in parking prices in most of our malls during the last 12 months.

It is also important to mention that the full traffic inside our malls continues to be very high. The consumers continue to visit our properties on a regular basis. So, if the macro scenario improves, the Company expects a fast rebound in terms of sales.

Looking now at the right hand side of the slide, Aliansce's gross revenues grew a little bit above 4%, reaching R$145 million. Again, it is important to mention that the Company has divested during the 3Q15 a stake of 35% in Via Park Shopping and also a small acquisition of 2% in Shopping da Bahia. We always want to highlight the same basis comparison.

Excluding changes in ownership interests, gross revenues growth was 7.2% in 2Q.

On the next slide, we show the main metrics regarding rental growth. Same store rent had a 5.7% growth in the quarter, which is 1.7 p.p. above the growth in the 2Q15, and 1 p.p above last year's average.

Looking at the right hand side table, you can see all the rental revenues main metrics show a better performance in comparison with the 2Q15. Below, looking at the left hand side graph, it shows the minimum rent increase by a little bit above 7%, which shows that the Company has been able to transfer the inflation adjustments to the vast majority of its rental contracts, despite the current macro scenario.

The breakdown of same store rent per store type, on the right hand side, the quarter's highlight was anchors. There was a contribution from a group of anchors who had a higher than average sales performance. Additionally, entertainment posted a healthy growth in the quarter, as it has been the case since the beginning of last year.

Moving to slide nine, covering the main financial highlights. As we mentioned before, there was a 9% increase in parking revenues. Services increased by 5%. And merchandising and kiosks also had an increase above average.

Looking specifically at parking as well as kiosks and merchandising, as you can see on the graph on the left side below, both of them presented an average annual growth rate above 20% in the last five years.

In terms of costs and expenses, there was a pressure from operating costs and provisions for doubtful accounts. Despite that, the good news was reduction of 15% in parking costs, due to lower personnel expenses, and also there was a decrease of 30% in leasing and planning costs in the quarter, despite the fact that the Company has leased more stores during the 2Q16 over the 2Q15.

In addition, the Company was able, for the third consecutive quarter, to reduce its G&A expenses. The main items here were reduction in salaries, in stock option expenses in stock option plans, and also there was a decrease in consulting travel and the lease of our headquarters. Looking at the trajectory since 2012, on the left hand side graph, there was a relevant dilution of G&A expenses.

On slide 10, we show the main financial indicators. It is important to know that those figures, again, are on a same mall basis, that is excluding the changes in ownership that happened in the 2H15. So NOI had a close to 1% growth, reaching R$108 million. Adjusted EBITDA had 0.5% growth, reaching a little bit above R$91 million.

Adjusted net income, which excludes non-recurring and non-cash items, reached R$7.7 million in the 2Q. And adjusted FFO, which the Company adjusted by the same items as in the net income grew by 2%, reaching R$25 million in the last quarter, with a 20% margin.

On the next slide, you can see the pipeline of investments until 2018, which is a reflection of the current scenario. The Company has just one expansion under construction and has postponed some investments renovations in the portfolio. Compared to the information we have disclosed in the 1Q16, there was a change, as the Company has decided to delay some investments and renovations from 2017 to 2018.

Regarding expansions, although the Company has several expansion projects already planned, and some of them are even approved, the Company is waiting for an improvement in the macro economic scenario to launch those projects. As mentioned before, we have just one expansion under construction, which is one new movie theater complex in the mix of Shopping West Plaza.

In this mall, the Company has identified an opportunity to improve the tenant mix, given the untapped demand for leisure restaurant in the trading area of the mall. The movie theater will be in a new location, in a much larger area, and the area previously occupied by the movie theater was already leased to a theater.

The Company is also adding restaurants, including the ones already opened and the lease contracts already signed with restaurants, the total addition was close to ten restaurants in the mix of the shopping center. The Company expects a positive impact on the food track, especially during the weekend. Of course you have a positive impact in the total sales of this shopping center.

Moving on to slide 12, talking about Company's the capital structure, we ended the quarter with a net debt of R$1.6 billion. Most of our debt, 90%, is long term. The average cost of debt is 14% with an average maturity of six years. Looking at the pie chart on the right hand side below, you can see that most of our debt is linked to low volatility indexes, such as TR and TJLP.

The Company's strategy regarding its capital structure has not changed. The exposure to different indexes will not be altered significantly. However, we had an increase during the 2Q of our exposure to the Selic rate and CDI, and also, there will be an issuance of new debt, which could also be adjusted to CDI, including the Company's exposure to this index.

On slide 13, we talk about the restructuring of part of the Company's debt. We saw an opportunity to reduce the cost of debt and expand the payment terms of our maturities. So during the 2Q, at the same time, we have a prepaid debt of close to R$50 million, a total cost of 20%, well above our average. And simultaneously, we issued a debenture of R$75 million, with a cost of CDI + 1.7%.

Given the fact that the new debt is linked to CDI, depending on the macro scenario, there is a possibility of reducing the cost of this financing in the short or midterm. Also, it is important to mention that the maturity of the prepaid debt was up to 2019, and the new debenture has a maturity of 12 years. It is a 12-month grace period on principle.

In addition, last week, the Company announced certificates of real estate receivables, regarding Bangu Shopping. The amount will be R$175 million, which includes the possibility of greenshoe and hot issue could increase up to R$225 million. The issues received ratings of brAA from Fitch Ratings, also it is important to mention that there is a firm underwriting commitment from the bookrunners.

The structure of the CRI is the following: there will be up to two tranches, one is the maximum yield of CDI + 1%, and the other will have maximum yield of treasury notes 2020 + 1%. The amount to be issued in each tranche will depend on the demand and the Company's interest, which will have the option of how to distribute the total amount. There is even the possibility of having just one tranche being issued. The Company expects to receive the cash from this operation up to the end of the 3Q.

The final slide shows the main operating metrics in financial metrics of the Company for the 2Q and the 1H16.

With that, I conclude the earnings call and together with my colleagues remain available to answer any questions you may have.

Ivan Henriquez, HSBC:

Thank you. Hello everyone. Thanks for the conference call. I just want to know if you can provide more details on the rental revenues decreases at Via Park Shopping also Santa Ursula Shopping and also Vila Velha Boulevard Shopping. I saw on the release important declines on rental revenues. If you can help me understand what are the dynamics in these shopping centers, it would be helpful.

Eduardo Prado:

Good morning, Ivan. Thank you for the question. Regarding Vila Velha and Santa Úrsula, it is the same situation. The two assets are in a stressed market. You have in the last two years an additional offer of GLA in new shopping centers, so the competition is much higher than in the rest of the portfolio.

It is always important to highlight that those two assets account for less than 2% of the Company's net revenue. So, the main reason for the decline is the discounts, and in both cases, also, change of stores, improvement in tenant mix. So, for a short period we did not receive rental payments. Even if in some cases they are in a grace period or construction of new stores, but the main reason is discount in both cases.

Ivan Henriquez:

OK. Thanks so much. And if I can have a follow up question, of course I see the first revenue that you reported, 6.1% decrease compared to the 2Q15, but basically I want to have a sense of the consumption in Brazil. Of course I can imagine that the economic scenario is very complicated, but would you expect it to become slightly positive eventually? Or what consumptions patterns are you seeing in Brazil in this period with this scenario?

Eduardo Prado:

OK, Ivan, thank you. There are some macro indicators, such as consumers' confidence and the possibility of reducing not only interest rate, but the possibility of having a lower inflation in the remaining of the year and next year. Those indicators could have a positive impact on sales, so I think that is always important.

We continue to improve the mix of our malls in order to increase sales. Looking at the 2H16, the comparison basis, the figures of last year, were lower than average, so we also have a weak basis in the 2H.

Ivan Henriquez:

OK. Thanks. Understood.

Operator:

This concludes the question and answers session. At this time, I would like to turn the floor back to Mr. Eduardo for any closing remarks.

Eduardo Prado:

I would like to thank you all for your participation. And we remain available to answer any questions you may have. Thank you. Have a nice day.

Operator:

Thank you, this thus concludes today's presentation, you may disconnect your line at this time and have a nice day.