International Conference Call
Aliansce Shopping Centers
Second Quarter Earnings Results
August 10th, 2017

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to the **Aliansce's second quarter 17 earnings conference call**. Today with us, we have **Mr. Rafael Sales, Vice-President, Mr. Renato Botelho, CFO and IRO, Mr. Mauro Junqueira, CIO and Mr. Luis Otávio Pinto, Investor Relations Manager.**

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.

We have simultaneous webcast that may be accessed through Aliansce's IR website, at http://ir.aliansce.com.br/. The slide presentation may be downloaded from this website; please feel free to flip through the slides during the conference call. We would like to inform that questions can only be asked by telephone, so if you are connected through the webcast, you should email your questions directly to the IR team at ri@aliansce.com.br

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 and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to **Mr. Rafael Sales,** who will start the presentation. **Mr. Rafael**, you may begin the conference.

Mr. Rafael Sales: Thank you and good morning everyone. It's a pleasure to have this opportunity of presenting my first conference call on the company's results. I want to say that I'm very proud to be a part of Aliansce's team.

Since it's my first conference call, I will make it slighted different than the usual. Although as a Board Member, I had already been familiar with the company's results and operational metrics from a close standpoint, I think it is important to open this call with remarks that go beyond simply commenting on results.

First, I'd like to show my appreciation for the welcome I received after moving from the Board to the Vice-President position. My colleagues on the executive committee and other leaderships of the company have been very collaborative and have welcomed me with great enthusiasm.

Nominally, I would like to thank Botelho, Mauro, Paula, Ewerton, Mario and Renata. They and their teams have been fantastic to me in these early months. I'd like also to thank Renato and Delcio as well, since my joining the company and my desire to be part of the Aliansce team has a lot to do with the admiration I have for the business they built together and for the trust in the partnership that we are forging in this new phase.

We have received recurring questions about me joining Aliansce as Vice-President, as well as about the new talents we are bringing into the company, so we thought it would be important to comment a little here on what are our medium and long-term goals.

Basically, Renato [our founder and CEO] intention in inviting me to join as an executive is to promote a new phase in the company, extracting more value from our malls and our team, which are, after all, our most valuable assets.

Aliansce has really evolved as a company, creating a differentiated and dominant retail platform in the various regions where we are present. One of our main objectives in this new phase will be to look inside at the process and management initiatives that have gotten the company this far and to reinforce them.

We will seek to replicate best practices and create robust processes to support our future investment decisions, whether in expansions, acquisitions and in new developments.

In this sense, the arrival of Leandro Lopes will be extremely important. As our new COO, he brings a baggage of extensive experience in mall operations. We are strongly confident that he is the right person to succeed Delcio in the COO position. Since Delcio participated in the selection process of his successor and will now take charge in the passing the baton to Leandro, I am convinced that we will have a well-resolved succession within a few months.

That said, the most important objective now is to maintain the strong culture that we have at the company, that is to provide the best shopping experience to our consumers and, consequently, to offer sound business opportunities to our tenants.

To maintain and strengthen this culture of success, we need to have the best talents. After having spent 3 years as a Board Member, I already had a reasonable assessment of our top management. In this little more than 2 months as an executive, everything I've seen at the company in terms of people, has exceeded my expectations.

I am pleased to see that we have a strong team and that our executive group, reinforced by some of the talents that we have already announced, is ready to face the challenges ahead of our industry and our company.

Well, having said that, now I would like to make a brief comment regarding the results of the second quarter.

This last quarter showed a first sign of sales recovery in our malls, we achieved positive same-store sales numbers again after a while and we've had strong growth in total sales.

There are several factors that support this small improvement, including the gradual recovery in the macroeconomic and the effect of a weak base of comparison with the previous year.

However, I'd like to highlight an internal aspect that has been very important for the growth of total sales in our malls: we have achieved a notably good result through our intense work of improving mall's tenant mix.

In this first half of the year, we signed about 200 new leases contracts, totaling a leased GLA of more than 18,000 m². The increase in the pace of store changes and the consequent improvement of the mix over the last quarters have raised the level of professionalism of our tenants.

It tends to generate an effect of reducing late payments and consequently improving our costs with provisions, which have already fallen significantly in this last quarter.

It is also important to note that sales per square meter of store exchanged in the last 12 months increased more than 37% in relation to sales of the same areas in the second quarter of last year.

It's important to highlight, obviously, that this initiative to replace less efficient tenants has an initial cost, the so-called "tenant turnover cost", which has affected our margins. However, this is the time to be bold and take advantage of the effects of the crisis in a positive way and to improve our tenant base.

At the beginning of their contracts, our tenants may have commercial conditions that temporarily affect our results, but at the end of the day, we are seeing much better sales metrics coming from these recently leased areas, which strengthens our conviction that they will become profitable rentals after a certain period of the contracts.

Another consequence of this strategy is the small increase in vacancy this quarter. We understand that this impact is temporary and more than justifiable in view of the improvements in mix quality, which has had a positive impact on the total sales.

Yet, another reason for the success we have had in replacing tenants who are underperforming is that our malls are well maintained. In deciding to sustain constant investments in maintenance and renovations, even during the crisis in Brazil, we preserved our capacity to attract good tenants, which is now leading to expressive total sales growth.

All in all, despite the growth in this recent positive result, we are still cautious. We will seek to keep improving our operational metrics in order to have the company always prepared for any economic scenario.

I want to highlight: our business is not to predict when same-store sales will recover in a sustainable way, but rather to have our malls well prepared, both in terms of investments and in right retail proposition to our consumers.

Another aspect that I would like to point out in relation to the results is the well-executed balance sheet strategy conducted by our financial team. We have put in place a process of re-profiling our debt with significant cost reduction. This process has already led to expressive growth in our FFO and should help sustain this trend with the expected fall in interest rates.

We remain prepared to use the best possible debt instruments to refinance the company's debt at more attractive rates and conditions, as we have done with recent issues of incentivized Real Estate Notes (CRI).

Our objective continues to reach the end of the year with floating rates exposure representing 35% to 40% of our total indebtedness, in order to take advantage of the interest rates reduction.

Now, before giving the floor to Luis to comment on the results, I'd like to talk a little bit more about management long-term goals.

Please, now on slide 5 I wanted to summarize the main points that will be the management focus in the coming years. I will not quantify these goals yet, as the diagnoses and the studies are still under development. We will rely on external consultants to support our team in developing a detailed action-plan to address these challenges.

Basically, we see that there are 3 main pillars of value creation to focus on: (1) first, there is a lot of value to be captured by developing an integrated management model to the company, promoting more collaboration among areas and replicating best practices that have worked well for us so far; (2) the second point, focusing on the commercial strategy that intend to derive greater support from processes, metrics and targets, seeking to get more value from our tenants' rental revenue, with an accurate pricing policy; (3) and third point would be to implement a more formal process of constantly re-evaluate our strategic positioning in order to manage our portfolio from a capital allocation perspective, actively evaluating investments, acquisitions and divestments.

The company is ready to evaluate full divestments or sale of stakes in assets that do not fit our strategic objective of having central, dominant malls with the capacity to generate differentiated returns.

Going to next slide, I'd like to show the updated organizational structure, which reflects the recent additions to the executive team.

Moreover, besides Leandro, who, as I said, is joining the team as our future COO,
we also welcome Daniella Guanabara, who will be responsible for the areas of Strategy Planning and Investor Relations. Daniella, who many of you may already know, is a highly-experienced professional and will certainly bring valuable contributions to the company.

Now, I'll give the floor to Luis, our IR Manager, to comment on the results in more detail way. Thank you.

Mr. Luís Otávio Pinto: Thank you Rafael and good afternoon everyone. I will start the presentation showing the sales, which were the highlight in the second quarter of 2017.

Same-store sales, which had been impacted by the strong economic recession and had not shown growth since first quarter 2015, returned to a positive level, increasing 4% over the same period of the previous year. Sales had positive results in all months of the quarter, even excluding the effect of Easter, which last year fell in March.

The company has focused its strategy on strengthening and renovating the tenant mix, bringing in new tenants with better operational metrics, keeping our malls modern and updated. Sales per square meter in the quarter presented growth of 7.9%; an increase of 3.9 percentage point compared to same-store sales and of 3.1 percentage point when compared to same-area sale.

At the bottom of the slide we see this evolution, and part of this mix change does not appear in the same-store sales indicator, but it's readily captured in the sales per square meter figure.

Total sales considering Aliansce's ownership stake grew 13.6%; reaching R$1.4 billion in the quarter.
Slide nine shows the company's financial highlights. The mall operating revenues, which excludes services and the non-cash effect of linear rent, grew by 8.9%, reaching R$138.2 million in the quarter.

Another highlight in the period was revenue from parking, which grew 12.2% in the quarter supported by the growth in vehicles flow and the increase in the average ticket in our shopping malls.

Going now to slide number 10, we have the main performance indicators of our malls. The occupancy cost in second quarter 1207 was of 10.7%; a reduction of 1.0 percentage point compared to first quarter 17, and 0.3 percentage point compared to second quarter of 2016.

This drop was observed in most of the malls in our portfolio in view of the improvement in sales during the same period. This is a strong indicator that there is still room for growth of rent levels in the medium term.

The percentage of net late payments in the period was of 3.7%, which represents a reduction of 2.1 percentage points relative to second quarter 2016. Also, there was a 29.1% reduction in the cost of provision for [0:16:26 unintelligible] accounts this quarter, mostly due to the improved performance of the company's receivables.

Finally, the portfolio's occupancy rate ended this quarter at 95.7%; a decrease of 0.3 percentage points compared to first quarter 17. We emphasize that the process of replacing tenants generates temporary vacancy in the portfolio and an increase in costs, which are already offset in part by the reduction of the provision for doubtful accounts and an improvement of net late payments.

On slide 11, we show the evolution of the company's rental revenue. The growth of the minimum rent per square meter, excluding the non-cash effect of linear rent, was 6.9% in the quarter. Same-store rent has shown steady growth in the last 12 months, which has been possible due to the maintenance of the occupancy cost at stable levels, also below the market average. This is feasible largely due to the company's efforts to reduce condominium costs.

Rental revenue increased 8.9% in the second quarter. We notice an evolution of this indicator in all malls, especially in Carioca Shopping, which grew by 12.6% in the quarter.

Analyzing the breakdown of same-store rent growth by category of stores, we saw that all segments presented a relative positive performance.

Slide 12 presents the investments made during the first semester of 2017. We invested a total of 61.8 million, most of these figures refer to the interest acquisition in Parque Shopping Belém and Boulevard Belém, which represented approximately 28 million.

The company invested about 11.9 million in the malls in operation, both in revitalization and maintenance. In addition, as can be seen in the images on the side, we invested 3.5 million in Shopping da Bahia, adding 887 square meters to the GLA.

What we're doing here is an intervention in the mall, promoting better flow of visitors, creating a wider corridor and improving the ambiance as a whole. It is estimated that the company will close the year with a Capex of approximately 80 million.

Moving on to the next slide, we highlight the evolution of the company's capital structure. We highlight the increase in exposure to debt indexed to the CDI rate and the reduction of exposure to the TR reference rate, taking advantage of the reduction expectations of the Selic rate in the coming years.

We believe there is room for even greater exposure to the CDI rate and, as Rafael said before, the company has been working to end the year with about 35% to 40% exposure to this index. Thus, the average cost of our debt decreased from 14.0% in second quarter 16 to 12.3% in this quarter, reflecting an improvement in the financial result quarter-over-quarter.

The company's debt amortization schedule shows that the cash flow of its operations will support the maturities schedule during the coming years. Over the next 3 years, the principal amortization schedule remains at a comfortable level; below 40% of Adjusted Ebitda.

We closed the quarter with approximately 700 million in cash, which will allow us to face the acquisition of Boulevard Corporate Tower in Belo Horizonte, maintaining liquidity levels adequate to the company's capital strategy.

As previously mentioned, the pace of commercial activity has remained at an elevated level. In the second quarter, we leased 129 stores; an increase of 7.5% over the same period of 2016.

It should be noted that the same-area sales of the stores replaced in the last 12 months showed a growth of 37.3%, causing sales per square meter to increase from a level of 1,029 to a level of 1,413 per square meter. This indicates the strength of the new tenants and their ability to attract customers to our malls.

In today challenging scenario, we were confronted by weak operating metrics of tenants going through economic hardships. This crisis has also had an impact on net late payments and on the provision for doubtful accounts, generating more discounts and costs with vacant stores.

To reverse this scenario, we are working hard to add value to our assets, seeking to renew the tenant mix and, thus, strengthening sales. We have a strong leasing activity track record, and as we are bringing tenants with better performance, they will contribute to the mix of the mall, attracting consumers and generating positive impacts for other tenants as well.

Gradually, we understand that with the recovery of sales we will see a recovery of net late payments and, consequently, of the provision for doubtful accounts, in addition to a reduction in the level of discounts.

With this scenario in mind, if we returned to the same level of discounts, contributions and provision for doubtful accounts we had in 2015, we would have a potential gain of R$63 million. That is, by reducing these costs, which today represent 17% of our revenue, we would bring the margin closer to higher historical levels.

I would like to open now for questions and answers. Our team is available to answer any questions you may have. Thank you.

Q&A Session

Operator: Thank you. The floor is now opened for questions from investors and analysts. If you have a question, please press star one on your touch tone phone at this time. If at point your question is answered, you may remove yourself from the queue by pressing star two.

Our first question comes from Luis Mauricio Garcia, Bradesco.

Mr. Garcia: Hi good morning guys. I have 2 questions. The first one, I'd like a brief comment from you guys in terms of performance on the same assets base. If we exclude the 3 acquisitions you made after the 2Q16, Leblon and the takes into 2 malls from Belém, we saw that actually revenues growth came closer to flat, closer to 2%. So, in your opinion, what are the reasons behind this low revenue growth given the carryover effect from last period inflation? That would, let’s say, help the year-over-year performance to about 8% if we assume last year’s inflation.

So, when you know you comment about some exchange, so would like to see if this is a temporary effect on the exchange and etc., so I would welcome comments on that point.

And the second question is related to M&A and divestments, as Rafael mentioned. What is the scenario you guys expect in terms of divesting the non-core malls? So, any comments on expected cap rates, what should be the use of proceeds in case of any divestments taking place in the company? Thank you.

Mr. Sales: Hi Luis, thank you for your questions and we appreciate your attendance to the call. First, I'd like to point out some aspects of the revenue performance, as you asked. Basically, there is a lag after a certain period of economic constraint to turn better sales into revenues, right. So, basically, there is… we are seeing better performance in sales, but we are still leaving some discounts, as you know and as we already explained in the release, and this will gradually become revenues.

Also, the impacts of new tenants, that you also mentioned, are relevant because we are doing it in an intense way the turnover process, what is going to turn into revenues in the future, partially because of the sales growth that will be translated into percentage rents, also because of the performance of the sales that will allow us to charge for the step-ups that are already established in the contract.

So, we believe that it's a transitory effect that will be gradually reflecting in our revenues in organic terms. And just to compare, the total sales, excluding Leblon, was a 10% organic growth and also Parque Belém pipeline is 9.5, so it's still very positive in terms of sales.

We are cautiously happy and optimistic about the sales performance, but we were not projecting a tremendous revenue growth this year; our projections are to still focus in recovering delinquency first and then gradually reducing discounts for next year, maybe in the fourth quarter if everything is much better, as it seems to so far like the year is much better now, okay?

Regarding the divestment point, well, this is something that is part of our strategy, it has been done in the past selling assets because both they were mature and not giving opportunities to grow anymore, or when they were not in alignment with our long-term strategy to have malls located in dense central urban areas with dominant presence.

So, basically, we are going to still evaluate to sell stakes and/or the full asset if the asset doesn't fit our long-term strategy, and we believe this is going to be… the funding of this potential divestment will be used to develop more inside of our malls, especially by expansions, that have been proving a very good strategy for ourselves, when you we look at the Carioca example that we are highlighting here in the release, it's a middle-class neighborhood, the sales per square meter (I just give the number for given examples) sales per square meter for satellite stores are almost in R$1.900 per square meter, so it's quite a good number for mall and even if it was in a wealthier region, and it’s the kind of example that we can relocate capital from those malls that we may divest to make this kind of expansions that provide this kind of returns.

So, we are quite confident that this is going to be a good strategy for the future and we are pursuing attractive cap rates that of course that I cannot comment and also I will not comment as well in the timeframe because we don't know when the transactions will happen, but we are seeing a lot of interest for this kind of malls and we believe that, like the same way we took advantage of the CRI market, we were well-prepared for the CRI market, we did important issuance this year, we are also going to take advantage of, for example, if the new REIT market [the *Fundo Imobiliário* Market] comes back to an alternative as well.

So, we are evaluating all the alternatives. And in terms of the investments and the use of proceeds, we are going be focusing especially in expansions or acquiring stakes in our current assets, okay?

Mr. Garcia: Just as a follow-up Rafael, given the lower SELIC rate according to the consensus, economists expect year-end SELIC rate of 7.5, same level for year-end 18. Does this affect your decision in selling assets? I mean, because given that the, let's say, most probably non-core assets you will be selling with a cap rate above this level and we are comparing nominal terms to real terms, so it's 2 different things? But any change to your divestment strategy given the low interest rates or not necessarily, it's a matter of use of proceeds attractiveness, so that's apart from the interest rate you may go ahead with such a strategy?

Mr. Sales: Luis, I guess the main consequence of the interest rates compression will be in valuation. So, we will probably take advantage of that and negotiating more valuations for the assets, and that's why we are not in a rush to close any deal.

However, we know that the way we evaluate a real asset is not just comparable to a note. I think that’s a big mistake the market sometimes does; compare directly a real asset transaction with a note, because a real asset has many other impacts in terms of competition, potential growth, other issues that are not reflecting when you simply compare with a note, for the both sides, bad or positive side, okay?

Mr. Garcia: Okay, clear. Thanks.

Operator: The next question comes from Marcelo Motta, JP Morgan.

Mr. Motta: Hi good morning everyone. Two questions as well. First, if you could comment a little bit more on the sales performance. I mean, there was a good recover versus what we saw in the previous quarter and the previous year. Can you comment and give the breakdown between the different segments in the economy? There is a lot of question marks if this recovery was led by the FGTS redraws are not, or maybe we could draw something from the breakdown of same-store sale by product category.

And also, if you could comment as well about the long-term metrics that you mentioned during the presentation, how long do you think those would take to be implemented and if there will be any relevant impact on costs, especially by hiring like a third-party to do this evaluation or what could we expect in that front?

Mr. Sales: Well, first, thank you Motta for the questions, both are important. The first question relates to sales performance per segment, right. Basically, we saw a general recover spread out over all the segments, the main highlights are white goods and apparel, and also, as a trend that was already happening, is casual dining and food in general is performing very well.

And I think the casual dining trend is something to highlight because it's something that brings also people to stay longer in the malls and consume for longer, and we are focusing a lot on bringing this kind of tenants in our tenant mix strategy.

Also, regarding the effect of the FGTS, I would say that there is no studies to prove what were the impacts sufficiently profound enough or statistics to give us a view on that, we just saw recover in all the months of the quarter and also, we are seeing good sales numbers this month as well, last month we already have the numbers, the numbers were good, at the same trend of last quarter, and I think it's kind of spread out. I do know if it's just the fact due of the FGTS.

One of the things that is important to highlight is that in Rio some of the malls that are exposed to Rio de Janeiro area… our focus is in some regions that we have public employees and they have been for a while with late payments of their wages, and now we are seeing this normalization. So that may be also an effect to consider. So, I would say that is quite spread out, meaning all the regions of the country performed similarly.

On the long-term metrics for performance, I would say this is also a long-term plan, like our… the business is a long-term business, the performance we are having, for example, in delinquency better numbers is due to the restless effort of our management, they were already focused on that before and the numbers that we are presenting are a consequence of the work that they were already doing.

The strategy is not changing at all, we are going to focus in learning more from the experiences that we had in the past, evaluating very active way what worked well, with a lot of meritocracy involved we are going to promote and compensate the individuals that are working better and contributing more to those in performance increases and, basically, what we are going to do is to focus in those 3 pillars that I mentioned, they are the main source of returns for our shareholders since we have a high-margin business, so our commercial strategy is key for the success of the capital allocation… as a capital allocation consequence.

Also, I would say the evaluating the portfolio will be also done with support from this new metrics just to turn a lot of good practice that we already have and transform those practice in more process, which will help us to spread out over the company this culture that is already well-developed, especially in the top management.

That's basically the idea, and we believe that the consequences of this work, there is part of that is going to be in the short term, especially on this part of delinquency fight evaluating discounts supported by business intelligence instruments.

And the question you asked about the cost, I think the G&A in the company is already low comparing to revenues, and considering… and we are not seeing an issue on that, and I think that we are going to see maybe temporary increases in nonrecurring costs on implementing those changes, and then we are going to take advantage of that in the longer-term.

So, I will not see any important difference in terms of margins in the longer term because of that. On the contrary, we are going to be focusing in increasing margins as a consequence of these efforts.

Mr. Garcia: That's perfect. Thank you.

Operator: Once again, if you do wish to pose a question, please press star one on your touchtone phone. Please, hold again while we poll for questions.

This concludes the question and answer session. At this time, you would like to turn the floor back to Mr. Rafael Sales for any closing remarks.

Mr. Sales: I want to thank everyone for attending the call again. We will be at your disposal to answer any more details and questions that you may have.

The company is very enthusiastic about delivering the good numbers and better performance for the next years, but we know that we have challenges in the economic scenario in the shorter term that are still to be resolved, so we are going to be focusing in being prepared for any economic conditions and keep doing a good job that our management is doing in terms of keeping costs low, improving tenant mix and studying in a very deep way how our tenants can have better sales performance, especially keeping our malls well-invested, like they are today, and updated in terms of the tenant mix that we need to deliver for our consumers.

So, thank you all and keep in touch. Thank you.

Operator: Thank you. This concludes Aliansce second quarter 17 earnings conference call. You may disconnect your line at this time. Have a nice day.