ALIANSCE SHOPPING CENTERS

Third Quarter Earnings Results
November 9th, 2017

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to the **Aliansce's third quarter 2017 earnings conference call**. Today with us, we have **Mr. Rafael Sales, Vice-President, Mr. Renato Botelho, CFO and IRO, Mr. Leandro Lopes, COO, Mr. Mauro Junqueira, CIO and Mrs. Daniela Guanabara, Strategy and Investor Relations Director.**

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. Good morning everyone. Thank you for your interest in Aliansce. Before starting our third quarter results presentation, I would like to make a few brief remarks on the performance of our company.

For the second consecutive quarter, we saw strong signs of recovery in our results after the toughest crisis our industry has ever faced. The most important indicator to highlight is obviously the sales performance of our tenants. The recovery was confirmed this quarter, our malls total sales showed a 13.7% growth in this quarter.

Despite the significant increase in total sales, our same-store sales indicator grew by only 3.1% due to the impact in sales from the month of August.

In August last year, the Olympic Games took place in Rio, which made the comparison base stronger in our malls located in that region. In September of this quarter, we observed an important growth in sales across all regions, including Rio.

That said, given that one of the most important levers of our business is the ability of successfully manage the tenant mix, a very important indicator to bare in mind as well is the performance of sales in a same mall basis. We saw significant increase in this indicator, of close to 7.6%, which demonstrates the capacity of our assets to keep delivering strong organic growth.

This indicator also reflects our efforts in tenant mix, which has been intensively implemented over the last quarters. In addition to the sales performance, our main indicators continue to show good results as a consequence of the efforts applied in commercial management, which is the intensification of our leasing activity, that grew 20% in leasing GLA in the last 12 months, also the recovery in late pavement, which showed a good improvement; both have been the focus of our management in the recent quarters.

One of the main challenges affecting our results is the increase in mall operating costs, which maintained a high level this quarter. The main reason for this trend is the necessity of supporting common area costs while tenants are being replaced or when grace periods are granted to attract more efficient operators to our malls.

Considering that we have been working so far during our budgeting process, we expect to see an important reduction in this cost starting in the coming year. We will give more precise indications of how much we should recover in this line at the end of the budgeting process and the definition of our goals for next year, which should be concluded by December.

Now, turning to slide 4 please, here I'd like to update you on some of management main objectives, which we have presented to you last quarter. We already created a people and performance department, about which I will give some more details further in this presentation, and in the operational side one the main focus continues to be the improvement of the mix of our malls, as I mentioned. This has been generating good results already.

The entry of new tenants with better operational metrics has been promoting significant increases in sales in the exchanged areas. In the last 12 months, we have signed 435 lease contracts with a total GLA of 36,000 m². Replaced stores showed a sales increase of 27.4% when compared to those verified in the same areas in the previous year.

There is also positive news regarding leasing spread indicators. In the case of recent contracts renewals, we have managed to either keep rent at the current level or to have a positive readjustment in the range of 5 to 10%. For new tenants that are coming to our malls, we have negotiated leasing spread still in a negative side, but with a better number of only 10% discount comparing to the previous year.

This is applied only in the first year and also the contract includes a step-up in the following years in the rents.

It is important to mention that these leasing spreads, despite being contractually negative, have been positively affecting our NOI since usually the former tenants had a higher level of discounts or delinquency.

The third item in this slide, regarding our capital allocation strategy, we continue to evaluate efficient portfolio recycling alternatives, with possible divestments of interest in some of our malls, as well as acquisition of assets that fits into our long-term strategy.

As we have mentioned, our focus is to continue to increase our exposure to dominant malls located in high-density regions and which show relevant growth potential. We also aim to invest in assets whose performance can be improved by implementing our management practice. This has proven to be a win-strategy over the last few years in several acquired malls.

Turning to slide 5, I'd like to comment on some recent events related to the internal changes promoted in the company. We have already concluded the transition of leadership of the operating department with Leandro Lopes as our new COO since September, we are currently working on project to enhance our management model with the support of consulting companies and coordinated by our operating department, the main goals of these projects are to develop process that support the constant improvement of our management model so to replicate best practices, identify value creation opportunities, and to continuously evaluating our results. These measures are already impacting our budgeting process for 2018, and we expect to have a full implementation within the next 9 months.

As I have mentioned before, we also created the People and Performance Department reported directly to the VP with the goal of developing the best human and capital management practice on our team. The main objective will be to design, implement and monitor our corporate goals. The targets will be broken down from the C level to the malls management level and throughout the team at the headquarters.

Now, also going to slide 6, I will give some more details on the recently approved long-term incentive plan to our management. Here, I'd like to highlight the rationale behind the initiative, that is to create a partnership plan to align and provide incentives to the executives' base on the long-term performance of our shares. In the model that we are implementing the executives will share the risk of the company's stock price using out-of-pocket resources and committing for a reasonable period of time.

Aliansce intends to approve for its Board any and all budget to gradually grant stock options avoiding a single liquidity event. We will have a five-year plan with a 2-year vesting period, after the 2-year period the executives will be able to exercise 1/3 of the granted amount respecting a minimum lockup of one year before selling each trench exercise. Consequently, only in the 5th year will the employee have a complete program available.

In developing this plan, we drill inspiration from many models of companies that created a long-term partnership culture, aligning the interest of shareholders and the executives and supporting our meritocratic environment. The plan will be essential for Aliansce to build a team that is strong and prepared to face our industry long-term challenges.

Now I'd like to turn to slide 7, I will give you a couple of examples, I'd like to give you some a couple of examples about over potential extension projects that we have been evaluating in some of our malls.

It's important to highlight that since we have always kept our portfolio updated in terms of investments, we are now able to focus our resources on expansion, acquisitions of new assets or of additional stakes in our malls. Several of our assets have potential for expansion, which, in some cases, have been planned since the development of the property, which greatly reduce Capex and execution risks.

This is the case of shopping Taboão, presented here in this slide; an asset with outstanding operating indicators, with potential to eventually increase its GLA by more than 50%. Additionally, some of our mature assets have also hold expansion potential, as it is the case with Shopping da Bahia; we'll have important investment opportunities with the opening of the subway station directly connected to the mall, with the expansion of the movie theater and the enhancement of the casual dining operation, for example.

We will go into more details about our potential for expansions on Aliansce Day, which will take place on November 23rd. I'd like to take this opportunity to reinforce the invitation to the event, which will take place at Shopping Leblon, here in Rio.

Now, I'd like to hand the floor over to Daniela Guanabara, our IR Director, who will comment on details of this quarter results. Thank you.

Ms. Daniela Guanabara: Thank you Rafael, and good morning everyone. Continuing with the presentation at slide number 9, we will show the company's sales metrics, which were the highlight of the third quarter.

We have reported the second consecutive result with positive sales figures at our malls with the same-store sales of 3.1% in the third quarter. It is worth mentioning that in 2016 the results of our malls exposed to the Rio de Janeiro city benefited from the Olympic Games, which created a tough comp for 2017. Nevertheless, the month of September registered 5.1% of same-store sales, which was above the average of the quarter.

The company remains focused in its strategy on replacing and improving the mix of its malls, bringing new tenants with better operational metrics and keeping its assets always up-to-date.

Sales per square meter already reflected this impact, posting a 6.7% growth in the quarter. It is also important to highlight that sales per square meter also had a much better performance in September, growing 9.2%. Total sales at Aliansce stake increased by 13.7%, reaching R$ 1.4 billion. We have kept the same growth pattern as of the second quarter of 2017 despite the tough comp for 2017.

Moving now to slide number 10, we have the financial highlights of the company. Mall revenues, which exclude the impact of the straight-line rent and revenues from services, increased by 7.3%, achieving 135.5 million in the quarter. Parking revenues were once again the highlight of the period showing a 9.2% year-over-year hike, mostly from the increase in average tickets.

Moving now to the slide number 11, we show some indicators of operating performances of our malls. The company reported occupancy cost of 10.7% in the third quarter of 2017, which is stable compared to the second quarter, and with a decrease of 0.4 percentage points versus the third quarter of 2016. This drop results from the sales improvement verified in 18 of our 20 malls.

Net late payments in the quarter dropped to 2.8% of net revenues, which represents a reduction of 1.9 percentage points when compared to the third quarter of 2016. We have also observed a 25.6% reduction in PDD costs in the quarter. Improvement in sales in addition to collecting efforts led to a reduction in gross late payments and an increase in recovery levels.

Lastly, the occupancy rates of the portfolio ended the quarter in 95.6%; the same level as in the second quarter 2017. The process of replacing tenants leads to a temporary vacancy in our portfolio and an increase in costs, which are partially offset by the PBA reduction and improvement in delinquency rates.

In the slide number 12, we show the evolution of the company's rent revenue. Minimum rent per square meter grew 3.6% in the quarter, already excluding the straight-line impact. Same-store rent has been stable over the past 12 months, which was possible because the company managed to keep occupancy costs at sustainable levels, even below market average, as a result of its effort to reduce condominium costs.

Rent revenue increased by 7.5% in the third quarter. We noticed a positive evolution of this indicator in all of our malls, with highlight to the Boulevard Belo Horizonte, Maceió and Carioca Shopping, which registered growth of 10.8, 8.4 and 7.6% respectively.

In the chart at the bottom right of the page we observe that the amount of discounts contributions and PDA of the last 12 months represent 17% of the company's net revenues compared to a roughly 7% in 2015, which is equivalent to 57.3 million per year.

As mentioned by Rafael, for the 2018 budgeting process, we are already trying to recover part of this amount, as a result of the development of new managerial process. In order to revert this scenario, we have maintained an intense level of leasing activities, bringing more efficient tenants that positively contribute to improve the mix and sales performances of our mall.

In the slide number 13 we present Aliansce’s investments over the first 9 months of the year. Our accumulated Capex achieved R$ 324 million and most of these figures refer to the already-announced acquisition of the Boulevard Corporate Tower, which amounted to 209 million in the quarter, which is nearly 70% of the total value.

The company invested approximately 21.4 million in its malls, both in maintenance and renovations. We have also spent about R$ 6 million in expansions in several of our malls. In addition, the new movie theater at West Plaza Mall was open, adding 800 m² to the mall’s GLA. We expect to end the year of 2017 at the bottom of the previously announced Capex range, between R$ 70 and 90 million.

Moving now to the slide number 14, we highlight the main points regarding the evolution of Aliansce’s capital structure. We have increased our exposures to the CDI in detriment to the TR rate during the quarter. By the end of October, CDI debts represented 37.2% of total debt, reaching the target announced in the last quarter.

The average cost of our debt, based on the last 12 months, reduced to 11.7% in the third quarter of 2017, from 13.8% in the third quarter of 2016, which should lead to reduced interest expenses in the coming quarters.

The company's debt amortization schedule is comfortable compared to its cash flow from operations, as the principal repayment for the next 3 years should remain under 40% of the adjusted Ebitda for the last 12 months.

We have ended the quarter with nearly R$ 500 million in cash, keeping adequate liquidity levels, which should enable the company to evaluate prepayments conditions for debts with cost and durations less attractive to Aliansce.

We estimate a potential reduction of R$ 220 million in prepayment of debt with an average cost between the TR +10.5% and TR +12% a year.

Moving now to slide 15, as mentioned by Rafael in his opening speech, the leasing activity has been capped at an intense level. Over the last 12 months, we have leased 435 stores; an increase of 24.6% compared to the same period of 2016, which represents a GLA of 36,000 m² or a growth of 19.5%.

It is important to highlight that the same-area sales of replaced stores over the last 12 months increased by 27.4%, driving sales per square meter to R$1.611,00 from R$1.255,00 in the third quarter of 2016. This indicates that the replaced stores are more productive, improving the operating metrics of our malls.

Thank you very much. I would now like to open the floor for the Q&A. Our team will be available to answer any questions you might have.

Q&A Session

Operator: Thank you. The floor is now open 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.

First question Luiz Maurício Garcia, Bradesco.

Mr. Garcia: Thanks. Basically, I have 2 questions. The first is regarding growth, you mentioned some growth opportunities in the presentation, and also in the earnings release the company's also mentioned about acquisition of new assets or increasing stake in existing assets.

So, I have 2 questions on this topic, so when it comes to acquisition of new assets, so what could be the strategy of the company, what is the target going forward regarding new assets potential acquisition?

And in terms of funding this acquisition, so given the net debt increased after the acquisition of the Tower, so do you expect to sell more non-core malls to fund new acquisitions? So, what is the strategy in terms of net debt going forward given the focus of the company may be to keep investing in growth? So, this is the first question.

And the second, we are seeing Rio de Janeiro assets definitely suffering given this scenario in the state in general, but just for us to have some visibility to compare the performance of the malls in the suburbs of Rio and the performance of Leblon, as we don't have Leblon mall year-over-year, can you give us a brief disclosure of Leblon year-over-year performance?

And going forward, what do you see in the case of Rio if the state takes longer to recover? I mean, are you considering increasing exposure outside the state? So, can you give us a view about this scenario in the city negatively affecting some of the assets.

Mr. Sales: Hi Luiz, thank you for your questions. First, I will go for the first one, regarding growth opportunities. Well, the company has always been… we have been always activity pursuing alternatives to both divest in assets that don't fit maybe the performance that we like, as some of the assets we have already discussed previously, and that we also are evaluating to reduce exposure, for example, the assets that are not so dominant in the regions or assets there have smaller opportunity to grow, and also assets where we don't have the ownership structure that put us in a strong position to improve the assets performance.

Those are very small cases, as you know, there are 2 or 3 cases that we would consider to sell like that, also we are considering reducing exposure in assets where we can bring partners to provide capital to unlock growth potential in those assets, in which we would not focus our investments now since we have other alternatives in our portfolio, for example, for expansion the ones that we mentioned today in the presentation.

So, in terms of acquisitions, we would focus in acquiring assets that have this dominant characteristic, that are positioned in dense areas, like the ones that we like to be, areas where we can have high-density in terms of wages and high-density in terms of people with middle-class positioning or even upper-classes like we have here in Leblon, and also… and we don't feel that we are going to have any liquidity issues regarding that strategy because we are seeing demand for those assets that we are considering to reduce exposure, and also we are seeing demand for… we are seeing opportunity to acquire assets that are probably performing worse than its potential because they are probably… they can be owned by nonprofessional owners and we can add value on managing their assets with better capabilities.

So, we see opportunities increasing performance of the assets that we may acquire, and we believe we are going to be able to recycle capital with the assets that are non-core for us today.

Now regarding the question about Rio, I would say that, of course, there is 2 components here: the economic conditions in Rio are still challenging comparing to other regions in Brazil, however, we are seeing a general recover even in Rio, especially when you exclude the impact of August. August was especially impacted last year by the activities that the state and the city had because of the Olympics, and we saw the activity comparing to August last year being a tough comp.

However, in September we saw a generally good recover in those assets as well, and that's why we highlighted that the 5% same-store sales performance in September, which already of course include in Rio assets.

Also, I will give Leandro Lopes here the chance to explain a little bit our strategy regarding Rio, but I would say that we are seeing a strong leasing activity also in Rio and that we are seeing opportunities improving our tenants' performance, so I will give Leandro the floor to give you some details on that.

Mr. Leandro Lopes: As Rafael mentioned before, we see recovery in all the malls, we see recovery in the sales and, therefore, the late payments are decreasing and we saw this in our numbers, traffic started to react in all those malls, we are really improving leasing activity, as a good example of that, we rose occupancy in Bangu, Caxias and Carioca, and we also improve tenant mix. A good example of that is that we are going to open and Outback in Bangu and other 2 restaurants in Via Parque.

So, all the indicators show that the recovery in the suburb is taking place. And regarding the question about Leblon versus the suburban, Leblon suffered less impact of the crisis and it's pretty stable, sales are still very good, late payment and occupancy very high. So, we see in Rio de Janeiro a very good reaction from the suburban malls.

Mr. Garcia: Okay. So, you when you mention "Leblon suffered less" does it mean that the performance was kind of flat or slightly negative?

Mr. Sales: Slightly positive, Luiz. But not changing the average of the performance. The outperformance came from other assets, especially some that were performing a little worse last year, so that's why the… but Leblon kept growing a little bit.

Mr. Garcia: Okay, great. Thank you.

Operator: As a reminder, if you would like to pose a question, please press star one.

Next question. Marcelo Motta, JP Morgan.

Mr. Motta: Two questions as well. First, if you could comment a little bit about the Christmas expectations. You mentioned that September same-store sale already at 5%, should we continue to expect this level to accelerate? I mean, there is a couple of news flow with a positive tone regarding Christmas.

And the second question is regarding leasing spreads on new contracts. You mentioned on the release and during the presentation that discount is already 10%, so the way to think is a 10% negative leasing spread? How has this number been changing over time? I mean, was this 10% like -15% a year ago, the expectation is for that to go down to 5% over the coming 6 months? I mean, how should we think about the leasing spread on new contracts to attract those tenants to improve the mix?

Mr. Sales: Hi, Motta, thank you. Well, first, regarding leasing spread, this is a continually worked, is a never-ending job, even when it's not just recovering of the crisis. Of course, now the leasing spread strategy is much more relevant because we are ending a crisis that was so big that it's difficult to compare how it worked in the past, right.

But we are seeing today is that in the last quarter, for example, the average leasing spread was negative for those new tenants in a 15% level, and today we are working close to 10%. So, it's an improvement already.

The other thing that is important to highlight is that those contracts they expect step-ups in the rents with both performance of the sales and also contractual step-ups. So, we can, in the end of the day, can turn to be positive…

Operator: Please, hold while we reconnect the speaker.

Please, go ahead Sir.

Mr. Sales: Okay, sorry, the connection dropped. Can you hear me now?

Mr. Motta: Yes.

Mr. Sales: Okay, so I will repeat the answer regarding leasing spread. The negotiations in the last quarter were… the level of negative -15% with new tenants, and now we are seeing a 10% negative effect. So, it is an improve. Of course, it's an average, but it's an improving average. And also, we are seeing better performance of these new replaced tenants, which give us a good confident that we can be able to improve rents in the next years with the performance of the sales and also with the step-ups that we have contractually established in our agreement.

Also, the performance of… it's important to highlight that the performance of those sales per square meter brings… good performance brings tenants that are paying in the due date, so it's an improvement in NOI and also an improvement in cash flow generation for the company because some of those replaced areas were occupied previously by operators that were not paying in the due dates, or had important discounts.

Looking for past years December, sorry, next quarter, and we are seeing… we are expecting good performance, we are seeing good performance in general, good flow, but we are not, of course, trying to predict how the Christmas will be.

As you know, our industry is to prepare our assets and to promote them the best way possible and bring the best operators possible, but of course we are seeing the economic activity as a potential highlight that will probably influence positively the Christmas. We are making big efforts for occupying areas that are vacant now with temporary tenants to make the malls even more attractive during the fourth quarter, and this will reflect certainly in good sales if this economic recovery is sustained during December and Christmas, as you mentioned.

So, we are seeing that is good news as well.

Mr. Motta: Perfect. Thank you very much.

Operator: Again, if you would like to pose a question, please press star one.

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

Mr. Sales: Thank you everyone for taking our results call and for the questions. We hope to see you soon at the Aliansce Day gathering that will take place on the next 23rd of this month here in shopping Leblon, and with thank you again for attending the call and have a good day. Thank you.

Operator: This concludes Aliansce third quarter 2017 earnings conference call. You may disconnect your line at this time. Have a nice day.