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**Operator:** Good morning. My name is Karen and I'll be your conference operator today. At this time I would like to welcome everyone to the Grupo Éxito Second Quarter of 2017 conference call. All lines have been placed on mute to prevent any background noise. After the speaker remarks, there will be a question and answer session. Thank you for your attention, Mrs. María Fernanda Moreno will begin the conference today. Mrs. Moreno, you may begin your conference.

**María Fernanda Moreno:** Thank you Karen and good morning everyone. We appreciate you join us today for Grupo Éxito's call. At this time I'm pleased to present our chief executive officer, Mr. Carlos Mario Giraldo, our chief financial officer, Mr. Manfred Gartz, and Mr. Jose Loaiza, VP of international business. Today´s agenda shown on slide number 3, we cover Grupo Éxito's financial and operating highlights, followed by a review of the performance by country and consolidated financial results for the second quarter 2017. Finally, we will comment on the company's international strategy, to conclude with a Q&A session. Thank you for your attention, I will now turn the call over to Mr. Carlos Mario Giraldo for his comments.

**Carlos Mario Giraldo:** Thank you very much to all of you for being here at the conference. I will start at slide number 4, with the financial highlights for the second quarter of this year. It´s important to say first that there's a net income we're covering, coming mainly from the strong performance in our Brazilian operation. First at the regional level, we can say that the strong contribution of Grupo Pão de Açúcar ratifies the strategic decision, a long-term decision that the company has taken to diversify its geographies and to go to strong economies, as the Brazilian, the Argentinian, Colombian and a very attractive geography as Uruguay. And the second thing to say is that we have a solid consolidated operational performance, despite that we have something which is common to all countries, and it is a lowering inflation which impacts sales, and a low economic dynamism, which we expect is going to recover next year. We have market share gains in total market in Brazil, Argentina, in the Libertad perimeter and in Uruguay, and in Colombia at the same-store sales level, which is the previous perimeter of Éxito, there's also a market share gain. And finally at the Latam level, the synergy plan is going very well and it is going to give results that are beyond the initial expectations.

For Colombia, it is important to say that we have taken recently the decision to dynamize the expansion of our cash and carry format. We said that we we're going to open three during this year and finally we're going to be opening eight, given the very good results that we had from the first store, which is a format that has been very successful in Brazil and shows a high potential in Colombia. We see that in Colombia we solved our impact by food inflation deceleration, we have food inflation as of June at 1.4% compared with 14.3% last year. And at the same time we have a clear and notorious weak retail panorama at as of June, retail is down 0.6%, and Nielsen shows that the baskets for consumer goods are down 3.1% if we compare the twelve rolling months of June-June. There's a positive revenue which is consistent coming from a real estate business, and hypermarket stores, with the Éxito brand within a difficult retail panorama, have shown to be the most resilient of the stores of Éxito, given especially the important performance of electronics and textiles.

As of Brazil, results are very good as you have seen from the results of GPA, margins improved excluding even non-recurrent tax credits, at a cross level, 120 bps and a recurrent Ebitda improved 210 bps. That is that operationally even after the non-recurring tax credits the improvement in the results of GPA is consistent, as we had begun to see in the first quarter of this year. GPA improved net sales by 9%, and same-store sales by 5.4% at a low cut currency level, outpacing inflation. Assai of course has a huge contribution with its increase of 29% in total sales and 13.5% in same-store sales, and a clear volume and traffic gain, which has been consistent over many, many quarters. And Extra continues with a very good growth and the hypermarket format had its best growth in a quarter with a 7.6% same-store sales growth. Finally, we are going on with the aggressive conversion plan from non-performing Extra stores into Assai stores, with 16 conversions planned for this year.

At Uruguay, Uruguay continues with healthy profitability and with an Ebitda margin of 8.3% and gaining the market leadership with a proximity format, which is now Devoto Express, the proximity leader in Uruguay. At Argentina, real estate business continues to be a leader outside of Buenos Aires and contributing in a very positive way to profitability.

If we go to slide number 5, the operational highlights, we see that expansion is on track, that we are having at the quarter consolidated capex for COP$400.000 million, and that we are having of that capex COP$85.000 million in Colombia with 17 openings, eight in Colombia and six in Brazil, for a total store count of 1.563 stores only in food; Colombia with 568 stores, Brazil with 884, Uruguay with 81 and Argentina with 30 stores. Real estate continues in its planned expansion, with the biggest project that we have done, which is Viva Envigado, with 38% completion. It will be opening in the second half of 2018. This is executed by Viva Malls, the same as Tunja near to Bogotá, which is at 13% completion and will be opening at the fourth quarter of 2018.

Argentina has two ongoing projects, galleries in San Juan, in the frontier with Chile, and Paseo Rivera Idarte, which is in Córdoba. Grupo Éxito was awarded also with a very important distinction for sustainable real estate with two projects which have the lead certification and we are in the ongoing divestment process of Via Varejo, to focus in food, as it has been announced in various occasions.

If we go to slide number 6, for us customer-centered innovation strategies are key for the organization in the four countries. This is a long-term vision that goes beyond the short-term economic difficulties and inflation trends that we have seen in the last years. First, in Colombia it is important to say that we are very, very excited with the loyalty program coalition that we are going to launch next year, which is a very important world trend of big data and getting big data value out of organizations with a very huge customer base as we have in Éxito in the different countries. The second thing is that we continue with omnipresence, being the only channel leader in Colombia with a market place which has increased more than a 100% in this quarter with the digital catalogs and with an e-commerce business that by the end of the year is going to represent near to 3% of the total sales of the companies put together. Every strategy goes direct to consumer. Finally, in innovation, it is all about experience for our customer, with a reduction in lines in hypermarkets, giving the people the possibility to be taking other purchases to their home with the fresh market emphasis at the Carulla level and with the healthy product leadership that both Éxito and Carulla brands are having in Colombia.

In Brazil, it is highly known and notorious the "meu disconto" strategy, my discount, which is a way to make direct focus discounts, directly from suppliers to customers through an application that you download in the stores, and the non-food concepts that especially in electronics and textiles are going to make a renovation of between 30 and 40 extra hypermarket stores in Brazil. Uruguay going on with its fresh markets and we are going to open a very important fresh market store in the following month, and with the convenience store leadership in Argentina with the dual model in commercial galleries where we put together the retail traffic and the traffic coming from the commercial partners that go into our real estate galleries.

Going to slide number 7, we speak about the sales performance in Colombia. Sales performance in Colombia were impacted by inflation deceleration and by the macro economic reality, with sales adjusted by calendar at -3.7% and -4.2% at same-store sales accumulated for the year; that is the whole semester at -2.2%, where the hypermarkets continue to be the most resilient, especially because of the contribution of non-food at Carulla. The low food inflation was impacted given the mix of food in Carulla, especially of fresh products, which are currently in deflation in Colombia, especially fruit and vegetables, but keeping a very healthy profitability at a low double-digit Ebitda margin at Carulla level. Surtimax and Super Inter, probably one of the few discount popular stores, which are profitable in Colombia, keep their good profitability and they are impacted in sales because of strong inflation deceleration, given the fact that for both Surtimax and Super Inter food represents around 97% of the average total sales.

Good news come from Aliados, with an increase in sales of 11.9% and our Surtimayorista, with an increase in sales of 31.2%, which has given us the base to accelerate the expansion of this very interesting format.

In Colombia, the main initiatives can be summarized as first, focus on profitable expansion with the cash and carry going up to eight stores; with Éxito compact stores going to areas of Bogotá and to new intermediate cities where we are not present and where there's a very low cannibalization with low-cost super markets; with Super Inter and Surtimax opening profitable stores; with Aliados business model and franchising, which are going to take some time but which are already on the roll out to give a strong return on investment as a format.

In price strategies are unbeatable products --more than a 104 categories of products having, offering and assuring the customer the lowest price in the neighborhood with a private label representing more than 17% of the total sales of the company and increasing competitive portfolio which is this percentage, one of the highest of all Latin American countries, and with our textile model of EDLP, so that apparel will be democratized where we sold more than 21 million units of textiles during the first semester, most of it produced in Colombia with a cost advantage against some competitors who still depend from imports on textile. And with differentiation strategies through a fresh model we clearly insist that we are going to be the fresh model, the fresh product leader in Colombia, this gives us a differentiation against other formats and reinforcing the customer experience at the Carulla level. The omni channel strategy is going forward, we are conscious of the importance that the omni channel strategy has to take in the US, in Europe and in some Asian countries, that is going to be the same here in Latin America in some years, and today Éxito is leader in this omni channel strategy. We are going to reinforce and are reinforcing this leadership.

In sales performance in Brazil, going to slide number 9, food business clearly had a very good quarter with increasing sales of 9% in same-stores sales, 5.4%, with net sales at Assai level increasing 29% and same-store sales 13.5%. Now Assai is representing 40% of the total GPA food business sales and gaining 400 bps of market share in the segment of cash and carry, that is to say that Assai does not only increase sales against all the retail panorama in Brazil, but also gains market share within the dynamic cash and carry portfolio and different brands in Brazil. Multivarejo, with an Extra Hiper, same-store sales growth of 7.6%, and Aliados Compre Bem, which is a clear synergy with Éxito at the regional level, with 236 of the 500 Aliados for the rest of the year.

I’m going to pass the word to Manfred to go on to the financials, then Jose Loaiza with the synergies and international panorama, and then I will come to some final remarks.

**Manfred Gartz:** Thank you Carlos Mario and good morning everyone.

Let’s start on slide 10 with the highlights of the operational results in Colombia. During the first quarter, net revenues reached COP$2.6 million, decreasing 1.9% vs. the second quarter of last year. Important to remark that other revenues grew 10.3% vs. 3.6% of the last quarter, mainly driven by the performance of the real estate business. Moving down, as we mentioned last year, the gross margin of the second quarter 2016 includes the cancelation agreement with Ripley, so it’s more meaningful to look at the semester results, where it gained 30 bps vs. last year, reaching 24.9% margin, mainly due to improved productivity in retail and the contribution from the real estate business.

On the SG&A side, the operation expenditures grew 6.2% in the quarter, way below the 13.1% of last year. Accumulated expenses grew 5.6% in the semester, 530 bps below the first half of last year. This year, as we mentioned before, the company started deployment of operational deficiencies, a strategy to control expenses, something similar to what Brazil did last year and started to pay off this year. That partially offsets the quarter by best effects like LTM expansion, most of which happened in the fourth quarter last year. VAT increases other expenses indexed as last year inflation. Finally the recurrent Ebitda was COP$273.000 million in this semester, with a margin of 5.1% and 20.7% below last year, as a consequence of lower sales and the inflationary decoupling between revenues growing at current inflation rate while expenses grew at last year’s inflation.

Please move now to slide 11 to review Brazil. In COP, net revenues grew 16.7% in the quarter to 9.7 billion, confirming the strong and consistent performance of the Assai brand and the recovery of the Extra hypermarkets. Nonetheless, it’s important to notice that this result in COP includes the Brazilian real valuation against the Colombian peso. Gross margin reached 27% of sales, growing 28.7%. When excluding tax credits, the gross margin was 22.9% and grew a strong 23.2% vs. last year, driven by the faster maturity of Assai stores opened in the last two years; improved shrinkage and successful investment in promotional activities at Multivarejo. In terms of SG&A, the much disciplined controlled expenses that started last year continued showing benefits with a 120 bps reduction and a growth of 10.3%, significantly below the growth in sales. At the level of the recurring Ebitda of the quarter, it ended at COP$887.000 million, resulting in a 9.2% margin. When excluding tax credit, recurring Ebitda ended at COP$476.000 million, resulting in a 5% margin, 240 bps above last year’s and growing strong at 124%. These results show an important improvement vs. the previous quarter.

Please move now to slide 12 to see Uruguay. So first I would like to say that the macro economic environment in Uruguay continued distressed by the unemployment rate, which has been high in the last 13 years and public deficit effect in consumption. Inflation continues its decline, especially in the food segment. Despite all this macro situation, net sales grew in Uruguay by 8.2% in local currency above inflation and by 14.8%, over COP$600.000 million, during the quarter. The company continues gaining market share, 1% in the quarter. Like-for-like growth of 6.2% to local currency after adjusting by calendar effects was driven by the performance of the FMCG, followed by the fresh category. Going down to the gross margin, it falls during the quarter due to higher logistic costs and higher weight of promotional activities in the country. In terms of expenses, it increased 11.3% in the second quarter, growing below inflation in local currency. Major gains were due to operational efficiencies such as reduction in marketing expenditures, staff base optimization, which helps offsetting the wage increase due to union negotiations that happened last year. Recurring Ebitda reached COP$106.000 million in the semester and a margin of 8.3%, demonstrating a healthy profitability level.

Moving to Argentina, the second semester of the year continues to be challenging due to Argentina's macro condition and a weak consumption environment. However, we believe that the country is taking the right decisions to move forward. Net revenues in Libertad decreased by 0.9% in COP due to FX effect, and reaching COP$330.000 million. When moving into net sales in local currency and same-store sales, they both increased 10.2% when adjusted by calendar effect, reflecting the challenging consumption context and the negative trend of the non-food category. However, in this challenging scenario, food in Argentina grew strongly by over 500 bps in the second quarter vs. the same period last year, thus gaining market share. The real estate business continues to contribute and protect the results in Argentina, offsetting most of the inflationary pressures and we can see in the expenses line that SG&A flows below inflation under a very disciplined expense control that offsets expenditures pressure by inflation, especially in the lines of labor, utility and marketing expenses. Finally, recurrent Ebitda reached COP$8.800 million with a 2.7% margin in the quarter.

Now please look at slide 14 to have a look at the group's consolidated financial results. Top line consolidated net revenues reached COP$13.3 billion, with an 11.8% year-over-year growth coming mainly from the strong performance in Brazil. SG&A decreased by 50 bps in the quarter, reflecting productivity efforts and other cost-cutting initiatives, to offset the change in trending inflation that cause salary levels, occupancy costs and utility costs to rise. In terms of recurrent Ebitda, it finished in COP$1.06 billion, growing 52.2% and reaching an 8% margin in the second quarter, with a 210 bps improvement. When we exclude the tax credit from Brazil, the Ebitda grew 43% to reach a 5% margin, maintaining a consistent progress since last year. Finally, after the subtraction of all non-operational items, the net income attributable to Grupo Éxito is COP$69,300 million; that means over COP$117.000 million above the result of the second quarter last year.

Please move forward to the next slide to explain a little further the results. At the operational level, a very strong performance from Brazil more than compensate the results in the other geographies and on the non-operational level I think the highlight is that the company shows better financial results, mainly as a consequence of, one, lowering rates both in Brazil and Colombia and deleveraging. And finally, also a small but positive result from the discontinued operation contributed to the end result.

Now on slide 16, net financial debt at holding level closed at approximately COP$3,6 billion, decreasing in 2.2%, very much aligned with the company strategy of deleveraging. The gross debt ended at COP$4,5 billion, reducing 2.2% vs. the same period last year and cashing equivalents increased to COP$894.000 million, mainly from working capital optimization.

I think at this point I will turn the call over to Jose Loaiza for follow up on the company's international strategy and the synergies process.

**Jose Loaiza:** Thank you Manfred. As far as the integration process is concerned, we are glad to tell you that in this year we will meet, and even surpass the USD$50 million target that we gave you at the beginning of the year. This means two things, one, that we will more than double the benefits that we got in 2016, and second, the recurring nature of the synergies we are obtaining. On slide 18 and on, we will give you some examples of the evolution of some of the initiatives.

In slide 18, in purchasing, so far this year we have bought together in commodities the equivalent to 95% of the volume we bought together in 2016, which means that for the second half, all the benefits will come on top of it. We are also advising on the bargaining of the commercial agreements within multinational corporations for the whole region with good benefits. And on the bottom you may see some of the samples of the products that we get from the round tables held in the four countries, differentiated products that enhance our value proposition, and also allow us to improve the commercial conditions with those local vendors.

On slide 19, a word about textiles. At the end of the quarter, we fully deployed the textile model in 11 stores in Libertad, Argentina. We should finish that process of implementation in this 3Q, and on the bottom, the project taking off in Brazil, being part of the textile site at the concept of non-food that the country is deploying in the Extra Hiper markets. We expect to finish the year with over 30 stores with this kind of renovation.

On slide 20, a word about Compra Bem Aliados, Brazil on its way to meet the 500-partner target for year-end and on the bottom a reminder of cash and carry being a reality as a format in Colombia with the expectation to finish the year with 8 stores.

Slide number 21, what we call the back office synergies, not very evident to the eyes of the costumer, but very significant to the efficiency of the operations in the region. Shrinkage as mentioned, by the Brazilian team in its call, its changes of best practices, contributing to the improvement of this KPI. Also in Colombia learning from Brazil, supply chain, amazing work in control of out of stocks, with reductions as a result of best practices, both in Brazil and in Colombia. Indirect purchasing, perhaps the most integrated process, with buyers in Brazil and Colombia buying for the whole region depending on their field of expertise. Examples go from shopping carts to cleaning services, getting savings up to 30%. IT costs implementation of a joint negotiation process of hardware and software with excellent results, with savings between 30% and 40%.

On slide number 22, a glimpse to our proximity strategy for the region. On top, Libertad in Argentina with its Petit Libertad, betting a bit on a qualitative approach for the recovery of the consumer confidence in the country, with excellent results so far. And on the bottom, the ongoing strategy of Uruguay, finishing the quarter with 27 stores and confirming our leadership in this format in the country. All in all, we think that we have set in motion a solid process of integration, with a commitment from top to bottom in the four organizations, with an integration up and running, managing 18 projects and the involvement of 200 executives. All of this gives us the confidence that we will deliver the results that we have shared with you. Having said this, I turn it over to Carlos Mario.

**Carlos Mario Giraldo:** I will go to conclusions, starting slide 23.

It must be said that Éxito consolidates itself as a regional player, as a regional South American player, that having our tokens in different countries is paying out. In moments in which an economy as the Colombian is not going through the best short time period, having a very solid operation in other countries is giving us benefits, especially in Brazil, even though Brazil is still starting its recovery and still has different difficult political scenarios beyond it.

Second, we see that the quarter is very solid in results at the consolidated level and that even if we exclude the non–recurrent tax credit from Brazil, we get a growth in Brazilian Ebitda of 124%. We have consolidated net sales at the positive area, even if we are facing inflation deceleration in all the countries. Synergy plan going beyond expectations, as Jose explained in a complete way. Market share gains, which were present in the first quarter, they are also present in the second quarter in the different countries. A strong performance in our cash and carry format in Brazil, obviously much more mature, but also in the start of the cash and carry format in Colombia.

Innovation is the center of our strategy, with innovative strategies and initiatives which are not current to other retailers in Latin America as having a leader market place for third vendors in Colombia, a very strong fresh model with also the premium leaders in the different countries as Carulla, Pão de Açúcar, Disco and Devoto with a loyalty coalition as a big upside in Colombia and with our dual real estate continuity, especially in Colombia and Argentina. Acceleration of cash and carry with the conversions in Brazil, 16 this year and something like 15 for next year and 7 Surtimayorista cash and carry to be opened in Colombia.

When we go to slide 24, for the outlook for 2017, we would be confirming the outlook that we have given in previous quarters, that is that in the Latin platform our synergies would exceed and impact 50 million dollars in recurrent operational profit, that we would be decreasing our interest rates in

Colombia and in Brazil, with lowering financial expenses, but also and more importantly driving consumption up in a medium term, which is very important for this retail business and for its long-term vision.

In the midterm we are seeing economic recovery, not in the short term, but in the midterm in Colombia and in Argentina, as we have seen some solid signs in Brazil. Focus in all countries in cost and expense control activities, as Manfred said, we are facing a past year high inflation, while we have in our income low inflations in prices, so this reaffirms the importance of productivity at all levels, as we are seeing the results from Brazil and we are setting the bases, so that we will see the trend going forward in the Colombian operation. High potential from store conversions and from renovations in premium stores, the good part of this, is that these are low capex initiatives with a very good return on investment.

In Colombia, consistent profitable activities to face competition. We cannot do everything the competition is doing by opening non-profitable stores, and we have selected to have a profitable expansion which keeps a good return on investment for our investors and that is attractive for our consumers in medium and long term basis. Puntos Colombia loyalty coalition launched in 2018, retail expansion between 25 and 30 stores this year and as I have said, the rollout of cash and carry in a very dynamic way, not only this year, but going forward in next years. Viva Malls with 120.000 square meters of GLA in 2018 and capex in Colombia going down something like COP$300.000 million this year.

In Brazil ongoing optimization of store portfolio, focusing on Assai with six to eight openings and 16 conversions, a focus on food segment with investment in high return format like Assai and Pão de Açúcar. The Colombian textile business being taken to all the region, to the hypermarkets with a format that also promotes private brand and also a high level of attractiveness in fashion at a hypermarket, with Aliados Compra Bem reaching 500 by the end of the year and continued market share gains at Multivarejo and Assai level. Recurrent Ebitda margin around 5.5 in the food segment, and capex arriving at 1.2 billion.

Uruguay maintaining its healthy margin levels and getting to open between 10 and 15 Devoto express by the end of the year and in Argentina our real estate business expansion consistent at 35,000 square meters of GLA during the following three years.

Finally, I would go to slide number 26 to say that, as we have seen in the previous quarters, there's a valorization of the different shares within Grupo Exito that we have seen in the last 12 months. Exito share increasing its value 6,1% but still with an important gap and an important upside if we look the valuation that we have seen in the GPA share at 41,7% and the Via Varejo share at 121% in the last 12 months.

I would say these are our initial remarks and conclusions. We think that even though there's a reduction in inflation, that the economic trend is not the best in the region, going towards the modern formats, promoting our multichannel strategy, working in things as trendy as our premium stores and our cash and carry and working on the cost of the organization while promoting the synergies and the integration is giving this organization a very interesting medium and long term vision for investors and, of course, or our customers. This would end this part of the conference and we will be opening our Q&A session.

**Operator:** At this time, I would like to remind everyone in order to ask a question simply press * and then 1 on your telephone keypad. If you would like to withdraw your question, please press the # key or pause for just a moment. As a reminder, if you have a question, please press * and then 1 on your telephone keypad. And our first question comes from Antonio Gonzalez.

**Antonio Gonzalez:** Hi, good morning, Carlos Mario and team. Thanks for taking my question. I just have two quick ones. The first one is on leverage. I'm looking at the numbers excluding Brazil and if I look at the last twelve months figures that you provide for Ebitda in Colombia and the net debt that you have in Colombia at the moment, I see a leverage of roughly 4.8 times. If I include Argentina and Uruguay, it goes down somewhere around 3.9 times or so. Again, just excluding the Brazil figures.

I remember that you previously shared that you had a target of around 3 times. I obviously understand that in absolute terms debt has come down, but perhaps the declining Ebitda in Colombia has been more pronounced, so I wanted to ask, in light of this leverage level, do you have any other strategy that you can share with us to lower leverage more rapidly or really you're just waiting for the Colombian Ebitda to turn around to naturally lower leverage over the next few quarters? That's number one.

Number two, very quickly, if I may, you mentioned in the press release that you're expecting a gradual recovery of consumer dynamics in Colombia in the second semester. I was just wondering if you can elaborate a little more on that comment and what kind of recovery would you expect, where you would feel comfortable with positive numbers in the next semester or so. Any comments on that would be very helpful. Thank you.

**Carlos Mario Giraldo:** Antonio, thank you. This is Carlos. Manfred is going to take the first question on leverage and then I will come back to the consumer situation in Colombia.

**Antonio Gonzalez:** Alright. Thank you.

**Manfred Gartz:** Hi, Antonio. Regarding leverage, two things need to be taken into account. As we previously shared, the indicator that we follow as per the loan agreements that we have is the adjusted Ebitda over the net financial debt. What is adjusted Ebitda? It's Ebitda generated through subsidiaries plus all dividends that we receive from all subsidiaries and all international operations, so at the end the calculation that we follow and the one that we use as a benchmark it's related to the adjusted Ebitda as per loan contracts. In terms of the numbers that you're seeing, the 4.8 times is not the one that we saw –it's way below that. Our recurrent numbers are aligned with all the covenant sections as per the loan agreements, so regarding the deleverage plan moving forward, what we are seeing is the plan is focused on: first, long-term improvement of cost of debt; second, operational excellence programs, as you have seen it's paid off in Brazil, Uruguay and Argentina. Unfortunately in Colombia, the strong decoupling in inflation has avoided us to show results in that sense, but once things get normalized, those results are going to show off. Also, a third aspect is working on capital optimization, which will also come from disposal of non-strategic assets, also from controlling of balance sheet liabilities and managing dividend inflow from subsidiaries. I think at the end this is part of the overall structure. Also, optimizing the capital structure of the company.

**Carlos Mario Giraldo:** Thank you, Antonio. As for consumption, I'm not expecting a short-term improvement in consumption, which is material. The reason being, we've seen that our Nielsen baskets for consumer goods continues depressed at -3,1 as of June. In July we got a food inflation of 0.20 for the last rolling twelve months. This is very near to deflation and this has an impact also in sales in the food segment. Having said this, I do believe that for the medium term, that is, last quarter, but especially next year, we have reasons to be optimistic. First, we are not seeing fiscal stabilization in Colombia. We are having a very important reduction in interest rates from a peak of an intervention repo, interest rate of 7.77 to 5.25. This clearly is going to improve the real income of Colombians in salary base and to promote consumption. We are seeing very solid tourism in Colombia, as the figures of the first semester confirm and also some acceleration in infrastructure. I think that a very important factor to consolidate this expectations has to be also an improvement in the economic situation in Bogota, which unfortunately we have not seen. Bogota is around at 40% of the economic activity of the country and it's highly depressed at this very moment. To summarize, I don't think that in the short run we're going to see a material improvement, but I believe that Colombia is going through a temporary situation, but structurally the country will come back to growth levels in consumption, probably when we have an impact of the interest rates and an improvement in real income on people, coming from lower inflation rates.

**Antonio Gonzalez:** Thank you. Manfred, thanks for the clarification. I obviously appreciate our numbers from the press release are a very imperfect proxy of leverage. Would you be able to share based on your numbers that trailing twelve-month leverage figure?

**Manfred Gartz:** We do not disclose that information. We just maintain the guidance that we gave the previous quarter.

**Antonio Gonzalez:** That's clear. Thank you, guys.

**Operator:** Thank you. We have our next question from Marcel Morales, from Deutsch Bank.

**Marcel Morales:** Hi, good morning everyone. I would like to come back to the Colombian business. I remember you guys saying last quarter that you would try to defend the Ebitda margin, to protect the Ebitda margin this year by managing SG&A and probably across margins you'd be able to do so. But that in my view was incorporating a more favorable outlook for the second half of the year. Do you still think that this is the case, that you're going to maintain the Ebitda margin relatively flat in Colombia this year?

**Carlos Mario Giraldo:** It's important to note that in a retailer like us, we have three important costs. The first one is labor cost, which is increasing at 7%, which is the increase of salaries in Colombia; occupation costs, which are also indexed by the past year inflation; and utilities, which in Colombia have increased in an important way in the last two years. When you see the figures going from SG&A of double digits last year to a mid-single digit this year, I think we're going in the right trend. Of course, it is not something that we're going to do immediately, but I do believe that we will gradually show an improvement in SG&A. Having said that, if you don't have a top line increase, and we are not seeing that, as you can see in the second quarter, SG&As going down but still not below mid-single digits, I do believe that we're going to have some impact in our margin by the end of the year and that even though there's a gradual recovery and that we are doing everything to have profitable expansion and not doing a margin investment that is beyond receivable, as you can see in the first semester figures, SG&A continues to have a toll when you are having negative sales.

**Marcel Morales:** Perfect. A final question on the cash and carry stores. You're going adding eight stores. Are all of these converted stores or they're new? Are they concentrated in any specific regions? I think last quarter you also mentioned key differences between the Colombian and the Brazilian version of the cash and carry. Can you remind me of the main differences between these two formats? Thank you.

**Carlos Mario Giraldo:** Yes. This is a very good question and it gives me the opportunity to get a little deeper into the cash and carry. Our cash-and-carries this year are going to be conversions, most of them from Surtimax stores of around 1,000 and 1,500 square meters, into cash-and-carries with the same area. The first results that we have with our first store was a multiple of 2.7 times sales while keeping profitability and we expect to see something like this in our next stores. What we have seen is that the big difference with Brazil is that the Brazilian stores are more between 3,000 to 4,000 square meters. They have a higher portfolio of products, so we have a finer portfolio of products. The share of sales is very similar to the Brazilian one, which is between 50 and 60% going to end consumer and between 45 to 50% going to professional customer. The costs that we are seeing, and this is something that encourages us a lot, is very similar to the Brazilian, which is something between 8 and 10% of total sales. Today, our first cash and carry is positive, both in operational profit and Ebitda and the good thing about these conversions is that they allow us to be rapidly in the market with a very low Capex per square meter, improving a lot the expectations of return on investment capital. About geography, I would say that we're starting first with Bogota and then with the North cost (Cartagena and Barranquilla), understanding that these are the most important markets in Colombia for the mom and pops and that we obviously want to do it in a very good operational way, with low distribution and logistics costs.

**Marcel Morales:** Thank you very much, Carlos.

**Operator:** Thank you. We have our next question from Miguel Moreno.

**Miguel Moreno:** Hi, Carlos Mario and Manfred. Thanks for taking my question. I have two questions regarding Colombian evolution and performance. The first question is regarding sales and the difference between food and non-food. It surprised me that textiles and electronics are overperforming against food, even though the economy is weak. Can you give us more color about this? If this means that they're not buying less food, but they're buying it in the informal market. Why is it that people are buying more other products rather than food? The second question is intended to make a follow up on the cash and carry format. The Capex per store, can you give us some color about that? If this is a short-term strategy, is the cash and carry format a way to take advantage of the low economy, because you are decreasing prices? In two years, if the economy improves, can the cash and carry be reconverted or does it have to stay the same, thinking about the long and medium term effect of converting stores to cash and carry? Thank you.

**Carlos Mario Giraldo:** First, in same-store sales, clearly non-food has been better in the first half of the year. Non-food is very near to zero; that is, not negative, not positive, being textiles and electronics at a very similar level, I would say, for two different reasons. Electronics is a promotional reason.

The market has been promoted, there has been deflation in electronics and that has enabled many consumers to get into some aspirational products. Secondly, there's a huge trend towards mobility towards mobile cell phones, which has become the most important category in the entertainment and electronic category. The second thing, in textiles clearly it is because of market share gains. As you can see, the textile business in Colombia is very negative. We have heard a lot from the textile business in the last days in Colombia and many of the textile producers. The good thing that we have seen in Exito is that we are substituting, with our national production and the competitivity of our private brands, a lot of imported products. Many of these volumes and the positivity of this business, even though is negative in Colombia, comes from this factor. We have been also in a very important EDLP strategy in textiles and that shows that while we are very near to zero in increasing sales in textiles this year, after having a very good last year, we are increasing our sales in units by 8%, which shows clearly the competitivity that Exito has gained in this business.

As for cash and carry, I would say that our Capex per square meter is something between 500 and 700 USD per square meter, which is clearly below the average Capex that we have in any other format of the company. This is a very interesting question, the one that you make about what will happen with cash-and-carries when the economy improves, because it's a question that we had to answer in Brazil with Brazilian investors after seeing such important advance and expansion in Assai. What we have found in Brazil, which is much more advanced, is that when things improve, people keep purchasing at the cash and carry because their environment has improved so that it is attractive for people and we are trying to do it this way. Secondly, you might slightly see a change between end consumer and professional consumer, but when the economy improves, that also means an improvement in food transformers, in restaurants, in cafeterias, in hotels and mom and pops and as they improve they also improve their purchasing capacity, so probably you won't see so many popular end consumers, but you will see a higher increase in the share of professional customers.

**Miguel Moreno:** Perfect, Carlos Mario. Very clear. Thank you.

**Operator:** We have our next question from Cristina Manotas, from Corredores Davivienda.

**Cristina Manotas:** Hello everyone. Thanks for the conference call. I just have one question. Can you please give me more details about the non-recurring tax credit effects in Brazil? Thank you so much.

**Manfred Gartz:** Okay. Those tax credits come from the normal operation of trading in Brazil. Just to keep it simple and to avoid all the technicalities, somehow the fiscal authority in Brazil assumes that certain goods yield certain levels of margin, so once your company sells that at a lower margin that the fiscal authority assumes, you have the right to ask for that additional tax to be paid in the upcoming period, so that would be the most simplistic way to understand those tax credits that happen in Brazil.

**Carlos Mario Giraldo:** I would add also that you can see that by the fact that we also have in the last quarter tax credits and that even when you exclude those tax credits, the increase in the operational profit and in the Ebitda recurrent in GPA is very positive.

**Cristina Manotas:** Okay, thank you so much.

**Operator:** We have our next question from Andrea Atuesta, from Bancolombia. Andrea, your line is open.

**Andrea Atuesta:** Hello. Good morning. Thank you very much for the presentation. I have two questions. The first is: how do you see now the Colombian market, considering the end of the quarter. Do you see some improvement? The second question is regarding the process of disinvestment in Brazil. Is there any estimated time for this process to end?

**Carlos Mario Giraldo:** Yes. As of the improvement, I would go back to some remarks that I made previously. In the short run, we are not seeing a material improvement that we expect happening as the interest rates reduction picks up and the reduction in inflation creates a real improvement in the income of Colombia and we see some economic improvement in Bogota, which are the most important factors. We still think that will take some time.

Number two, about Viavarejo, it's an ongoing process. It's an M&A process, so I have to be very cautious about it, but I would say what's public, and it is that we still continue with the strategy of disinvestment in Viavarejo and focusing our business on the food segment. What's interesting is that even though we are deconsolidating Viavarejo, the year for Viavarejo has been very positive and it has been improving in its sales and in its margins.

**Andrea Atuesta:** Thank you very much.

**Operator:** We have our next question from Marcel Morales, from Deutsch Bank.

**Marcel Morales:** Thank you for taking the question. Just a follow up on the question about the Colombian market. We saw in this second quarter the gross margin going down in Colombia and it was exactly the opposite from what we saw in the first quarter, so my question is what should we expect for the second half? Are you intensifying some pricing activities? Should we expect the same gross margin in the second half of the year? Thanks.

**Manfred Gartz:** Hi, Marcel. This is Manfred. Regarding your question, the first quarter would be as we mentioned one year ago, we were quite explicit saying that the gross margin of the second quarter of 2016 was impacted by the cancelation of the agreement with Ripley. That was quite big. The second question is once you take that away, what you see in terms of gross margin is some degree of maintenance. The other thing is that we are not heavily investing in margin, so I think that's important, because from your question I can read between lines and there's this suspicion that we're somehow transferring price investment into the market and that's not our current case.

**Marcel Morales:** Thank you very much, Manfred.

**Operator:** We have our next question from German Cristancho, from Davivienda.

**German Cristancho:** Good morning. Thank you for the call. My question is just focused on debt. I would like to know what is the company doing or planning to do regarding the debt profile and the maturity profile of debt, taking into account that the company is improving in its Ebitda numbers, in its operating numbers as a consolidated picture, but taking into account the high interest and financial expenses the company has, what is the company trying to do, also taking into account maturity.

**Manfred Gartz:** Hi, this is Manfred. Again, regarding that, I think as part of the day-to-day activities of the financial team we review all the financing and the capital structure of the company, so this is part of our day-to-day activities and we are pretty much aware of the situation and we're planning accordingly to seize the best that we can to update and to optimize our capital structure.

**German Cristancho:** Okay, thank you. Maybe just one last question, regarding the other competitors in Colombia. What else is the company thinking, in terms of loyalty programs or strategies to protect customers and volumes, taking into account that in Colombia some stores like Ara and some hard discounters are just deploying an increasing strategy and an increasing presence, mainly in Bogota and the main areas where Grupo Exito is focused? How is the company trying to protect the market and its volumes, because it's a highly competitive environment?

**Carlos Mario Giraldo:** Yes. I'm going to delve into that question and that issue. The first thing is that we are working very much on our same-store sales, on our most important stores with a renovation of stores and always strengthening the experience to our customers. We believe also that the upcoming loyalty coalition is going to be a very important reason to increase the loyalty of our customers, because they are going to have an increasing number of partners in all types of business, whether Puntos Exito or Puntos Carulla, which are going to be translated into Puntos Colombia and they can be widely used. The third thing is that in the basic product categories our pricing is very strict and in more than 100 most important categories like milk, soap, rice, sugar, oil, tuna fish, toilet paper, etc., we are always assuring that we have the price at the same level or below the nearest store that we have in our competitor, being whatever kind of store. This we are assuring to our customers. The other thing is that we are expanding in the right way and that is first, the cash-and-carries. I think it is going to be a rapid way to get to the market, because the good thing about cash-and-carries is that they drive purchases not only from the neighborhood, but also from other areas of the cities that go there to get the profit of the good prices and the good thing about the cash and carry is that from its own definition it is a low operating store, with operation costs between 8 to 10%, as we have learned from the synergy with Brazil. The other thing is that we have to understand that when you see other stores, for example in a city like Bogota, it is very notorious and visible, but for example in Bogota we have opened three very strong stores in the last month: Calima at Avenida 30, Soacha and La Felicidad, at Boyaca Avenue. These sum up 12,000 square meters, which is the same as 40 other stores. The only difference is that they're profitable from the first month. I think that's very important to look at in the medium and long term. Of course, we cannot take the decisions from third parties on what they want to do in the market and how they're doing, looking at their objectives and profitability, but what we can do is control our own future and what we are doing with our own store formats and brands.

**German Cristancho:** Thank you.

**Operator:** There are no further questions at this time. Mr. Giraldo, do you have any closing remarks?

**Carlos Mario Giraldo:** Yes, thank you. I would say that Exito today is starting to perceive the benefits of the diversification of geographies. That's the name of the game, I mean, when you have some economic problems in some markets, you have the benefits from other markets. The good thing is that in Brazil we still have a huge upside, because clearly the Brazilian economy is only going to grow 0 or slightly this year, but it's coming from a decrease of 7 points in the last two years. We are also seeing the benefits of integration, which is a very disciplined and consistent work being done at the four countries level.

The second remark is that Brazil impacts today the consolidated results, but this not out of luck. This is out of a very consistent work on costs and taking the right moves during the prices. What were the right moves? First, selecting the right formats (cash and carry and premium). Second, doing the conversions from non-profitable stores into highly attractive stores and third, working on cost efficiency.

Uruguay and Argentina are going in the right track. Uruguay with a lot of stability and Argentina with its real estate component, facing the best possible way and economy, which is still going through a transition period. In Colombia we are having clearly a challenging scenario, but our expansion is profitable, our price investment we get back from our productivity initiatives, from reduction in shrinkage and from our negotiations with our commercial partners, having the critical massive negotiation that we had. We continue to promote the complementary businesses, which is a clear differentiation that Exito has and we never forget that at the end it is keeping the loyalty of your customers which counts.

My final remark is that when we look at the medium and long term, it's always important to look at the upside leverage that the company has and that we have as leverage, which are a reality, not only a promise: the real estate business, which continues to be strong with huge potential, the loyalty coalition, with 10 million customers beginning from minute one next year, putting together other partners, and we also have e-commerce and omni-channel reality. I think that many people do not give the importance that this has. I think that we are doing what others should have done in the US and Europe ten years ago. We are preparing ourselves, so that when this reality comes in five or six years we will be on the top of the curve. Also, we are investing in the trendy formats today, as are premium and cash and carry. Finally, I think that when you see the share value of Exito, there's a potential for valuation. If we only look at what's happening with the shares of GPA, even starting the curve of improvement and of Via Varejo.

I want lastly to thank you again for being here, for your questions, and we will be with you in the following months, when we have new results to reveal to the market. Thank you very much.

**Operator:** This concludes today's conference. You may now disconnect.