

**Operator:** Good morning, my name is Omar and I will be your conference operator today.

At this time, I would like to welcome everyone to the Grupo Éxito's Third Quarter 2017 conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session.

Thank you for your attention. Ms. Maria Fernanda Moreno will begin the conference today. Ms. Moreno, you may begin your conference.

**Maria Fernanda Moreno:** Thank you Omar 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 two will cover Grupo Éxito's financial and operational highlights, followed by a review of the performance by country and consolidated financial results for the third quarter 2017. Finally, we will comment on the company's international strategy and outlook for it to then conclude with a Q&A session. Thank you for your attention and I will turn the call over to Mr. Carlos Mario Giraldo for his comments.

**Carlos Mario Giraldo:** Thank you very much to you all for being in our conference for the third quarter's results. We will start in slide number three, with our financial highlights. The main message is that the third quarter results show the importance of the diversification strategy on Éxito having its token in four important markets in South America, where Brazil and Uruguay have the best performing organizations and divisions for the consolidated results.

At the consolidated results, Latin American level, what we can say is that we see a very important improvement in the net result, both for the quarter and the accumulated with an EPS increase, which is very important for shareholders. GPA with an increasing contribution to the results of the organization, given the recuperation of Brazil but the best performance of GPA within the Brazilian retail panorama. A growth in top line of Ebitda, despite lower food inflation in all the countries, especially in Brazil and Colombia, and finally we can see concrete signs of a very dynamic synergy program in all the region that has already reached the target that we had for the year of 50 million dollars.

In Colombia, results have been impacted by a sharp food inflation decrease of 840 basis points and by a decrease in the Nielsen basket for consumer goods, which as of September, is negative 3.4%.

The cash and carry expansion goes on track. We have already opened three stores by the end of the Q, five stores as of today, and we'll end the year with eight cash and carry stores, which will be selling something like 100 million dollars full year.

Traffic monetization is a unique model in Éxito, with an important contribution to our gross margin and especially in this Q the real estate business continues with a very positive performance.

A stronger contribution always coming from the omni-channel strategy, 20% increase in sales through e-commerce, the market place and direct delivery to our consumers.

In Brazil, solid sales, as you saw from GPA announcement, plus 8.1% and same-store sales of 3.3%, despite food deflation and with a consistent market share gain, both at Assai and Pão de Açúcar premium format and the hypermarkets of Extra.

A successful execution of the conversion planned to Assai, with a high return on investment from Extra underperforming stores. In the last twelve months we have concluded nine conversions, with a sales multiple near to three times what they sold before and with a total sales increase for Assai year to date, for the nine months, of a very outstanding 27%.

Sales volume recovery at Pão de Açúcar, our premium format, the successful implementation of what has been probably the most important innovation in Brazil and in the region, which is called “Meo Desconto” or “My Discount” program, where 3 million apps have been downloaded by our customers within the Extra and Pão de Açúcar stores, which is clearly not only for promotions but the first step in a complete digital transformation in Brazil.

Uruguay with strong results and recurrent Ebitda at +40%, especially out of operational efficiencies and Argentina, despite high inflation in most of the costs of the company, with a resilient business model out fundamentally of the jewel strategy, integrating the real estate income.

If we go slide number four, we can see the operational highlights. To make a big summary, I can say that we have a consolidated Capex in the Q of 626.000 Colombian million pesos. In the food retail we have 18 openings, 10 of them concentrated in Éxito mid-size hypermarkets, Assai cash and carries and Surtimayorista cash and carry, the first one in Brazil, the second one in Colombia.

Our real estate expansion continues at full speed with Envigado, the largest Viva Mall, at 47% completion. It's going to have more than 130.000 GLA and opening in the third Q of next year, with Viva Tunja at 20% completion and it's going to be the most important mall in Boyaca, a region near to Bogota.

In Argentina, we continue with the expansion of Paseo Libertad Mall and Galleries, arriving to a total GLA of 167.000 square meters in the plan that we have in three years to arrive to 200.000 square meters of GLA.

If we go to slide number five, there are important drivers for growth that have been developed in the different countries that are focusing on differentiation and innovation. To highlight in Colombia the launch of cash and carry, new market for Éxito out of the synergy from Brazil; the fresh market concept for Carulla, it is taken from what we have done in Uruguay and also the best concepts in the US retailing model, like Whole Foods or Trader Joe's and it just opened in Bogota in Carulla 102, which opened yesterday and it's adding a complete new experience with a very important food category and organic food for our customers; omni-channel advancing through the expansion of our market place and the last-mile delivery in the alliance that we did with Rappi, the last-mile leader in Colombia.

In Brazil, through the Assai expansion and conversion, which continue and are going to end, around 15 to 16 conversions which add a lot of value to our operation there and multiply sales, as I said, near to three times what they sold before “Meo Disconto” or “My Discount”.

In Uruguay, our fresh market and home concept that continue to deliver differentiation to our Disco and Devoto operation.

In Argentina, the dual model of commercial galleries and the textile model implementation that has already been taken to all the hypermarkets in Argentina, multiplying sales in a very important way and obviously also the margin within the hypermarkets.

If we go to slide number six, we see the sales performance in Colombia, which was adverse in the Q. We were -6% adjusted by calendar in same-store sales, -4.1 total sales for a total year accumulated of -2.7 in total sales. This difficult Q had, I would say, three main reasons. One is the dynamic non-profitable expansion in the segment of discount happening in the Colombian market, the Nielsen consumer basket decreasing by 3.4 out of lack of confidence from the consumer that has been the general rule all of the year and a very important part of it given the lower food inflation. If we compare this Q with the same Q of last year, food inflation is down 140 basis points.

Nevertheless, we have very interesting positive things, as the contribution of omni-channel, e-commerce, market place, home delivery with an increase of 20%, something that has been happening in the last five years in a very consistent strategy of Éxito to differentiate its sales in the most modern channel for the future in all the world of retail and Colombia will not be the exception, with Surtimayorista cash and carry increasing 27% in sales and multiplying its sales in an average between 2.5 and three times what it sold before as a Surtimax store in those that had been converted.

If we go to slide number seven, we see some of the commercial initiatives that we have in Colombia to answer to the different market challenges. One of them is investing in price in our unbeatable products. These are around 200 categories with products of private brand that have an unbeatable price against any competitor that is in the surroundings in the market. They represent around 15% of our food sales, but they represent around 80% of the food sales of our competitors, especially the discounters. We believe that this is very important because it's a focused investment which we will partially recuperate from the efficiency in the supply chain with our private brand integrated suppliers.

That takes me to the second initiative, which is getting in an improved portfolio in private labels through integrated models with suppliers, something very similar to what Mercadona has done in a very successful way in Spain and that is new to the Colombian market, where for the first time there's going to be with a selected number of private brand suppliers a very close relationship of partnership with the open-book account.

The third one is the fresh market model through Carulla to add value to the experience. Clearly Éxito is different from the rest of the market because it not only gives sale prices to its customer but on top it gives differentiating, very innovative private brands as Taeq,

Arkitekt and Bronzini and also a full experience to its customer, which in the long run makes a complete difference.

If we go to slide number eight, we can see the cash and carry expansion. It just started last year with a full deployment this year, where we are going to complete eight stores and that takes us to feel comfortable to say that in the following years we will be doing something like between eight and ten cash and carries, which is a very productive, profitable way to get to the discount market and to the professional market at the same time, only to say in eight stores we will have sales around 100 million dollars next year, being profitable from the first year. This is a clear synergy from Brazil and it's a format which has an essential low operating cost which cannot surpass 10% and very low Capex per square meter, something around 700 dollars per square meter, which is I would say around half what an Éxito store would require or one third what a Carulla store would require. It obviously will have a very interesting return on investment.

If we go to slide number nine, we can see in this graph our omni-channel strategy that makes us leaders in non-food and in consumer goods, e-commerce in Colombia. We put together the web, the mobile app, our market place, home delivery, digital kiosks and click and collect. In these three months we've had 36 million visits, 837.000 orders by the web, our mobile app now represents 55% of the traffic and 22% of the effective purchases. The market place already has 700 partners and 40.000 products subscribed and it plans to arrive to 300.000 products as a selected offer for next year. In home delivery, we keep our own direct home delivery but we closed an exclusive alliance with Rappi, which is going to be an exclusive dealer for Éxito in the last-mile service and it is having a very aggressive plan to keep and increase the leadership that it is having in this type of delivery. Our digital chart, within 136 stores, which offers more products that the stores do not carry and that we can send through our distribution centers and finally the click and collect that connects our web services with 300 stores where we can deliver to the customer, giving us a competitive advantage against players in e-commerce.

I can say that omni-channel is going to play a very important role in the future of the Colombian retailing panorama and this year Éxito has kicked ahead and it's keeping a very important differentiation with the rest of the competitors. We have 200 people between engineers, experts in marketing and technicians within our web services to be able to reassure this leadership.

In traffic, going to slide number ten, Éxito has also had and it continues to have a unique model with traffic monetization for our customers. We have created in the past years and it is an important part of our margin, the financial retail business in alliance with Bancolombia, the travel business with Avianca, our insurance business with Suramericana and our mobile business, which works under the platform of Tigo. We have been increasing also the non-banking correspondent services, both to Aval and to Bancolombia group with around 15 million transactions that create income and also new traffic into our stores.

Most importantly, I would highlight two initiatives, one is going very well and the other one is going to start next year. The first one is Viva Mall, our real estate. As you know, it has

been contributing very positively to the results of the company. It's started now with our partner FIC with 49%, with a total GLA of 434.000 square meters and it is now developing the two FIC projects of Envigado and Tunja and planning to launch new projects for the increase of the Viva Malls, assuring the Capex that we need to have the dual model of real estate and retail.

Finally, the loyalty program, which has been launched through Puntos Colombia, a very interesting brand to have registered between Bancolombia and Éxito. We are having together 10 million unique customers. It is going to start with Puntos Colombia for the issuance and redemption of points in all allied commerces and the financial services of Bancolombia and the retailing services of Éxito, starting April-May of next year. The important part about the contribution that Puntos Colombia will have is not only creating new loyalty with customers and new reasons to be loyal to the products and to the formats of Éxito, but also that it has no value in the books of Éxito, so it's a very important value creation opportunity.

In slide number 11 we have the net sales, now going to Brazil. You have seen them in the results that were revealed some days ago by GPA, but clearly they are outstanding, with an outstanding sales performance despite food deflation. There, food has had a deflation of 2.14 this year, compared with an inflation of more than 13 points last year. Regardless of that, Assai had during the quarter increasing sales of 25% total sales and same-store sales of 7.7%. The converted stores registered an average of three times the sales growth that they had under the previous format and now Assai represents near to 43% of all the food business of GPA with market share gains of 330 basis points.

In Multivarejo, there were also very important developments with Extra hypermarket with the best same-store performance in many quarters and also gaining market share, same-store sales within the hypermarket and with Pão de Açúcar regaining an increasing volume, which is very important for this premium format and beginning to do a full renovation of the most important stores in Pão de Açúcar, which is going to arrive to near to 50 stores by the end of next year.

I'm going to hand it to Manfred to continue with the operational results of the company and then I will give you some final remarks.

**Manfred Gartz:** Thank you, Carlos Mario and good morning everyone. Please let's move to slide 12 to talk about Colombia.

Top line net revenues reached 2.7 billion COP in the third quarter, decreasing 2.7% versus the previous year, especially affected by a lower inflation. Other revenues grew 23%, mainly driven by the performance of the real estate business.

At gross margin, the quarter showed the effect of a change of mix on lower sales. If we look at year to date, gross margin is at 24.5%, 10 basis points below last year, benefiting from improvements in productivity, reduced shrinkage and lower logistic costs.

On the side of the SG&As, the company grew 3.9% including the expansion, which is the best performance in the last three years. This shows tight cost control, considering that many expenses are growing at last year's inflation.

Finally, the recurrent Ebitda for the quarter was 115.000 million COP, with a margin of 4.3%. Year to date, the Ebitda reached 389.000 million COP, with a margin of 4.8%. Main impacts come from lower sales and the influential gap between revenues growing mainly at current food inflation while expenses grow at last year's inflation.

Please move forward to the next slide for Brazil. In COP, top line revenues grew 11.9% in the quarter to 10.3 billion despite food inflation and driven especially by: one, customer and volume growth at Assai; two, a stronger performance at Extra hyper and three, the recovery of Pão de Açúcar, gaining market share at both brands.

Growth margin reached 21.7% of sales growing 9% in the quarter as a result of the commercial strategy, the maturing of the Assai stores and the implementation of synergies, including shrinkage, among others. At the SG&A side, expenses at Multivarejo grew below inflation in local currency, allowing to offset the cost investments for the conversions at Assai, as well as the cash and carry expansion plan. The strong control of expenses has been key to increase the profitability of the Brazilian operation.

On the recurrent Ebitda, the quarter ended at 511.000 million COP, resulting in a 5% margin growing strong at almost 22% in COP.

Please move now to the next slide. The macroeconomic environment in Uruguay improved during the quarter, taking benefits from the lower inflation trend and improvement in unemployment. Net revenues in COP reached 615.000 million, growing 8.1% versus last year. Like-for-like adjusted by calendar effect grew 4% in the quarter, supported mainly by the fresh category, textiles and electronics. Gross margins changed in the quarter due to high logistic costs and the higher wave of promotional activities.

On SG&As, those expenses decreased 0.5% in the quarter due to operational efficiencies such as reducing the staff and lowering marketing expenses that allowed the company to offset wage increases, higher commissions and higher property taxes.

On recurring Ebitda, it reached 40.000 million COP in the quarter, with a margin of 6.4%, recovering from a challenging second quarter and if you look at the year to date, the Ebitda margin reached 146.000 million COP, with a margin of 7.7%.

Please move forward to the next slide on Argentina. In Argentina, it's important to highlight that macroeconomic conditions have shown some early signs of recovery such as a strong inflation disacceleration to 24.6% and repo rates decrease to almost 26%. Also, a less volatile political environment has improved somehow the consumers' sentiment in the country, although it has not been economically material yet.

On top line, net revenues grew 11.6% in COP, reaching 363.000 million. Net sales in local currency grew 26% both in total and same-store sales, driven by the contribution of the

convenience store strategy, higher volumes at hypers and the strong performance of the textile and electronic category.

On expenses, SG&A rose slightly below inflation in local currency, where expenses control offsets almost all pressures by high inflation, mainly in labor and utilities. The real estate in the country continues to contribute and protect results in Argentina, offsetting most of those inflation pressures.

Recurring Ebitda reached 4.000 million COP, with a 1.2% margin in the quarter and the inflation from revenues and expenses continues throughout the period.

Please look at slide 16 for the consolidated results. Top line net revenues reached 13.9 billion COP with an 8.5% growth coming from the strong sales performance in Brazil. Year to date, net revenues reached almost 41 billion COP, with an 11% growth. Very important to highlight the performance of the SG&As, which decreased by 50 basis points in the quarter and 30 basis points in the year to date, reflecting productivity efforts and other cost cut initiatives of the consolidated operation all through South America, successfully offsetting the change in the inflation trend that has caused salary levels, occupancy and utility costs to rise.

On the recurring Ebitda, it finished at 670.000 million COP, growing 5.5% and reaching a 4.8% margin. Year to date, the Ebitda reached 2.4 billion COP at a margin of 5.9%.

Finally, net result attributable to Grupo Éxito was -31.000 million COP for the quarter, compared with -100.000 million COP last year and year to date 178.000 million COP better versus the first nine months last year, at a positive 30.000 million COP.

Please move on to the next slide for the net results reached. I think on the operational level it's important to say that the strong performance of Brazil and Uruguay has compensated the results in the other geographies. At the non-operational level, two main aspects to highlight. One, non-recurring expenses driven mainly by the Brazilian operation flows at their own third quarter 2017 results conference call a couple of weeks ago and two, better financial results as a consequence of lower interest rates both in Brazil and Colombia and the execution of deleveraging process. Also, the positive results from Via Varejo at the discounted operations contributed to the end results.

Finally, now on slide 18 gross debt ended at 4.5 billion COP, reducing 1.3% versus the same period last year and net financial debt at holding level closed at approximately 3.9 billion COP, decreasing almost 5% versus last year, aligned with the company's strategy of deleveraging.

At this point, I will turn the call over to Mr. Jose Loaiza for a follow up of the company's international strategy and the synergies process.

**Jose Loaiza:** Thank you, Manfred. We are very glad to tell you that at the end of the quarter, as Carlos Mario said at the beginning of his talk, we already attained the USD 50 million guidance that we told you at the beginning of the year, coming from the synergy process. We expect to finish 2017 doubling the benefits we got in the whole 2016.

Going to slide number 20, we keep benefiting from our growing purchasing power coming from this integration. To the right you may see some examples of new products coming from new vendors that we have found as a result of our business encounters, giving us a differentiation in our stores and also improving our commercial conditions. Also, as we speak we are also getting the benefits from the regional agreement that we have gotten with the big multinational corporations coming from our platform negotiating as a regional player and in commodity purchases we are at full speed. At the end of the quarter we have bought 60% more volume compared to that that we bought in the whole 2016, allowing us savings between 5 and 15% and just to give you an example of an entry bottle of wine, we have bought together almost one million units, getting savings up to 30% for the Assai, Extra and Éxito banner and as this example we have many others that we will be sharing with you in coming calls.

Going to slide 21, talking about our textile unified proposal for the region, at the end of the quarter we have already implemented the business model in 41 stores out of the 65 we expect to attain for year end. To the bottom left, you may see already deployed the concept “I Am Fashion”, “Soy Moda”, in all of the four countries and a couple of pictures of the implementation in Uruguay in one of our hypermarkets.

On slide number 22, talking about exchange of best practices, not very visible to the customer but very important for our cost and expense structure. As Manfred said, as a result of this exchange of best practices we are reducing our level of shrinkage in both Extra and Grupo Éxito formats. Concerning supply chain, we keep on lowering our stock out levels, both at GPA and Grupo Éxito and also in the case of GPA we are increasing, coming as a synergy from Colombia, our level of cross-docking and reducing our logistic costs. To the right, indirect purchasing and IT costs, we talk about all other products and services that we don't sell in our stores but this company needs to operate. We have already a regional purchasing team based in Brazil and Colombia, negotiating for the whole region. The amount this year goes up to 50 million dollars of common negotiation and savings between 30 and 45%.

Going to slide number 23, no need to give further details, as Carlos Mario has talked about the cash and carry implementation. Just to say that this falls into the category of a synergy that means replicating successful business models.

Finally, on slide number 24 we keep on deploying our proximity strategy for the region. This pictures come from Uruguay. This is our store number 28, consolidating our leadership in this format in the country, with learnings coming from Colombia and Brazil.

In conclusion, we may say that we feel that we have a very good pace with synergies in 2017 already attaining the goals. We are already thinking of what we are going to do in 2018. We are sure that with the top management commitment that this process has, with the integration offices up and running in all of the four countries, also with the commitment from the top executives of each company we will keep on pursuing the integration and delivering the expected results.

Now I'll turn it over to Carlos Mario to finish the call.



**Carlos Mario Giraldo:** I will go to slide number 25 to make kind of a recap of what has been told during the call.

First, to highlight that the net result is very positive and there's an improvement of near to 60 million dollars in the nine running months of this year.

Operations in Brazil and Uruguay with a very positive contribution, which reinforces the rationale behind the diversification and the international global expansion of Grupo Éxito as today's leader in the food business in South America.

Grupo Pão de Açúcar with a very solid performance, even though Brazil has just started to recover but given the work that has been done in the last year in GPA of focusing in the key format of development, the cash and carry, of converting the non-performing stores. We can see this benefit in the results of the company and the strong sales growth despite food deflation.

A consistent work in costs and expenses in all the four countries, which started last year in Brazil and this year has had a big hike in all the countries whose results are being seen during the quarter but we will be seeing during the following quarter because this is an ongoing productivity strategy for the four countries.

Synergies as a reality and I would say that more than synergies, they show a real business integration where the teams think as one and share the best practices and have been able to have a process which assures the implementation of the best business practices in the other countries, with cash and carry stores now as a reality in Colombia and the business leader in Brazil. Cash and carry as a format is probably today the most dynamic format in all South America, if we see what's happening in Brazil and besides Brazil it has already reinforced as the format leader in Brazil above hypermarkets and here Assai is with no doubt the most dynamic cash and carry, not only in the expansion and the conversion, but also when we measure it by same-store sales.

A strong contribution from real estate both in Colombia and Argentina and finally a continuous strengthening of the omni-channel format, knowing that for the future this is a key development that is now being material in our operation and that will contribute year after year a very strong growth to our sales and sustainability, both in non-food and food.

Finally, traffic monetization as an ongoing strategy in Éxito which very few retailers in the region have been mastering.

If we go to slide number 26, and I have shown this in the last quarters, we continue to see a very strong valuation of the share of GPA and of Via Varejo. GPA, we measured it in the last twelve running months with a valuation near to 30% and Via Varejo at 134% and we start to see some reflection of this in the share of Éxito, which we would like to see more reflected in the future as these assets are clearly reflected within the balance sheet of Éxito.

This is the presentation that we had for you today. We open this to a Q&A and then at the end we will have some final remarks. Again, thank you very much for being here for this session.

**Operator:** Thank you. Now we will begin the Q&A.

At this time I would like to remind everyone, in order to ask a question, simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. We'll pause for just a moment to compile the Q&A roster.

Alright and we have the next question that comes from the line of Mr. Miguel Moreno. Please go ahead.

**Miguel Moreno:** Thank you. Hi, Carlos Mario and Maria Fernanda. I have three questions. The first question is regarding the activities in Colombia. You mentioned external reasons for the revenues like inflation. The company seeks the rationality of price still aggressively. If you can give us more color on the competition in Colombia it would be great.

The second question is regarding deleverage. As the Ebitda is slowing down, the Ebitda is increasing. In Colombia you have a net level close to 5.5%. What is your target if this continues to increase? Do you have any plan of sale of some assets or something to decrease deleverage?

And in line with that, my third question. I know that you are investing strongly in real estate so if you can give us more color on the expected Ebitda of any project, Viva Tunja or Viva Envigado. It makes you for example reasonable to expect an Ebitda of Viva Envigado 20 million dollars in maturity of the mall? Thank you.

**Carlos Mario Giraldo:** Thank you Miguel for your questions and I will take the one on the competitive scenario and prices and our real estate and then hand it to Manfred for the one on deleverage.

The first thing is that the competitive scenario in Colombia is very active. As you have seen, there are three players in the discount market that have done a very important expansion in the last year. What we have decided is that we have a clear strategy, which is clearly different from what they are doing. My first thing to say is that we are not doing the same thing, that is opening stores at any place with non-profitable sales, as we have seen in the figures.

What we have chosen is to have a combination of strategies. The first one is expanding Éxito stores to intermediate cities where there's no cannibalization, where the Éxito store becomes the cornerstone of the city, expanding some cash and carries, as you have seen. We started small but it's rapidly growing to be a material format and a profitable format, both at Ebitda level and at return on investment. Third, and we cannot forget that, to give full value and experience to our customers in Éxito and Carulla, modernization of hypermarkets. We are modernizing 25 hypermarkets in the technological type of products: cell phones, TV sets, video, etc., which has had a very good result and we are modernizing all the textile area of the hypermarkets, which make our hypermarkets clearly differentiated from the rest of the market. Our focus in fresh products. There's no fresh products discounter in Colombia, there's no fresh products world leader so we are the leader in fresh products. Here our competitors are more regional players and as you know, in this type of business, in groceries, fresh products are key. The purchase of Amazon to Whole Foods shows how key the fresh

products categories are for the future of retailing and we are now pointing to have more than 20% of share of fresh products in the hypermarket sales and clearly to the Carulla fresh market proposition, making Carulla the real leader in fresh products in upper economic brackets and Super Inter and Surtimax in lower brackets.

Then we are making investments in our portfolio in each of the formats, but it's not a wide investment in all the products. It's not an EDLP proposition in all our formats. It is concentrated in those products that according with the sensibility show the elasticity to price perception and these are more than 200 categories of basic products like rice or sugar or oil or tuna fish, etc., to speak about some of these categories or basic soap and laundry and here it is our private label proposition, which gives us competitiveness at these "insuperables", as we call them, unbeatable type of products.

Finally, we continue with our omni-channel strategy, which gives us the opportunity to go to the homes of all our customers even though they are not near our stores. This is more than a proximity proposition which through home delivery and e-commerce sales both in non-food and in consumer goods makes a very comprehensive strategy.

I have also to mention traffic monetization because even though it's not directly related with this competition scenario in selling, it is clearly important because it nurtures our margin so that we can have all the space that we need to be able to remain competitive at the retail.

I'm sorry for being so long in this answer, but I think that it's important to understand the complete scenario and not only an isolated answer.

As of real estate, we are not delivering for the moment the Ebitda that is going to be granted by Envigado and by Tunja, but it's important to see that as an average our Ebitda levels, measured by the income received by rentals, are at a world standard, between 75 and 80%. They continue to be that way and even in Viva Mall we not only receive that within Viva Mall but as a real estate business we receive the fees as being in charge of the commercialization, development and operation of the shopping malls. I hand it to Manfred for the other answers.

**Manfred Gartz:** Hi, Miguel. This is Manfred. Regarding your question on leverage, I would say the following. Éxito has full commitment to control and reduce financial leverage. As of now, Éxito has conducted all the initial plan we had at the beginning of the year and net financial debt has been reduced accordingly. With all due respect, I do not concur with the calculation of the indicator that you put forward. What I can tell you right now is that it's true that given that we will see as a temporary impact of the Ebitda level and the Colombian operation feels a slight pressure on the indicator, but nothing to be concerned about, fall below and under the covenants that we have for the whole indebtedness and I think things are under control and we don't have any concerns whatsoever regarding that.

**Miguel Moreno:** Perfect. Thank you, Manfred.

**Operator:** The next question comes from Ron Dadina, from Mitsubishi Financial Group. Please go ahead.

**Ron Dadina:** Hello everyone. Thanks a lot for the call. My question also is both on margins and deleverage. If you see the overall margin at the Éxito level, the Ebitda margin was around 8% before the acquisition. For the nine months in 2017 the Ebitda margin has dropped by almost half to 4% now. Similarly, the net leverage is both at the consolidated level and the Éxito level was almost 0 before the acquisition. Today the net leverage at the consolidated level is over two times and the Éxito level is six times, so this is a significant deterioration so I just want to understand better. Are you planning to do anything about it or not really?

**Manfred Gartz:** Thank you, Ron. This is Manfred. I will take both questions. I think the first one, regarding margin, it's important to mention that the margins you mention were under Colombian GAAP. It's important to recall that up from 2014 the company entered the IFRS as the accounting GAAP used and since that, margins lowered from the mid 8% to 7.40%. I think that's one key message here.

The second, regarding leverage. I think before the acquisition obviously the company did not have any debts. The company was looking for opportunities and this is something that has happened in the track record of Éxito, that every time we make a major step forward in any non-organic growth we have an initial set of indebtedness that over the course of the following years we get back to normality. I think it's part of the cycle, it's part of the process, and it's part of the strategy that Éxito has used to grow across LatAm to become a South American food retail leader.

**Carlos Mario Giraldo:** I would also add that even though as Manfred explained the Colombian GAAP average margin of 8 represents a 7.4 under IFRS. This year we are not going to be above 7%. We are going to be below 7%, but of course it is not going to be the margin that you are seeing accumulated to September, because we are entering the most important trimester for our sales, where our sales have a high composition of non-food, especially of textiles, which carry a very important margin, and of fresh products for Christmas, which also carry a very important margin.

**Ron Dadina:** Ok. Thank you.

**Operator:** Thank you. The next question comes from Rodrigo Torres, from Valora Inversiones. Please go ahead.

**Rodrigo Torres:** Hi. Good morning everyone. I would like to have more information about the loyalty program. Maybe Carlos Mario can explain us a little bit more how it's going to be the monetization of the loyalty program Puntos Colombia. That's the first question. The second one, please explain a little bit more how many cash and carry stores you are going to open in Brazil next year and how much in sales, how much money is going to be in sales for next year in those cash and carry stores in Brazil. Thank you.

**Carlos Mario Giraldo:** Yes, Rodrigo. I will start by the second one and it is that we still have not given guidance on the cash and carry expansion in Brazil for the next year but you can be sure that it's going to be very dynamic, that it's going to be the main focus of the company both the expansion of cash and carry and the renovation of around 50 Pão de Açúcar

stores and that it's going to be a combination of new openings and it has been done in the last year and of conversions coming from non-performing Extra stores.

As of the loyalty program, I would explain that we are working at two levels. First, in Brazil it's a very important synergy as it has collected a lot of the know-how that Éxito had in Colombia in the past with the loyalty program. It has been taken to a new level in Brazil, adding technology through applications and through algorithms that permit that they can offer in a targeted way to each customer the number of products that he likes and the number of products that we come to the conclusion that he would like to buy, supported and financed directly by suppliers. This is "Meo Disconto" and with a very high record in the world of retail with 3 million downloads in a few months, which is very enthusiastic not only for Brazil but what it represents to the other operations, starting with Colombia.

As of the loyalty coalition, the loyalty coalition Puntos Colombia what it means... If you compare it with something similar that has happened in Colombia, it is LifeMiles from Avianca that now has some investment of third parties. What it does is that it puts together an initial database of around 10 million customers. These customers will be issuing points and will be redeeming points, not only within the stores of Éxito and its other formats, but also within the different financial products of Bancolombia and we are bringing allies, that is third parties, in complementary segments like restaurants or gas stations or cinemas or other services, which in order to attract the attention of this customer base are open to pay for the issuance and redemption of points within their stores.

The economic model of this starts with the fact that normally of 100 points that are issued there's a shrinkage of points. There are points that are not used within one year, so if the cost of the points for the company is 100 pesos normally we would have between 20 and 30% of shrinkage. This gives an initial margin of 20-30% and then the rest of the margin would be the price paid for third parties in order to take profit of all these points. The interesting things of this economic model is that it not only creates loyalty to those who belong to the ecosystem, but also that it creates a very interesting margin out of something with no inventory and with no value in the books of the company but out of the use of the database, out of big data and the technologies that Éxito has developed in the past.

**Rodrigo Torres:** Ok. Thank you.

**Operator:** The next question comes from Nicholas Lore, from JP Morgan. Please go ahead.

**Nicholas:** Thank you, Carlos Mario, Manfred and Maria Fernanda. Thank you for the call and for taking my question. I have a couple. One in a more general sense. What do you believe is necessary in Colombia to bring back same-store sales? Is it more inflation activities or customer confidence? I would like to know your opinion on that. Also, on e-commerce. While looking at the presentation I see that you are making an important effort there to step ahead of competition and I want to see if you could help us to get a grasp on how relevant is e-commerce nowadays on food retail. Also, on Puntos Colombia, kind of the same question, if you have a projection that you can share on how relevant this could be for the business. Thank you.

**Carlos Mario Giraldo:** Yes. I will start with same-store sales. I think that there are two circumstances which will be behind the future trend of same-store sales for next year. The first one has to do with the recuperation of consumer confidence, which we believe will be gradually back, the recuperation of the Nielsen basket, which in the last reading we had was -3.4% but at least there's a feeling that it's at the level point and the other thing will have to do also with the different strategies that the company has and which I spoke at the beginning, which will be consistent but profitable. I think that what we have decided is that same-store sales are very important but not at any cost and that we cannot deteriorate the margins of the company attacking all the product lines of everybody. What we have done, as you have seen, is a focus, attack a focus, which we find with our complementary businesses and with the monetization of our traffic, which helps us.

Going to the second question about e-commerce, five years ago our e-commerce sales were very low as the percentage of the sales of the company. Now they are going to be ending this year at around 3% of total sales of the company. This is very important because it now gives you something like between 90 and 95 million dollars, which is material and which is something that now nobody has in this consumer business in Colombia and we have the technological platform. The other important thing is that now market place is around 25% of the total income of this kind of omni-channel and this is key because we aspire to become the preferred market place platform for the Colombian companies out of the good reputation of Éxito and also of the solid base of the technological platform and of the logistic services that we can grant, also bringing additional income to our business.

Finally, about Puntos Colombia, we are not still delivering figures. They will be delivered in the future but you can see the huge potential of a 10 million customer base and I'm thinking for the moment only of issuance and redemption of points, not what comes after and it is the active use of the big data that we have out of this database, which is probably the most important database in Colombia. If you want to see comparisons, I will invite you to see the figures that LifeMiles have, which are very positive and indicate the huge potential that such initiative has in the Colombian market.

**Nicholas:** Very helpful. Thank you very much.

**Operator:** Thank you. Our last question comes from Mr. Bernardo Schafer from Citibank. Please go ahead.

**Bernardo:** Hello, Manfred and Carlos Mario. My question is regarding your expectations for the rest of the year, the fourth quarter and 2018 especially in Colombia. What are your views in terms of the performance of the indices and recuperation of the indices that you have mentioned? Thank you.

**Carlos Mario Giraldo:** Yes, Bernardo. I would say that the fourth quarter, as we are seeing it, will be very much as what has been happening in the year. There will not be an important recuperation in the fourth quarter. Number two, having said this, what we are seeing is that for next year we believe, as we have seen in the different economic meetings in Colombia that have been organized, that there's what has been called "moderate optimism" of gradual

recuperation and the grounds for that are mainly one, the improvement in the price of petroleum, which is important for the Colombian economy, second, the reduction in interest rate, as it has been reduced for 250 basis points. It should have a lagging impact in the recuperation of the economy, as it had a lagging impact in the deterioration of the economy when it went up for 250 basis points in the last years. The third one is lowering inflation. We're having food inflation at around 2%, when one year ago it was double digit. This impacts sales, of course, in pesos but it will also give new ground for consumers to begin picking up on consumption of consumer goods and especially when we have salaries increase next year, which I calculate will be somewhere between 4.5 and 5%, that means that the consumer will have an additional purchasing capacity to be able to use in the market. Finally, what I would say is that we have some macro things, which are important in Colombia, mainly the recuperation of non-traditional exports and the very strong figures that we are seeing and will see in tourism. These are grounds for improvement. I would say they are gradual and what we are doing about it is that we are making sure that we work very hard on our complementary income to be able to strengthen our margins and secondly that we are clearly working very hard on our expenses, so that regardless of the panorama that we see next year, we will be working in the strengthening of our operational profits and our Ebitda margins and of course our net profit.

**Bernardo:** Thank you very much.

**Operator:** Thank you. At this point, there are no further questions. Mr. Giraldo, do you have any closing remarks?

**Carlos Mario Giraldo:** Yes. Even though some of these things we have said during the conference, I think these are key messages about Grupo Éxito. The first one is that our consolidated results are the effect of the diversification that the company has done, being present in the most important economies in the region. We have an upside, which is the recuperation of Argentina and Brazil. As most of the analysts are seeing, they are expecting growth in those economies between 2 and 3 points for next year, which is a complete upside for Éxito. We are seeing part of that from Brazil, but Argentina in the last months has improved a lot its expectations, especially as it is bringing inflation down.

The second one is that the net profit of the company, 60 million dollars better than what it was as of September of last year, is a good news for our shareholders at this point.

Our integration process is going in the right direction with expectations even being surpassed by the reality of the synergies that are being arrived by the different operations working together.

We are looking forward to a gradual positive regional outlook in the four countries where we are because of decreasing interest rates in all of the four countries, decreasing inflation in all the four countries, better consumer consumption in at least three of the four countries and expectations for a gradual recuperation in Colombia and with the expenses that are being worked in the four operations doing very interesting signs in the third quarter of this year and towards the Colombian competitive scenario Éxito continues focused with its omni-channel

leadership, with its new format, the traditional ones which perform very well like Éxito and Carulla, and with the cash and carry high return on investments expansion, with innovation and differentiation and with a targeted price investment through our private labels, a selected portfolio of very competitive products.

Finally, I would like to highlight some value-creation opportunities for our shareholders, like traffic monetization initiatives that we mentioned, especially real estate and loyalty, but insurance, travel and credits continue to be very important, travel monetization is a reality because of the shared valorization that we are seeing in Grupo Pão de Açúcar and Via Varejo and because of the upside that we see in the economic outlook of big countries, powerful countries as Brazil and Argentina.

Thank you very much for sharing us these minutes and for your questions. I hope to be here the next year, bringing you not only the full year results but also the projections for the next year.

**Operator:** Thank you. Ladies and gentlemen, this concludes our conference for today. You may now disconnect.