

## Q2 2012 Earnings Call

### Company Participants

- Carlos Medeiros, CEO

### Other Participants

- Daniel McGoey, Analyst
- Isabel Lesos, Analyst
- Martin Estado, Analyst
- Sunyo Orang, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. and thank you for waiting. At this time, we would like to welcome everybody to BR Malls' conference call. Today with us we have Mr. Carlos Medeiros and Leandro Bousquet.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After that, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Now, I will turn the conference over to Mr. Carlos Medeiros, who will begin the presentation. Mr. Carlos Medeiros, you may begin your conference.

#### **Carlos Medeiros** {BIO 15324538 <GO>}

Hi. Good morning. Thank you for participating in our Second Quarter 2012 earnings release call. As we've done in previous calls, we'll go through a very brief summary of our earnings and will be following a presentation which is available on our website and then we will open to Q&A, and Leandro and myself will be available for answer any questions you may have.

So we're starting the presentation on page 2. Again, the presentation is available on our website. And starting with net revenues, we achieved net revenues in the Second Quarter of BRL266 million, growing 33% in the quarter and 35% in the first half. Our NOI in the quarter reached BRL245 million, up 39%, and for the first half our NOI was up 38% reaching BRL463 million. Our same-mall NOI growth reached 16.6% in the quarter and 15.7% in the first half.

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Our adjusted EBITDA grew in the quarter 35%, reaching BRL217 million and for the first half it reached BRL420 million, up 40%. Our AFFO growth reached 32% in the Second Quarter and 43% in the first half, reaching BRL203 million. Our net income was up 300% in the Second Quarter, reaching BRL462 million and up over 200% in the first half, reaching BRL575 million.

Our adjusted net income was up 34% in the quarter and 47% in the first half. Our same-store rents in the quarter reached 81% -- 8.1% sorry, and our same-store sales in the quarter reached 7%. Our renewals leasing spread in the Second Quarter reached 25.6%. We've been growing renewal leasing spreads at above 20% for the last two years.

In terms of acquisitions, we invested BRL277 million in the Second Quarter totaling BRL365 million for the year of 2012. When we look at our NOI expected at the time of our acquisitions compared to the actual NOI, were up 29% in the Second Quarter and 30% in the first half of the year.

I'm going to show a little more detail in our acquisitions. We completed the acquisition of Shopping Plaza Macae in the state of Rio de Janeiro in the quarter which should generate almost BRL5 million in NOI for (2012). We've also acquired an interest in Rio Anil Shopping in the state of Maranhao in the city of Sao Luis, which should generate an NOI for BR Malls of almost BRL11 million in the next 12 months.

We've also completed the acquisition of an additional stake in Shopping Villa-Lobos in the city of Sao Paulo, which should generate an NOI of BRL11.5 million for BR Malls in the next 12 months.

In terms of our greenfields, we opened Shopping Estacao BH in the city of Belo Horizonte in the state of Minas Gerais in the Second Quarter. The mall was opened 97% leased. This is our eight mall in the state of Minas Gerais and the first regional mall in the north area of Belo Horizonte. This mall should generate a stabilized NOI of BRL26.4 million to BR Malls. We've also opened in the quarter the expansion of Shopping Recife. The expansion opened 100% leased and should generate a stabilized NOI of almost BRL5 million for BR Malls.

In addition to the projects that we've already opened in the quarter, we're working on four greenfield projects -- actually, four greenfield projects for next year and two that we are working to open this year still; Sao Bernardo Plaza Shopping, which we should open in November of this year in the city of Sao Bernardo, state of Sao Paulo; and Londrina Norte Shopping in the city of Londrina, state of Parana, which we should open in October of this year.

In addition to that, as I said before, we have the four projects that we are working on for the coming years; Shopping Contagem in the city of Contagem in the state of Minas Gerais; Catuai Shopping Cascavel in the city of Cascavel in state of Parana; Shopping Vila Velha in the city of Vila Velha in the state of Espirito Santo; and Shopping Guarujá in the city of Guarujá in the state of Sao Paulo.

When you add this developments to our expansions and to our current owned GLA, we should reach a total owned GLA of over 1 million square meters of GLA in the coming years.

In terms of our cash and net debt position, we ended the quarter with BRL436 million in cash and BRL327 million -- BRL3.277 billion in net debt. In terms of our amortization schedule, we've maintained a very long debt amortization schedule with an average life of over 10 years. In terms of our stock performance, our stock is up 28% year to date compared to a decline of 4.2% for the Bovespa Index.

With that, I conclude this short presentation and now Leandro and myself are now available to answer any questions you may have. Thank you.

## Questions And Answers

### Operator

(Operator Instructions)

(Martin Estado, Flokcohasura).

### Q - Martin Estado

I have a -- thank you for the presentation. I have a couple of questions. First of all, I don't know if you can talk a little bit more about the same-property NOI. It has been decelerating relative to what you have been doing in around 22% to 25% in the last four to eight quarters. Maybe you can talk a little bit more about what -- how you are looking at that trend going forward?

Then maybe you can update on all the -- in the newspapers here in Sao Paulo, they were about talking about the city not giving permits to malls and yours were mentioned regarding Macae with the laws and (inaudible), if I remember correctly. So maybe you can give us an update on that as well. Thank you.

### A - Carlos Medeiros {BIO 15324538 <GO>}

Same-store of your first question --we've seen in the first half of this year a general slowdown in the economic activity in Brazil and as a consequence a slowdown in retail sales in Brazil and as a consequence a slowdown in our same-store sales and same-store rent, and therefore, a slowdown in same-mall NOI.

So going forward, we expect an eventual pickup in the economic activity as well as in retail sales, and that's had a positive impact in same-store sales and same-store rent and so on. So basically, the slowdown has to do with the general slowdown in economic activity in Brazil, which has had a reflection in the general retail environment.

In terms of your second question, as you may be following -- and there has been a lot of news regarding malls that needs to -- well, different things to get into, conforming with the registration in Sao Paulo. And we've been working with the malls that we have that are not exactly in accordance with the local legislation to as soon as possible put them in accordance with that legislation. So we're working towards solving those issues quickly.

## Operator

Daniel McGoey, Citibank.

## Q - Daniel McGoey

Just a question on the revenue line, there's a couple of areas of particular strength including the mall and merchandising revenues, up 43%. I was wondering if you could drill down a little bit more on that line item and talk about what's driving that.

Then, secondly, on the debt. I think you have the perpetuals that are callable at the end of the year. You cited in your press release that you're refinancing BRL500 million at less than CDI plus 1%. Wondering, aside from that CDI issuance, are there any other operations that you can do to I guess more substantially restructure the debt and take advantage of lower rates with a term that might be longer than the 18 months that are part of that operation?

## A - Carlos Medeiros {BIO 15324538 <GO>}

In terms of the revenue line, mall and merchandise is one of the (lines) that has been growing in -- I mean, if you should talk to the Company -- more than the average. I think there's a few things. First, the bigger we get the more people visit our malls every year. We have close to 400 million people visiting our malls every year. And therefore, the bigger we get the more attraction we get from advertisers and advertising agencies.

So I think there is a movement there that as we've been growing our portfolio as a whole has generated more interest and become a more attractive avenue for advertisements. We also see that we've been doing a better job in terms of selling advertisements in our malls, going out of the basic stuff like banners and things like that and trying to do more marketing projects together with the advertisers. So it has had a very positive effect.

And in the other lines, as you know, in parking we've been growing that line also from a long time and we've been doing a very good job in improving the efficiency of our parking operations, also having more traffic in the malls that we buy. And traffic -- so that has also helped.

In terms of refinancing our debt, we're always looking at improving and lowering the cost of our debt. So we will always be looking for persons interested with that. Like we announced it in the call -- in the release that we'll be -- that we're refinancing BRL500 million of debt, that we'll issue to debt. When we started the Company, we were raising money at inflation plus 9 six years ago. Now we're raising money at inflation plus 4.5, 5. So

the cost of raising money for us has come down significantly and we'll work towards improving our cost of debt and taking advantage of that very positive movements.

### Q - Daniel McGoey

Thank you. And maybe specifically on the mix, I think it shows a breakdown 41% of the debt TR based, 17% IPCA based. Are you trying to switch anymore of it to CDI based to take care of -- to take advantage of current lower rates?

### A - Carlos Medeiros {BIO 15324538 <GO>}

Well -- I mean, we look at all those opportunities, Dan. Because the debt -- we've raised CDI debt earlier this year, as you may know. We've done it one offering in Brazil that was half CDI, half IPCA. So we'll continue to monitor debt. We don't want to have -- to be heavily concentrated on any specific indicator, because we have a goal of having a very long-term debt maturity and profiles in the long term. I mean, we may benefit from being more in one indicator and then that changes, so we would like to have a more mixed debt profile in terms of indicator than heavily concentrating on just one.

### Q - Daniel McGoey

Understood. Thanks very much. Congratulations on the results.

### A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you.

### Operator

Martin Estado, Flokcohasura.

### Q - Martin Estado

Yes, I just wanted a couple of follow-ups, Carlos. Maybe you can talk a bit more about new acquisitions and then how much do you have on the pipeline and then how those acquisitions have been affected with interest rates coming down in terms of the CapEx that you want to pay. If there's other people bidding for the assets as well or you still are the only one bidding on the assets?

Then the other thing is I don't know -- I don't know if you -- I remember when it was the BR Malls Day you guys mentioned about potential proceeds from selling mature assets to Fundo de Investimento Imobiliario? I don't know if you guys are looking at that to try to dispose mature assets and then also trying to show the market price discovery in terms of where the CapEx of the assets are trading at? Thanks.

### A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Martin. In terms of acquisitions, we -- this is obviously very sensitive and confidential. So we normally don't give much information regarding what we're looking at or how our negotiations are going forward. So unfortunately, we cannot comment on that.

In terms of the second question, we've completed the distribution of our first Fundo de Imobiliario or real estate fund, which was the Jardim Sul asset which we acquired here with a plan of selling 40% of that asset to improve the overall return on that acquisition. And we've completed that actually in July, so after the end of the quarter.

And depending on capital uses and proceeds, we may continue to look at this opportunity as a way to fund the future growth of the Company as well as using debt. So right now we still think that the cheapest cost of capital for us is raising long-term debt. But we also think that raising real estate fund is the second best choice, especially as this market gets more broadened and with this low interest rate environment creates more opportunities for such funds. So we'll be on the lookout for that.

## Operator

(Isabel Lesos, NPC Tuni).

## Q - Isabel Lesos

Regarding your debt, are you considering prepaying your bond, the one that has a call this November?

## A - Carlos Medeiros {BIO 15324538 <GO>}

We don't have any comments on that.

## Operator

(Sunyo Orang).

## Q - Sunyo Orang

Just a follow-up question. Can you give us some color how was same-store sales for the month of July?

## A - Carlos Medeiros {BIO 15324538 <GO>}

We don't know yet. We only get same-store sales numbers around the 10th business day of the next month. So -- and as you know, we normally don't disclose monthly numbers as well.

## Q - Sunyo Orang

Okay.

## A - Carlos Medeiros {BIO 15324538 <GO>}

But -- I mean, the outlook what we have been hearing is positive, and I think there is also some indicators like I think the winter finally arrived in July in some places, so that should help on the same-store rent side. We had two very popular movies in July and I think also

that helps. So what we hear from them are positive things, but we don't have the numbers.

## Q - Sunyo Orang

Okay. No. This is great. Thank you very much, Carlos.

## A - Carlos Medeiros {BIO 15324538 <GO>}

Yes.

## Operator

This concludes the question-and-answer session. At this time, I would like to grant the floor back to Mr. Carlos Medeiros and Leandro Bousquet for any closing remarks.

## A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you for participating in our Second Quarter 2012 earnings results. Please feel free to contact if there is anything -- if you have any further questions. And have a good day.

## Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time and have a nice day.

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