

Q3 2016 Earnings Call

Company Participants

- Belmiro Gomes, CEO, Assai
- Christophe Hidalgo, CFO
- Daniela Sabbag, IR, Director
- Flavio Dias, CEO, Cnova
- Luis Moreno, CEO and COO, Multivarejo
- Peter Estermann, CEO, Via Varejo
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Unknown

Other Participants

- Franco Aberlardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Richard Cathcart, Analyst
- Thiago Macruz, Analyst
- Wilma Matthew, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. Welcome to GPA conference call to discuss the results for the Third Quarter of 2016.

This event is also being broadcast via webcast, which can be accessed at www.gpair.com.br, with the respective presentation. The slide selection will be managed by yourselves. There will be a replace facility for this call on the website. We inform you that the Company's press release is also available at its IR website.

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After GPA's remarks are completed, there will be a question-and-answer session. At the time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GPA management and on

information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and could cause results to differ materially from those expressed in such forward-looking statements.

And now we would like to ask Ms. Daniela Sabbag, Investor Relations Director of the Company, to take the floor.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning. Welcome to our call to discuss the results of the Third Quarter 2016. We have with us today the main officers of the Group, Ronaldo labrudi, CEO of GPA; Christophe, CFO; and other owners of business, Luis Moreno, Belmiro Gomes, Peter Estermann, Flavio Dias. And other officers.

I would now like to ask Ronaldo to open our meeting. Thank you.

Ronaldo labrudi {BIO 5151863 <GO>}

Good morning. And thank you each one of you for your interest in participating in our conference call of the Third Quarter 2016 results. I will be brief so that you will have more time to listen and formulate your questions. But I would like to highlight some points before I ask my colleagues to take over.

The first point that we want to discuss are performance indicators, which are showing a positive trend for our business. You will see this in the Multivarejo or the Via Varejo. Assai, there's no need to say, it has grown significantly recently. And this positive trend in the sales growth, which is gradual. But it is happening, was in the sequential improvement of margins and also market share.

I would also like to say from the macro point of view that we are experiencing and continue to experience -- we have mentioned this before -- a very complex scenario, even if we have seen and heard on the media that all the phenomenon, which is natural. And it's generally -- it's natural that the media and the main actors of the market generally have a favorable cost of sales. And this is according to indicators of inflation or just recently interest rate or of the appreciation of the real or the surveys which we also follow regarding the degree of trust that people have.

Further, in our stores, in the floor of our stores, we are not yet feeling this recovery in this way. And I understand that once again it was the improvement in the macro, economy has improved. But day-by-day we have not yet felt this improvement. So we think it is too early to talk about a recovery as such. But you will see once again with the indicators that we continue on a positive line. We are confident. But cautious -- and we are adopting, as we

have said in the last quarters, a position of austerity in expenses and a permanent search for efficiency for all our business lines.

In this context, I will be slightly repetitive. I will be consistent with what I have seen in the last quarters. In other words, in Multivarejo, the results are beginning to reflect the positive trend adopted by Moreno and by his team in the different business units, Extra, Pao de Acucar or the Proximity. And we see this, as I have said, in the gradual improvement of sales and market share recovery.

Assai, you will hear this story told and it continues to have outstanding growth with greater assertiveness in the opening of the stores that we have done this year and this has led to the fact that the growth was even greater than in previous years. Belmiro you tell you about that.

At Via Varejo -- to get into our non-food sector -- we have also experienced the maintenance of market share and Peter has told us yesterday that there has been positive growth. And also with great reserve, I would like to say that this growth is gradual of the margins. But here also there is another point which I wish to highlight. Even ourselves, using the Lei do Bem, we are not using the benefits of this and Peter mentioned a little bit to you about this.

An important point also which gives us much happiness is that in the Via Varejo we yesterday concluded the approval process of merging the two companies. I continue to think that we have a jewel in our hands. And Peter and the Company's management led by Peter have indeed well-designed all of this. It's not that we just sat back waiting for this approval. But everybody worked towards synergy of the inventory, back office, synergy and commercial integration with Cnova.

So roughly we'll have a greater synergies than the ones that we have conveyed to the market and many synergies in the Fourth Quarter of this year. So they will be greater and they will be presented much more quickly than those that we had predicted.

And also still talking about synergies, we yesterday had, here actually in this room, the executive team and we continue monthly to follow our synergy plans which we communicated in August of last year. So we may inform with certainty that \$20 million of synergies will be delivered between the two companies this year and the \$160 million which were predicted and already communicated are being carried out so that this occurs in the way we had forecast.

Another point is that this team that's here at the table has been working for a long time -- we started this in June -- about our strategic planning. We're in an advanced stage of the strategic planning. The strategy has already been discussed greatly and with the (Comac) team and we're now planning the budget for 2017. And we already have our GPA Day so to communicate to you a little about the strategy and what our view is for 2017, also a longer-term view of 2018 and 2019.

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But we will not sit around waiting. This planning has to be approved by the Board. But there are some things which we have already discussed with the Board and we're not going to wait for 2017 to implement this. I want to give you a simple example. We have just done in October a corporate restructuring, reorganization, where we have reduced the split by (Salvador) staff, where we have reduced significantly the administrative areas of the Company in a way to have an important gain, reducing expenses. But above all an important gain, making the Company much more agile and streamlined.

So this is an example of how easily looking at this macroeconomic environment we continue to be focused on the processes and simplification of the structure and in the permanent exercise, constant exercise of expense control and of the Company's expenses.

And finally I would like to say that the team at this table continues to be completely focused on our client, focused on the advanced --- the healthy progress of sales -- and we wish to stress this word, healthy. We want a gradual increase of sales but a healthy increase. And the strategy is being implemented very strictly and everything is being done with the care that is necessary to take.

And I have said this to many. But in the last two years we have had difficulties. So to repeat things there's no harm in those. I'm convinced that the team is working hard and we're managing to have a Company which is much better prepared so that when recovery comes -- it has not yet come, to my mind -- but when it comes we will be ready and we will be able to sail ahead and benefit from this, because the Company will be in a much better state.

And you will see from now on when I ask Christophe Hidalgo to take the floor and then each one who is responsible for the different business units will be showing you of their own businesses. I will remain here with you. At the end I will make my final remarks. And if you have any questions, I will be at your full disposal to reply.

Christophe, please, you have the floor. Thank you, all.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning. I would like to say a few words about consolidated financial performance, BRL15.1 billion. And driven particularly by the food segment, which has total same-store sales of 8.9% above inflation, saying that this is the best performance in the last few years.

In Assai, the strong acceleration of growth to almost 46% of total sales and two digits in the same-store concept. The client flow has grown about 15% the same-stores. And Assai with this performance has been more important in the sales of foods Board being 37% of share.

In Multivarejo, there has been a recovery of sales performance of volume and of market share of -- and thus confirming the effectiveness of the new commercial strategies

adopted in the Second Quarter.

To conclude my comments about the performance of the food segment, I wish to say same-store sales improved, grew 11.4% in the same period. In Via Varejo and food, a growth above that of the market and same-store sales positive all during two quarters consecutively in a market which is dropping.

Regarding the results in the following slide, we observe that the consolidated gross margin was 25.1% of sales, an increase of 20 points and due to the change in the mix of businesses. In fact Assai, a stable situation; Multivarejo, a margin contraction of 130 basis points, reflecting the ongoing price competitiveness. And the importance of Multivarejo is to say that the margin has remained stable regarding the Second Quarter and this net of any tax credit.

Via Varejo, the gain of gross margin is 180 bps due to better balance between sales growth and profitability and a higher penetration of the technology capacity and financial services.

SGA expenses has grown 8.2% in the quarter, in line with the period inflation, especially the Multivarejo that grew 4.4% and Via Varejo, which grew 4.2%. Obviously Assai is growing at a much higher level and -- because of a strong organic expansion and this growth has been without the loss of stability, Assai contributing positively to the profitability of the food segment of the Group.

I would like to highlight that in the next quarters we will be reaping the benefits of discipline and expense control, as Ronaldo has already mentioned in October. To illustrate, we have started a reduction of corporate costs, which will bring us a benefit of approximately BRL80 million a year.

EBITDA of the quarter totaled BRL619 million, which is a significant relative of former quarter of BRL220 -- an increase of 240 basis points.

And in the food, the highlights are Assai, which gave us consistent margin, EBITDA growing more than 62% and a margin gain of 40 margin points. Multivarejo, better regarding the Second Quarter and the EBITDA margin grows from a 140 bps without the credit tax effect and driven by the Extra banner. Luis will give you more details in his presentation.

The important thing, as Ronaldo has already said, is to say that the end of the Lei do Bem exemption has impacted negatively on the EBITDA margin of the Group. In our quarter the impact is about BRL130 million, 100 bps of margin of EBITDA, which year-to-date of nine months is a total of BRL420 million.

And we must mention that we are one of the few players in a segment that adopts this practice of not using the credit which comes from the Lei do Bem. And we continue to

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evaluate our position vis-a-vis this law with a very good expectation of concluding this in the last Fourth Quarter of 2016.

Now, slide number 3, the financial results. The Group continues to show financial stability. First of all, the highlight is the robust availability of resources. We have BRL5.2 billion -- or BRL3.4 billion in cash and BRL1.8 billion in unsold receivables. And a second point to highlight is the maintenance is a good rating level. And Fitch's AA and translated into liquidity and financial soundness for future sales.

Then we are issuing almost -- we will be bringing in BRL1 billion of new resources longer term of three years against the admission -- or the maturity of the debt will be almost two years. The fourth and last point that I wish to highlight is the relationship between the debt of the suppliers and inventory, which continue in a consolidated view and which has been improving significantly in the view of -- or for the food business.

Regarding net debt, we have also a reduction vis-a-vis the previous quarters in the brick and mortar stores. In fact the food perimeter. So to speak, in spite of the high pace of investments has improved the net debt position by BRL130 million. Regarding the Via Varejo, the debt reduction -- the improvement of the debt was BRL180 million vis-a-vis the former quarter.

Regarding year to date, the increase of debt reflects above all the deterioration of the Cnova position, BRL1 billion deterioration; in other words, a consolidated state. The prospects of the debt has given us an out view of positive consolidated net debt.

Regarding financial results, the quarter was impacted by a greater level of interest rates at least regarding cash compared to the former one and also because the discount of receivables policy that we adopted -- we totaled 3.2% of sales. And for a better reading of the numbers, we analyze the financial of nine months, 2.9% of the sales; in other words, 25% more than the previous year. And this occurred most of all because of the result of the deterioration of the net debt of Nova.

Another effect also is because of the credit effect which we had in the updating of other assets or restating other assets and liabilities. Nevertheless, the important thing to remember regarding financial results is that expectation of operating in 2016 will be slightly lower, financial result lower than 3% if we continue to keep this outlook.

Here I conclude my presentation of the consolidated items and now I would like to ask Luis Moreno, who is going to talk about the Multivarejo.

Luis Moreno {BIO 21181673 <GO>}

Good morning. In the Third Quarter, the Multivarejo had an adjusted EBITDA of BRL313 million, 4.9% of net sales, a growth of 140 bps of EBITDA margin vis-a-vis the Second Quarter net of fiscal exemptions. This increase of the EBITDA of 140 bps was driven by the stability of the gross margin and a reflection of greater share of our more important

partners in our new commercial strategies and significant reduction of SG&A both in nominal terms and also as a percentage of net sales.

The reduction of SG&A of minus 7.9% was generated especially because of the drop in the expenses with headcount, minus 5.4%, because of the streamlining of 7,000 employees since the start of the year, 2,000 in the Third Quarter alone. The optimization of marketing efforts, minus 8.8%, sustained by a greater stability of the commercial programs. And also energy efficiency projects support the sharp drop in consumption, electricity expenses, minus 19.1%. Also there was a drop of the tariffs.

The same-stores sales reached the best level in this quarter and particularly in Extra, which reflects the constant maturing of new commercial strategies like a better understanding of our clients of the power of savings in their total purchases with these programs.

Extra Hiper has had an SSS growth of 720% (sic; see slide 4, "720 bps"), with sales volume recovering of 1,210% (sic; see slide 4, "1,210 bps"). This growth was also more important when we consider the country's economic context where we can still realize a negative evolution of consumption indicators like the level of unemployment, for example, which has gone from 8.4% in the First Quarter to 11.7% in the Third Quarter. This increased unemployment of 3.3% is 3.3 million unemployed people, which has a relevant impact on the country's consumption.

Besides this growth in sales, I would like to say that the Extra Hiper group also has grown significantly in the EBITDA margin, which has increased 220 bps in the Third Quarter and Second Quarter. The improvement of Extra sales had a relevant impact on our indicators of market share, which showed gains of volumes in the hypermarket channel in the last five periods from April to August.

Thus, as the -- and index of penetration in their homes. And the third, besides the new commercial strategies employed in the Third Quarter -- second and Third Quarter, we had a progressive improvement in the non-food sectors, which went from a drop of double-digits in the first and Second Quarter to a negative evolution of a single-digit in the Third Quarter and it will be negative in the Fourth Quarter. So this trend in the sales has allowed us to optimize our inventories.

And finally, I would like to say that our efforts to transform the portfolio of Extra and Assai continue, as announced in the Second Quarter. Two shops will be opened in Rio and Santos. And we have as a potential transformation a Group of 15 to 20 stores for 2017. It is important to say that the selection process and conversion is a result of the Assai and Extra team, maximizing the sales and EBITDA of each geography with a lower transformation investment.

Regarding the Pao de Acucar, let me mention that the brand has kept a very high profitability level versus the Third Quarter in 2015. Pao de Acucar has kept the trend of same-stores in 2016 to preserve its market share.

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In August, we had our anniversary campaign for Pao de Acucar and we wanted the brand to reach its highest growth level in the year. The Mais program continues to grow in terms of share of sales and already accounts for 73% versus 65%, which was what we had a year ago. This allowed us to have a much more detailed history of purchases of most of our customers.

An example of our acknowledgement was the launch within the Mais program of the beer cards together with AmBev. We focus on 50,000 customers in the use of specialty beers and so with the beer card we can focus on special productions and that gave us 150% increase in incremental sales. We are also developing new partnerships with our suppliers to boost this impressive relationship tool that we have in-house.

Pao de Acucar continues to innovate, providing commercial and strategic proposals and communication proposals. In addition to our commercial proposals, the banner is still focusing in improving customer service with the development of new management rules. About that topic, I would like to mention one example that was recently implemented that allowed us to have online visibility of the level of queues in the cash register.

Regarding our Proximity business, we must say that we were able to keep the same same-store sales that we had in the first half of 2015, meaning that we still have important market share gain. We are still very much focused on improving the health of our store portfolio, implementing transformations between brands and locations that will give us important EBITDA and margin gains. These transformations involve conversions from Mini to Minuto, the opening of five new Minuto stores. But mainly driven by the improvement of existing processes like reduction of (voucher) and reduction in 150 bps, basis points.

Also, in terms of Proximity, we should talk about the Aliados model, which already includes 85 stores and is expected to end 2016 with 100 stores. All of this operation is supported by a distribution center that will be shared now with our delivery operation and it is capable of supporting up to 600 Proximity stores, 1,000 partners of the Aliados model and it will be able to almost triple the current number of e-commerce orders.

Now, talking about our food e-commerce -- and we are leaders in this segment in Brazil -- it's also important to note that in September the operation reached a breakeven and it is expected that we will end the year with a positive trend, where we have now conducted the migration of the operation, which is currently based on three stores to the Proximity distribution center that I mentioned before. We heavily invested in that distribution center in order to be able to cope with all of the activity from delivery and also increase our service levels and also boost our activity indicators.

And finally speaking about our commercial area, I would like to speak about all of the other projects that we are implementing. We are re-evaluating our entire product and vendor portfolio and we have several cross format programs, which will allow the Company to deliver even further value to both our clients and shareholders.

Now, thank you very much and I will give the floor to Belmiro to speak about Assai.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning, every one. As mentioned by Ronaldo and Christophe, the Third Quarter of Assai was a very strong one. It was our best historic quarter in terms of result. Net sales reached 40% growth, reaching BRL1.2 billion vis-a-vis the year before, increasing our share in that food segment of the Group and has also contributed to the growth of the food segment at GPA.

This 46% growth comes from the positive flow -- or the positive customer traffic. Part of this customer traffic or this increase in customer traffic stems from changes in the behavior of our customer because customers are still a bit uncomfortable vis-a-vis the economic landscape. There is now no pressure on working capital. So they keep -- they still keep their total sales volume. But it's still very much focused on the store. So they go to the stores twice a week. And now they come in three to four times a week in order to reduce their inventory level.

On the other hand, we also see the increase in consumer clients for savings reason and because of the model we adopted at Assai in combination with our new model stores. The new stores have a different configuration, which is appealing to the new consumers.

I must also say that in the Third Quarter we still posted an increase in basic commodities, which is an important line for Assai. So some products -- some commodities like milk and beans and derivatives are still very much connected to the prices that we had last year and that's why in this quarter we have increases of 13% to 14% and this also is in keeping with the growth in our sales line.

The impact comes from the opening of new stores and it's part of our organic growth plan in 2016 where the new stores performed quite well and quickly. In the Third Quarter, we opened three stores against one store only opened in the Third Quarter of the year before and because of that, we were able to boost our percentage of growth vis-a-vis the year before.

And in this quarter we opened a big unit around Brasilia in Valparaíso in the state of Goiás and even though Valparaíso in the state of Goiás is a smaller town, that region caters to a population of 600,000 people and the performance of the store has been quite positive, quite positive since it was opened.

So the metropolitan region of Salvador also had the addition of Assai stores. We entered in Juazeiro and Bahia in 2013 and now we have seven units in the state in addition to Paulo Afonso, who is still under construction. We also opened a unit in Lauro de Freitas and another one close to the railway area of Salvador. These two units are performing well; they have had good customer traffic.

And the fact that we opened stores in regions where Assai was already present did not really impact the margin when we come into a new state. Therefore, our margin in this quarter in addition to the effect of the best use of commodity -- and the opening of

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stores in places where Assai was already present, the margin was not impacted. But on the other hand had a slight improvement of 0.10%, even considering that (45%) sales.

When it comes to expenses, it's a low cost business. We are very stringent in our expense control. And with this increased flow, we had to hire more people on same-store sales. We hired 14,000 employees just to keep pace with the increased customer traffic. We also engaged in partnerships with our main vendors. We also included sales promoters in the stores given the profile of customers and many suppliers are putting their teams in our stores to help us boost sales in the stores and to highlight their products.

We were also able to (pause) productions in the power field. There we also exhibit that red flag. But in terms of general consumption, there was a 5% drop vis-a-vis the year before because of some exchanges we did in terms of lightning. We exchanged some lamps to LED. And not only that was done for Assai. But to other banners in the year before.

We also had productivity gains in expenses even with the increase in headcount that was necessary to focus the increased demand of customers and training of the team to get them prepared for the opening of other stores. Expenses were down by 0.3% vis-a-vis the year before.

This year -- I mean this increase in overhead and in head count and opening of new stores allowed us to increase our head count. We started with 18,000 and now we should have over 23,000. And as a result of margin improvement and reduction in expenses, lead us to an increase in EBITDA of 55%. This is a significant increase, especially when we notice that we had an expansion vis-a-vis the year before.

Our financial revenue is due to a more stringent discipline and opening of new stores. And also old stores do not call for increased inventory. So even though we had the opening of new stores, the preparation of new space and the -- no longer we are spending a lot in renovations. So Assai self finances itself. We have nine stores under construction and this demands a high investment. But the improvement came from working capital and so our financial result goes from 0.86 over net sales to 0.78 in this quarter. As a result and as a combination of all of these factors, I would like to highlight the increase in net income, net income goes from 1.44 to 1.74 in this period. This was a significant increase once -- we are in keeping with an increase of almost 46% in sales.

Now, speaking about the Fourth Quarter, Assai reached four stores and that was very important to our team. Assai was acquired in 2007 with 40 units and all the other 87 stores that were added were either added through conversion or refurbishing. And there were no acquisitions. We had to add new stores brick by brick. And so we can celebrate that very soon we will reach 100 stores, which we reached when we opened the last store in Aracaju.

In addition to Aracaju, we have nine stores under construction. Other eight stores should be opened until the end of the year. The next opening to come will be the first Extra store that it was converted together with the people from Multivarejo and it will be opening in

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(Bilhães) in the state of Rio in early November. In November, we also anticipate in opening in Dourado our first unit in Mato Grosso do Sul and also the arrival of our first unit in the state of Para in the city of Belem. And once we open in Belem, Assai will be present in 16 states of the union.

We have a very large store and this is part of our strategy of growing organically that aims at not only opening new units. But also increase Assai's popularity or segmentation, being present in more states.

October is when we celebrate the anniversary of Assai and we started a strong campaign together with some suppliers and this has resulted in an increase in customer traffic. This campaign gives the customer the opportunity not only to compete to gain some awards. But also he has cheaper prices in some brands -- and this was also possible because of our partnership.

In terms of market, in this quarter we see some -- the high prices of commodities, especially in the second and Third Quarter that we see some reductions, companies and small merchants. We are not noticing any actual signs of this economy rebound, especially in terms of inventory levels, in price follow-up and choosing other brands. That's why we are still pursuing this very stringent control of costs in this quarter.

In this quarter, we opened eight units in five new locations. Assai in October surpassed our sales volume -- and so all the sales until the end of the year will be incorporated in 2016. That's why we project a very strong Fourth Quarter in keeping with the previous quarters.

So this is all for Assai. Now, I give the floor to Peter to talk about Via Varejo.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. I will try to be very brief because we had our call yesterday and Ronaldo and Christophe already gave you all of the additional highlights for Via Varejo.

This quarter our same-store sales growth was 3.2% adjusted by the tax base and we continued to gain market share in a very consistent way since the last quarter of 2015. This just reinstates the assertiveness of our commercial strategy.

We continue pursuing our strategy of keeping a very robust capital structure and we just posted an increase in our cash position in the quarter. The main short-term challenges, first of all, comes the integration of our online and offline businesses. And as Ronaldo already said in his opening remarks, yesterday we were able to approve the unification of the businesses through the Board of Cnova and we. And this allows us to expedite the captured synergies that have been announced before once we combine the businesses.

In terms of synergies, we are absolutely within the plan and we are very confident and (capable) enough that we will deliver all of the results that have been announced. And as

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Ronaldo mentioned, we also have a very positive outlook because we think we will be able to overcome our goals.

I would like to highlight our competitiveness strategy with a very important focus in keeping the margins balanced, sales growth and gains of market share. In the last quarter, I would just like to highlight that Via Varejo is well prepared to face seasonal events and these are important events in retail market like Black Friday and Christmas season. And by then we will be totally integrated online and offline and we hold very positive expectations to that end.

I would like to thank you for your participation and now I will give the floor to Flavio Dias for his remarks.

Flavio Dias {BIO 18281132 <GO>}

Good morning, everyone. In the Third Quarter, our focus was to sustain the sales level from previous years but specially looking at the gross margin and EBITDA. And also we tried to promote a substantial increase in customer traffic. When we look at the previous quarter, our outlook for the Fourth Quarter is to work hard in that direction, now even putting greater effort, especially in view with what Peter and Ronaldo said. After the approval of the integration of both companies, we will gain an extra momentum. So then our Fourth Quarter is much more promising because we will be able to reap the benefits from synergies and logistics, in marketing and also in the commercial area.

Unidentified Speaker

Now, we can go to our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Richard Cathcart, Bradesco BBI.

Q - Richard Cathcart {BIO 16457807 <GO>}

In your release you talked about the same-store sales growth in the market and you had an improvement of 720 basis points vis-a-vis the quarter before. I would like to know whether you could also mention the improvement of same-store sales comparing the Third Quarter to the Second Quarter rather than the first.

And the second question -- I mean this headcount increase seems to be significant and so I want to know whether this would have any further impact?

A - Unidentified Speaker

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Richard, just let me check if I understood you correctly. Same-store sales growth you said that we had an increase 720 basis points versus the First Quarter. But I think you want to know what was the percentage of increase vis-a-vis the Second Quarter, right? Is that what you said?

Same-store sales of Third Quarter versus the Second Quarter for Multivarejo is at a level of 150 basis points comparing the Third Quarter against the Second Quarter.

Q - Richard Cathcart {BIO 16457807 <GO>}

Even though we have some commercial -- commercial the demand already activated in the Third Quarter, you were still in training during that period?

A - Unidentified Speaker

In terms of the increase in headcount that took place earlier this year, the most significant streamlining came from that brand and this has to do with changes in processes and the implementation in processes that we already talked about in previous calls and as an example was the change in price labels that were reduced by half when compared to what we did in the past.

And also there were new process to acquire merchandises in the shelf which are not very much demanding of personnel in terms of the flow of merchandize. And the reduction in headcount of people in the cash register aligned with the new scheduling of the personnel and the different shifts.

Therefore, I would like to know what is the potential impact in terms of customer service and whether we have indexes that can monitor the satisfaction indexes for customers and whether you have seen or not seen any negative impact in customer service level or satisfaction level?

Operator

(Wilma Matthew), Santander.

Q - Wilma Matthew

I would like to mention -- to ask about three points and my first question is addressed to Belmiro. We saw a very strong growth in Assai and now we also see a very interesting margin expansion in that. You have experienced heavy growth and it's been -- it's becoming more mature also because the stores are becoming more mature and this has a positive impact in your margin. So looking ahead, where do you think this margin would converge to and how much longer we should expect this growth trend to continue with a stronger EBITDA position? This is my first question to Belmiro.

And a question to Luis, I want to understand whether it's still possible due to all of the promotional campaigns whether we can still gain some further share from suppliers or whether you already find yourselves in the level where the suppliers are already giving the

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ideal contribution that you had anticipated before or whether you still see that there is room to grow, whether you quantify that growth? And so you still anticipate an additional growth of sales and reductions in fixed cost to achieve a strategy of breakeven and when is it that your strategy will meet a breakeven?

I have another question addressed probably to Ronaldo. For next year I think we should expect some relief in inflation, particularly the inflation of food stuff, which is already beginning to happen. But my question is how could that affect your business as a whole? And also in the different brands, the different banners, how do you see changes in your strategy or not changing your strategy, especially considering a more controlled inflation? So thank you very much. So these are my three major points.

A - Belmiro Gomes {BIO 18107864 <GO>}

This is Belmiro. Thank you for your question. In fact part of the stores, as I said before, now we had organic growth. Part of the other stores are still being matured. And as the stores that were opened in 2014 and 2015 mature, we will naturally see effects in the margin. There is a delicate balance once we also consider the opening of new stores. Even this year and next year, we will get into new geographies and there will be a ramp up effect, maybe lower next year.

Next year there will be a lower number of new stores and we will be more focusing on the conversion of hypermarkets. And as the conversion happens in locations where we are already there, the margin impact will be lower when compared to what we had in 2014 and 2015. But anyway, the impact to Assai should lead to high sales increase and a smaller margin impact. We cannot say that there will be a combination of the two factors.

We had a high volume in sales, this increase is our EBITDA. But we don't see that as much as in percentage terms. When we compare this business with the other businesses of the Group or other retail companies, the EBITDA percentage is lower even considering the net volume, the 4.4 EBITDA become 1.70 of (LA).

So there is a limit of what is possible in terms of getting margin improvements. There is an effect caused by the new opening. So the stabilized margin, if all stores were to mature and if we were not to expand into new states, we would have 1.2 or 1.3 above of what we have today.

A - Luis Moreno {BIO 21181673 <GO>}

Now, in terms of the participation of suppliers, we will have new commercial dynamics. So this view continues to be progressive and we believe that there are still opportunities for further improvement; therefore, we will be able to improve our share. We are working diligently to streamline our negotiations with suppliers and also the combined planning of all of the activities -- and that relies on the efficiencies on both sides. And also the programs aren't still reaching their sales potential.

New customers is something that continues to grow and it looks very favorable. In terms of reaching a breakeven, maybe the points that I should make and as I mentioned in my

initial remarks, the unemployment levels are not the same as we had a year before. Therefore, it's hard to estimate the breakeven of this program and envision a zero base because the total consumption base of the country suffered a deterioration, particularly considering unemployment because in the same quarter of the year before was at 7.5 and in this quarter unemployment is at 11.8. So it's more than 400 basis points in terms of gap for unemployment.

And our analysis concerning this commercial dynamics is that we are -- we would be better off doing so than not doing it. But at the same profitability level when compared to the year before.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Regarding inflation from -- in fact it has different impacts on different business units. Assai, we had an increase in the year where we had an inflation of over 16%, being thrice. We had beans this year in Brazil costing BRL500 to BRL450 a bag and this is a historic record. I never remember beans at this price. Milk went up to BRL3.20. We used to -- rather BRL4 in fact. We are used to milk at BRL2, BRL1.8.

So if you sell an important amount of commodities, this is important. Today we're buying commodities partly with Assai and Multivarejo. But Assai must be feeling it a little more because of the important volume of sales, which they have in commodities.

Although you asked about food inflation, the inflation in Via Varejo is much lower. Last year it was less than 2% and we had almost 11% of general inflation in the country. So we expect this to happen also in Via Varejo and Cnova, which in a way will benefit things because having inflation under control allows you to have a more assertive price policy.

And probably Acucar, they suffers this effect less because the Pao de Acucar sell commodities. But this is not necessarily their strong point. They have many other categories that are much more relevant than just commodities. And the hyper also will feel it. But this does not imply in a change of the Company's strategy. But rather to know that you have a broader base. In the previous year -- and you will have greater challenges and this is also being considered in our planning for 2017.

Q - Wilma Matthew

Thank you very much for your answers. Just a follow-up. You, Moreno, said about 15 to 20 conversions next year. I would like to know the cost of these conversions? How will this happen during the year, how fast would be the effect and also do you have a medium, long-term idea how many stores will be converted in the next two or three years? Thank you.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

We have an analysis which -- an ongoing analysis and thus you might have heard different numbers. But we have today the idea that we have more than 20 stores with -- probably 40, where it makes sense to do the conversion depending on the cost of the conversion. Belmiro directly involved in this subject together with Moreno and the company's financial

planning team and Christophe are evaluating this because we hope to do a greater number of conversions.

My wish is to do 20 next year. But this will depend on the investment in each store. Belmiro is working with Moreno to choose stores that have lower investments. So this would allow us to achieve the conversion of 20 stores. And also another point, we want to do this as quickly as possible. We do not yet have a schedule regarding when and how this is going to happen. But our objective is to make the largest number of conversion with the lowest investment possible.

This is all being evaluated now and our expectation is that the investment will be less than a full store like the one in Pílares which is going to be open now, as Belmiro said, or a store in (Silva Sainte). These are stores which have investment equivalent to a new store of Assai and our expectation that this be done with much lower investment. We cannot tell you at the moment because we have some stores. But each store will have a different level of demand according to the profile of the store and the physical area of inventory that we have available today, what they will be in the future, the platforms, the receiving platforms and so on.

So this is being studied. But the message I wish to convey is that there is a strong integration between Multivarejo and Assai. So that this will happen as quickly as possible at the lowest possible investment. We are confident that this is an important strategy for next year.

Q - Wilma Matthew

Thank you, Ronaldo.

Operator

Franco Aberlardo, Morgan Stanley.

Q - Franco Aberlardo

I have two questions which refer to the cash margin or the possibility of Multivarejo. In the previous conference call, you mentioned the expectation that this cash margin could be positive in the Third Quarter. But we have seen that the gross profit has still dropped this quarter. So what happened? What has been different? Why was it different from the expected and could less suppliers join this brand? Or what about the pricing level or does the top line not grow as much as it was expected to?

So what happened? And what are the expectations for the Fourth Quarter? Will there be an improvement of cash margins leading to a positive cash margin in the Fourth Quarter? And that's my question.

But when you look at the longer term, you showed the strategic plan for 2017. But I -- in 2016 you said that the EBITDA would be 7.5%, 8%. Obviously, there have been changes in the macro scenario and other things impacting. But today the Multivarejo margin level is

about 6%. And Belmiro has just said that the margin level of Assai will be about 5.5%, 120 basis points above the current one. Sorry to ask such a long question. But the question is, does it make sense to have a Multivarejo with a cash margin almost the same as Assai's with a much lower growth and is that why you are stressing so much the conversion of stores?

A - Unidentified Speaker

Well first of all, regarding the EBITDA margin of the Third Quarter, as we said, in fact there has been an improvement of the EBITDA margin of the Third Quarter compared to the Second Quarter of 150 basis points not considering the tax exemptions or benefits which we had in the Second Quarter. Therefore, there has been a real improvement of the Multivarejo margin in the Third Quarter when compared to the Second Quarter.

I'm sorry to interrupt. Well regarding the expectations of the EBITDA margin for the total of the year we could keep our guidelines of EBITDA about 6.5% and 7%. But it will depend also on the development of the economy and the country and consumption figures.

And another point that you mentioned about the conversion, as we see it, it makes all sense to continue to focus on this because not only do you have a margin, as Belmiro has said so correctly, with volume naturally always as a lever, it will increase. But above all because the square meter of sales in an Assai store is not percentage -- percentile. It is multiplied several times by the square meter of sales of a hyper store. So it makes sense to continue with our effort and we are focused exactly on this still continuing.

Q - Franco Aberlardo

Well just a follow-up question. Does it make sense to consider the margin growth quarter to quarter? I think because of seasonality we should look at the whole year and it is dropping now. But Belmiro said 6.5% and 7% for the year for the Multivarejo is optimistic. So the margin must grow a lot now.

And also regarding conversion, it's the opposite in the Multivarejo. Does it make sense to operate a Multivarejo business with such a low margin and this reflects investment and prices? Or wouldn't it make more sense perhaps to focus on a segment on profitability and leave the Assai business be the discount business, just to understand your strategy? Or should the two businesses continue to grow in sales and the Multivarejo with a lower margin?

A - Unidentified Speaker

In fact all the analysis which we are carrying out regarding conversion are aligned with your question. Within the Hyper Extra stores, there is a focus on profitability. Those stores which we are going to convert to Assai are evaluated by different criterias. They meet the need of the growth of the population that prefers an Assai format and also that there is a possibility of conversion with less investment and third, because they are prioritized with those stores of lower profitability of Extra. So this work of optimizing the portfolio and of conversion.

And as the stores will make sense, we will continue to do. But on the other hand, there is an important number of stores as the Hyper Extra that have a very high and significant profitability where it would make no sense to convert them into an Assai format.

Q - Franco Aberlardo

Yes. Thank you. That's very clear.

Operator

Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I would like to go back to your comment in the initial presentation about the Extra delivery, which has already achieved breakeven. And then your comments of a migration of the logistics system to convenient. So how do you consider the full-time business and the order of magnitude and how are you seeing potential investments which you will have to make in the future to continue growing? Is this something that can be leveraged towards this -- the Proximity format and the conversion to this or will you need more investments?

A - Unidentified Speaker

We have not yet communicated the sales of e-commerce and food. If we share this growth that we are having, in this previous call we said that the food growth in e-commerce is 20%. This 20% growth was restricted by our own capacity of production of daily orders. And with this migration that we are doing to the centers of Proximity, we are increasing threefold our delivery capacity and we expect a significant growth and being able to cater to the needs of all our clients when we deliver in less than 24 hours and with a high number of articles included in the order.

One of the reasons of migration is that we want to have a 99% of fulfilling our clients' orders. So we expect a high growth. We do not need additional investment and the dedicated distributions that already have their infrastructure and capacity and they were built to be able to support the three businesses and Proximity and other similar businesses and food delivery.

Q - Irma Sgarz {BIO 15190838 <GO>}

And correct me if I am wrong. But the extra delivery is operating in an independent way from Cnova. Do you have any plans to bring Cnova, Via Varejo closer to perhaps leverage the investment in front-end technology, onsite training and pick-up synergies?

A - Unidentified Speaker

There are no plans at the moment of integrating these operations. We believe that the food -- joining Multivarejo, a non-food, Via Varejo, is more natural. We don't see that there will be synergy in this integration.

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Operator

Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

I have some questions and clarifications about a question. Belmiro, you focused on conversion. But there will be organic growth as well besides conversion. Is this going to be maintained or are you going to focus just on conversion in 2017?

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you, Gustavo, for your question. The organic growth is the process we spend 120 days to build a store and two years to legalize it and use the space the best way possible. So when we are focused on conversion -- let's say, if we -- the project started way back for the construction of stores, like the store that we are building in the Northeast.

So yes, we keep the volume of opening stores for organic expansion, prioritizing those projects to have best returns. So there will be a reduction of the number of stores in new areas regarding what we did in 2015 and 2016. But there are six or seven for next year.

This is an ongoing project and we will continue with this and focusing at the moment on the conversion of hyper markets. And other projects are perhaps delayed a little bit or put to stall so that we can bring together the massive new stores with the conversion of hypermarkets.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

But you keep the team mobilized, right, for new projects and new venues? You are not going to deactivate them?

A - Belmiro Gomes {BIO 18107864 <GO>}

No, no, no way. We are going to keep it going. Because this is a still -- it's a slow process. We analyze, just to give you an idea, from 20 pieces of land that are pre-approved initially. Of these, one will become a store. The sort of rate of conversion -- because of documents or because of legal problems, the organic process is very complex and slow. So what I have said, an average is two years or three or four years sometimes to do this. So we have a lean team here and we continue to map out new venues and points.

Assai wants to be better distributed and more present in other areas. But next year we have another two or three new states or new openings. So we have reduced the number of stores. But we maintain the project and a team. But we are continuing with the conversions of Extra. The conversions have been talked about a lot. This is not a simple process; it's a complex process.

You have all the question of the zoning issues of the hyper markets. It's got a certain complexity degree than just the building of a store from zero. So to convert a hyper market into another kind of store is complex. But the two projects continue.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Well Belmiro, you talked about a change of behavior of food service delivery.

Does this happen in the small stores that buy from you. But in more frequent stores? And some indirect competitors of yours are also carrying out e-commerce service. Does this make a sense for your business?

A - Unidentified Speaker

You have made some -- done some analysis for the (inaudible) and Proximity. But do you think that this will happen with Assai? No. At the moment we don't have this on our radar screen. We have a share of -- a large share of commodities and perishables and the volume, the transport is huge. So the cost of delivery door today is very high. And this is not on Assai's radar screen. There is a low operating cost, competitive sales and the client comes to fetch things, especially the small stores and in the quantities they want.

If you deliver door by door, the clients must buy a minimum. And small companies have suffered a lot. The food service has been impacted by the crisis, the night life, some restaurants have suffered. So these clients are preferring -- they use it, they go to next street to the store and select what they need for the following day.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Another question for Luis Moreno. Luis, you said that in the Fourth Quarter you were seeing an improvement of non-food sales in the Extra Super, Hiper Super. And is this some initiative that you have taken to foster the sale or encourage the sale? Or is it a more economic pressure which could help besides the initiatives that you are carrying out?

A - Luis Moreno {BIO 21181673 <GO>}

Well the work that is being done by the non-food team started four months ago and they are approaching areas -- different areas of non-food regarding assortment, promotion, communication. And this is helping. We see improvement of behavior and performance in October. We have had a positive growth of non-food. Any other previous event -- well, we had more days in a month or Father's Day, et cetera. The merit is fully that of the work team.

Operator

Thiago Macruz, Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

I'd like to go back to a point after this. You have always mentioned with the strategy of the Company and the pricing you have two advantages. First of all, competitiveness and price. But to operate the stores would be cheaper. In other words, you could at least spend less on marketing if you don't have to communicate so much with the client during the week.

So how much of this value of this pricing strategy of Extra have you generated in the last six months and what you still have to do?

And I missed the part of the presentation where Christophe mentioned a administrative reorganization. Could you repeat please what this is and what you are generating with this? Thank you.

A - Ronaldo labrudi {BIO 5151863 <GO>}

Let me just talk about the reorganizing -- restructuring of administration; to simplify, the top of the organization. When I communicated this and Christophe also, I said that this was done by -- a burden on Christophe. But with a strong participation of the corporate administrative side of Via Varejo and Multivarejo. Christophe said BRL80 million. And around the GPA, we can consider BRL180 million in a year if we consider the Multivarejo, Via Varejo and GPA. In other words, there is also a very important contribution here towards the conservation of profit in (Multiple) and Via Varejo.

This was implemented. It was done during October. And there are a few people still to deal with. We will be communicating this now this week or beginning of next week.

We have already captured all the new efficiencies with the new commercial dynamics -- and three efficiencies, one, which has to do with logistics supply chain; then store operation; and three, marketing expenses regarding the stock and their expenses. We are getting positive double-digits regarding the increase of productivity. We still will continue improving. But I think that we have possibly met two-thirds of the potential of improving stores operations.

Logistics, there is still a lot of potential. We can still do more planning together with the suppliers. This should give us greater efficiency and a significant drop in expenses. And I would say that here we have fulfilled about 25% of the potential. And marketing, we are reducing between 10% to 15% and we still have the potential of greater reductions or for greater reductions.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you. Just a follow up, Ronaldo. Of the BRL180 million that you mentioned for the year, is there any way of having an estimate of what comes from Multivarejo? Thank you for your answers.

A - Ronaldo labrudi {BIO 5151863 <GO>}

Of GPA, we are talking here about BRL80 million. A little more than BRL50 million in Via Varejo and a bit less in Multivarejo, I'd put BRL60 million and BRL40 million to give you a figure which will allow you to make a projection.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

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Operator

Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I'd like to go back a little bit to the Lei do Bem, which was mentioned yesterday. Christophe, it's about the high technology and the salaries and will the benefit -- you would have gained about BRL420 million in Via Varejo. So I'd like to understand the process and what is your conviction that you are going to manage to get the injunction and that this will be maintained for the industry? Because as I see it with some players being benefited, you have some advantages which are undue -- either everybody gains the benefit or else everybody losses.

I think that the way things are, it's not sustainable. So I'd like to know your opinion if you think that to maintain this benefit is sustainable within the political environment that we have and the government trying to do away with specific benefits for different industries. And also looking back, why have you not been able to achieve this and do you expect you will be able to do this in the short-term? This is one question.

And the other question I think it's a follow-up of yesterday. With the approval of the integration of Cnova, looking at the numbers which were communicated by Cnova yesterday morning, there is BRL1,300 million suppliers account. I'd like to know if this comes over with the integration or whether it would be a disbursement of cash of Via Varejo to normalize this? The account is higher than the inventory. It's BRL420 million I think. So these are my questions.

A - Unidentified Speaker

Thank you, Guilherme. About the Lei do Bem, the law of the goods, just to clarify the fact that we are not benefited from those credits has an impact to nine months of BRL420 million which encompass the Group as a whole, especially focused on Via Varejo and focused on Nova. This amount is the amount for the whole Group.

The question of taking or not taking does not come from the injunction. To have or not have an injunction doesn't solve anything. The market which uses the credit mostly does not use it particularly having an injunction. Some players have an injunction, others do not. This comes from a management decision, we want to take those credits or not. And this evaluation will be carried out with a legal assessment and a complete assessment and the assessment of our external auditors. This question of evaluation is ongoing. We don't know if it will be positive or not. But it should be concluded in the Fourth Quarter.

I would like to highlight an important point from the point of view of tariff practices on the shelf, the price of the products -- we follow the market in our practices and this is done comparatively to other players, profitability and the proposition that we have mentioned. It's important that there is not injunction, Guilherme. But a risk evaluation. And we will conclude this work in the Fourth Quarter and we will be able to come back to the market before the next release regarding how to deliver our position.

Regarding point two, Alexandre from Via Varejo who is more familiar with theme will go into details.

Hello, Guilherme. This is Alexandre. Regarding your question on the suppliers, yes, this will be consolidated in the Via Varejo. Obviously, the base that you mentioned is September. The one month with the -- consolidation will be done based on October figures. But yes, everything will be consolidated in the Via Varejo. And the public statement we have today is the one that you have already had access to and in yesterday's call and then also in the presentation regarding the merger and this was material approved by the shareholders.

It was that there had been several gains in synergy which would come along. I think the integration of the Cnova and Via Varejo makes lots of sense and also gains in working capital. But this was what was considered -- but only inventory. So this is just a comment that this BRL1.3 billion is more than the gains which will be evaluated there. Am I right or does it makes sense to analyze it in this way?

Guilherme, as you know, Via Varejo is seasonal, the behavior of inventories of suppliers, et cetera, is seasonal and also the Via Varejo business. Remember that when we announced the synergies back in August, the base numbers were that of the 30th of June. And the behavior and all the -- everything took in account seasonality. So we reinforce the synergies which we announced in August, BRL240 million and BRL250 million for inventories until the 31st of December. This is what management is confident in achieving on the dates up to the 31st of December and up to BRL250 million.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you. And just to go back to Christophe just to make this quite clear, the issue of the Lei do Bem. This variation of BRL420 million in -- if by chance the management evaluation is that this is a good thing and will be thought by the management, will you able to act retroactively or only as from the Fourth Quarter or next year will you begin to have the benefit? So how do you see this?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Well the impact which we are more certain about is the impact from now on, Fourth Quarter. Now, if we're right, if this -- then we should be -- this should be settled regarding past months as well. It is feasible, yes. I don't want to get ahead of myself. I repeat, the decision has not yet been taken.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you. That's helped me a lot, Christophe. Thank you very much.

A - Unidentified Speaker

The assessors that have been there have been very prudent and very conservative with this topic. Most players or competitors utilize their practices. But we've been careful enough to talk to everyone involved in this process internally, be it with the legal

department, auditors, the auditing committee in order to make an assertive decision. This just reinstates what Christopher already said.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you very much.

Operator

The Q&A session is now concluded. I would like to give the floor to the Company for their final remarks.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

We had important people here in-charge of the BUs and I would like to thank (Eligio), (Balli), (Loha). Also, we had (Sama) from Multivarejo. And I must add that we are very confident that this entire team, those that participated in this call and even those that didn't have a chance to speak, they are committed to our results.

This is a very big Company, a very complex Company and in my dealings with some people I know that some of the processes are being re-visited. We are resuming some of the basic fundamentals of retail. So we just have to give it some time until we can start seeing some results. But once again very carefully I see that the results are emerging, they are coming.

I would also like to thank you all for participating and tell you that we are very confident. We talked a lot about the conversions and this is a topic that has been under our radar for a long time and it involves a lot of areas of the Company. We've been talking a lot about the conversion from Hyper to Assai. But we also did some extensive work analyzing our portfolio last year and we had more than 100 conversions from Pontofrio to Casas Bahia, from Extra to Pao de Acucar, from Minimercado to Minuto.

Although I have to say that we are very much focused on the strategic management of the Company's portfolio. This will be contemplated in our strategic view and in the budget that we will present next year. And this will allow us to have better returns on investment, expediting our returns.

Once again I would like to thank Danny -- Daniela and her team and all of the other participants. And moreover I would like to thank you for asking your questions. Thank you, all very much and we will see you soon.

Operator

GPA's conference call is now over. The Investor Relations department of the Company will be available to clarify any further questions. Thank you very much and have a good day.

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