2019 Half-Year Results

Thursday, 25th July 2019

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Jean-Charles Naouri

Chairman and CEO, Groupe Casino

Introduction

France: H1 2019 Highlights

Good morning everyone. We are going to introduce the results for the first half year with the highlights in France, as we usually do. First, there was a faster growth in France in Q2. France Retail same-store growth saw net sales of 0.7% compared to 0% for Q1 and 2.5% over two years versus 1.3% in Q1. Cdiscount saw organic growth in GMV of 13% compared to 9.2%. For E-commerce, including banners, there was an increase of 11.5%.

In terms of profitability, we had an improvement in trading profit in France, plus 7.8% for organic. We also had the disposal or the closing of loss-making stores – the Rocade plan – and then the saving plans at €60 million as at half year 2019 and €200 million end of 2020. Then the disposal plan, €2.5 billion, with more than €60 million worth of cost savings achieved to reach €2.1 billion. We also announced a speeding up of the deleveraging plan of minus €1.5 billion, thanks to the closing of the disposal plan and an overall dividend saving of €500 million.

Good progress on disposal plans in H1 2019

Here, you can see the development of the disposal plan. I am going to review all the public elements. The last two were announced this week; on Monday morning we announced the session for €219 million, and yesterday morning we announced the disposal of three hypermarkets for €43 million. So the disposal plan is at €2.1 million as from June 2018, €1.5 billion cashed in.

The closing of the disposal of Apollo is scheduled by October 2019. In this disposal plan, we have the disposal of the loss-making plan, the so-called Rocade plan. We will come back to it in detail. It is representing 233 disposals of integrating stores already signed or completed to date.

Latin America: H1 2019 highlights

In Latin America, the highlights are the sale of Via Varejo on 14th June for €650 million by GPA and the project to streamline the structure in Latin America. It was announced on 27th June. It is a streamlining of the structure to regroup under GPA all of the assets in Latin America. This plan was confirmed yesterday by GPA's Board of Directors, who approved a takeover bid on Éxito at a price of COP18,000. GPA’s filing of its offer will take place after Éxito’s approval on the agreement, giving Casino sole control over Segisor and allowing it to purchase Éxito’s stake in Segisor based on the price of BRL109 per GPA share.

Casino's Board of Directors approved yesterday the offer to purchase at BRL109 per share and it has been forwarded to Éxito’s for consideration.

Project to simplify the structure of the Casino Group in Latin America

The streamlining project is summed up in these graphs. There is first a cash tender offer launched by GPA for 100% of Exito’s shares; the acquisition by Casino of all the shares held by Éxito in Segisor; and the third step is the migration of GPA shares to the Novo Mercado and conversion of preferred shares into ordinary shares at an exchange ratio of 1:1. On the left-hand side, you have the current structure; on the right-hand side, the final planned structure.

Progress of the strategic plan in France – cost savings plan

Coming back to the strategic plan for France and the main aspects of it. First is the cost savings plan, which is a classic topic as we do it every year, but it has been strengthened this year. The objective for cost lowering is €200 million by the end of 2020; €60 million has been achieved in H1 2019.

First, there is an optimisation of head office expenses for banners and corporate and of course store costs savings, with a total saving of €29 million for H1. Better purchasing conditions for goods provided savings of €16 million. In terms of synergies being deployed on logistics between Casino France and Franprix-Leader Price banners, as you know, Casino France has a separate logistics from FLP and the first neutralising approaches enabled us to save €15 million already. In terms of perspectives for H2, it is expected to be over €60 million – that is €70 million additional savings, or €130 million for the whole year – and the initial target was set at €100 million. You have the breakdown of the various figures in the table.

Progress of the strategic plan in France – Rocade plan

The second action plan is the Rocade plan, the plan to close or to dispose loss-making stores. It was launched at the end of 2018 and has been completed at more than half. It is generating a full-year gain in trading profit of €52 million on the integrated stores perimeter. For integrated stores, we already disposed 15 hypermarkets out of a total of 20. We disposed of 13 supermarkets and 11 Leader Price stores, and we closed 56 integrated stores. For master-franchisees, we disposed of eight supermarkets, nine Leader Price stores and closed 62 franchised stores.

The perspective for H2 is to complete the plan, so to dispose five additional hypermarkets, and to close or dispose of other stores for an additional gain of €38 million on a full-year basis and to achieve a full-year target of €90 million, in addition to the €52 million already completed.

Progress of the strategic plan in France – Rocade plan financial aspects

Now you have all the figures. For integrated stores, as we indicated, the full gain for full year would be €52 million. For H1 it is below €6 million; it should be €19 million for H2. In terms of revenues, these disposal closures lead to a decrease in revenues of €500 million, but this figure is being offset by the number of new franchisees, including the family of Mr Quattrucci. Disposal revenues are €250 million.

For franchised stores, the figures are €27 million full-year gain in trading profit, €13 million gain in net profit, Group share for the Casino Group. You have all the figures for integrated stores – signed closures are €233 million, those that closed as at 24th July representing €150 million. Exceptional costs for H1 were €50 million and €6 million for H1, €19 million for H2, and full year €50 million in terms of impact on trading profits. And below you have the figures for master-franchisees store.

Progress of the strategic plan in France – acceleration in buoyant formats growth

The third topic is the acceleration in buoyant formats. We improved on buoyant formats. We are going to open 30 premium and convenience stores in H1. For H2, the perspective is to open 50 premium and convenience stores and we will also have an improvement synergy plan among different brands.

We want to accelerate in e-commerce and digital solutions. Gross sales in food E-commerce was up 28% in H1. The Casino Max app launched 18 months ago and already its customers are representing 19% of net sales for hypermarkets and supermarkets versus 15% at the end of March. This app has been duplicated for the Leader Price stores.

Perspectives for H2 are faster deployment of the Amazon offer in Paris in the suburbs and major provincial cities – that is for food, with Monoprix – and the development of Amazon Lockers in 1,000 Group stores; confirmation of the Ocado service launch in early 2020; and a highlight for Cdiscount is an increase in the marketplace share, varying from four to five pounds. And of course, the international development for Cdiscount is to be noted.

Progress of the strategic plan in France – GreenYellow, 3w.relevanC and ScaleMax

For new activities that were not very important over past years but are now representing substantial amounts, we have GreenYellow. Pipeline at the end of June 2019 was 350MWp, from only 150MWp at end-2018. For H2, the objective is 450MWp. It is the main profitability factor for GreenYellow, but the energy-saving contracts are being developed and the last activity is the ultra-fast charging solution for electric vehicles.

3w.relevanC net sales were €24 million in H1, up 38%. ScaleMax is still small but developing rapidly. It is the first ScaleMax data centre installed in a Cdiscount warehouse. We have already 10,000 cores deployed and a pipeline of 16,000 additional cores at the end of June.

Overview of 2019 guidances

We confirm the 2019 guidances for France Retail, Cdiscount, Brazil and Colombia. *Acceleration of debt reduction plan*

Finally, the Board of Directors will propose to the 2020 Annual General Meeting to pay no dividend in 2020 for the 2019 fiscal year and have decided not to pay a 2020 interim dividend for the 2020 fiscal year. This is representing a cash saving of €500 million at end-2020, taking into account the absence of interim dividend decided for 2019 fiscal year.

Given the cash flow objectives, the €2.5 billion disposal plan which is expected to be completed by Q1 2020 and the absence of dividend, the Group is targeting net debt in France of less than €1.5 billion at the end of 2020 and foresees to maintain it under this level over time. The coupon payment of TSSDI will be maintained.

I offer the floor to David, then, to give you the results.

Financial Overview David Lubek

CFO, Groupe Casino

2019 Half-Year Results

Key figures for H1 2019

As a summary before showing you the figures, the first half is supporting the objectives for 2019 in terms of results and cash flow. In France more specifically, the strong action plans for cost reduction and decrease of CAPEX, stores and inventories enable us to structurally improve our cash generation at a consistent speed with our budget objectives and with classical seasonality of flows during the half year.

For consistency reasons with our yearly guidance and the comparison with figures previously presented, I will comment the results before IFRS 16. Data including IFRS16 are in the appendices of this presentation and of course in the detailed accounts being published.
As usual, I will also comment in priority the organic variations of the major aggregates, i.e at constant perimeter and exchange rate effects excluded.

Sales are at €17.8 billion with +3.5% of organic growth compared to H1 2018. Trading profit, tax credits in Brazil being excluded is at €347 million, + 12.9% of organic growth with an improvement of all our segments France, Cdiscount and Latam Retail.

Last year the tax credits in Brazil were mainly focused on the first half, with €100 million tax credits in the first half and €12 million in the second half. In 2019 there are no tax credits being recognized in H1, knowing that we still expect significant amounts in the future as court orders will be rendered. Group total trading profit and EBITDA are then decreasing in connection with this base effect in the seasonality of tax credits.

Underlying net profit is at minus €16 million, in connection with the evolution of tax credits and the tax burden during H1.

Lastly Group's net financial debt is at €4.7 billion, a decrease by €700 million vs June 2018 and net financial debt for France is at €2.9 billion, a decrease by €1.1 billion vs June 2018, due to the good progression of the disposal plan.

Q2 2019 net sales – France Retail

Now let us look at the results per segment. I will detail mostly the French results, and I will be quicker on our Latin American affiliates because GPA is going to publish and comment its results this afternoon and Éxito on 14th August.

Let's start by the detailed sales per brand of the France Retail segment. Accelerating quarter vs Q1 with a 2018 base effect also accelerating.

Comparable growth is at +0.7% over one year (vs flat at Q1) and +2.5% over 2 years (vs +1.3% at Q1). All the segments benefit from this acceleration with a specific dynamism in Supermarkets (+1.4% comparable) and in Geant Hypermarkets (+1.6% comparable and + 3% in organic, including the rallying of franchisees).

For Franprix and Monoprix we notice an improvement of the trend with a positive comparable growth of both brands due to the progressive reduction of the impact of the yellow vests movement on Saturdays in Paris. Traffic is still well-oriented and mix still improves, with a strong increase in organic and catering at Franprix.
We should also note the pursuance of a very good performance in convenience stores with 2.5% at comparable basis and +3.4% in organic.

Q2 2019 net sales – Total France

If you look at the whole of sales made in France – Cdiscount included – we can note the following elements:

- On the France Retail segment, the impact on total sales of the Rocade plan on the network streamlining. We expect to have this effect over the whole year, which is partially compensated by the rallying of franchisees. More particularly, the rallying of Quattrucci family stores has a positive impact on a business volume of €400 million.
- On Cdiscount, we note a strong acceleration of the GMV at +13% published by the affiliate with a marketplace share up to +3.5 bp at 40.1% of GMV. It is a major lever for profitability for Cdiscount. The path is in line with the objective which is to reach 50% of marketplace share by 2021. Another growth and profitability lever is the development of B2C services such as Cdiscount Voyages or ticketing which are true success stories since their launch.

France Retail results – H1 2019

After detailing sales in France, now let's look at the results. The trading profit is increasing by +11.3% at €151 million, out of which €121 million of distribution trading profit and €30 million of real-estate development.

For the distribution the trading profit margin increases by 11 bp. The cost savings plans which generated + €60 million in_H1 could more than compensate for the additional rents of - €29 million, the extraordinary bonus for purchasing power so called the 'Macron bonus' of €10 million and the inflation of salary costs and energy for €10 million.

So it is a good performance. consistent with our yearly objective of a 10% growth for the trading profit for distribution as the benefits of cost savings plans and of the Rocade plan aim to be amplified for the second half, as we mentioned in the introduction : their cumulative impact of €66 million in H1 should be at €90 million for H2.

E-Commerce (Cdiscount) results – H1 2019

Now let us look at Cdiscount's results, published yesterday by Cnova in detail. This slide is a presentation of the highlights. First an increase of GMV on an organic basis of 11% over the half year (under Casino vision) with sales at -0.5% due to the increase of marketplace share and B2C services in GMV. It is, as we mentioned already, a virtuous dynamic of profitable growth, associated to an increased loyalty of clients. Cdiscount is now a platform of varied services for the sale of products and also the subscription of electricity contracts, insurance contracts or the purchase of entertainment tickets or plane tickets.

Thus, the client base being subscribers of CDAV service is now over 2 million (vs. 1.7 million last year or a 18% growth) and Cdiscount confirms its position as number two in France in terms of monthly single visitors, with a base of 20 million single visitors over the first four months of the year.

This loyalty comes with an increased profitability by 83 basis points on an organic basis. It is due to the increase of marketplace share being itself supported by Fulfilment i.e. the delivery by Cdiscount of products from third-party vendors: +57% at Q2 and 27% of marketplace GMV. We also note a strong acceleration in B2C services such as travel or energy, +41% on a qoq basis.

All these elements are consistent with the profitable growth path of Cdiscount, which enables our affiliate to confirm its objective of strongly improved EBITDA.

Latin America results – H1 2019

Let's address now Latin America. As previously mentioned, I will be quicker on this performance which will be commented in more details by the listed affiliates.

In summary, we note global sales +10.1% in organic on the LATAM segment obviously driven by GPA but also by Exito whose sales are increasing sequentially on a qoq basis.

The EBITDA of this segment, tax credits excluded, increases by 4.2% in organic. In Brazil the trading profit increases by 7% in organic, tax credits excluded.

As I mentioned earlier on, we note during this FY a different calendar for tax credits recognition, which were mainly concentrated in H1 in 2018. On this topic, even if it is not possible to set the figure in advance, we still plan for significant amounts as court orders are rendered and the initiatives are led to monetize tax credits.

Underlying net financial expense – H1 2019

I am now going to address the_other elements of the profit and loss account.

Underlying financial income is almost stable in H1 vs last year, at €213 million.

In France, we note, as planned, a slight increase of financial expenses in H1 at €89 million, (vs €72 million) due to the reduction of cash products after repatriation in euro at mid-year 2018 of the funds of the holding company previously invested in BRL.

In Columbia, the reduction of indebtedness explains the reduction of €10 million of financial expenses.

Underlying net profit, Group share

Underlying net profit synthetizes the previous elements as well as the effect of the tax burden.

It is recognized at - €16 million, a decrease vs last year over this half year, due to two elements: the high base of tax credits in Brazil in 2018 which we already detailed and an increase of the tax burden due to the transformation of CICE (which was not taxable) into social charges exemption being submitted to tax.

Other operating income and expenses – H1 2019 Group and France

Before addressing cash flows and debt, a few words on the other operating income and expenses with no impact on the underlying profit but have an impact on cash flows.

The major_element to underline is the ongoing decline in restructuring costs in France. The graph shows their evolution since 2016 (Rocade plan excluded which has already been commented and which we saw was self-funded.

We see that these restructuring charges are divided by four, over the reviewed period from €115 million in H1 2016 o €28 million in H1 2019. As announced, we are completing the major plans of streamlining and transformation of our fleet and we can now anticipate extraordinary restructuring costs much lower than before.

The other extraordinary expenses are related to the impairments of some assets (€99 million over the half year) with no cash impact and are related to the disposal plan.

Free cash flow France H1 2019 – Decrease in inventories and CAPEX, in line with objectives

Let's look at free cash flow in France.

As you know, it is a major priority in the way we conduct our businesses. All the brands and the support functions of the Group are mobilized in order to reach the target of €500 million free cash flow generation based on a discipline and a continuous effort of cost reduction, decrease in inventories and CAPEX reduction, consistent with our strategy. These plans are carefully and regularly followed-up at any scale of our organization and are rolled-up in the bonuses for all the management. Their achievement is, as of today, totally in line with our objectives, which enables us, as mentioned in the introduction, to confirm our yearly guidance.

We already detailed the cost savings plans and the decrease in restructuring costs. The other two key elements in our cash generation in 2019 are the inventory decrease and the reduction of CAPEX.

Decrease in inventories first which should generate €200 million of positive working capital requirements variation. This reduction is submitted to detailed plans that we already addressed when we published or yearly results: suppression of more than 7,000 references which are cash-consuming, pooling in between brands on frozen products currently being extended to dairy products and dry products, fine forecasts of promotion needs and weekly follow-up, at the Group's highest level of inventories of each brand. These plans run at the forecasted rhythm with a decrease being already seen of €105 million of inventories at end of June vs last year at same date.

The variation of WCR at H1 is usually impacted by a negative seasonality, which is classic in the retail industry. This average seasonality was at - €350 million over the last four years, and the structural efforts led enable an improvement of approximately €100 million vs this historical average, at - €247 million. It is a consistent comparison for appraising the trajectory (rather than a comparison with the non-typical seasonality of 2018, as we can see on the graph). The target of + €200 million for the year of the WCR improvement is thus confirmed.

CAPEX now: we have set a target of €350 million for the year, slightly higher than the depreciation levels and consistent with the major plans of transformation in all the brands, except Monoprix, the CAPEX of which have been kept at the usual levels. The reduction that we noticed for the first half is consistent with our yearly target that we thus confirm. As you can see in the graph, it is within a progressive reduction trend over several years, as well as for restructuring charges.

France net debt – H1 2019

The table on next slide shows the details of free cash flows in France. Due to the EBITDA seasonality (only one-third of yearly EBITDA in H1) and of WCR (as mentioned previously), free cash flow increased by the Rocade plan and disposal plans is at €133 million, with €380 million of disposal plan and €55 million of net impact of the Rocade plan.

Reduction of CAPEX and action plans on the inventories are consistent with the target of €500 million of free cash flow, excluding disposal plans and the Rocade plan for the year. More specifically, we expect for H2 a cash generation of €450 million for the WCR, (an equivalent amount to the historical average and consistent with the annual target at +€200 million) and +€600 million for EBITDA, related to a yearly amount above €900 million.

Change in assets classified under IFRS 5 – France

The next slide is describing the evolution of the net financial debt in France according to the usual breakdown. As a whole you can see that the net financial debt is improving by €1.1 billion over 12 months (with no Segisor effect at all). As you remember, at 31st December it was improved by €1 billion or €800 million, Segisor effect excluded.

Change in net debt by entity

A few words on the evolution of assets classified under IFRS5. As you know, the assets the disposal of which is committed and the realization is likely are classified, according to the accounting standards, under IRFS5 and being deducted form debt.

At June 30, 2019, €982 million of assets are thus classified under IFRS5, primarily in relation to the disposal plan of €2.5 billion and the Rocade plan. Out of this €982 million, €761 million are already covered by signed agreements but non completed at June 30, covering more specifically all the IFRS 5 assets of the disposal plan and two-thirds of the Rocade plan.

During the first half, assets previously classified under IFRS 5 decreased by - €559 million, mainly due to the sale of hypermarkets and supermarkets buildings to the Fortress Group and to the Rocade plan.

The net financial debt is improving by €700 million over 12 months. Over six months, it increases by €1.3 billion, driven by the standard seasonality of cash flows which has already been mentioned. The major item is the disposal of Via Varejo which wa before classified under IFRS5 and which is now improving the cash position of GPA.

Bond maturities

As a conclusion, let's speak of the corporate bond debt and the cash position of the Group in France.

The bond maturities at 30 June 2019 include 5.3 billion of debt the payment of which is extended over 2026. Let me recall that in H2 2018 the bond debt was reduced by €476 million for repurchase of €128 million and payment at maturity in November 2018 of €358 million. It will be reduced again by €675 million with the repayment on August 6th of a new installment without refunding.

The reduction of bond debt will then reach € 1.2 billion between 30 June 2018 and end of August 2019, consistent with our strategy of both gross debt and net debt reduction.

Good liquidity position maintained in France

To end my presentation, a few words on the Group's liquidity in France.

We have €4.4 billion of liquidity at the end of June, of which €1.7 billion in cash and €2.7 billion of undrawn credit lines. Confirmed lines can be drawn at any time and the only financial covenant related to Casino's lines is the ratio net financial debt/EBITDA of the Group, tested at 31/12 each year, with a limit of 3.5x. This ratio was 1.8x end of 2018.

€150 million were drawn at the end of June. We then compensate by the drawing of a fraction of our credit lines, the reduction of our_commercial paper outstanding recognized since end of May. Let's recall that the peak of commercial paper recognized last year paper accounted for €700 million, equivalent to a little bit more of 20% of our credit line system.

Change in cash & cash equivalents in France – 12 months

This last graph shows the evolution of cash in France over 12 months from €2.1 billion to €1.7 billion.
As you can see, the evolution of our cash of €400 million is due to the following elements:
- on one hand, the reduction of gross debt by around €860 million (€476 million of bond debt reduction an €383 million of commercial paper outstanding net from drawn credit lines) funded by cash-flows (disposal plans included) of about €800 million ;
- on the other hand, the payment of dividend and TSSDI for a total of €414 million which explains the evolution of our liquidity. As it has been recalled at the beginning of the presentation, there will be no payment of dividend over the next 18 months whereas the disposal plan will be pursued in order to reach €2.5 billion by Q1 2020.

Conclusion
To conclude:
- the Group is fully focused on the execution of its strategic plan of debt reduction and structure simplification
- The completion of the disposal plan and the absence of a dividend payment in 2020 will enable the Group to accelerate its debt reduction with an objective of net debt for France being less than €1.5 billion at the end of 2020.
- Lastly, this half year confirmed the strengths and areas for development of the Group being the adaptation of formats to consumer trends, organic food, digital and new activities.

Thank you. We are now going to answer your questions.

Q&A

Maxime Mallet (Deutsche Bank): I had some questions for you. To start with, I wanted to come back on the performance of the like-for-like in France for hyper and supermarkets. They experienced a development in Q2 versus Q1. Could you give us some information about the difference between volume and inflation that allowed this improvement in performance between Q1 and Q2 for hypermarkets, if you may, taking the split between food and non-food sectors?
For the second question, I would like to come back on the credit line. You drew €150 million to offset the decrease in outstandings on commercial papers. You had some €1.5 billion cash in your balance sheet. Why not use it, instead of using credit lines?

A third question: what about the future? You have liquidities – short terms – for the next year. There are, however, some maturities; credit-sized CDS's have increased quite a lot, commercial papers, and the outstandings have decreased. So could you remit debt[?] in the mid to longer-term in order to refinance all this debt, or are you planning for other disposals post-LatAm?

The fourth question – maybe you mentioned it, but I missed it: you had €30 million in contribution from real estate in H1. What are you anticipating for the whole year?

Finally, on the dividend. You stopped the dividend shorter term; could you give us some more information about what you are planning after 2020?

David Lubek: For the like-for-like for hyper and supermarket, we think that the good performance – and I said it during the call of the first quarter, we said that we were expecting a continuation of good performance. It is due to all the action plans carried out in order to have very fine promotions in hyper and supermarkets. With the Casino Max app that covers 20% of revenues, we now have a capacity to efficiently target promotion, reduction, vouchers and coupons.

There are no movement on our commercial margins, apart from mix effects. The increase in figures is due to this good performance and to all the efforts carried out in stores in order to maintain the excellence level on fresh products, which is considered as a priority. I would say that some question the possibility for hypermarket to still have a good performance in Q2 versus a very good Q2 last year, and we can see that performance is still with us and the strategy is efficient.

As for credit lines, this is very simple. We consider that we have a short-term system – that is commercial paper – that is normally used to cover classic needs in distributions throughout month at the full payment of suppliers offset by the payment of income. So it was logical to use this system provisionally with our credit lines. Again, 20–25% of credit lines peak cover all the needs in commercial papers. It confirms that these lines can be drawn, if somebody could doubt that.

Now, to have new debt is not an option today; as I said, the option is to pay back, because we want to reduce it. So €2.5 billion of disposal plan, paying back €1.2 billion in debt end of August, then we will still have a possibility to pay back more debt. So new debt will come in time, but our approach now is to lower the net debt, but also the gross debt.

As for real estate promotion, this was indeed €30 million in H1. We have not given any guidance for the full year for this amount. €30 million, as indicated in my presentation, was due to the disposal of the Mercialys shares, mechanically speaking, because when we were doing operations with Mercialys in the past for residential promotion, since we had 40% of Mercialys, the trading profit of real estate promotion was neutralised in our account up to our level of shares. So we use the accounting standards for this now and it is a non-cash impact.

As for the dividend, we indicated the dividend paid in 2020 because this is information that the market is expecting, so we announced it. Beyond it, no decision is made. But we clearly said that we are aiming at keeping the debt below €1.5 billion in France, so any type of future dividend payment will be decided according to the capacities of the company and consistent with this leverage objective that we think is the good one.

Nicolas Champ (Barclays): Could you come back on the performance of Brazil? I was a bit surprised by the low level of top line performance, 3.4%, given a food inflation that was very high in Brazil during the second quarter – around 6% - and given the figures published by one of your competitors, Carrefour, that is also showing a like-for-like over 6%, 6.1% I think for Q2. So could you explain the relative weakness of GPA's performance in Q2?

My second question is a traditional one about free cash flow in France. Have you used a swap rate during the first quarter? Is it possible to know the cash contribution of the rate swaps? This is something that you will have to disclose in your half yearly report.

The third question is about the restructuring that you announced for Latin America. Is it the premises of Casino's leaving, or a reduction in Casino's participation in GPA, maybe leaving Latin America as a whole?

The last question is for you, Mr Naouri. You have several hats, if I may say so, as CEO of Casino, a shareholder of Casino. How can you reconcile these two hats, given the current situation? Do you not think there could be a risk of conflict of interest between the majority and minority shareholders of Casino, your debtors for Rallye and the various holding companies? How are you going to give the priority to these various interests?

Jean-Charles Naouri: I may answer the first and the last question and I will give the floor to David for the other questions. As for Brazil, the exhaustive comments will be made later on by the management of GPA, so it is up to them to ask the question regarding the details of GPA's account and statement that they published yesterday evening and commented upon later on.

As for the safeguard, it is a natural question, in my view. We cannot communicate on safeguard apart from communication methods planned by law that are different from the channels that we have today, which is Casino's communication holdings. Safeguards will communicate on their own processes. It is very well-regulated, so we will not comment upon the safeguard as such.

As for conflict of interest, I refer you to Appendix 3 of the financial report. It indicates how the Board of Directors is organised to deal with a possible conflict of interest, giving the governance committee of Casino all powers to mention the various topics and to deal with them, if need be.

David Lubek: As for the two other questions, the swap rate, debottling, they are not having an impact on the definition of free cash flow that are before interest and dividends, and they have no impact on the debt net aggregates as they are being neutralised. The amount is €25 million for H1. There's no change in net debt and cash flow before interest.

As for Latin America, we have passed a key step yesterday: the approval by GPA's and Casino's boards of the proposed deal. We think that this deal will create value, since the current structure is a capitalistic structure that we think is not efficient enough today, and we do think that going to GPA's Novo Mercado should lead to an A-rating of the share, because then it gives access to a broader base of shareholders internationally. So we want to give more value to these assets and to have a simplified structure corresponding to the market requests to be clearer.

As for the disposals, we said that we would have €2.5 billion disposals in France; that's our plan. As you already know, permanently we are looking at possible mature assets, what assets mature and having no synergy with the rest of the Group and, with this in mind, at the right moment, we make decisions. We did that for real estate. We did that more recently for Vindemia and, some years ago, we did that for other sectors.

Jean-Charles Naouri: As for the disposal plan, beyond what David said, the criteria is to know what assets will have a lower value in five years time. So we look at the various assets of the Group – they are quite numerous, the Group has a lot of assets – and in real-time we look at those assets and, given the revolutions of our business, then we may think that in five years' time their value would be lower.

The format for us and according to us for lower values in France – and we will have a lot of hypermarkets, real estate assets that will lose value over the years. So we have a permanent survey of the various Group's assets to see those whose value would increase, those for which the value will be rather stable, and for those that will have a decrease in value according to us.

For the latter case, we think it is our duty to make a decision and to start a disposal process. This is the guideline. We do not want to sell assets just for the sake of having cash and lowering the debt, which is also good, but we also want to clean up assets because we think that their value will be lower. The vision for France, as you already know, is well-characterised. We have a vision of a buoyant format and non-buoyant format. For the non-buoyant format – and we can discuss this vision – it is our duty to start a disposal process.

Pierre Boucheny (Kepler Cheuvreux): I have two questions. First, on the Apollo deal that I think was to be closed end of H1 and was postponed to the end of October, what is the reason for that?

Secondly, on the evolution of EBITDA and trading profit in France for the first half year, apparently there is a decrease in depreciation between the two. Could you comment on that? What are the trends to be expected for the end of the year?

Jean-Charles Naouri: The Apollo deal has been confirmed. Apollo confirmed its intent to finalise the deal. It has been confirmed for latest October, maybe before. In such operations, of course, there are different lead times for the closing, so no specific topic, and everything will be met by October.

As for the decrease in depreciation, indeed we have fewer amortisations. Since we have a few assets, we sold them. So it justifies, in a way, the amount of CAPEX we are mentioning, because the amount last year, our amortisation were €320 million, to be lower this year. When we set CAPEX at €350 million, we still have a margin, given the level of amortisation.

Olivier Dauvers: I wanted to come back about what you were saying, the way you look at assets – was there a five-year value? If you thought that the value would be lower then you had to dispose of these assets, should we then understand that in 90 hypermarkets you will have at the end of the year, you think that their value will not decrease in five years' time, that you need to keep them?

I will continue my question: some of the Casino supermarkets are in urban areas or in city centres, but for stores in rural areas, do you think that these in five years' time will still have a value which would be equivalent to the one they have today?

Another question is about investments in CAPEX. Do you think that, given the current level, the assets can be kept for the future?

Jean-Charles Naouri: As usual, very good questions. For the vision of the mix in France and the geographical vision we have in France, there are buoyant formats. There are geographical areas that are more or less buoyant and using these two criteria – and others, but these are the two main ones – will give us the evolution in value. We think that the large hypermarkets are not very much buoyant, but no generalisation – apart from when they are in areas that are very buoyant. As you know, more than two-thirds of the Group's activity, which is quite atypical, is carried out in three regions: Greater Paris, Rhône-Alpes, and the PACA region, east of France. These are three very buoyant regions. It is not excluding other sites, and I will not mention all of them, but Bordeaux, Toulouse and others.

So our vision is to give priority to the most buoyant regions – the three I mentioned – and the most buoyant formats. Less buoyant formats in areas that are losing in demography where the perspectives in value evolutions are not very much favourable, we should not generalise – we look at each site separately – but our approach for us to sell 26 hypermarkets is based on this analysis. The objective there is 20. Will we go beyond? We do not know. The question is often asked if we want to sell more; as for now, the answer is no. The formal decision of the Board of Directors, of Management, is 20. We think that selling these 20 hypermarkets is a wise decision, since we think that their value will be lower and lower. So this is our vision for supermarkets.

It is implemented also to different types of formats. Leader Price is an example; some sites have been disposed of or closed. So this is our vision for our plan, our Rocade plan.

As for CAPEX, David gave you an answer in figures. We invest more than in amortisation, so amortisation will decrease. We think that the level of CAPEX we have is a satisfying level. Monoprix is a priority in CAPEX because it was important for Monoprix to have a very well-maintained source. Our vision is that business should go towards a more CAPEX-light industry. So the idea is to have very well-maintained stores, of course, but we have an asset in which we invest every year because we think that the value will increase. So it is the valuation of the assets rather than the cash flow that determines the economic value. We think that this approach belonged to the past.

Of all our different banners, we think that Franprix has made this intellectual switch, and it means that there are no assets. 80% of stores of franchisees, only a percent is owned and, as for the premises, they are rented. Franprix is the most profitable banner of the Group as a percentage of revenue.

So the value creation is not made by investing in one asset that will gain value in time – premises, for example. This is no longer valid. We think that the right vision today is that we create value by increasing cash flow and with an investment that must be very low, not because we are not investing in the maintenance of the store, but because this concept of a store will change and will evolve. We invest a lot saying that we can sell the store later on, but it will be at a higher price. So this vision, we think, is evolving today.
If there are no other questions, I thank you very much for your attention. [END OF TRANSCRIPT]