**Conference Call 4Q2018**

**Corporate Speakers:**
Andrea Gonzalez Bayon: S.A.C.I. Falabella; Head of Investor Relations
Gaston Bottazzini; S.A.C.I. Falabella; CEO
Alejandro Gonzalez: S.A.C.I. Falabella: CFO

## Introduction - Andrea Gonzalez Bayon

Good morning, everyone, and welcome to Falabella' s fourth quarter 2018 earnings call. I'm Andrea Gonzalez Bayon, Head of Investor Relations. Joining me on the call today, we'll have Gaston Bottazzini, Falabella's Chief executive Officer, and Alejandro Gonzalez, Falabella's Chief Financial Officer as well as the rest of the IR team.

I will begin with a brief highlight of the results of the period. Following that, Gaston Bottazzini will comment on strategic progress and we'll then open up for questions.

First, I would like to start by pointing out our forward-looking statement disclaimers on slide two.

Let's begin a brief review of our quarterly financial results on the next slide. I would like to point out that the results of this quarter were affected by the application of IAS 29 for inflation adjustment in Argentina and through representation, we will comment on the results with and without this effect.

Revenue increased by 2.6% to $3.6 billion in this quarter and excluding the hyperinflation adjustment in Argentina, growth would have been 3.6%.

The online channel on our retail businesses contributed with 9.7% of retail revenue totaling $292 million and posting 24.8% year over year growth.

Gross profit without effect of hyperinflation adjustment in Argentina total $1.4 billion, posting a 3.4% growth.

Operating income contracted by 9% year over year to $410 million.

Moving on to the next slide, we will take a closer look to net income. Normalized net income for the quarter reached $270 million but was negatively affected by the accounting effect in Argentina in $31 million at operating level, which were partially upset by a positive impact of $13 million in financial expenses. Linio Operation also deteriorated the result in $6 million; non-current effects of the integration of CMR of Banco Falabella in $5 million; and finally, we have spent $7 million more than last year in Mexico and $2 million more in Brazil as we took control of 100% of the operation.

On the following slide, we will present our financial leverage ratio. As of December, our net debt to EBITDA was 3.1 times and the duration of our debt was 4.7 years.

**Strategic Update on the company – Gaston Bottazzini**

Good morning, everybody. As Andrea described, it was a relatively challenging environment in the region. Our results this year and in particular the last quarter were affected by weak demand in Chile, the impact of the investments in our regional expansion as well as the impact of our expenses and investment in the development and improvement of our value proposition, with a strong focus on digital, and lastly, by the application of accounting rules that had not been applied before in this manner.

In that context, we remain very committed to our longer term goal and to our mission of simplifying our customers' life by transforming their purchasing experiences. This mission is guiding every action and decision at Falabella today.

In 2019, we think we have made significant progress toward that end. And some examples of that are the growth of our ecommerce which now represents 9.8% of our sales in the last quarter and 8% for the whole year 2018, with NMV of $987 million, and our growth in the digital sales of consumer loans which have grown at 60% year over year representing over $1 billion and representing about 30% of our total sales of those products.

We think these are very important steps in building what we have defined as a digital and physical ecosystem that will allow us to serve our customers seamlessly across the region and remain their platform of choice in retail. Towards this goal, we have defined five priorities as a company and we are very focused on these five items which I will enumerate.

The first one is to differentiate our value proposition consisting both of our stores and our product assortment.

Secondly, to scale up our logistics, and in particular put it at the service of our online businesses.

Thirdly, to digitalize our financial services and payment solutions.

Fourth, to invest and develop data analytics and customer intelligence in order to adapt and better serve our customers and change their value proposition.

And finally, to build a flexible and scalable technology that will also support our growth over time.

We think we have made progress in each one of this and we are excited about some of the advances we can share. In the first place, in terms of our value proposition, we have extended our network of stores, opening 20 stores this year and two new malls -- one in Chile; one in Colombia -- as well as opening the first stores, we already have three stores in Mexico.

In addition to that, we have focused a lot on remodeling our existing stores. One example of that is the remodeling process we are undergoing in Brazil to our Dicico stores, transforming them to Sodimac Dicico stores as well as remodeling processes in our malls and in our Tottus stores and Falabella.

In addition to that, we are permanently reviewing our store network and the role our stores play in the long term. This year, we have closed seven stores, and we think that in the future as well as opening stores, we will be reviewing the role of these stores and closing stores over time.

As part of differentiating our value proposition, we have also had strong focus on the development of our owned brands which have gained shares in all of our different formats. As an example of that, we have opened stand-alone stores of our brands Sybilla and Americanino. We have continued to develop our Crate & Barrel representation in Peru and launched it in Chile.

And we have launched our production center -- food production center -- for Tottus in Peru and have had great improvement in the participation of owned brands in the Tottus franchise. In addition to that, we are continuing to work on the locations for the development of nine IKEA stores over the next years.

And finally, within this same category of differentiation, we have put strong focus on our marketplace and long tail strategies, by in the first place adding our retail assortment to our Linio offering which is happening gradually right now, as well as increasing and developing a promotional strategy for CMR within Linio which has resulted in increased participation of CMR in Linio sales.

We have closed what we defined as our non-core operations in Linio in Ecuador and Panama. And as a result of all of these activities, we are seeing an inflection point in the growth rhythm in Linio at the beginning of this year.

In our second priority around scaling up logistics, we have inaugurated our new distribution center for Falabella and we are investing and remodeling our Sodimac distribution center with our new [Butler] technology in Chile, as well as expecting to launch in the new few months our new appliances-focused distribution center in Peru which will serve all of our formats.

Some of the advancements that have made in terms of customer functionality have to do with allowing customers, for example, to choose among time slots for delivery in Chile, starting to experiment with a fulfilled buy type of functionality for Linio customers. And we have already launched our first pickup-in-store or click and collect solutions that allow customers to buy from any format and pick up their products both in a Tottus, a Falabella, a Sodimac store.

In our third priority around electronic financing and payments, we have continued to launch and open digital branches where customers can perform all of our transactions unaided. We have reached the level of 1.5 million active applications for our customers in the region, which is a significant increase from previous year. And we have also digitized all of the loyalty program and people are now able to exchange points and redeem gift cards in the platform.

We have also and probably this is the most important advance so in the last year, launched 100% digital credit card onboarding which allow people to open their credit card and make their purchases without even receiving their plastic. This has significantly increased our ability to open cards in our ecommerce platforms in Falabella, Sodimac and Tottus.

In addition to that, we have launched and be the first one to launch our Google-based solution with CMR in Chile and we have continued to develop the payment solution that operates in our retailers and in Linio called QuickPay.

And finally, and around finally in payments, we have also completed in December the formal integration of CMR and Banco Falabella, have had some costs both in provisions and in the capture of synergies, but that will translate into benefits over the coming years.

In terms of data analytics, we have continued to invest in our data platform and our customer platforms, and we have made the move of starting a process of opening up our loyalty program. Our loyalty program has traditionally been linked to our CMR accounts. Customers at Tottus can already gain and redeem points using any means of payment.

And finally, in terms of developing a flexible and scalable technology, we have launched a software factory in India which started operation in September of last year, and is giving us added flexibility and developing capability for all the businesses and particularly for ecommerce, and that is complemented with an expansion of our digital factories that develop more products more adapted to the local needs.

And finally in this same category, we had increased our investment in cyber security not only in technology, but also in developing a customer culture of care of customer information and our own sensitive information in our organization.

In addition to all of these advances, we think the most important progress has been made in taking advantage of the synergies between our digital assets and our physical assets. And some of the examples I have mentioned are around this. For example, our owned brands are a very important differentiating factor for our ecommerce platforms, particularly considering that in ecommerce the availability of product is much more closer to the customer and, therefore, having a differentiated assortment is very important to have a reason for purchase in our own platforms.

The marketplace in itself is a very important distribution channel, but it also is an important means for increasing the assortment of our physical channels. So, that is another synergy we are starting to capture in our physical stores, in our physical channels.

And finally, our stores and malls, which have traditionally been a source of experience and point of purchase are now becoming also a very important extension of our distribution network, since we are allowing people to pick up but also exchange and make returns in all of these points regardless of where they have made the purchase. We think this synergy between the physical and the digital is our main competitive advantage and by leveraging this, we can transform customer experiences across channels and really gain efficiencies.

Going forward, we intend to continue moving in this same direction, and in particular leveraging our main asset, which we consider to be our team. We are developing a team culture based on five pillars which we have defined across all of the different companies within Falabella.

The first pillar is around being a single team; around exceeding and putting customer expectations at the center in every decision, not for every format in particular but for all of the formats at once; making things happen, which means really shortening the time between planning and execution and really developing all of the tools particularly around technology that will allow us to do that; building a meritocratic culture and putting our people processes at the services of meritocracy; and really giving purpose to our actions by making sure we minimize negative impacts of our businesses and ensure that in every decision, we are having a positive impact both in our customers and in the communities we serve.

So, regardless of the short term results, we are very committed to keep building these unique value propositions that we are convinced will allow us to remain our customers' platform of choice in the long term.

Thank you.