



S.A.C.I. FALABELLA
Public Stock Company
Securities Register Entry No. 582

RATIONALE FOR ITEMS OF BUSINESS REFERRED TO THE
CONSIDERATION OF THE SHAREHOLDERS OF
S.A.C.I. FALABELLA

AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON
APRIL 23, 2019

This document is intended to provide the shareholders with sufficient information to understand the rights they may exercise and the rationale behind each of the items of business that will be referred to their consideration at the Annual General Meeting of Shareholders of S.A.C.I. FALABELLA (the "Company") to be held on April 23, 2019.

BACKGROUND FOR THE AGM

The Board of Directors of the Company, at a meeting held on March 26, 2019, issued a call to the shareholders to convene at an annual general meeting (the "AGM"), in order to refer the items of business indicated in the notice of the AGM to their consideration and to request their approval therefor.

The same information on the call to and notice of the AGM was communicated to the Financial Market Commission (hereinafter, the "CMF" – Spanish acronym) by means of a material event notice dated March 26, 2019.

The notice of meeting was published for the first time in the El Mercurio de Santiago newspaper, on April 5, 2019.

INFORMATION ON THE AGM AND SHAREHOLDERS' RIGHTS

Date Scheduled for the AGM: April 23, 2019, at 3:00pm.

Venue: Álamo AB Room at the Courtyard Hotel located on Av. Kennedy 5601, 7th Floor, Las Condes, Santiago.

Shareholders Entitled to Participate at the AGM: All persons holding shares of stock in the Company appearing as shareholders of record in the Shareholders' Register at midnight on Monday, April 15, 2019.

Participation at the AGM: The shareholders may attend and participate in person or by proxy. In this last case, the representative for the shareholder shall submit the applicable proxy letter in accordance with the law. To facilitate the above, on April 5, 2019, the shareholders were sent, together with the notice of the AGM, a form of proxy letter that the shareholders may fill out and submit at the venue for the AGM starting at 2:00pm on April 23, 2019.

Voting System Applicable at the AGM: As provided in article 62 of Law No. 18046 on Stock Companies, it is hereby advised that, unless otherwise unanimously agreed by the shareholders present with the right to vote, to dispense with formally voting on one or more items of business and to decide by means of a show of hands. The items of business referred to the decision of the shareholders in the AGM shall be voted on individually through the "Ballot" system authorized by the CMF. This system allows for the collection, in writing, through a ballot submitted at the same AGM, of the intention of each of the shareholders with the right to vote, in relation to one or more of the items of business being voted on, ensuring that said intention be expressed secretly, albeit allowing – after the vote is taken – for proper identification of the shareholder and how said shareholder voted. Casting of the votes shall be made through one or more ballots, which shall include the items of business to be voted on, and the identification of the shareholder or of the relevant proxy, and the number of votes cast thereby.

Upon completion of the voting process, the votes shall be tallied manually and out loud, showing the results on a board or other display system, all in a single public act. The system shall allow for the subsequent public disclosure of how each shareholder voted.

RATIONALE FOR THE ITEMS OF BUSINESS TO BE DISCUSSED AT THE AGM

FIRST ITEM OF BUSINESS:

Determination on the annual report, balance sheet and consolidated and audited statement of income for the year ended as of December 31, 2018.

The Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders to approve the annual report, balance sheet and audited consolidated statement of income for the year ended as of December 31, 2019.

The above information is made available to the shareholders on the webpage of the Company at <https://investors.falabella.com> starting on April, 5, 2019.

Voting on First Item of Business: Vote in favor of, against or abstain from making a determination on the annual report, balance sheet and consolidated and audited statement of income for the year ended as of December 31, 2018.

SECOND ITEM OF BUSINESS:

Determination on the opinion of the external auditors for the year ended as of December 31, 2018.

The Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders to approve the opinion of the external auditors of the Company in relation to the Financial Statements.

The above information is made available to the shareholders on the webpage of the Company at <https://investors.falabella.com> starting on April, 5, 2019.

Voting on Second Item of Business: Vote in favor of, against or abstain from making a determination on the opinion of the external auditors for the year ended as of December 31, 2018.

THIRD ITEM OF BUSINESS:

Payment of dividends and distribution of earnings from BY 2018.

The net distributable earnings for the year ended as of December 31, 2018, totaled ThCLP 478,468,376.

As far as the apportionment of earnings is concerned the Board of Directors agreed as follows:

- a) Report to the AGM on i) the effectiveness of the policy to determine the net distributable earnings approved by the Board of Directors at its 912th meeting held on December 27, 2016; ii) the fact that said policy governs for the determination of net distributable earnings for BY 2018; and iii) that no adjustments were introduced to the earnings of the Company for BY 2018 for the determination of the net distributable earnings thereof;
- b) File a motion with the AGM in relation to the ultimate use of the earnings from BY 2018:
 - i) Payment of a definitive, final dividend out of net distributable earnings from BY 2018 (the "2018 Earnings") of CLP 50 per share, which, added to the interim dividend of CLP 26 per share approved by the Board of Directors on December 27, 2018, and paid on January 10, 2019, yields a total of CLP 76 per share out of 2018 Earnings; and,
 - ii) That the remaining balance of 2018 Earnings, be used to increase the fund of accumulated earnings of the Company;
- c) That the dividend under the motion be paid on May 8, 2019, to the shareholders of record appearing as such in the shareholders' registry as of May 2nd of this year, at Huérfanos 770, Level 22, district of Santiago, as well as through the various customary payment modalities, including bank deposits, certified dispatches and direct withdrawal from the branch offices of Banco de Crédito Inversiones, BCI.

Voting on Third Item of Business: Vote in favor of, against or abstain from making a determination on the motion for the payment of dividends and distribution of earnings from BY 2018.

FOURTH ITEM OF BUSINESS:

Dividend policy for BY 2019.

The Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders in order that the dividend policy of the Company, which consists in the annual distribution of at least 30% of the earnings from each year be maintained for BY 2019, and that it should apply on the net distributable earnings thereof.

Voting on Fourth Item of Business: Vote in favor of, against or abstain from making a determination on the proposal for the dividend policy for BY 2019.

FIFTH ITEM OF BUSINESS:

Determination on directors' fees.

In relation to directors' fees, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders as follows:

That the fees payable to the Board of Directors for BY 2019, which replicates that established for 2018, consist of:

- i) A flat monthly fee in the equivalent in Chilean pesos of 55 Unidades de Fomento ("UF"), gross, per month or fraction of a month, for as long as the relevant director remains in office as from the AGM; and in the case of the Chairman of the Board of Directors, his flat monthly fee shall be the equivalent in Chilean pesos of 615 UF per month or fraction of a month for the duration of his tenure; plus
- ii) In addition to the flat monthly fees described in the preceding paragraph, that the directors likewise receive an annual variable fee in the amount in Chilean pesos equivalent to 0.35% of the net distributable earnings from the preceding business year, to be governed by the following: i) it shall be paid in equal parts among all the directors, except for the Chairman, who shall receive double of what is due to each director; ii) it shall be paid immediately upon the holding of the shareholders' meeting that shall have approved the results from the business year out of which said variable fee is to be paid; and iii) it shall be paid on a prorated basis to those directors who shall not have exercised their directorships for the entire business year out of the results of which said variable remuneration is to be paid.

Voting on Fifth Item of Business: Vote in favor of, against or abstain from making a determination on the proposal for directors' fees.

SIXTH ITEM OF BUSINESS:

Designation of external auditors for BY 2019.

Following with the motion filed by the Directors' Committee to the Board of Directors, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders in order that it designate, as external auditors of the Company and its subsidiaries for BY 2019, first, Ernst & Young Servicios Profesionales de Auditoria y Asesorías Limitada ("EY"); and, second, Deloitte Auditores y Consultores Limitada, for the following reasons: i) quality of the profession team in charge of the audit of the Company; ii) work experience the Company has had with EY in the past; iii) international presence of EY in the country where the Company and its subsidiaries are present; iv) financial proposal for the audit services; and v) recent inclusion of new countries and businesses requiring adequate advice in the auditing process.

Voting on Sixth Item of Business: Vote in favor of, against or abstain from making a determination on the designation of external auditors for BY 2019.

SEVENTH ITEM OF BUSINESS:

Designation of rating agencies for BY 2019.

Further in relation to the motion filed by the Directors' Committee to the Board of Directors, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders in relation to the designation of rating agencies for the publicly-offered securities issued by the Company, file the following motions with the AGM: i) maintaining Fitch Chile Clasificadora de Riesgo Limitada and Feller-Rate Clasificadora de Riesgo Limitada as the rating agencies for the stocks, bonds and commercial papers issued in Chile by the Company; ii) maintaining rating agencies Standard & Poor's and Fitch Ratings for the rating of securities issued abroad.

Voting on Seventh Item of Business: Vote in favor of, against or abstain from making a determination on the designation of rating agencies for BY 2019.

EIGHTH ITEM OF BUSINESS:

Designation of newspaper to publish statutory advertisements of the Company.

In relation to the newspaper for the publication of corporate advertisements, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders to publish them in the www.latercera.com electronic newspaper, given its widespread presence in legal publications in the internet and being certified for such purposes by the Financial Market Commission.

Voting on Eighth Item of Business: Vote in favor of, against or abstain from making a determination on the designation of the newspaper to publish statutory advertisements of the Company.

NINTH ITEM OF BUSINESS:

Report on the operations with related parties performed during 2018.

Other than as indicated and described in the following paragraphs, during BY 2018 no operations such as those discussed in articles 146 et sqq. of the Law on Stock Companies were conducted such as: i) due to their amount; ii) due to their exceptional nature in relation to the recurrence policy of the Company for that type of operations; or iii) due to the fact that they were conducted between related parties in respect of which the Company did not hold, directly or indirectly, at least 95% of its shares of stock or corporate capital, should have required the special approval of the Board of Directors or of a Special Shareholders' Meeting, Notwithstanding the above, the list of operations between related parties conducted during BY 2018 will be shown.

The only operation between related parties approved by the Board of Directors and that must be individually and expressly reported to the AGM was the operation known as "Cooperation Agreement" entered into between the Company and Inversiones Los Olivos S.A., which had already been reported to the special shareholders' meeting held on August 20, 2018, as follows:

The shareholders are hereby advised, for their information, and not requiring any vote to be taken in this regard, on the approval given by the Board of Directors for the operation with related parties known as "Cooperation Agreement", by and between the Company and Inversiones Los Olivos S.A. (hereinafter, the "HCQ Group"), a shareholder related to director Paola Cúneo Queirolo and the controlling shareholders of the Company, in light of the provisions of Title XVI of the Law on Stock Companies.

The HCQ Group advised the Board of Directors on its intention to conduct an Over-the-Counter, Simultaneous and Coordinated Sale of 21,000,000 shares of stock in joint fashion with the placement of new shares of stock issued under the capital increase at the Company. To this end, the HCQ Group and the Company shall enter into a contract on terms substantially identical to those contained in Annex 1.

Prior to the approval by the Board of Directors, the Directors Committee of the Company (the "Committee") met on June 26 and July 3, 2018, in order to review the potential operation between related parties. The Committee issued a favorable report, whereby it recommended approving the Cooperation Agreement.

On reviewing the aforementioned operation, the Board of Directors analyzed whether it met the legal requirements for operations between related parties, i.e.: i) that it be intended to favor the best interests of the Company; and ii) that, in relation to its price, terms and conditions, it be consistent with those prevailing at the time of its approval (arm's length principle).

The Board of Directors concluded that said operation contributes to the best interest of the Company by increasing its sales volume and making the amount more attractive, especially for institutional investors. Second, the operation does not accord the HCQ Group a treatment that could be considered non-arm's length since: i) it is free and at no cost for the Company; ii) the Company does not assume any obligations beyond what it is required to do by law, and it merely allows certain acts to take place; iii) it limits the liability of the Company strictly to what the law requires it to do in relation to any shareholder; and iv) the same option is offered to other shareholders.

TENTH ITEM OF BUSINESS:

Report on the activities of the Directors' Committee during BY 2018.

A report shall be delivered on the activities of the Directors' Committee of the Company during BY 2018, the annual activity report of which is also included in the Annual Report of the Company, made available to the shareholders on the webpage of the Company at <https://investors.falabella.com> starting on April, 5, 2019.

ELEVENTH ITEM OF BUSINESS:

Determination on the fees of the members of the Directors' Committee.

In relation to the fees payable to the Directors' Committee for BY 2019, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders as follows:

- a) That a flat monthly fee be paid in the equivalent in Chilean pesos of one third of the flat monthly fee established for a director of the Company, per meeting of the Directors' Committee attended by the respective member; and in the case of the Chairman of the Directors' Committee, he shall additionally receive a flat monthly fee in the equivalent in Chilean pesos of 100 UF per month or fraction of a month for the duration of his tenure, starting with his election; plus
- b) In addition to the flat monthly fees described in the preceding paragraph, that the members of the Directors' Committee likewise receive an annual variable fee in the amount in Chilean pesos equivalent to one third of the variable annual fee contemplated for the directors of the Company; and
- c) That all the aforementioned amounts be in addition to those that the members of the Directors' Committee are entitled to receive in their capacities as directors of the Company.

Voting on Eleventh Item of Business: Vote in favor of, against or abstain from making a determination on the proposal for the fees of the members of the Directors' Committee.

TWELFTH ITEM OF BUSINESS:

Determination on the expense budget of the Directors' Committee.

In relation to the expense budget of the Directors' Committee, the Board of Directors of the Company agreed to file a motion with the Annual General Meeting of Shareholders to maintain its current budget, which consists of an amount equivalent to the summation of the annual compensation received by its members.

Voting on Twelfth Item of Business: Vote in favor of, against or abstain from making a determination on the proposal for the expense budget of the Directors' Committee.