



Innovation

as a lever of differentiation

INTEGRATED
REPORT
2018





Carulla FreshMarket, rich, healthy and sustainable concept. Unique experiences that express the process of co-creation with local suppliers, craft products and the freshness of this premium brand



Management Report
*Innovation that drives
the strengthening
of our value proposition*



CEO and Board of Directors' Management Report



Carlos Mario Giraldo Moreno
CEO Grupo Éxito

Dear Shareholders:

Grupo Éxito's results in 2018 benefited from the positive effect of our innovation strategy, applied to each one of our operations in South America, as well as from the consolidation of a differentiation path in the Colombian market.

Innovation propelled the strengthening of the Group's value offer at a regional level and was the main engine to improve results, along with a consistent operational optimization in all the countries.

The positive impact of Grupo Éxito's innovation in its South American operations marked the outcome in 2018. This outcome ratified the importance of the Group's decision to diversify, thus achieving a solid leadership position in Colombia and Uruguay, a co-leadership in Brazil, and an important role outside Buenos Aires in Argentina

Key business highlights



Éxito wow Envigado, the first hypermarket of its kind in the country

Regional positioning of the **Fresh Market**

business model. This innovation offers customers, the best gastronomical and commercial experiences and attained excellent results in all four countries. We totaled 42 stores of this type in South America in 2018.

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1

Launch of **Éxito wow**, a new generation of hypermarkets which blends the best of the digital and physical worlds in one place. The two Éxito wow stores opened in 2018 were greatly welcomed by our customers and grew sales by double-digit.

3

Launch of two supermarket business models in Brazil:

Mercado Extra, a new proposal which offers an assortment better adjusted to the customer needs and a more competitive pricing. **Compre Bem**, is an alternative to face regional competition, with product supply adapted to each territory, along with an emphasis on customer's service.

Fresh Market business model implemented in four countries





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Our *Cash & Carry* business model remains as an important engine for growth. The Surtimayorista brand reached 18 stores in Colombia in 2018, achieving great acceptance from professional customers and households and increased sales by over 47%. Assaí in Brazil reaffirmed its commercial soundness with sales growing by 24.2% and the opening of 18 stores during the year. The banner reached a total of 144 stores.

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Viva Malls,

our real estate investment vehicle in Colombia, opened two shopping centers: Viva Envigado and Viva Tunja, which added 115,000

square meters in gross leasable space for a total of 570,000.

These developments are distinctive due to its innovative *retailtainment*, a blend of commerce and entertainment, with a third of its overall leasable area dedicated to family leisure.

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Complementary businesses take on greater relevance in the region. To highlight, he growth of the financial business in Colombia

through the *Tuya* alliance and the launch of the *“Passaí”* credit card, for Assaí’s customers in Brazil.

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Our *omnichannel*

strategy went forward and consolidated our leadership through our last mile alternatives in the region.

Exitto.com positioned itself as one of Colombia’s major *marketplace*;

the penetration in Brazil’s virtual market, with the “Clube Extra” and “Cliente Mais” customer loyalty apps, reached more than 7.5 million downloads

being the *retail* apps with the greatest amount of downloads in the country; and finally, we reached a leading food business

positioning with the greatest participation in omnichannel sales in Uruguay.



Viva Envigado, the largest business and commercial complex in Colombia, a new generation of shopping centers in the country

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Puntos Colombia,

our loyalty program in alliance with Bancolombia, was successfully launched to issue and redeem points in an ecosystem of around 30 commercial allied brands. Grupo Éxito's *retail* brands in Colombia have been the main destination available for close to 15 million customers in the ecosystem, to redeem points.

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The consolidated recurring **EBITDA** margin grew for second consecutive year and was 5.7%¹, in 2018, 40 bps above the previous year, thanks to good commercial performance, the contribution of complementary businesses and rigorous expense control.

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Consistent **net income** recovery, derived from increased operations efficiency, strict control of management and financial expenses and the good performance of all the business units. Earnings per share grew 28.3%, from COP 486 to 624.

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We exceeded our run rate target from **regional synergies** before our set date. The important achievement of implementing processes and communication channels among countries, as well as an open and cooperative culture are remarkable.

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The Company continued to improve its **debt level** and closed 2018 with a NFD/Company EBITDA adjusted ratio at holding level of 3.1 times, compared to the previous year's ratio of 3.5 times.

¹ Excluding non-recurring effects, mainly tax credits, for comparison purposes.



Colombia - Grupo Éxito

Rational consumer behavior, volatility in consumer confidence related to presidential elections and the new financing law (tax reform), along with a more competitive environment impacted by hard discounters and e-commerce, characterized 2018.

Our strategy in Colombia was proven suitable in the midst of a more competitive environment and a retail business demanding greater interaction among physical and virtual channels. Accordingly, our stores and distribution centers interacted with our digital channels such as e-commerce and virtual market platforms.

In this context, our operation in the country reached COP 11.2 billion in net revenues, with a 1.1% growth and a recurring EBITDA margin of 5.8%, 10 bps above the 2017 result. This progressive recovery of profitability levels derived from improved commercial performance and the outcome of the operational excellence program that led expenses to grow below inflation levels to a mere 1.6%, and in line with the objective set for this year.

The net revenue result reflect the consistent focus of our strategy centered on the customer and based on five pillars: leading the retail omnichannel platform in the region, having a differentiated and profitable commercial model, customer traffic and asset monetization, operational excellence and sustainability.

Our omnichannel platform in Colombia showed a 33.4% sales increase, leveraged by: a strengthening of our web sites, which increased visits by 20%; a 54.6% marketplace growth; a more efficient delivery service model with more than 2.7 million of dispatches, more than twice the previous year's; and an increase in catalogue sales of 5.5%.

Our stores complement our omnichannel model and selling spaces are meant to become entertaining and experience centers while their warehouses become logistic centers, that efficiently serve nearby households.

Results in Colombia showed our focus on innovation as a differentiating proposal through Company concepts such as Éxito wow, Carulla FreshMarket and the Surtimayorista Cash & Carry; in strengthening the omnichannel and the optimization of customer traffic monetization. The Company reached COP 11.2 billion in net revenue, a growth of 1.1%

Main advances and innovation activities embedded in a distinctive commercial and profitable model

- ▶ Carulla totaled six store conversions to the Fresh Market model, which represented 12% of the brand's sales and reached double-digit growth.
- ▶ The Éxito brand witnessed its key stores, Envigado and Country in Bogotá, transformed into a new concept called Éxito wow. This expression says it all. The model has a captivating and colorful proposal, full of innovative products in modern categories, such as fresh, hand-made bakery, chef cuisine and healthy, cosmetics and personal care products. It also offers additional innovation in services, such as delivery support areas, touch screens for customer service, and connectivity in the entire store, among others. The growth of the Wows encourages us to forecast additional openings in Bogotá, Medellín, Cali and Barranquilla during 2019.
- ▶ This was a year of expansion for our Cash & Carry business model, under the Surtimayorista banner. This format opens a new market for Grupo Éxito in Colombia, mainly professional customers such as mom & pops, restaurants, cafeterias and food processors. Surtimayorista also recorded important sales to end consumers in low-income neighborhoods in Bogotá and Barranquilla. The banner totaled 18 stores and reached sales above US 100 million with a positive EBITDA margin, which compares to the non-profitable businesses managed by other low-cost store operators. Cash & Carry is definitely a centerpiece growth differentiator for the Company with a clear expansion plan from store conversion.



Carulla FreshMarket offers handmade products prepared right in front of the customer

The innovation in our business model goes beyond commercial activities and deepening an omnichannel strategy. We also offer complementary businesses, nourished by customer traffic of close to 800 thousand people visiting our stores and other channels on a daily basis, as well as focus on asset monetization. These businesses continue being an important source of profitability for the Colombian operation.

Complementary businesses, in alliance with specialist leaders in each one of the sectors, continue to consolidate themselves and contribute to the overall result of the Company. We highlight the following:

- ▶ The financial business with Tuya, manages Éxito's credit card, the second in Colombia by number of customers with over 2.7 million cardholders.
- ▶ Insurance, with micro-policies acquired by almost one million customers.
- ▶ The travel business, which increased revenues by 22%.
- ▶ The financial transaction business enable customers to pay bills and managing local and international remittances from stores.

Carulla FreshMarket was recognized by the British Institute of Grocery Distribution – IGC among “16 best supermarkets to visit in 2019” around the world and the only recognized in Latin America

A few years ago, we began maximizing the value of our real estate assets with the development of our Viva brand. This brand has consolidating itself year after year, making Grupo Éxito the first real estate operator in the country with a portfolio that includes 34 shopping centers and commercial galleries with a 96% occupancy rate. In 2018, the Company opened Viva Tunja, the main shopping center in the region of Boyacá, and Viva Envigado, the largest business and commercial complex in the country.

We cannot lose sight on the need to be competitive, therefore, we came up with creative ways to compensate the impact of inflation on expenses. As such, we applied global productivity methods, such as Six Sigma and Kaizen, with working cells that review processes and make them leaner and executed under controlled standards. These initiatives contributed to keep expenses growing by 1.6%, half the year's inflation.

Finally, we highlight the rigorous management of the Company's debt and liquidity which led to a reduction of debt ratios² to 3.1 times.

Viva Envigado, the new generation of shopping centers, introduced Colombia to the new shopping trend that combines entertainment and retail. Viva Envigado reached nine million visitors, in its first three months of operations

2 Net Financial Debt/adjusted EBITDA.



South America Operations

As in the previous year, our retail operations in South America in 2018, contributed to the organization's profit growth. Grupo Éxito consolidated itself as the leader of the food business in the entire region, with 1,533 stores in the four countries, more than 140,000 employees and a solid leadership position in Colombia and Uruguay; a sound co-leadership in Brazil and as an important player outside of Buenos Aires in Argentina.

Grupo Pão de Açúcar in Brazil posted consistent solid results, thanks to the positive performance of Assaí, Extra and Pão de Açúcar. GPA reached COP 40 billion in net revenue



Brazil - Grupo Pão de Açúcar

The country's macro variables closed at stable levels after significant volatility during the first half of 2018. The exchange rate of the Brazilian real recorded a 7% devaluation against the Colombian peso. GDP grew by 1.1% at the closing of the third



Assaí, the Cash & Carry format, opened 18 stores and grew sales by 24.2% in local currency

quarter and inflation at year-end was 3.8%. Grupo Pão de Açúcar net revenues reached COP 40 billion, with an increase of 10.7% in local currency. The recurring EBITDA margin was 5.5%³, 50 bps above 2017, driven by the maturity of the Assaí stores and the good commercial performance of the Extra and Pão de Açúcar brands.

The Assaí banner opened 18 stores and totaled 144 in 2018. The banner increased sales by 24.2% in local currency and represented a stake of 46.4% over GPA food sales. More than 600 thousand Assaí's customers holding the "Passaí" credit card, benefitted by exclusive offers and discounts. The credit card generates a high level of loyalty and additional revenues for the Company. Assaí was the Cash & Carry brand with the greatest growth in the Brazilian market.

The Extra and Pão de Açúcar brands positioned as one of the most innovative ones in the market, thanks to the consolidation of its "Clube Extra" and "Cliente Mais" apps. These allow customers to access discounts and redeem prizes upon reaching periodical purchase goals. These apps have been downloaded by over 7.5 million customers,

whom double purchases of those customers without the apps.

The Extra brand's renewed commercial proposals granted market share gains. Pão de Açúcar continued its store renovation plan and benefited from the Company's know-how in developing the FreshMarket model. Fifteen Pão de Açúcar stores were renovated under the new generation concept at the closing of 2018. These store transformations in 2017 and 2018 enabled the brand to growth over 3% and to maintain high profitability levels.

Finally, it's worth noting that the Brazilian subsidiary went forward with the sale of part of its share in Via Varejo S.A. and at the end of 2018 sold 3.86% of shares via a TRS (Total Return Swap). The transaction was duly announced and is consistent with the strategy of profitably expanding the food business in Brazil.

³ Excluding non-recurring effects, mainly tax credits, for comparison purposes.



Uruguay - Grupo Disco

The country's economy faced a challenging year due in part to its Argentinian neighbor's macroeconomic environment and the revaluation of its currency against the Brazilian real. This situation was reflected in a decrease in tourism by approximately 30% and an economic growth of 2.1%, upon closing of the third quarter, a lesser amount than previous quarters.

The Company's operation in Uruguay stand out as one with the best profit levels in the region, with a recurring EBITDA margin of 7.7%

Despite this context, our operation in Uruguay continued with a positive evolution. Net revenue grew by 5.2% in local currency and recurring EBITDA reached a 7.7% margin, stable versus last year and the highest in the group.

The Fresh Market model was implemented in six stores, completing 15 at the end of 2018. The model offers a commercial leverage, added value to customers with high quality, fresh products and a unique purchase experience. Sales from Fresh Market stores represented 30% of total sales and grew 8%, a performance above the rest of the stores.

During 2018, our business unit focused on developing its omnichannel capacity, it offered a last mile service and strengthen our own websites, currently representing 2.1% of the Devoto brand sales.



Argentina – Libertad

The country's new economic project underwent material setbacks in 2018, due to difficulties controlling both inflation as well as the reactivation of consumer spending. This situation led to the devaluation of the Argentinian currency above 100% and inflation reached 47.9%, damaging the purchasing power of Argentinians.

The dual strategy at our company Libertad, which combines retail operations with a solid real estate business, allowed us to perform above other businesses in the sector. Libertad net revenue grew by 28.1% in local currency and posted a 4.1% recurring EBITDA margin, excluding inflationary adjustments.

It's also important to note the commercial advances obtained in the country thanks to the implementation of new proposals for the fresh product category, inspired by the FreshMarket and the development of a distinct commercial proposal for the sales of household products and cellphones.

In spite of the macroeconomic situation in Argentina, the dual model allowed Libertad to have the best results within the sector. The operation in this country showed revenue growth of 28.1% in local currency, excluding inflationary adjustments



Colombian textile model implemented at 61 Grupo Éxito stores in Brazil, Uruguay and Argentina

Synergies

Results originated from focusing on three main activities:

- a. New business models, representing 51% of the benefits with 15 initiatives.
- b. Trade and economies of scale with 24% of the benefits and 7 initiatives.
- c. Cost efficiency with 25% of the benefits and 6 initiatives.

In 2018, the run rate from synergies surpassed the target set for 2020, thanks to the implementation of 28 initiatives and the constant guidance of the Synergy Office

Among the new business models, we highlight:

- ▶ Arkitekt and Bronzini private labels reached historical market share levels in Libertad in Argentina (43%), Grupo Disco in Uruguay (45%) and Extra in Brazil (18.7%), leveraged by the rollout of the Colombian textile model in 61 stores in the three countries.
- ▶ The Cash & Carry model developed in Colombia by exchanging best practices with Assaí in Brazil, continued consolidating its expansion and closed 2018 with 18 Surtimayorista stores.
- ▶ The Fresh Market model inspired by the successful Uruguayan experience, was implemented in 27 stores in the region, totaling 42 stores in the four countries, grew sales over other stores.
- ▶ Best practices from Uruguay's "Home" model were implemented in Argentina, as well as the "Todo x tu bolsillo" (all for your wallet) price strategy from Uruguay and Colombia.

Regarding commercial synergies and economies of scale, we highlight:

- ▶ The joint purchase of more than 930 food and non-food containers worth over USD 42 million, led to savings between 5% and 20%.
- ▶ The renegotiation of trade agreements with the largest food and non-food multinationals for the entire region.
- ▶ The continuous export dynamics of 16 vendors across countries in which Grupo Éxito operates, posted sales above USD 2.3 million in categories such as meat, coffee and biscuits - crackers.

As part of the focus on cost efficiency synergies:

- ▶ The regional supply model of indirect goods, services and technology consolidated purchases above USD 107 million with savings close to USD 10 million.
- ▶ The exchange of best practices for supply chain continued, as well as for shrinkage management and operational excellence.
- ▶ Rollout of productivity model, originated in Colombia, was taken to 62 Grupo Disco stores in Uruguay with improvements in sold-outs, inventory levels and productivity.

As these results show, the synergies process reaches maturity and is becoming a value generating engine in the four countries. These efforts will now be concentrated on the distinct proposals for our customers through innovation and digital transformation.

Consolidated Financial Results

In 2018, consolidated net revenue reached COP 55 billion, an 8.9% growth, when excluding the negative FX effect, driven by the gradual recovery of our Colombian operation and the constant solid performance in Brazil.

Expenses grew below inflation in our main operations, thanks to the important efficiency initiatives implemented. The focus on innovation and productivity enabled us to reach a recurring EBITDA of COP 3.1 billion, with a 5.8% margin (4).⁴

Consolidated net revenue was COP 55 billion and net income showed a 28.3% growth

Net financial expenses showed good performance and decreased by 25.6% from the debt reprofiling in Colombia and lower interest rates in Brazil and Colombia. These results enabled reaching a net profit of COP 279,403 million and an EPS of COP 624, a 28.3% growth, generating value for our shareholders.

⁴ Non-recurring effects are excluded, mainly tax credits, for comparison purposes.

Closing remarks

Results show that 2018 was a year of great importance for the consolidation of Grupo Éxito in the different markets where we operate, as well as a clear recovery of the Colombian business. This good performance is supported by sales growth in local currency in all four countries, the important contribution of complementary businesses and the effectiveness of cost and expense control plans. All this led to net income and EPS at consolidated level to increase by 28.3%, in the midst of complex macroeconomic scenarios in different countries.

Innovation will continue to be the backbone of growth and sustainability in our business and favoring market share gains through the renovation of stores, the implementation of concepts, such as Wow and FreshMarket, and the expansion of profitable models, such as Cash & Carry. Likewise, we will strength the digital transformation and omnichannel strategies, developing and growing delivery services and apps and modernizing websites.

We will consistently move forward in activities related to asset and traffic monetization, which have proven to be an important source of profits for the 2018 results. Puntos Colombia will strengthen its customer's base and benefit from the growing redemption of points in our system.

Interaction among the operations will guarantee best practices, focusing on initiatives to improve productivity, format evolution, omnichannel experience digital transformation and innovation.

Finally, we express our gratitude to all collaborators who make possible the achievement of the objectives we set as an organization; to our customers who give us their trust and preference; to our vendors with whom we have built valued relationships; and, of course, we want to express our gratitude to our shareholders for trusting our management and walking with us in our purpose of contributing to the development of the countries in which we operate.

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We will continue leveraging the growth and sustainability of our business in innovation, digital transformation and omnichannel strategies



This report is a summary of the one published on the corporate web page. To view the CEO and Board of Directors' Management Report in its complete version, please access www.grupoexito.com.co "Shareholders and investors," or scan the code.