

**Operator:** Welcome to the Grupo Exito Third Quarter 2018 Earnings Conference Call. - My name is Richard and I will be your operator for today's call. At this time, all participants are in a "Listen only" mode, later we will conduct a question and answer session. During the question and answer session, if you have a question, please press star and 1 on your touchtone phone.

Please note that this conference is being recorded.

I'll now turn the call over to Maria Fernanda Moreno, you may begin.

**Maria Fernanda Moreno:** Thank you Richard, and good morning to everyone, thank you for joining us today in Grupo Exito's call. At this time, I'm pleased to present Chief Executive Officer, Mr. Carlos Mario Giraldo, Chief Financial Officer, Mr. Manfred Gartz, and VP of International Businesses, Mr. Jose Loaiza.

Please move to slide number three to see the agenda. We will cover Grupo Exito's financial and operating highlights, followed by a review of the performance by country and consolidated financial results for the third quarter of 2018. The call concludes with a Q&A session.

Thank you for your attention. I will now turn the call to Mr. Carlos Mario Giraldo.

**Carlos Mario Giraldo:** Thank you Maria Fernanda and thank you all of you, for being here for the conference, for the results of the third quarter. I will start with slide number three where we speak about the main highlights of financial and operating results.

I will begin by saying that our operational margin growth for another quarter is based on top line growth in all the operations and extent efficiencies.

Our consolidated net revenue grows by 9.5% if we exclude the negative foreign exchange effect of 16.4%, highlighting solid net sales of 9.3%, and strong other revenues growth of 17.6%, most of it coming from complementary businesses.

Recurring EBITDA margin gained 40 basis points arriving at 5.2% as the net profit, which is a group net profit, improved in the quarter versus the previous quarter, comparable of last year, and in the nine accumulated months is growing four times versus the accumulated period of the last year.

In the operating highlights, I would say that our top line growth in all the operations, the operational efficiency and the solid margin performance is something that we can see in all the operations of Grupo Exito in South America, that is Brazil, Uruguay, Argentina and Colombia.

"Puntos Colombia" was launched nationally starting August of this year. We opened our first version of the new generation of hypermarkets with a big innovation proposition called

“Exito Wow” in the second most important hypermarket of the company in Envigado, Antioquia.

Our Carulla Fresh Market saw the launch of its fourth version in Castillo Grande in Cartagena in August of this year. Our Surtimayorista format opened in Chia, arriving to 15 stores of the 18 that we will be opening by the end of this year and starting October we opened Viva Envigado, the most important mix commercial and offices project in all Colombia.

Many of these innovations and news like Puntos Colombia, like the new generation of hypermarkets, like the consolidation of Fresh Market, like our cash and carry, and finally the maturity of our real estate business with this very important project are looking at the future of our operation and of our company.

Synergies continue as planned with very good dynamics, arriving this year at an annual round rate of US\$120 million shared between different operations, the most important of them in order in Brazil and in Colombia.

Debt restructuring reduced the gross debt at pausing level by 670.000 million COP, and Grupo Exito was included again for the sixth consecutive year in the Dow Jones Sustainability Emerging Market Index, something that we give a lot of importance to, because we have to be a sustainable company in all aspects: corporate, governance, but also environmentally for the future.

In slide number four we continue with some of these highlights thinking about expansion, expansion in retail and real estate. Our expansion investment for the quarter at a consolidated level arrived to 682.000 million COP; of them 1.100 and 11.000 million COP in Colombia, including those invested in our projects of real estate, Viva Envigado and Viva Tunja.

Of all the investments in the region, 46% went to retail expansion. We opened 14 stores, of them seven in cash and carry key development areas, both in Brazil and Colombia.

That innovation was the renovation of some Extra supermarket stores in Brazil into a new concept which we call “Mercado Extra” which is designed to compete in a very good way, especially in fresh product proposition to the independent supermarket in different states of Brazil.

Finally, in our real estate expansion, we concluded the construction of Viva Envigado and of Viva Tunja, adding a 110.000 additional GLA to the total GLA of Viva Mall and of the organization.

Going to slide number five, we can see the net sales performance in Colombia. Really we have positive net sales, same-store sales levels showing a consistent and gradual improvement, as we have the chance of speaking about in the last call.

The quarter saw sales of 2.55 billion COP in Colombia. In an adjusted calendar basis, it is increasing by 0.5% in same-store sales, as compared with the accumulated year figure of -1.3%, that is near to two points better than the accumulated figure.

If you look at the figure and the graph that we have in the bottom part, left bottom, you can see the trend; the trend is very positive, we're coming from -6% same-store sales at the last two quarters of 2017 when the market was most affected, then we had a -3.1 in the first quarter of this year, -1.3 in the second quarter of this year and a positive 0.5% in the third quarter of this year.

It is important to highlight that our omni-channel strategy arrived to a 3.4% representation of total sales of the organization, growing by 35% in the accumulated year, and that our Surtimayorista cash and carry had a same-store sales growth of 44%, which is absolutely outstanding. These two pillars, which are new for the company, which did not exist in a very strong way in the last three years but are today material, are arriving now to 8.5% of total sales of the organization. It is important then to say that they are material and that they are creating an important base for growth in the future.

Making some more detail about the sales performance in Colombia, we can say that the same-store sales figures improved its trend in all the banners of the company. In Exito, arriving to positive same-store sales after we had not done that since the fourth quarter of 2016; in Carulla with the second consecutive quarter with positive sales growth and with the contribution from the Fresh Market, which in its four stores as an average is growing sales by 11.3%, and that is double figure compared against the rest of the Carulla stores.

In Surtimax and Super Inter, same-store sales, even though they continue in a negative figure, recovered by 200 basis points versus the previous quarter. We continue focusing, as we had the opportunity to discuss in the last call, in pricing, in front focus pricing, in loyalty activities, in product assortment, and in logistics, to be able to increase efficiency in our popular formats Surtimax and Super Inter.

In the Business to Business proposition, which puts together cash and carry and "Aliados", it increased its contribution to sales of the total company by a 110 basis points, arriving to 5% representation of the total sales. Surtimayorista cash and carry opened three stores in the quarter to arrive to fifteen stores, and it has a positive EBITDA margin and solid reserves, which is a novelty if we compare it with the rest of the discount sector in Colombia, and two times sales after the previous stores that were converted. That is: We maintain a multiple of two time sales per m2 against the brands that were done previously.

In the following slides, I'm going to make emphasis on what are the growth levers even though there's some competitive scenario in Colombia, and that consumption is just in a gradual recuperation, what is helping? What is acquiring material importance? And especially looking towards the future, what is giving differentiation to Grupo Exito in Colombia.

The first one is slide No. 7, and this is not something that we speak for the first time, because we have been consistent in time, is our Omni-channel strategy. I would highlight that our digital catalogues today are present in 149 stores, and that they contain not only our own portfolio, but also all the market place portfolio; that our market place has now more than 1.000 sellers and is growing by 58% in its Gross Merchandise Value –GMV- figure; that our

home delivery is booming, booming by a 134% as compared against last year, and that we arrived to 1.9 million deliveries this year.

The growth year-to-date of total Omni-channel strategy is 32%, and clearly it is leading the digital transformation, not only to the interior of the organization, but especially towards the experience of our customers.

We are really committed in eliminating barriers between physical and virtual channels, you will see in the next month the launch of the absolutely renovated app –applications- both of Exito and Carulla, which will bring a lot of novelty to the market, they will be based in the cloud, Incloud technology, and they are going to recollect the best experience through synergies that we have received from the very successful application that we have in Brazil through the “Meu Desconto” of Extra.

Going to slide No. 8, another of the growth levers is innovation, clearly innovation in format, especially in our value added formats Exito and Carulla. In Carulla it is all about the Fresh Market, we are going to arrive this year to 6 stores, they will now represent 12.4% of total sales share of the organization; I believe that by the end of next year more than 25% of the total sales of the Carulla brand will be represented by a Fresh Market proposition, and clearly what we have seen is a double digit growth at four on average after the model implementation.

In this quarter it is very important to highlight that Carulla Castillo Grande - which probably many of you know because it's a mandatory visit when you go to Cartagena or when any foreigner arrives to Cartagena- is a kind of symbol of the Colombian quality, taken into Fresh Market, and it is today the store with the largest sales of fruit, delicatessen and meat in all the Caribbean region.

In slide No. 9 we speak about Exito Wow, it is a very demanding name to say to a store or to a banner the nickname of “WOW”, but we do it because really it has more than 25 propositions of innovation within others in pet products, in cosmetics, in electro, in textile, in toys, in health, in digital, etc. It has been very well received, growth against the path, the time of the Envigado store, which was the first one, are more than double digits in growth, the first three days which opened without any closing hours it was a novelty in the Colombian market, opening till 12 at night, they sold four million dollars in three days, and clearly it is a very important model to follow on in the future. We will open the second one at the end of November in Bogota, which is Exito Country of the 134<sup>th</sup> street, the most important hypermarket in Colombia, and it is going to be a big surprise and a big experience for all the Bogotano consumers, which is the most important market in Colombia.

In slide No. 10 we continue with these profitable levers, and it is after Exito Wow, the big news in Colombia was the opening of Viva Envigado Shopping Mall, it is the largest mixed use shopping mall in Colombia; 96% commercialization, even if we are coming from a period in which it was not easy for tenants in all shopping malls in Colombia and with our huge opening day of 150.000 visitors. A total investment of 660.000 million COP, adding 104.000 additional GLA, but having a total 138.000 GLA; what happens is that before we had Exito

stores and we had Home Center stores, and we had some offices that were already included in the GLA, 390 shops and 4.000 parking lots. Really what this shopping mall brings into Colombia as a novelty is that it is the first shopping mall in Colombia that is based on entertainment, the new big trend in the world that we call “retailtainment”, what we have arrived here is to Aviva Park, where we have 600 m2 of open air amusement parks for children, Calle Bistro with a high-end boulevard of 35 restaurants, which is clearly different from the traditional food courts of mall massive kind of food propositions, which we also have within the shopping mall. Viva Sport with a complete sport complex, including the first “Volleyplaya” or “Volley-beach” court in Colombia, and Musa, a cultural and arts center, all this complemented with a full connectivity proposition.

In slide No. 11 we speak about Brazil’s sales performance. It really was outstanding; I would say this was the best quarter in many quarters, when the other quarters have already been very positive. The important thing in this quarter is that Assai continues with its very strong same-store sales growth, and total sales growth, but also Multivarejo had a very good performance. Assai grew by 25.8% in sales and same-store sales at 8.2%, while Multivarejo grew its same-store sales at 6%, and this is very outstanding when we see that it is higher growth than the inflation in Brazil.

In Assai, we opened in the last 12 months 19 stores, which explains part of this 26% growth in sales, and it is the best performance per m2 in the last five years in Assai. That is, this is a brand that every month gains importance, recognition, and top of mind within all kinds of Brazilian consumers and it now represents near to 48% of total food business of our Grupo Pão de Açúcar food business and gained 190 basis points in market share gain.

Multivarejo also gained market share against hypermarkets, more than a 140 basis points, and it is explained by commercial strategies, digital transformation and penetration, and the private label repositioning, which has been happening in the last two years.

Finally, we continue with “Meu Desconto” (My Discount), with downloads reaching 6.5 million downloads, that is the largest download, I would say in all Latin America, and comparable with the best in the U.S, and it gives us clearly an example of the potential that a good application has for the future communication, and for the future top-selling and out-selling with our customer, with our loyal customer, not only in Brazil, but also in the other countries.

I will hand it now to Manfred Gartz, our C.F.O, to continue with the results of the company and then I will make some final remarks after Jose Loaiza speaks about our international synergy performance.

**Manfred Gartz:** Thank you Carlos Mario, and good morning everyone. Please let’s move to slide 12.

I think it's important to highlight that Colombia reaffirms its good operational trend with a third consecutive quarter of positive evolution of the top line, and the second consecutive quarter with the expansion of the EBITDA margin.

In this quarter net revenues reached 2.7 billion COP, increasing 0.5% versus the previous year, maintaining the recurrent trend that we have seen since the beginning of the year. Other revenues grew 29%, mainly driven by the performance of complementary businesses such as real estate and the financial services.

Gross margin for the quarter closed at 24.5%, improving 90 basis points versus same quarter last year, and in line with historical performance. This result is mainly explained by higher contribution of complementary businesses, and lower logistic costs.

On the SG&A side, the increase was 3.3%, reflecting expansion expenses and a stronger comparison basis created by the good results of our cost control programs, which started to be implemented in the third quarter of last year. However, year-to-date expenses grew 1%, way below inflation, thanks to productivity activities that we'll discuss a little later.

At the results the recurring EBITDA for the quarter was 123.000 million COP, with a margin of 4.6% increasing 7.2% and improving 30 basis points versus the same quarter last year.

Moving forward to the next slide, I would say that productivity programs are now part of the DNA of the company, and has as allowed us to control expenses in order to support margin expansion, even in a challenging competitive environment.

Our cost control program is based on three main projects: we aim to focus on the organization on continuous improvement, consistent productivity gain, and supporting profitability evolution.

Those three main programs that we have implemented were 5S, Kaizen, and 6Sigma; the latter is probably the one that's bringing the most relevant savings to the company, as we have been showing the results in the latest quarters.

Moving forward to the next slide to discuss Brazil, I think it's important to mention that the operation continues delivering operational improvement and consistent margin expansion, even after tax credit. Net revenues grew 12.4% in local terms in the quarter thanks to the strong performance of Assai, that Carlos Mario just talked about and the consistent performance at Multivarejo. In COP, net revenues switched 9.2 billion, decreasing 10% after a negative FX effect of 20%.

Gross margin reached 22% of sales decreasing 40 basis points, driven by the stable level at Multivarejo and the accelerated maturity of the Assai stores that were opened in the last two years, also we have the positive impact of the store conversions.

In terms of SG&As, expenses diluted 90 basis points, mainly because of productivity initiatives that were implemented at Multivarejo level, and as Assai gained traction from the store maturity that offset expansion expenses.

Bottom line, recurring EBITDA was 492.000 million COP, resulting in a 5.3% margin 30 basis points higher than the year before, and in the year-to-date view our margin closed at 5.3%, progressing 50 basis points when excluding extemporary tax credits.

Please move now to slide 15 to discuss the operating performance of Uruguay. Uruguay remains a highly profitable operation with EBITDA margin of 8%, despite the macro difficulties that the country has faced in the last few months.

Net sales in local currency grew 4.7%, and same-store sales closed at 4% in the quarter.

Sales results were driven mainly by convenience formats, and were offset by the macro-economic turmoil of main commercial neighbors, Brazil and Argentina, and a lower consumer confidence in the country.

In COP, net revenues switched 579.000 million COP in the quarter, and a decrease of 6% due to negative effects of 10%.

Gross margin for the quarter closed at 33.1%, reflecting the good profitability that we have in this country, that is derived from high quality and differentiated value proposition that the format offers.

At the SG&As side, they remain in line with historical figures when compared with the year-to-date numbers, and this is a very important achievement for the operation in Uruguay, considering the huge pressure for inflation and relevant cost lines such as labor.

Finally, recurrent EBITDA for the last nine months of the year reached 150.000 million COP with a margin of 8%, gaining 30 basis points versus last year, and growing 2.7% in COP, even after the effects.

Please move forward to the next slide on Argentina. As you know, our strategic approach in Argentina has allowed us to overperform our competitors, while defending our profitability level.

Net sales grew 23.5% in local terms, and at the same-store level we grew 24%. Net sales in COP closed at 234,000 million COP, decreasing 31% due to negative effects of over 44%. Sales results were driven by commercial activities, and an economic context marked by a short-term reduction in our costumers' disposable income.

On the gross margin side, it gained 110 basis points mainly from real estate contribution, which continues to be an important hedging for our operation, with the operation, and the rapid commercial valorization of our inventories in a hyperinflationary context.

On the SG&As side, they decreased 36% in COP and that reflects, as in all of the countries, important efforts in all levels to increase productivity, savings projects and, in Argentina especially, the contribution of the real estate business that helped in the dilution of the expense.

Recurring EBITDA reached almost 12.000 million COP with a 4.7% margin in the quarter. Obviously we've been impacted by this hyperinflationary context, but we expect that in the next few quarters the margins will return to normal levels.

Please look now at slide 17, to look at the consolidated financial results. Year-to-date bottom line reflects the improved operational performance of the company in all countries, delivering four times the net income as of last year.

Consolidated net revenues reached 12.7 billion COP, decreasing 8.4%. However, if we exclude the aggregate negative FX effect of 16.4%, net revenues grew actually 9.5% on a year basis.

Gross profit diluted 10 basis points mainly because of the change of the mix sales in Brazil due to the substantial growth of the Assai brand, whereas SG&A's diluted 90 basis points, once again reflecting all these productivity efforts and cost-cutting initiatives that have been implemented in all the company's footprint.

Finally, it's time to highlight that the recurrent EBITDA closed at a margin of 5.2% versus 4.8% as of last year, increasing almost 40 basis points and the net income finished at **-9.700** million COP versus -31 as of last year. I will fully explain the results on the next slide.

When you see at the operational level, all countries delivered positive cash contribution at the ROI level, even despite the FX effects.

And on the non-operational levels, there are three main aspects to highlight. The first is the consistent reduction of non-recurring expenses, driven mainly by the Brazilian operation; second, better financial results because of the low rates both in Brazil and Colombia, and the execution of the deleveraging process; and finally, income taxes and the elimination of minority interest increasing as consequence of better results of all companies.

Finally, on slide 19, to discuss the debt and cash at the holding level, net financial debt at the holding level flows approximately at 3.2 billion COP, decreasing 70% versus the last year, while gross debt ended at 3.8 billion COP, reducing 15.4% versus the same period last year, and cash and equivalents remaining somehow stable.

At this point I will return the call to Mr. Jose Loaiza for a follow up on the company's international strategy and synergy processes.

**Jose Loaiza:** Thank you, Manfred. Good morning to all of you.

Concerning the synergy process, we would like to highlight that the guidance that we gave you at the beginning of the year of USD120 million is going to be met with no doubt. We would like to share also some practical examples that are leveraging this result.

At the bottom left, as Carlos Mario mentioned, you might see what we call a successful business model replication, taking into account the leveraging from Brazil to Colombia of our cash and carry business which is now a reality. In the right, you may see our current



footprint in the supermarket premium format, a concept born in Montevideo that now has 31 stores across the region, and no other retailer in Latam has this kind of footprint for a premium format.

Going to the next slide, to the left you may see the ongoing successful implementation of the textile business model. We would like to highlight on the bottom left the kind of synergy and communication that we have among all countries, where you can see the work passion all around, with some local adaptations now implemented.

To the right, we are pleased to tell that our Exito and Carulla app are going soon to be launched, taking into account the very successful implementation and learnings from the “Meu Desconto” app, which now has close to 6.5 million downloads.

On page 22, joint purchases. This is a growing power that we are developing this year in commodities, we have increased our volumes more than 40%, more than 600 containers, more than 20 million dollars, more than 2.5 million in savings. As usual, here we bring some practical examples: just in fresh fish and salmon we have about closed to 100 containers, getting savings between 2 and 11%, which are very material for this kind of product category.

Also during this quarter, we signed a deal for extended warranty covering Colombia, Uruguay and Argentina with our partner Zurich, with very good improved conditions compared to the previous ones, and our next step is, once the Brazil contract expires, go for a full regional negotiation.

All in, we would say that we are on track to meet our guidance, hopefully exceeded, and all this thanks to the integrated work of more than 300 executives throughout the region.

Now I'll turn it over to our CEO Mr. Carlos Giraldo.

**Carlos Mario Giraldo:** I will now go to slide No. 23, with the main conclusions for the quarter.

Regardless of challenging macro-economic realities in some of our countries and of a challenging competitive scenario, we are very satisfied with what's happened in the quarter and look forward to be able to confirm this kind of trend in the future.

The first thing is that our net revenue growth in all international operations in local currency was positive. The recurrent operating margin and EBITDA margin grew by 40 basis points at a consolidated level. Operational performance is clearly leveraged on productivity efforts, with some kind of productivity initiatives like Kaizen and 6Sigma, which are in the bottom of these results.

Net income improved the trend in the third quarter, and in the complete year, in the ninth month, net profit growing by 4 times versus the same period.

Clear action plans and cost control activities implemented in every one of the countries. Synergies lined on track according with the analysis that Jose just made, and ongoing traffic

monetization activities to benefit further, in Colombia from Puntos Colombia, and also some asset monetization to our shopping centers, with a very flat sheet of Viva Envigado, but also another flat sheet of Viva Tunja to the Boyaca Department, becoming the most important shopping mall in that region of Colombia.

And finally, a diversified and consistent value proposal added activities in Colombia with Fresh Market model, premium market, the Wow hypermarket next generation, the cash and carry format, and the Omni-channel at all segments. Of course this same time of differentiation goes in all the countries through synergies, it goes in Brazil, through our cash and carry and through our digital transformation and penetration, and in other countries, especially in Uruguay, where we have obtained the leadership not only in the main center part of the market but also in the proximity segment.

So this would be the most important conclusions, this ends the initial presentation of our Q3 results, and we open it now to a Q&A session.

**Operator:** Thank you. We will now begin the question and answer session. If you have a question, please press \* and 1 on your touchtone phone. If you wish to be removed from the queue, please press the # or the hash key. If you are using a speaker phone, you may need to pick up the handset first before pressing the numbers. Once again if you have a question, please press \* then 1 on your touchtone phone. Standing by for questions.

The first question online comes from Antonio Gonzalez, from Credit Suisse. Please go ahead.

**Antonio Gonzalez:** Good morning, thank you for taking my question, Carlos Mario and team. I have two quick questions.

First one on Surtimax and Super Inter. I think it's been a couple of quarters now that you mentioned in press release that you have some strategies focused on pricing and loyalty activities, so I wanted to understand- that some other players in Colombia might have strategies that perhaps are not that profitable, etc. but I just wanted to understand from your perspective how much are you lowering prices, is it in certain categories only, or is it across the boards, what do you think is the price gap that you have at the moment against these competitors, and by how much do you want to close it. Just sort of some qualitative comments on whether you are at the margin investing more in prices in those two formats. That is my first question and then, secondly, I wanted to ask about... You mentioned a lot during your remarks the new formats, the Fresh Market for Carulla, Wow for Exito, obviously cash and carry, so I just wanted to get your thoughts on: If you look at the CAPEX today, how much do you think in Colombia, for example, is going to be allocated to new projects versus just conversions to all of these formats, is a mix between remodeling and conversions, and genuine new stores changing significantly for the foreseeable future? Or is that not the case? Thank you.

**Carlos Mario Giraldo:** Thank you Antonio, and thank you for the questions.

I'll go first to Surtimax and Super Inter. If you look at the recent trend in the Colombian market, it is mostly affected at the mom-and-pops and also at the independent supermarket segment. That is when you saw the expansion of discounters in the last five years, they first expanded in the most, I would say... economically important parts of Colombia, in the main cities, and then their expansion went to the popular segments, and that's what we are seeing and it impacts more these kind of segments. Independent supermarkets are today, as of Nielsen, the most impacted segment. Here is where most of our Surtimax and Super Inter stores are located, and of course only automatically by expansion you lose sales, but what we think is that we have to be very careful in what we do in this popular segment.

So our formula is the following: First we reinforce a lot the fresh product categories, which is a differentiator against the competitors, here our price comparison is not against discounting, because they don't have this type of assortment, but against independent supermarkets, and here I would say, this is a focused part or differentiation.

The second part is in the general consumption, industrial food products, and home products. Here our comparison in the most important categories is against the discounters, and I would say that we have a portfolio of products that you can go and check because it's there, that we call "los más baratos", and they are at the same price as the most comparable discounter stores. Of course we are doing some adjustments also to assortment, because we believe today that we have to have a shorter assortment in order to be more efficient, not as short as many of the competitors. We have to have a complete market proposition but not a wide assortment as we used to have.

The good thing is that we are surely seeing results and that 200 basis points improvement is a first result from this type of strategy.

As of our new format of innovation, your second question, our Wow hypermarket, our Fresh Market Carulla, our cash and carry, etc., and the CAPEX focus, I would say that retail is changing a lot in the world. Today you have to think twice before opening a new store, and I want to be clear in this, we will continue opening new stores, but we will be very much focused in stores that add values in sections of the country that are not highly concentrated with retail stores.

Why is this? It is because the retail in the world has changed in a very important way. Today the supermarkets, and I'm speaking about supermarkets in the U.S, in the U.K, in France or in Asia, they have two components. First, an experience center, and that is, the main area for the customer in the supermarket has to become entertainment, has to become high-end value, has to add value at a very competitive price and that's what we are doing with Fresh Market, and that's what we are doing with Wow. And here, but what is happening also is that the back office part of the stores, are becoming store delivery centers, logistic nodes in the world, and here we have a very interesting competitive edge against any other competitor, because

in the main cities we have very important locations from which we can deliver, or by e-commerce or telephone calls, or any kind of home deliveries, and that explains why we're getting near to 2 million deliveries this year.

So the answer would be: Looking forward in the CAPEX, the emphasis on CAPEX is going to change, it is going to be less new stores, less investment in bricks and mortars, more investment in innovation propositions to the most important stores that we have today, so that they would become entertainment centers, and that is Fresh and Wow, more investments in Cash and Carries, which go to the base of the pyramid and to professional customers, and it's a new market for this organization, and where we will arrive at 18, and between 8 and 12 per year, looking forward and which is working in a profitable way from the beginning, from the starting point, and a lot more investing in technology, in applications, in cloud technology, in very flexible technology to be able to foster our digital penetration, and the digital experience of our customers.

That is, Exito would be leading all these trends that we are already seeing for example with the Alliance of Amazon and Monoprix, which we are seeing also in China with the work that Alibaba is doing with the supermarkets that we are seeing in the UK, with what Ocado is doing with many of the other players through delivery centers, and clearly you will see that Exito will be leading all this trend.

**Antonio Gonzalez:** Thank you Carlos Mario.

**Operator:** Thank you. Our next question on line comes from Federico Perez from Bancolombia, please go ahead.

**Federico Perez:** Hello Carlos Mario, Maria Fernanda and Jose for the conference call. I have two questions.

The first one would be: Can you give us a little bit of color of how much would be the weight of the real estate business in Colombia in the next quarters after opening the Viva Envigado Mall, this maybe in terms of revenues and Ebitda?

**Carlos Mario Giraldo:** Yes. I would say that it has in the GLA of the company around 20% and total real estate business would be having a total weight in the EBITDA of the organization between 20 and 25%.

**Federico Perez:** Perfect. Thank you. My second question is, after seeing the positive behavior of the same-store sales here in Colombia, which in this quarter returned to positive, can you give us a bit of color on what you are expecting for the next quarter, taking into account the tax reform that the Colombian government proposed to the Congress, which could have a significant impact on the VAT tax. What are you expecting for consumption here in Colombia that maybe could be affected by this tax reform?

**Carlos Mario Giraldo:** Yes. What we are seeing, as we said in the last call, is a gradual improvement in consumption as of today, especially a gradual improvement coming in the massive consumption categories, in food categories. However, I do believe, as you said, that the end discussion on the tax reform is going to be very important, very material. For the moment, the tax reform has very interesting and positive aspects for a company like ours, like the reduction in income tax and also the reduction in presumptive income tax, which is very material for retail especially, as it has a big weight in assets, but clearly there could be an impact not only in consumption but also on inflation if we have a big increase in VAT to 18 or 19% to most of the categories of the basic basket of the Colombians.

We are actively participating in the debate in a discreet way, but we are making all the regulators and the government know what the impact could be and I believe that today as we speak there's an active search for alternatives to what was initially proposed. I don't know where it will fall, but these alternatives are being searched.

Having said this, when a similar thing happened in 2016 which impacted a lot 2017, that was something clearly new and it had a larger impact than the one that we expected. The difference today is that you always learn from the past. We are much better prepared to deal with it. Today our cost structure is completely different to the one that we had ending in 2016, where we were growing our expenses above inflation. Today we are growing clearly below inflation. As you can see, we have productivity initiatives going on and we have a lot of propositions of innovation to the market that make us much more competitive than what we were as of January 1, 2017.

So to make the answer concrete I would say yes, it will have an impact. Second, it is an ongoing discussion and I think that is going to be attenuated or reduced as an increase in VAT to general consumption basic products or it will be eliminated, but anything that is approved we're much better in a competitive way and in a productivity way to deal with it in the future.

**Federico Perez:** Perfect. Very clear. Thank you.

**Operator:** Thank you. This is our next question. Please go ahead.

>>Congratulations on the good third quarter results. My question mainly is with regards to the dividend yield and the expected dividend yield ratio. Can you give me an idea of the total expected dividend for 2018 and hopefully what is the payout ratio? Do you expect any change in the payout ratio next year, especially since Casino is not doing so well? Thank you.

**Carlos Mario Giraldo:** What I would say is it's too soon in time to speak about payout ratio. What we have traditionally had in the past is a payout ratio which has been around 50% of total net profit of the organization. I cannot say for the future, because it is something to be decided by our shareholders, but it has to be a decision that has to balance not only the interests of the shareholders but the ongoing CAPEX needs of the organization, the growth opportunities and really we think that we have growth opportunities in the innovation target and in the innovation propositions that we are taking to the market.

>>Just a follow up. To 2018, what was the total dividend and the payout ratio?

**Carlos Mario Giraldo:** Yes. For the 2018 general assembly, it approved under the results of 2017 a payout ratio of around 50% of total net profits of the company.

>>Ok. Thank you.

**Operator:** Thank you. Our next question on line comes from Carlos Rodriguez from Ultraserfinco, please go ahead.

**Carlos Rodriguez:** Good morning, gentlemen. I have three questions. In terms of value, I would like to know your thoughts on the Argentinean operation. What should we expect going forward with the current environment in that country?

My second question is related to Via Varejo. Could you give us some details on the sale process?

My last question is given the recovery in Colombia, what should we expect in terms of EBITDA margin and gross margin going forward for the Colombian operations? Thank you.

**Carlos Mario Giraldo:** I'll start with Argentina. So far so good. I think the performance of our Argentinean operations has been outstanding regarding the local circumstances. I do think that is going to be much more challenging in the future for two reasons. First, for the moment we are having the favorable impact of inflation in the valorization of inventories. We are still not having the full impact of inflation in the cost side of salaries and utilities, but we are going to have this additional pressure.

Having said this, we do believe that our operation has a very special circumstance that may highlight it from other operations, and it is a high level of mix that we have coming from the real estate business, a very good occupation rate that we continue having in real estate, especially because we are in regions where our 15 galleries are the leaders or the number two commercial galleries in medium-sized cities, and that protects us not only commercially but also because the rents normally go with inflation, and also because the real estate also protects us, as have done in the past, in a hedging way against devaluation. But of course it will depend a lot on what happens to the country and of course we are not isolated from the circumstances that go on in Argentina.

What I can tell you about Via Varejo is that we keep clear and we have been very vocal on the strategic decision to sell Via Varejo to focus exclusively on the food business in Brazil. Number two, that is an ongoing process that has taken longer than we thought in the beginning, but it's a clear ongoing process and that we will keep the market informed when any relevant information comes out of this current ongoing process.

Finally, as of the EBITDA trend in Colombia, we have had for the second consecutive quarter an expansion in EBITDA. What I would say is that of course we still have to see what happens in the last quarter, but our goal is to continue with this trend of keeping a balance of our EBITDA and even our reinforcement of the margin of EBITDA of the organization.

**Carlos Rodriguez:** Thank you very much for your answers.

**Operator:** Thank you. Our next question on line comes from German Cristancho, from Davivienda. Please go ahead.

**German Cristancho:** Hi. Thank you for the call. I have two questions. One is regarding Viva Malls business. Taking into account that the new relationship with customers implies higher investments in special entertainment zones and special areas, how is this impacting your cap rates? What's the average cap rate of Viva Envigado, for example?

The second one is related to the stock price. We think the stock is having a high discount from its fundamental value, but what is the company doing with this model, working with new investors, making NDRS, what are you doing to recover the investor base and the stock price in the market?

**Carlos Mario Giraldo:** Yes. First, about Viva Malls, our cap rate is a very good cap rate that we saw when we did the operation even in the most difficult moment of the economy, and we believe that looking forward any other asset contribution done to Viva Malls or the projects developed on the inside will have even better cap rates, not only given the importance that the brand has gained but also the good occupation rates and the good Ebitda margin that it has maintained.

We don't think that there will be a substantial change in cap rates given this investment in entertainment and sports and differentiated areas. What this would do is protect the value proposition of our shopping malls and keep the cap rates that we have today, but clearly what Viva Malls is doing is introducing a novelty in the Colombian market and I would encourage all of you, not only those who work in Medellin but those who work in Bogota or those who are in other countries and come to Colombia, to visit our Exito Wow. Exito Country will be a good example to see, then to visit a Fresh Market. We will have three Fresh Markets in Bogota – 102, Pepe Sierra and the Claro shopping mall – or in Medellin we are going to have San Lucas, which is going to open on December 6 or in Santa Marta or in Cartagena (Castillo Grande) and also to visit the shopping malls and to see how the shopping malls really highlight something different from what is being highlighted today.

The concept is very clear. It is a shopping mall designed for the family, so that the families can go there to the IMAX cinema or they can go and buy in the shops and to have their groceries at an Exito or they can take their children to the entertainment park or they can go to the gym and do sport or they can go to the cultural activities. Our goal is that the family can get there at 11 am on Saturday and stay there for the whole day.

About the stock, I would say that management works for the shareholders and we work to enhance the value of shareholders. What we can do are two things. First, work for consistent results of the company or good returns on our investment, to be capturing the trends of the world, to be on top of those trends, to answer in a profitable way to the competitive challenges that we have, to be in front of the economic trends of the market. That's what we are doing

to capture the synergies that we said we were going to capture, which are today becoming evident.

The second one is to tell the story of what's being done, the story behind the numbers and the story looking forward. We are doing an active way in that. Any of you know that we have done specific meetings with different institutional and retail investors in Colombia. We have had a permanent contact with pension funds in Colombia, which are important investors in the company, and we are doing important non-deal roadshows, not only in London, but also in New York and in Latin America and we are going to continue doing that. We are going to do at least two more in the rest of the year if "Papa Noel" doesn't permit to do any more roadshows.

**German Cristancho:** Ok. Thank you.

**Operator:** Thank you. Our next question on line comes from Macquarie Group. Please go ahead.

>>Yes. Hi. One quick question. In Argentina, if you exclude inventory valorization real estate impact, what was the organic gross margin improvement? You talked about challenges that are coming due to inflation. When do you think you will start to see them? Thank you.

**Carlos Mario Giraldo:** It's very difficult to make the calculation. What I would say is that today our margins in retail are not negative. They are positive. They are very near to zero, while the rest of the market is negative. All the margin that we are receiving comes from real estate, but I would say that to keep a retail margin in a positive figure, given the pressure that we are receiving, is a very important task.

It's very difficult to exclude the valorization of inventories because it's an ongoing business. This is all about purchasing and selling and we always lose or gain money from purchasing and selling.

**Operator:** Thank you. Our next question comes from Nicolas Larrain, from JP Morgan. Please go ahead.

**Nicolas Larrain:** Hi. Good morning Carlos Mario, Manfred and Maria Fernanda. Thank you for the call and for taking my questions. Most of my questions have already been answered. I wanted to ask also about Puntos Colombia. Do you have any notes on how you can monetize that initiative and how much it can bring to Exito in the longer term? Can you give us a sense of how much this business could be? Thank you.

**Carlos Mario Giraldo:** It's too soon to make a prediction on margins. What I would say is the following. First, we are very enthusiastic about the coalition in Puntos Colombia. The transition part, which was very challenging, as it implied taking all the points from our allies and from Puntos Exito and convert them into Puntos Colombia, went well.

The technology is working well, which is very important to create a big data base. We have a big challenge for the short run and it is that as every customer gives us the average data, that means that they need to give an authorization so that Puntos Colombia, which is a



separate entity from Exito and from Bancolombia, which are the shareholders, can use these data not only in the stores but also for other goals. Now we're arriving to near to 1.5 million customers that have already given us the Habeas Data. Our goal is to increase that in the following months.

The second thing is that the customers will be not only issuing points but redeeming points massively in the system not only of Bancolombia and Exito, but all the other 17 allies that we have. This is working very well. In the last month we saw for the first time in the history of Exito that we were having higher redemption than issuance of points. Normally, you issue 100 points and people will redeem 60 or 70 and you will have a shrinkage of around 30 points that were never redeemed. Today what we are seeing is that we issue 100 points and you have for the moment around 150 points redeemed in Exito. That means really that the coalition is working, that is the different points that are around the coalition are finding alternatives of massive consumption and also of points for products, because we are giving a very important proposition of products through Exito for the redemption of points.

It's very difficult to give a figure today, but what I can tell you is that we are very enthusiastic and satisfied with what we are seeing and that this is a long-term value added proposition. It will have at some point a second stage and it is to make a way to use artificial intelligence of the big data that we are going to have. We are going to have the most important database of high quality in Colombia where the most important income brackets of the country are concentrated. What I can tell you is that as you asked me, this is probably the highest potential value added monetization initiative that we have in the organization.

**Nicolas Larrain:** Thank you very much for your explanation.

**Operator:** Thank you. Our final question comes from Julian Felipe Amaya, from Davivienda Corredores. Please go ahead.

**Julian Felipe Amaya:** Good morning. Thank you for the presentation. I have one question related to CAPEX. Can you give us some kind of guidance between the CAPEX and CAPEX to total revenue for the coming years, given the increase in CAPEX you are having for real estate?

**Carlos Mario Giraldo:** Yes. What I would say is that, and I will speak specifically about Colombia at the moment, and we are going to maintain our CAPEX levels, simply the mix is going to be different. Less new stores and more real estate projects or shopping malls and more investments in technology and innovation in our current formats. We see more investments in cash and carry stores through conversions.

In the other levels, it's too soon to speak about the CAPEX in Brazil. We will be talking about in the next conference about the Brazilian situation.

**Julian Felipe Amaya:** Ok. Thank you.

**Operator:** Thank you. Our next question comes from Natalia Casas, from Porvenir. Please go ahead.

**Natalia Casas:** Hi. Thank you for the call. I want to know about the situation in Colombia. Could you explain the same-store sales figure for the food business and the non-food business?

**Carlos Mario Giraldo:** We do not disclose the same-store sales by business, but I can give you a general figure to tell you that the best performer in same-store sales is being held by the electronics business even after the World Cup, not at the level that we saw before, because there was a big boom before the World Cup, but there is a trend around cell phones and other modern products that continue to be positive. Second, our textile business continues to have very favorable same-store sales. Third, even in our food business we still have a challenge with same-store sales, but it is much improved versus the last quarter.

**Natalia Casas:** Ok. Thank you.

**Operator:** At this time we have no further questions. I'd like to turn the call over to Carlos Mario Giraldo for closing remarks.

**Carlos Mario Giraldo:** Thanks a lot. I would say as a final remark for this quarter's results that we concluded a very positive period, with consistent progression with our sales in each market, margins and productivity.

As shown in the operational and net profit figures, our strategy of integration and innovation is paying out very well. Premium and innovation formats at Exito Wow and Carulla Fresh Market are becoming a key part of our differentiation and will increasingly become an important part, as they gain more materiality.

The dynamic expansion in our cash and carry in Brazil and Colombia grants us a long-term edge in this developing market, which is becoming a central part of the scenario in Brazil and we aspire to make it a central part also of the commercial proposition in Colombia.

While in most sophisticated retail markets as the US or Europe or Asia, the name of the game is guaranteeing profitable growth in omni-channel strategy, and a frictionless experience for customers. We are perfectly in line with this trend. The difference is that we are anticipating it in Colombia before it gets here, because it's going to get here, there's no question about it. It all depends where you are going to be located at that moment.

Exito is leading the market with Marketplace, with last mile, with e-commerce, and Grupo Pão de Açúcar impacting the market with its massive application with multiple solutions for customers and suppliers, something that we will also bring to Colombia.

We have shown the ability to sort adequately with competitive environments and changing macroeconomics, consolidating our regional leadership, enacting rigorous productivity and implementing cross-boundary synergies.

Finally, our traffic and asset monetization strategy becomes key as differentiator and profit protection, as evidence shows with credit expansion, with new Viva Shopping Malls and with the recently launched loyalty coalition Puntos Colombia.

I'd really like to thank you again for your attention and looking forward for you to have a nice Christmas. I'll talk to you early next year. Thank you very much.

**Operator:** Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.