

S.A.C.I. FALABELLA
SECURITIES REGISTRATION NO. 582
MATERIAL EVENT 05/07

Santiago, May 17, 2007

Mr. Guillermo Larraín Ríos
Superintendent
Superintendency of Securities and Insurance
Av. Libertador Bernardo O'Higgins 1449

BY MESSENGER

Dear Mr. Larraín:

In compliance with that which is established in the 9th clause in the second paragraph of clause 10 of law 18.045 and in paragraph 2.2 of Section II of the General Regulation Number 30 of such Superintendence, I hereby inform you the following as a **MATERIAL EVENT**.

1. During the extraordinary session held on this date, the Board of S.A.C.I. FALABELLA ("FALABELLA"), has become aware of a merger agreement (the "Merger Agreement") between the majority of the members of the controlling group of S.A.C.I. Falabella, who control 74.39% of the shares issued with a right of such corporation (the "Controllers of Falabella"), as one party, and as the other party, the controllers of D&S, who control 64.39% of the shares issued with a right of such corporation (the "Controller of D&S").
2. The Merger Agreement considers that through the stages and procedures that the same establishes, the Controller of D&S and the Controller of Falabella will carry out and will also cause to be carried out that which may be necessary in order for Falabella and D&S to merge into the Corporation that they may agree upon in accordance with the criteria established in the merger Agreement (the "Corporation that takes over")
3. When the merger takes place, the shares issued by Falabella shall be exchanged for 77% of the shares issued by the Corporation that Takes Over and the shares then issued by D&S shall be exchanged for 23% of the shares of the Corporation that Takes Over.
4. The Merger Agreement envisages for the merger to take place within 60 days as of the date the main conditions that are indicated ahead are met, among other conditions and obligations that should be carried out and not carried out that the Controllers of Falabella and the Controllers of D&S have agreed upon:
 - 4.1 There shall be no significant restrictions or that in any other manner affect significantly and adversely the freedom of the Corporation that takes Over to carry out the businesses that Falabella and D&S have historically carried out on their own.

4.2 That until the merger is perfected, no events or circumstances have taken place, which are different to the events of circumstances that may affect the general economy of the countries where both corporations operate, that may substantially and adversely affect the value of Falabella or D&S.

4.3 To register o maintain registered the Corporation that Takes Over before the *Securities and Exchange Commission* of the United States of America (“SEC”) for the period after the merger that both parties have agreed upon

Sincerely,

Reinaldo Solari Magnasco
President

cc:Santiago Stock Exchange
Electronic Exchange of Chile
Valparaiso Securities Exchange
Risk Rating Commission