Our
customers
lie at the
center...
Liverpool
Annual Report 2009

# ...of all what **we do**


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# Presence

Expertise

Innovation

Style

Fashion

Liverpool

Fábricas de Francia

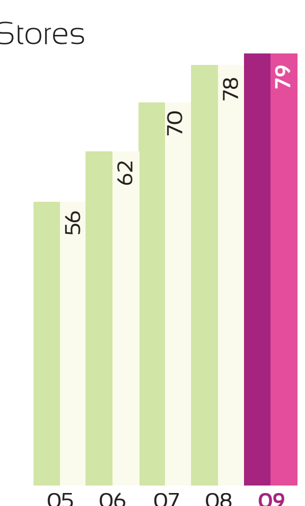
Liverpool and Fábricas de Francia

Liverpool Duty Free

Liverpool and Liverpool Duty Free

29
states

49
cities



## Retail Division

Providing Mexican families with a comprehensive shopping experience for more than 160 years.

Continuous innovation to offer our customers new products, concepts and services of the highest quality.

Surroundings and ambience designed to provide a pleasant shopping experience, as well as a large array of articles that adapt to different lifestyles.

At the forefront of fashion trends, with a broad range of products addressing different tastes.

**79** stores

## Real-estate Division

More than 25 years managing shopping malls in Mexico.

Constant state-of-the-art updating of lines of business, to be the best shopping and amusement option.

The Galerias trademark is synonymous with style. Variety of store fronts focused on every taste.

Full range of retail lines for all tastes, needs and preferences.

**16** shopping centers under management

## Credit Division

Pioneers in granting department-store credit in Mexico.

Credit plans adapted to current economic circumstances, to support our customers.

Deep sense of brand loyalty and recognition.

Introduction of new products and services to continue to be the first choice of payment in our stores.

**2.4** millions of credit cards

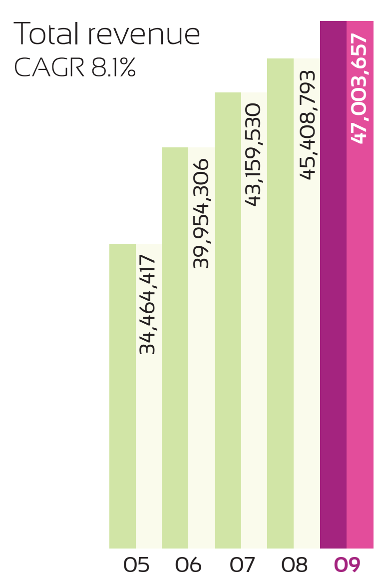
The value of the financial discipline, the inventory handling, granting consumer credit in a responsible way, the timely and appropriate control of expenses, our people's commitment and their skills and placing the customer at the center of our efforts, are the factors that have permitted us to overcome this difficult situation and enabled us to confront the future optimistically.

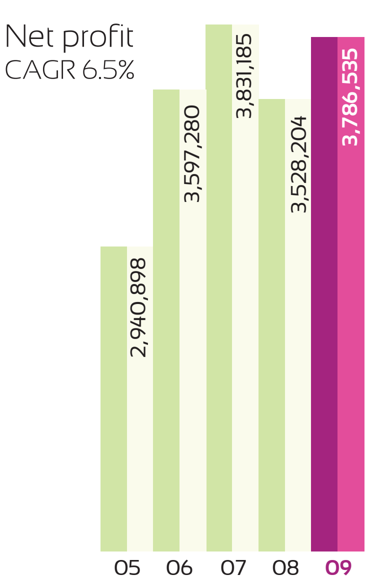
# Financial **Highlights**

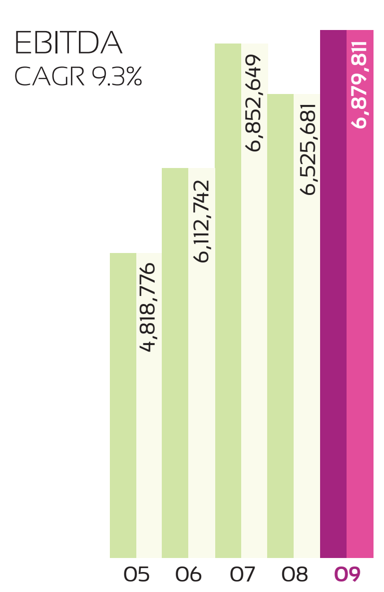
| | 2005 | 2006 | 2007 | 2008 | **2009** | [1]CAGR |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Number of stores | 56 | 62 | 70 | 78 | **79** | 9.0% |
| Number of shopping centers | 9 | 9 | 11 | 13 | **16** | 15.5% |
| Own brand credit cards | 1,878,687 | 2,171,288 | 2,517,597 | 2,690,037 | **2,375,086** | 6.0% |

| **Income statement** | 2005 | 2006 | 2007 | 2008 | **2009** | [1]CAGR |
|---|---|---|---|---|---|---|
| Total revenue | 34,464,417 | 39,954,306 | 43,159,530 | 45,408,793 | **47,003,657** | 8.1% |
| Revenue from Retail Division | 32,126,951 | 36,731,844 | 39,377,415 | 41,343,413 | **43,350,822** | 7.8% |
| Revenue from Real-estate Division | 1,064,930 | 1,131,297 | 1,263,299 | 1,405,786 | **1,427,839** | 7.6% |
| Revenue from Credit Division | 1,272,536 | 2,091,165 | 2,518,816 | 2,659,594 | **2.224,996** | 15.0% |
| Operating profit | 4,062,172 | 5,300,754 | 5,959,315 | 5,462,553 | **5,672,102** | 8.7% |
| Net profit | 2,940,898 | 3,597,280 | 3,831,185 | 3,528,204 | **3,786,535** | 6.5% |
| EBITDA* | 4,818,776 | 6,112,742 | 6,852,649 | 6,525,681 | **6,879,811** | 9.3% |
| EBITDA margin (%) | 14.0 | 15.3 | 15.9 | 14.4 | **14.6** | 1.2% |
| Profit per share | 2.19 | 2.68 | 2.85 | 2.63 | **2.82** | 6.5% |

* Includes revenue from Credit DIvision
Figures at December 31, 2007, 2006 and 2005 are expressed in Mexican pesos with purchasing power of December 2007.
Figures at December 31, 2009 and 2008 are expressed in historical Mexican pesos at the date.
[1]CAGR: Compositive Average Growth Rates.




Steps taken promptly resulted in increases of 3.5% in total income and 7.3% in net profit.

# Letter from the **Chairman of the Board**

**To the Shareholders,**

The year 2009 transpired in the midst of a difficult business environment, both nationally and worldwide. The most important health alert in Mexico's modern history arose in May, making it necessary for us to close our stores and shopping malls on dates very close to Mother's Day, thereby negatively affecting the sales for that important celebration. At the same time, trust in the economy declined significantly, and the worldwide financial sector established changes that restricted access to resources and credits. Nevertheless, the appropriate management of the macro-economic variables –specifically the inflation and interest rates that remained stable during this period– lessened the impact on available income and consumption.

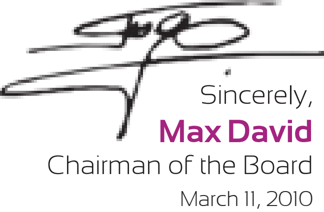
The measures that we took to handle inventories and to reduce expenses without reducing our work force, and the skillful and responsible granting of consumer credits enabled us to grow our total income by 3.5% during 2009, reaching $47,004 million pesos, with a net profit of $3,787 million pesos, which was 7.3% greater than the prior year.

Our customers are the sole reason for our existence; we will continue to strive to offer them a new selection of products, concepts and services that generate a complete shopping experience. Once again their distinction has allowed us to attend a growing number of them.

All of our divisions continue to grow and develop, supported by the Company's financial stability. We persevered with our expansion plan and invested $1,139 million pesos, thereby contributing to the creation of jobs in Mexico.

We opened a new store in Ciudad Juarez this year. We expanded Morelia and opened three new shopping malls: Galerias Atizapan; Galerias Chilpancingo; and Galerias Saltillo. We will build new stores in the cities of Monterrey, Morelia, Orizaba, Ciudad Victoria and Zacatecas in 2010, and will continue to develop a shopping mall in Celaya, and to reopen Galerias Tabasco.

Liverpool's associates are its most valuable resource; we recognize and appreciate their strong effort, dedication and firm commitment in obtaining these favorable results. We also wish to extend our appreciation to our clients for their preference; to our shareholders for their support; and to our suppliers and tenants for their trust.



Sincerely,
**Max David**
Chairman of the Board
March 11, 2010

Liverpool Puerto Vallarta

# Letter from the **Chief Executive Officer**

The economic conditions occurred during the year demanded a swift adjustment to the operating strategy of Liverpool's business, along with the combination of the personnel's additional efforts and a strict discipline of inventories, expenses and investments.

All of the foregoing resulted in growth in the principal indicators.

Total income amounted to $47,004 million pesos, representing a growth of 3.5% over 2008.

Total retail sales increased by 4.6% in comparison to the prior year, while same-store sales grew by 2.0% in the same period.

Certain stores in Mexico City and in its metropolitan zone were affected by government infrastructure projects. This was the case of Insurgentes –an important business unit–, Downtown and Ecatepec. Nevertheless, during the fourth quarter of the year, sales behaved favorably, with a growth of 9.2% in total units and of 8.7% in same stores.

The handling of merchandise with an appropriate mixture of fashion and basics, as well as the credit promotions (including months without interest and months with fixed interest) were decisive factors in maintaining the client's preference, by offering an attractive option of value, which, in turn, mainted the gross margin.

During 2009, occupancy levels in our shopping centers averaged 90.7%, thanks to the affluence of visitors to these malls. Suffice it to say that more than 100 million people visited the Company's sixteen shopping centers located throughout the country.

Interest income from credit cards declined by 16.3%, due to the slowdown in the granting of new credits; however, the level of past due accounts declined significantly, resulting in a decrease of only 6.7% in profits.

Controlling operating expenses during the year was a primary objective. As a result, this line grew by only 0.4% (including depreciation), thereby favoring a growth of 3.8% in operating profit.

Taxes incurred and paid to the tune of $4,951 million pesos during the year were distributed as follows: $1,632 million pesos in income tax and IETU tax; $1,820 million pesos in value added tax; $737 million pesos in social security taxes; $591 million pesos in witholding taxes; $86 million pesos in property tax and $85 million pesos in payroll's taxes.

The Company absorbed the impact of $237 million pesos as a result of the increase in the value added tax and income tax rates.

Net profits increased by 7.3% during the year, as a result of foreseeing opportunities and controlling expenses.

Stockholders' equity grew by 10.4% during the year, primarily as a result of the increase in the retained earnings account

Thus, we close a year that afforded learning opportunities and enabled each associate to make his best effort to continue to contribute to Liverpool's growth.

Sincerely,

**José Calderón**
Chief Executive Officer

Liverpool Puerto Vallarta

# Broad geographical coverage

Merida shopping center

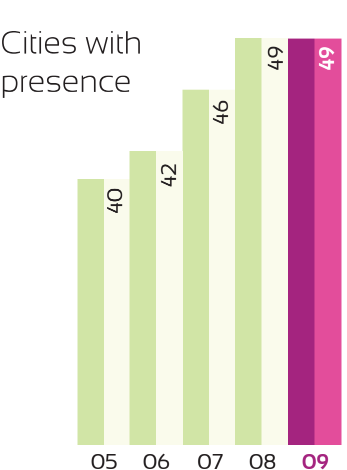
# 982

thousand square meters of retail sales area

# 79

stores

Our proximity to the customer is fundamental to forming strong ties. We move closer to more of them through new stores, malls, duty free stores, e commerce, telephone customer service and boutiques. We are now present in 49 cities in 29 States of Mexico; we operate 79 stores, 16 malls and 27 specialized boutiques.



The cities that host Liverpool and Fabricas de Francia stores and Galerias shopping centers cover several geographic locations, making it comfortable for a great number of customers to visit them.

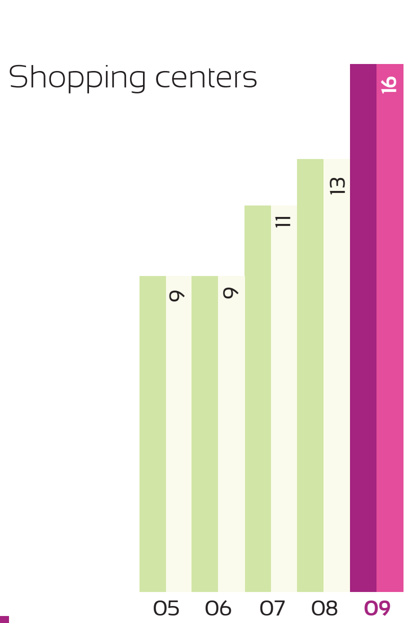
At the end of 2009, the 982,000 square meters of sales space represented an increase of 3.5% over the prior year.

The net leasable area of our malls grew by 19.8%, thanks to the incorporation of Galerias Atizapan, Saltillo and Chilpancingo.

Liverpool Ciudad Juarez, the second of the Company's stores in this City in northern Mexico, opened in 2009.

Fabricas de Francia Morelia expanded its sales area by 6,000 square meters, to reach 16,400 square meters, and converted its format to Liverpool in a move to a larger space in the same mall where it was already located.

Expansions to the Cancun store, and to the Polanco and Coapa stores in Mexico City continued as planned.

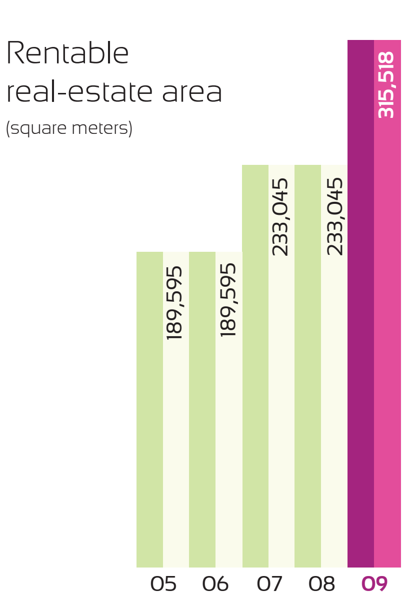



Liverpool Polanco
Cosmetics Department

# 16

## Shopping centers under management

Atizapan shopping center



# Flexibility

to adapt to our customers´ preferences

From the comfort and safety of arriving to our stores' and malls' parking lots, to the selection of merchandise, its layout, appeal and display, everything is planned to offer the best shopping experience, to surpass the customer's expectations and to encourage recurrent visits.

110

departments per store

# 165

thousand SKUs per store

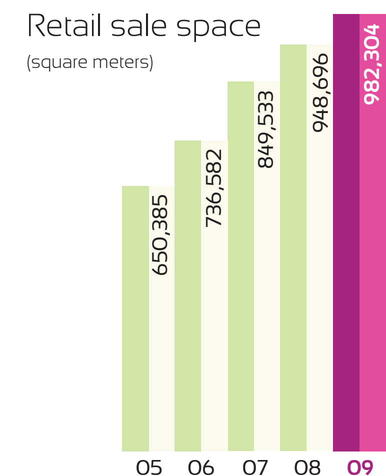
## Department distribution

Opportunity for the customer to find a broad range of products.

## Merchandise display

Presentation that offers comprehensive decorating ideas.

# Continuous remodeling of all of the stores, to maintain the same image at the national level




Liverpool Acapulco

The design of our stores has evolved. Our products are now displayed in an orderly and logical fashion, but in an interrelated manner. This contributes to the improvement of sales and to comprehensive customer attention. Liverpool stays abreast of worldwide trends in fashion and in articles for the home, to bring them to its customers in an attractive setting.

Safety is indispensable in each one of the Company's facilities. We are committed to allowing the customer to enjoy their visit and to feel safe in a cozy environment full of innovations.

The areas where the Liverpool and Fabricas de Francia stores, as well as the malls are located, are easily accessible and situated in places that have experienced significant urban growth. The Company has also participated actively in investing in the construction of neighboring streets and service roads.

# Offering

of new products
and services

## Products and brands

Well-known brands for every lifestyle.

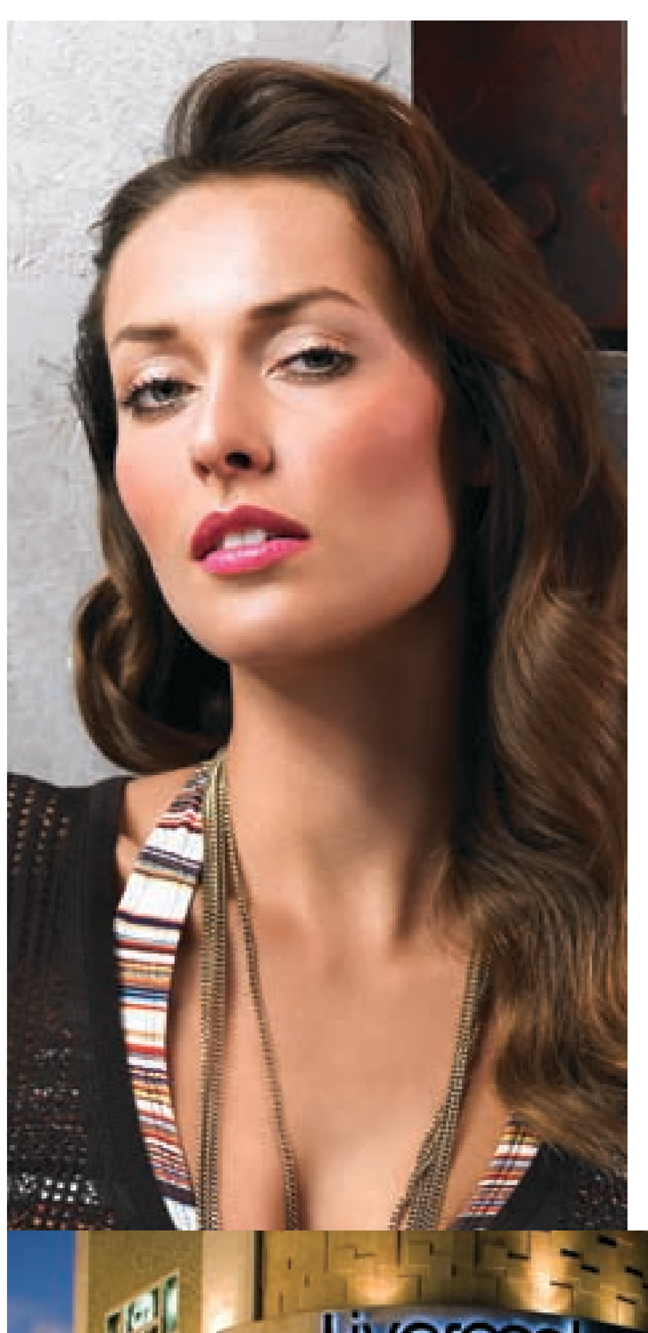
## Promotions

Attractive promotions for every need.

# Everything under one roof

Our customers lie at the center of all that we do. We constantly strive to know, analyze and anticipate their ever-changing consumer habits, as well as their expectations, to make certain that we satisfy all of their needs, to enable them to attain the lifestyle they desire.

**4,600**
suppliers



Both Liverpool and Fabricas de Francia offer an ever-expanding and innovative variety of concepts and services. In each visit, the customer will find something new and different. We have included new and well-known brands; we have expanded the services offered in our Insurance and Services Center; and we have opened travel agencies and drugstores in some of our locations, as an example of innovation and our state-of-the-art philosophy.

In addition to strengthening certain lines of business, we have generated new formats. This is the case of Liverpool Duty Free, the various Mon Caramel baby boutiques, the Punto Roma women's clothing boutiques, and several world-class lines of cosmetics.

Multiple fashion clothing and apparel are available at the Sfera boutiques located in several shopping malls. These ten stores are driven to a broad segment of young customers who like current dressing trends. The boutiques are gaining a name of their own as a stylish and high quality alternative in the ever growing fashion market.

The different sections of the stores and the diverse lines of business represented in the shopping centers are dedicated to offering variety –from the broadest selection of clothing and accessories and the latest technology at the best prices, to entertainment and food– all in one place.

We have developed many of the concepts and promotions that now form part of the culture of department stores in Mexico. Fashion Fest and Summer Sale are clear examples.

Liverpool Duty Free
Playa del Carmen

Polanco Audio & Video Department

# Service
## oriented steps

Service as a center of action involves a commitment that covers any need that must be covered in favor of the customer, be it the personal attention on the sales floor, alterations, attention in the credit modules, telephone sales, e commerce, extended guaranties, gift registries for different events, home deliveries or any other specialized service.

# 14

Various specialized courses given in the Liverpool Virtual University (LVU)

## Credit

2.4 million cardholders confirm their trust in Liverpool.

## Specialized services

Comprehensive family coverage in one single program at an affordable price.

Service as a center of action includes any need that needs to be covered for the customer

770

graduates from the LVU in the last five years

In this sense, all of the actions are focused on making the customer feel special. In addition to products that offer flexibility, we have a broad selection of merchandise and credit plans adapted to our customers' different needs. This enables us to be better aware of our customers' tastes and expectations, and to strengthen their loyalty to the Company.

In our personnel, the customer finds someone who knows the product he is selling and who is friendly as well. This attitude is strengthened with on-going initiatives for developing talent, such as the Virtual Liverpool University. Many and varied educational programs have been imparted through this important channel of communication and on-going education, including bachelor's and master's degrees and post-graduate courses that contribute to our associates' skills.

# Sound
## financial structure

Thanks to Liverpool's sound financial structure, growth continues to be a basic part of our strategy.

Cost-bearing debt represents 16.3% of total assets; the stability of cash flows is guaranteed by fixed interest rates.

Debt maturities are distributed in such a way that the Company is under no pressure to apply sufficient cash flow to the operation and expansion in order to meet these payments.

**1.4** times debt with cost to EBITDA

Liverpool Polanco Cosmetics Department

# Operating summary

## Retail Division

During 2009, the Retail Division's operations were focused on managing merchandise, which permitted having the appropriate volume of inventories to guarantee the customers' satisfaction. Inventories decreased 8.0% compared to the increase in sales of 4.6%

Current circumstances have significantly changed the business climate; this is why we acted quickly to implement a retail strategy that would enable us to rationalize resources without having to let people go, which could affect our customer service.

The merchandise offered covers a broad range of prices and represents varied and attractive options for the customer, as well as an appropriate cost/benefit ratio. We have also focused on distributing merchandise in accordance with the geographical area where each store is located. Different useful and high-quality articles are offered, in keeping with the differences of each location.

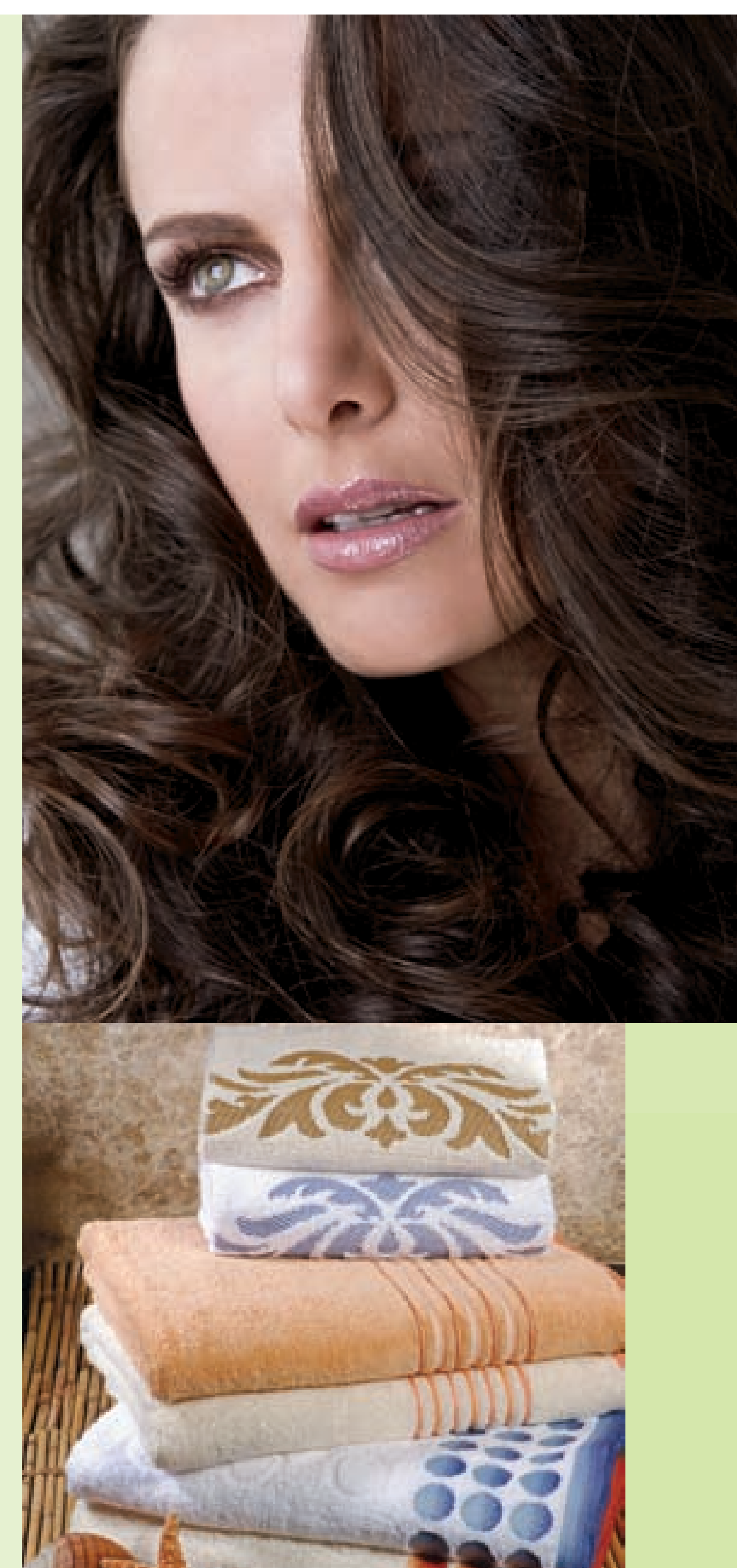
Our expansion plan continued with the incorporation of Liverpool Ciudad Juarez, the expansion and conversion of Fabricas de Francia Morelia to Liverpool, and the expansion of the Cancun, Polanco and Coapa stores.

The area comprised of Mexico City and its metropolitan zone is extremely important to the Company; we have thirteen stores in this area. The expansions made to them in recent years reaffirm our commitment to provide modern and functional facilities in spacious and comfortable spaces.

The variety of well-known brands available in our stores constitutes an array of options for every style. Our own store brands, That's it, Mon Caramel, J.B. Ebrard, MAP, Haus, among others, also represent an attractive option for the customer and have been able to position themselves among people with the most demanding tastes, as synonyms of fashion, quality and good value.

Several promotions have been introduced to set our preferred customers apart –the most important being the exclusive sales for Liverpool and Fabricas de Francia cardholders–, which have resulted in both the acceptance of the promotions, as well as in recurrent purchases. Sales through channels other than stores, such as Internet and telephone sales, represent alternatives that provide quality service, while covering a larger service platform.

Liverpool's Internet page, www.liverpool.com.mx, has become a widely used portal. During 2009, it received more than 17 million hits, making it an important site, with respect to traffic. Our page not only offers our customers a broad range of merchandise, it offers them numerous additional services as well, allowing them to check their balance or pay their Liverpool credit card. Sales through this channel increased 42.0% compared to the prior year.



Five stores opened in the last five years in Mexico City and its metropolitan area

Liverpool Merida

90.7%

occupancy rate in shopping malls under administration

Visual displays in the stores now utilize new, state-of-the-art technology such as interactive store windows in which the customer has direct contact with the message being transmitted, as well as TV screens on the sales floor, that announce brand launchings, sales and overall information on the various services offered. Latin America's largest LED display screen was installed on Liverpool Insurgentes' façade in 2009, propelling the Company into a new age of events and contact with the customer.

## Real-estate Division

The many Galerias malls that Liverpool manages have been able to situate themselves in a very special place in the taste of their visitors, and have become centers of entertainment, shopping, and amusement.

During 2009, the Galerias Atizapan, Saltillo and Chilpancingo malls were added to our family of shopping centers, expanding our geographical coverage that enabled us to reach more customers.

The *Galerias Magazine* and the www.galeriascc.com.mx page are resources that contribute to expanding the presence of our brand, and to complementing the visitor's experience. In them, our customers can find useful information regarding each shopping center, the directory of its locales, events and promotions, and information for possible tenants.

We decorate our shopping centers in accordance with the season, in an effort to please the visitor and make his stay at the mall more enjoyable. Seeing the Christmas decorations in the different Galerias malls has become a happily awaited family tradition. Year after year, these decorations surpass their expectations. This year, we took our Snow Village with great success to the Galerias Atizapan mall located in the Mexico City metropolitan zone, to provide holiday-related amusement. The Village had an ice-skating rink and a huge Christmas tree, among other attractions.

Sustainability is a very important aspect of our operations. To this end, the Company has several water-treatment and power generation plants, an active energy efficient plan, responsible waste treatment, a program for planting more than 100,000 trees and plants and the elimination of visual contamination such as billboards.

## Credit Division

The Company continued to offer a broad range of services and consumer credit options with its store-brand credit cards. However, in view of the unfortunate financial situation that prevailed during the year, it acted responsibly, establishing strategies that allowed our customers to maintain a satisfactory credit balance, without jeopardizing their financial stability. These strategies enabled the Company to reduce its credit portfolio by 8.1 % with respect to 2008. The portfolio overdue by more than ninety days presented a level of 4.3% at the year-end, while the reserves for past due accounts reached $1,188 million pesos.

Also, and always with the customer in mind, several new options were developed, such as the case of refinancing months with no interest, which reduces the cardholder's minimum monthly payment.

Our customers have begun to appreciate the advantages offered by the recently launched Liverpool Premium Card. Its growing acceptance is observed in the 40.7% increase in its subscribers as compared to 2008. The Card's evolution has been favorable; it began to report profits during the last months of 2009.

The Insurance and Service Centers presented new products, one of which is the Comprehensive Protection Plan, which has more than one million beneficiaries. Coverage from various insurance companies can also be acquired through these centers. In this manner, Liverpool not only meets the customer's needs for merchandise, but also provides him with a broad range of services that make a difference.

## Dividends

The ordinary shareholders' meeting held on March 12, 2009 declared a dividend of $537 million pesos on 1,342,196,100 shares representing the Company's capital stock.

## Final considerations

We have reached the end of yet another year, in which important changes were observed at the national and worldwide levels, that will persist and that will require constant adaptation. This is why we strive to offer our customers –who are the very reason for our being– purchase options in an extensive geographical coverage. We have the flexibility to promptly detect their needs so that we can provide them with a broad range of products and services in an environment focused on personal attention. By the same token, we will continue to promote our personnel's development, to enable them to offer our customers a unique shopping experience.

We are committed to Mexico's development and shall continue to invest in the Company's growth to contribute to the creation of jobs and to the Country's well-being.

We appreciate the on-going support of our shareholders, the commitment of our suppliers and tenants, and the patronage of our customers, who are the focal point of all of our efforts.

Sincerely,
The Board of Directors
Mexico City
December 31, 2009

Liverpool Aguascalientes

# Board of Directors

Max David [1]
Chairman

Madeleine Brémond [1]
Vice Chairman
Director, Orion Tours, S.A. de C.V.

Miguel Guichard [1]
Vice Chairman
Chairman, Executive Committee

Enrique Brémond [1]
Manager, Victium, S.A. de C.V.

José Calderón Muñoz de Cote [3]
CEO, El Puerto de Liverpool, S.A.B. de C.V.

Juan David [1]
Director, Invex Casa de Bolsa, S.A. de C.V.

Pedro Velasco [2,4]
Partner, Santamarina y Esteta, S.C.

Juan Miguel Gandoulf [2,4]
Director, Sagnes Constructores, S.A. de C.V.

Armando Garza Sada [2]
Director of Development ALFA Corporativo, S.A. de C.V.

Ricardo Guajardo [2]
Board Member, BBVA Bancomer

Graciano Guichard [1]
Director, M. Lambert y Cía. Sucs., S.A. de C.V.

Luis Francisco Javier Mallet [2,4]
Director, BGL, S.A. de C.V.

Esteban Malpica [2]
Directing Partner, Praemia, S.C.

Max Michel G. [1]
Manager, Servicios Liverpool, S.A. de C.V.

Luis Tamés [2]
Independent Businessman

Ignacio Pesqueira
Secretary
Partner, Galicia Robles, S.C.

Norberto Aranzábal
Deputy Secretary
Legal Director, Servicios Liverpool, S.A. de C.V.

[1] Patrimony Board Member
[2] Independent Board Member
[3] Related Board Member
[4] Member of the Audit Committee

# Executive Committee

Miguel Guichard
Chairman

Miguel Bordes

José Calderón

Max David

Jorge Salgado

Héctor Guzmán

Norberto Aranzábal
Secretary

# Patrimony Advisory Board

Enrique Brémond
Co-Chairman

Juan David
Board Member

Madeleine Brémond
Alternate Board Member

Magdalena Guichard
Alternate Board Member

Alejandro Duclaud
Secretary

Max Michel
Co-Chairman

Juan Guichard
Board Member

Monique David
Alternate Board Member

Elena Michel
Alternate Board Member

# Honorary Presidents and Board Members

**Honorary Presidents**

Max Michel

Enrique Brémond

**Honorary Board Members**

J. Claudio Montant

Pedro Robert

Agustín Santamaría

Hugo Lara

# Report of independent auditors

**Mexico City, March 2, 2010**
**To the Stockholders' Meeting of El Puerto de Liverpool, S. A. B. de C. V.**

We have audited the consolidated balance sheets of El Puerto de Liverpool, S. A. B. de C. V., and subsidiaries, at December 31, 2009 and 2008, and the relative consolidated income statements, changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Mexico. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatements and that they were prepared in accordance with the Mexican Financial Reporting Standards (MFRS). An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the standards of financial information used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in Note 7, as of 2009 the MFRS B-8 "Consolidated or combined financial statements" became effective, in which consolidation is required, retrospectively, for the Special Purpose Entities (SPE), where control is exercised. The effects of such situation are described in that Note.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respect, the consolidated financial position of El Puerto de Liverpool, S. A. B. de C. V., and subsidiaries at December 31, 2009 and 2008 and the consolidated results of its operations, changes in stockholders' equity and its cash flows for the years then ended in conformity with the Mexican Financial Reporting Standards.

PricewaterhouseCoopers, S. C.

**C.P.C. Manuel García Braña**
Audit Partner

# Report of the Audit and Societary Practices Committee

**Mexico City, January 28, 2010**
**To the Board of Directors of El Puerto de Liverpool, S.A.B. de C.V.**

We, the undersigned, appointed to form part of the Audit and Societary Practices Committee, do hereby submit the report on activities performed, in compliance with article 43 of the Securities Market Act.

We held four Committee meetings, during which we addressed the following points, among others:

I. The Company's General Stockholders' Meeting held on March 12, 2009, appointed Mr. Javier Mallet as President of the Audit and Societary Practices Committee for 2009.

II. With regards to the audit:

a) We evaluated the external audit plan and the professional services proposal accepted by management, and recommended to the Board of Directors that they designate the firm, PricewaterhouseCoopers, through its audit partner, Mr. Manuel Garcia, as the independent auditor to audit the financial statements of the Company and its Subsidiaries, corresponding to the year ended December 31, 2009.

b) We considered that the Company has the internal and external mechanisms that guarantee compliance with the laws and regulations applicable to it.

c) We were informed as to the changes in the application of accounting principles and the accounting record policies followed by the Company, as well as their impact on the financial statement figures at December 31, 2009, assuring that they are duly reported in the presentation of the financial information.

d) We followed up on the organization and functioning of the Company's internal audit department; we heard its annual report of activities for 2009, the relevant findings and its audit plan for 2010.

e) We determined that the Company has the operating systems, policies and procedures to consider that it has an appropriate internal control and accounting records environment.

f) We were informed as to the Company's level of compliance with the Best Corporate Practices Code recommended by the Mexican Stock Exchange, per the information reported at December 31, 2008, filed on June 30, 2009.

g) We were informed as to lawsuits and litigations in process, and the results of those already concluded.

h) We reviewed the consolidated financial statements at December 31, 2009, the notes thereto, and the audit report thereon, issued by the independent auditors.

i) We were informed as to the status of the reserves and estimates included in the financial statements at December 31, 2009.

j) We were informed as to the observations and recommendations of the independent auditors, related to the audit of the consolidated financial statements at December 31, 2009.

k) We were informed as to the activities for the prevention of money laundering associated with the Liverpool Premium Card (VISA credit card).

III. With regards to societary practices:

a) We consider that senior management's performance has been adequate and efficient, considering the circumstances under which such management has carried out its duties.

b) We were informed as to the transactions with related parties, determining that the terms and conditions in which such transactions were carried out are in conformity with market conditions.

c) We were informed in general terms, as to the criteria of assignment of the total remunerations paid to the Company's directors. We consider such remunerations to be reasonable and to adjust to market conditions.

As a result of the activities carried out by this Committee, and of the opinion expressed by the Company's independent auditors, we hereby recommend that the Board of Directors submit the financial statements of El Puerto de Liverpool, S.A.B. de C.V. and Subsidiaries at December 31, 2009 to the Stockholders' Meeting for its approval, in the terms in which such statements have been prepared and submitted by the Company's management.

Sincerely,

The Audit and Societary Practices Committee

**Pedro Velasco** **Juan Miguel Gandoulf** **Javier Mallet**

# Consolidated balance sheets

(Notes 1, 2, 3, 4, 17, 18, 19, 22 and 23)
(Figures expressed in thousands of Mexican pesos, as explained in Note 3)

| | December 31 | |
|---|---|---|
| **ASSETS** | **2009** | 2008 |
| CURRENT: | | |
| Cash and marketable securities | **$ 6,474,946** | $ 1,579,225 |
| Accounts and notes receivable (Notes 5, 7 and 22b.) | **14,828,001** | 14,954,580 |
| Inventories (Note 6) | **6,277,832** | 6,826,931 |
| Prepaid expenses and others | **422,704** | 368,759 |
| | **28,003,483** | 23,729,495 |
| LONG-TERM ACCOUNTS AND NOTES RECEIVABLE (Notes 7 and 22b.) | **2,802,270** | 3,531,233 |
| PERMANENT INVESTMENTS IN SHARES (Note 8) | **613,896** | 625,972 |
| PROPERTY, FURNITURE AND EQUIPMENT (Notes 7 and 9) | **36,324,860** | 35,575,778 |
| Accumulated depreciation | **(9,612,618)** | (8,952,656) |
| | **26,712,242** | 26,623,122 |
| DERIVATIVE FINANCIAL INSTRUMENTS (Note 20) | **93,300** | 97,013 |
| EMPLOYEES' BENEFITS (Note 12) | **260,163** | 245,387 |
| UNAMORTIZED EXPENSES AND OTHER ASSETS (Note 10) | **705,588** | 652,265 |
| Total assets | **$ 59,190,942** | $ 55,504,487 |
| | | |
| **LIABILITIES** | | |
| CURRENT: | | |
| Suppliers | **$ 6,147,244** | $ 5,187,125 |
| Sundry creditors and accrued liabilities | **5,851,485** | 5,630,151 |
| Notes payable (Note 11) | **1,492,857** | 1,585,714 |
| Income tax payable | **144,139** | - |
| Employees' profit sharing | **36,994** | 37,214 |
| | **13,672,719** | 12,440,204 |
| LONG-TERM LIABILITIES: | | |
| Notes payable (Notes 7 and 11) | **8,171,456** | 8,964,313 |
| Derivative financial instruments (Note 20) | **109,714** | 28,823 |
| Deferred income tax (Note 16) | **3,783,562** | 3,800,322 |
| Employees' benefits (Note 12) | **116,835** | 83,857 |
| CONTINGENT (Note 13) | **-** | - |
| Total liabilities | **25,854,286** | 25,317,519 |
| | | |
| **STOCKHOLDERS' EQUITY (Note 14):** | | |
| CAPITAL STOCK | **6,595,397** | 6,595,397 |
| RESERVE FOR ACQUISITION OF OWN SHARES (Note 15) | **467,432** | 467,432 |
| RESERVE FOR FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (Note 20) | **(108,663)** | (8,247) |
| RETAINED EARNINGS (Note 16): | | |
| From prior years | **22,594,738** | 19,603,413 |
| For the year, as per consolidated income statements | **3,786,535** | 3,528,204 |
| | **26,381,273** | 23,131,617 |
| Total majority interest | **33,335,439** | 30,186,199 |
| MINORITY INTEREST | **1,217** | 769 |
| Total stockholders' equity | **33,336,656** | 30,186,968 |
| Total liabilities and stockholders' equity | **$ 59,190,942** | $ 55,504,487 |



The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statements of income

(Notes 1, 2, 3, 4, 17, 18, 19, 22 and 23)
(Figures expressed in thousands of Mexican pesos, as explained in Note 3)

| | Year ended December 31 | |
|---|---|---|
| | **2009** | 2008 |
| Net sales of merchandise | **$ 42,122,886** | $ 40,004,117 |
| Cost of sales | **27,573,489** | 26,246,822 |
| Profit on sales of merchandise | **14,549,397** | 13,757,295 |
| Net income related to merchandise sales | **929,694** | 981,681 |
| Rental income | **1,427,839** | 1,405,786 |
| Services income | **298,242** | 357,615 |
| | **17,205,172** | 16,502,377 |
| Operating expenses: | | |
| Management expenses | **12,550,357** | 12,636,290 |
| Depreciation and amortization | **1,207,709** | 1,063,128 |
| | **13,758,066** | 13,699,418 |
| Operating income | **3,447,106** | 2,802,959 |
| Other income, net | **326,610** | 145,457 |
| Comprehensive financing income: | | |
| Interest collected from customers and others | **2,224,996** | 2,659,594 |
| Interest paid to credit institutions and return on investments in securities, net | **(660,455)** | (685,843) |
| Exchange gain (loss), net | **73,435** | (73,580) |
| | **1,637,976** | 1,900,171 |
| Income before taxes on profits | **5,411,692** | 4,848,587 |
| Taxes on profits (Note 16) | **1,624,938** | 1,320,153 |
| Net consolidated income for the year | **$ 3,786,754** | $ 3,528,434 |
| Income of: | | |
| Majority interest (Note 21) | **$ 3,786,535** | $ 3,528,204 |
| Minority interest | **219** | 230 |
| | **$ 3,786,754** | $ 3,528,434 |
| Earning per share (expressed in Mexican pesos and attributable to the majority interest) | **$ 2.82** | $ 2.63 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2009 and 2008
(Figures expressed in thousands of Mexican pesos, as explained in Note 3)

| | Capital stock | Reserve for acquisition of own shares | Reserve for fair value of derivative financial instruments | Initial effect of deferred income tax | Result from holding nonmonetary assets |
|---|---|---|---|---|---|
| Balances as of December 31, 2007 | $ 6,595,397 | $ 467,432 | $ (56,220) | $ (2,911,555) | $ (5,743,619) |
| Resolutions agreed at the General Ordinary Stockholders' Meeting held on March 7, 2008, with respect to the appropriation of 2007 income as follows: | | | | | |
| Unappropriated earnings | | | | | |
| Dividends declared | | | | | |
| Reclassification to retained earnings of the accounting effects recorded in prior years | | | | 2,911,555 | 5,743,619 |
| Comprehensive income (Note 21) | | | 47,973 | | |
| Balances as of December 31, 2008 | 6,595,397 | 467,432 | (8,247) | - | - |
| Resolutions agreed at the General Ordinary Stockholder's Meeting held on March 12, 2009, with respect to the appropriation of 2008 income as follows: | | | | | |
| Unappropriated earnings | | | | | |
| Dividends declared | | | | | |
| Comprehensive income (Note 21) | | | (100,416) | | |
| **Balances as of December 31, 2009** | **$ 6,595,397** | **$ 467,432** | **$ (108,663)** | **$ -** | **$ -** |



The accompanying notes are an integral part of these consolidated financial statements.

| Deficit in restatement of stockholders' equity | Prior years' earnings | | | | | | |
|---|---|---|---|---|---|---|---|
| Accrued result monetary position | Legal reserve | Reinvestment reserve | Other reserves | Unappropriated income | Income for the year | Minority equity | Total |
| $ (6,678,600) | $ 1,138,559 | $ 184,357 | $ (16,907) | $ 30,373,652 | $ 3,831,185 | $ 539 | $ 27,184,220 |
| | | | | 3,240,619 | (3,240,619) | | |
| | | | | | (590,566) | | (590,566) |
| 6,678,600 | | | | (15,333,774) | | | |
| | | | 16,907 | | 3,528,204 | 230 | 3,593,314 |
| - | 1,138,559 | 184,357 | - | 18,280,497 | 3,528,204 | 769 | 30,186,968 |
| | | | | 2,991,325 | (2,991,325) | | |
| | | | | | (536,879) | | (536,879) |
| | | | | | 3,786,535 | 448 | 3,686,567 |
| **$ -** | **$ 1,138,559** | **$ 184,357** | **$ -** | **$ 21,271,822** | **$ 3,786,535** | **$ 1,217** | **$ 33,336,656** |

# Consolidated statements of cash flows

(Figures expressed in thousands of Mexican pesos, as explained in Note 3)

| | December 31 2009 | 2008 |
|---|---|---|
| **Operating Activities:** | | |
| Income before taxes on profits | **$ 5,411,692** | $ 4,848,587 |
| | | |
| Items related to investing activities - | | |
| Depreciation and amortization | **1,207,709** | 1,063,128 |
| Net cost for the year of labor obligations | **134,851** | 108,611 |
| Income from sale of property, furniture and equipment | **(3,284)** | (4,879) |
| Favorable interest | **(2,478,385)** | (2,895,264) |
| Items related to financing activities - | | |
| Interest payable | **913,844** | 921,512 |
| Items related to investing and financing activities | **(225,265)** | (806,892) |
| | | |
| Interest charged to customers | **2,218,038** | 2,638,612 |
| Decrease in accounts and notes receivable | **707,631** | 883,367 |
| Charges for tax recovery | **132,409** | 171,320 |
| Decrease in sundry and accrued liabilities | **119,981** | (91,782) |
| Increase in prepaid expenses | **(53,945)** | (36,150) |
| Decrease (increase) in inventories | **549,099** | (493,143) |
| Increase (decrease) in suppliers | **960,119** | (533,500) |
| Increase in taxes payable | **(968,191)** | - |
| Increase (decrease) in deferred income tax | **5,905** | (1,398) |
| Taxes on profits paid | **(512,813)** | (1,927,723) |
| Net cash flows from operating activities | **3,158,233** | 609,603 |
| | | |
| **Investing activities:** | | |
| Charged interest | **253,389** | 235,669 |
| Charges for property, furniture and equipment sales | **60,755** | 121,746 |
| Dividends collected | **21,894** | 16,865 |
| Increase in permanent investments in shares | **(9,818)** | (28,117) |
| Investment in unamortized expenses and other assets | **(268,254)** | (326,973) |
| Acquisition of property, furniture and equipment | **(1,139,369)** | (3,864,930) |
| Net cash flows from investing activities | **(1,081,403)** | (3,845,740) |
| | | |
| **Financing activities:** | | |
| Cash inflow for issuance of debt instruments | **700,000** | 1,000,000 |
| Unsecured loans | **-** | 1,421,456 |
| Derivative financial instruments | **(15,812)** | (69,072) |
| Dividends paid | **(536,879)** | (590,566) |
| Interest paid | **(929,131)** | (912,360) |
| Payment of long-term loans | **(1,585,714)** | (985,715) |
| | | |
| Net cash flows from financing activities | **(2,367,536)** | (136,257) |
| | | |
| Net cash increase and marketable securities | **4,895,721** | 669,301 |
| | | |
| Balance at beginning of year | **1,579,225** | 909,924 |
| | | |
| Balance at end of year | **$ 6,474,946** | $ 1,579,225 |



The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

December 31, 2009 and 2008
(Figures expressed in thousands of Mexican pesos, as explained in Note 3)

**NOTE 1 - INCORPORATION AND PURPOSE:**

**a.** Liverpool Group is mainly engaged in operating department stores, having started its operations in 1847. In 1980, it modified its legal structure to also engage in the leasing and sale of chattels and real estate, in addition to operating shopping centers. Additionally, in recent years, interest income derived from financing of the goods sold by the department stores has shown a significant growth. In fiscal years 2009 and 2008, the amount of sales made with the Liverpool credit card accounted for 50.8% and 54.8%, respectively, of total sales.

**b.** El Puerto de Liverpool, Sociedad Anónima de Capital Variable changed its business name to El Puerto de Liverpool, Sociedad Anónima Bursátil de Capital Variable (S. A. B. de C. V.), to comply with the provisions of the Stock Market Law, in effects as from June 28, 2006.

**c.** The business purpose of El Puerto de Liverpool, S. A. B. de C. V. (the Company) is to be a holding company of shares and lessor of chattels and real estate to its subsidiaries.

**d.** The accompanying consolidated financial statements include the figures of the Company and its subsidiaries, including the Special Purpose Entities (SPE), which consolidated was retrospectively (See Note 7), at December 31, 2009 and 2008, over which the Company has control. Following is a description the main subsidiaries that have been consolidated:

| Company | Principal activity | Percentage of stockholding |
|---|---|---|
| Operadora Liverpool, S.A. de C.V. | Holder of the shares of the companies that operate the Group's department stores | 100.00% |
| Bodegas Liverpool, S.A. de C.V. | Warehousing and distribution of goods to the Group's companies | 99.99% |
| Servicios Liverpool, S.A. de C.V. | Rendering of advisory and management services to the Group's companies | 99.99% |
| Real-estate companies | Development of real-estate projects, particularly shopping centers, whose premises are leased to third parties | 99.93% |

**NOTE 2 - SIGNIFICANT EVENTS:**

**a.** In 2009, three new malls were opened in Coahuila (Saltillo), Guerrero (Chilpancingo) and Mexico (Atizapan). Two other "Liverpool" department stores were opened in Ciudad Juarez (Chihuahua) and Morelia (Michoacán), this latter to replace the "Fabricas de Francia" department store that operated in Morelia.

**b.** In 2008, six department stores opened in the states of Coahuila (Saltillo), Sinaloa (Los Mochis), Guerrero (Acapulco), Jalisco (Zapopan), México (Atizapán), Guanajuato (Celaya). Additionally one "Duty Free" store was opened in Baja California (Tijuana).

**NOTE 3 - BASIS OF PREPARATION:**

The accompanying consolidated financial statements at December 31, 2009 and 2008 fully meet Mexican Financial Reporting Standards (MFRS) requirements to show a fair presentation of the Company's financial position.

The Company prepared the income based on the item function calassification, which basically separates the sales cost from the other costs and expenses. Additionally, in better analyzing its financial position, the Company considered it necessary to include the operating income separately in the income statement, since this information is a common disclosure practice of the industry to which the Company belongs.

According to the provisions of MFRS B-10 "Inflation Effects" (MFRS B-10), the Mexican economy is not in an inflationary environment, since there has been a cumulative inflation below 26% in the most recent three year period (threshold to define that an economy should be considered inflationary); therefore, as of January 1, 2008 entities are required to discontinue recognition of the effects of inflation on the financial information (disconnection from inflationary accounting). Consequently, the figures of the accompanying financial statements at December 31, 2009 and 2008 are stated in historical Mexican pesos (Ps Mex) modified by the cumulative inflation effects on the financial information recognized at December 31, 2007. Given that it was not practical to identify the amount of other comprehensive items as realized and non-realized,

mainly the result from holding non-monetary assets and the corresponding deferred tax, those items were transferred to the retained earnings in conformity with the provisions of the MFRS B-10 described above.

The inflation rates are shown below:

| | December 31, | |
|---|---|---|
| | **2009** | 2008 |
| Annual inflation | **3.57 %** | 6.53 % |
| Cumulative inflation in the last three years | **14.48 %** | 15.01 % |

In view of the fact that the posting, functional and the reporting currencies are the Mexican peso, it was not necessary to perform any conversions.

**New MFRS effective as of January 1, 2009:**
Beginning on January 1, 2009 the following MFRS (December 7, 2009 for Interpretation to MFRS-18) issued by the Mexican Financial Reporting Standards Board (CINIF by its Spanish acronym), have been adopted by the Company for the preparation of these consolidated financial statements.

**MFRS B-8 "Consolidated and combined financial statements"**
The main changes in connection with the provisions above are, among other: a) establishes that in the cases where an entity controls a specific purpose entity (SPE) this should be considered as a subsidiary and its financial statements should be consolidated, b) allows that subholding companies no to present consolidated financial statements under certain requirements, c) considers the existence of potential voting rights for the control assessment, and d) requires that the participation in the non-controlling entity remains valued, in its case, based on the fair value of the subsidiaries net assets and the goodwill determined with the purchase method at the acquisition of such subsidiary.

**MFRS C-7 "Investment in associates and other permanent investments"**
The main changes in the previous provisions are, among other, a) the inclusion of the SPE concept in the significant influence assessment, b) the settlement of a procedure and a limit for the recognition of losses in associates and c) the potential voting rights existence analysis is required for the significant influence assessment.

**MFRS C-8 "Intangible assets"**
The main changes in connection with the previous pronouncements are, among other: a) explains the procedures in the determination of the amortization period and the residual value, b) mandates the annual impairment tests in the events of increasing amortization, and c) requires the balance to be amortized of preoperative expenses coming from 2002 and before to be cancelled against cumulative profit.

**Interpretation to MFRS-18 "Recognition of the Tax Reform 2010 in the income tax"**
This Interpretation specifically deals with the recognition of some topics included in the Act for which they are reformed add and abrogate diverse tax provisions such as: a) Income tax derived from changes in the tax consolidation regime, b) changes in rate of income tax, and c) IETU tax credits for tax losses.

**Financial statements authorization:**
The accompanying consolidated financial statements and their notes were authorized for issuance on February 19, 2010, by the Company's Board of Directors.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**
Following is a summary of the most significant accounting policies, which have been consistently applied in the reporting years, unless otherwise indicated.

The MFRS require the use of some critical accounting estimates in preparing of the financial statements. Also, Management judgment is required in the process of defining the Company's accounting policies.

**a. Consolidation -** All significant balances and transactions among the consolidated companies have been eliminated for consolidation purposes. Consolidation was carried out based on the audited financial statements of the subsidiaries, including the SPE (See Note 7).

**b. Permanent investments in shares -** The investments in shares of associated companies are restated through the equity method. The Company's equity in the result of its associates appears under other income due their lack of materiality. The other permanent investments over which there is no material influence for decisions-making purpose are valued at acquisition cost and those acquired before December 31 2007, are recorded at the cost restated to that date.

**c. Inventories and cost of sales -** At December 31, 2009 and 2008, inventories are expressed at their historical cost determined through the mobile average cost method.

The sales cost is recorded at historical cost, which is determined through the valuation method described in the preceding paragraph. In light of the inventory rotation, there is a portion of the costs of sales for 2008, related to inventories dating back to 2007, which is expressed at their modified historical cost because they were valued at indexed values. Values thus determined do not exceed market value.

The obsolete inventory reserve is determined on the basis of studies performed by the Company's Management, and it is considered sufficient to absorb any related losses.

**d. Property, furniture and equipment -** The property, furniture and equipment, are expressed as follows: i) acquisitions subsequent to January 1, 2008, at their historical cost, and ii) acquisitions made until December 31, 2007, at their restated value determined by applying National Index of Consumer Prices (NICP) factors up to December 31, 2007 to their acquisition costs.

The acquisition or construction cost of the property, furniture and equipment requiring a substantial period to be in use conditions includes: the acquisition cost and the capitalization of the comprehensive financing cost accrued in such period and attributable to its acquisition or construction. Values thus determined do not exceed the recovery value.

Work in progress and advances to suppliers are recorded at the value of the expenses incurred

**e. Depreciation -** It is calculated by the straight line method based on the estimated useful lives of the assets applied to the property, furniture and equipment values.

**f. Capital stock, reserve for acquisition of own shares and retained earnings -** These items are expressed as follows: i) movements made as of January 1, 2008 at historical cost, and ii) movements made before January 1, 2008 at indexed values determined by applying NCPI factors up to December 31, 2007 to their originally determined values. Accordingly, the different stockholders' equity items are expressed at modified historical cost.

**g. Marketable securities -** They are recorded at their acquisition cost, which is similar to their market value.

**h. Amortization -** Leasehold improvements are amortized by the straight-line method on monthly ending balances starting with their capitalization, using the rate for the minimum compulsory term of the respective contracts and the authorized extension periods. As a result of a review of the useful life of expenses related to implementation of the Group's information technology platform, starting in 2009, the useful life change from four to five years; therefore, in 2009 they were amortized at the 20% annual rate and in 2008 at the 25% annual rate. The effect of this change produced a reduction in operating expenses in the income 2009 statement of $63,527.

**i. Employees' Benefits -** The direct benefits (salary, overtime, vacation, holidays, etc.) are recognized in the income as they accrue and their corresponding liabilities are expressed at their nominal value.

Termination benefits due to reasons other than restructuring (severance payments, seniority premium, etc) as well as the retirement benefits (pension, seniority premium, etc), are recognized based on actuarial studies carried out by independent experts through the projected unit credit method (See Note 12).

The net cost for the period of each employees' benefit plan is recognized as an operating expense in the period in which it accrues, including, amortization of the labor cost of past services and the actuarial profit or loss of previous periods.

Unamortized items at December 31, 2007, known as transitional liabilities which include the labor cost of past services and the unamortized actuarial gains or losses, are amortized as of January 1, 2008, in a five-year term instead of over the estimated working life of the employees'until 2007, which was 20 to 23 years. This change resulted in an additional charge of $1,986 in income for 2008.

From January 1, 2008, the Company adopted the elimination of the additional liability and intangible asset offsetting entries and the component recognized in stockholders' equity until December 31, 2007, which were shown separately in the balance sheet for that date.

**j. Transactions in foreign currency -** Transactions in foreign currency are recorded at the exchange rate in effect on the date said transaction are carried out. The assets and liabilities receivable and payable in foreign currency are valued in Mexican currency at the exchange rate in effect as of the date of the financial statements (See Note 18). The exchange differences arising between the transaction date and the settlement date, or the balance sheet date, are applied to income for the year, and presented under the comprehensive financing income.

**k. Income tax and IETU tax -** This item is recorded based on the comprehensive method of assets and liabilities, which consists of recognizing deferred income tax on all temporary differences between the book and tax values of assets and liabilities to be materialized the future, using the rates in effect at the date of the financial statements.

The company recognized deferred income tax whenever the financial and tax projections prepared by the Company show that they will essentially pay income tax in the future (See Note 16).

At January 1, 2008, the Company reclassified to the retained earnings the balance of cumulative deferred income tax arising from its initial recognition in the amount of $2,911,555.

**l. Deferred Employees' Profit Sharing (EPS) -** The Company recorded no deferred employees' profit sharing, as it offers its employees a guaranteed EPS payment, that has exceed the statutory EPS in the past few years. In addition, calculation of deferred EPS is not significant and it represents an asset for those benefits that is not expected to be recovered, since payment to employees is made based on the guaranteed EPS.

**m. Comprehensive income -** This item is comprised of the different items that make up the capital gained during the year and it is shown in the statements of changes in stockholders' equity under the comprehensive income.

**n. Derivative financial instruments -** All contracted derivative financial instruments, classified as for trading or market risk hedging, are recognized in the balance sheet as assets and/or liabilities at fair value. The fair value is determined with on the basis of recognized market prices and, when are not listed in a market, it is determined through valuation techniques accepted in the financial environment.

The Company secures financing under different conditions; when these are at variable rates, in order to reduce exposure to interest rate volatility risks, it contracts derivative financial instruments, interest-rate swaps, which convert its interest payments profile from variable rate to fixed rate. Derivative instruments are traded only with institutions of recognized solvency and limits have been established for each institution.

The changes in fair value of said derivative financial instruments are recognized under comprehensive financing result, except when they are contracted to hedge risks and they meet all hedging requirements. Its designation at the start of the hedged operation is documented describing the objective, primary position, risks to be hedged, type of derivative instruments and measurement of the effectiveness of the relationship, the characteristics, book recognition and manner in which the effectiveness measurement will be carried out, applicable to the operation at hand. In the fair value hedging, both the derivative instrument and the hedged item are valued at fair value and the valuation fluctuations are recorded in income under the same line as the position they hedge; in the cash flow hedging, the effective portion is temporarily recorded under comprehensive income, in stockholders' equity, and it is reclassified to income when the position it covers affects income. The ineffective portion is immediately recognized in the income statement.

The Company cancels hedging accounting when the derivative instrument has expired, has been sold, is cancelled or is exercised, when the derivative instrument does not reach high enough effectiveness to compensate fair value changes or cash flows of the hedged item or when the Company decides to cancel the hedging designation.

When cancelling hedging accounting, in the case of cash flow hedging, the amounts accrued in stockholders' equity as part of comprehensive income remain in equity until the forecasted transaction effects or firm commitment affect income. If it is not likely that the firm commitment or forecasted transaction will occur, the income or loss accrued under comprehensive income is immediately recognized in income. When the hedging of a forecasted transaction is satisfactory and it subsequently fails to pass the effectiveness test, the effects accrued under comprehensive income in stockholders' equity is proportionally charged to income, to the extent that the forecasted asset or liability affects income.

Certain derivative financial instruments, although contracted for hedging purposes from an economic perspective, have been designated as for trading because they do not meet all the requirements established in the accounting regulations. The fluctuations in the fair value of said derivative instruments are recognized in the comprehensive financing result.

**ñ. Long-lived assets -** Tangible and intangible, are subject to an annual study to determine their value of use and define if there is indication of impairment.

**o. Liabilities and provisions -** The liabilities payable by the Company and its subsidiaries represent a current obligation and the provisions recognized in the balance sheet represent current obligations in which the disbursement of funds to settle the obligation is likely. These provisions have been recorded based on Management's best estimate to liquidate the present obligation. However, actual results may differ from the provisions recognized.

**p. Intangible assets -** They are recognized in the balance sheet provided they are identifiable, provide expected future economic benefits and there is control over such benefits. Intangible assets with an undefined useful life are not amortized and they are subject to annual impairment test. Intangible assets with a defined life are amortized systematically, based on the best estimated useful life determined in accordance with the expected future economic benefits, and they are subject to impairment tests when there is indication of deterioration.

**q. Earnings per share -** This is the result of dividing the net earning for the year by the weighted average of the current shares of the majority shareholders' in 2009 and 2008. .

**r. Revenue recognition -** Income from the sale of merchandise is recognized in income when all of the following requirements are met: a) the related risk and benefits have been transferred to the buyer and there is no significant control over any of them, b) the amount of the revenue, costs- incurred or costs to be incurred can be reliably determined and c) the Company is likely to receive the economic benefits associated to the sale.

**NOTE 5 - ACCOUNTS AND NOTES RECEIVABLE:**

**a.** The balance of this account is made up as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Trade accounts receivable | $ | **14,554,145** | $ | 15,355,150 |
| Other debtors | | **628,406** | | 280,589 |
| Recoverable Value-Added Tax | | **588,847** | | 594,188 |
| Officers and employees | | **115,532** | | 147,448 |
| Associated companies | | **79,541** | | 2,818 |
| Tenants | | **26,514** | | 54,758 |
| Recoverable taxes | | **23,266** | | 212,754 |
| | | **16,016,251** | | 16,647,705 |
| Allowance for doubtful accounts | | **(1,188,250)** | | (1,693,125) |
| | $ | **14,828,001** | $ | 14,954,580 |

**b.** The accounts receivable from customers of Distribuidora Liverpool, S. A. de C. V. (DILISA)-a subsidiary- are supported by promissory notes that are issued when customers acquire goods or services.

**c.** On December 2006, DILISA entered into an agreement for the sale of the accounts receivable to a Trust which subsequently issued Trust Stock Certificates (TSC). The agreement provides the option to make subsequent sales, in order for the Trust to maintain a balance for purchased accounts receivable above $2,250 million pesos over the following four years. Under said agreement, DILISA is not liable for outstanding balances, sold to the Trust.

Under the contract, DILISA received a certificate that entitles it to receive the remaining assets of the Trust, if any, after the Trust has complied with all its commitments. Under the new MFRS B-8 in effect as from 2009, the Trust meets the characteristics of an SPE, and therefore it joined the consolidation regime. The amount of the consolidated portfolio placed under the Trust such at December 31, 2009 and 2008 totals $2,558,859 and $2,611,028, respectively (See Notes 7 and 11).

**d.** The doubtful accounts estimation represents nearly twice the balance of past-due trade accounts receivable (over 90 days), not including value added tax. The Company's management considers the reserve to be sufficient based on the experience of recent years.

**NOTE 6 - INVENTORIES:**

At December 31, 2009 and 2008, this balance is comprised as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Inventory of merchandise for sale | $ | **6,546,590** | $ | 7,042,132 |
| Inventory of supplies and maintenance | | **132,368** | | 151,008 |
| | | **6,678,958** | | 7,193,140 |
| Reserve for inventory shortfalls | | **(401,126)** | | (366,209) |
| | $ | **6,277,832** | $ | 6,826,931 |

**NOTE 7 - SPE CONSOLIDATION:**

There are three Trusts over which there is presumably control, as per the indicators of MFRS B-8 effect as from January 1, 2009. Based on the foregoing, said Trusts were consolidated, for which purpose this accounting change was applied under the retrospective method established on the MFRS B-1.

Following are the financial effects of consolidating the above Trusts.

| | Increase (decrease) in: | |
|---|---|---|
| Accounts | **2009** | 2008 |
| **Assets:** | | |
| Cash and marketable securities | **$ 346,899** | $ 332,065 |
| Customer accounts receivable - Net | **2,421,633** | 2,437,159 |
| Other accounts receivable | **39,908** | 344 |
| Long-term accounts receivable | **86,360** | 104,916 |
| Permanent investments in shares | **(103,852)** | (99,025) |
| Property, furniture and equipment - Net | **831,989** | 845,386 |
| Unamortized expenses and others | **(489,616)** | (492,283) |
| **Liabilities** | | |
| Suppliers | **(900,682)** | (874,742) |
| Sundry creditors and accrued liabilities | **862,547** | 831,848 |
| Long-term notes payable | **3,171,456** | 3,171,456 |
| **Income:** | | |
| Interest collected from customers | **$ 133,690** | $ 145,303 |
| Interest paid to credit institutions and return on investments in securities - Net | **21,001** | (10,693) |
| Management expenses | **(75,316)** | 27,344 |
| Depreciation | **13,397** | 7,814 |
| Other incomes - Net | **(174,608)** | (120,838) |

**NOTE 8 - PERMANENT INVESTMENTS IN SHARES:**

The investments in other companies relate mainly: to the Trusts that developed the Angelopolis mall located in Puebla, the Centro Comercial Plaza Satelite in the State of Mexico, Centro Comercial Galerias Queretaro in Queretaro City and another in the city of Monterrey; to the 49% investment in shares of associated companies: Moda Joven Sfera México, S. A. de C. V. and Operadora Sfera Mexico, S. A. de C. V.; as well as to investments in variable income investment companies.

**NOTE 9 - PROPERTY, FURNITURE AND EQUIPMENT:**

**a.** The balance of this account is shown below:

| | **2009** | 2008 |
|---|---|---|
| Buildings and other structures | **$ 14,773,285** | $ 13,637,649 |
| Land | **5,030,111** | 4,925,828 |
| Furniture and equipment | **3,073,838** | 2,907,398 |
| Trust rights over real estate | **1,362,266** | 1,402,216 |
| Leasehold improvements | **1,183,539** | 958,925 |
| Electronic computer equipment | **203,268** | 199,034 |
| Transportation equipment | **3,332** | 3,946 |
| Construction work in progress and advances to suppliers | **1,082,603** | 2,588,126 |
| | **$ 26,712,242** | $ 26,623,122 |

**b.** The balance of construction work in progress and advances to suppliers at the end of 2009 corresponds to various projects in which the Company and certain subsidiaries would participate to build shopping centers and to remodel stores, both in the metropolitan area and in the rest of Mexico. The projects and the remodeling work will require an additional investment of approximately $4,091 million of pesos and it is estimated that they will be conclude in 2010 and 2011.

**c.** In May 2008, a sale-and-leaseback (to a trust) operation was conducted by two subsidiaries of the Group for the Mérida (Yucatán) and Puerto Vallarta (Jalisco) malls amounting to approximately $853 million, of which $677 million correspond to construction and equipment $176 millions to land. As is mentioned in Note 7 the Trust was considered an SPE under MFRS B-8 in effect as from 2009; therefore, the value of those assets was consolidated and is shown under building and land (See Notes 7 and 11).

**d.** In 2009 there was no capitalization of the comprehensive financing result because no new financing was obtained to construct new stores in that period. In 2008 $30,903 of comprehensive financing result was capitalized under the buildings and structures caption.

## NOTE 10 - AMORTIZABLE EXPENSES:

These assets represent costs incurred or rights acquired to, provide specific economic benefits to the operations of the entity during periods that are extended beyond the one in which they were incurred or acquired.

The amounts paid by the companies of Grupo Liverpool for the information technology platform, not yet amortized at December 31, 2009 and 2008, are as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Acquisition of licenses | $ | **341,790** | $ | 321,822 |
| Expenses related to new developments | | **363,798** | | 330,443 |
| Total | $ | **705,588** | $ | 652,265 |

## NOTE 11 - NOTES PAYABLE:

**a.** The main features of this account are:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Issuance of debt instruments in pesos, maturing on December 5, 2014, subject to 28-day EIIR plus 0.04 percentage points. (b) (g) | $ | **4,000,000** | $ | 4,000,000 |
| Issuance of debt instruments (TSC) in pesos, with maturing on December 24, 2011, subject to the 7.82% interest rate. (h) | | **2,250,000** | | 2,250,000 |
| Issuance of debt instruments in pesos, maturing on August 18, 2018, subject to the 9.36% annual interest, payable semiannually. (c) (g) | | **1,000,000** | | 1,000,000 |
| Notes payable in pesos, maturing on June 2018, subject to the 9.31% interest rate. (i) | | **921,456** | | 921,456 |
| Issuance of debt instruments in pesos, maturing on February 11, 2010, subject to 28-day EIIR plus 1.30 percentage points. (d) (g) | | **700,000** | | - |
| Direct bank loan in Mexican pesos, with partial maturities payable from April 2007 to April 2010, subject to the 10.05% annual interest. (e) | | **400,000** | | 700,000 |
| Syndicated loan in Mexican pesos, with partial maturities beginning in April 2007 and ending in April 2010, subject to 28-day EIIR plus 0.55 percentage points. (f) (g) | | **392,857** | | 1,178,571 |
| Promissory note in Mexican pesos, maturing on January 19, 2009, at 12.85% annual interest. | | **-** | | 500,000 |
| | | **9,664,313** | | 10,550,027 |
| Less- short-term debt | | **1,492,857** | | 1,585,714 |
| Long-term debt | $ | **8,171,456** | $ | 8,964,313 |

**b.** Two cash flow hedges were contracted in March 2008 for $4,000 million peso debt instrumets, of $2,000,000 pesos each. The first switched the 28- day EIIR interest rate plus 0.04 points to the 7.89% fixed interest rate and the second switched the 28- day EIIR interest rate plus 0.04 points to the 7.47% fixed interest rate, with the option to cancel on March 8 2011 (See Note 20).

**c.** A financial derivative trading operation was carried out in September 2008 for $1,000 million peso debt instruments, whereby the fixed 9.36% interest rate was switched to the 28-day EIIR interest rate plus 0.18 points (See Note 20).

Additionally in April 2009, a financial transaction was performed as a result of the cash flows hedges for the same issue of stock certificates as mentioned above, thus exchanging the variable 28-day EIIR interest rate plus 0.18 for the fixed rate of 7.95% (See Note 20).

**d.** A cash flow hedge was contracted in February 2009 for $700 million peso debt instruments, whereby the 28- day EIIR interest rate plus 1.50 points was switched to the 8.34% interest rate (See Note 20).

**e.** A cash flow hedge was contracted for the $400 million peso loan (the 10.05% interest rate was switched for the 28-day EIIR rate plus 0.55 points). This operation has the same maturities and duration as the loan (See Note 20).

**f.** In 2005 the company restructured its syndicated loan changing the maturity to April 30, 2010 and increasing the amount. Additionally, it conducted a cash flow hedge operation by exchanging the 28-day date EIIR plus 0.55 percentage points for a fixed rate of 9.46%. This operation has the same payment dates and duration as syndicated loan (See Note 20).

**g.** Issuance of debt instruments and the syndicated loan agreement requires the Company and its material subsidiaries (in the terms of the contract) to maintain certain financial hedging ratios with respect to debt, interest paid, and stockholders' equity, as well as certain restrictions on dividends payments, mergers, spin-offs, change of business purpose, capital stock issued and sold, capital investments, and encumbrances. The terms discussed above have been entirely met by the Company and its subsidiaries.

**h.** Trust Stock Certificates (TSC) of $2,250 million are in a trust considered an SPE under the MFRS B-8 in effect as from 2009 and they were therefore consolidated (See Notes 5 and 7). In accordance with the terms of the trust, the TSC have not guaranteed by any public or private entity, or any specific payment guarantee, real or personal, which mean that the holders are unsecured creditors. The payments made by cardholders in relation to the notes purchased by the trust will constitute the main source of income and the exclusive source of payment of TSC issued under the program. Any increase in the levels of cardholder non-payment above company's historic levels, will result in a decrease in resources that the trust could use to make payments of interest and principal to holders of TSC. If the equity of the Trust is insufficient to cover payments to holders of TSC, the Company has no obligation to cover the unpaid difference.

**i.** Notes payable of $921 million refer to the sale and lease back operation carried out in May 2008 (See Note 9). Given that the trust with which the operation was performed to qualify as an SPE under the MFRS B-8 in effect as from 2009, said Trust was consolidated (See Note 7). When the term expires the Company has the option to buy the malls from the trust. With the money paid to the Trust, it will be able to pay the loan it received. If the Company does not exercise the option to purchase the shopping centers, they will be sold by the trust to a third party and use these resources to pay the loan received. If the price obtained from the sale to third parties does not reach an established limit, the difference between the price obtained from third parties and the lower limit must be paid by the Company.

**NOTE 12 - EMPLOYEES' BENEFITS:**

**a.** The Group has a pension and seniority premium plan to cover the obligations established in its labor contracts and in the Federal Labor Law currently in effect. Personnel are entitled to this plan only after having worked a certain number of years.

**b.** The companies have defined contribution and benefit plans defined for employee pensions.

**c.** The Group has also established plans to cover severance pay in the event of dismissal for reasons other than restructuring, based on actuarial studies made by independent experts.

**d.** Following is the reconciliation of the initial and final balances of the present value of defined benefit obligations (OBD for its Spanish acronym) for 2009 period:

| | Pensions | Seniority premiums | Indemnities |
|---|---|---|---|
| OBD at January 1, **2009** | **$ 519,059** | **$ 95,839** | **$ 121,603** |
| Plus (less): | | | |
| Labor cost of the current service | 16,096 | 11,765 | 21,169 |
| Financiale cost | 46,408 | 8,277 | 10,635 |
| Actuarial losses (earnings) generated in the period | 10,609 | (192) | 17,064 |
| Paid benefits | (42,537) | (7,930) | (27,606) |
| Reductions | (30,748) | (3,091) | - |
| OBD at December 31, **2009** | **$ 518,887** | **$ 104,668** | **$ 142,865** |

**e.** The value of the acquired benefit obligations at December 31, 2009 and 2008 amounted to $566,243 and $542,287, respectively.

**f.** Reconciliation of the fair values of the plan assets (AP for its Spanish acronym).

The reconciliation of the initial and final balances of 2009 and 2008, of the fair value of the employees' benefit plan assets is as follows:

| | Pensions | | Seniority premiums | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| AP at January 1 | **$ 442,853** | $ 521,331 | **$ 84,493** | $ 89,134 |
| Plus (less): | | | | |
| Expected yield | **39,360** | 44,071 | **7,228** | 7,642 |
| Actuarial (losses) earnings for the period | **37,560** | (64,827) | **4,075** | (14,308) |
| Company's contributions | **75,349** | 50,059 | **13,693** | 12,968 |
| Paid benefits | **(73,285)** | (81,801) | **(11,021)** | (10,943) |
| Advance payments | **-** | (25,980) | **-** | - |
| AP at December 31 | **$ 521,837** | $ 442,853 | **$ 98,468** | $ 84,493 |

**g.** Conciliation of the OBD, AP and the Net Projected Asset/Liability (A/PNP for its Spanish acronym).

Following is the reconciliation of the OBD present value and the fair value of the AP and the A/PNP recognized in the balance sheet:

| | Pensions | | Seniority premiums | | Indemnities | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Labor assets (liabilities): | | | | | | |
| OBD | **$ (518,887)** | $ (519,059) | **$ (104,668)** | $ (95,839) | **$ (142,865)** | $ (121,603) |
| AP | **521,837** | 442,853 | **98,468** | 84,493 | **-** | - |
| Financing position | **2,950** | (76,206) | **(6,200)** | (11,346) | **(142,865)** | (121,603) |
| Less unamortized items: | | | | | | |
| Actuarial losses | **119,364** | 161,825 | **3,150** | 7,618 | **-** | - |
| Transition liability | **12,780** | 17,042 | **1,603** | 2,178 | **27,477** | 39,296 |
| Improvements to plan not yet recognized | **125,069** | 142,726 | **-** | - | **-** | - |
| A/(PNP) | **$ 260,163** | $ 245,387 | **$ (1,447)** | $ (1,550) | **$ (115,388)** | $ (82,307) |

**h.** Net Cost for the period (CNP for its Spanish acronym)

An analysis of the CNP per plan type follows:

| | Pensions December 31 | | Seniority premiums December 31 | | Indemnities December 31 | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Labor cost of the current service | **$ 16,096** | $ 14,149 | **$ 11,765** | $ 11,547 | **$ 21,169** | $ 24,883 |
| Finance cost | **46,408** | 47,993 | **8,277** | 8,295 | **10,635** | 8,677 |
| Expected yield of plan assets | **(39,360)** | (44,070) | **(7,228)** | (7,640) | **-** | - |
| Net actuarial earning (loss) | **10,869** | 9,061 | **203** | 193 | 4,373 | (19,017) |
| Labor cost of past services | **26,560** | 22,694 | **573** | 573 | **24,511** | 22,205 |
| Reductions and early settlements | **-** | 9,068 | **-** | - | **-** | - |
| Total | **$ 60,573** | $ 58,895 | **$ 13,590** | $ 12,968 | **$ 60,688** | $ 36,748 |

**i.** Plan Asset Breakdown:

Following is the breakdown of plan assets valued at their fair value, the percentage of total plan assets, and the value of instruments issued and the assets used by the entity included in the plan assets.

At December 31, 2009, the breakdown of the defined benefit plan assets is as follows.

| | **Pensions** | | **Seniority premiums** | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Equity instruments | $ 228,114 | 44 | $ 19,710 | 20 |
| Market investment | 90,744 | 17 | 19,306 | 20 |
| Term operations | 189,634 | 36 | 59,452 | 60 |
| Others | 13,345 | 3 | - | - |
| Fair value of AP's | $ 521,837 | 100 | $ 98,468 | 100 |

**j.** Criteria to determine the yield of plan assets:

The expected yield for each type of plan assets is based on projections over historical market rates. The difference as compared to actual rates is shown in actuarial gains (losses) for the year.

**k.** The main actuarial assumptions used, expressed in absolute terms, as well as the discount rates, the plan assets yield, salary increases and changes in the indexes or other changes, referred to December 31, 2009, are as follows:

| | | |
|---|---|---|
| Discount rates | 9.25% | (Real) |
| Plan assets yield | 10% | (Real) |
| Salaries increases | 4.75% | (Real) |

**l.** Value of the OBD, AP and Plan situation for the last four annual periods

Below is the value of the OBD, the fair value of plan assets (PA), the plan situation, and adjustments for experience for the last four years:

**Pensions:**

| | **Historical values** | | |
|---|---|---|---|
| **Year** | **OBD** | **AP** | **Plan situation** |
| **2009** | **(518,887)** | **521,837** | **2,950** |
| 2008 | (519,059) | 442,853 | (76,206) |
| 2007 | (406,093) | 521,331 | 115,238 |
| 2006 | (492,686) | 438,145 | (54,541) |

**Seniority premiums:**

| | **Historical values** | | |
|---|---|---|---|
| **Year** | **OBD** | **AP** | **Plan situation** |
| **2009** | **(104,668)** | **98,468** | **(6,200)** |
| 2008 | (95,839) | 84,493 | (11,346) |
| 2007 | (96,215) | 89,134 | (7,081) |
| 2006 | (82,407) | 76,864 | (5,543) |

**Indemnities:**

| | **Historical values** | | |
|---|---|---|---|
| **Year** | **OBD** | **AP** | **Plan situation** |
| **2009** | **(142,865)** | **-** | **(142,865)** |
| 2008 | (121,603) | - | (121,603) |
| 2007 | (142,810) | - | (142,810) |
| 2006 | (131,836) | - | (131,836) |

**m.** Estimation of plan contributions for the next period:

It is estimated that in year 2010, contributions to the employees' benefit plans will be as follows:

| | |
|---|---|
| Pension plan | $ 40,760 |
| Seniority premiums | 13,326 |
| | $ 54,086 |

**NOTE 13 - CONTINGENT:**

There are certain pending matters and claims derived from different cases whose final resolution, in the opinion of the Group's officers and lawyers, will not substantially affect the Group's companies financial position or result of operations.

**NOTE 14 - STOCKHOLDERS' EQUITY:**

**a.** The capital stock at year-end is made up as follows:

| | | **2009** |
|---|---|---|
| Minimum fixed circulating capital with no withdrawal rights, comprised of 1,144,750,000 nominative common Series "1" shares, and 197,446,100 nominative common Series "C-1" shares, subscribed and paid in, with no par value | $ | 269,112 |
| Variable capital of up to $2,773,225, comprised of nominative common Series "2" or Series "C-2" shares, with no par value | | - |
| | | 269,112 |
| Accumulated inflationary restatement at December 31, 2007 | | 6,326,285 |
| Capital stock at December 31,**2009** | **$** | **6,595,397** |

**b.** The capital stock includes $3,084 of capitalized earnings as well as $276,878, corresponding to the effects of restatement, which could be subject to income tax payable by the stockholders, in the event of a reimbursement due to a capital stock reduction or liquidation of the Corporation. Said reimbursement could be taxed under certain circumstances established by the respective law based on the amount of adjusted contributed capital.

**NOTE 15 - RESERVE FOR ACQUISITION OF OWN SHARES:**

**a.** At the General Ordinary Meeting held on April 24, 1992, the stockholders agreed to set up a reserve for the acquisition of treasury shares and the Board of Directors was empowered to acquire, when appropriate the Company's shares in accordance with the provisions of the Securities Market Law and those issued by the National Banking and Securities Commission.

b. At the date of the consolidated financial statements, the market value per outstanding share is $60 Mexican pesos for Serie "1" and $58.50 for Serie "C-1" shares ($39 Mexican pesos for Series "1" and "C-1" shares in 2008).

**NOTE 16 - INCOME TAX, IETU TAX, ASSET TAX AND RESTRICTIONS ON EARNINGS:**

**a.** Net income is subject to the legal provision requireing that 5% of the income for each year be set aside to increase the legal reserve, until the amount of this reserve reaches the equivalent of one-fifth of paid-in capital stock.

**b.** Tax treatment of dividends:

Dividends paid are free from Income Tax if paid out of the After-Tax Earnings Account (CUFIN). Those dividends will further be taxed at a rate fluctuating between 4.62% and 7.69% if paid out of the Reinvested CUFIN (CUFINRE). Dividends paid excess of the CUFIN balance are subject to a tax equivalent to 38.89% if they are paid in 2010. The current tax is payable by the Company and could be credited against its income tax in the same year or the following two years or against the IETU tax for the period. Dividends paid from previously taxed by income tax are not subject to tax withholding or additional tax payment.

In the event of a capital reduction, the provisions of the Income Tax Law establish that any excess of Stockholders' equity over capital contributions is accorded the same tax treatment as dividends.

Over the year, dividends were declared and paid in the amount of $536,879 ($590,566 in 2008), and therefore no income tax was payable because the entirety of the dividends derived from the CUFIN.

**c.** As of the date of the consolidated financial statements, the balances of the after-tax earnings account amount to:

| | | **2009** | 2008 |
|---|---|---|---|
| After-tax earnings account (CUFIN) | $ | **34,235,572** | $30,715,052 |
| Reinvested after-tax earnings (CUFINRE) | | **612,210** | 591,107 |

**d.** The Income Tax rate was changed in 1999 as a result of the enactment of the general 35% rate and the implementation of a deferment arrangement for reinvesting earnings. The 30% rate was then applied to reinvested taxable income and the remaining 5% tax was payable when dividends were declared. The applicable rate for reinvested earnings was 32% in 1999, hence, the dividends declared paid out of the CUFINRE created in that year are subject to 3% tax. The procedure described above was in effect up to 2001. The aforementioned procedure was in effect until 2001 and deferred taxes applicable to the CUFINRE balance will be reversed as dividends are paid in future years.

**e.** The Income Tax Law in effect allows offsetting tax loss carryforwards against future income earned in the ten years following that in which such losses were incurred and restated by using inflation indexes. At December 31, 2009, some subsidiaries have losses amounting to $486,159 that can be offset as follows:

| Year of the loss | | Indexed amount | Year of expiration |
|---|---|---|---|
| 2002 | $ | 879 | 2012 |
| 2003 | | 1,502 | 2013 |
| 2004 | | 2,497 | 2014 |
| 2005 | | 3,565 | 2015 |
| 2006 | | 6,368 | 2016 |
| 2007 | | 4,706 | 2017 |
| 2008 | | 466,494 | 2018 |
| 2009 | | 148 | 2019 |
| | $ | 486,159 | |

In 2009, tax losses amounting to $175,908 were offset at nominal values.

**f.** The asset tax exceeding income tax actually paid up to December 31, 2007 (date when the tax was repealed) is subject to refund in accordance with the IETU Tax Law. Some companies of the group have the right to recover paid asset tax for a cumulative total of $79,440, which is shown in the consolidated balances sheets under deferred tax.

**g.** The provision for taxes of profit for the years ended on December 31, 2009 and 2008 is comprised as follows:

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Income tax incurred | **$** | **1,601,056** | $ | 1,654,970 |
| IETU tax incurred | | **46,547** | | - |
| Deferred income tax | | **(22,665)** | | (334,817) |
| | **$** | **1,624,938** | $ | 1,320,153 |

**h.** The reconciliation between the current and effective tax rates, at December 31, 2009 and 2008, is shown as follows:

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Income tax at the statutory rate | **$** | **1,515,274** | $ | 1,357,604 |
| Plus (less) - Effect of income tax on: | | | | |
| Cost of sales/purchases | | **(49,722)** | | (24,380) |
| Taxable inventory | | **318,309** | | 301,394 |
| Sales in installments (net) | | **233,923** | | 277,620 |
| Depreciation | | **(240,585)** | | (429,920) |
| Adjustment for accrued inflation | | **50,328** | | 130,609 |
| Tax losses | | **(49,254)** | | 141,365 |
| Deductible reserves | | **(143,228)** | | (128,054) |
| Other accounts, net | | **(33,989)** | | 28,732 |
| Income tax incurred during the year | **$** | **1,601,056** | $ | 1,654,970 |
| Deferred income tax | | **(22,665)** | | (334,817) |
| Income Tax | **$** | **1,578,391** | $ | 1,320,153 |
| Effective rate | | **29.2%** | | 27.2% |

**i.** Management of the Company and its subsidiaries determined that the tax payable will be the income tax, as a result of which they recognized a deferred income tax liability at that date totaling $3,863,002 and $3,885,666 respectively.

**j.** At December 31, 2009 and 2008 the main temporary differences on which deferred income tax was recognized are as follows:

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Assets: | | | | |
| Tax loss carryforwards | **$** | **146,240** | $ | 181,646 |
| Allowance for doubtful accounts | | **499,997** | | 526,533 |
| Other items | | **427,159** | | 314,415 |
| | | **1,073,396** | | 1,022,594 |
| Liabilities: | | | | |
| Customers for installment sales, net | | **(904,403)** | | (923,170) |
| Property, furniture and equipment | | **(2,947,879)** | | (2,726,249) |
| Inventories | | **(752,660)** | | (1,051,833) |
| Other items | | **(331,456)** | | (207,008) |
| | | **(4,936,398)** | | (4,908,260) |
| Deferred income tax | | **(3,863,002)** | | (3,885,666) |
| Recoverable asset tax | | **79,440** | | 85,344 |
| Deferred income tax liability | **$** | **(3,783,562)** | $ | (3,800,322) |

**k.** On December 7, 2009 was published the decreed by which diverse provisions of the Income Tax Law are reformed, added and derogated for 2010, which establishes, among other, that the Income Tax rate applicable from 2010 to 2012 will be 30%, for 2013 will be 29% and as of 2014 will be 28%. At December 2009, the rate change previously described produced an increasing to the income tax deferred balance of $87,293, with its corresponding effect in the income statement of the year, which was determined based on the expectative of temporary reversion to the effective rates.

**l.** IETU tax of the period is calculated at the 17% rate (16.5% for 2008) on the profit determined with base on the cash flows, such net income represents the difference between the total income collected by taxable activities, less the authorized tax deduction paid. In addition, it is also allowed to reduce this amount with the IETU tax credits, based on the procedures established in the law. As of 2010 the IETU tax rate will be 17.5%.

**m.** In 2009, some companies of the group identified a IETU tax profit of $273,806 which is higher than that determined for income tax purposes. The accounting and fiscal projections for those companies show that the tax payable in the future will be the income tax and therefore deferred income tax was recorded at December 31, 2009.

**n.** According with the effective tax law, the Company must pay annually the higher tax between Income tax and IETU tax.

**NOTE 17 - SAVINGS FUND PENSION PLAN AND EMPLOYEES' SAVING FUND:**

On September 1, 2004, the operating and service companies of Grupo Liverpool together with their personnel, entered into a new irrevocable trust agreement as grantors to create another pension fund in addition to the existing fund, in order for active personnel to have equity at retirement age. The contribution to the pension fund in 2009 totaled $91,527 ($80,705 in 2008).

To date, there is a Savings Fund through which employees can dispose of their savings every year through loans. The contribution of the operating and service companies of Gropo Liverpool to the savings fund for this year amounted to $80,032 ($73,691 in 2008).

In addition to the funds referred to above, employees of the operating and service companies of Grupo Liverpool created a Mutual Savings Bank (thereby substituting the additional savings fund) on September 1, 2004. Under certain rules, loans can also be obtained therefrom. At December 31, 2009, the fund amounted to $1,541,601 ($1,337,883 in 2008).

**NOTE 18 - FOREIGN CURRENCY POSITION:**

**a.** At the date of the consolidated financial statements, the group companies showed the following foreign currency position:

| | In thousands of dollars | | In thousands of euros | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Assets | **156,506** | 4,696 | **28** | 58 |
| Liabilities | **1,847** | 11,063 | **1,244** | 936 |
| Net long (short) position | **154,659** | (6,367) | **(1,216)** | (878) |

**b.** The exchange rates used to value the US dollar and euro position at the 2009 and 2008 year-end close are as follows

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Exchange rates: | | | | |
| US dollar | **$** | **13.0437** | $ | 13.7738 |
| Euros | **$** | **18.8607** | $ | 19.5189 |

**c.** Said position in US dollars and euros at the 2009 and 2008 period closes is shown at nominal value as follows:

| | Dollars | | | | Euros | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2009** | | 2008 | | **2009** | | 2008 |
| Assets | **$** | **2,041,417** | $ | 64,682 | **$** | **528** | $ | 1,132 |
| Liabilities | | **24,092** | | 152,380 | | **23,463** | | 18,270 |
| Net long (short) position | **$** | **2,017,325** | $ | (87,698) | **$** | **(22,935)** | $ | (17,138) |

**d.** The transactions carried out by the Group in foreign currency in 2009 and 2008 are summarized as follows:

| | In Thousands of Dollars | | In Thousands of Euros | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Inventory purchases | **208,713** | 267,454 | **37,652** | 60,952 |
| Fixed assets purchases and other | **54,668** | 78,057 | **325** | 1,115 |
| Advisory services | **3,676** | 5,741 | **1,414** | 1,620 |

**NOTE 19 - SEGMENTED INFORMATION:**

**a.** The operations of the companies of the Group mentioned in Note 1 are grouped mainly under two large business segments: department stores (Commercial) and leasing of real estate.

The principal financial information on those segments for 2009 and 2008 is summarized as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Commercial | Real Estate | Commercial | Real Estate |
| Net sales | $ 42,122,886 | $ 1,427,839 | $ 40,004,117 | $ 1,405,786 |
| Operating profit | $ 5,108,834 | $ 563,268 | $ 4,714,633 | $ 747,920 |
| Identifiable assets | $ 47,911,365 | $ 11,279,577 | $ 44,386,048 | $ 11,118,439 |

The real estate segment consists of leasing commercial premises located in the principal shopping centers of Mexico City and the rest of Mexico.

The operating profit of the Commercial segment includes $2,224,996 ($2,659,594 in 2008), for interest arsing from the Liverpool credit card.

**b.** As a supplement to the aforementioned information, following are the net sales and profit margins of the commercial segment by product group and geographic area:

| **By product group** | 2009 | | 2008 | |
|---|---|---|---|---|
| Group | Net sales | Profit margin | Net sales | Profit margin |
| Bigticket | $ 13,827,738 | $ 3,580,014 | $ 13,123,987 | $ 3,386,038 |
| Softline | 28,295,148 | 10,969,383 | 26,880,130 | 10,371,257 |
| | $ 42,122,886 | $ 14,549,397 | $ 40,004,117 | $ 13,757,295 |

| **By geographic area** | 2009 | | 2008 | |
|---|---|---|---|---|
| Area | Net sales | Profit margin | Net sales | Profit margin |
| Center | $ 13,630,501 | $ 4,750,201 | $ 12,921,715 | $ 4,520,675 |
| Mexican Republic(except Center) | 28,492,385 | 9,799,196 | 27,082,402 | 9,236,620 |
| | $ 42,122,886 | $ 14,549,397 | $ 40,004,117 | $ 13,757,295 |

**NOTE 20 - FINANCIAL INSTRUMENTS:**

Financial risk is managed through the Operation Committee as per policies approved by the Board of Directors. The entity identifies, assesses and hedges the financial risks in close cooperation with its subsidiaries. The Board of Directors has approved general written policies for financial risks management, as well as policies addressing specific interest-rate risk, the use of derivative financial instruments for trading and/or hedging in accounting terms and non-derivative financial instruments and the investment of treasury surpluses.

The risk of the group's interest rates arises from their contractual profile, which is associated to borrowings and issuance of long term debt. Borrowings and debt issued at variable rates expose the Company to the interest-rate variability risk and therefore to its cash flow risk. Borrowings and issuances contracted at fixed rates expose the group to a drop in reference rates, which give rise to higher financial cost of the liability. The group policy is to hedge the majority of its borrowings and debt issuances up to a fixed rate profile, regardless of their contractual rate profile. In 2009 and 2008, the Group's borrowings and debt issuances, at fixed or variable rates, were denominated in pesos.

The group permanently analyses its exposure to interest rates. Various scenarios are simulated considering refinancing, renovation of the existing positions, alternative financing and hedging. On the basis of those scenarios, the group calculates the impact of a change in interest rates defined in the respective profit or loss. For each of the simulations, the same change in interest rates is used for all currencies. Only the scenarios for liabilities representing the main positions accruing interests are run.

Based on the diverse scenarios, the group manages its cash flow interest-rate risks through the use of variable or fixed rate swaps. Those interest rate swaps have the economic effect of translating the variable rate borrowings into fixed rates. Generally, the group contracts long-term borrowings at variable rates and exchanges them for fixed-rate borrowings with a view to mitigating the effects of the volatility affecting their financial cost. With the interest rate swaps, the Company agrees with other parties to deliver or receive the difference between the contractual fixed rate interest and the variable rate interests, calculated on agreed theoretical amounts.

The Company also contracts fixed to variable interest-rate swaps in order to cover the fair value interest rate risk arising when borrowing at fixed rates.

In order to reduce the risk of adverse movements attributable to the profile of interest rates contracted on long-term debt the Company has entered into the following interest-rate swap contracts:

| Notional amount | Dates of: Starting | Expiration | Interests rates: Fixed | Variable | Fair value 2009 | 2008 | |
|---|---|---|---|---|---|---|---|
| $ 1,000,000 | September 2008 | August 2018 | 9.36% | EIIR + 0.18% | $ **82,916** | $ 69,071 | (a |
| 1,000,000 | April 2009 | August 2018 | 7.95% | EIIR + 0.18% | **10,384** | - | |
| 2,000,000 | March 2008 | December 2014 | 7.89% | EIIR + 0.04% | **-** | 27,942 | (b |
| | Total | | | | $ **93,300** | $ 97,013 | |
| | | | | | | | |
| 2,000,000 | March 2008 | December 2014 | 7.47% | EIIR + 0.04% | $ **(60,861)** | $ (5,388) | (b |
| 2,000,000 | March 2008 | December 2014 | 7.89% | EIIR + 0.04% | **(34,112)** | - | (b |
| 700,000 | February 2009 | February 2010 | 8.34% | EIIR + 1.50% | **(2,048)** | - | (b |
| 400,000 | October 2005 | April 2010 | 10.05% | EIIR + 0.55% | **(6,935)** | (9,360) | (b |
| 392,857 | June 2005 | April 2010 | 9.45% | EIIR + 0.55% | **(5,758)** | (14,075) | (b |
| | Total | | | | $ **(109,714)** | $ (28,823) | |

**a)** This derivative financial instrument was originally designated as for trading; however, in April 2009, it was designated as hedging due to a new contracted instrument that changed the variable rate to a fixed rate. The documentation for its designation as hedging describes the objectives, justification, type of hedging and methodology for measuring its effectiveness.

**b)** These derivative financial instruments were designated from inception as cash flow hedges and their effectiveness is measured periodically. The designation documentation describes the objectives, justification, type of coverage and the methodology for measuring the effectiveness.

The notional amounts related to derivative financial instruments reflect the contracted reference volume; however, they do not reflect the amounts at risk with respect to future flows. The amounts at risk are generally limited to the income or loss not realized due to valuation at market value of such instruments, which can vary according to the changes in the market value of the underlying item, its volatility and the credit rating of the counterparties.

The main market risk for the above mentioned operations is movement in the ten-year swap rate from the interbank compensation rate. Such a movement would give rise to changes in the fair value of derivative financial instruments.

The fair value of swaps is determined with valuation techniques accepted in the financial environment, measuring the future net cash flows of the swap at present value. At the 2009 close, it gave rise to the recognition of a liability of $16,414 (net asset of 68,190 in 2008) and a charge in stockholders' equity of $100,416 (credit $47,973 in 2008) and a credit to comprehensive financing gain for the period of $15,812 in 2009 ($69,072 in 2008).

The figure included under the comprehensive income in stockholders' equity will be recycled to income when the covered item affects it. That amount is subject to changes in market conditions.

**NOTE 21 - COMPREHENSIVE INCOME:**

Comprehensive income for the years ended December 31, 2009 and 2008 is comprised as follows:

| | 2009 | 2008 |
|---|---|---|
| Income for the year, as per income statements | $ **3,786,535** | $ 3,528,204 |
| Reserve for fair value of derivative financial instruments | **(100,416)** | 47,973 |
| Minority interest | **448** | 230 |
| Adjustment to provisions for labor obligations | **-** | 16,907 |
| Comprehensive income | $ **3,686,567** | $ 3,593,314 |

**NOTE 22 - RELATED-PARTY TRANSACTIONS:**

**a.** In 2009 and 2008, the Company received the following administration services: pension plans and saving funds; and trust services with Grupo Financiero Invex, S. A. de C. V. Fees paid for those services amounted to $1,181 in 2009 and $7,036 in 2008. The decrease corresponds to the autonomy of administration costs of automatic tellers as from the end of 2008. At December 31, 2009 and 2008, there are no such outstanding balances.

**b.** In September 2008, Distribuidora Liverpool acquired from Grupo Financiero Invex, S. A. de C. V. the credit portfolio of the Visa Liverpool Club Card totaling $301,213 and automatic teller machines totaling $2,535.

**c.** Direct and post-retirement benefits paid to relevant directors in 2009 amounted to $147,405 ($98,172 in 2008).

**NOTE 23 - NEW ACCOUNTING PRONOUNCEMENTS:**

The Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) issued, during the last month of 2009, a series of Mexican Financial Reporting Standars (MFRS) and Interpretations (INIF) which become effective as of January 1, 2010, with exception of the MFRS B-5 and B-9 which will become effective as of January 1, 2011. Such MFRS and interpretations are not considered to have a significant impact in the financial information presented by the Company.

MFRS B-5 "Financial Information by Segments". It establishes the general standards to disclose financial information by segments, additionally it allows the user or such information analyze the entity from the same vision as the management and allows to present information by segment more consistent with its financial statements. This standard will leave the Bulletin B-5 "Financial Information by Segment" without effect, which will be effective up to December 31, 2010.

MFRS B-9 "Financial Information at Interim Dates". It establishes standards for the determination and presentation of financial information at interim dates for external use where it is required, among other, the presentation of the statement of changes in stockholders' equity and of cash flows, such statements were not required by Bulletin B-9 "Financial Information at Interim Dates", which will be effective up to December 31, 2010.

MFRS C-1 "Cash and cash equivalents". It establishes standards on the accounting treatment and disclosure of cash, restricted cash and available for sale investments, it also introduces new terminology to make it consistent with other MFRS previously issued. This standard leaves Bulletin C-1, "Cash" without effect, which was effective up to December 31, 2009.

IMFRS 17 "Service concession contracts". Removes the inconsistency between MFRS D-6 "Capitalization of the Comprehensive Financial Result" and D-7 "Contracts of Construction and Manufacturing of Some Equity Goods" concerning the accounting treatment of comprehensive financial result in the event of recognition of an intangible asset during the construction phase, for service concession contracts.

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The 2009 Liverpool Annual Report may include certain expectations regarding the results of El Puerto de Liverpool, S. A. B. de C. V. and its Subsidiaries. All such projections, which depend on the judgment of the Company´s management, are based on up-to-date, known information; however, expectations may vary as a result of the facts, circumstances and events beyond the control of Liverpool, S. A .B. de C. V. and its Subsidiaries.

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