



# Puerto de Liverpool

Annual Report 2017

# Financial Highlights

Operations	2017	2016	%var	2015	2014	2013
Number of Liverpool and Fábricas de Francia stores	131	118	11.0%	108	101	96
Number of Suburbia stores	124					
Number of Galerías shopping centers	27	25	8.0%	25	24	22
Credit customers	4,703,986	4,364,874	7.8%	3,954,716	3,767,900	3,485,210
<b>Results</b>						
Total revenue	122,168,279	100,441,536	21.6%	91,292,889	81,213,589	74,105,444
Revenue from Retail Division and Services	108,583,138	87,897,130	23.5%	79,242,312	70,067,517	65,715,987
Revenue from Real Estate Division	3,104,213	3,179,298	-2.4%	3,020,831	2,707,054	2,579,680
Revenue from Credit Division	10,480,928	9,365,108	11.9%	9,029,746	8,439,018	5,809,777
Operating profit	15,231,684	13,406,391	13.6%	12,655,307	11,113,306	10,836,082
Net profit	9,885,690	10,140,432	-2.5%	8,848,315	7,763,480	7,701,930
EBITDA	18,350,475	16,050,912	14.3%	14,870,389	13,023,604	12,536,327
EBITDA margin	15.0%	16.0%	-6.0%	16.3%	16.1%	16.9%
Profit per share	7.37	7.56	-2.5%	6.59	5.78	5.73

Figures in thousand of Mexican pesos, except EBITDA margin and Profit per share.

# CAJON DEL PUERTO DE LIVERPOOL



Gran surtido  
DE  
Efectos de  
**ROPA**  
POR  
Mayor y menor

Linos  
Lanas  
INCIPALES  
Cajas  
ropa

Calle de San Bernardo No 15

Señor Dn Luis Martinez

Debe

## á EBRARD Y FORTOLIS

México febrero 6 de 1861

3v

Boquel

Puedi por Sr Sr  
A. Ebrard

*[Large decorative flourish]*

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

## **Dear Shareholders,**

Puerto de Liverpool last year turned 170, and today its mission continues to be serving the great Mexican Family.

Two events that took place during the year also poised the group on the threshold of the future: the incorporation of Suburbia and its more than 8,500 employees, and an acceleration of online sales.

Those of us who work in the organization, every day and through a personal effort grounded in the values of integrity, innovation, cooperation and productivity, and supported by the many different divisions, formats, channels and brands that make up this company, are today able to provide a more immediate and focused service, tailored increasingly to the tastes and needs of every one of our customers.

For 2017, we completed our Ps. 8.10 billion investment plan, to which we added Ps. 18.20 billion for the Suburbia acquisition, bringing the total to Ps. 26.30 billion. We are confident that this significant effort places us on much stronger footing for the future.

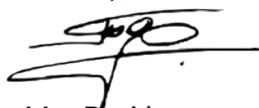
Meticulous administration of our financial resources and especially our loan portfolio enabled us to make advance payments of Ps. 2.50 billion on loans taken out for our expansion, but reducing debt still remains a high priority for this group.

Through efforts such as these, Puerto de Liverpool brought in revenues of Ps. 122.17 billion last year, a 21.6% year-to-year growth; sales totaled Ps. 108.58 billion pesos, an increase of 23.5%; profits came to Ps. 9.89 billion, and EBITDA Ps. 18.35 billion.

Pursuing organic growth for our various divisions and brands is our goal for 2018. This includes the opening of four large Liverpool department stores, two Fábricas de Francia and five Suburbia stores, in addition to the expansion of two shopping centers and investment in new omnichannel and logistics platforms, all of which will enable us to provide a wider assortment of articles and services, as well as a substantial improvement in merchandise delivery times.

The future looks exciting, and with the renewed support of our shareholders, employees, tenants, suppliers, financial institutions, business partners and customers, we are confident we can reach new horizons.

Sincerely,



**Max David**

*Chairman of the Board of Directors  
Mexico City, March 15, 2018*

# Report from the Chief Executive Officer

Mexico faced daunting challenges in 2017: natural disasters like the September earthquakes, floods, exchange-rate volatility, price inflation, and rising crime and public safety problems. It was also a year of major achievements, signs of solidarity, common efforts. In short, it was a year of changes, and for Liverpool, a highly important one. We celebrated our 170<sup>th</sup> year as a company and we continue transforming ourselves. We have followed the path of cultural and technological change to become a truly omnichannel company. We had a record year in terms of expansion, with 11 openings, and in April we acquired Suburbia, a highly successful clothing store chain, enabling us to serve new customers, and we even added two new stores of this format, bringing the total to 124 Suburbia stores. Last year was also by far the year of greatest investment for the company, making it clear that Liverpool is growing, and stands behind Mexico.

In this year of transformation, we focused on serving a customer now more immersed in an omnichannel world, where digital media are becoming increasingly important. We launched an app for online shopping, designed for mobile devices. We opened a central warehouse in northern Mexico City that will expedite customer delivery and improve inventory reliability. We completed construction of a new call center in Morelia, Michoacán, where we can better support and advise our customers. Additionally, to enhance the appeal of our product offering, we launched an improved version of our internal app, aimed at providing a better experience in our stores. Customers can use it to locate not only articles in stock in that store but in our entire store chain, in real time, as well as a wide variety of inventory in our extended catalog. We know that technological advances will continue to change the way we reach our customers, which we find very exciting, because in the future the new ways we can better satisfy them will be limited only by our imagination.

Suburbia is the largest acquisition in this company's history. In April, Puerto de Liverpool acquired this 122-store chain, welcoming more than 8,500 new employees to the group. We were immediately able to confirm that the loyalty and talent of the people working at Suburbia was the most attractive aspect of this partnership. We opened two additional Suburbia stores, and the results of these first nine months of operations have been far better than we expected in terms of sales and profits. With Suburbia, we also gained access to great store brands like Weekend, Contempo and Metropolis, and a culture of savings and efficiency that will undoubtedly make us grow as a group. Suburbia's commercial revenues in this period totaled Ps. 12.53 billion, EBITDA was Ps. 1.62 billion, and pre-tax net profit was Ps. 1.30 billion pesos.

We also opened 11 new Liverpool and Fábricas de Francia stores, and achieved a 5.8% growth in same-store sales compared to 2016. Even though we had to close Liverpool Coapa—one of our most successful stores—during the strongest season of the year, due to the effects of the September 19<sup>th</sup> earthquake, we also achieved total store sales growth of 9.3% and an 8.0% increase in operating income over the preceding year.

In our real-estate division, we opened Galerías Tlaxcala, and despite the fact that Galerías Coapa was closed starting in September, profits for this division rose by 6.6% over 2016. We expect to reopen both the Liverpool store and the Galerías Coapa shopping center toward the end of 2018.

It was a difficult year for credit, as evident in our NPL rate. At the close of 2017, with some effort, our past-due loan portfolio began to show signs of improvement, moving down to 4.5%. With this, the growth of our private label card was only 0.8% compared to 2016. For the Liverpool-Visa card, growth, also compared to 2016, was 9.6% and, as in the previous case, the NPL rate improved a bit toward the end of the year. In the area of insurance, strong customer acceptance of family and merchandise protection policies drove a 10.5% increase over 2016.

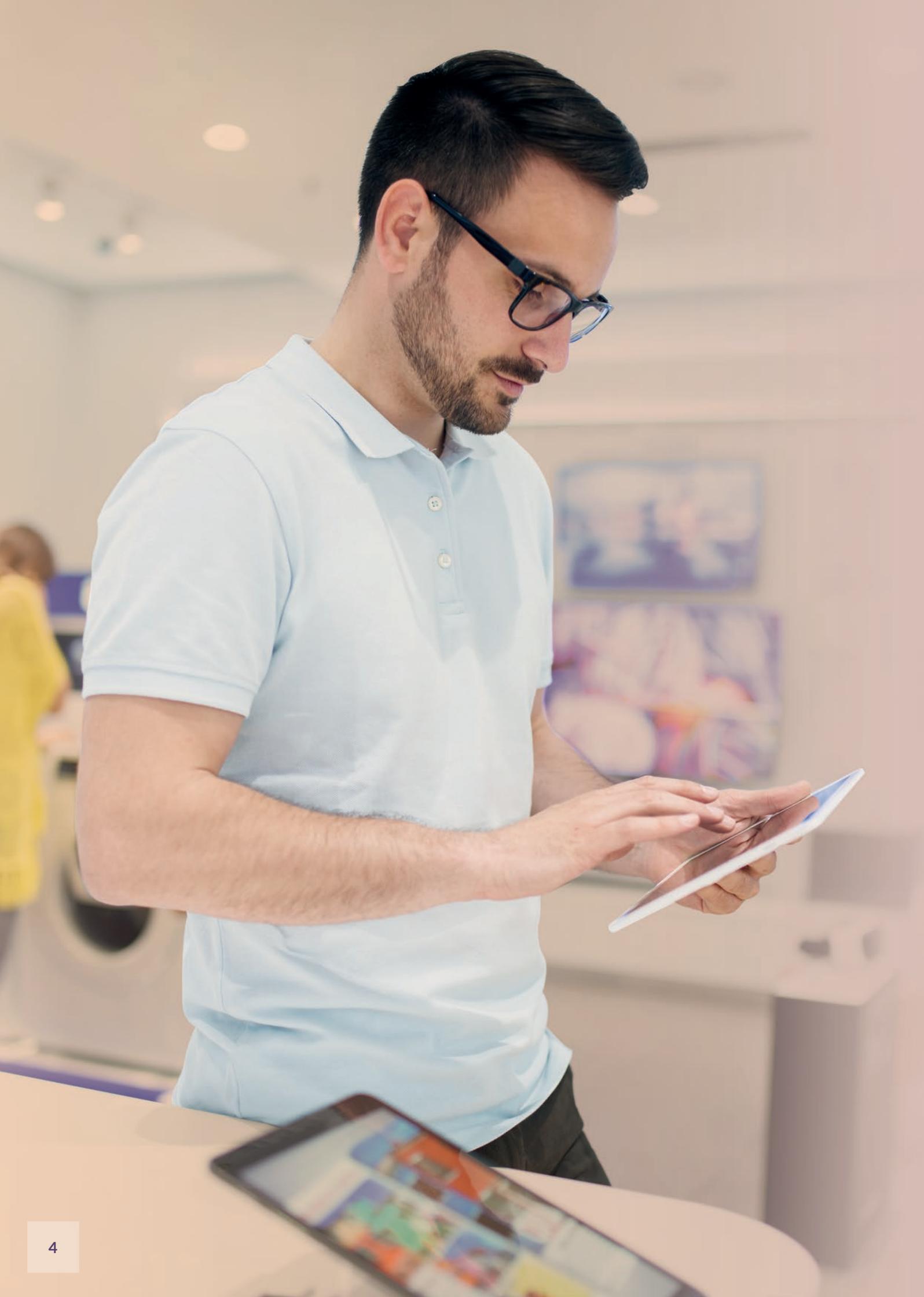
For boutiques, the results were mixed: cosmetic brands and some clothing labels like Gap and Banana Republic saw a substantial improvement over preceding years. But brands like Sfera and Williams-Sonoma experienced a drop in margins, due to the exchange rate in the early months of 2017 and excess inventory in the last months of the year.

Although it is increasingly difficult to separate online sales from physical stores, internet and phone sales grew 45.6% between 2016 and 2017. Today, in much of their online shopping, customers prefer to pick up the merchandise in our stores under the Click & Collect system, while a substantial portion of in-store sales are made following the customers' previous browsing in our online store. Clearly the market is increasingly hybrid—an omnichannel world—and that is where we are focusing, committed to remaining an important part of our customers' lives.

Sincerely,



**Graciano Guichard G.**  
Chief Executive Officer  
December 31, 2017



# The Board of Directors' Report to the Shareholders' Meeting



Bringing a new service proposition to Mexican families and consistently responding to their needs and expectations has been a constant throughout the 170-year history of Puerto de Liverpool. Continuing that history, in 2017 the company brought substantial and ambitious growth plans to fruition, while placing the highest priority on providing excellent service for our shoppers.

After incorporating Suburbia in April, we further positioned ourselves as a group of organizations offering various retail and service propositions. This sets us apart from the rest of the market, because we not only offer pleasant shopping experiences, but satisfy a wide range of needs, while reaching many different market segments.

During the year we began operations at four Liverpool stores, seven Fábricas de Francia and two Suburbias. We opened Liverpool in eastern Tuxtla Gutiérrez, Puebla Zaragoza, Toreo in Mexico City, and Tlaxcala. This last opening completed our presence in every state in Mexico. For Fábricas de Francia there were openings at Buenavista, Apizaco, Tonalá, Saltillo, Oaxaca Plaza Bella, Chalco and Comitán, along with Suburbia stores in Campeche and Aguascalientes.





We now have 27 Galerías shopping centers, after the opening of the new Galerías Tlaxcala. Remodeling work continues at Perisur, Plaza Satélite and Galerías Monterrey, in an effort to bring modern spaces to our customers. Also during the year we completed expansion work at Galerías Atizapán and Mérida.

Following the September 19<sup>th</sup> earthquake our stores and shopping center at Villa Coapa in Mexico City (Liverpool, Galerías and Suburbia) remain closed. We expect to begin repair works early in 2018.

Our Sfera boutiques focus on quality, continuous renewal and variety in its collections. During the year we added 6 stores and now have a total of 45.

On another front, amid keen competition, Liverpool and Fábricas de Francia credit cards remain the preferred means of payment at our stores. Today these total more than four million accounts.

The Liverpool Premium Card launched a novel advertising campaign to promote its advantages, achieving more than 680,000 accounts.

The Liverpool and Fábricas de Francia Insurance Center made considerable progress in its consolidation strategy, earning favorable quality and service ratings from our more than two million clients. The Center also introduced new programs like Cell Phone and Home Protection.



The incorporation of Suburbia into Puerto de Liverpool taps a market full of opportunities, one of the fastest growing in the country.

Suburbia's value proposition is aimed at customers seeking affordable fashion clothing and accessories, with a focus on image and selection. Its sense of innovation offers apparel at the best prices, with a wide variety of exclusive brand names like Weekend, Nonstop, Contempo, Mossimo, Metropolis, La Mode and Gianfranco Dunna, in addition to renowned labels.

In March, the Mexican anti-monopoly authorities (COFECE) gave its unrestricted authorization for the Suburbia acquisition, and in April, having completed all the necessary formalities, we began to incorporate the company to the group. For customers, the transition was seamless, with uninterrupted service.

Suburbia stores began accepting the Liverpool credit card, which has already recorded a good level of use.

We welcome Suburbia's more than 8,500 associates, who are key to the development of this business.



The Omnichannel platform has a clear vision: “Liverpool will be the undisputed leader in omnichannel sales in Mexico.” And we have everything to achieve it: brand recognition, the support of our credit card, an extensive product and service catalog, logistics infrastructure, and, more importantly, its stores and its team of employees.

Online sales grew 45.6% compared to the previous year, in addition to a compounded growth of 80% in the past six years. These results are backed by the following operating principles: free shipment at all times, satisfaction guaranteed, and easy online shopping with in-store pickup—Click and Collect. Changes and returns are done by whatever means the client finds most convenient.





Liverpool has introduced some major technological improvements, like apps for iOS and Android, and tools to facilitate online clothing shopping.

We are committed to guaranteeing our customers ease and security in their online transactions. That's why our fraud prevention and secure transaction program incorporates the latest in world-class technology.

We have expanded the number of electronic tablets for our sales force, which allow them to offer customers access to the full catalog of Liverpool products, regardless of the sales floor area of their particular store.

As the benchmark for fashion in Mexico, Liverpool shares the latest trends through Fashion Fest, an eagerly-awaited fashion event for Liverpool customers. This year it included an appearance by Megan Fox and music by Ricky Martin. The eighth Fashion Fest Kids event was also held, keeping the entire family's fashion needs in mind.

Liverpool stores strive to meet customers' expectations, offering a diverse shopping experience, interactive spaces and the best toy store, among many other options. For shoppers with small children, we have spaces where they can play and be with their families.



As has become our tradition, we kicked off the holiday season with the Third Annual Parade of “Bolo the Bear” down Mexico City’s historic Paseo de la Reforma, and the “Bolo Show” came to many of our stores, to the delight of our youngest customers.

In its first year of operation, our new call center in Morelia, Michoacán strengthened its operations, and has become one of the city’s largest employment opportunities. With a staff of 650, the center served more than 4 million customers, while reducing operating costs by more than 15%.

Our network of distribution centers, stores and warehouses handled more than 165 million products that traveled 58 million kilometers. As a key element in the omnichannel strategy, we visited 2.2 million homes to deliver 3.4 million packages across the nation. We announced an investment in a vast logistics center that will cover over 175 hectares, located at the intersection of the Mexico-City/Queretaro and Arco Norte highways, a key strategic nexus for the country. The first phase is due to startup in the year 2021.

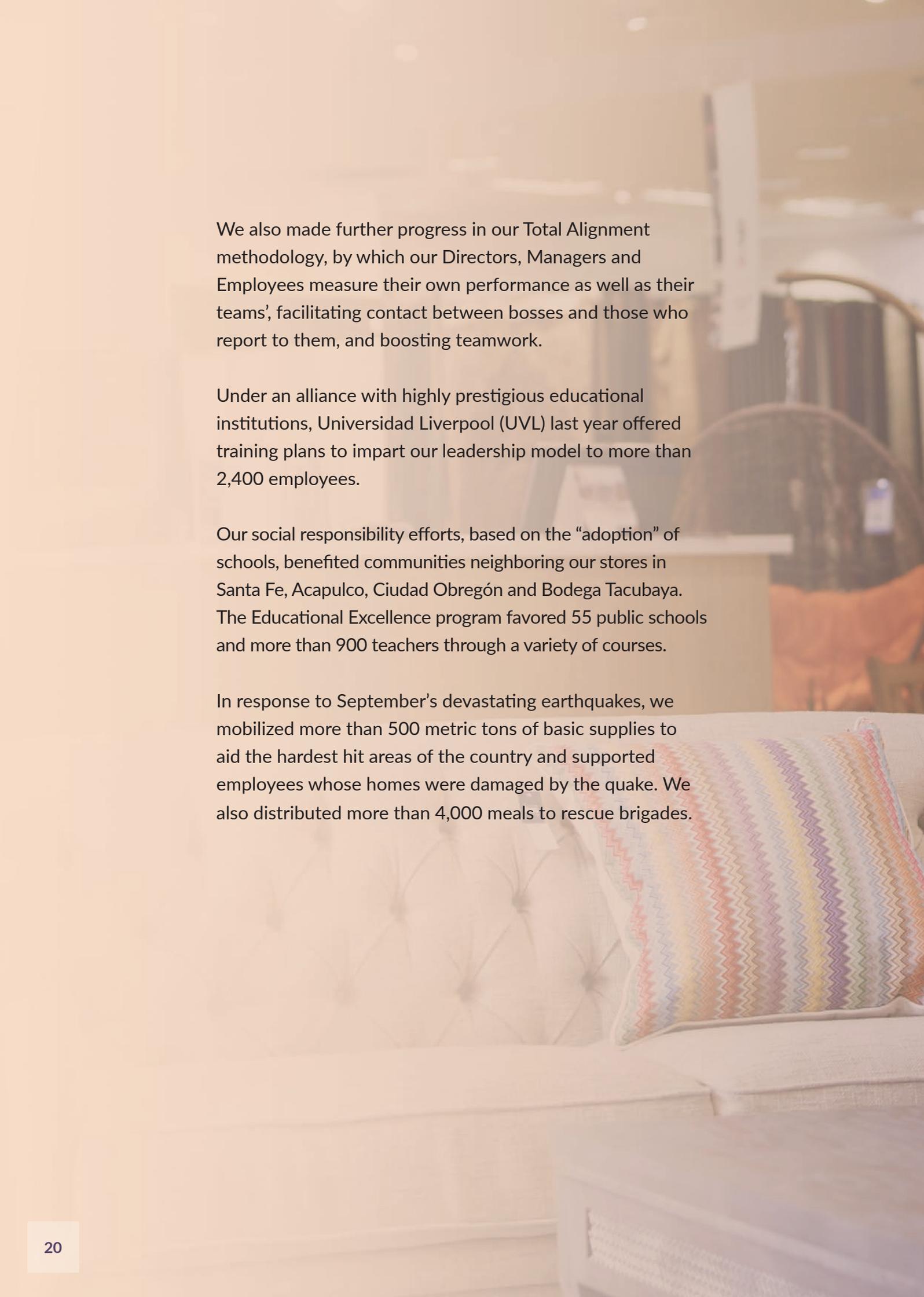




Our organizational development seeks to offer innovative solutions that meet the needs of our customers, and we know that our team of employees is essential to achieving this goal.

Because training is a crucial way to improve service, we strengthened the skills of more than 15,000 advisors through our Sales Expert Induction Program, which enhances the focus on service and creates surprising shopping experiences through new technology. Our customers benefit from quick attention and unlimited access to our supply of products through the extended catalog.





We also made further progress in our Total Alignment methodology, by which our Directors, Managers and Employees measure their own performance as well as their teams', facilitating contact between bosses and those who report to them, and boosting teamwork.

Under an alliance with highly prestigious educational institutions, Universidad Liverpool (UVL) last year offered training plans to impart our leadership model to more than 2,400 employees.

Our social responsibility efforts, based on the “adoption” of schools, benefited communities neighboring our stores in Santa Fe, Acapulco, Ciudad Obregón and Bodega Tacubaya. The Educational Excellence program favored 55 public schools and more than 900 teachers through a variety of courses.

In response to September’s devastating earthquakes, we mobilized more than 500 metric tons of basic supplies to aid the hardest hit areas of the country and supported employees whose homes were damaged by the quake. We also distributed more than 4,000 meals to rescue brigades.



# Operating Summary



Total revenue in 2017 amounted to Ps. 122.17 billion pesos, a 21.6% increase over 2016.

In order to further strengthen the companies and various divisions that make up Puerto de Liverpool, on June 16 the following individuals were appointed to our senior management: Rolando Campos as General Manager of Liverpool, Laurence Pepping as General Manager of Suburbia and Digital Strategy, Santiago de Abiega as General Manager Credit Card Businesses, Ernesto Ynestrillas as General Manager of Real Estate, Carlos Marín as International and Boutiques Director, and finally, Antonino Guichard as Omnichannel Director.

Amid a challenging macroeconomic environment and slower consumption, retail and services sales totaled Ps. 108.58 billion pesos, a 23.5% growth overall, while in same-store terms, the growth excluding Suburbia was 5.8%, both compared to the previous year. These figures were achieved despite the closure of the Liverpool and Suburbia stores at Villa Coapa for repairs after the September 19<sup>th</sup> earthquake.

Credit card revenue grew 11.9%, and the portfolio expanded by 8.1%. During the year, 45.5% of retail sales were done with Liverpool credit cards.

Special attention has been placed on new credit offerings, and in adjusting interest rates to keep pace with market conditions. To mitigate the risks related to a possible growth in non-performing loans, prompt measures were taken with an emphasis on lending and collection-related issues. At the close of the year, the NPL ratio was 4.5%, indicating a satisfactory containment of risk.

Revenue related to real estate declined by 2.4% compared to 2016, to Ps. 3.10 billion. Occupancy remained at 97%, although the Galerías Coapa shopping center remains closed following the September 19<sup>th</sup> earthquake.

Property damages and business interruption as a result of the earthquake are duly covered by the respective insurance plans. We have already begun receiving some payments on these policies.

Because of the company's growth, the incorporation of Suburbia, the rise in non-performing loans in the credit portfolio, and one-off effects booked in the year, operating expense rose 24.6%. The increase would have been 12.1% without these one-off charges.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached Ps. 18.35 billion, which is 14.3% higher than in 2016.

Interest expense and related items were affected by a rise in debt levels and the volatility of the peso/dollar exchange rate. Net interest expense in 2017 totaled Ps. 2.99 billion, including a foreign-exchange loss of Ps. 895 million caused by the peso's revaluation, generating a book effect opposite to the gain reported at the close of 2016.

Grupo Unicomer, a company in which we own a partial stake, is going through a phase of consolidation and has been affected by economic variables in some countries of Central and South America and the Caribbean.

Income taxes totaled Ps. 4.10 billion, while other taxes withheld and paid, import taxes and fees, and contributions to IMSS and INFONAVIT totaled Ps. 11.38 billion.

Net earnings came to Ps. 9.89 billion for the year, a 2.5% decline from 2016.

To finance our growth plan and cover upcoming maturities, this year we issued a Ps. 5.0 billion bond on the domestic market, with a combined maturity of five and ten years. The bond is hedged with a fixed interest rate. We also drew down Ps. 5.0 billion of a floating-rate syndicated loan. At the close of the fiscal year Ps. 1.25 billion of that loan had been pre-paid.

In the Ordinary Annual Shareholders' meeting of March 2, 2017, a dividend of Ps. 1.29 billion was declared, distributed among the 1,342,196,100 shares that represent the company's capital stock.

The year 2017 will be remembered for the following events, which shaped the development of our organization: the acquisition of Suburbia, the consolidation of this conglomerate of companies, a record number of openings—eleven Liverpool and Fábricas de Francia stores and two Suburbia stores—, the continuing growth of the Omnichannel strategy, and the effects of the September earthquakes; as well as our capacity to weather a difficult and complex macroeconomic climate.

We are grateful for the support of our shareholders, and for the loyalty of our customers, suppliers, tenants and employees during another year of profitable growth for Puerto de Liverpool.

Sincerely,

**Board of Directors**

*Mexico City, December 31, 2017*



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# Board of Directors

## **Max David<sup>1</sup>**

Chairman

## **Madeleine Brémond S.<sup>1</sup>**

Vice Chairman  
Director of Orion Tours, S.A. de C.V.

## **Miguel Guichard<sup>1</sup>**

Vice Chairman  
Member, Executive Committee

## **Enrique Brémond S.<sup>1</sup>**

Administrator, Victium, S.A. de C.V.

## **Jorge Salgado<sup>2,3</sup>**

Independent Consultant and Chairman of the  
Audit and Societary Practices Committee

## **Juan David<sup>1</sup>**

Director, Banco Invex, S.A.

## **Pedro Velasco<sup>2,3</sup>**

Partner Emeritus and Board Member, Santamarina  
and Steta, S.C.

## **Juan Miguel Gandoulf<sup>2,3</sup>**

Director, Sagnes Constructores, S.A. de C.V.

## **Armando Garza Sada<sup>2</sup>**

Chairman, Alfa, S.A.B. de C.V.

## **Ricardo Guajardo<sup>2</sup>**

Consultant

## **Graciano Guichard M.<sup>1</sup>**

Director, M. Lambert y Cía. Sucs., S.A. de C.V.

## **Guillermo Simán<sup>2</sup>**

Vicepresident, Grupo Unicomer

## **Esteban Malpica<sup>2</sup>**

Directing Partner, Praemia, S.C.

## **Maximino Michel G.<sup>1</sup>**

Independent Businessman

## **Luis Tamés<sup>2</sup>**

Independent Businessman

## **Ignacio Pesqueira**

Secretary  
Partner, Galicia Abogados, S.C.

## **Norberto Aranzábal**

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

## **Executive Committee**

### **Graciano Guichard G.**

Chairman

### **Santiago de Abiega**

Max David

Miguel Guichard

Enrique Güijosa

Ernesto Ynestrillas

### **Norberto Aranzábal**

Secretary

## **Patrimony Board**

### **Enrique Brémond**

Chairman

### **Juan David**

Member of the Board

### **Juan Guichard**

Member of the Board

### **Magdalena Michel**

Member of the Board

### **Madeleine Brémond**

Alternate Board Member

### **Monique David**

Alternate Board Member

### **Magdalena Guichard**

Alternate Board Member

### **Bertha Michel**

Alternate Board Member

### **Alejandro Duclaud**

Secretary

## **Honorary Chairman**

### **Enrique Brémond**

## **Honorary Board Members**

José Calderón

J. Claudio Montant

Pedro Robert

<sup>1</sup> Patrimony Board Member

<sup>2</sup> Independent Board Member

<sup>3</sup> Audit Committee Member



# Consolidated Financial Statements

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# Independent auditors' report



## To the Stockholders and board members of El Puerto de Liverpool, S. A. B. de C. V.:

### Opinion

We have audited the consolidated financial statements of El Puerto de Liverpool, S. A. B. de C. V. and its subsidiaries (the Company) which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's "Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key audit matter

### Recognition of the acquisition of a business

As mentioned in Note 1 to the consolidated financial statements, on April 4, 2017, the Company acquired control of Suburbia, S. de R.L. de C.V. (Suburbia) whose main activity is the design and marketing of clothing and accessories, through a chain of department stores located in Mexico. The total consideration amounted to \$18,205 million, and the fair value of the assets acquired, liabilities assumed and goodwill, determined and recognized at the acquisition date amounted to \$15,431, \$4,708 and \$7,482 million, respectively.

During our audit, we focused on this acquisition due to the importance of the fair value of the assets acquired and liabilities assumed, as well as the resulting goodwill, since the determination of fair values requires the application of significant judgments based on complex variables.

In particular, we focused our audit efforts on the most relevant assets identified, whose fair value required the use of significant judgments that were: i) own brands operated by Suburbia for \$ 3,668 million; ii) the intangible derived from the knowledge of the business and operating process acquired for \$2,109 million; and iii) the real estate and properties acquired for \$ 5,319 million. Assumptions, premises or most relevant variables in these areas were: cash flows, discount rate, betas, royalty rates, benefits for tax amortization (TAB), demerit factors and determination of the useful life. Also the determination of fair value of the consideration required the use of significant judgments, specifically to project the different possible scenarios.

## How our audit addressed the key audit matter

### Our audit procedures included the following:

Due to the significant judgments used by the Administration in the valuation models to determinate the consideration of the fair values of assets acquired and liabilities assumed, particularly in the case of trademarks, intangible assets and real estate and properties, we involved our valuation experts to selectively evaluate the premises and criteria used by the Administration and its independent expert in those models. Specifically:

We evaluated the ability and objectivity of the independent expert.

With the support of our valuation experts, we checked the models used by the Administration to determinate of fair values were those used and recognized to value assets with similar characteristics in the industry. Likewise, we verified that equally recognized methods were used for the calculation of the terminal value, if any (value of acquired business), which is based on a normalized flow.

We challenged the financial projections of the Administration, including the terminal value determined by the Administration, comparing it with the performance and historical trends of the Company's businesses, and where appropriate obtaining from the Administration the corresponding explanations.

We corroborated the Administration's projections were consistent with the budgets approved by the Company's Board of Directors.

We compared the budgeted figures with the real results to identify if some assumptions in the projections could be considered very optimistic.

We compared the most relevant valuation assumptions (discount rate, betas, royalty rates, benefits for tax amortization (TAB), demerit factors, as well as the determination of the useful life of the assets), with independent sources of market that contain those commonly used and accepted for assets of these characteristics for the industry in which each entity comprising the Company develops.

We compared on a selective bases, the replacement values of fixed assets determined by independent experts with information available in the market.

## Key audit matter

### Provision for impairment of loan portfolio

As described in Notes 3.3.2 and 8 to the financial statements, the loan portfolio for an amount of \$ 38,145 million pesos, originates from the goods and services acquired on credit by the cardholders of the Company and consists of the balances of two credit cards: 1) "Liverpool" and 2) "Liverpool Premium Card", the portfolio's recoverability is evaluated periodically recognizing the provisions for impairment corresponding to each group of credits, in accordance with IFRS.

The provision for the impairment of loan portfolio for an amount of \$3,086 million pesos it is based on an incurred loss model, whose calculation methodology mainly considers: 1) exposure to default, 2) probability of default of payment and 3) estimated loss given default.

During our audit we focused on this area mainly because of the importance of the value of loan portfolio and the provision for impairment of the portfolio, and because the process to determine the provision is complex involving different variables described in the preceding paragraph.

In particular, we focused our audit efforts on the assumptions used by the Administration such as, the classification of portfolio balances by aging segment, the probability that the accounts default and are unrecoverable.

### Additional Information

Management is responsible for the other information. The other information comprises the annual report presented to the National Banking and Securities Commission (CNBV) and the annual information presented to shareholders (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

### Responsibilities of the Administration and those Responsible for the Governance of the Company in relation to the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## How our audit addressed the key audit matter

As part of our audit, we performed the following procedures:

With the support of our valuation experts, we analyzed the methodology used by the Administration to determine the provision for impairment of the loan portfolio.

Due to the relevance of the portfolio's aging report for the calculation and evaluation of the impairment provision, the controls on the information system that generate it, in particular, for a sample of clients, their classification was reprocessed at the end of the year to consider the appropriate classification of the accounts according to their aging.

We reprocessed through selective tests the determination of the calculations generated by the system considering exposure to default, probability of default and estimated loss given default, comparing them against the calculation methodology.

We evaluated on a selective basis the assumptions used by the Administration considering the indicators of the historical behavior of the portfolio and the actual write-offs occurred twelve months after the year end.

## Responsibilities of the Auditors in relation to the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicated those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is stated below.

PricewaterhouseCoopers, S. C.



**José Luis Guzmán**  
Audit Partner

Mexico City, March 14, 2018

# Report of the **audit and societary practices committee**

Mexico City, February 16, 2018

To the Board of Directors of  
El Puerto de Liverpool, S.A.B. de C.V.

We, the undersigned, appointed as members of the Audit and Corporate Practices Committee of this company, present the report on the activities carried out pursuant to article 43 of the Securities Market Act.

The Committee met four times during the year, addressing, among others, the following points:

I. The General Shareholders' Meeting held March 2, 2017, appointed Mr. Jorge Antonio Salgado Martínez chairman of the Audit and Corporate Practices Committee for fiscal year 2017.

## II. On audit matters:

- a) We evaluated the external auditing plan and proposal for professional services accepted by Management, and recommended to the Board of Directors that the firm PricewaterhouseCoopers be hired as external auditor to audit the financial statements of the Company and its Subsidiaries for the fiscal year ended on December 31, 2017.
- b) We evaluated and found that the Company has internal and external mechanisms that provide reasonable certainty of compliance with the Laws and Regulations applicable to it.
- c) We were apprised of the Company's bookkeeping policies as well as their impact on the figures contained in the financial statements as of December 31, 2017 and 2016, ensuring that the financial information was duly presented.
- d) We followed up on the organization and functions of the Company's Internal Audit Department; received its annual report of activities for the year 2017, the relevant findings, and its audit plan for the year 2018.
- e) We evaluated and found that the company has operating systems, policies and procedures by which it may be considered to have an appropriate climate of internal control and bookkeeping.
- f) We were apprised of the Company's degree of adherence to the Code of Best Corporate Practices, recommended by the Mexican Stock Exchange, per the report with information at December 31, 2016, filed on May 31, 2017.
- g) We were informed of any lawsuits and litigations in progress, as well as the results of those concluded during the period in question.
- h) We reviewed the consolidated financial statements as of December 31, 2017, the notes thereto, and the audit report thereon, issued by the Independent Auditors.
- i) We were apprised of the status of the reserves and estimates included in the financial statements at December 31, 2017.
- j) We were informed of the observations and recommendations of the External Auditors, related to their examination of the consolidated financial statements as of December 31, 2016.
- k) We reviewed the statistics on transactions reported to the authorities in pursuant to anti-money laundering regulations.

### III. On the matter of corporate practices:

- a) We consider the performance of senior management to have been appropriate and efficient, taking into account the circumstances under which they have discharged their responsibilities.
- b) We were informed of transactions with related parties, and found that the amounts thereof were not significant with respect to the Company's operations, and that they were conducted in accordance with market conditions.
- c) We performed an overall review of the criteria by which overall remuneration is determined for key Company's directors; we consider such remuneration to be reasonable and consistent with market conditions.

As a result of the activities carried out by this Committee, and having heard the opinion of 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 as of December 31, 2017, in the terms in which such statements have been prepared and presented by Company management to the General Shareholders' Meeting for its approval.

Sincerely,

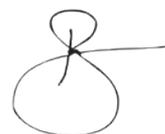
### The Audit and Corporate Practices Committee



Juan Miguel Gandouf



Jorge Salgado



Pedro Velasco

# Consolidated statements of financial position

(Notes 1, 2 and 3)  
Thousands of pesos

	Note	December 31, 2017	December 31, 2016	January 1, 2016 <u>Restated<sup>(1)</sup></u>
<b>Assets</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	7	\$ 16,635,078	\$ 25,574,230	\$ 8,583,219
Loan portfolio - Net	8	25,770,575	23,557,486	22,762,580
Value added tax recoverable		2,305,640	2,922,699	1,319,231
Other accounts receivable - Net	9	2,183,187	1,092,800	916,278
Derivative financial instruments	10	56,593	-	-
Inventory		18,486,423	16,127,451	13,849,931
Prepaid expenses		1,913,794	1,908,003	1,304,704
<b>Total current assets</b>		<b>67,351,290</b>	<b>71,182,669</b>	<b>48,735,943</b>
<b>NON - CURRENT ASSETS:</b>				
Loan portfolio - Net	8	9,288,273	8,879,363	7,981,563
Other accounts receivable - Net	9	264,681	224,759	210,664
Derivative financial instruments	10	3,495,929	4,028,255	1,516,534
Investments in associates	11 and 24	7,414,960	7,228,797	6,028,798
Investment properties - Net	12	18,922,292	17,594,019	16,305,027
Property, furniture and equipment - Net	13	43,855,877	35,463,511	31,924,823
Intangible assets - Net	14	16,274,581	2,666,831	2,321,350
Deferred income tax	21.2	1,398,238	719,297	297,764
Employee benefits-Net	17	-	-	164,020
<b>Total assets</b>		<b>\$ 168,266,121</b>	<b>\$ 147,987,501</b>	<b>\$ 115,486,486</b>
<b>Liabilities</b>				
<b>CURRENT LIABILITIES:</b>				
Suppliers		\$ 22,535,802	\$ 19,106,919	\$ 15,210,743
Creditors		9,652,309	8,406,002	6,992,277
Provisions	15	2,074,419	1,606,127	1,555,440
Short-term debt	16	2,858,956	2,100,000	-
Deferred income		2,060,342	1,927,445	1,760,558
Derivative financial instruments	10	20,486	-	-
Income tax payable		131,435	1,052,249	724,583
<b>Total current liabilities</b>		<b>39,333,749</b>	<b>34,198,742</b>	<b>26,243,601</b>
Long-term debt	16	33,358,545	28,471,826	14,096,066
Derivative financial instruments	10	-	31,802	102,050
Employee benefits-Net	17	1,494,031	787,231	526,405
Deferred income tax	21.2 and 24	3,997,418	3,162,404	3,173,552
<b>Total liabilities</b>		<b>78,183,743</b>	<b>66,652,005</b>	<b>44,141,674</b>
<b>Stockholders' equity</b>				
Capital stock	20	3,374,282	3,374,282	3,374,282
Retained earnings		82,963,786	74,474,249	65,864,825
Capital reserves	20.2	3,520,023	3,483,220	2,100,449
Stockholders' equity attributable to parent company		89,858,091	81,331,751	71,339,556
Non-controlling interests		224,287	3,745	5,256
<b>Total stockholders' equity</b>		<b>90,082,378</b>	<b>81,335,496</b>	<b>71,344,812</b>
<b>Total</b>		<b>\$ 168,266,121</b>	<b>\$ 147,987,501</b>	<b>\$ 115,486,486</b>

<sup>(1)</sup> See Note 24

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

# Consolidated statements of comprehensive income, by expenses function

(Notes 1, 2 and 3)

Thousands of pesos, except earnings per share

	Note	2017	Year ended on December 31, 2016
			Restated <sup>(*)</sup>
<b>Operating revenue:</b>			
Net sales of merchandise		\$ 107,207,837	\$ 87,463,880
Interest earn from customers		10,480,928	9,365,108
Leasing income		3,104,213	3,179,298
Services and others		1,375,301	433,250
<b>Total revenue</b>	2.22	<b>122,168,279</b>	<b>100,441,536</b>
<b>Costs and Expenses:</b>			
Cost of sales		73,387,487	60,107,806
Administrative expenses		33,549,108	26,927,339
<b>Total costs and expenses</b>	23	<b>106,936,595</b>	<b>87,035,145</b>
Operating income		15,231,684	13,406,391
Interest expense		(2,770,722)	(1,344,225)
Foreign exchange loss		(4,366,841)	(324,047)
Financing cost		(7,137,563)	(1,668,272)
Foreign exchange gain		3,471,895	1,073,848
Finance income		681,631	335,426
Equity in the results of associates	11 and 24	628,030	715,672
Profit before income tax		12,875,677	13,863,065
Income tax	21 and 24	2,989,340	3,724,156
<b>Consolidated net income</b>		<b>9,886,337</b>	<b>10,138,909</b>
<b>Other comprehensive income, net of taxes:</b>			
<b>Components to be subsequently reclassified to income</b>			
Cash flow hedges- Net of income tax		539,908	652,371
Translation effect of investment in associates- net		(503,105)	730,400
<b>Components to not to be subsequently reclassified</b>			
Remediation of the liability for defined benefits- Net of income tax	17	(130,520)	(242,488)
<b>Consolidated comprehensive income</b>		<b>\$ 9,792,620</b>	<b>\$ 11,279,192</b>
<b>Net income attributable to:</b>			
Controlling interest		\$ 9,885,690	\$ 10,140,432
Non-controlling interests		647	(1,523)
		<b>\$ 9,886,337</b>	<b>\$ 10,138,909</b>
<b>Basic and diluted earnings per share</b>	20.4	<b>\$ 7.37</b>	<b>\$ 7.55</b>
<b>Comprehensive income attributable to:</b>			
Controlling interest		\$ 9,791,382	\$ 11,280,703
Non-controlling interests		1,238	(1,511)
		<b>\$ 9,792,620</b>	<b>\$ 11,279,192</b>
<b>Basic and diluted earnings per share</b>		<b>\$ 7.30</b>	<b>\$ 8.40</b>

(\*) See Note 24

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

# Consolidated statements of changes in stockholders' equity

(Notes 1, 2, 3, 20 and 24)

Thousands of pesos; unless dividends paid

	Capital stock	Retained earnings	Capital reserves	Total stockholders' equity attributable to the controlling shareholders	Non-controlling interest	Total stockholders' equity
Balances at January 1, 2016						
originally reported	\$ 3,374,282	\$ 66,227,239	\$ 2,100,449	\$ 71,701,970	\$ 5,256	\$ 71,707,226
Adjustments (net of taxes) Note 24	-	(362,414)	-	(362,414)	-	(362,414)
Restated balances at beginning of the year	3,374,282	65,864,825	2,100,449	71,339,556	5,256	71,344,812
Comprehensive income:						
Net income	-	10,191,128	-	10,191,128	(1,523)	10,189,605
Remeasurement of the liability for defined benefits -						
Net of income tax	-	(242,500)	-	(242,500)	12	(242,488)
Translation effect of investment in associates- Net	-	-	730,400	730,400	-	730,400
Cash flow hedges, net of income tax	-	-	652,371	652,371	-	652,371
Total comprehensive income	-	9,948,628	1,382,771	11,331,399	(1,511)	11,329,888
Transaction with owners:						
Dividends paid (\$0.96 pesos per share)	-	(1,288,508)	-	(1,288,508)	-	(1,288,508)
Total transactions with stockholders	-	(1,288,508)	-	(1,288,508)	-	(1,288,508)
Balances at December 31, 2016						
originally reported	3,374,282	74,524,945	3,483,220	81,382,447	3,745	81,386,192
Adjustments (net of taxes) Note 24	-	(50,696)	-	(50,696)	-	(50,696)
Restated balances at December 31, 2016	3,374,282	74,474,249	3,483,220	81,331,751	3,745	81,335,496
Comprehensive income:						
Net income	-	9,885,690	-	9,885,690	647	9,886,337
Remediation of the liability for defined benefits-						
Net of income tax	-	(131,111)	-	(131,111)	591	(130,520)
Translation effect of investment in associates- Net	-	-	(503,105)	(503,105)	-	(503,105)
Cash Flow hedges, net of income tax	-	-	539,908	539,908	-	539,908
Total comprehensive income	-	9,754,579	36,803	9,791,382	1,238	9,792,620
Transaction with owners:						
Transaction with non-controlling interest	-	23,466	-	23,466	219,304	242,770
Dividends paid (\$0.96 pesos per share)	-	(1,288,508)	-	(1,288,508)	-	(1,288,508)
Total transactions with stockholders	-	(1,265,042)	-	(1,265,042)	219,304	(1,045,738)
<b>Balance at December 31, 2017</b>	<b>\$ 3,374,282</b>	<b>\$ 82,963,786</b>	<b>\$ 3,520,023</b>	<b>\$ 89,858,091</b>	<b>\$ 224,287</b>	<b>\$ 90,082,378</b>

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

# Consolidated cash flow statements

(Notes 1, 2 and 3)  
Thousands of pesos

	Note	2017	Year ended on December 31, 2016
<b>Operating activities</b>			
Profit before income tax		\$ 12,875,677	\$ 13,863,065
Adjustment from items not implying cash flows:			
Depreciation and amortization		3,423,103	2,644,521
Provision for impairment of the loan portfolio	8	3,081,018	2,337,642
Inventory reserve		832,139	786,735
Share of profit of associates	11.2	(628,030)	(715,672)
Gain on sale of property, furniture and equipment		(370,588)	(11,578)
Gain on sale of investment properties		-	(57,512)
Net cost for the period of labor obligations	17	183,151	84,526
Interest earned		(5,708,985)	(4,754,420)
Accrued interest expense		2,770,722	1,338,235
		3,582,530	1,652,477
<b>(Increase) decrease in:</b>			
Interest earned from customers		5,672,913	4,780,945
Short - term loan portfolio		(5,258,035)	(3,159,073)
Inventory		(921,726)	(3,064,255)
Value added tax recoverable		1,296,974	(1,603,468)
Other accounts receivable		(908,773)	(176,522)
Prepaid expenses		133,095	(603,299)
Long - term loan portfolio		(408,910)	(897,800)
Other long-term accounts receivable		(39,922)	(14,095)
<b>Increase (decrease) in:</b>			
Suppliers		2,041,505	3,896,176
Provisions		6,954	50,687
Deferred income		129,180	166,887
Creditors		(451,761)	944,592
Employee benefits paid		48,949	97,832
Taxes paid		(4,438,208)	(3,678,173)
Net cash flows from operating activities		13,360,442	12,255,976
<b>Investment activities</b>			
Acquisition of subsidiary - net of cash		(17,532,852)	-
Dividends received from associates		120,102	246,069
Acquisition of property, furniture and equipment	13	(5,807,501)	(5,701,018)
Acquisition of investment property	12	(1,558,595)	(1,356,248)
Sale of property, furniture and equipment		815,193	124,768
Sale of investment properties		-	84,847
Investment in new IT developments	14	(1,051,703)	(900,941)
Net cash flows from investing activities		(25,015,356)	(7,502,523)
Cash to be applied in financing activities		(11,654,914)	4,753,453
<b>Financing activities</b>			
Dividends paid	20.1	(1,288,292)	(1,288,366)
Interest paid		(2,645,946)	(1,020,240)
Debt paid		(3,350,000)	-
Issuance of senior notes		10,000,000	14,546,164
Net cash flows from financing activities		2,715,762	12,237,558
Net (decrease) increase of cash and temporary investments		(8,939,152)	16,991,011
Cash and cash equivalents at the beginning of the year		24,818,261	7,759,790
Exchange loss on cash and cash equivalents		755,969	823,429
<b>Cash and cash equivalents at end of year</b>		<b>\$ 16,635,078</b>	<b>\$ 25,574,230</b>

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

# Notes to the consolidated financial statements

December 31, 2017 and 2016

Thousands of pesos, unless otherwise specified

## Note 1- General information:

El Puerto de Liverpool, S.A. B. de C.V. and subsidiaries (“the Company” or “Group”) operate a chain of department stores, founded in 1847, engaged in selling a broad variety of products such as clothes and accessories for men, women and children, household articles, furniture, cosmetics and other consumer products. The Company is registered on the Mexican Stock Exchange and has an important presence in Mexico City. At December 31, 2017, the Company operated a total 131 department stores, 90 under the name of Liverpool, 41 under the name Fábricas de Francia, and 121 specialized boutiques and 124 under the name Suburbia. In 2017, eleven new stores started operations, four with Liverpool format: (Tlaxcala, Tlaxcala; Tuxtla Oriente, Chiapas; Parque Puebla, Puebla y Parque Toreo, Cd. de México) and seven with Fábricas de Francia format (Buenavista, Cd. de México; Apizaco, Tlaxcala; Tonalá Plaza Lomas, Jalisco; Saltillo, Coahuila; Chalco, Edo. de México; Oaxaca Plaza Bella, Oaxaca y Comitán, Chiapas) and two with Suburbia format. In 2016, ten new stores started operations, four with Liverpool format: (Monterrey, Nuevo León, Tampico, Tamaulipas, Hermosillo, Sonora and Zamora Michoacan), and six with Fábricas de Francia format: (los Mochis in Sinaloa, Tijuana in Baja California, two in State of México, (Nicolás Romero and Tecámac), Tuxtepec in Oaxaca and Uriangato in Guanajuato; and 20 specialty boutiques. After the earthquake of September 19, 2017, the Liverpool and Suburbia stores as well as the Galerías Coapa Shopping Center remain closed while the necessary repairs are made.

The Company grants its customers financing through the “Liverpool Credit Card”, with which customers can make purchases at exclusively at Company stores. Additionally, the Company offers the “Liverpool Premium Card (“LPC”)", with which cardholders can acquire goods and services at both stores and boutiques pertaining to the chain, and at any establishment affiliated to the VISA system worldwide.

Additionally, the Company is a partner, stockholder or co-owner of shopping malls and holds an interest in 27 different malls, known as “Galerías”, through which it leases commercial space to tenants engaged in a broad number of businesses.

The Company's headquarters and main place of business is:

Mario Pani 200  
Col. Santa Fe, Cuajimalpa  
05348 Ciudad de México

### Business combination

#### Suburbia

On August 10, 2016, the Company reached an agreement with Wal-Mart de México, S.A.B. de C.V., or Wal-Mex, to acquire its apparel retail business in Mexico under the brand Suburbia, which includes (i) 100.0% of the equity interests in four legal entities, (ii) the intellectual property rights of the “Suburbia” brand and its private labels, and (iii) 122 stores, (iv) knowledge of the operating process of purchases, commercial planning, product design and marketing (called CATMex), and (v) a distribution center located in a property rented to a third party. Suburbia has more than 45 years of experience in Mexico, and a human capital of approximately 8,500 employees.

The operation was definitively approved and without imposition of any condition by the Federal Competition Commission (“COFECE”) on March 10, 2017, taking place on April 4, 2017. The Company entered into a contract for transition services with Walmex for administration, financial and accounting services, as well as information technology processes, all of which will guarantee the continuity of Suburbia's operations. This agreement will remain in effect up to 12 months following the closing of the acquisition at the election of Liverpool.

In accordance with the requirements of IFRS, the Company acquired control of Suburbia from April 4, 2017, the date on which it had the capacity to direct its relevant activities.

Based on the provisions of the International Financial Reporting Standard 3 “Business Combinations” (IFRS 3), the acquisition was recorded using the purchase method, distributing the total consideration paid to the assets acquired and liabilities assumed, based on the fair values, and the difference between the assets acquired and liabilities assumed was recorded as goodwill.

Goodwill consists mainly of the market share obtained in a market segment that represents a high growth potential for the Company, arises from the acquisition and represents the excess of the consideration transferred and the fair value of the identifiable assets acquired and the liabilities assumed at the date of acquisition. Registered goodwill is not deductible for tax purposes.

The transaction was specified at the market value of the assets acquired, based on data derived from the valuation and studies carried out by independent experts. The total consideration paid amounted to \$18,205 million, and the fair value of the assets acquired, assumed liabilities and goodwill, determined and recognized at the acquisition date amounted to \$15,431 million, \$4,708 million and \$7,482 million, respectively.

The assets and liabilities recognized as a result of the acquisition are the following:

Thousands of pesos

	At april 4, <b>2017</b>
Current assets <sup>(1)</sup>	\$ 4,335
Property, furniture and equipment	5,319
Intangible assets <sup>(2)</sup>	5,777
Current liabilities <sup>(3)</sup>	(3,042)
Employee benefits	(341)
Deferred income tax	(1,325)
Total identifiable net assets acquired	10,723
Less: Purchase price	(18,205)
Goodwill	\$ 7,482

<sup>(1)</sup> Current assets consist of cash for \$672 million, other accounts receivable for \$326 million, inventories for \$2,349 million, value added tax for \$783 million, prepaid expenses for \$141 million and taxes recoverable for \$64 million.

<sup>(2)</sup> Intangible assets consist of brands for \$3,668 million and other intangibles (CATMex) for \$2,109 million. See Note 14.

<sup>(3)</sup> Current liabilities consist of suppliers and accounts payable of \$2,225 million, taxes payable and contributions of \$469 million and other accounts payable of \$348 million.

The consideration for the acquisition was paid in cash and the costs related to the purchase of Suburbia amounted to \$119 million as of December 31, 2017, which were recorded in the expense line in the statement of income.

The Company has entered into land lease agreements with Wal-Mex, in which some of the Suburbia stores that it acquired are located. The terms of these leases are varied and the agreed rentals are agreed at market value.

The Company began to consolidate Suburbia’s net assets in its consolidated statement of financial position as of April 30, 2017 and therefore, the net income of Suburbia is included in the consolidated statement of income as of December 31, 2017, for the nine months then ended. The Suburbia entities acquired from Wal-Mex contributed revenues of \$12,764 million and a net income of \$745 million during the period from April 4 to December 31, 2017.

If the acquisition of Suburbia had occurred on January 1, 2017, the Company’s total revenues and consolidated net income for the year ended on December 31, 2017 would have been \$126,368 and 10,813 million, respectively.

At the date of acquisition, the Company recognized a contingent liability of \$62 million pesos derived from a lawsuit filed against Suburbia by New Fairsel (clothing supplier) prior to the acquisition.

#### Ripley

On July 5, 2016, the Company entered into an Association Agreement with Inversiones R Matriz Limitada, Inversiones Familiares Sociedad Civil, Inversiones R III Limitada and International Funds Limitada, with the Calderón Volochinsky Family (Controllers). On May 19, 2017, the Company and the Controllers agreed to terminate the Association Agreement, releasing the parties from all the rights and obligations stipulated in said agreement.

## Note 2 - Summary of significant accounting policies:

These policies have been consistently applied to all the years presented, unless otherwise stated. The following is a summary of the main accounting policies applied in preparing the consolidated financial statements:

### 2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). In accordance with the changes to the Rules for Public Companies traded on the Mexican Stock Exchange, as issued by the National Banking and Securities Commission on January 27, 2009, the Company is required to prepare its financial statements using IFRS as the regulatory framework for accounting purposes.

The consolidated financial statements have been prepared on the historical cost basis of accounting, except for cash and cash equivalents and cash-flow hedges which are both measured at fair value.

Preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The areas involving a greater degree of judgment or complexity or the areas in which the assumptions and estimates are significant for the consolidated financial statements are described in Note 4.

#### 2.1.1 Going concern

The Company meets its working capital needs through reinvestment of a significant portion of its annual profits, as well as by contracting short and long-term credit lines, while respecting the debt ceiling approved by the Board of Directors. The Company's financial structure allows the Company to take on debt, despite its investments in capital expenditures carried out annually to increase the Company's total sales space by opening new stores and shopping malls. Interest payments are covered more than 5 times by operating income, which is an objective established by the Board of Directors. Taking into account the possible variations in operating performance, the Company believes its budget and projections allow it to operate with its current level of financing and meet all debt obligations. The Company is currently in compliance with its payment obligations and all debt covenants.

Management expects the Company to secure the resources necessary to continue operating as a going concern in the foreseeable future. Consequently, the consolidated financial statements were prepared on a going-concern basis.

#### 2.1.2 Changes in accounting policies and disclosures

New standards, modifications and effective interpretations for the periods beginning in or after January 1, 2017, 2018 and 2019.

Applicable standards effective as of January 1, 2017, which did not have a significant impact on the presentation of the Company's consolidated financial statements.

Disclosure initiatives - Amendments to IAS 7. You will be required to explain changes in liabilities arising from financing activities, including changes arising from cash flows (resources obtained and loan payments), and non-monetary changes, such as acquisitions, provisions, accumulation of interest, and differences due to unrealized exchange rate.

Applicable standards effective as January 1, 2018 and 2019

#### a. IFRS 9 "Financial Instruments"

##### Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

##### Impact

The new impairment model requires impairment estimates based on expected credit losses, instead of credit losses incurred under IAS 39. According to the Company's assessments of the new standard, there was a negligible increase in the estimate of losses for clients in approximately 0.4% with respect to the current provision.

The Company does not expect the new standard to have an impact on the classification and measurement of financial assets, since they are currently measured at amortized cost and based on the analysis made will continue to be measured in this way. With respect to hedge accounting, this standard will have no effect on the Company, because it will continue using the IAS 39 guidelines.

##### Date of adoption of the Company

The Company will apply the new rules retrospectively as of January 1, 2018, with the practical resources allowed by the standard, and that comparatives of 2017 will not be restated.

## b. IFRS 15 “Revenue from contracts with customers”

### Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

### Impact

Based on the analysis performed on the Company’s income types, the effects of the adoption of the new IFRS 15 will not have a significant impact on the Company’s accounting since its main revenues comply with the 5 conditions for the recognition of income in a timely manner, and in those cases whose income, which is lower, has an impact, it is a presentation effect in the statement of comprehensive income, therefore they will be reclassified to the respective item.

### Date of adoption of the Company

It is mandatory for years beginning on or after January 1, 2018. The Company intends to adopt the standard using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and the comparatives will not be restated.

## c. IFRS 16 “Leases”

### Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

### Impact

The standard will mainly affect the operating lease accounting of the Company. To date, the Company’s management is in the process of determining to what extent these commitments for operating leases will result in an asset and a liability for future payments, and how this will affect the profits and classification of the cash flows of the Company. See Note 18.

### Date of adoption of the Company

It is mandatory for the periods beginning on or after January 1, 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 2.2 Consolidation

### a. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The balances and unrealized profits or losses in intercompany operations are eliminated in the consolidation process. When necessary, accounting policies have been modified in subsidiary entities in order to be consistency with the policies adopted by the Company.

The following is a summary of the Company’s interest in subsidiaries at December 31, 2017 and 2016:

Company	Shareholding %	Activity
Operadora Liverpool, S. A. de C. V.	100%	Sub-holding of Distribuidora Liverpool, S. A. de C. V. and other companies that operate the department stores.
Bodegas Liverpool, S. A. de C. V. y Almacenadora Liverpool, S.A. de C.V.	99.99%	Storage and distribution of merchandise.
Servicios Liverpool, S. A. de C. V.	99.99%	Advisory and administrative services provided to the Company’s subsidiaries.
Banlieu, S. A. de C. V.	99.99%	Holding of Suburbia, S. de R. L. de C. V. and other companies that administrative services and real estate.
Ten real estate companies	99.93%	Development of real estate projects, mainly shopping malls.

Additionally, the Company consolidates a trust over which it has control on the basis of the indicators mentioned in IFRS 10 “Consolidated Financial Statements”. This trust is described in Note 12 to the consolidated financial statements.

### b. Associates

Associates are all those entities over which the Company exercises significant influence, but not control. Usually, associates are those of which the Company holds between 20% and 50% of the voting rights. Investments in associates are recorded by the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss, if any) identified at the time of the acquisition. The Company's equity in the profits or losses following acquisition of associates is recognized in the statement of income and its equity in the comprehensive results of an associated company, following its acquisition, is recognized in the Company's "Other comprehensive results". Post-acquisition accrued movements are adjusted against the book value of the investment. When the Company's equity in the losses of an entity equals or exceeds its interest in the entity, including any unsecured account receivable, the Company does not recognize a greater loss, unless it has incurred obligations or has made payments on behalf of the associated. The associated companies' accounting policies have been modified when necessary, for consistency with the policies adopted by the Company.

## 2.3 Segment information

Segmental information is presented to be consistent with the internal reports provided to the Operations Committee, which is the body responsible for making operating decisions, of assigning the resources and evaluating the operating segments' yield.

## 2.4 Foreign currency transactions

### a. Functional and presentation currency

The items included in each of the subsidiaries' financial statements are stated in the currency of the primary economic environment in which the entity operates (the "functional currency").

The currency in which the consolidated financial statements of the Company are presented is the Mexican peso, which in turn is also the functional currency.

### b. Transactions and balances

Foreign currency transactions are converted to the functional currency using the exchange rates in effect on the transaction or valuation dates, when the items are re-measured. The profits and losses resulting from such transactions and from other conversion at the exchange rates in effect at the year-end close of all monetary assets and liabilities denominated in foreign currency are recognized as exchange fluctuations under foreign exchange loss or gain in the statement of comprehensive income.

## 2.5. Financial assets

### 2.5.1 Classification

The Company classifies its financial assets as loans and accounts receivable, and at fair value through profit and loss. Classification depends on the purpose of the financial assets. Management determines the classification of its financial assets at the date of initial recognition.

#### a. Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets allowing for fixed or determinable payments and which are not quoted on an active market. They are classified as current assets, except for those maturing in over 12 months, which are classified as non-current assets.

#### b. Financial assets held at fair value that affect profit and loss

Financial assets held at fair value that affect profit and loss are financial assets that are held for sale. A financial asset could be classified under such category only if it's acquired mainly with the purpose of selling in the short term. Derivative financial instruments are also classified as held for sale unless they are designated as cash flow hedges. Financial Assets held for sale are classified as current if they are expected to be recovered within a period of less than twelve months; otherwise, they will be classified as a non-current.

### 2.5.2 Recognition and measurement

- a. Investments in highly liquid government bonds with a maturity of less than 28 days, they are included cash and cash equivalents. These assets are stated at fair value and value fluctuations are recorded in the results of the period.
- b. Accounts receivable comprise loans granted by the Company to its customers to acquire goods and services at its department stores or establishments affiliated to the VISA system. If recovery of these receivables is expected in a year or less, these loans are classified as current assets; otherwise, they are shown as non-current assets.
- c. Accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost, using the effective interest rate method, less the reserve for impairment
- d. Loans and accounts receivable are no longer recognized when the rights to receive cash flows from investments mature or are transferred and the Company has transferred all the risks and benefits arising from ownership. If the Company does not transfer or substantially retain all the risks and benefits inherent to ownership and continues to retain control of the assets transferred, the Company recognizes its equity in the asset and the related obligation with respect to the amounts it would be required to pay. If the Company substantially retains all the risks and benefits inherent to ownership of a financial asset that has been transferred, the Company continues to recognize the financial asset, as well as a liability for the resources received.

## 2.6. Impairment of non-financial assets

### 2.6.1 Assets carried at amortized cost

At the end of every reporting period, the Company evaluates whether there is objective evidence of impairment of a financial assets or group of financial assets. Impairment of a financial asset or group of financial assets and the impairment loss are recognized only if there is objective evidence of impairment resulting from one or more events (a 'loss event') and the loss event or events have an impact on the estimated cash flows of the financial asset that can be reliably estimated.

The Company records a provision for impairment of its loan portfolio, in accordance with an individual assessment of each account and the results of the evaluation of the portfolio's behavior. The increases to this provision are recorded as administrative expenses in the statement of income. The methodology used by the Company in determining the balance of this provision has historically been sufficient to cover the losses pertaining to the following twelve months arising from irrecoverable loans. See Note 3.3.2.

## 2.7. Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date on which the derivative financial instrument agreement was entered into and are subsequently re-measured at their fair value. The method for recognizing the profit or loss of changes in fair value of derivative financial instruments depends on whether or not they are designated as cash flow hedge, and if so, on the nature of the item being hedged. The Company has only contracted cash flow hedge derivative financial instruments.

At the outset of the transaction, the Company documents the relationship between the hedging instruments and the items covered, as well as the objectives and Risk Management's strategy to back its hedging transactions. The Company periodically documents whether or not the derivative financial instruments used in hedging transactions are highly effective in hedging the cash flows of the items hedged.

The fair value of the derivative financial instruments used as hedging instruments is disclosed in Note 10. The total fair value of the derivative financial instruments used as hedging instruments is classified as a non-current asset or liability when maturity of the remaining hedge amount is more than 12 months, and is classified as a current asset or liability when the remaining hedge amount is under 12 months.

When a hedging instrument matures or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognized in the income statement.

The effective portion of changes in fair value of derivatives are designated and qualify as cash flow hedges is applied to other comprehensive income. The profit or loss related to the ineffective portion is immediately applied to the statement of income as other expenses or income.

## 2.8. Cash and cash equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, demand deposits in financial institutions, other short-term investments, highly liquid with original maturities of three months or less that are easily convertible into cash and that are subject to insignificant risks of changes in value, and bank overdrafts. The cash equivalents are represented by investments in government instruments. See Note 7.

## 2.9. Inventories

Inventories are recorded at the lower of cost or its net realizable value. Cost of sales includes the cost of merchandise, plus costs related to importation, freight, handling, shipment, and storage at customs and at distribution centers, less the value of the returns. The net realization value is the selling price estimated in the normal course of operations, less sales costs. The cost is determined by the average cost method, except for the business of Suburbia that are valued at retail cost.

Physical inventory counts are conducted periodically at the stores, boutiques and distribution centers and inventory records are adjusted to the results of physical inventory counts. Historically, due to the Company's loss prevention programs and control procedures, shrinkage has been immaterial.

## 2.10. Investment properties

Investment properties are real property (land and buildings) held to obtain economic benefits through collection of rent or for the capital gains, and are initially valued at cost, including transaction costs. After their initial recognition, investment properties continue to be valued at cost, less accumulated depreciation and impairment losses, if any.

The Company owns shopping malls that house their department stores, as well as commercial space it leases to third parties. In such cases, only the portion leased to third parties is considered as Investment Property and the Company's stores are recorded as property, furniture and equipment, in the statement of financial position. See Note 12.

Depreciation is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

**Buildings:**

Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years

**2.11. Property, furniture and equipment**

The items comprising property, furniture and equipment are recognized at their historical cost, less depreciation and impairment losses. The historical cost includes expenses directly attributable to the acquisition of these assets and all expenses related to the location of assets at the site and in the conditions necessary for them to operate as expected by Management. For qualified assets, the cost includes the cost of loans capitalized in accordance with the Company's policies. (See Note 2.12).

Expansion, remodeling and improvement costs represent an increase in capacity and so they are recognized as an extension of the useful life of goods are they capitalized. Maintenance and repair expenses are charged to income for the period in which they are incurred. The carrying amount of replaced assets is derecognized when they are replaced, recording the entire amount in the income statement.

Works in progress represent stores under construction and includes investments and costs directly attributable to the startup of operations. These investments are capitalized upon opening the store and depreciation is computed from that point.

Land is not depreciated. Depreciation of other assets is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

**Buildings:**

Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years

**Other assets:**

Operating, communications and security equipment	10 years
Furniture and equipment	10 years
Computer equipment	3 years
Transportation equipment	4 years
Leasehold improvements	Over the term of the lease agreement

The Company assigns the amount initially recorded with respect to an element of property, furniture and equipment, in its different significant parts (components) and depreciates separately each of those components.

The residual values and useful life of the Company's assets are reviewed and adjusted, if necessary, at the date of each statement of financial position. See Note 13.

The book value of an asset is written off at its recovery value if the book value of the asset is greater than its estimated recovery value. See Note 2.14.

Gains and losses from the sale of assets are due to the difference between income from the transaction and the book value of the assets. They are included in the statement of income as services income and other.

**2.12. Borrowings Costs**

Borrowing costs directly attributable to the acquisition and construction of qualified assets, which constitute assets requiring a substantial period of time up until they are ready for use or sale are added to the cost during that time, until such time as they are ready for use or sale.

Income obtained from the temporary investment of specific loans not yet used on qualified assets is deducted from the cost of loans eligible for capitalization.

At December 31, 2017 and 2016, there was no capitalization of comprehensive financing income due to the fact that during those periods, there were no assets that, according to the Company's policies, qualified as requiring a construction period longer than a year.

**2.13. Intangible assets**

**i. Goodwill**

Goodwill in acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but goodwill impairment reviews are carried out annually or more frequently if events or changes in circumstances indicate a possible impairment, and are recorded at cost less accumulated impairment losses. Gains and losses on the disposal of a Company include the carrying value of the goodwill related to the Company sold.

In order to verify impairment, the goodwill acquired in a business combination is assigned to each of the Cash Generating Units (CGU), which is expected to benefit from the synergies of the combination. Each unit to which the goodwill has been assigned represents the lowest level within the entity to which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

#### ii. Brands

The brands acquired individually are shown at historical cost, while those acquired through business combinations are recognized at their fair value at the date of acquisition. Brands are not amortized and subject to impairment tests annually. To date, no factors limiting the useful life of these assets have been identified. The brands are considered to have an indefinite useful life due to the positioning they have in the market, some of them, for more than 30 years and because the Company's experience and market evidence indicate that they will continue to generate cash flows for the Company in indefinite form. Additionally, the Company estimates that there are no legal, regulatory or contractual considerations that limit the useful lives of such brands.

#### iii. Development of computer systems and programs

Activities involved in the development of computer systems and programs include the plan or design and production of a new or substantially improved software or computer system. Expenses pertaining to the development of computer programs are only capitalized when they meet the following criteria:

- It is technically possible to complete the computer program so that it is available for use;
- Management intends to complete the computer program and use it;
- The Company has the capacity to use the computer program;
- It can be proven that the computer program will generate future economic benefits;
- The Company has the technical, financial and other resources necessary to conclude the development of the program for its use; and
- Expenses related to the development of the computer program can be reliably measured.

The licenses acquired for use of programs, software and other systems are capitalized at the value of the costs incurred for their acquisition and preparation for their use. Other development costs failing to meet these criteria and research expenses, as well as maintenance expenses are recognized and expensed as they are incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

The costs incurred in the development of software recognized as assets are amortized over their estimated useful lives, which fluctuate between five (licenses and fees) and ten years. (New IT developments). They are included in the statement of income as administrative expenses. See Note 14.

#### iv. Other intangibles

As a result of the acquisition of Suburbia, the Company recognized an intangible derived from the knowledge of the operative process of purchases, commercial planning, product design and commercialization (CATMex). This intangible asset was recognized at fair value at the date of acquisition, has an indefinite useful life and is subject to impairment tests.

### 2.14. Impairment of non-financial assets

Non-financial assets subject to depreciation are subject to impairment testing. Impairment losses correspond to the amount at which the book value of the asset exceeds its recovery value. The recovery value of assets is the greater of the fair value of the asset less costs incurred for its sale and its value in use. For the purposes of impairment assessment, assets are grouped at the lowest levels at which they generate identifiable cash flows (cash-generating units). Non-financial assets subject to write-offs due to impairment are valued at each reporting date to identify possible reversals of the impairment.

Goodwill and intangible assets with an indefinite useful life are not subject to amortization and are subjected annually to impairment tests, or more frequently if there are events or circumstances that indicate that they could be affected. Other assets are subject to impairment tests when events or changes in circumstances indicate that the carrying amount may not be recovered. An impairment loss is recognized for the book value of the asset that exceeds its recoverable value. Recoverable value is the higher of the fair value of an asset less its disposal costs and its value in use. For purposes of assessing impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash flows of other assets or groups of assets (cash generating units). Impaired non-financial assets other than goodwill are reviewed to determine the possible reversal of impairment at the end of each reporting period.

### 2.15. Accounts payable

Accounts payable are obligations of goods or services acquired from vendors in the normal course of operations. Accounts payable are classified as current liabilities if the payment is to be made within a year or less (or in the normal cycle of business operations if it is greater). Otherwise, they are shown as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently re-measured at their amortized cost, using the effective interest rate method.

## 2.16. Loans from financial institutions, issues of stock certificates and Senior Notes.

Loans from financial institutions, issues of stock certificates and Senior Notes are initially recognized at fair value, net of costs incurred in the transaction. This financing is subsequently recorded at its amortized cost. Differences, if any, between the funds received (net of transaction costs) and the redemption value are recognized in the statement of income during the period of the financing, using the effective interest rate method.

## 2.17. Cancellation of financial liabilities

The Company cancels financial liabilities if, and only if, the Company's obligations are met, cancelled or matured.

## 2.18. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of cash flows to settle the obligation and the amount can be estimated reliably required. The amount recognized as a provision is the best estimate on the reporting period, the expenditure required to settle the present obligation, the payment is made by the amount assessed rationally, the Company has to pay to settle the obligation to end of the reporting period under review, or to transfer it to a third party at that time. See Note 15.

## 2.19. Income tax

The income tax comprises currently-payable and deferred taxes. The tax is recognized in the statement of income, except when it relates to items applied directly to other comprehensive income or losses or to stockholders' equity. In this case, the tax is also recognized in other items pertaining to comprehensive income or directly to stockholders' equity, respectively.

Deferred income tax is recognized on temporary differences arising from comparing the book and tax values of all assets and liabilities of the Group. However, deferred tax liabilities are not recognized if it arises from initial recognition of goodwill; nor deferred income tax is recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of the year and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

The charge corresponding to taxes on profits currently payable is calculated according to the tax laws approved as of the balance sheet date in Mexico and in the countries in which the Company's associates operate and generate a taxable base. Management periodically evaluates their tax positions with respect to tax refunds as tax laws are subject to interpretation. According to this assessment as of December 31, 2017 and 2016, there are no uncertain positions.

The deferred tax asset, tax-on-profits, is only recognized to the extent future tax benefits are likely to be achieved and can be applied against any temporary differences in liabilities.

The deferred tax on profits is generated on the basis of the temporary differences between investments in subsidiaries and associates, except when the Company can control when those temporary differences will be reinvested and the temporary difference is unlikely to be reinvested in the foreseeable future.

The balances of deferred asset and liabilities, tax-on-profits, are offset when there is a legal right to offset current tax assets against current tax liabilities and when the deferred tax-on-profit assets and liabilities relate to the same tax entity, or different tax entities where the balances are to be settled on a net basis. See Note 21.

## 2.20. Employee benefits

### a. Pensions and seniority premium

The Company's subsidiaries operate pension plans and seniority premiums that are usually funded through payments to trust funds, based on annual actuarial calculations. The Company also has defined benefit plans and a defined benefit pension plan which is a plan that determines the amount of the pension benefits to be received by an employee upon retirement, which usually depends on one or more factors, such as the employee's age, years of service and compensation.

The liability or asset recognized in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets, along with the adjustments arising from unrecognized actuarial profits or losses and the costs of past services. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of defined benefit obligations is determined, discounting estimated cash flows at the interest rates of government bonds denominated in the same currency in which the benefits will be paid, and have expiration terms that approximate the terms of pension obligations.

Actuarial remeasurements arising from adjustments based on the experience and changes in actuarial assumptions are charged or credited to stockholders' equity in other comprehensive-income items in the period in which they arise.

b. The plans in Mexico generally expose the Company to actuarial risks, including investment risk, interest rate risk, longevity risk and risk of salary, according to the following:

**Investment risk:** The rate of return expected for the funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on assets is less than the fee, this will create a deficit in the plan. Currently the plan has a balanced investment in fixed income instruments and actions. Due to the long term nature of the plan, the Company considers it appropriate that a reasonable portion of the plan assets are invested in equities to leverage the yield generated by the fund, taking at least an investment in government instruments 30% stipulated in the Income Tax Law.

**Interest Rate Risk:** A decrease in the interest rate increase plan liabilities; volatility in rates depends exclusively on the economic environment.

**Longevity risk:** The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants. An increase in life expectancy of plan participants increased liabilities.

**Risk salary:** The present value of the defined benefit obligation is calculated by reference to future wages of participants. Therefore, an increase in expectation of salary increase participants plan liabilities.

c. **Annual bonus for retaining executives**

Some of the Company's executives receive an annual retainer bonus, calculated as a percentage of their annual compensation and depending on the completion of certain goals established for each officer at the beginning of the year. The Company has set up a reserve of \$263, 946 at December 31, 2017 (\$276,525 at December 31, 2016), that is included in Note 15 within Bonds and Compensation paid to employees.

d. **Employees' statutory profit sharing and bonuses**

The Company recognizes a liability and a bonus expense and employees' statutory profit sharing based on a calculation that considers the profit after certain adjustments. The Company recognizes a provision when it is contractually obligated or when there is a past practice that generates an assumed obligation.

e. **Other benefits granted to employees**

The Company grants certain benefits to employees that leave the Company either by termination or voluntary decision after 20 years of service. In accordance with IAS 19 (revised) "Employee Benefits", this practice constitutes an assumed obligation of the Company with its employees, which is recorded based on annual actuarial studies prepared by independent actuaries. See Note 17.

f. **Benefits paid to employees for severance required by the law**

The Company recognizes and pays compensation in the first of the following dates: a) the Company may not withdraw the offer of those benefits and b) when the Company recognizes the costs of restructuring that is within the scope of IAS 37 and involves payment termination benefits.

## 2.21. Capital stock

Common shares are classified as capital.

## 2.22. Revenue recognition

Income represents the fair value of cash collected or receivable arising from the sale of goods or the rendering of services in the normal course of Company operations. Income is shown net of discounts granted to customers.

The Company recognizes revenue when the related amount can be measured reliably, the entity is likely to receive future economic benefits and the transaction meets the specific criteria for each of the Company's activities, as described above.

a. **Sale of merchandise**

Revenues from sales of goods is recognized when the customer purchases in stores or by phone and internet, and takes possession of the property, at the time of delivery of the goods. About half of merchandise sales are settled by customers with the cards operated by the Company, and the remainder is paid in cash or through bank debit and credit cards. In accordance with IAS 18 "Revenue", the cash received from promotions involving interest free sales on credit for a determined number of months is deferred over time and therefore, its fair value can be less than the nominal amount of the sale. In these cases, the Company determines the fair value of the cash to be received, less all future cash flows, using an interest rate prevailing in the market for a similar instrument.

The difference between the nominal value of the sale at a certain number of months free of interest and the value discounted as per the above paragraph is recognized as interest income. See point c. of this Note.

The Company's policy is to sell a number of products with the right to return them. Customer returns usually involve a change of size, color, etc.; however, in those cases in which the customer wishes to return the product, the Company offers its customers the possibility of crediting the value of the merchandise to their account, if the purchase was made with the Company's own cards, or to return the amount of the purchase in an e-wallet or a credit to the customer's bank credit card, if the purchase was made in cash or with external cards, respectively. In the Company's experience, returns on sales are not material with respect to total sales, therefore, the Company does not set up a reserve in this regard.

#### b. E-wallets and gift certificates

##### • E-wallets

The Company offers promotions, some of which involve benefits granted to its customers represented by e-wallets, the value of which is referred to a percentage of the selling price. E-wallets can be used by customers to settle future purchases at the Company's department stores. The Company deducts the amount granted to its customers in e-wallets from revenue. In the Company's historical experience, the likelihood of customers using e-wallets accounts that have been inactive for 24 months is very low. Therefore, e-wallets showing these characteristics are cancelled, with a credit to sales.

##### • Gift certificates

The Company offers its customers gift certificates with no specific expiration date. Upon their sale, gift certificates are recognized in the deferred revenue account in the statement of financial position. This account is cancelled when the customer redeems the gift certificate; whether partially or entirely, through the acquisition of merchandise, recognizing revenue in the same amount. In the Company's historical experience, the likelihood of customers using gift certificates that have been inactive for 24 months being is remote. Therefore, certificates with these characteristics are cancelled against service income.

#### c. Interest income

In accordance with IAS 18 "Revenue", interest income is recognized by the effective interest rate method. See Note 4.1.1.

Late payment interest is recorded as income as it is earned and late payment interest is not accrued once the credit has remained past due for 90 days.

Income from the recovery of previously-cancelled credit is recorded as service income and other.

#### d. Lease revenue

The Company's policy for recognition of operating lease revenue is described in Note 2.25.1

#### e. Services and other

Income from service agreements is determined as follows:

- Service income is recognized when the customer receives the benefit of the service, such as: beauty salon, travel agency, opticians or interior design.

#### 2.23. Deferred income

The Company records deferred income arising from different transactions in which cash was received, and in which the conditions for revenue recognition described in paragraph 2.22, b) have not been met. Deferred revenue is shown separately in the statement of financial position.

#### 2.24. Other accounts receivable

The Company classifies as other accounts receivable all loans or advance payments made to employees and other parties or companies other than the general public. If collection rights or recovery of this amount is realized within 12 months from the period close, they are classified as short term; otherwise, they are shown as long term.

#### 2.25. Leases

Leases are classified as capital leases when the terms of the lease transfer all the risks and benefits inherent in the property to the lessee. All other leases are classified as operating leasing.

##### 2.25.1 Lessor

Rent income pertaining to the Company's Investment Property is recognized by the straight-line method over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the book value of the leased asset, and are recognized by the straight-line method over the term of the lease. The Company has no assets leased through capital leasing plans.

##### 2.25.2 Lessee

Rent payments under operating leases are charged to income by the straight-line method during the term of the lease. Variable rent is recognized as an expense in the period in which it is incurred.

#### 2.26. Earnings per share

Basic earnings per ordinary share are calculated by dividing the holding interest by the weighted average of ordinary shares outstanding during the period. Earnings per diluted share are determined by adjusting the holding interest and ordinary shares, under the assumption that the entity's commitments to issue or exchange the Company's own shares would be realized. Basic earnings are the same as diluted earnings due to the fact that there are no transactions that could dilute earnings. See Note 20.

#### 2.27. Supplier rebates

The Company receives rebates from suppliers as reimbursement of discounts granted to customers. Supplier reimbursements related to discounts granted to customers with respect to merchandise sold are negotiated and documented by the purchasing areas and are credited to the cost of sales in the period in which they are received.

### 2.28. Prepaid payments

The Company recognizes prepaid payments for television advertisement and insurance premiums. Those amounts are recorded at the value that was contracted and are recorded in income when the advertisements are broadcasted and on a straight line basis for insurance premiums. None of the insurance policies have a term exceeding twelve months.

### 2.29. Business combination

The Company uses the purchase method to recognize business acquisitions. The consideration for the acquisition of a subsidiary is determined based on the fair value of the net assets transferred, the liabilities assumed and the capital issued by the Company. The consideration of an acquisition also includes the fair value of those liabilities and assets resulting from a contingent consideration agreement. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially recognized at their fair value at the date of acquisition. The Company recognizes the non-controlling interest in the acquired entity either at its fair value at the acquisition date or at the proportional value of the identifiable net assets of the acquired entity.

The costs related to the acquisition are recorded as an expense as incurred.

Any contingent consideration to be paid by the Company is recognized at fair value at the acquisition date. Changes subsequent to the fair value of the contingent consideration recognized as an asset or liability are recognized in accordance with IAS 39, either in profit or loss or in ORI. The contingent consideration that is classified as capital does not require adjustment, and its subsequent settlement is recorded within the capital.

### 2.30. Business combination or asset acquisition

An entity will determine whether a transaction is a business combination by applying the definition of IFRS 3 "Business Combinations" IFRS, which requires that the assets acquired and liabilities assumed constitute a business, provided that the following three are held elements; 1) input: any economic resource that elaborates, or has the capacity to elaborate, products if one or more processes are applied to them; 2) process: any system, norm, protocol, convention or rule that applied to a input or inputs, develops or has the ability to produce products, and 3) product: the result of inputs and processes applied to them that provide or have the ability to provide profitability in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. When the acquired assets are not a business, the entity accounts for the transaction as the acquisition of an asset, and will distribute the cost of the transaction between individually identifiable assets and liabilities based on their relative fair values at the date of purchase. . This transaction will not give rise to goodwill, and in the event of incurring costs during the acquisition process, these are recognized as part of the asset.

## Note 3 - Risk management:

The main risks to which the Company is exposed are:

### 3.1. Real estate risk

#### 3.2. Market risks

3.2.1. Exchange rate risk

3.2.2. Interest rate risk

3.2.3. Inflation risk

#### 3.3. Financial risks

3.3.1. Liquidity risk

3.3.2. Credit risk

### 3.1 Real estate risk

The Company owns department stores and either owns or co-owns 26 shopping malls. The Board of Directors is responsible for authorizing the purchase of land and buildings proposed by the Company's real estate area. For every real estate investment, sales are estimated per square meter and the return on the investment to be generated. The Company has no risk concentration in accounts receivable from lessees, as it has a diversified base and periodically evaluates their payment capacity, especially prior to renewing their lease agreements. Although the value of real property in Mexico is relatively stable, economic development and structural changes in the country are risk factors that could affect the supply and demand of real property, and affect rent levels and the risk of vacant commercial space. Commonly, real property in Mexico is quoted in US dollars, and thus an excessive rise in the exchange rate of the peso to the dollar or in the prices of property available to the Company or in construction materials could limit the Company's plans to expand, the rent-related uncollectible rate has historically remained below 2%, thus the credit risk related to lease agreements is considered low. The Company has insurance that duly covers its assets against the risk of fire, earthquake and other natural disasters. All insurance has been contracted with leading companies in the insurance market.

### 3.2 Market risks

The Company contracts derivative financial instruments to reduce the uncertainty of the return on its projects. The derivative financial instruments contracted are assigned for hedge accounting purposes and are closely linked to the financing contracted by the Company. The Company's policies require that quotes be obtained by three different financial instruments in order to guarantee the best rates on derivative contracts.

The Company's internal control policies require that the representatives of the finance and legal areas conduct an analysis prior to contracting financing or to conducting operations with derivative financial instruments. In evaluating the use of derivatives, to cover the financing risks, sensitivity analysis are conducted of the different variables and effectiveness testing is conducted to determine the book treatment of the derivative financial instrument, once contracted.

### 3.2.1 Exchange rate risk

Except as mentioned in note 16, the Company has not contracted financing in foreign currencies; however, the Company is exposed to risks related to movements in the exchange rate of the peso to the US dollar and the euro with respect to importations of merchandise mainly from Europe and Asia. Purchases of merchandise in a currency other than the Mexico peso represent approximately 20% of total purchases.

At December 31, 2017 and 2016, the Company's exposure to exchange rate risks amounted to US\$1,054,179, €121 and US\$535,031, €2,043, respectively. In the event of a 10% increase in the exchange rate of the peso to the US dollar, the Company's loss would approximate \$2,073,107 and \$1,107,650. The 10% represents the sensitivity rate used when the exchange risk is reported internally to the Operations Committee, and represents Management's assessment of possible changes in exchange rates. The sensitivity analysis includes only those monetary items not yet settled that are denominated in foreign currency at the period close.

Additionally, the Company maintains an investment in Unicomer, and the cash flows received are denominated in US dollars. The risk of conversion is the risk that the variations in exchange rates will cause volatility in the peso value of these cash flows. The Company has not hedged the cash flows that it receives from this investment.

The Company had the following foreign currency monetary assets and liabilities:

Thousands of US dollars:	December 31,	
	2017	2016
Monetary assets	US\$ 48,726	US\$ 565,641
Monetary liabilities	(1,102,905)	(1,100,672)
<b>Net active position</b>	<b>US\$ (1,054,179)</b>	<b>US\$ (535,031)</b>
<b>Equivalent in pesos</b>	<b>\$ (20,728,216)</b>	<b>\$ (11,032,007)</b>
Thousands of Euros:		
Monetary assets	€ 10,555	€ 9,717
Monetary liabilities	(10,676)	(11,760)
<b>Net passive position</b>	<b>€ (121)</b>	<b>€ (2,043)</b>
<b>Equivalent in pesos</b>	<b>€ (2,852)</b>	<b>\$ (44,491)</b>

The exchange rates of the peso to the dollar, in effect at the date of the consolidated balance sheet and at the date of the independent auditor's report, were as follows:

	March 14, 2018	December 31, 2017
US dollar	\$ 18.8610	\$ 19.6629
Euro	\$ 22.9850	\$ 23.5729

### 3.2.2 Interest rate risk

The contracted financings are subject to both fixed and variable interest rates and expose the Company to the risk of variability in interest rates and, therefore, to its cash flows. The Company's policy is to cover the majority of its financing towards a fixed rate profile. The main objective of the use of derivative financial instruments is to know with certainty the effective flows that the Company will pay to comply with its obligations. With interest rate swaps, the Company agrees with other parties to deliver or receive monthly the difference between the interest amount of the variable rates agreed in the debt contracts and the amount of the interest of the fixed rates contracted in derivative financial instruments, 86% of the debt is at a fixed rate and the rest at a variable rate.

The Company continuously analyzes its exposure to interest rates. A number of different interest rate scenarios are evaluated such as, refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the corresponding impact on results or on its financial position.

### Sensitivity analysis for interest rates

The following sensitivity analyses have been determined considering the current derivative financial instruments at December 31, 2017 and assuming the following:

If interest rates had been 10 basis points higher and all the other variables remained constant:

The other items comprising comprehensive income for the year ended December 31, 2017 and 2016 would have increased by \$172,623 and \$155,690 net of deferred taxes, mainly as a result of the changes in fair value of hedge derivative financial instruments contracted to hedge against exposure to changes in interest rates.

The information corresponding to interest rate derivative financial instruments contracted is shown in Note 10 to the consolidated financial statements.

### 3.2.3. Inflation risk

At December 31, 2017, the Company had financing denominated in Investment Units (UDIs, the monetary unit linked to inflation in Mexico). The Company contracted a swap to hedge against exposure to the risk that the value of the issuance of senior notes could be affected by the increase in the inflation rate in Mexico. Assuming inflation of 10% or higher in 2017 and lower in 2016 respectively in Mexico and maintaining all the other variables constant, the effect on the other comprehensive income items due to exposure of the debt in UDIs, net of deferred taxes, would be a loss of approximately \$72,956 and \$66,324, respectively.

## 3.3. Financial risks

### 3.3.1. Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its fund requirements. Company management has established policies, procedures and limits that govern the Treasury function. The Treasury is responsible for ensuring the Company's liquidity and for managing its working capital to guaranty payments to vendors and fund the costs and expenses of the operation.

The Company finances its operations through a combination of: 1) reinvestment of a significant portion of profits and 2) contracting financing and leasing denominated in pesos.

The Company has immediately available credit lines not used of approximately \$10,350,000 as well as overdraft lines of credit to give the Company immediate access to short-term debt instruments.

The following table shows the contractual maturities of the Company's financial liabilities according to the expiration periods. The table was prepared on a cash flow basis without discounting, from the first date on which the Company will be required to pay.

The table includes interest and the main cash flows:

December 31, 2017	Between 1 months and 1 year	Between 1 and 5 years	More than 5 years
Suppliers and creditors	\$ 34,836,910	\$ -	\$ -
Senior notes and contractual interests	3,362,993	14,871,696	28,566,444
Bank borrowings	2,184,210	3,652,521	-
Derivative financial instruments	20,486	-	-
	<b>\$ 40,404,599</b>	<b>\$ 18,524,217</b>	<b>\$ 28,566,444</b>
<hr/>			
December 31, 2016			
Supplier and creditors	\$ 29,119,048	\$ -	\$ -
Senior notes and contractual interests	4,139,863	11,365,989	27,407,474
Bank borrowings	85,788	964,350	-
Derivative financial instruments	-	31,802	-
	<b>\$ 33,344,699</b>	<b>\$ 12,362,141</b>	<b>\$ 27,407,474</b>

### 3.3.2. Credit risk

Credit risk is the risk of the Company suffering losses as a result of customers defaulting on payments, financial institutions in which it maintains investments or the counterparties with which derivative financial statements are contracted.

### Loan portfolio

The Company's accounts receivable are comprised of loans granted to our customers through the use of credit cards issued by the Company to purchase merchandise, goods and services at our stores or at establishments affiliated to the Visa system.

Due to the fact that Company sales are made to the general public, there is no risk concentration on one particular customer or group of customers.

The Company has a risk management system for the loan portfolio, whose main components include: 1) the processes of granting credit, authorization of purchase transactions and collection management, 2) information security, technological infrastructure and processes and procedures in store and corporate, 3) the regulatory risk, which includes aspects related to compliance with the provisions issued by the Consumer Advocacy Agency, and 4) the risk of fraud.

Credit application forms are evaluated and approved through automated procedures using parameterized scorecards (grading factors) determined by the Company, both for applicants with credit experience in the credit bureau, and for those with none. Scorecard performance is reviewed periodically and, as required, evaluation of the credit application forms is complemented with a telephone check and visit to corroborate the veracity of the information provided by the applicant. Initial credit limits are also calculated individually and automatically by the Company's system and are periodically monitored by the corporate credit department to increase or decrease them based on the cardholder's record. The Company has a process in place for review of its customer's credit quality, for early identification of potential changes in payment capacity, prompt corrective decision taking and determination of current and potential losses.

Through automated systems, monthly account cutoffs are conducted and any accounts failing to show the requirement payment are detected. Accounts not receiving payment are immediately blocked to prevent the balance from continuing to grow and the automated computation of late-payment interest begins. Based on the evaluation of certain variables, late-payment risks of the accounts in default and the actions to be taken on those accounts are determined. The following actions are taken on accounts in default: telephone calls to customers, sending of letters and home visits, among others. Accounts showing no payment after 150 days are automatically assigned to collection agencies to take over collection efforts, and accounts showing more than 240 days default are written off.

The Company continuously monitors recovery of its portfolio based on a broad range of tools and mathematical models, as well as considering a number of factors that include historical trends of portfolio aging, record of cancellations and future expectations of performance, including trends in unemployment rates in Mexico. In times of economic crisis and with high unemployment indexes, the Company restricts approval of applications and loans made, as well as restricting credit limits of current customers. Given the Company's line of business, there are no real guarantees related to accounts receivable. The best way to represent the maximum exposure to credit risk is the carrying value of accounts receivable.

Financial institutions and counterparties in derivative operations

Cash surpluses are invested in credit institutions with a high credit rating such as in government instruments and counterparties in derivative operations are high credit quality financial institutions. It should be mentioned that none of the Company's derivative financial instruments require the Company to keep cash deposits in margin accounts to guarantee these operations.

### 3.4. Fair value estimate

The financial instruments in the statement of financial position are recorded at fair value based on the following hierarchy.

- Level 1 fair values are derived from prices quoted (not adjusted) in active markets for identical liabilities or assets.
- Level 2 fair values are derived from indicators different from the quoted prices included in Level 1, but that include indicators that are observable directly to quoted prices or indirectly, that is to say, derived from these prices; and
- Level 3 fair values are derived from valuation techniques that include indicators for assets or liabilities that are not based on observable market information.

	Book value	Level 1	Level 2	Level 3
<b>December 31, 2017</b>				
Assets arising from hedge derivative financial instruments	\$ 3,253,940	\$ -	\$ 3,253,940	\$ -
Cash and cash equivalents	13,381,138	13,381,138	-	-
Liabilities arising from hedge derivative financial instruments	(20,486)	-	(20,486)	-
<b>Total</b>	<b>\$ 16,614,592</b>	<b>\$ 13,381,138</b>	<b>\$ 3,233,454</b>	<b>\$ -</b>
<b>December 31, 2016</b>				
Assets arising from hedge derivative financial instruments	\$ 4,028,255	\$ -	\$ 4,028,255	\$ -
Cash and cash equivalents	12,336,687	12,336,687	-	-
Liabilities arising from hedge derivative financial instruments	(31,802)	-	(31,802)	-
<b>Total</b>	<b>\$ 16,333,140</b>	<b>\$ 12,336,687</b>	<b>\$ 3,996,453</b>	<b>\$ -</b>

During the years ended December 31, 2017 and 2016, there were no transfers between levels 1 and 2. The carrying amount of short-term financial instruments is similar to its fair value due to materialize in the short term.

Financial derivative instruments that are classified at level 2, for determining fair value, the pricing model recognized in the financial sphere was used, (estimated future cash flows brought to present value) using available market information to the valuation date. The key assumptions of market inputs used were as follows: a) futures curve US government bonds b) futures curve Mexican government.

#### **Note 4 - Critical accounting judgments and key sources of uncertainty in estimates:**

In applying the Company's accounting policies, which are described in Note 2, Management makes judgments, estimates and assumptions on the book figures of assets and liabilities. The related estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from those estimates.

Estimates and underlying assumptions are analyzed on a regular basis. The reviews of book estimates are recognized in the review period or future periods, if the review affects both the current period and subsequent periods.

##### **4.1. Critical accounting judgments**

Following is a summary of the most essential judgments, aside from those that involve estimates (See Note 4.2) made by Management in applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

###### **4.1.1. Revenue recognition - sales with months without interest**

The accounting record of the sales to months without interests implies that the administration of the Company determines the present value applying the discount rate similar to that charged by commercial banks (between 3% and 12%) in similar promotions.

To determine its discounted cash flows, the Company uses an imputed interest rate, taking into account the rate that can best be determined between: i) the rate prevailing in the market for a similar instrument available to Company customers with a similar credit rating, or ii) the interest rate that equals the nominal value of the sale, duly discounted, at the cash price of the merchandise sold.

In making its judgment, Management considered the interest rates used by the main banking institutions in Mexico to finance programs of sales at months without interest.

##### **4.2. Key sources of uncertainty in estimates**

Following are the key sources of uncertainty in the estimates made at the date of the statement of financial position and that represent a significant risk of leading to an adjustment to the book values of assets and liabilities during the following financial period.

###### **4.2.1. Provision for impairment of loan portfolio**

The methodology applied by the Company in determining the balance of this provision is described in Note 2.6.1. Also, see Note 8.

###### **4.2.2. Estimate of useful lives and residual values of property, furniture and equipment**

As described in Note 2.14, the Company reviews the estimated useful life and residual values of property, furniture and equipment at the end of every annual period. During this period, it was determined that the life and residual values do not need to be modified, as according to Management's assessment, the useful lives and residual values reflect the economic conditions of the Company's operating environment.

###### **4.2.3 Estimated impairment of intangible assets with an indefinite useful life**

The identification and measurement of impairment of intangible assets with indefinite lives involves the estimation of reasonable values. These estimates and assumptions could have a significant impact on the decision to recognize or not an impairment charge and also on the magnitude of such charge. The Company performs a valuation analysis and considers relevant internal information, as well as other public market information. Fair value estimates are mainly determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected future cash flows (including maturities), discount rates that reflect the risk inherent in future cash flows, multiples of outflow cash flows, perpetual growth, determination of appropriate market comparable and the determination of whether a premium or discount should be applied to comparable.

###### **4.2.4 Business combinations - purchase price allocation**

For business combinations, IFRS requires a fair value calculation to be carried out by assigning the purchase price to the fair value of the assets and liabilities acquired. Any difference between the consideration paid and the fair value of the identifiable net assets acquired is recognized as goodwill or income in profit or loss if it is a bargain. The fair value calculation is carried out on the date of acquisition.

As a result of the nature of the fair value assessment at the acquisition date, the allocation of the purchase price and the fair value measurements require significant judgments based on a wide range of complex variables at a certain time. Management uses all available information to make fair value determinations. As of December 31, 2017, the Administration has determined on this basis the preliminary values of the assets acquired and the liabilities assumed in the acquisition of Suburbia, as shown in Note 1.

#### 4.2.5 Estimation of useful lives of brands and other intangible assets with an indefinite life

The brands acquired as part of Suburbia have demonstrated their longevity by having been successful in the market for several decades and are well recognized in Mexico. The knowledge of the operative process of procurement, commercial planning, product design and marketing (called CATMex) is unique in the Mexican market and has generated economic benefits for Suburbia for several decades. Based on our own experience, during 170 years of operating in Mexico, the Company believes that CATMex will continue to generate cash flows for the Company indefinitely.

To date, no factors limiting the useful life of the aforementioned intangible assets have been identified and there are no legal, regulatory or contractual considerations that limit them, so in the opinion of the Company's Management, it was determined to appoint the brands of Suburbia and CATMex as having an indefinite useful life.

### Note 5 - Category of financial instruments:

December 31, 2017	Loans and accounts receivable	Financial assets at fair value through profit and loss	Derivatives used for hedging	Total
Financial assets:				
Cash and bank deposits	\$ 3,253,940	\$ -	\$ -	\$ 3,253,940
Investments	13,381,138	-	-	13,381,138
Short and long-term loan portfolio	35,058,848	-	-	35,058,848
Other short and long-term accounts receivable	3,004,945	-	-	3,004,945
Short and long-term derivative financial instruments	-	-	3,552,522	3,552,522
		Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Financial liabilities:				
Issuance of long-term senior notes		\$ -	\$ 31,546,045	\$ 31,546,045
Short and long-term bank borrowings		-	4,671,456	4,671,456
Suppliers and creditors		-	30,533,068	30,533,068
Short and long-term derivative financial instruments		20,486	-	20,486
December 31, 2016	Loans and accounts receivable	Financial assets at fair value through profit and loss	Derivatives used for hedging	Total
Financial assets:				
Cash and bank deposits	\$ 13,237,543	\$ -	\$ -	\$ 13,237,543
Investments	12,336,687	-	-	12,336,687
Short and long-term loan portfolio	32,436,849	-	-	32,436,849
Other short and long-term accounts receivable	1,317,559	-	-	1,317,559
Short and long-term derivative financial instruments		-	4,028,255	4,028,255
		Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Financial liabilities:				
Issuance of long-term senior notes		\$ -	\$ 29,650,370	\$ 29,650,370
Long-term bank borrowings		-	921,456	921,456
Suppliers and creditors		-	25,785,414	25,785,414
Short and long-term derivative financial instruments		31,802	-	31,802

## Note 6 - Credit quality of financial instruments:

The credit quality of the financial assets that are neither past-due or impaired is assessed with respect to the external risk ratings, if any, or based on historical information of counterparty default index.

	2017	December 31, 2016
Accounts receivable		
Counterparties without external risk ratings:		
Group 1 - Customers with Liverpool credit card	\$ 26,350,076	\$ 25,156,363
Group 2 - Customers with Visa credit card	7,437,316	6,180,174
Total unimpaired accounts receivable	33,787,392	31,336,537
Cash and short-term bank deposits <sup>1</sup>		
AAA	16,601,908	25,551,295
AA	-	-
A	-	-
	16,601,908	25,551,295
Financial assets - derivative financial instruments <sup>2</sup>		
AAA	3,552,522	4,028,255
AA	-	-
	3,552,522	4,028,255
	<b>\$ 53,941,822</b>	<b>\$ 60,916,087</b>

- Group 1 - For the Company, loans granted through the Liverpool credit card represent a lower risk due to the fact that its use is sporadic and seasonal and is restricted to the products sold at Company stores.
- Group 2 - The Visa credit cards operated by the Company imply a different risk level, due to the fact that they can be used at a broad number of establishments, allow their holders to draw cash from ATMs and are intended for continuous use.

<sup>1</sup> The rest of cash equivalents in the balance sheet correspond to petty cash.

<sup>2</sup> The Company does not consider there are risk factors arising from default on counterparty obligations, due to which, it has not been necessary to set up reserves in this regard at December 31, 2017 and 2016.

## Note 7 - Cash and cash equivalents:

	2017	December 31, 2016
Cash and bank deposits	\$ 3,253,940	\$ 13,237,543
Investments	13,381,138	12,336,687
Total	<b>\$ 16,635,078</b>	<b>\$ 25,574,230</b>

## Note 8 - Short-term and long-term loan portfolio-Net:

	2017	December 31, 2016
Current loans	\$ 33,787,392	\$ 31,336,537
Past due loans	4,357,137	3,616,455
	38,144,529	34,952,992
Provision for impairment of loan portfolio	(3,085,681)	(2,516,143)
Balance at end of the year	<b>\$ 35,058,848</b>	<b>\$ 32,436,849</b>
Total short-term	<b>\$ 25,770,575</b>	<b>\$ 23,557,486</b>
Total long-term	<b>\$ 9,288,273</b>	<b>\$ 8,879,363</b>

At December 31 2017 and 2016 the loan portfolio's fair value is similar to book value.

## 8.1. Movements in provision for impairment of loan portfolio:

	December 31,	
	2017	2016
Balance at beginning of year	\$ 2,516,143	\$ 2,219,573
Increases	3,081,018	2,337,642
Write-offs	(2,511,480)	(2,041,072)
<b>Balance at end of year</b>	<b>\$ 3,085,681</b>	<b>\$ 2,516,143</b>

## 8.2. Aging of past due balances between 1 to 89 days is as follows:

	December 31,	
	2017	2016
From 1 to 29 days	\$ 1,586,397	\$ 1,357,258
From 30 to 89 days	1,068,952	865,202
<b>Total</b>	<b>\$ 2,655,349</b>	<b>\$ 2,222,460</b>

## Note 9 - Other accounts receivable - Net:

	December 31,	
	2017	2016
Short-term accounts receivable:		
Other debtors <sup>(1)</sup>	\$ 1,388,367	\$ 1,028,359
Prestaciones Universales, S. A. de C. V. <sup>(2)</sup>	156,099	-
IB Enterprises, S. A. de C. V.	261,234	-
Insurance companies <sup>(3)</sup>	324,174	9,661
Short - term loans to employees	53,313	54,780
	2,183,187	1,092,800
Long-term accounts receivable:		
Long - term loans to employees	264,681	224,759
<b>Total</b>	<b>\$ 2,447,868</b>	<b>\$ 1,317,559</b>

<sup>(1)</sup> Includes accounts receivable to tenants, companies that issue coupons and other recoverable taxes.

<sup>(2)</sup> Includes accounts receivable for coupons issued by the Government of Mexico City.

<sup>(3)</sup> At December 31, 2017 the Company had received from insurance companies reimbursements amounting to \$180 million in connection with the earthquake occurred in September 2017. The Company has insured both its properties and business interruption.

## Note 10 - Derivative financial instruments:

The Company uses hedge derivative financial instruments ("DFI") to reduce the risk of adverse movements in the interest rates of its long-term debt and inflationary increases in Mexico, to reduce the volatility of the cash flows to be paid for compliance with its contractual obligations. The main instruments used are interest rate swaps and the positions contracted at the close of each year are as follows:

### Assets

Notional amount <sup>1</sup>	Dates		Interest rate		Fair value at December 31,	
	Contracting	Maturity	Contracted by DFI	Agreed in the debt	2017	2016
1,000,000	September 2008	August 2018	TIIE + 0.18%	9.36%	\$ 34,274	\$ 58,572
750,000	June 2010	May 2020	8.48%	4.22%	266,836	233,672
USD\$ 300,000	October 2014	October 2024	6.81%	3.95%	2,611,903	2,860,017
USD\$ 250,000	September 2016	October 2026	8.88%	3.88%	169,305	279,092
USD\$ 350,000	September 2016	October 2026	8.59%	3.88%	270,015	414,335
USD\$ 50,000	October 2016	October 2026	8.87%	3.88%	34,726	54,002
USD\$ 50,000	October 2016	October 2026	8.76%	3.88%	35,320	54,721
USD\$ 50,000	October 2016	October 2026	8.84%	3.88%	53,731	73,844
1,500,000	September 2017	August 2022	7.84%	TIIE + 0.25%	54,093	-
USD\$ 38,800	Several (2017)	Several (2018)	Several	N/A	22,319	-
Total					\$ 3,552,522	\$ 4,028,255
Less long-term portion					(3,495,929)	(4,028,255)
<b>Current portion</b>					<b>\$ 56,593</b>	<b>\$ -</b>

### Liabilities

\$1,000,000	April 2009	August 2018	TIIE + 0.18%	7.95%	\$ (20,486)	\$ (31,802)
Less long-term portion					-	31,802
<b>Current portion</b>					<b>\$ (20,486)</b>	<b>\$ -</b>

<sup>1</sup> The notional amounts related to derivative financial instruments reflect the reference volume contracted; however, they do not reflect the amounts at risk as concerns future flows. Amounts at risk are generally limited to the unrealized profit or loss in from valuation to market of those instruments, which can vary depending on changes in the market value of the underlying item, its volatility and the credit rating of the counterparties.

## Note 11 - Investments in associates:

Concept	Activity	Place of incorporation and operations	Proportion of shareholding and voting rights December 31,		Amount December 31,	
			2017	2016	2017	2016
Investment in associates (i) and (ii)	Sales	Mexico and Central America	50%	50%	\$ 6,631,287	\$ 6,447,968
Other investments (iii) in associates	Malls	Mexico	Several	Several	783,673	780,829
					<b>\$ 7,414,960</b>	<b>\$ 7,228,797</b>

<sup>(i)</sup> See Note 24.

### (i) Grupo Unicomer Co. Ltd. (Unicomer)

Unicomer is a private company that operates a chain of stores engaged in the sale of furniture and household appliances through a chain of more than 1,099 stores, with different formats in Central America, South America and the Caribbean. The Company has a 50% equity interest in Unicomer. This acquisition gave rise to goodwill of \$757,623, which is included as part of the investment value. The Company does not exercise joint control over Unicomer because the criteria for control is not met. Under IFRS it exercises significant influence over Unicomer, due to the fact that it owns 50% of the voting rights and is entitled to designate 2 members of the Board of Directors. See Note 24.

**(ii) Moda Joven Sfera México, S. A. de C. V.**

In 2006, the Company incorporated an entity in association with El Corte Inglés, S. A. with 49% of the capital (the leading department store chain in Spain). This entity operates a chain of 45 stores in Mexico, specialized in family clothing and accessories under the commercial name Sfera.

**(iii) Other investments**

Mainly correspond to the Company's equity in the following malls: Angelópolis in the city of Puebla, Plaza Satélite in the state of México and Galerías Querétaro in the city of Querétaro.

11.1 Following is a summary of the combined financial information pertaining to the Company's associates:

	2017	December 31, 2016
		Restated <sup>(1)</sup>
Total assets	\$ 37,650,965	\$ 40,662,017
Total liabilities	26,219,580	28,156,419
<b>Net assets</b>	<b>\$ 11,431,385</b>	<b>\$ 12,505,598</b>
<b>Equity in net assets of associates</b>	<b>\$ 6,024,028</b>	<b>\$ 6,252,823</b>
<b>Total income</b>	<b>\$ 33,113,789</b>	<b>\$ 30,018,507</b>
<b>Net income for the year</b>	<b>\$ 1,333,035</b>	<b>\$ 1,451,160</b>
<b>Company's equity in profits of associates</b>	<b>\$ 628,030</b>	<b>\$ 715,672</b>

<sup>(1)</sup> See Note 24.

11.2 The reconciliation of movements in the investment in associates is as follow:

Balance at January 1, 2016	\$ 6,028,798
Translation effect of investment in associates	730,400
Equity method	715,672
Other	(246,073)
Balance at December 31, 2016	7,228,797
Translation effect of investment in associates	(503,105)
Equity method	628,030
Other	61,238
<b>Balance at December 31, 2017</b>	<b>\$ 7,414,960</b>

**Note 12 - Investment properties - Net:**

	Amount
Balance at January 1, 2016	\$ 16,305,027
Acquisitions	1,595,322
Disposals	(54,105)
Depreciation	(252,225)
Balance at December 31, 2016	17,594,019
Acquisitions	1,760,723
Disposals	-
Depreciation	(432,450)
<b>Balance at December 31, 2017</b>	<b>\$ 18,922,292</b>

Investment properties include shopping malls, works in progress and other land intended for construction of future shopping malls.

In May 2008, the Company sold its interest in the shopping malls in Mérida, Yucatán and Puerto Vallarta, Jalisco to a Trust set up for these purposes. In accordance with IFRS 10, this Trust was considered a structure entity; therefore, the assets and liabilities pertaining to this Trust were consolidated in the corresponding captions.

The fair value of investment properties of the Company at December 31, 2017, and 2016 amounts to \$52,475,781 and \$41,168,273, respectively, through discounted cash flows, the key assumptions used were the projected annual growth of business and the expected useful life, using an average discount rate of 6.04% (3.50% in 2016), classified as level 2.

The operating costs directly related to the income from leasing investment properties is comprised as follows:

	December 31,	
	2017	2016
Repairs and maintenance	\$ 593,531	\$ 766,546
Advertising	136,056	127,157
Real estate taxes and water	78,039	75,444
Personnel compensation and benefits	73,151	68,053
Other expenses	7,660	6,879
Electrical power and utilities	5,616	4,630
Travel expenses	3,901	3,371
Rent of equipment	3,572	3,117
<b>Total</b>	<b>\$ 901,526</b>	<b>\$ 1,055,197</b>

### Note 13 - Property, furniture and equipment - Net:

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Transportation equipment	Works in progress	Total
Ending balance								
At December 31, 2017								
Beginning balance	\$ 3,674,933	\$ 20,896,005	\$ 4,184,501	\$ 2,174,213	\$ 722,151	\$ 152,777	\$ 3,658,931	\$ 35,463,511
Acquisitions by business								
Combination (Note 1)	1,025,565	1,809,985	1,451,449	921,603	59,794	25,953	24,903	5,319,252
Acquisitions	1,955,715	1,108,488	518,024	2,277,109	479,802	38,805	(570,444)	5,807,499
Disposals	(1,524)	(285,402)	(116,660)	-	(5,297)	(35,722)	-	(444,605)
Depreciation	-	(292,016)	(446,477)	(1,187,948)	(319,961)	(43,378)	-	(2,289,780)
Ending balance	6,654,689	23,237,060	5,590,837	4,184,977	936,489	138,435	3,113,390	43,855,877

At December 31, 2017								
Cost	6,654,689	27,568,611	13,258,124	7,012,775	2,953,988	392,478	3,113,390	60,954,055
Accumulated depreciation	-	(4,331,551)	(7,667,287)	(2,827,798)	(2,017,499)	(254,043)	-	(17,098,178)
<b>Ending balance</b>	<b>\$ 6,654,689</b>	<b>\$ 23,237,060</b>	<b>\$ 5,590,837</b>	<b>\$ 4,184,977</b>	<b>\$ 936,489</b>	<b>\$ 138,435</b>	<b>\$ 3,113,390</b>	<b>\$ 43,855,877</b>

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Transportation equipment	Works in progress	Total
Ending balance								
At December 31, 2016								
Beginning balance	\$ 3,576,462	\$ 19,961,599	\$ 3,851,466	\$ 1,921,005	\$ 643,551	\$ 147,569	\$ 1,823,171	\$ 31,924,823
Acquisitions	108,497	1,375,475	1,077,528	574,423	362,795	60,594	1,835,760	5,395,072
Disposals	(10,026)	(152,442)	(90,606)	(122,594)	(12,777)	(49,375)	-	(437,820)
Depreciation	-	(288,627)	(653,887)	(198,621)	(271,418)	(6,011)	-	(1,418,564)
Ending balance	3,674,933	20,896,005	4,184,501	2,174,213	722,151	152,777	3,658,931	35,463,511

At December 31, 2016								
Cost	3,674,933	24,935,540	11,405,311	3,814,063	2,419,689	363,442	3,658,931	50,271,909
Accumulated depreciation	-	(4,039,535)	(7,220,810)	(1,639,850)	(1,697,538)	(210,665)	-	(14,808,398)
<b>Ending balance</b>	<b>\$ 3,674,933</b>	<b>\$ 20,896,005</b>	<b>\$ 4,184,501</b>	<b>\$ 2,174,213</b>	<b>\$ 722,151</b>	<b>\$ 152,777</b>	<b>\$ 3,658,931</b>	<b>\$ 35,463,511</b>

The balance of work in progress at the 2017 period close corresponds to several projects in which the Company is building stores and remodeling existing ones.

**Note 14 - Intangible assets - Net:**

	Indefinite useful life <sup>(*)</sup>			Definite useful life		Total
	Goodwill	Trademarks <sup>(1)</sup>	Other <sup>(1)</sup>	Licenses and fees	New IT developments	
At December 31, 2017:						
Investments	\$ 7,481,553	\$ 3,668,021	\$ 2,108,566	\$ 571,182	\$ 467,190	\$14,296,512
Disposals	-	-	-	-	-	-
Amortization	-	-	-	(181,624)	(507,140)	(688,764)
Ending Balance	7,481,553	3,668,021	2,108,566	389,558	(39,950)	13,607,748
At December 31, 2017:						
Cost	7,481,553	3,668,021	2,108,566	2,147,873	4,496,425	19,902,438
Accumulated Amortization	-	-	-	(1,188,438)	(2,439,419)	(3,627,857)
Ending Balance	\$ 7,481,553	\$ 3,668,021	\$ 2,108,566	\$ 959,435	\$ 2,057,006	\$16,274,581
				Licenses and fees	New IT developments	Total
At December 31, 2016						
Investments			\$ 195,680	\$ 679,370		\$ 875,050
Disposals			-	-	-	-
Amortization			(125,203)	(404,366)		(529,569)
Ending Balance			70,477	275,004		345,481
At December 31, 2016:						
Cost			1,576,689	4,029,236		5,605,925
Accumulated Amortization			(1,006,814)	(1,932,280)		(2,939,094)
Ending Balance			\$ 569,875	\$ 2,096,956		\$ 2,666,831

(\*) Intangibles of indefinite life were acquired through the business combination with Suburbia (see Note 1). The other intangibles of indefinite life are represented by the knowledge of the operating process of procurement, commercial planning, product design and marketing (called CATMex).

<sup>(1)</sup> Corresponds to the acquisition of Suburbia. See Note 1

**Impairment test of goodwill and brands**

The Company conducts annual tests to determine whether the goodwill and the rights of its brands have suffered any impairment in their value. As of December 31, 2017, the Company performed the respective tests without determining any adjustment for impairment.

The recoverable value of the Cash Generating Units (CGU) is based on calculations of the fair value less disposal cost, which are prepared based on historical results and expectations on the development of the market in the future included in the business plan. The determination of the fair value less disposal cost requires the use of estimates that consider the following assumptions:

Discount rate post taxes	10.74%
EBITDA margin (average budgeted)	12.80%
The expected medium-term growth rate used to calculate the planned future results	9.1%
Residual growth rate	3.5%

If the discount rates in the year ended December 31, 2017, were 1 percentage point higher / lower, there would be no deterioration.

If the EBITDA for the year ended December 31, 2017 was 1 percentage point higher / lower, it would not result in an impairment provision recognition.

## Note 15 - Provisions:

	Bonds and compensation paid to employees <sup>(1)</sup>	Other provisions <sup>(2)</sup>	Total
At January 1, 2016	\$ 1,294,051	\$ 261,389	\$ 1,555,440
Charged to income statement	2,899,263	651,274	3,550,537
Used during the year	(2,835,653)	(664,197)	(3,499,850)
At December 31, 2016	1,357,661	248,466	1,606,127
Charged to income statement	2,534,214	552,848	3,087,062
Used during the year	(2,349,274)	(269,496)	(2,618,770)
<b>At December 31, 2017</b>	<b>\$ 1,542,601</b>	<b>\$ 531,818</b>	<b>\$ 2,074,419</b>

<sup>(1)</sup> Includes provisions for sales commissions, holiday and other fringe benefits.

<sup>(2)</sup> Other provisions include liabilities for services rendered by consultants and maintenance of stores and offices.

## Note 16 - Debt:

The Company's debt is comprised as follows:

	December 31	
	2017	2016
Short-term debt:		
Bank borrowings	\$ 1,858,956	\$ -
Stock certificates	1,000,000	2,100,000
	<b>\$ 2,858,956</b>	<b>\$ 2,100,000</b>
Long-term debt:		
Bank borrowings	\$ 2,812,500	\$ 921,456
Stock certificates	9,900,000	5,900,000
Senior Notes	20,646,045	21,650,370
	<b>\$ 33,358,545</b>	<b>\$ 28,471,826</b>

### 16.1 - Bank Borrowings:

	December 31,	
	2017	2016
Borrowing received by Citibanamex, payable from March 2018 to December 2021, subject to a variable interest rate TIIE 28 days + 0.85%. <sup>(2)</sup>	\$ 3,750,000	\$ -
Borrowings received by the trust F/789, mentioned in Note 12, from Credit Suisse, payable in June 2018 and bearing a fixed monthly interest rate of 9.31% <sup>(1)</sup>	921,456	921,456
Long-term liabilities	(2,812,500)	(921,456)
<b>Less - Current portion</b>	<b>\$ 1,858,956</b>	<b>\$ -</b>

<sup>1</sup> At December 31, 2017 and 2016 the fair value of the borrowing received by the Trust F/789 was \$980,429 and \$955,690, respectively, classified as level 1.

<sup>2</sup> In November 2016, the Company entered into a contract with Citibanamex and other banks to exercise a syndicated loan for up to \$ 10,000,000. In March 2017, the Company exercised \$5,000,000 of this line of credit and on July 28, 2017 it agreed with the syndicate of banks to cancel the remainder of said credit line. On December 21, 2017, the Company settled \$1,250,000 in advance, equivalent to 25% of the portion exercised of the loan, and on January 22, 2018, it made another prepayment for the same amount. Said loan will begin to be amortized as of March 20, 2018 in a quarterly consecutive manner. The loan is unsecured and has usual financial covenants to this type of financing such as debt restrictions, debt to EBITDA less than 2.75 times and interest coverage greater than 3 times. As of December 31, 2017, the Company complied with these covenants.

**16.2 - Stock certificates:**

Based on a Revolving Stock Certificates Program authorized by the National Banking and Securities Commission (CNBV), the Company may issue debt securities certificates up to the amount of \$30,000 million pesos for a term of up to 5 years as from July 21, 2017. Currently, the Company has placed the following unsecured issues:

Maturity	Interest payable	Interest rate	December 31	
			2017	2016
Mar 2017	Monthly	TIE at 28 days plus 0.35 basis points	\$ -	\$ 2,100,000
Aug 2018	Semiannually	Fixed at 9.36%	1,000,000	1,000,000
May 2020	Semiannually	Fixed at 4.22%	750,000	750,000 <sup>(*)</sup>
May 2020	Semiannually	Fixed at 8.53%	2,250,000	2,250,000
Mar 2022	Semiannually	Fixed at 7.64%	1,900,000	1,900,000
Aug 2022	Monthly	TIE at 28 days plus 0.25 basis points	1,500,000	-
Aug 2027	Semiannually	Fixed at 7.94%	3,500,000	-
			<b>\$ 10,900,000</b>	<b>\$ 8,000,000</b>
<b>Long-term portion</b>			<b>(9,900,000)</b>	<b>(5,900,000)</b>
<b>Current portion</b>			<b>\$ 1,000,000</b>	<b>\$ 2,100,000</b>

<sup>(\*)</sup> Issuance of stock certificates equivalent to 169,399,100 UDIs.

Maturities pertaining to the long term portion of this liability at December 31, 2017 are as follows:

Year	Amount
2018	\$ 1,000,000
2020	3,000,000
2022	3,400,000
2026	3,500,000
	<b>\$ 10,900,000</b>

The issuances of stock certificates and other financing contracted by the Company do not establish the obligation to maintain certain proportions in its financial structure or compliance with financial ratios; however, they require that the Company and the significant subsidiaries defined in the respective contracts comply with certain restrictions for the payment of dividends, mergers, divisions, change of corporate purpose, issuance and sale of capital stock, capital investments and liens. As of December 31, 2017 and 2016, the Company complied with the aforementioned conditions.

The Company has contracted a swap to cover the exposure to the UDI exchange rate on the issuance of unsecured notes denominated in UDIs and interest rate derivative financial instruments on the financings mentioned above. See Note 10.

The fair value of the senior notes is as follows:

Maturity date	December 31,			
	2017		2016	
	Book Value	Fair value	Book Value	Fair value
Mar 2017	\$ -	\$ -	\$ 2,100,000	\$ 2,100,901
Aug 2018	1,000,000	1,007,432	1,000,000	1,027,059
May 2020	750,000	1,002,524	750,000	969,316
May 2020	2,250,000	2,255,522	2,250,000	2,287,757
Mar 2022	1,900,000	1,827,678	1,900,000	1,845,979
Ago 2022	1,500,000	1,498,778	-	-
Ago 2027	3,500,000	3,311,448	-	-
	<b>\$ 10,900,000</b>	<b>\$ 10,903,382</b>	<b>\$ 8,000,000</b>	<b>\$ 8,231,012</b>

### 16.3 Senior Notes

Below are the details of the Senior Notes as of December 31, 2017 and 2016:

Maturity date	Interest payable	Interest rate	December 31,	
			2017	2016
Oct 2024	Semiannually	Fixed at 3.95%	\$ 5,898,870	\$ 6,185,820 <sup>(1)</sup>
Oct 2026	Semiannually	Fixed at 3.875%	14,747,175	15,464,550 <sup>(2)</sup>
			<b>\$ 20,646,045</b>	<b>\$ 21,650,370</b>

<sup>(1)</sup> In September 2014, the Company issued Senior Notes for an amount of US\$300 million, with an interest rate of 3.95% per annum and maturing in 2024. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S. A. de C. V., (subsidiary).

<sup>(2)</sup> In September 2016, the Company issued Senior Notes for an amount of US\$750 million, with an interest rate of 3.875% per annum and maturing in 2026. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S.A. de C.V. The Company used these proceeds to repay the acquisition of Suburbia. A significant part of the exchange rate loss in 2017 was due to the fact that these resources were invested in dollars and during the first months of 2017 the price appreciated against the US dollar.

The aforementioned securities were the subject of a private offering to institutional investors in the United States and other foreign markets under the Rule 144A and Regulation S under the Securities Act 1933 of the United States of America (US Securities Act of 1933).

The fair value of issuances of senior notes is as follows:

Maturity date	December 31,			
	2017		2016	
	Book value	Fair value	Book value	Fair value
Oct 2024	\$ 5,898,870	\$ 5,942,994	\$ 6,185,820	\$ 5,925,706
Oct 2026	14,747,175	14,490,132	15,464,550	14,338,731
	<b>\$ 20,646,045</b>	<b>\$ 20,433,126</b>	<b>\$ 21,650,370</b>	<b>\$ 20,264,437</b>

A reconciliation of debt as required by IAS 7 "Cash flow statement" is as follows:

	December 31, 2017
Beginning balance of debt and interest	\$ 31,050,082
Issuance of debt	10,000,000
Repayments	(3,350,000)
Foreign exchange variation	(1,004,325)
Interest accrued	2,770,722
Interest paid	(2,645,946)
<b>Closing balance of debt and interest</b>	<b>\$ 36,820,533</b>

### Note 17 - Employee benefits:

The value of employee benefit obligations at December 31, 2017 and 2016, amounted to \$1,494,031 and \$787,231, as follows:

	December 31,	
	2017	2016
Pension plans	\$ (492,589)	\$ (216,304)
Seniority premium	(212,322)	(133,798)
Other employee benefits	(789,120)	(437,129)
	<b>\$ (1,494,031)</b>	<b>\$ (787,231)</b>

The net cost for the period ended at December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Pension plans	\$ 60,817	\$ (18,235)
Seniority premium	46,048	40,071
Other employee benefits	76,286	62,690
	<b>\$ 183,151</b>	<b>\$ 84,526</b>

The significant actuarial assumptions in nominal and real terms are as follows:

	December 31,	
	2017	2016
Discount rate	9.00%	9.00%
Inflation rate	3.50%	3.50%
Salary growth rate	4.75%	4.75%

The amount included as a liability in the consolidated statements of financial position is integrated as follows:

	December 31,	
	2017	2016
Defined benefit obligations	\$ (2,069,030)	\$ (1,539,854)
Fair value of plan assets	574,999	752,623
<b>Liability in the consolidated balance sheet</b>	<b>\$ (1,494,031)</b>	<b>\$ (787,231)</b>

The movement in the defined benefit obligation is as follows:

	2017		2016	
Beginning balance at January 1	\$ (1,928,583)		\$ (1,502,918)	
Service cost	(129,718)		(104,071)	
Interest cost	(155,071)		(113,535)	
Actuarial loss	24,271		33,009	
Benefits paid	120,071		147,661	
<b>Ending balance at December 31</b>	<b>\$ (2,069,030)</b>		<b>\$ (1,539,854)</b>	

The movement in the liability is as follows:

	2017		2016	
Beginning balance at January 1	\$ (1,128,297)		\$ (362,386)	
Provision of the year	(183,152)		(120,996)	
Actuarial remeasurements	(131,137)		(242,489)	
Company contributions	(74,931)		(70,808)	
Benefits paid	23,486		9,448	
<b>Ending balance at December 31</b>	<b>\$ (1,494,031)</b>		<b>\$ (787,231)</b>	

The movement in plan assets is as follows:

	2017		2016	
Beginning balance at January 1	\$ 800,286		\$ 1,140,532	
Return on plan assets	(68,048)		(130,941)	
Transfer of assets	(74,931)		(129,457)	
Benefits paid	(82,308)		(127,511)	
<b>Ending balance at December 31</b>	<b>\$ 574,999</b>		<b>\$ 752,623</b>	

Principal categories of plan assets at the end of the reporting period are as follows:

	Fair value of plan assets at December 31,	
	2017	2016
Debt instruments	\$ 143,750	\$ 248,017
Equity instruments	431,249	504,606
	<b>\$ 574,999</b>	<b>\$ 752,623</b>

The expected return on plan assets represents the weighted average expected return for the different categories of plan assets. The Company's assessment of expected yields is based on historical trends and analysts' predictions on the market of assets for the life of related obligations.

## Note 18 - Operating leases:

### 18.1 The Company as lessee

The Company has entered into a number of operating lease agreements for 154 stores, 4 distribution centers and 78 commercial spaces for the boutiques it operates. Additionally, it has entered into lease agreements for tractor trailers and trailers for delivery of merchandise to the stores, and has also acquired computer equipment and servers. The lease terms are between one and five years. All operating lease agreements for more than 5 years contain clauses for a review of market rent every five years. The Company does not have an option to buy the space leased at the date of expiration of the lease terms.

The following table summarizes the lease expenses recognized in 2017 and 2016:

	December 31,	
	2017	2016
Fixed rent	\$ 709,938	\$ 383,477
Variable rent	1,063,374	415,744
	<b>\$ 1,773,312</b>	<b>\$ 799,221</b>

The following table summarizes the minimum annual payments stipulated in lease agreements entered into at terms of over one year:

	Amount
Up to 1 year	\$ 884,984
From 1 to 5 years	5,309,908
Over 5 years	6,637,384
<b>Total minimum payments agreed</b>	<b>\$ 12,832,276</b>

### 18.2 The Company as lessor

Operating leases are related to the leasing of commercial space. The lease periods range from one to five years. All operating lease agreements for more 5 years contain clauses for the review of market rent every two years. The agreements do not establish the option for tenants to buy the space leased at the date of expiration of the lease terms.

Following is an analysis of lease income:

	December 31,	
	2017	2016
<b>Fixed rent</b>	<b>\$ 2,090,980</b>	<b>\$ 2,053,465</b>

Following is an analysis of the minimum annual payments agreed with the lessees in the lease agreements entered into at terms of over one year:

	Year ending December 31,	Amount
Up to 1 year		\$ 2,242,932
From 1 to 5 years		6,754,386
Over 5 years		5,493,847
<b>Total minimum payments agreed</b>		<b>\$ 14,491,165</b>

## Note 19 - Balances and transactions with related parties:

During 2017 and 2016, Grupo Financiero Invex, S. A. de C. V. ("Invex") provided the Company with pension plan and workers' savings fund administration services, as well as with fiduciary services. Invex and the Company share some stockholders. Fees paid to Invex for these services totaled \$6,500 and \$14,526 in 2017 and 2016 respectively. At December 31, 2017 and 2016 there were no outstanding balances for these items. During 2017 and 2016, the Company contracted corporate travel services for its employees with Orion Tours, S. A. de C. V. ("Orión"), whose General Director is Vice-Chairman of the Company's Board of Directors. These services were contracted using market conditions. Fees paid to Orion for these services totaled \$67,604 and \$66,940 in 2017 and 2016 respectively. At December 31, 2017 and 2016 there were no balances pending to be paid for these items.

Compensation for directors and other key members of management during the year was as follows:

	December 31,	
	2017	2016
Short-term benefits	\$ 36,200	\$ 28,958
Post - retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
<b>Total</b>	<b>\$ 36,200</b>	<b>\$ 28,958</b>

Compensation paid to directors and key executives is determined by the Operations Committee, based on their performance and market trends.

## Note 20 - Stockholders' equity:

20.1. Capital stock at December 31, 2017 and 2016, is comprised of the follows:

	Minimum fixed Capital
1,144,750,000 Series "1" shares with no par value, entirely subscribed and paid in	
197,446,100 Series "C-1" shares with no par value, entirely subscribed and paid in	\$ 269,112
Cumulative inflation increase at December 31, 1997	3,105,170
<b>Total</b>	<b>\$ 3,374,282</b>

The Board of Directors approved on March 2, 2017 the payment of dividends from the income tax earnings ("CUFIN") in the amount of \$1,288,508, which was paid \$778,474 on May 26 and \$510,034 on October 6 of the same year, through the Society for the Securities Depository.

The Board of Directors approved on March 3, 2016 the payment of dividends from the income tax earnings ("CUFIN") in the amount of \$1,288,508, which was paid \$778,392 on May 27 and \$509,974 remainder, October 14 of the same year, through the Society for the Securities Depository.

In accordance with IAS 29 "Hyperinflation", an entity must recognize the effects of inflation in the financial information when an economy accumulates 100% inflation in a three year period. Mexico was considered a hyperinflationary economy until 1997, and for that reason the Company recognized all the cumulative inflation effects up to that year.

The entities and trusts mentioned below hold approximately 79% of all outstanding Series-1 shares as of December 31, 2017 and 2016.

Shareholder	Number of Shares of Common Stock	Percentage Ownership of Common Stock (%)
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 15228-3	278,691,361	20.8
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0327	218,019,750	16.2
UBS-ZURICH	123,165,000	9.2
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 504288-5	109,114,664	8.1
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0387	101,178,030	7.5
BBVA Bancomer Servicios, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer-Trust No. 25078-7	76,362,567	5.7
Pictet Bank & Trust Limited	57,137,573	4.4
Scotiabank Inverlat S. A., Institución de Banca Múltiple-Trust No. 11033735	36,839,656	2.7
Banco Credit Suisse (México), S. A., Institución de Banca Múltiple	18,097,934	1.3
Pittec and Cie	5,617,040	0.4
Citiacciones Flexible, S. A. de C. V. Sociedad de Inversión de Renta Variable	3,151,182	0.2
Otros	314,821,343	23.50
<b>Total</b>	<b>\$1,342,196,100</b>	<b>100%</b>

## 20.2 Capital reserves

Capital reserves are comprised as follows:

	December 31,	
	2017	2016
Reserve for translation effects	\$ 1,080,542	\$ 1,583,647
Legal reserve	582,500	582,500
Reserve for repurchase of shares	467,432	467,432
Investment reserve	94,319	94,319
Reserve for valuation of derivative financial instruments	1,295,230	755,322
	<b>\$ 3,520,023</b>	<b>\$ 3,483,220</b>

## 20.3 The reconciliation of the reserve for valuation of derivative financial instruments is as follows:

At January 1, 2016	\$ 102,951
Charged to income	652,371
At January 1, 2017	755,322
Charged to income	539,908
<b>At December 31, 2017</b>	<b>\$ 1,295,230</b>

The Company's Stockholders have authorized a reserve for repurchase of shares. The Company must comply with its bylaws and the provisions of the Securities Market Law, in order to acquire its own shares.

According to the Corporations Law, a minimum of 5% must be set aside from net earnings for the period in order to meet the legal reserve until funds in reserve reaches 20% of the capital stock. The legal reserve can be capitalized, but must not be distributed unless the Company is dissolved, and the difference must be made up if the reserve falls below 20% of capital stock for any reason.

## 20.4. The balances of the tax accounts of stockholders' equity are:

	December 31,	
	2017	2016
Capital contributions account	\$ 70,984,102	\$ 38,157,605
After-tax earnings account (CUFIN)	103,120,964	89,602,140
Reinvested after tax earnings account (CUFINRE)	142,820	133,764
<b>Total</b>	<b>\$ 174,247,886</b>	<b>\$ 127,893,509</b>

## Average weighted number of ordinary shares to determine the basic earnings per share at December 31, 2017 and 2016

**\$1,342,196,100**      **\$1,342,196,100**

## 20.5. Tax provisions related to stockholders' equity

Dividends are free of income tax if paid out from the After Tax Earnings Account (CUFIN). If any dividend paid in 2017 excess of the CUFIN is taxable at a rate fluctuating 42.86%. Tax incurred is payable by the Company and may be credited against income tax for the period and for the following two periods or, if applicable, against the flat tax for the period. Dividends paid from previously taxed earnings are not subject to any tax withholdings or additional taxes.

As of 2014, the LISR establishes an additional tax of 10% for the profits generated as of 2014 to the dividends distributed to residents abroad and to Mexican individuals. Likewise, the LISR grants a fiscal stimulus to individuals residing in Mexico who are subject to an additional payment of 10% on distributed dividends or profits.

In the event of a capital reduction, any excess of stockholders' equity over the capital contributions account is given the same tax treatment as dividends.

## Note 21 - Income Tax:

### 21.1. The income tax is comprised as follows

	December 31,	
	2017	2016
Income tax	\$ 4,106,309	\$ 4,161,336
Deferred income tax	(1,116,969)	(437,180)
	<b>\$ 2,989,340</b>	<b>\$ 3,724,156</b>

## 21.2. The deferred tax balance is composed as follows

Deferred income tax asset:	December 31,	
	2017	2016 Restated <sup>(1)</sup>
Tax loss carry-forwards	\$ 276,511	\$ 118,407
Provision for impairment of loan portfolio	1,233,543	999,152
Provisions	1,691,540	1,362,830
Inventories	234,183	169,019
Other items	96,469	76,538
	<b>3,532,246</b>	<b>2,725,946</b>
<b>Deferred income tax liability</b>		
Real estate and property, furniture and equipment	3,269,318	3,624,548
Investment in share of associates	265,171	316,872
Intangible assets	1,964,403	625,704
Other items	670,106	654,793
	<b>6,168,998</b>	<b>5,221,917</b>
Deferred income tax	2,636,752	2,495,971
Asset tax recoverable	(37,572)	(52,864)
<b>Total deferred income tax liability</b>	<b>\$ 2,599,180</b>	<b>\$ 2,443,107</b>

<sup>(1)</sup> See Note 24.

Deferred tax assets and liabilities are analyzed as follows:

Net movements of deferred tax assets and liabilities during the year are explained below:

	Tax loss carryforward	Provision for impairment of portfolio	Provisions	Investment properties, furniture and equipment	Investment in shares of associates	Inventories	Intangibles	Other	Total
At January 1, 2016 <sup>(1)</sup>	\$ 123,077	\$ 872,743	\$ 1,018,983	\$ (3,829,595)	\$ (266,176)	\$ 148,004	\$ (592,278)	\$ (407,908)	\$ (2,933,150)
Charged/credited to the Statement of income	(4,670)	126,409	343,847	205,047	(50,696)	21,015	(33,427)	(170,346)	437,179
At December 31, 2016 <sup>(1)</sup>	\$ 118,407	\$ 999,152	\$ 1,362,830	\$ (3,624,548)	\$ (316,872)	\$ 169,019	\$ (625,705)	\$ (578,254)	\$ (2,495,971)
Charged / credited to the Statement of income	\$ 158,104	\$ 234,391	\$ 328,710	\$ 355,230	\$ 51,701	\$ 65,164	\$(1,338,698)	\$ (4,617)	\$ (140,781)
<b>At December 31, 2017</b>	<b>\$ 276,511</b>	<b>\$ 1,233,543</b>	<b>\$ 1,691,540</b>	<b>\$ (3,269,318)</b>	<b>\$ (265,171)</b>	<b>\$ 234,183</b>	<b>\$(1,964,403)</b>	<b>\$ (573,637)</b>	<b>\$ (2,636,752)</b>

The deferred tax due to the existence of undistributed earnings in the subsidiaries has not been recognized because the Company is able to control the timing of the reversal of the temporary differences associated with the investments or such gains are not subject to IT payment. come from the CUFIN.

At December 31, 2017, the Company has unamortized tax loss carry-forwards for income tax purposes, to be indexed in the year in which they are applied, for a restated amount of:

Year	Amortizable tax loss carry-forwards
2018	\$ 45
2019	18,303
2020	12,421
2021	13,867
2022	25,481
2023	199,502
2024	13,756
2025	8,838
2026	45,915
2027	528,872
	<b>\$ 867,000</b>

In determining deferred income tax at December 31, 2017 and 2016, the Company applied to temporary differences, the applicable rates according to their estimated date of reversal.

**21.3. The reconciliation of the legal income tax rate and the effective rate, stated as a percentage of the profit before income tax, is as follows:**

	2017	December 31 2016 <u>Restated<sup>(*)</sup></u>
Pre - tax income	\$ 12,875,677	\$ 13,863,065
Statutory rate	30%	30%
Income tax at statutory rate	3,862,703	4,158,919
Plus (less) effects of taxes of the following items:		
Non-deductible expenses	328,364	157,959
Non-taxable income	(91,416)	(85,483)
Annual adjustment for cumulative inflation (deductible)	95,440	(72,492)
Share of profit of associates	(188,409)	(214,701)
Investment property, furniture and equipment - net	(866,975)	(257,985)
Cost of sales update	(96,539)	-
Other permanent items	(53,828)	37,939
<b>Income tax in the income statement</b>	<b>\$ 2,989,340</b>	<b>\$ 3,724,156</b>
<b>Effective income tax rate</b>	<b>23%</b>	<b>27%</b>

(\*) See Note 24.

**21.4 Applicable tax rates**

The income tax law establishes that the applicable income tax rate for 2014 and subsequent years will be 30%.

**Note 22 - Segment information:**

Segment information is reported on the basis of the information used by the Operations Committee in making strategic and operating decisions. An operating segment is defined as a component of an entity in which there is separate financial information which is evaluated on a regular basis.

IFRS 8 requires disclosure of assets and liabilities pertaining to one segment, if measurement is regularly provided to the decision making body; however, with respect to the Company, the Operations Committee only evaluates the performance of the operating segments based on an analysis of income and operating profit, but not of each segment's assets and liabilities.

Derived from the acquisition of Suburbia in 2017, the Company modified the presentation of its segment information as follows:

**Liverpool commercial segment**

Includes the sale of clothing and accessories for men, women and children, household goods, furniture, cosmetics and other consumer products through department stores that operate under the name Liverpool, Fábricas de Francia, Liverpool Duty Free and boutiques such as "Banana Republic", "Chico's", "GAP", "Pottery Barn", "West Elm" and "Williams-Sonoma". It also includes the operations of our website [www.liverpool.com.mx](http://www.liverpool.com.mx). The store formats of this segment are mainly focused on the income population A, B and C +, according to the National Statistical and Geography Institute (INEGI) criteria.

Likewise, with the aim of encouraging the sale of products from this segment, the Company grants financing to its customers through credit cards "Liverpool" and "Fábricas de Francia", with which customers can buy exclusively in the stores of the Company. Additionally, the Company operates the "Liverpool Premium Card (LPC)" credit card, with which cardholders can purchase goods and services both in the chain's large stores and boutiques and in any of the establishments affiliated worldwide with the VISA payment system.

**Suburbia commercial segment**

It includes the Suburbia stores and the operating division of procurement, commercial planning, product design and commercialization (CATMex). Suburbia offers a wide selection of products but mainly its own brands such as Weekend, Non Stop, Contempo, La Mode, Metropolis and Gianfranco Dunna, focused on the population of income C and D +, according to the INEGI criteria.

**Real estate segment**

The real estate segment is an important complement for the Liverpool commercial segment. The Company operates commercial centers known as "Galerías", through which it leases commercial spaces to tenants dedicated to a wide variety of businesses provide a greater number of potential customers for departmental warehouses.

## 22.1. Income and results per segment

The Company reports its results for each operating segments at the income, costs and expenses, and operating profit level. The other income statement items are not assigned, as they are managed on a corporate level. The following is an analysis of income and results per segment to be reported:

December 31, 2017	Commercial			Consolidated
	Liverpool	Suburbia	Real estate	
Net Revenue	\$ 106,300,236	\$ 12,763,830	\$ 3,104,213	\$ 122,168,279
Cost and Expenses	(94,081,081)	(11,501,430)	(1,354,084)	(106,936,595)
<b>Operating income</b>	<b>\$ 12,219,155</b>	<b>\$ 1,262,400</b>	<b>\$ 1,750,129</b>	<b>\$ 15,231,684</b>

December 31, 2016	Commercial			Consolidated
	Liverpool	Suburbia	Real estate	
Net Revenue	\$ 97,262,238	\$ -	\$ 3,179,298	\$ 100,441,536
Costs and expenses	(85,584,861)	-	(1,450,284)	(87,035,145)
<b>Operating income</b>	<b>\$ 11,677,377</b>	<b>\$ -</b>	<b>\$ 1,729,014</b>	<b>\$ 13,406,391</b>

The information disclosed in each segment is shown net of eliminations corresponding to transactions conducted between Group companies. Inter-segment results and transactions are eliminated at the consolidated level, forming part of the Group's final consolidation. This form of presentation is the same as that used by management in its periodic review processes of the Company's performance.

Taxes and financing costs are viewed at the Group level and not within the reporting segments. As a result, this information is not shown in each reporting segment. Operating income is the key performance metric for management, which is reported on a monthly basis to the Company's Corporate Governance.

## 22.2. Geographic information

The information of the Company's geographic segments is only reported by the commercial segment using the following zones.

	December 31,	
	2017	2016
Ciudad de México y Estado de México	\$ 39,133,121	\$ 30,562,019
Hidalgo, Puebla, Morelos, Guerrero, Veracruz y Tlaxcala	16,813,712	13,920,009
Nuevo León, Tamaulipas, Chihuahua, Coahuila, Sinaloa, Sonora y Durango	15,599,033	12,860,987
Jalisco, Michoacán, Colima y Nayarit	12,433,188	10,425,493
Chiapas, Tabasco, Quintana Roo, Yucatán, Campeche y Oaxaca	10,917,215	9,352,431
Guanajuato, Querétaro, Aguascalientes, Zacatecas y San Luis	10,722,088	8,968,295
Other	13,445,709	11,173,004
<b>Total</b>	<b>\$ 119,064,066</b>	<b>\$ 97,262,238</b>

## Note 23 - Costs and expenses by nature:

The cost of sales and administration expenses are comprised as shown below:

	2017	December 31, 2016
Cost of merchandise	\$ 70,150,818	\$ 57,414,444
Cost of distribution and logistics	2,404,530	1,906,627
Personnel compensation and benefits	13,292,947	11,133,712
Services contracted	4,694,951	3,787,312
Depreciation and amortization	3,423,103	2,616,018
Provision for impairment of loan portfolio	3,081,018	2,337,642
Leases	2,051,036	1,172,568
Repairs and maintenance	1,420,770	1,877,482
Electrical power and utilities	1,013,845	686,721
Inventory reserve	832,139	786,735
Other <sup>(1)</sup>	4,571,438	3,315,884
<b>Total</b>	<b>\$ 106,936,595</b>	<b>\$ 87,035,145</b>

<sup>(1)</sup> Includes insurance premiums, travel expenses, real estate taxes, expenses related to the Suburbia acquisition and the joint venture project with Ripley (\$173 million-See Note 1), additional expenses (\$285 million) to cover deductibles and other expenses derived from the earthquake of September 2017.

Personnel compensation benefits are comprised as follows:

	2017	December 31, 2016
Salary and bonds	\$ 10,864,521	\$ 8,947,444
Commissions paid to sales staff	2,143,767	1,973,150
Other payments	284,659	213,118
	<b>\$ 13,292,947</b>	<b>\$ 11,133,712</b>

## Note 24 - Restatement of consolidated financial statements:

As mentioned in "Note 11", Liverpool owns 50% of the capital stock of Unicomer Group Ltd. (Unicomer) and accounts for this investment using the equity method due the Company does not have control.

During 2017 Unicomer restated its financial statements due to the following misstatements:

- During 2017, Unicomer detected a fraud in its subsidiary Wisdom Products, S.A. E.C. A. (Wisdom) located in Paraguay, resulting from assets that were non-existent at the time it acquired Wisdom (December 24, 2015). Unicomer adjusted the net value of net assets previously recognized and impaired all of the associated goodwill. As a result of such fraud, Liverpool's carrying value of its investment in associates was overstated in its previously issued financial statements by \$327 million.
- The accounts receivable from the subsidiary of Unicomer in Guatemala were restated to correct for an overstatement of interest income for certain types of transactions related to the loan portfolio, caused by limitations of the computer system. These prior period errors resulted in Liverpool's carrying value of its investment in associates being overstated by \$71 million.
- Deferred income from extended warranties of Unicomer's operations in El Salvador was restated to properly account for the impact on revenue recognition in prior periods which resulted in Liverpool's carrying value of its investment in associates being overstated by \$54 million.
- The \$136 million tax benefit of the errors described above, offset by errors of \$51 and \$45 million in fiscal 2016 and as of December 31, 2015 resulting from an understatement of deferred tax liabilities related to Liverpool's investments in Unicomer.

This implied that Liverpool also restated 2015 financial statements to adjust the value of its investment in Unicomer, recognizing a debit to retained earnings and a credit to investments in shares of associates for \$452 million and the corresponding tax effect in 2015 and 2016 by \$90 and \$51 million, respectively.

The effects of this restatement are shown below:

(millions of pesos)

	As previously reported at December 31, 2016	Adjustments restated	December 31, 2016 restated
<b>Consolidated balance sheet</b>			
<b>Assets</b>			
Current assets	\$ 71,183	\$ -	\$ 71,183
Investment in associates	7,681	(452)	7,229
Deferred income tax	680	39	719
Other non-current assets	68,857	-	68,857
<b>Total assets</b>	<b>\$ 148,401</b>	<b>\$ (413)</b>	<b>\$ 147,988</b>
<b>Liabilities</b>			
Short-term liabilities	\$ 34,199	\$ -	\$ 34,199
Long-term liabilities	32,453	-	32,453
Total liabilities	66,652	-	66,652
<b>Stockholders' equity</b>			
Stockholders' equity	81,749	(413)	81,336
<b>Total liabilities and stockholders' equity</b>	<b>\$ 148,401</b>	<b>\$ (413)</b>	<b>\$ 147,988</b>

#### Consolidated statement of income

Revenue	\$ 100,442	\$ -	\$ 100,442
Costs and expenses	87,035	-	87,035
Operating income	13,407	-	13,407
Financing costs	(259)	-	(259)
Equity in the results of affiliates	716	-	716
Pre-tax income	13,864	-	13,864
Taxes	3,673	51	3,724
<b>Consolidated net income</b>	<b>\$ 10,191</b>	<b>\$ 51</b>	<b>\$ 10,140</b>

	As previously reported at December 31, 2015	Adjustments restated	December 31, 2015 restated
<b>Consolidated balance sheet</b>			
<b>Assets</b>			
Current assets	\$ 48,736	\$ -	\$ 48,736
Investment in associates	6,481	(452)	6,029
Deferred income tax	208	90	298
Other non-current assets	60,424	-	60,424
<b>Total assets</b>	<b>\$ 115,849</b>	<b>\$ (362)</b>	<b>\$ 115,487</b>
<b>Liabilities</b>			
Short-term liabilities	\$ 26,244	\$ -	\$ 26,244
Long-term liabilities	17,898	-	17,898
Total liabilities	44,142	-	44,142
<b>Stockholders' equity</b>			
Stockholders' equity	71,707	(362)	71,345
<b>Total liabilities and stockholders' equity</b>	<b>\$ 115,849</b>	<b>\$ (362)</b>	<b>\$ 115,487</b>

## **Note 25 - Contingencies and commitments:**

### **25.1 Contingencies**

The Company is party to a number of lawsuits and claims arising from the normal course of its operations. Management does not expect these lawsuits will have a significant adverse effect on its consolidated financial statements.

As a result of what is mentioned in Note 24, on June 30, 2017, Wisdom received a settlement of US\$6 million from the tax authorities for the tax on income and VAT for the fiscal year 2015. The management of Wisdom negotiated to reduce this amount to US\$3.9 million, which it expects to liquidate with the resources deposited in the escrow established in the contract for the purchase of shares for \$ 3.5 million dollars. Wisdom could face an audit of the tax authorities regarding VAT and income tax for the years 2012 to 2014 and 2016. At this time, Unicomer cannot estimate the possible contingency that may arise, if any.

### **25.2 Commitments**

The Company has granted stand-by letters to certain vendors in the amount of \$934,653 (\$1,056,608 in 2016). These letters are used by the vendors to obtain the financing required to satisfy production requests and/or the acquisition of merchandise ordered by the Company. In the event of default by vendors with the financial institutions that granted the financing, the Company would be obligated to settle the aforementioned amount. During 2017, 2016 and as of the date of issuance of the consolidated financial statements, the Company has not been notified of any breach by these suppliers. Stand-by letters in effect at December 31, 2017 mature between April and July 2018.

### **25.3 Capital investments**

The Company has entered into various contracts with third parties to acquire land and real estate and for which a total of \$275,376 (\$152,061 in 2016) has yet to be settled, in accordance with the terms established in said contracts.

## **Note 26 - Authorization of issuance of consolidated financial statements:**

The consolidated financial statements were authorized for issuance on February 16, 2018 by the Board of Directors, and are subject to approval by the stockholders meeting.

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