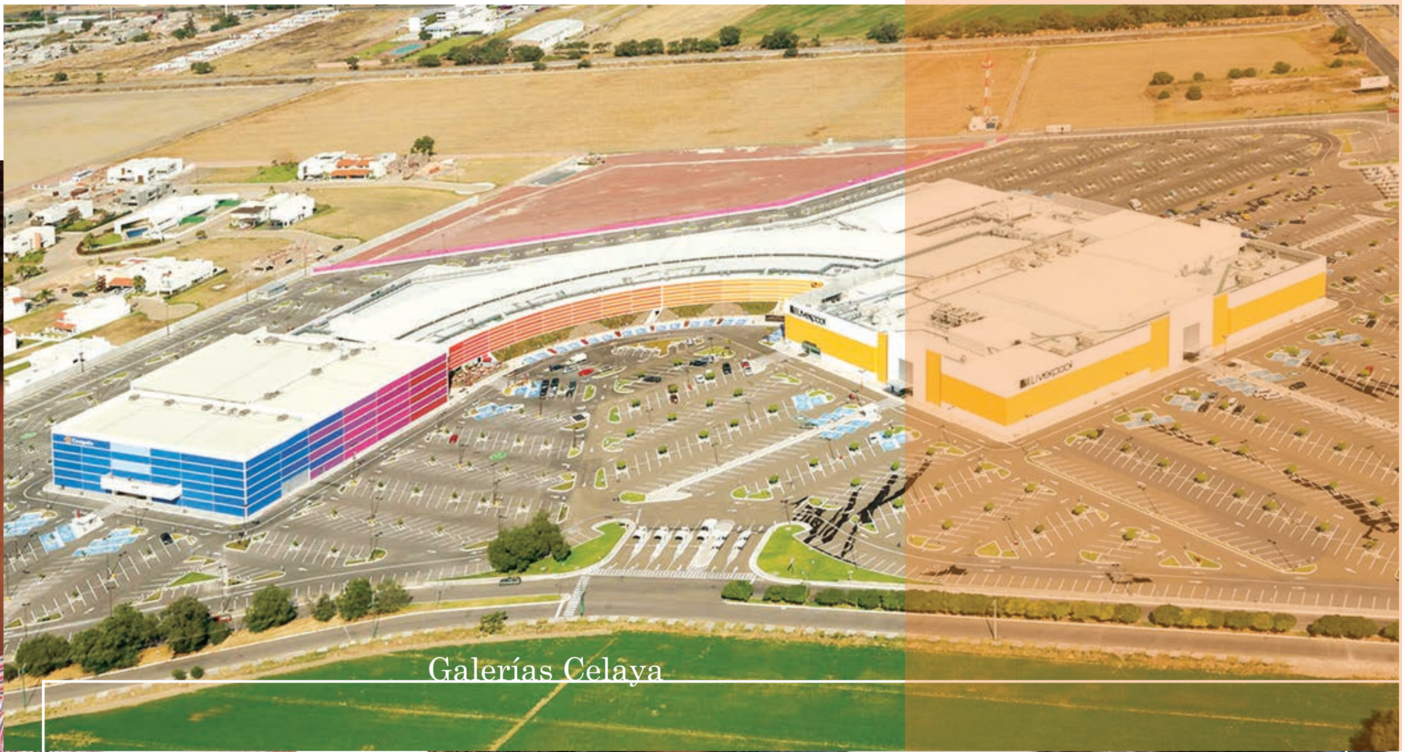
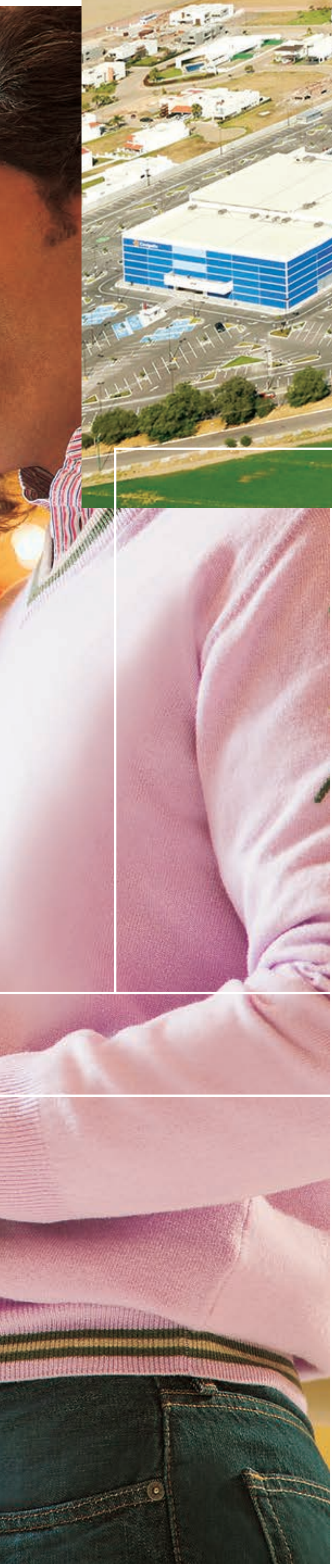
Liverpool®

annual report 2012


Liverpool



Galerías Celaya



Quick read

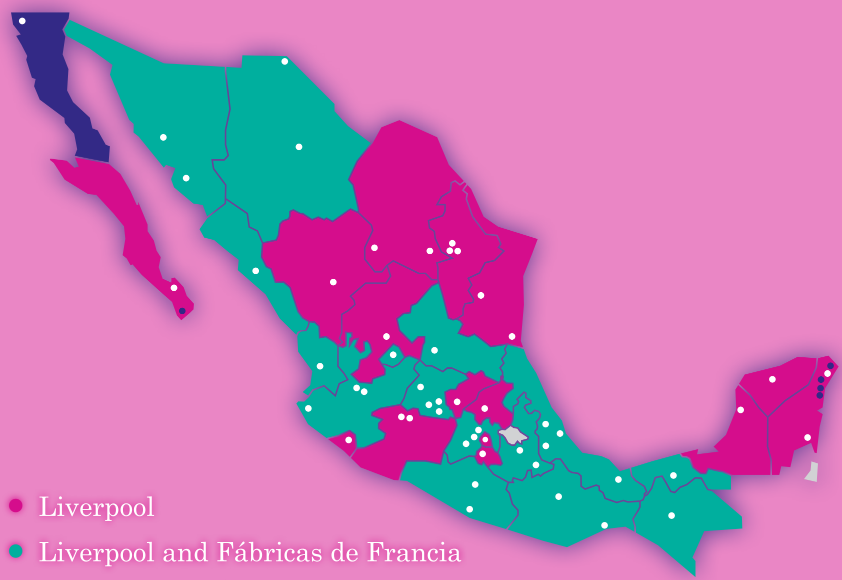
HIGHLIGHTS

(Figures in millions of pesos)

$66,247	total revenue
$11,769	EBITDA
$ 7,198	net profit

El Puerto de Liverpool is a Corporation which main activity is to run department stores with a broad presence in Mexico, supported by consumer credit and stakes in real estate.

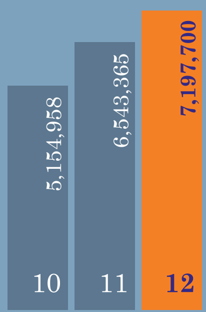
WHERE WE OPERATE



- Liverpool
- Liverpool and Fábricas de Francia
- Liverpool DutyFree

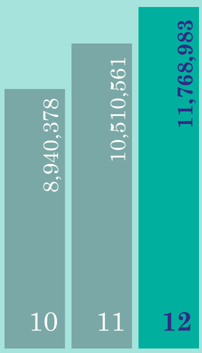
TOTAL REVENUE
thousands of pesos

12.9
percent growth
total revenue



NET PROFIT
thousands of pesos

17.8
percent margin
EBITDA



EBITDA
thousands of pesos

Financial highlights

Figures in thousands of Mexican pesos as of December 31, 2012 and 2011 respectively.

	2012	2011	%VAR	2010
Operations				
Number of stores	99	90	10.0%	85
Number of shopping centers	19	16	18.8%	16
Own brand credit cards	3,118,995	2,903,472	7.4%	2,700,597
Results				
Total revenue	66,246,504	58,656,809	12.9%	52,160,681
Revenue from Retail Division	58,777,686	52,348,382	12.3%	46,730,797
Revenue from Real-estate Division	2,115,854	1,731,041	22.2%	1,551,745
Revenue from Credit Division	5,352,964	4,577,386	16.9%	3,878,139
Operating profit	10,306,076	9,227,815	11.7%	7,727,110
Net profit	7,197,700	6,543,365	10.0%	5,154,958
EBITDA	11,768,983	10,510,561	12.0%	8,940,378
EBITDA margin (%)	17.8%	17.9%	-0.9%	17.1%
Profit per share	5.36	4.88	9.9%	3.84

Letter from the Chairman of the Board

To the Shareholders,

Confidence in Mexico is on the rise. Middle-class Mexican families continue to grow in number, as well as in purchasing power. Their level of maturity and sophistication increases every day. It has been Liverpool's mission to serve this select group of consumers, and we shall continue to do so.

During 2012, we earned revenue in the amount of $66,247 million pesos, which is 12.9% more than the prior year; the Company's net profits reached $7,198 million pesos. Making an unprecedented effort, we invested $8,365 million to open nine stores and three shopping malls; we attracted 300,000 new credit customers and more importantly, generated 3,900 new direct jobs.

We will continue to channel significant resources into the building of more than 15 projects in 2013, including five stores and three malls that will start up operations during this year. We will also encourage the responsible credit of our cardholders, both current and future. This growth will be financed primarily by the Company's own internal cash flow, thereby maintaining the traditional levels of indebtedness and the high index of capitalization.

The development of talent continues to be one of our top priorities. We will intensify the programs that identify promising employees, in our quest to prepare them to assume positions of leadership in the future. Innovation and sustainability are always on our mind. We will continue to make our best effort to offer a unique shopping experience to our customers, and we will continue to adapt the Company to the new multi-channel environment that is becoming more and more apparent each day.

We deeply appreciate the trust placed in us by our shareholders, the financial community, and our suppliers and tenants. We wish to thank our personnel for their dedication, and moreover, our customers for their preference, and for whom we shall continue to work arduously, to shorten distances and strengthen ties.

Sincerely,

Max David
Chairman of the Board

March 7, 2013

Letter from the
Chief Executive Officer

Growth has allowed us to reach a larger number of cities of various sizes, characteristics, tastes and needs, and has brought us closer to a growing number of families. The opening of nine stores during the year reflects the confidence that Liverpool has in the Mexican market and confirms the objective of offering quality and fashion at reasonable prices.

At the close of a year that brought about increased development on several fronts, the Company's total revenue grew by 12.9% over the prior year. Total sales increased by 12.1%, while same-store sales increased by 7.1%, thanks to the customers' positive response to our promotions, and to the introduction and launching of new merchandises and services.

The higher demand for consumer credit in the Mexican market provides us with the opportunity to continue to position the Company's various credit cards. The Liverpool card continues to evolve favorably, while at the same time, the Liverpool Premium Card is beginning to create its own personality in this highly competitive market. At the year-end, 47.4% of the Company's sales were made with the Store's own cards.

The need to supply the Country's different cities with large and diverse shopping malls led us to build and open two new units and to acquire the majority share in yet another mall during the year. This situation favored the income in Liverpool's real estate division, with such income growing by 22.2% during the year.

Operating expenses increased by 14.0%, pressured by the Company's constant growth derived from the openings of stores and malls, as well as by the strengthening of key departments to guarantee Liverpool's development plan.

Inventory management required close follow-up to be able to reduce inventory growth from 16.1% at the beginning of the year, to levels more in line with the growth of the same-store sales at the end of the year.

Never before in the Company's history had so much investment been made as in the year 2012. Thanks to cash flows accumulated in the treasury at the end of 2011, as well as to the sum of operational flows generated throughout the year, and added to the resources obtained in the placing of debt certificates in March of 2012, capital investment amounted to $8,365 million pesos. This figure permitted the continued driving of the profitable growth of Liverpool's operations, which attracts new customers.

Sincerely,

Jorge A. Salgado M.
Chief Executive Officer

December 31, 2012

Liverpool Veracruz El Dorado

9 new stores opened in 2012

The Board of Directors Report to the Shareholders' Meeting

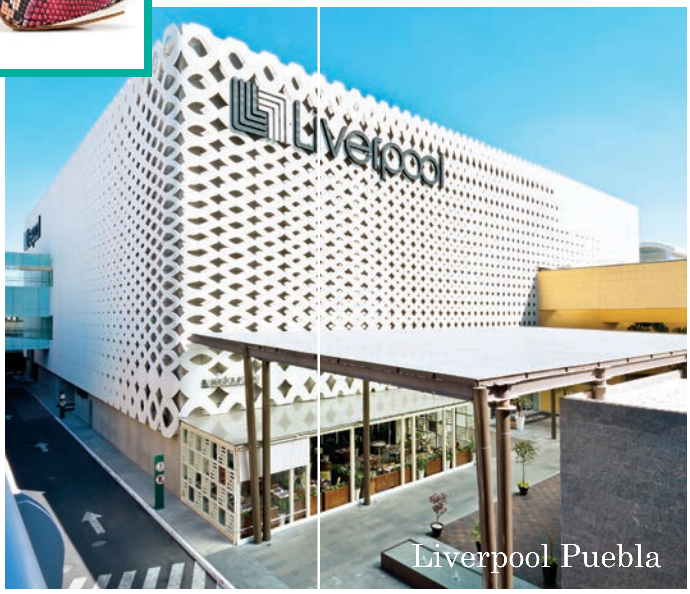
We grow, to be closer to the customer.

Mexico is a very extensive country, with a broad base of currently developing middle-class families who constitute the Country's social and economic foundation.

It is this expanding group that motivates our actions; we envision important potential for growth in locations in which we are already present, as well as in new localities.

During 2012, we opened nine stores in the cities of Villahermosa, Guadalajara, San Juan del Río, Veracruz, Playa del Carmen, León, Ciudad Jardín in the State of Mexico, Campeche and the Ithsmus in the State of Oaxaca.

We also added three more shopping malls –Galerías Acapulco, Zacatecas and Celaya– to our portfolio, bringing it up to 19 units currently in operation.



Liverpool Puebla

We keep our facilities up-to-date and functional. To this end, during 2012, we expanded Liverpool Insurgentes to include direct access to the Federal District Subway System's Insurgentes Station; Liverpool Polanco and Santa Fe in Mexico City; Puebla, Metepec and Monterrey Galerías in other Mexican cities; and the Perinorte mall.

We now have 93 stores, plus six more with a duty-free format, located in 56 cities throughout the Country, with a footprint of 1,330,000 square meters of sales floor, which is 12.1% more than in 2011. The gross leasing area in our shopping malls increased to 336,000 square meters, for a 17.0% growth over 2011.

The location of our stores is a very important factor that favors the customers' visits. Urban spaces in Mexico are becoming more and more extensive and sophisticated, which is why we make an effort to provide our customers with a larger number of choices of shopping destinations.

We recognize and appreciate the Country's demographic and climatic differences, understanding the customers' tastes and needs, which is why we have continued to invest resources in the development of models of allocation and assorting of merchandise to the Chain's stores.

All of the Company's actions are focused on pleasing the customer. We bring the customer closer to new, high-quality, world-class merchandise, in ever expanding physical and virtual spaces.

Experiencia Gourmet
at Liverpool Veracruz
El Dorado

1.3 million
square meters
of selling space

336 thousand
square meters of GLA

new concepts

We innovate to make shopping experience even more complete.

Encouraged by our primary objective, which is our focus on the customer, we continue to carry out a series of innovations in our operations.

We developed the Gourmet Experience concept in our Liverpool Polanco, Santa Fe, Villahermosa, Puebla and Veracruz stores, for a total of 50,000 square meters of spaces dedicated to a variety of gastronomical options.

We constantly incorporate innovative merchandise and services designed to bring our customers new products, quality and fashion, all at accessible prices.

50 thousand square meters devoted to Experiencia Gourmet

Launching each season with internationally recognized models has made Liverpool's Fashion Fest an event that creates expectations and sets fashion trends.

The Galerías malls continue to develop shopping, entertainment and cultural experiences directed specifically at the community in which they are located. Consequently, the average occupancy for the year reached the level of 97.0%, or three percentage points higher than in the year 2011.

We also began developing the land adjoining Galerías Atizapan, located in the northwestern part of Mexico City's metropolitan area.

Liverpool's credit cards meet their goal of incorporating exclusive benefits to their holders, during the Company's periodic sales, as well as with attractive financing plans. The Liverpool Premium Card continued to grow during 2012, making it possible for our customers to make purchases any place in the world.

We presently have more than three million cardholders and a portfolio that totals $23,951 million pesos.

Various assistance, insurance and service programs offered by the Company have contributed to bringing a broad range of options to the buyer, at accessible prices; these options provide our customers with peace of mind and support at all times. During 2012, Liverpool had 1.3 million insured customers, and it provided more than 300,000 services.

Fashion Fest by Liverpool, creates expectation and sets fashion trends

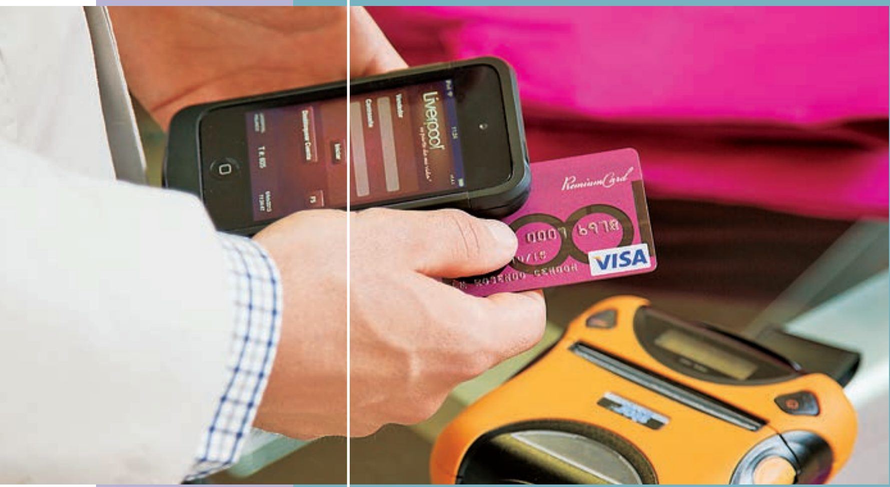
2 million
home deliveries

We strive to satisfy tastes and fulfill hopes.

In 2012, the facilities for the reception and storage of constant-flow merchandise were remodeled to support the objective of the Company's future growth.

Also, the big ticket distribution center began the expansion that will enable it to increase its storage capacity and to shorten distances with key suppliers for the Company.

One of Liverpool's services most appreciated by our customers is the home delivery of their purchases. In this sense, during the year, we made almost two million visits to Mexican homes.



The world continues to change, thanks to the reduction of distances brought about by the various virtual tools such as the Internet and other social networks. This situation makes it imperative for Liverpool to offer an effective multi-channel platform; we are currently working to develop such a platform.

Increased mobility offers our customers the means and alternate channels with which to make their purchases. We redesigned our Internet portal and the credit card payment by cell phone. In December, we began granting immediate credit via remote terminals.

Our association with Regal Forest continues to develop and its value continues to increase. In 2012, it consolidated operations in Costa Rica through the acquisition of the Gollo chain.

redesign

of e-commerce site

3.1 million cardholders

We develop tools that bring our customers closer.

Providing nearby, personalized and consistent service is the characteristic that sets us apart from our competition.

Thanks to the various educational programs that are created and imparted at the Liverpool Virtual University, we coordinate our sales force quickly and expediently, to communicate and promote the required skills that enable it to offer the customer an enjoyable and positive shopping experience.

The solid base of Mexican suppliers and business partners is a stimulus for growth and development for Liverpool. We continue to work together with them, to present merchandise and services in line with the different lifestyles that highlight the diversity and innovation in our stores and virtual spaces.

Operating Summary

Results

Total revenue reached the amount of $66,247 million pesos, for a 12.9% increase over the prior year.

Total sales grew by 12.1% and same-store sales by 7.1%.

The dynamics of the Mexican credit market continued to expand during 2012. Liverpool participated actively in this area, growing its portfolio by 15.4%, while the income from such portfolio amounted to $5,353 million pesos, for a 16.9% increase over the prior year.

The Company's non performing loans by more than 90 days is 2.8%; this fact leads us to practice a policy of caution when granting credit responsibly, based on the respective credit history analysis.

Real estate income grew to $2,116 million pesos, which is 22.2% higher than the prior year.

Operating expenses increased by 14.0% during the year, affected primarily by the pre-operating expenses related to the growth plan.

Operating profit amounted to $10,306 million pesos, which is 11.7% more than the prior year.

Earnings before interests, taxes, depreciation and amortization (EBITDA), amounted to $11,769 million pesos, or 12.0% more than in 2011.

Financing expenses increased by 16.3% during the year. The total cost-bearing debt at the year-end amounted to $12,921 million pesos, which represents a total debt to EBITDA ratio of 1.1 times.

Net profits reached the amount of $7,198 million pesos, for a growth of 10.0% over the prior year.

Dividends

The General Shareholders' Meeting held on March 8, 2012 declared a dividend in the amount of $899 million pesos on the 1,342,196,100 shares representing the Company's capital stock.

Sustainability

Liverpool works to provide well-being for its associates, for the community it serves, and for the environment in general.

To this end, we have brought the benefits of our Liverpool Virtual University even closer to our associates and their families, so as to encourage learning and development to generate opportunities for the betterment of all. Also, in the area of well-being and health, we imparted informative programs and promoted vaccination campaigns instituted by the Mexican Social Security Institute.

Several initiatives have also been established to encourage healthy co-existence with the environment; these include the saving of energy; the solar-heating of water; the recycling of water; the recovery of garbage waste; and the environmental sensitivity towards the protection and planting of native flora in the exterior landscaping of our stores, shopping malls and developments.

Final Considerations

Constant innovation is our best ally in maintaining close ties that project the Company as being state-of-the-art and always on the move.

We wish to extend our appreciation to the shareholders, suppliers, tenants and associates for having placed their trust in us and for encouraging Liverpool's development. We especially wish to thank our clients for allowing us to serve them. We shall continue to innovate constantly, to surpass their expectations and to bring us ever closer to them.

Sincerely,

The Board of Directors
December 31, 2012

BOARD OF DIRECTORS

Max David[1]
Chairman

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

Miguel Guichard[1]
Vice Chairman
Chairman, Executive Committee

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

José Calderón[2]
Independent Consultant

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

Pedro Velasco [2,3]
Partner, Santamarina y Steta, S.C.
Chairman of the Audit and
Societary Practices Committee

Juan Miguel Gandoulf [2,3]
Director, Sagnes Constructores, S.A. de C.V.

Armando Garza Sada [2]
Chairman, Alfa, S.A.B. de C.V.

Ricardo Guajardo [2]
BBVA Bancomer Board Member

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

Guillermo Simán [2]
Vicepresident, Grupo Unicomer

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

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

Luis Tamés [2,3]
Independent Businessman

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

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

1 Patrimony Board Member
2 Independent Board Member
3 Audit Committee Member

EXECUTIVE COMMITTEE

Miguel Guichard
Chairman

Miguel Bordes
Max David
Jorge Salgado
Héctor Guzmán
Eduardo Flores
Norberto Aranzábal
Secretary

PATRIMONY BOARD

Enrique Brémond
Co-Chairman

Max Michel
Co-Chairman

Juan David
Member of the Board

Juan Guichard
Member of the Board

Madeleine Brémond
Alternate Board Member

Monique David
Alternate Board Member

Magdalena Guichard
Alternate Board Member

Magdalena Michel
Alternate Board Member

Alejandro Duclaud
Secretary

HONORARY CHAIRMEN

Max Michel
Enrique Brémond

HONORARY BOARD MEMBERS

J. Claudio Montant
Pedro Robert
Hugo Lara +

Independent auditor's report

Mexico City, February 28, 2013

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

Report on the consolidated financial statements

We have audited the consolidated financial statements of El Puerto de Liverpool, S. A. B. de C. V. and subsidiaries, which comprise the consolidated balance sheet at December 31, 2012 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the year then ended, as well as a summary of the main accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for the internal control structure considered by Management to be necessary to allow for ensuring that the consolidated financial statements are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit consists of applying procedures to obtain audit evidence to support the balances and disclosures contained in the consolidated financial statements. The procedures applied are determined on the basis of the auditor's judgment and include an assessment of the risk of material errors in the consolidated financial statements, either due to fraud or error. In conducting this risk assessment, the auditor considers the Company's internal control relevant for preparation and fair presentation of the consolidated financial statements, 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. An audit also includes assessing whether or not the accounting principles applied are appropriate and the accounting estimates used by management are reasonable, as well as an evaluation of the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of El Puerto de Liverpool, S. A. B. de C. V. and subsidiaries at December 31, 2012, and their consolidated results of operation and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

José Luis Guzmán

José Luis Guzmán
Audit Partner

PricewaterhouseCoopers, S. C., Mariano Escobedo 573, Colonia Rincón del Bosque, C.P. 11580 México, Distrito Federal
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Report of the audit and societary practices committee

Mexico, D. F.   February 15, 2013

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

We, the undersigned, appointed to comprise the Audit and Societary Practices Committee of the company, El Puerto de Liverpool, S. A. B. de C. V. (hereinafter, the Company), and in compliance with article 43 of the Mexican Securities Act, do hereby submit the following report on activities carried out.

We held four Committee meetings at which, among other matters, we addressed the following:

I. The Company's regular stockholders' meeting, held on March 8, 2012, appointed Mr. Pedro Velasco Alvarado as President of the Audit and Societary Practices Committee for the year 2012.

II. With regards to the audit:

a) We evaluated the external audit plan and the professional services proposal accepted by management, and recommended to the Board of Directors that it appoint the firm, PricewaterhouseCoopers, through its audit partner, certified public accountant, Mr. José Luis Guzmán Ortiz, as independent auditor to report on the financial statements of the Company and of its Subsidiaries, corresponding to the year ended December 31, 2012.

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

c) We reviewed the Company's accounting policies, as well as the impact of such policies, on the financial statement figures at December 31, 2012 and 2011, obtaining assurance that the financial information is presented correctly.

d) We reviewed the organization and functioning of the Company's internal audit department; we read its annual report on activities carried out in year 2012, relevant findings and its audit plan for year 2013.

e) We evaluated that the Company has the systems, policies and operating procedures that permit us to consider that it has a proper internal control and accounting records environment.

f) We reviewed the Company's degree of adhesion to the Best Corporate Practices Code recommended by the Mexican Stock Market, in accordance with the report with information at December 31, 2011, presented on April 27, 2012.

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

h) We reviewed the consolidated financial statements at December 31, 2012, the corresponding notes thereto, and the audit report thereon, issued by the independent auditors.

i) We were made aware of the status of the reserves and estimates included in the financial statements at December 31, 2012.

j) We were informed as to the independent auditors' observations and recommendations related to the examination of the consolidated financial statements at December 31, 2011.

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

III. With regards to societary practices:

a) We consider that the performance of senior management has been adequate and efficient, considering the circumstances under which such management has performed its duties.

b) We were informed as to the transactions with related parties, evaluating that the amounts thereof are not significant in relation to the Company's operations, and that such amounts are in accordance with market conditions.

c) Generally speaking, we were informed as to the criteria of the assignment of the overall remunerations made to the Company's relevant directors. We consider such remunerations to be reasonable and that they are in accordance with market conditions.

As a result of the activities carried out by this Committee, and in accordance with the opinion of the Company's independent auditors, we are pleased to recommend that the Board of Directors submit the financial statements of El Puerto de Liverpool, S. A. B. de C. V. and Subsidiaries at December 31, 2012, in the terms in which such statements have been prepared by the Company's Management, and presented to the Stockholders' Meeting for its approval.

Sincerely,

The Audit and Societary Practices Committee

Sr. Luis Tamés **Lic. Pedro Velasco** **C. P. Juan Miguel Gandoulf**

Consolidated balance sheets

December 31, 2012 and 2011
(Thousands of pesos)

	Note	December 31, 2012	2011
Assets			
Current assets:			
Cash and cash equivalents	7	$ 2,910,124	$ 2,565,515
Short – term loan portfolio – net	8	17,561,620	15,990,126
Value added tax recoverable – net		994,584	919,275
Income tax recoverable – net		402,997	–
Other accounts receivable – net	9	920,354	850,984
Inventory	11	10,558,247	10,109,023
Prepaid expenses	2.29	520,160	502,599
Total current assets		33,868,086	30,937,522
Non – current assets:			
Long – term loan portfolio – net	8	6,389,578	4,768,474
Long – term other accounts receivable – net	9	172,117	158,646
Derivative financial instruments	10	318,364	240,100
Investment in shares of associates	12	4,007,211	3,568,978
Intangibles – net	15	1,503,847	927,142
Investment properties – net	13	12,360,087	10,102,793
Property, furniture and equipment – net	14	26,490,563	22,319,405
Total		$ 85,109,853	$ 73,023,060
Liabilities and stockholders' equity			
Current liabilities:			
Suppliers		$ 10,288,069	$ 9,583,759
Provisions	16	1,501,543	1,392,432
Deferred income	2.24	1,480,314	1,338,544
Creditors		4,446,520	4,145,308
Income tax payable	23	–	138,149
Total current liabilities		17,716,446	16,598,192
Long – term loans from financial institutions	17	921,456	921,456
Long – term unsecured notes	18	12,000,000	8,000,000
Derivative financial instruments	10	341,237	357,999
Employee benefits	19	398,645	265,004
Deferred income tax	23	4,202,359	3,621,420
Total liabilities		35,580,143	29,764,071
Stockholders' equity:			
Capital stock	24	3,374,282	3,374,282
Retained earnings:			
Prior years'		37,919,186	32,398,436
For the period		7,197,700	6,543,365
Capital reserves	24	1,036,515	941,489
Stockholders' equity attributable to owners of the controlling company		49,527,683	43,257,572
Non–controlling interest		2,027	1,417
Total stockholders' equity		49,529,710	43,258,989
Total		$ 85,109,853	$ 73,023,060

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

Consolidated statements of comprehensive income, expenses by function

For the years ended December 31, 2012 and 2011
(Thousands of pesos)

	Note	December 31, 2012	2011
Operating revenue:			
Net sales of merchandise	2.23	$ 57,017,252	$ 50,881,125
Interest earned from customers	2.23	5,352,964	4,577,386
Leasing of investment property	2.23	2,115,854	1,731,041
Services	2.23	1,760,434	1,467,257
Total revenue		66,246,504	58,656,809
Costs and expenses:			
Cost of sales	21	39,526,608	34,932,775
Administration expenses	21	16,756,502	14,700,673
Total costs and expenses		56,283,110	49,633,448
Other income – net	22	342,682	204,454
Operating income		10,306,076	9,227,815
Financing costs	18	(985,129)	(847,293)
Interest earned on investments	7	200,660	227,312
Foreign exchange fluctuation – net		12,776	(7,669)
Equity in the results of associates	12	414,941	304,727
Pre–tax income		9,949,324	8,904,892
Taxes	23	2,750,744	2,360,947
Consolidated net income		7,198,580	6,543,945
Other items comprising comprehensive income:			
Valuation of financial instruments contracted for cash flow hedging	10	95,026	(20,145)
Actuarial losses of employee benefits		(123,614)	(112,280)
Consolidated comprehensive income		$ 7,169,992	$ 6,411,520
Net income attributable to:			
Owners of controlling company		$ 7,197,700	$ 6,543,365
Non–controlling interest		880	580
		$ 7,198,580	$ 6,543,945
Basic and diluted earnings per share	24	$ 5.36	$ 4.88
Comprehensive income attributable to:			
Owners of controlling company		$ 7,169,382	$ 6,410,689
Non–controlling interest		610	831
		$ 7,169,992	$ 6,411,520
Basic and diluted earmings per share		$ 5.34	$ 4.78

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

Consolidated statements of changes in stockholders' equity

At December 31, 2012 and 2011
(Thousands of pesos except dividends per share)

	Capital stock	Retained earnings	Capital reserves	Total stockholders' equity attributable to the owners of the controlling Co.	Non controlling equity	Total stockholders' equity
Balances at January 1, 2011	$ 3,374,282	$ 33,235,753	$ 961,634	$ 37,571,669	$ 586	$ 37,572,255
Comprehensive income:						
Net income		6,543,365		6,543,365	580	6,543,945
Actuarial gains		(112,531)		(112,531)	251	(112,280)
Valuation of derivative financial instruments	–	–	(20,145)	(20,145)	–	(20,145)
Total comprehensive income	–	6,430,834	(20,145)	6,410,689	831	6,411,520
Transactions with owners:						
Dividends paid at $0.54 pesos per share	–	(724,786)	–	(724,786)	–	(724,786)
Total transactions with stockholders	–	(724,786)	–	(724,786)	–	(724,786)
Balances at December 31, 2011	3,374,282	38,941,801	941,489	43,257,572	1,417	43,258,989
Comprehensive income						
Net income		7,197,700		7,197,700	880	7,198,580
Actuarial losses		(123,344)		(123,344)	(270)	(123,614)
Valuation of derivative financial instruments	–		95,026	95,026	–	95,026
Total comprehensive income	–	7,074,356	95,026	7,169,382	610	7,169,992
Transactions with owners:						
Dividends paid at $0.40 pesos per share	–	(899,271)	–	(899,271)	–	(899,271)
Total transactions with stockholders	–	(899,271)	–	(899,271)	–	(899,271)
Balances at December 31, 2012	$ 3,374,282	$ 45,116,886	$ 1,036,515	$ 49,527,683	$ 2,027	$ 49,529,710

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

Consolidated cash flow statements

December 31, 2012 and 2011
(Thousands of pesos)

	December 31, 2012	December 31, 2011
Operations		
Pre–tax income	$ 9,949,324	$ 8,904,892
Adjustments from items not implying cash flows:		
Depreciation and amortization included in costs and expenses	1,462,907	1,282,746
Provision for impairment of loan portfolio	1,076,930	953,242
Equity in income of associates	(414,941)	(304,727)
Profit on sale of investment properties	(3,592)	(1,302)
Profit on sale of property, furniture and equipment	(78,427)	(17,246)
Net cost for the period of labor obligations	90,411	70,416
Interest earned	(3,334,932)	(3,025,211)
Accrued interest expense	985,129	847,293
	(216,515)	(194,789)
(Increase) decrease in:		
Interest earned from customers	3,149,057	2,790,641
Short – term loan portfolio	(2,663,209)	(2,288,668)
Inventory	(449,224)	(2,028,123)
Value added tax recoverable	(75,309)	(136,242)
Other accounts receivable	(75,158)	(222,722)
Income tax recoverable	(402,997)	–
Prepaid expenses	(17,561)	(136,563)
Long – term loan portfolio	(1,621,104)	(780,616)
Other long–term accounts receivable	(13,471)	(29,751)
Deferred income	141,770	101,380
Suppliers	704,310	1,140,759
Creditors	187,857	312,708
Taxes paid	(2,302,170)	(2,613,576)
Provisions	109,111	72,894
Employee benefits paid	9,683	(58,403)
Net cash flows provided by operating activities	6,414,394	4,833,821
Investment activities		
Return on investments	200,660	227,312
Acquisition of property, furniture and equipment	(5,284,038)	(3,752,208)
Sale of property, furniture and equipment	116,633	13,545
Sale of investment properties	59,555	21,284
Acquisition of investment property	(2,447,588)	(1,381,734)
Investment in new IT developments	(830,607)	(400,054)
Net cash flows provided by investment activities	(8,185,385)	(5,271,855)
Cash (insufficiency) to be used in financing activities	(1,770,991)	(438,034)
Financing activities		
Issuance of unsecured notes	4,000,000	–
Dividends paid	(899,271)	(724,786)
Loans repaid	–	(2,250,000)
Interest paid	(985,129)	(847,293)
Net cash flows provided by financing activities	2,115,600	(3,822,079)
Increase (decrease) in cash and cash equivalents	344,609	(4,260,113)
Cash and cash equivalents at beginning of year	2,681,547	6,929,737
Exchange fluctuations of cash	(116,032)	(104,109)
Cash and cash equivalents at end of year	$ 2,910,124	$ 2,565,515

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

Notes to the consolidated financial statements

December 31, 2012 and 2011
(Thousands of pesos, unless otherwise specified)

Note 1– General information:

El Puerto de Liverpool, S. A. B. de C. V. and subsidiaries (hereinafter the Company) 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 with the Mexican Securities Market and has an important presence in the Federal District (Mexico City) and in 31 states in Mexico. At December 31, 2012, the Company operated a total 93 department stores, 70 under the name of Liverpool, 23 under the name Fábricas de Francia, aside from 6 Duty Free stores and 22 specialized boutiques. In 2011, four new stores started up operations: Interlomas, Ciudad de México; La Paz, Baja California Sur, San Luis Potosí, San Luis Potosí and Tlaquepaque, Jalisco, as well as one Duty Free in Playa del Carmen, Quintana Roo. In 2012, nine new stores started up operations: Villahermosa, Tabasco; Guadalajara, Jalisco; San Juan del Río, Queretaro; Veracruz, Veracruz; Playa del Carmen, Quintana Roo; León, Guanajuato; Ciudad Jardin, Estado de México; Campeche, Campeche; and Salina Cruz, Oaxaca, as well as four boutiques.

The Company grants its customers financing through the “Liverpool Credit Card”, with which customers can make purchases at Company stores exclusively. Additionally, the Company operates 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. During 2011, the Company began handling a third card denominated “Galerías Fashion Card”, which closely resembles the LPC.

Additionally, the Company manages, is a partner, stockholder or co–owner of shopping malls and holds an interest in 19 of them known as “Galerías”, through which it leases commercial space to tenants engaged in a broad number of businesses.

In 2012, two new shopping malls started up operations: Zacatecas, Zacatecas; Celaya, Guanajuato, and acquired a one in Acapulco, Guerrero.

The Company’s domicile and main place of business is:

Mario Pani 200
Col. Santa Fe,
México, D.F.
C.P. 05109

Note 2 – Summary of significant accounting policies:

Following is a summary of the main accounting policies applied in preparing the consolidated financial statements. These policies have been applied consistently in each of the years presented, unless otherwise specified.

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 and Other Companies traded on the Mexican Securities Market, issued by the National Banking and Securities Commission on January 27, 2009, as from 2012, the Company is required to prepare its financial statements using IFRS as the regulatory framework for accounting purposes. The Company early adopted IAS 19 (revised) – “Employee Benefits”. The application of this standard is required for periods beginning on January 1, 2013, however early adoption is allowed.

The consolidated financial statements have been prepared on the historical cost basis of accounting, except for the exemptions applied by the Company disclosed in Note 28, and except for the cash–flow hedge 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 annually generated profits, as well as by contracting short and long–term credit lines, but respecting the debt ceiling approved by the Board of Directors. The Company's financial structure has allowed for operating with liquidity, despite the important investments in capital goods carried out annually to expand the sales floor through opening of new stores and shopping malls. Interest payment is covered more than 8 times by operating income and is one of the objectives established by the Board of Directors. Taking into account the possible variations in operating performance, the Company's budget and projections show it is able to operate with its current level of financing. The Company is in compliance up to date with its payment obligations, and its obligations to do and not to do established under financing agreements.

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 policies and disclosures

New standards, changes and interpretations issued but not in effect as from January 1, 2012, that would be expected to have a material impact on the group.

- IAS 12 "Income taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, "Investment Property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income Taxes" – recovery of revaluated non – depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The standard is mandatory as from January 1, 2012.

New standards, changes and interpretations not yet adopted.

- IFRS 7 "Financial Instruments". This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposure relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets.

- IAS 1 "Presentation of financial statements". This modification requires that the entity separates the elements presented in other comprehensive–income items into two groups, based on whether or not then can be recycled to income in the future. Elements not to be recycled must be presented separately from those that can be recycled in the future. The modification is applicable for periods as from January 1, 2013

- IFRS 9 – "Financial instruments" addresses classification, recognition and measurement of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010. This standard partially replaces IAS 39 "Financial Instruments: Recognition and Valuation" on matters related to classification and measurement of financial instruments. IFRS 9 requires that financial assets be classified in either of the following two categories: assets measured at fair value and those measured at their amortized cost. The determination must be on the amount of the initial recognition of said assets. The classification depends on the business model used by the entity in handling its financial instruments and the contractual characteristics of the instruments' cash flows. For financial liabilities, the standard has retained most of the requirements of IAS 39. The main change is that if the fair value option is used, the valuation effect related to own credit risk must be recognized as part of comprehensive income or loss, unless it gives rise to an accounting mismatch. The Company expects to adopt this standard on January 1, 2015.

- IFRS 10 "Consolidated Financial Statements" establishes the principles for presentation and preparation of consolidated financial statements, when an entity controls one or more entities, based on any of the items currently considered. This new standard modifies the definition of the control principle and provides additional guidelines for the determination of control for more complex situations. The standard replaces IAS 27 "Consolidated and Individual Consolidated Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". This standard is mandatory as from January 1, 2013.

- IFRS 11 "Joint Ventures" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12 "Disclosure of Interest in Other Entities" requires disclosure of information that allows the users of financial information to evaluate the nature and risk related to their interest in other entities, including joint ventures, associates, special purpose entities and other off balance sheet vehicles, aside from the effects of said interests on their financial position and performance, as well as on their cash flows. This standard is mandatory as from January 1, 2013.

- IFRS 13 "Fair Value Measurement" provides a definition for fair value and establishes, in a single standard, the framework for measuring said fair value and the requirements for disclosure of said measurements. This standard is applicable when other IFRS require or allow for fair value measurement, except for transactions under the scope of IFRS 2 "Share–based Payments", IAS 17 "Leases", measurements closely resembling fair value, but which are not considered as such, as well as the net realization value under the scope of IAS 2 "Inventories" or the value in use in IAS 36 "Impairment of Long–lived Assets". This standard is mandatory as from January 1, 2013.

- IAS 27 "Individual Financial Statements" establishes the standards applicable to investments in subsidiary and associates, and joint ventures, when an entity opts or is required by local regulations to present non–consolidated financial statements. This standard does not specify which entities are to produce individual financial statements available for public use, and applies to entities preparing individual financial statements in accordance with IFRS. Individual financial statements are those presented by a controlling company, an investor with joint control or significant influence, on which investments are recognized at cost as per IFRS 9 "Financial Instruments". This modified standard is mandatory as from January 1, 2013.

- IAS 28 "Investments in Associates and Joint Ventures" prescribes the requirements for applying the equity method for investments in associates and joint ventures. The standard replaces the prior version of IAS 28 "Investments in Associates" and is mandatory as from January 1, 2013.

The Company is currently in the process of evaluating the impact of these standards on its financial statements. There are no other additional standards, changes or interpretations that although mandatory, could have a material impact on the Company's financial information.

2.2 Consolidation

a. Subsidiaries

The subsidiaries are all those entities (including special purpose entities) with respect to which the Company has the power to govern their operating and financial policies, generally because it holds more than half of its voting shares. The existence and effects of the potential voting rights currently exercisable or convertible are considered in evaluating whether or not the Company controls another entity. The subsidiaries consolidated from the date on which control thereof was transferred to the Company and cease to consolidate from the date on which said control is lost. In accordance with SIC 12 "Consolidation – Special Purpose Entities", special purpose entities (SPE) consolidate when the substance of the relationship between the Company and the SPE indicates that they are controlled by the Company.

The balances and unrealized profits or losses in intercompany operations are eliminated in the consolidation process. The subsidiary companies' accounting policies have been modified when necessary, for consistency with the policies adopted by the Company.

Following is a summary of the Company's interest in subsidiaries at December 31, 2012 and 2011:

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.
7 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 IAS 27 "Consolidated Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". That trust is described in Note 13 to the consolidated financial statements.

b. Associates

The 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 shares. Investments in associates are recorded by the equity method and are initially recorded 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 therein, 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 Information per segment

Information per segment is presented consistently 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 Company's currency reporting for preparation of the consolidated financial statements is the Mexican Peso, which in turn is the functional currency of El Puerto de Liverpool, S. A. B. de C. V. and of all its subsidiaries.

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 exchange profits and losses resulting from said transactions and from conversion, at the exchange rates in effect at the year–end close, of monetary assets and liabilities denominated in foreign currency are recognized as exchange fluctuations under financing cost in the statement of income.

2.5. Financial assets

2.5.1 Classification

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

Loans and accounts receivable are non–derivative financial assets allowing for fixed or determinable payments and which are not quoted in a deep market. They are shown as current assets, except for those maturing in over 12 months as from the closing date of the period reported, which are classified as non–current assets.

2.5.2 Recognition and measurement

a. Loans and receivables

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 thereof is expected in a year or under, said loans are classified as current assets; otherwise, they are shown as non–current assets.

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.

Loans and accounts receivable are no longer recognized when the rights to receive cash flows from investments expire or are transferred and the Company has transferred all the risks and benefits arising from ownership thereof. If the Company does not transfer or substantially retain all the risks and benefits inherent to ownership and continues retaining 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 transferred, the Company continues recognizing the financial asset, as well as a liability for the resources received.

b. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are investments in highly liquid government bonds maturing at terms of under 28 days. These assets are stated at fair value and value fluctuations are recorded in the results of the period.

2.6. Impairment of non–financial assets

2.6.1 Assets valued at their amortized cost

At the end of every reporting period, the Company evaluates whether or not there is 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 occurred after initial recognition of the asset 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, when receivables surpass 90 days due with no payment, increasing the balance of this provision, according to the individual assessment of each account and the results of the evaluation of the portfolio's behavior and the seasonality of the business. 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 been applied consistently during at least the last ten years and 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 hedges, 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 thereof 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 twelve months, and is classified as a current asset or liability when the remaining hedge amount is under twelve months.

When a hedging instrument expires 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 that are designated and qualify as cash flow hedges is applied to 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

In the consolidated cash flow statements, cash and cash equivalents include available cash, deposits in checking accounts, bank deposits in foreign currency and short–term investments in highly liquid securities, easily converted to cash, maturing at terms of under 28 days as from the date of acquisition and subject to immaterial risks of changes in value. Cash is shown at its nominal value and cash equivalents are valued at fair value. Fluctuations in value are applied to income for the period. Cash equivalents are mainly represented by investments in government instruments. See Note 7.

2.9. Inventory stock

Inventory stock is recorded at the lower of cost or its net realization value. Cost includes the cost of merchandise, plus costs related to importation, freight, handling, shipment, storage at customs and at distribution centers, less the value of the respective returns. The net realization value is the selling price estimated in the normal course of operations, less costs estimated to conduct the sale. The cost is determined by the average cost method.

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 has implemented loss prevention programs and control procedures, shrinkage has been immaterial. See Note 11.

2.10. Investment properties

Investment properties are real property (land and buildings) held to obtain economic benefits through collection of rent or to obtain the increase in value, 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 own 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 own stores are recorded as property, furniture and equipment, in the statement of financial position.

The estimated remaining useful economic life of the main components of Investment Property is as follows:

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 thereof. 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 2.13.

Expansion, remodeling and improvement costs representing an increase in capacity and thus an extension of the useful life of goods are also 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 process represent stores under construction and include investments and costs directly attributable to startup of operations. These investments are capitalized upon opening the store and depreciation thereof is computed as from that point.

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

Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years
Operating, communications and security equipment	10 years
Furniture and equipment	10 years
Computer equipment	3 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 and reviewed and adjusted, if necessary, at the date of each statement of financial position.

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 2.15.

Profits 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 "Other income (expenses)".

2.12. Leasehold improvements

Improvements to leaseholds and commercial space in which the Company acts as lessee are recognized at their historical cost less the respective depreciation. Depreciation of leasehold improvements is calculated by the straight–line method based on the term of the lease agreement.

2.13. Cost of loans

The costs of loans 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 thereof 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, 2012 and 2011, 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, qualify for requiring a construction period longer than a year.

2.14. Intangibles

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 us;
– 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 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 as expenses as they are incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

Costs incurred in the development of computer programs recognized as assets are amortized on the basis of their estimated useful lives, provided they fluctuate between five and ten years.

2.15. 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 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 said impairment.

2.16. Accounts payable

Accounts payable are payment obligations on 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 shows 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.

2.17. Loans from financial institutions and issuance of unsecured notes

Loans from financial institutions and issuance of unsecured notes are initially recognized at fair value, net of costs incurred in the transaction. Said 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.

Fees incurred to obtain said financing are recognized as transaction costs to the extent part or the entire loan is likely to be received.

2.18 Cancellation of financial liabilities

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

2.19. Provisions

Provisions are recognized when the Company has a legal obligation, present or assumed, as a result of past events, likely to require the use of cash flows to settle the obligation and the amount thereof can be reliably estimated.

2.20. Tax on profits

The tax on profits 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.

The tax on profits currently payable is comprised of income tax and flat tax, applied to income for the year in which said taxes were incurred. The tax currently payable is the greater of the two. These taxes are based on tax profits and cash flows for each year, respectively.

The charge corresponding to tax on profits currently payable is calculated as per the tax laws approved at the balance sheet date in Mexico and in the countries in which the Company's associates operate and generate a tax base. Management periodically evaluates the position assumed with respect to tax refunds as they relate to situations in which the tax laws are subject to interpretation.

In recognizing deferred taxes, it is determined whether or not, based on financial projections, the Company will incur income tax or flat tax, and the deferred tax is recognized that corresponds to the tax to be paid in each period. Deferred income tax is reserved in its entirety, by the assets and liabilities method, on the temporary differences arising between the tax bases of assets and liabilities and their respective values, as shown in the consolidated financial statements. The deferred tax on profits is determined using the tax rates and laws in effect at the balance sheet date and which are expected to be applicable when the deferred tax on profits asset is realized or the deferred tax on profits liability is paid.

The deferred tax–on–profits asset is only recognized to the extent future tax benefits are likely to be obtained against which temporary difference liabilities can be used.

The deferred tax–on–profits is generated on the basis of the temporary differences of investments in subsidiary and associates, except when the possibility that temporary differences will be reinvested is under the Company's control and the temporary difference is unlikely to be reinvested in the foreseeable future.

The balances of deferred tax–on–profits assets and liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and when 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.

2.21. 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 has defined benefit and defined contribution plans. A defined contribution plan is a plan under which the Company pays fixed contributions to a fund or trust. The Company has no legal or assumed obligation to pay additional contributions, if the fund has insufficient assets to pay all its employees the benefits related to the services rendered by employees in the prior period or periods. A defined benefit pension plan 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 as that in which the benefits are to be paid, and that have expiration terms that approximate the terms of pension obligations.

Actuarial profits and losses 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. Due to the Company early adopted IAS 19 (revised) "Employee Benefits"; the costs of past services were immediately applied to capital reserves on equity.

For defined contribution plans, contributions are recognized as employee benefit expenses when they are paid. Contributions paid in advance are recognized as an asset to the extent it grants the right to its reimbursement in cash or to the reduction of future payments.

b. 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 level of compliance on the goals established for each officer at the beginning of the year. The Company has set up a reserve of $212,751, at December 31, 2012 ($204,891 at December 31, 2011), that is included in Note 16 within Bonds and Compensation paid to employees.

c. 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.

d. Other benefits granted to employees

The Company grants a benefit to employees that after 20 years of service finish their labor relationship, either for lay off or voluntary decision. 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 19.

e. Benefits paid to employees for severance required by the law

This kind of benefits is payable and recorded in the income statement upon termination of the labor relationship with the personnel before the retirement date or when the employees accept a voluntary resignation in exchange of such benefits.

2.22. Capital stock

Common shares are classified as capital.

2.23. 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 ahead.

a. Sale of merchandise

Revenue from the sale of merchandise is recognized when the customer takes possession of the goods at the stores or when the merchandise is delivered at the customer's domicile. Approximately half of merchandise sales are paid for by the customers with the credit cards handled by the Company, and the other half is settled in cash or through bank debit or credit cards.

In accordance with IAS 18 "Revenue", in promotions involving interest free sales on credit for a determined number of months, the cash received 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 determined using as reference, the 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 definitively 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. Accumulated experience shows that returns on sales are not representative with respect to total sales, due to which, 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 e–wallets showing no movements in 24 months being redeemed is remote. Therefore, e–wallets showing these characteristics are cancelled, with a credit to sales. At December 31, 2012 and 2011 the value of e–wallets issued and not yet redeemed totals $1,480,314, $1,338,544, respectively, and is included in the deferred income account in the statement of financial position.

• Gift certificates

The Company offers its customers gift certificates with no specific expiration date. Upon their sale, gift certificates are recognized in the deferred income account in the statement of financial position. This account is cancelled when the customer redeems the gift certificate; whether partially and entirely, through the acquisition of merchandise, recognizing revenue in the same amount. In the Company's historical experience, the likelihood of gift certificates showing no movements in 24 months being redeemed is remote. Therefore, certificates with these characteristics are cancelled against service income and other operating 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 recording thereof is suspended after ninety days the credit has remained past due.

Income from the recovery previously–cancelled credit is recorded as service income.

d. Services

Income stemming from service agreements is determined as follows:

- Commission income corresponding to the sale of insurance policies are recorded as income as they are incurred.
- Service income is recognized when the customer receives the benefit of the service, such as: beauty salon, travel agency, opticians or interior design.

e. Lease revenue

The Company's policy for recognition of operating lease revenue is described in Note 2.26.1

2.24. Deferred income

The Company records deferred income arising from different transactions in which cash was received, but in which the conditions for revenue recognition described in paragraph 2.23 have not been met. Deferred revenue is shown separately in the statement of financial position.

2.25. 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.

2.26. Leases

Leasing is classified as capital leasing when the terms of the lease transfer all the risks and benefits inherent to the property to the lessees. All other leases are classified as operating leasing.

2.26.1 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.

2.26.2 Lessee

Rent payments under operating leasing 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.

2.27. Earnings per share

Basic earnings per ordinary share are calculated dividing the controlling interest by the weighted average of ordinary shares outstanding during the period. Earnings per diluted share are determined adjusting the controlling interest and ordinary shares, under the assumption that the entity's commitments to issue or exchange own shares would be realized. Basic earnings are the same as diluted earnings due to the fact that there are no transactions that could potentially dilute earnings. See Note 24.

2.28. 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 at the cost of sales in the period in which they are received.

2.29. Prepaid payments

The Company recognizes as prepaid payments those corresponding to advertisement on television and insurance premiums. Those amounts are recorded at the value contracted and are recorded in income when the advertisements are broadcasted and on a straight line basis for insurance premiums. In no event the amounts contracted exceed one year.

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
  3.3.3. Capital risk

3.1 Real estate risk

The Company has a diversified real estate property base distributed throughout 30 states in Mexico and 52 cities of different sizes. The Company owns 69 department stores and either owns or co–owns 22 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. Real estate activities constitute a source of income through the leasing of approximately 2,050 commercial spaces located in 19 company–owned shopping malls.

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 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. It is Company policy to request that lessees deposit, as a guarantee, one or two monthly rent payments prior to taking possession of the commercial space. Additionally, lessees pay a surcharge commonly known as key money. The historical occupancy rate of the Company's commercial space is above 95% and the rent–related uncollectibility 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's risk management is handled by the Operations Committee, including interest rate risks, the use of hedge derivative financial instruments and investment of treasury surpluses. Company management identifies and evaluates the decisions for hedging the market risks to which it is exposed.

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. Company's policies require that derivative financial instruments be quoted from three different financial institutions to guarantee the best market conditions.

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, analyses are conducted of the sensitiveness to the different levels of the pertinent variables and effectiveness testing is conducted to determine the book treatment of the derivative financial instrument, once contracted.

3.2.1 Exchange rate risk

The Company has contracted no financing in foreign currencies and has no current plans to contract financing or obtain bank loans in any currency other than in Mexican pesos; 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 Mexican peso represent approximately 17% of total purchases. At December 31, 2012 and 2011, at the consolidated level, the Company's exposure to exchange rate risks amounted to US$2,867, €2,471 and US$18,441, €1,471, 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 $3,717 and $25,721 ($4,223 (profit) and $4,001, respectively for the Euro position), in each of those years. Said 10% represents the sensitivity rate used when the exchange risk is reported internally to the Operations Committee, and represents the management's assessment of possible changes in exchange rates. The sensitivity analysis includes only those monetary items not yet settled denominated in foreign currency at the period close.

Additionally, the Company maintains an investment in Regal Forest Holding (RFH), and the cash flows received from RFH 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 contracted no hedging for the flows it receives from this investment.

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

	December 31, 2012	2011
Thousands of US dollars:		
Monetary assets	US$ 5,553	US$ 4,039
Monetary liabilities	(8,420)	(22,480)
Net short position	(US$ 2,867)	(US$ 18,441)
Equivalent in pesos	$ (37,173)	$ (257,208)

	December 31, 2012	2011
Thousands of Euros:		
Monetary assets	€ 5,855	€ 4,900
Monetary liabilities	(3,384)	(6,371)
Net short position	€ 2,471	(€ 1,471)
Equivalent in pesos	$ 42,227	$ (26,545)

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

	February 28, 2013	December 31 2012
US dollar	$ 12.7105	$ 12.9658
Euro	$ 16.9262	$ 17.0889

3. 2.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the Company's net financing cost. Loans and long–term issues of unsecured notes are subject to both fixed and variable interest rates and expose the Company to the risk of variability in interest rates, thus exposing its cash flows. Loans and debt issuances contracted at fixed rates expose the Company to the risk of drops in reference rates, possibly representing a greater financial cost of the liability. The Company's policy consists of hedging most of its loans and issuances of unsecured notes towards a fixed rate profile; however, fixed to variable interest rate swaps are also contracted on a temporary basis to streamline financial costs when market rates allow it. However, the Company's preference is to maintain fixed interest rates for its debts. The main reason for using derivative financial instruments is to know for certain the cash flows that the Company will pay to meet its contractual obligations. With these interest–rate swaps, the Company agrees with other parties to deliver or receive, monthly, the existing difference between the interest amount of variable rates set forth in debt agreements and the interest amount corresponding to fixed rates contracted in derivative financial instruments.

The Company is permanently analyzing its exposure to interest rates. A number of different scenarios are simulated, that consider 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, 2012 and assuming the following:

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

The other items comprising comprehensive income for the year ended December 31, 2012 and 2011 would have decreased / increased by $75,415 and $58,818, 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, 2012, the Company has financing denominated in Investment Units (UDIs, the monetary unit linked to inflation in Mexico). The Company has contracted a swap to hedge against exposure to the risk that the value of the issuance of unsecured notes could be affected by the increase in the inflation rate in Mexico. In assuming inflation of 10% or higher 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 $23,986 and $90,292.

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 authority 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, who finance a significant part of inventory stock, the debt service and fund operating costs and expenses. The Treasury prepares a cash flow daily to maintain the required level of cash available and plan the investment of surpluses. The months with highest operations for the Company and consequently with the highest accumulation of cash are May, July and the last quarter of the year. Most of the Company's investments are made in pesos and small portion in US dollars.

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 of approximately $10,820,000, as well as overdraft lines of credit to allow for immediately accessing 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.

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
December 31, 2012				
Issuance of unsecured notes	$ 227,619	$ 695,502	$ 10,250,156	$ 5,730,715
Loans from financial institutions	21,447	65,532	1,312,504	–
Derivative financial instruments			205,086	136,500
Stand by letters	5,126	218,305	72,664	–
Vendors and creditors	11,274,985	4,820,794	140,353	–
	$ 11,529,177	$ 5,800,133	$ 11,980,763	$ 5,867,215
December 31, 2011				
Issuance of unsecured notes	$ 196,639	$ 566,892	$ 6,805,512	$ 4,754,841
Loans from financial institutions	21,446	64,342	343,150	1,093,031
Derivative financial instruments	–	–	255,141	102,858
Stand by letters	167,371	–	–	–
Vendors and creditors	9,726,660	5,443,252	129,959	–
	$ 10,112,116	$ 6,074,486	$ 7,533,762	$ 5,950,730

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. The Company handles a wide variety of credit pans, the most common of which are: 1) Budget; 2) sales at Months without Interest (MSI for its acronym in Spanish), and 3) the Fixed Payment Plan. In the Budget Plan, an average monthly balance is determined, based on which interest is generated. In the MSI Plan, the card holder makes fixed payments at a 0% interest rate, whereas with the Fixed Payment Plan, the customer pays the same amount for an established term at the same interest rate as that of the Budget Plan. In the Fixed Payment Plan, a deferral option is periodically granted, whereby the customer purchases on a particular date, to begin paying at a later day with fixed payments that already include interest. Under the MSI Plan, the Company offers its customers the possibility of refinancing their monthly payments, allowing for paying only 10% thereof and transferring the remaining balance to the Budget Plan, with which interest begins to be generated. Loan terms fluctuate from 6, 13 and occasionally to 18 months.

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's target market is mainly represented by the segment of the population located in socioeconomic levels A, B, and C.

The Company has a risk management system for the loan portfolio, whose main components include: 1) the risk of default and loss, involved in the process for granting loans, authorization of purchase transactions and collections management; 2) the operational risk, which includes the information security, technology infrastructure and processes and procedures, both in–store and corporate, of the Credit Management; 3) the regulatory risk, which includes aspects related to compliance with the provisions issued by the Consumer Advocacy Agency and, with respect to the Liverpool Premium Card and Galerias Fashion Card, the regulation for preventing money laundering and those established by the National Protection and Defense of Financial Services Users Commission (Condusef for its Spanish acronym); and

4) the risk of fraud, which comprises the prevention, analysis and detection, recovery and solution. These activities include, among others, a transactional analysis of cardholders' behavior patterns, contracting of anti–fraud insurance, managing of plastics, implementation of a safe web portal and use of automated detection systems.

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 different accounts showing default and the actions to be taken are determined, which include the following: telephone calls to customers, sending of letters and telegrams, home visits, etc. 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 permanently 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 credit, as well as extending of credit limits of current customers. Given the Company's line of business, there are no real guarantees related to accounts receivable.

Financial institutions and counterparties in derivative operations

Cash surpluses are invested in credit institutions with a high credit rating, in government instruments with high availability also, the counterparties in derivative operations are high credit quality financial institutions. It should be mentioned that none of the agreements signed to operate derivative financial instruments establish an obligation for the Company to keep cash deposits in margin accounts to guarantee these operations.

3.3.3. Capital risk

The Company's objective is to safeguard its capability to continue operating as a going concern, so as to maintain a financial structure that will optimize the cost of capital and maximize stockholders' yields. The Company's capital structure comprises the debt, which includes financing contracted via issuance of unsecured notes and bank loans, cash and cash equivalents, and stockholders' equity, that includes subscribed capital, retained earnings and reserves. Historically, the Company has invested substantial resources in capital goods to expand its operations, through reinvesting earnings. The Company has no established policy for decreeing dividends; however, the dividend payment approved annual has represented 13% of the majority net income for the immediately prior year.

The Board of Directors has established the following rules for management of financial and capital risks.

- The debt with cost must not exceed 15% of total assets.
- The Company's total contracted debt must be denominated in pesos.
- All debts must be subject to a fixed interest rate.

All these rules were complied with at December 31, 2012 and 2011.

Management annually reviews the Company's capital structure when it presents the budget to the Board of Directors and the stockholders. The Board of Directors verifies that the level of indebtedness planned does not exceed the established limit.

3.4. Fair value estimate

The financial instruments recorded at fair value in the statement of financial position are classified on the basis of the manner of obtaining its fair value.

- Level 1 fair value derived from prices quoted (not adjusted) in active markets for identical liabilities or assets.
- Level 2 fair value 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 value 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
December 31, 2012				
Assets arising from hedge derivative financial instruments	$ 318,364	$ –	$ 318,364	$ –
Cash and cash equivalents	2,210,787	2,210,787	–	–
Liabilities arising from hedge derivative financial instruments	(341,237)	–	(341,237)	–
Total	$ 2,187,914	$ 2,210,787	$ (22,873)	–

	Book value	Level 1	Level 2	Level 3
December 31, 2011				
Assets arising from hedge derivative financial instruments	$ 240,100	$ –	$ 240,100	$ –
Cash and cash equivalents	1,790,293	1,790,293	–	–
Liabilities arising from hedge derivative financial instruments	(357,999)	–	(357,999)	–
Total	$ 1,672,394	$ 1,790,293	$ (117,899)	–

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 is required to make 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 to be 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 during in applying the entity's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

4.1.1. Revenue recognition – sales at months without interest

Notes 2.23 a. and c. describe the Company's policies for recording of sales at months without interest. The above implies that Company management applies its judgment to identify the interest rate applicable to calculate the present value of sales at months with no interest. 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.

4.1.2. Consolidation of special purpose entities

The Company evaluates the control indicators established by SIC 12 "Consolidations –Special purpose entities", for consolidation of the trust in which the Company has no shareholding; however, the activities, decision making and economic aspects indicate that the Company exercises control there over.

That trust is described in Note 13 to the consolidated financial statements.

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. Determination of tax on profits

For the purpose of determining deferred taxes, the Company must make tax projections to determine whether or not the Company is to incur flat tax or income tax, and thus consider the tax incurred as the base for determining deferred taxes.

4.2.3. Estimate of useful lives and residual values of property, furniture and equipment

As described in Note 2.15, the Company reviews the estimated useful life and residual values of property, furniture and equipment at the end of every annual period. During the period, it was not determined that the life and residual values must be modified, as according to management's assessment, the useful lives and residual values reflect the economic conditions of the Company's operating environment.

4.2.4. Fair value of derivative financial instruments

As mentioned in Note 2.7, the Company determines the value of its derivative financial instruments using valuation techniques usually used by the counterparties with which it maintains current operations, and which require judgments to develop and interpret fair value estimates in using assumptions based on the existing market conditions at each of the dates of the consolidated statement of financial position. Consequently, the estimated amounts presented are not necessarily indicative of the amounts that the Company could use in a real market exchange. The use of estimation methods could result in amounts different from those shown at maturity.

4.2.5 Employee benefits

The cost of employee benefits that qualify as defined benefit plans as per IAS 19 (modified) "Employee Benefits" is determined using actuarial valuations. An actuarial valuation involves assumptions with respect to discount rates, future salary increases, personnel turnover rates and mortality rates, among others. Due to the long–term nature of these plans, such estimations are subject to a significant amount of uncertainty.

Note 5 – Category of financial instruments:

	Loans and accounts receivable	Financial assets through profit and loss	Derivatives used for hedging	Total
December 31, 2012				
Financial assets:				
Cash on hand and banks	$ 699,337			$ 699,337
Investments		$ 2,210,787		2,210,787
Short and long–term loan portfolio	23,951,198			23,951,198
Other short and long–term accounts receivable	1,092,471			1,092,471
Derivative financial instruments			$ 318,364	318,364

	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Financial liabilities:			
Issuance of long–term unsecured notes		$ 12,000,000	$ 12,000,000
Long–term loans from financial institutions		921,456	921,456
Suppliers and creditors		14,734,589	14,734,589
Derivative financial instruments	$ 341,327		341,327

	Loans and accounts receivable	Financial assets through profit and loss	Derivatives used for hedging	Total
December 31, 2011				
Financial assets:				
Cash on hand and banks	$ 775,222			$ 775,222
Investments		$ 1,790,293		1,790,293
Short and long–term loan portfolio	20,758,600			20,758,600
Other short and long–term accounts receivable	1,009,630			1,009,630
Derivative financial instruments			$ 240,100	240,100

	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Financial liabilities:			
Issuance of long–term unsecured notes		$ 8,000,000	$ 8,000,000
Long–term loans from financial institutions		921,456	921,456
Suppliers and creditors		13,729,066	13,729,066
Derivative financial instruments	$ 357,999		357,999

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.

	December 31, 2012	2011
Accounts receivable		
Counterparties without external risk ratings:		
Group 1 – Customers with Liverpool credit card	$ 20,416,688	$ 18,032,357
Group 2 – Customers with Visa credit card	2,357,806	1,556,794
Total unimpaired accounts receivable	22,774,494	19,589,151
Cash in banks and short–term bank deposits[1]		
AAA	2,693,259	2,548,804
AA	200,000	2,164
A	–	–
	2,893,259	2,550,968
Financial assets – derivative financial instruments[2]		
AAA	318,364	185,244
AA	–	54,856
	318,364	240,100
	$ 25,986,117	$ 22,380,219

- Group 1 – For the Company, loans granted through the Liverpool credit card represent a lesser risk due to the fact that its use is sporadic and seasonal and is restricted to the products commercialized at Company stores.
- Group 2 – The Visa credit cards operated by the Company imply a different risk level, due mainly 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.

[1] The rest of cash equivalents in the balance sheet correspond to cash on hand.

[2] 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, 2012 and 2011.

Note 7 – Cash and cash equivalents:

	December 31, 2012	2011
Cash on hand and banks	$ 699,337	$ 775,222
Investments	2,210,787	1,790,293
Total	$ 2,910,124	$ 2,565,515

Note 8 – Short–term and long–term loan portfolio:

	December 31, 2012	2011
Current loans	$ 22,774,494	$ 19,589,151
Past due loans	2,485,395	2,343,169
	25,259,889	21,932,320
Provision for impairment of loan portfolio	(1,308,691)	(1,173,720)
	$ 23,951,198	$ 20,758,600
Total short–term	$ 17,561,620	$ 15,990,126
Total long–term	$ 6,389,578	$ 4,768,474

8.1. Movements in provision for impairment of loan portfolio:

	December 31, 2012	2011
Balance at beginning of year	$ 1,173,720	$ 1,011,932
Impairment provisions	1,076,930	953,242
Write–offs	(941,959)	(791,454)
Balance at end of year	$ 1,308,691	$ 1,173,720

8.2. Aging of past due balances

Accounts receivable at the closing of each year include past due amounts of $2,485,395 and $2,343,169 at December 31, 2012 and 2011, respectively. Amounts more than 30 days past due are entirely covered by the impairment provision.

Note 9 – Other accounts receivable:

	December 31, 2012	2011
Short–term accounts receivable:		
GPR Controladora, S. A. de C.V. [1]	$ 337,652	$ 322,136
Insurance companies	39,583	99,099
Short – term loans to employees	170,161	121,860
Other debtors [2]	372,958	307,889
	920,354	850,984
Long–term accounts receivable:		
Long – term loans to employees	172,117	158,646
Total	$ 1,092,471	$ 1,009,630

[1] This loan bears interest at the TIIE plus 55 basis points, payable monthly and matured on December 31, 2012.

[2] Includes accounts receivable to tenants, companies that issue coupons and other recoverable taxes.

Note 10 – Derivative financial instruments:

The Company uses hedge derivative financial instruments to reduce the risk of adverse movements in the interest rates of its long–term debt and inflationary increases in Mexico, to ensure certainty 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:

	Dates		Interest date		Fair value at December 31,	
Notional amount[1]	Contracting	Maturity	Contracted by IFD	Agreed in the debt	2012	2011
					Assets	
$ 1,000,000	September 2008	August 2018	TIIE + 0.18%	9.36%	$ 209,830	$ 185,244
750,000	June 2010	May 2020	8.48%	4.22%	108,534	54,856
					$ 318,364	$ 240,100

	Dates		Interest date		Fair value at December 31,	
Notional amount[1]	Contracting	Maturity	Contracted by IFD	Agreed in the debt	2012	2011
					Liabilities	
$ 2,000,000	March 2008	December 2014	7.47%	TIIE + 0.04%	$ (94,478)	$ (115,883)
2,000,000	March 2008	December 2014	7.89%	TIIE + 0.04%	(110,608)	(139,258)
1,000,000	April 2009	August 2018	TIIE + 0.18%	7.95%	(136,151)	(102,858)
					$ (341,237)	$ (357,999)

[1] 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 – Inventory stock:

	December 31, 2012	2011
Merchandise for sale	$ 10,558,247	$ 10,109,023

The cost of sales includes at December 31, 2012 and 2011 $699,521 and $621,045, respectively, related to inventory write–offs.

Note 12 – Investments in shares of associates:

Concept	Activity	Place of incorporation and operations	Proportion of shareholding and voting power December 31, 2012	2011	Amount December 31, 2012	2011
Investment in associates (i) and (ii)	Sales	Mexico and Central America	50%	50%	$ 3,500,396	$ 3,085,456
Other investments (iii) in associates	Malls	Mexico		Several	506,815	483,522
					$ 4,007,211	$ 3,568,978

(i) Regal Forest Holding Co. (RFH)

RFH is a private company that operates a chain of stores engaged in the sale of furniture and household appliances, with different formats in Central America, South America and the Caribbean. The Company has a 50% shareholding in RFH, whose 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 RFH due to the criteria is not met. Under IFRS it exercises significant influence over RFH, due to the fact that it owns 50% of the voting rights and is entitled to designate two members of the Board of Directors.

(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. (the leading department store chain in Spain). This entity operates a chain of fourteen 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.

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

	December 31, 2012	2011
Total assets	$ 19,732,318	$ 13,262,329
Total liabilities	14,103,669	8,405,854
Net assets	$ 5,628,649	$ 4,856,475
Equity in net assets of associates	$ 2,809,708	$ 2,424,059
Total income	$ 14,688,774	$ 9,606,636
Net income for the year	$ 824,014	$ 607,583
Company's equity in profits of associates	$ 414,941	$ 304,727

The reconciliation of associated companies is as follow :

Balance at January 1, 2011	
Cost	$ 3,295,974
Equity method	356,765
Dividends paid (RFH)	(83,761)
Balance at December 31, 2011	3,568,978
Equity method	438,233
Balance at December 31, 2012	$ 4,007,211

Note 13 – Investment properties:

	Amount
Balance at January 1, 2011	
Cost	$ 10,097,217
Accumulated depreciation	(1,376,158)
	8,721,059
Acquisitions	1,548,307
Disposals	(21,768)
Depreciation	(144,805)
Balance at December 31, 2011	10,102,793
Acquisitions	2,489,817
Disposals	(80,434)
Depreciation	(152,089)
Balance at December 31, 2012	$ 12,360,087

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 SIC 12, this Trust was considered an SPE; therefore, the assets and liabilities pertaining to this trust were consolidated in the corresponding captions.

The fair value of the Company's investment properties at December 31, 2012 totals $30,176,878.

Revenue from leasing of investment properties is described in Note 26. At December 31, 2012 and 2011, the Company holds the following accounts receivable under non cancelable agreements:

	December 31, 2012	2011
Up to one year	$ 1,317,453	$ 1,112,236
From one year to five years	5,913,028	4,448,944
More than five years	4,742,195	3,753,750
Total	$ 11,972,676	$ 9,314,930

Operating costs directly related to income from the leasing of investment property is comprised as follows:

	December 31, 2012	2011
Personnel compensation and benefits	$ 48,877	$ 51,162
Advertising	70,449	61,678
Real estate taxes and water	46,985	45,918
Electrical power and utilities	5,670	13,287
Services contracted	6,478	5,792
Other expenses	10,058	5,627
Travel expenses	3,505	3,175
Rent of equipment	12,550	29,955
Repairs and maintenance	381,816	277,970
Total	$ 586,388	$ 494,564

Note 14 – Property, furniture and equipment – net:

	Land	Buildings and structures	Furniture and equipment	Leasehold improvements	Computer equipment	Trans-portation equipment	Works in progress	Total
At January 1, 2010								
Cost	$ 2,976,342	$ 14,453,585	$ 6,471,293	$ 1,951,409	$ 2,498,188	$ 115,571	$ 385,654	$ 28,852,042
Accumulated depreciation	–	(2,447,564)	(3,671,878)	(736,843)	(2,303,482)	(76,298)	–	(9,236,065)
Ending balance	2,976,342	12,006,021	2,799,415	1,214,566	194,706	39,273	385,654	19,615,977
At December 31, 2011								
Beginning balance	2,976,342	12,006,021	2,799,415	1,214,566	194,706	39,273	385,654	19,615,977
Acquisitions	376,167	1,572,152	574,589	210,504	144,330	45,777	4,326,908	7,250,427
Disposals	(2,007)	–	(27,045)	(60,226)	(7,607)	(6,331)	(3,560,248)	(3,663,464)
Depreciation	–	(196,305)	(471,673)	(116,249)	(94,726)	(4,582)	–	(883,535)
Ending balance	3,350,502	13,381,868	2,875,286	1,248,595	236,703	74,137	1,152,314	22,319,405
At December 31, 2011								
Cost	3,350,502	16,025,737	7,018,837	2,101,687	2,634,911	155,017	1,152,314	32,439,005
Accumulated depreciation	–	(2,643,869)	(4,143,551)	(853,092)	(2,398,208)	(80,880)	–	(10,119,600)
Ending balance	3,350,502	13,381,868	2,875,286	1,248,595	236,703	74,137	1,152,314	22,319,405
At December 31, 2012								
Beginning balance	3,350,502	13,381,868	2,875,286	1,248,595	236,703	74,137	1,152,314	22,319,405
Acquisitions	71,449	3,139,361	940,158	313,728	286,309	55,638	6,574,883	11,381,526
Disposals	(5,403)	(16,470)	(14,764)	(84,982)	(43,933)	(9,363)	(6,071,958)	(6,246,873)
Depreciation	–	(219,447)	(536,800)	(109,376)	(81,350)	(16,522)	–	(963,495)
Ending balance	3,416,548	16,285,312	3,263,880	1,367,965	397,729	103,890	1,655,239	26,490,563
At December 31, 2012								
Cost	3,416,548	19,148,628	7,944,231	2,330,433	2,877,287	201,292	1,655,239	37,573,658
Accumulated depreciation	–	(2,863,316)	(4,680,351)	(962,468)	(2,479,558)	(97,402)	–	(11,083,095)
Ending balance	$ 3,416,548	$ 16,285,312	$ 3,263,880	$ 1,367,965	$ 397,729	$ 103,890	$1,655,239	$ 26,490,563

The balance of work in progress at the 2012 period close corresponds to sundry projects in which the Company is building stores or shopping malls, and remodeling existing stores.

Note 15 – Intangibles, net:

	Licenses and fees	New IT developments	Total
At January 1, 2011			
Cost	$ 713,250	$ 879,000	$ 1,592,250
Accumulated amortization	(372,405)	(474,223)	(846,628)
Ending balance	340,845	404,777	745,622
At December 31, 2011			
Investments	26,535	373,519	400,054
Disposals	–	–	–
Amortization	(84,855)	(133,680)	(218,535)
Ending balance	(58,320)	239,839	181,519
At December 31, 2011			
Cost	739,785	1,252,519	1,992,304
Accumulated amortization	(457,259)	(607,903)	(1,065,162)
Ending balance	282,526	644,616	927,142

	Licenses and fees	New IT developments	Total
At December 31, 2012			
Investments	351,639	478,968	830,607
Disposals			
Amortization	(87,307)	(166,595)	(253,902)
Ending balance	264,332	312,373	576,705
At December 31, 2012			
Cost	1,091,424	1,731,487	2,822,911
Accumulated amortization	(544,566)	(774,498)	(1,319,064)
Ending balance	$ 546,858	$ 956,989	$ 1,503,847

During 2012, the company has undertaken invetment in computer systems wich are focused on the growing demand of the operation.

Note 16 – Provisions:

	Bonds and compensation paid to employees	Advertising	Other provisions	Total
At January 1, 2011	$ 823,586	$ 56,879	$ 438,893	$ 1,319,358
Charged to income	1,811,266	848,974	498,218	3,158,458
Used in the year	(1,717,267)	(808,988)	(559,129)	(3,085,384)
At December 31, 2011	917,585	96,865	377,982	1,392,432
Charged to income	2,052,109	948,985	872,071	3,873,165
Used in the year	(2,007,807)	(960,308)	(795,939)	(3,764,054)
At December 31, 2012	$ 961,887	$ 85,542	$ 454,114	$ 1,501,543

Other provisions include liabilities for services rendered by consultants and maintenance of stores and offices.

Note 17 – Loans from financial institutions:

	December 31, 2012	2011
Loan received by the trust F/789, mentioned in Note 13, from Credit Suisse, payable in June 2018 and bearing a fixed interest rate of 9.31%.	$ 921,456	$ 921,456
Long–term liabilities	(921,456)	(921,456)
Less – Current portion	$ –	$ –

At December 31, 2012 the fair value of the loan received by the Trust F/789 was $932,625.

Note 18 – Issuance of unsecured notes:

Maturity	Interest payable	Interes rate	December 31 2012	2011
Dec 2014	Monthly	TIIE at 28 days plus 0.04 points	$ 4,000,000	$ 4,000,000
Aug 2018	Semiannually	Fixed at 9.36%	1,000,000	1,000,000
May 2020	Semiannually	Fixed at 8.48%	750,000	750,000(*)
May 2020	Semiannually	Fixed at 8.53%	2,250,000	2,250,000
Mar 2017	Monthly	TIIE at 28 days plus 0.35 points	2,100,000	–
Mar 2022	Semiannually	Fixed at 7.64%	1,900,000	–
			$ 12,000,000	$ 8,000,000

(*) Issuance of unsecured notes equivalent to 169,399,100 UDIs.

(a) Unsecured notes correspond to issuances by Trust F/600 set up to securitize the Company's portfolio. See Note 8.

Maturities pertaining to the long term portion of this liability at December 31, 2012 are as follows:

Year	Amount
2014	$ 4,000,000
2017	2,100,000
2018	1,000,000
2020	3,000,000
2022	1,900,000
	$ 12,000,000

Issuances of unsecured notes require that the Company and the significant subsidiaries set out in the respective agreements comply with certain restrictions for payment of dividends, mergers, spinoffs, change of business purpose, issuance and sale of capital stock, capital investments and encumbrances. At December 31, 2012 and 2011, the Company was in compliance with the aforementioned conditions.

The Company has contracted a "cross currency swap" 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 issuances of unsecured notes is as follows:

	December 31, 2012		2011	
Maturity date	Book value	Fair value	Book Value	Fair value
Dec 2014	$ 4,000,000	$ 4,000,368	$ 4,000,000	$ 3,977,212
Mar 2017	2,100,000	2,107,564	–	–
Aug 2018	1,000,000	1,176,311	1,000,000	1,151,539
May 2020	750,000	833,761	750,000	833,761
May 2020	2,250,000	2,400,995	2,250,000	2,400,995
Mar 2022	1,900,000	2,078,394	–	–
	$ 12,000,000	$ 12,597,393	$ 8,000,000	$ 8,363,507

Note 19 – Employee benefits:

The value of employee benefit obligations at December 31, 2012 and 2011, amounted to $398,645 and $265,004, and is as follows:

	December 31, 2012	2011
Pension plans	$ 92,473	$ 17,733
Seniority premium	51,212	38,581
Other employee benefits	254,960	208,690
	$ 398,645	$ 265,004

The net cost for the period for the years ended on December 31, 2012 and 2011, is as follows:

	December 31, 2012	2011
Pension plans	$ 110,219	$ 33,526
Seniority premium	33,652	34,399
Other employee benefits	69,884	87,020
	$ 213,755	$ 154,945

Pension plans

The economic assumptions in nominal and real terms are as follows:

	December 31, 2012	2011
Discount rate	6.75%	7.75%
Inflation rate	3.50%	3.50%
Salary growth rate	4.75%	4.75%

Net cost for the period is as follows:

	December 31, 2012	2011
Service cost	$ 22,795	$ 19,932
Interest cost – Net	1,374	1,027
Labor cost settlements	1,913	–
Actuarial losses	84,137	12,567
Net cost for the period	$ 110,219	$ 33,526

The amount included as liability in the balance sheets is as follows:

	December 31, 2012	2011
Defined benefit obligations	$ (722,969)	$ (619,551)
Fair value of plan assets	630,496	601,818
Actual situation	(92,473)	(17,733)
Present value of unfunded obligation	–	–
Unrecognized prior service costs	–	–
Liability in the consolidated balance sheet	$ (92,473)	$ (17,733)

The movement in the defined benefit obligation is as follows:

	2012	2011
Beginning balance at January 1	$ (619,551)	$ (596,391)
Service cost	(24,708)	(19,933)
Interest cost	(43,539)	(42,558)
Actuarial (losses)	(131,969)	(26,489)
Benefits paid	96,798	65,820
Ending balance at December 31	$ (722,969)	$ (619,551)

The movement in the liability is as follows:

	2012	2011
Beginning balance at January 1	$ (17,733)	$ (13,235)
Provision for the year	(26,083)	(20,958)
Company contributions	35,480	29,027
Actuarial losses	(84,137)	(12,567)
Ending balance at December 31	$ (92,473)	$ (17,733)

The movement in plan assets is as follows:

	2012	2011
Beginning balance at January 1	$ 601,818	$ 583,156
Return on plan assets	42,164	41,532
Company contributions	35,480	29,027
Amortization effects of beginning balance	(23,432)	(25,489)
Actuarial gains	47,832	13,922
Benefits paid	(73,366)	(40,330)
Ending balance at December 31	$ 630,496	$ 601,818

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

	Fair value of plan assets at December 31, 2012	2011
Debt instruments	$ 226,979	$ 274,083
Equity instruments	403,517	327,735
	$ 630,496	$ 601,818

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.

Seniority premium

Economic assumptions in real and nominal terms are as follows:

	December 31, 2012	2011
Discount rate	6.75%	7.75%
Inflation rate	3.50%	3.50%
Salary growth rate	4.75%	4.75%

Net cost for the period is as follows:

	December 31, 2012	2011
Service cost	$ 20,030	$ 16,428
Interest cost – Net	991	1,731
Actuarial losses	12,631	16,240
Net cost for the period	$ 33,652	$ 34,399

The amount included as liability in the consolidated balance sheet is as follows:

	December 31, 2012	2011
Defined benefit obligations	$ (183,370)	$ (149,382)
Fair value of plan assets	132,158	110,801
Actual situation	(51,212)	(38,581)
Present value of unfunded obligations	–	–
Unrecognized prior service cost	–	–
Liability in the balance sheet	$ (51,212)	$ (38,581)

The movement in the net project liability is as follows:

	2012	2011
Beginning balance at January 1	$ (38,581)	$ (22,341)
Company contributions	23,020	18,159
Provision for the year	(23,020)	(18,159)
Actuarial losses	(12,631)	(16,240)
Ending balance at December 31	$ (51,212)	$ (38,581)

The movement in the defined benefit obligation is as follows:

	2012	2011
Beginning balance at January 1	$ (149,382)	$ (132,997)
Service cost	(20,030)	(16,427)
Interest cost	(10,928)	(9,717)
Actuarial losses	(13,978)	(8,313)
Benefits paid	10,948	18,072
Ending balance at December 31	$ (183,370)	$ (149,382)

The movement in plan assets is as follows:

	2012	2011
Beginning balance at January 1	$ 110,801	$ 110,655
Return on plan assets	7,938	7,985
Company contributions	23,020	18,159
Actuarial (losses) gains	1,347	(7,926)
Benefits paid	(10,948)	(18,072)
Ending balance at December 31	$ 132,158	$ 110,801

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

	Fair value of plan assets at December 31, 2012		Fair value of plan assets at December 31, 2011	
Debt instruments	$	96,475	$	86,424
Equity instruments		35,683		24,377
	$	132,158	$	110,801

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.

Other employee benefits

Economic assumptions in real and nominal terms are as follows:

	December 31, 2012	2011
Discount rate	6.75%	7.75%
Inflation rate	3.50%	3.50%
Salary growth rate	4.75%	4.75%

Net cost for the period is as follows:

	December 31, 2012		2011	
Service cost	$	24,517	$	29,589
Actuarial losses		26,576		45,773
Interest cost		18,791		11,658
Net cost for the period	$	69,884	$	87,020

The amount included as liability in the consolidated balance sheet is as follows:

	December 31, 2012		2011	
Defined benefit obligations	$	(254,960)	$	(208,690)
Fair value of plan assets				–
Actual situation		(254,960)		(208,690)
Present value of unfunded obligations		–		–
Unrecognized prior service cost		–		–
Liability in the balance sheet	$	(254,960)	$	(208,690)

The movement in the net projected liability is as follows:

	2012		2011	
Beginning balance at January 1	$	(208,690)	$	(169,878)
Provision for the year		(43,308)		(41,247)
Actuarial (losses)		(26,576)		(45,773)
Benefits paid		23,614		48,208
Ending balance at December 31	$	(254,960)	$	(208,690)

The movement in the defined benefit obligation is as follows:

	2012		2011	
Beginning balance at January 1	$	(208,690)	$	(169,878)
Service cost		(24,517)		(29,589)
Interest cost		(16,172)		(11,658)
Actuarial losses		(29,195)		(45,773)
Benefits paid		23,614		48,208
Ending balance at December 31	$	(254,960)	$	(208,690)

Note 20 – Balances and transactions with related parties:

During 2012 and 2011, 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 $1,769 and $1,647 in 2012 and 2011, respectively. At December 31, 2012 and 2011, there are no outstanding balances for these items.

During 2012 and 2011, the Company contracted corporate travel services for its employees with Orion Tours, S. A. de C. V. , 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 $153,211 and $152,952 in 2012 and 2011 respectively. At December 31, 2012 and 2011 there are no balances pending to pay for these items.

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

	December 31, 2012	2011
Short–term benefits	$ 127,330	$ 132,879
Post – retirement benefits	–	–
Other long–term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
Total	$ 127,330	$ 132,879

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

Note 21 – Costs and expenses by nature:

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

	December 31, 2012	2011
Cost of merchandise	$ 38,446,753	$ 34,004,014
Cost of distribution and logistics	1,079,855	928,761
Personnel compensation and benefits	7,273,801	6,404,489
Services contracted	2,139,793	1,807,476
Depreciation and amortization	1,462,907	1,282,746
Repairs and maintenance	1,116,724	1,136,647
Provision for impairment of loan portfolio	1,076,930	953,242
Leases	657,533	646,108
Electrical power and utilities	697,806	620,625
Other (1)	2,331,008	1,849,340
Total	$ 56,283,110	$ 49,633,448

(1) Includes insurance premiums, travel expenses, real estate taxes and other non significant expenses.

Personnel compensation benefits are comprised as follows:

	December 31, 2012	2011
Salary and bonds	$ 5,827,801	$ 5,237,381
Commissions paid to sales staff	1,297,673	1,029,383
Other payments	148,327	137,725
	$ 7,273,801	$ 6,404,489

Note 22 – Other income (expenses):

	December 31, 2012	2011
Other income:		
Suppliers' recovery	$ 11,784	$ 22,126
VISA commissions earned	38,066	18,663
Recovered amount from insurance companies	165,917	–
Ticketmaster commissions earned	11,838	11,515
Advertising recovery	16,191	16,850
Rent of logistic units	17,706	14,791
Write off of provisions	–	12,000
Other	98,242	117,931
Total other income	$ 359,744	$ 213,876

	December 31, 2012	2011
Other expenses:		
Expenses of merchandise stolen	$ 17,062	$ 9,422
Total other expenses	$ 17,062	$ 9,422
Other income – net	$ 342,682	$ 204,454

Note 23 – Taxes:

23.1. The tax on profits is comprised as follows:

	December 31, 2012	2011
Income tax	$ 2,174,364	$ 2,400,439
Deferred income tax	576,380	(44,937)
Deferred flat tax	–	5,445
	$ 2,750,744	$ 2,360,947

23.2. The deferred tax balance is composed as follows:

	December 31, 2012	2011
Deferred income tax asset:		
Unamortized tax losses	$ 8,537	$ 77,600
Provision for impairment of loan portfolio	491,621	421,721
Provisions	621,089	572,555
Inventory	106,671	–
Other items	42,053	20,523
	1,269,971	1,092,399
Deferred income tax liability		
Installment sales – Net	1,368,465	1,251,562
Real estate property,furniture and equipment	3,530,130	3,059,584
Investment in shares of associates	189,227	116,761
Inventory	–	123,106
Other items	456,312	239,169
	5,544,134	4,790,182
Deferred income tax	4,274,163	3,697,783
Asset tax recoverable	(71,804)	(76,363)
Total liabilities	$ 4,202,359	$ 3,621,420

Deferred tax assets and liabilities are analyzed as follows:

	December 31, 2012	2011
Deferred tax asset:		
Deferred tax asset recoverable over the following 12 months	$ 1,154,953	$ 1,092,399
Deferred tax asset recoverable after 12 months	3,069	–
	1,158,022	1,092,399
Deferred tax liability:		
Deferred tax liability payable within the following 12 months	1,398,650	1,511,767
Deferred tax liability payable after 12 months	4,033,535	3,278,415
	5,432,185	4,790,182
Asset tax recoverable	(71,804)	(76,363)
Deferred tax liability (net)	$ 4,202,359	$ 3,621,420

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

	Unamortized tax losses	Provision for impairment of loan portfolio	Provisions	Installment sales	Real estate property, furniture and equipment	Inventory	Investment in associates	Other	Total
At January 1, 2011	$ 131,524	$ 298,545	$ 488,694	$ (1,042,341)	$ (3,014,358)	$ (436,463)	$ (46,951)	$ (115,102)	$ (3,736,452)
Charged / credited to the statement of income	(53,924)	123,176	83,861	(209,221)	(45,226)	313,357	(69,810)	(103,544)	38,669
At December 31, 2011	77,600	421,721	572,555	(1,251,562)	(3,059,584)	(123,106)	(116,761)	(218,646)	(3,697,783)
Charged / credited to the statement of income	(69,062)	69,901	48,540	(116,902)	(470,546)	229,777	(72,466)	(195,622)	(576,380)
At December 31, 2012	$ 8,538	$ 491,622	$ 621,095	$ (1,368,464)	$ (3,530,130)	$ 106,671	$ (189,227)	$ (414,268)	$ (4,274,163)

At December 31, 2011, the Company has unamortized tax losses for income tax purposes, to be indexed in the year in which they are applied, for a restated amount of:

Year	Amortizable tax loss
2016	$ 58
2018	36
2019	59
2020	1,575
2021	18,122
2022	8,784
	$ 28,634

In determining deferred income tax at December 31, 2012 and 2011, the Company applied to temporary differences, the applicable rates according to their estimated date of reversal.

23.3. 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:

	December 31, 2012	December 31, 2011
Pre – tax income	$ 9,949,324	$ 8,904,892
Statutory rate	30%	30%
Income tax at statutory rate	2,984,797	2,671,468
Plus (less) effects of taxes of the following permanent items:		
Non deductible expenses	6,332	5,972
Income not taxable	(202,550)	(216,255)
Annual inflation adjustment	72,157	79,708
Participation in the results of associates	(124,482)	(91,418)
Investment property, furniture and equipment – net	93,550	(16,709)
Other permanent items	(79,060)	(71,819)
Income tax in the income statement	$ 2,750,744	$ 2,360,947
Effective income tax rate	28%	27%

23.4. Applicable tax rates:
On December 9, 2012, the decreed by wich the income tax rate applicable for 2013 will be 30%, 2014 will be 29% and as of 2015 will be 28%.

Flat tax for 2011 was calculated at the rate of 17.5% on profit determined on a cash flow basis. Said profit is determined by subtracting authorized deductions from total income arising from taxable operations. The so called flat tax credits are subtracted from the foregoing result, as established in current legislation.

Under current tax legislation, the Company must pay the higher of income tax and flat tax annually.

Note 24 – Stockholders' equity:

24.1. Capital stock at December 31, 2012 and 2011, are comprised as 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
Total	$ 3,374,282

At the March 8, 2012 Annual Ordinary General Stockholders' Meeting, the stockholders approved dividends to be paid out of the After Tax Earnings Account (CUFIN for its acronym in Spanish) in the amount of $899,271 ($724,786 in 2011), which were paid on May 2, 2012 and October 19, 2012, through the securities depository firm.

In accordance with IAS 29 "Hyperinflation", an entity must recognize the effects of inflation in the financial information when an economy accumulates 100% 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.

24.2 Capital reserves

Capital reserves are comprised as follows:

	December 31, 2012	December 31, 2011
Legal reserve	$ 582,500	$ 582,500
Reserve for acquisition of own shares	467,432	467,432
Investment reserve	94,319	94,319
Reserve for valuation of derivative financial instruments	(107,736)	(202,762)
	$ 1,036,515	$ 941,489

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

At January 1, 2011		
Reserve	$	182,617
Charged to income		166,671
Used in the year		(146,526)
At December 31, 2011	$	202,762
Charged to income	$	20,072
Used in the year		(115,098)
At December 31, 2012	$	107,736

The Company's Stockholders have authorized a reserve for the acquisition of its own 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 for the legal reserve until it reaches 20% of the capital stock. The legal reserve can be capitalized, but must not be distributed unless the Company is dissolved, and must be made up if it shrinks for any reason.

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

	December 31, 2012	December 31, 2011
Capital contributions account	$ 27,237,938	$ 26,232,926
After–tax earnings account (CUFIN)	52,794,410	46,720,449
Reinvested after tax earnings account (CUFINRE)	117,101	113,075
Total	$ 80,149,449	$ 73,066,450

Average weighted number of ordinary shares to determine the basic earnings per share at December 31, 2012 and 2011	1,342,196,100	

24.4. Tax provisions related to stockholders' equity:

Dividends are free of income tax if paid out from the After Tax Earnings Account (CUFIN). Any excess over the CUFIN is taxable at a rate fluctuating between 4.62% and 7.69%, if paid out from the reinvested CUFIN (CUFINRE). Dividends in excess of the after tax earnings account (CUFIN) are subject to 42.86% tax if paid in 2012. 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 flat tax for the period. Dividends paid from previously taxed earnings are not subject to any tax withholding or additional tax.

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

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, which Management does not expect will have a significant adverse effect on its financial position and results of future operations.

25.2 Commitments

The Company has granted Stand–by letters to certain vendors in the amount of US$22 million. These letters are used by the vendors to obtain the financing required to satisfy production 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. At the date of issuance of the consolidated financial statements, the Company has not been informed of any default of such vendors.

25.3 Capital investments

The Company has entered into a number of agreements with third parties, for the acquisition of real property, in connection with which $176,107 has yet to be settled, in the terms established in said agreements.

Note 26 – Operating leases:

The Company as lessee

The Company has entered into a number of operating lease agreements for 17 stores, 6 Duty Free and 22 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 periods range from one to five years. All operating lease agreements for more than 5 years contain clauses for review of market rent every five years. The Company has not option to buy the space leased at the date of expiration of the lease terms.

Following are the leasing expenses recognized in 2012 and 2011:

	December 31, 2012	2011
Fixed rent	$ 218,208	$ 178,966
Variable rent	278,479	279,847
	$ 496,687	$ 458,813

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

Year ending December 31,	Amount
2013	$ 303,518
2014	337,081
2015	377,531
2016	422,834
2017 and thereafter	1,598,030
Total minimum payments agreed	$ 3,038,994

The Company as lessor

Operating leasing is related to the leasing of commercial space. The lease periods range from one to five years. All operating lease agreements for more that 5 years contain clauses for 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, 2012	2011
Fixed rent	$ 1,368,742	$ 1,112,235

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
2013	$ 1,437,179
2014	1,501,852
2015	1,561,926
2016	1,616,594
Total minimum payments agreed	$ 6,117,551

Note 27 – Segment information:

Information per segment 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 on which there is separate financial information which is evaluated on a regular basis. Income from the Company's segments arises mainly from the sale of products at retail (commercial segment), and from real property activities involving the renting of commercial space (real estate segment).

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.

The income reported by the Company represents income generated by external customers, as there are no intersegment sales.

Commercial segment

Due to the fact that the Company specializes in retail sales of merchandise to the general public, it has no main customers that would concentrate a significant percentage of total sales, and does not rely on a particular product that would represent 10% of consolidated sales. Also, the Company operates with a broad base of different size vendors, and therefore does not rely on any particular vendor as concerns the products it sells.

Real estate segment

The Company owns or co–owns, manages and leases commercial space located in shopping malls throughout Mexico. This segment is engaged in the design and realization of expansion and remodeling works for stores, shopping malls and other facilities.

Other Segment

Income from other services such as commissions for insurance, travel agency, etc. is included in this segment.

27.1. Income and results per segment

The Company controls its results for every of the 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. Following is an analysis of income and results per segment to be reported:

December 31, 2012	Commercial	Real property	Other	Consolidated
Net revenue	$ 64,130,650	$ 2,115,854	–	$ 66,246,504
Costs and expenses	(55,435,529)	(847,581)	–	(56,283,110)
Other income			$ 342,682	342,682
Operating income	8,695,121	1,268,273	342,682	10,306,076
Financing costs, interest earned on investments, exchange fluctuations and results of associates				(356,752)
Tax on profits				(2,750,744)
Consolidated net income	$ 8,695,121	$ 1,268,273	$ 342,682	$ 7,198,580

December 31, 2011	Commercial	Real property	Other	Consolidated
Net revenue	$ 56,925,768	$ 1,731,041	–	$ 58,656,809
Costs and expenses	(48,882,474)	(750,974)	–	(49,633,448)
Other income			$ 204,454	204,454
Operating income	8,043,294	980,067	204,454	9,227,815
Financing costs, interest earned on investments, exchange fluctuations and results of associates				(322,923)
Tax on profits				(2,360,947)
Consolidated net income	$ 8,043,294	$ 980,067	$ 204,454	$ 6,543,945

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 total 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 dealt at Group level and not within the reportable segments. As a result, this information is not shown distributed in each reportable segments. Operating income is the key performance indicator for management, which is reported on a monthly basis to the Operations Committee.

27.2. Geographic information

All income obtained from third parties is realized in Mexico and therefore, no information is disclosed per geographic segment.

Note 28 – Authorization of issuance of consolidated financial statements:

The consolidated financial statements were authorized for issuance on February 15, 2013 by the Board of Directors, and are subject to approval by the Stockholders Meeting.

Information for investors

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The 2012 Annual Report may include certain expectations regarding the results of El Puerto de Liverpool, S. A. B. de C. V. and its Subsidiaries. All such projections, which depend on the judgment of the Company's management, are based on up-to-date, known information; however, expectations may vary as a result of the facts, circumstances and events beyond the control of El Puerto de Liverpool, S. A. B. de C. V. and its Subsidiaries.

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