



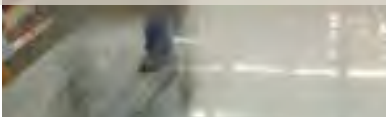
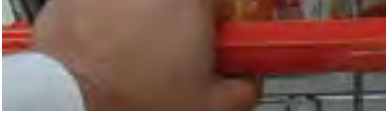
## Commitments fullfield



2006



# Executive summary

|                                                                                     |                |                                                                                       |
|-------------------------------------------------------------------------------------|----------------|---------------------------------------------------------------------------------------|
|    | 88 stores      |     |
|                                                                                     | page 4         |                                                                                       |
|    | 52 stores      |    |
|                                                                                     | page 6         |                                                                                       |
|    | 59 stores      |     |
|                                                                                     | page 8         |                                                                                       |
|    | 79 stores      |    |
|                                                                                     | page 12        |                                                                                       |
|    | 9 stores       |     |
|                                                                                     | page 13        |                                                                                       |
|  | 63 restaurants |  |
|                                                                                     | page 14        |                                                                                       |
|  | 138 stores     |   |
|                                                                                     | page 16        |                                                                                       |
|  | 147 stores     |  |
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## Commitments

Productivity

Operating efficiency

Competitiveness and sustainability

State of the art technology

Optimization of the supermarket store chain

Rapid expansion and diversification

Restructuring and increased financial flexibility

Community support

Corporate governance

## Achievements

Higher sales per square meter and per employee

Lower operating expenses and better use of assets

Aggressive commercial strategy, central distribution, service quality and format differentiation

Full installation of SAP

Remodelings, closings and openings

SuperPrecio, Office Depot, Toks and Radio Shack

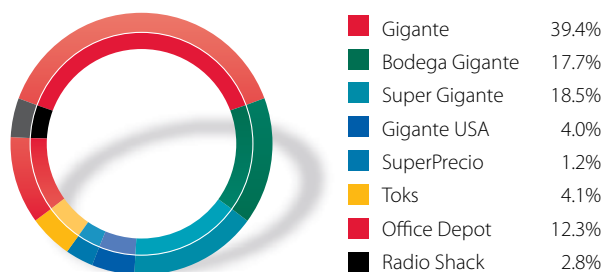
Placement of a 10-year dollar bond on international markets and currency hedge contracts

Fundación Gigante, Toks and Office Depot

Committee operations and organizational restructuring

# Financial highlights

## Sales breakdown by format

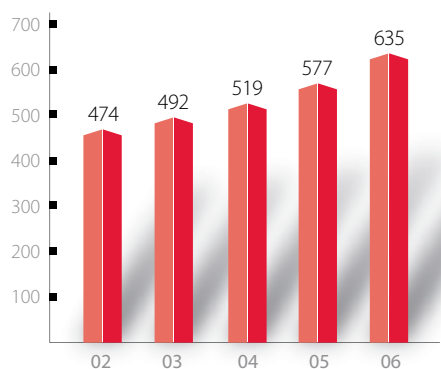


## Income statement

(In thousands of pesos, as of December 31, 2006)

|                           | 2006          | 2005          | % variation |
|---------------------------|---------------|---------------|-------------|
| Net sales                 | \$ 32,470,998 | \$ 32,295,595 | 0.5         |
| Operating expenses        | 6,882,353     | 6,906,340     | (0.3)       |
| Operating income          | 1,006,291     | 479,343       | 1.1 times   |
| EBITDA                    | 1,781,845     | 1,335,111     | 33.5        |
| Net income                | 295,649       | (211,574)     | 2.4 times   |
| Earnings per share        | \$ 0.30       | \$ (0.22)     | 2.4 times   |
| Common shares outstanding | 982,389,877   | 982,592,477   |             |
| Price of share            | \$ 11.00      | \$ 6.95       | 58.3        |

## Number of stores

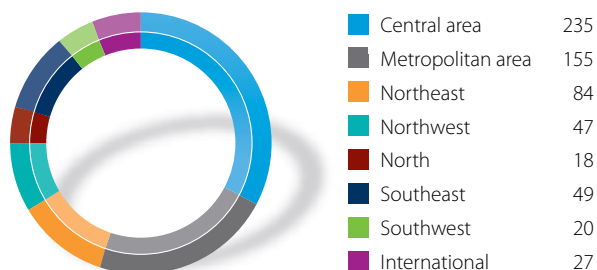


## Consolidated balance sheet

(In thousands of pesos, as of December 31, 2006)

|                                    | 2006          | 2005          | % variation |
|------------------------------------|---------------|---------------|-------------|
| Assets                             | \$ 24,101,012 | \$ 23,523,964 | 2.5         |
| Cash & cash equivalents            | 898,148       | 558,753       | 60.7        |
| Inventories                        | 4,402,670     | 4,558,789     | (3.4)       |
| Others                             | 2,705,589     | 2,485,087     | 8.9         |
| Fixed assets                       | 16,094,605    | 15,921,335    | 1.1         |
| Liabilities & shareholders' equity | 24,101,012    | 23,523,964    | 2.5         |
| Trade accounts payable             | 4,946,689     | 4,663,032     | 6.1         |
| Others                             | 5,800,433     | 5,443,029     | 6.6         |
| Shareholders' equity               | 13,353,890    | 13,417,903    | (0.5)       |

## Regional distribution of stores



## Debt coverage

(times)

|                         | 2006 | 2005 | % variation |
|-------------------------|------|------|-------------|
| EBITDA / Paid interests | 3.2  | 2.6  | 21.8        |
| Debt / EBITDA           | 1.7  | 2.2  | (21.0)      |

# Message to our shareholders

GIGANTE

Bodega  
GIGANTE

Super  
GIGANTE

## Dear shareholders:

I am pleased to present you with this report on the achievements of Grupo Gigante in 2006. In a year of modest economic growth and aggressive competition, we saw the end of an era and the beginning of another in which we will reap the benefits of our strategies. These benefits included a growth of 0.5% in total sales, a decrease in expenses and a 33.5% rise in EBITDA.

The efforts made over the course of the past year can be summed up in three major lines of action: profitability and productivity in the supermarket business; rapid growth in the restaurant business and joint ventures; and finally, better corporate governance, which will give our shareholders a greater transparency regarding the Group's management and its future.

## Efficiency and productivity

In 2006, we were able to stabilize the supermarket business, concluding a phase begun two years earlier in which we re-defined and built the new pillars of our business strategy: a closer focus on efficiency and productivity. This phase included, among other actions, the restructuring of our organization, commercial activities, operations and technology, as well as the definition of the physical characteristics and image of our three store formats.

Supported by this restructuring, during the year we began a new phase of transformation, in which we promoted the implementation of the strategy devised for our supermarkets. This phase began with the testing of a new business model in 13 pilot stores selected at the end of 2005, and the closure of 14 establishments that lacked the market conditions and infrastructure to meet the productivity criteria established for each format.

Based on the results of the pilot stores, we made the necessary adjustments to our strategy, differentiating it for each format, and remodeled 18 stores, including physical, operating and commercial characteristics. Both the pilot stores and the remodelings yielded in sales and operating income growth higher than what was obtained overall in the various formats.

We also continued to pursue our goal of selective and profitable growth, opening 3 Bodega Gigante stores which also helped increase the productivity of the format and the business segment.

Supported by a process re-engineering that came out of the installation of our new SAP IT platform, and an analysis and downscaling of our management structure, we continued to lower stores' operating expenses and streamline logistics, and reduced the corporate payroll by 5.0%, following a 10.0% reduction at the end of 2005.

There were a number of events that played a key role in the results of the supermarket business in 2006: i) an extended application and better execution of our Low-Price strategy; ii) promotional campaigns more in tune with new market conditions and our commercial strategy, such as "Gigante Month" and "Gigante Anniversary"; iii) complete installation of the SAP technological platform, which brings us to the forefront of the Mexican supermarket industry; and iv) progress in merchandise distribution through our 10 distribution centers, which account for 61.6% of our total sales, compared to 56.3% in 2005. This was achieved through a capacity expansion installed at the end of 2006 and the opening of new distribution facilities for fresh and frozen produce at the end of 2006.

## Profitable growth

Office Depot, Radio Shack, Toks and SuperPrecio all increased their sales floor area, along with higher sales per unit and broader margins.

For Office Depot, 2006 was a year in which we once again surpassed our own goals for growth and profits. We continued with our strategy of national and international expansion, opening a total of 23 new establishments: 16 in Mexico and 7 abroad, specifically, in 3 Central American countries.

Radio Shack is also reporting a brisk pace of openings and remodelings, with 20 new stores opened and 28 remodeled in 2006. This led to an 8.6% growth in sales floor area and greater productivity per square meter in the remodeled stores. Like the rest of our business units, Radio Shack increased its gross and operating margins.

In our Toks restaurant business, the number of seats increased by 10.8% in the year, due to the opening of 6 new establishments and the remodeling of 2 units. At present, 83.0% of our units operate under the new business model, and together with strict application of our customer-oriented strategy, we could bring in a total sales growth rate over four times the average for Mexico's hotel and restaurant industry.

Our SuperPrecio units reported a 34.4% growth in sales floor area, resulting from the opening of 28 new units and an increase in same-store sales. The average investment in each new store was 20% lower than in the past, which puts us in an ideal position for a more aggressive growth in the years ahead.

Grupo Gigante invested a total of Ps1.1 billion in 2006, allocated to remodeling, new stores, technology, and distribution systems. At the end of the year, we had a total of 1,120,902 square meters of sales floor area and 635 units operating, including 80 new points of sale.

#### **Financial flexibility**

Another big event during the year was an offering of US\$260 million in an unsecured bullet senior notes on international markets, at a rate of 8.75% and a 10-year maturity term. We used the proceeds to roll over a mortgage loan we had taken with Inbursa, which put the Group in a better financial position in terms of rates, collateral, and operating flexibility.

#### **Corporate citizenship - Fundación Gigante**

As we have been doing continuously for more than 43 years, Grupo Gigante and Fundación Gigante —the arm of this group that embodies and puts into action the commitment and citizenship policies of its various companies— continued to support the best causes and projects to benefit families throughout Mexico. During the year, we channeled more than Ps148 million toward the neediest Mexican families, benefiting more than 1.3 million individuals. With efforts such as these, we are making citizenship one of the biggest priorities for the company and for its stockholders, and a commitment in which we believe and which we will continue to uphold.

#### **Corporate governance**

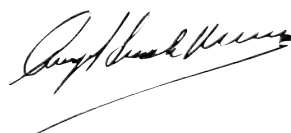
During the year, we took a series of actions to offer greater certainty and transparency to our majority and minority shareholders regarding the proper management of this Group's resources and its future.

As part of our corporate governance project, the Group concluded the review and restructuring of its governance bodies, in keeping with the new Securities Market Act and the Mexican Code of Best Corporate Governance Practices.

We have now applied virtually all the criteria established by that new Act, including the addition of "Publicly Traded Corporation" (S.A.B.) status to the company name. We also revised and adjusted, where necessary, the structure and makeup of the Board and its Committees, and the top-level organic structure of the Group, applying and even exceeding the new regulatory requirements.

Finally, I would like to express my gratitude to the 35,427 employees of Grupo Gigante for their commitment and loyalty, to our vendors and shareholders for their confidence, and to the 244 million customers we served during the year for their preference. To all of you, I reiterate my absolute dedication and commitment to making our Group a model company on all levels.

Sincerely,



**Ángel Losada**

Chairman of the Board and  
Chief Executive Officer, Grupo Gigante

|                                                                                   | Share of total sales                                                                           | Employees     | Sales floor                  |
|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------|------------------------------|
|  |  <b>39.4%</b> | <b>12,117</b> | <b>521,102 m<sup>2</sup></b> |

In our three self-service formats...

## We increased productivity



### Optimizing the chain of stores and productivity

In 2006, we maintained our focus on improved productivity and profitability, continuing the process of optimizing the store chain through remodeling, selective openings and store closures. We made various adjustments to our format definitions, based on the results of a pilot project begun in late 2005 with a group of 13 stores. On these new strategies for operations and image, we opened 3 Bodega Gigante stores in the State of Mexico, and remodeled 8 Gigante stores, 6 Super Gigantes and 4 Bodegas in different parts of Mexico. At the same time, we closed 14 units that lacked the infrastructure and market characteristics necessary to meet the new definition for the supermarket formats.

One of the most outstanding results of the remodeling of our stores according to new business strategies was that 80.0% of these reported a sales growth of more than twice the average for their format. Thus, we were able to raise sales per square meter and per employee by 3.4% and 1.5%, respectively.

### Organizational restructuring and expense reduction

Due largely to process re-engineering applied during the installation of the SAP IT system, as well as the restructuring of organization and management in 2005 and 2006, we were able to substantially improve the efficiency of our administrative expenses, downsizing our work force by more than 15.0% in the past 18 months.

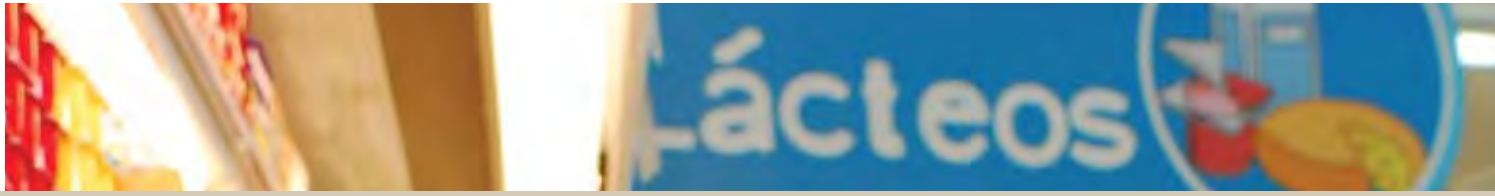
### Boosting sales through consumer credit

Aware of the need to create better conditions so that lower-income customers in Mexico can buy the products they need, we continued to promote greater access to various consumer credit options in our food retail business. We offered two fixed-payment programs exclusively to customers in our Gigante and Bodega formats, operated in association with GE Capital and Banco Azteca ("Llévatelo" and "Credimax", respectively). We are also increasing the number of users and transactions in our co-branded credit cards.



per square meter





**We consolidated our strategy**



|                                                                                   | Share of total sales                                                                    | Employees | Sales floor            |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------|------------------------|
|  |  17.7% | 5,009     | 199,864 m <sup>2</sup> |

## of low-prices and campaigns



### Efficient supply and inventory management

During the year, we succeeded in reducing excess inventories and minimizing merchandise shortages in stores, primarily through a tune-up of our automatic restocking system. This helped us lower average inventories by around 10.0%, and reduce shortages to more than half of the year-earlier level.

At the same time, we doubled the number of visits from distribution centers to our stores, substantially lowering the volume of inventory kept in stores' stockrooms and improving service levels per unit by 11.2%. This means that orders made by each store come at the right time, and in the right amounts.

### More efficient price strategy and campaigns

Our strategy of everyday low prices on the basic basket of articles to whose price customers are most sensitive continued to advance. In this past year, we broadened the scope of this strategy to cover 45.0% of the catalogue. In addition, we improved the efficiency and differentiation of the basket of products used for each format, according to the type and level of competition in each store's area of influence.

The low-price strategy was supported throughout the year by advertising messages like "Stop and Compare" for the Gigante format; "Check it Out and Take it" for the Bodega format, and "You Pay, your Way" for the Super Gigante format. We also installed a clearer and more aggressive signage system directly on the sales floor, with price comparisons for all categories.

|                                                                                   | Share of total sales                                                                           | Employees    | Sales floor                  |
|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|--------------|------------------------------|
|  |  <b>18.5%</b> | <b>4,653</b> | <b>130,554 m<sup>2</sup></b> |

## We raised our customer



### Focusing on the customer

During the year, we extended our customer satisfaction strategy by making significant improvements in all three supermarket formats. We installed a system that monitors customer satisfaction on a monthly base in the 199 units.

In addition, we took advantage of store remodelings to stress the different value offering of each format, adjusting them more closely to the type of customer, which in turn brings greater customer satisfaction.

### Supply and display

One of the key elements for the success of the transformation program was a complete redefinition and transformation of our products offer, and the way they are marketed according to customer preferences for each type of format and region. Now, each format has specific rules for arranging and displaying the merchandise, which allows customers to buy more comfortably and efficiently. Over the course of the year, we studied and adjusted the layouts of our entire store chain to conform to the new rules.



# satisfaction standards



|                                                                                   |                                                                                                                             |                           |                                             |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------------------------|
|  | Centralized distribution*<br> <b>61.6%</b> | Employees<br><b>1,084</b> | Covered area<br><b>72,887 m<sup>2</sup></b> |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------------------------|

\* as a percentage of sales

In our distribution centers...

## We increased installed capacity

### Logistics

As another product of our strategy of greater productivity and efficiency, in November we opened a new cold-chain distribution center in Tultitlán, State of Mexico, with 8 refrigeration chambers and a total surface area of 11,700 square meters. This center improves the handling of perishable products and makes us more competitive, reducing waste and offering our customers fresher products with a longer shelf life.

The new Tultitlán facility also houses the largest modified-atmosphere meatpacking plant in the Mexican supermarket industry. Its advanced technology for handling, processing and storing fresh meat brings shoppers a superior product and ensures optimum quality, hygiene and freshness in meat products.

At the close of the year, we had 72,887 square meters of covered surface area in 10 distribution centers which service all of Mexico, five of which distribute general merchandise and another five that handle perishable, refrigerated and frozen products.

In keeping with our objectives, we increased the amount of merchandise handled through central distribution from 56.3% to 61.6% of the total sold in our supermarkets. In the years ahead, we intend to continue expanding our central distribution capacity in Monterrey, Guadalajara, Tijuana and Mérida.



In our systems and IT area...

## We concluded installation of SAP

### Information and systems technology

One of the strategic pillars for the transformation of our supermarket business is the new technological and process platform called SAP, which places us at the forefront of the industry in terms of information systems, giving us a competitive edge in Latin America that is hard to beat.

During the year, we concluded the system's installation with the integration of fresh produce from central Mexico. We now operate a simultaneous, nationwide system using a single technological tool across the entire value chain of the business, from administrative processes and connectivity with vendors to operating, commercial, and logistical management of our stores.

The benefits of this system were increasingly evident during the year: a downsizing of the administrative payroll, reduction of excess merchandise and shortage of inventories in our stores and distribution centers, the startup of automatic restocking at the item level, and the creation of a business intelligence system that allows for online analysis of all the relevant performance indicators.

### Private labels

We continued to optimize the supply of products by filtering out the lower-turnover items, reducing store shortages, and applying a better and more aggressive marketing plan for the most popular products.

As a result of these efforts, at the close of the year we had more than 1,116 private-label products, which contributed 50.0% more to sales than the year before, according to the AC Nielsen catalogue. These products also helped improve the gross margin of the supermarket business during the year.



|  | Share of total sales                                                                          | Employees  | Sales floor                 |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------|-----------------------------|
|                                                                                   |  <b>1.2%</b> | <b>522</b> | <b>19,003 m<sup>2</sup></b> |

In SuperPrecio...

## We opened 28 stores



For SuperPrecio, 2006 was a milestone in its consolidation process, marked by the start of a more rapid phase of expansion. We opened 28 new SuperPrecio stores with an average investment 20.0% lower per unit than in the past. This puts us on more solid footing to continue our growth, and in 2007 we intend to open twice as many new units.

We also began a pilot program with 4 stores in the Monterrey metropolitan area, with very satisfactory results that will allow us to expand the regional coverage of this business unit. By year-end 2006, we already had 79 establishments with a total of 19,003 square meters of sales floor area, 34.4% more than in 2005.

The year also saw an improvement in the performance of units already in operation for more than 12 months, which reported close to two-digit sales growth over the previous year. This result was accompanied by a lower gross margin and lower expenses per unit, thanks to a higher scale of operations, better product mix, promotion of our private labels, and 100.0% integration of the distribution in the Tultitlán center.

|                                                                                   | Share of total sales                                                                          | Employees  | Sales floor                 |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------|-----------------------------|
|  |  <b>4.0%</b> | <b>971</b> | <b>25,572 m<sup>2</sup></b> |

In Gigante USA...

## We increased our profitability

The Group's focus on profitability in recent years also yielded results in the nine supermarket units we operate in Los Angeles, California.

During the year, we waged a more aggressive strategy of sales and specials to boost the performance of our perishable goods and differentiate ourselves more clearly from the competition through these products. With the same intent, we increased the supply of additional services we offer our shoppers, like bank offices, money transfers, and cell phone services, which brought in additional revenues from the rental of commercial locales.

In addition, we continued to improve our gross margin, raising it by 1.7 percentage points. This was part of our ongoing effort to lower costs through better negotiations and new vendors. Besides, through a series of control measures, we lowered expenses by 14.8% and, as a result, the operating income of the business improved 45.2% compared to the 2005 results.

Despite a solid recovery of our margins, we must further increase the scale of operations to cover the administrative expenses of this business unit. To this end, we have been talking with various grocery store operators in the Los Angeles area, about forming a joint venture that can bring us greater operating leverage and the profitability we are looking for.



|                                                                                   | Share of total sales                                                                          | Employees    | Seating capacity |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------|------------------|
|  |  <b>4.1%</b> | <b>4,341</b> | <b>13,172</b>    |

In our Toks restaurant chain...

## Our sales growth was four



In keeping with our annual expansion plan, in 2006 we opened six new units in Cancún, Quintana Roo; Iztapalapa, Mexico City; Acapulco, Guerrero; Querétaro, Querétaro, and Lerma and Ixtapaluca in the State of Mexico. With these openings, at the close of the period we had a total of 63 restaurants in operation, and 13,172 seats, 10.8% more than in 2005.

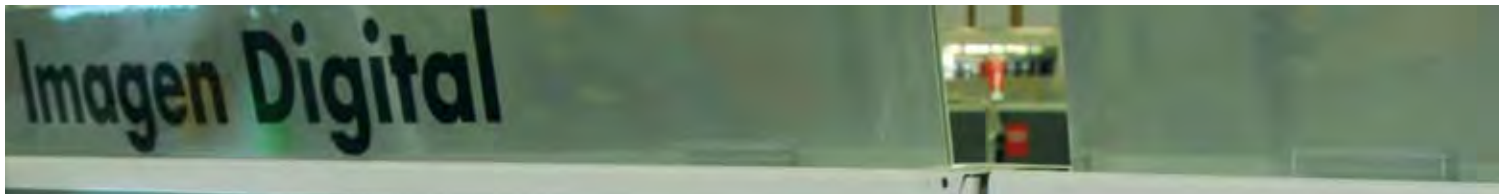
We remodeled another 2 establishments, so now 83.0% of our units operate according to the product, service and ambience features established by our new "casual dining" concept. As a result, in 2006 we once again exceeded our goals for sales, margins and return on assets. Furthermore, the sales growth of our restaurant chains surpassed the average for Mexican restaurants and hotels by 4.6 times.

Finally, in support of our growth strategy, and aware of the need to keep up our standards of quality in the midst of this expansion, we will create a training center for chefs and a new commissary. This will allow us to accelerate our future growth on solid quality and service basis, without forgetting that the customer is the center of our strategy.

times greater than the industry



In our office supplies and stationery business...



We are now present in five



|                                                                                   | Share of total sales                                                                           | Employees    | Sales floor                  |
|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|--------------|------------------------------|
|  |  <b>12.3%</b> | <b>4,538</b> | <b>206,844 m<sup>2</sup></b> |

## Central American countries

For Office Depot, 2006 was a record year for store expansions and operating results. In keeping with our annual growth plan, we opened a total of 23 units: 16 in Mexico, 2 in Honduras, 1 in Guatemala, and 4 in Panama. Consequently, in addition to our presence in Mexico we now operate in 5 countries of Central America: Guatemala, Honduras, El Salvador, Costa Rica and Panama. At the end of the year, Office Depot had 206,844 square meters of sales floor area, in 138 establishments, making us the undisputed leader in office supplies and stationery industry.

In addition to this orderly, solid growth in 2006, we are pleased to report that same-store sales rose at a brisk pace, while costs and expenses remained at optimum levels. Another factor in the growth of sales was the steady expansion of alternate distribution channels like telemarketing, corporate sales and Internet.

As proof of our slimmed-down cost structure, during the year, we reported the highest operating profit in the history of Office Depot in Mexico, due, among other factors, to better negotiations with domestic and international vendors, a doubling of the production capacity of our "cross dock" distribution centers, and a promotion of our private label brands. We also kept strict controls on spending despite the aggressive increase in the number of stores, which meant that the benefits for both sales and gross margin were reflected in net cash flow (after expenses).

For 2007, we will continue with our strategy of saturating the market in Mexico, to strengthen the leadership position Office Depot has achieved.



|  | Share of total sales                                                                          | Employees  | Sales floor                 |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------|-----------------------------|
|                                                                                   |  <b>2.8%</b> | <b>817</b> | <b>17,962 m<sup>2</sup></b> |

In our electronics business...

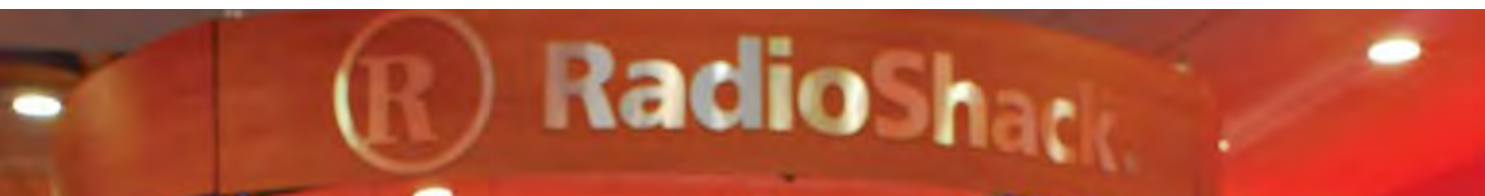
## We opened 20 new stores



This was a year of intense activity for our electronics business. We opened 20 new units and remodeled 28, ending 2006 with 147 Radio Shack stores in operation, and a total sales area of 17,962 square meters, which represents 8.6% more than in 2005.

Thanks to our growth in recent years, we now have more purchasing power, so we can directly import products from Asia, and offer a wider variety and lower prices to our customers. All of this brings us closer to our strategic vision of "demystifying technology in Mexican homes."

For the coming years, we will keep the pace of growth and remodeling that we set this year, in order to further extend our strategic vision.



and remodeled 28



Through Fundación Gigante...

# We benefited 1.3 million people

## Corporate citizenship

In accordance with the Group's strong commitment with the community, Grupo Gigante channeled more than Ps148 million in direct benefits to the underprivileged sectors of Mexican society. The following are some of the programs implemented by Fundación Gigante:

**Senior citizens.** Together with Inapam, the Senior Citizens National Institute, we benefited more than 1.2 million senior citizens. We also stepped up our campaign of providing senior adults employment opportunities in our stores, and at present 2,156 of these valuable individuals are part of our team.

**Women support programs.** We also continued our support programs for abused women, and women with eating disorders, contributing to the health and wellness of more than 4 thousand of them.

**Education.** Through the UNAM Foundation, we awarded 1,000 scholarships to the best students of this university. We also supported basic school education with donations of computer equipment, improvements to schools in underprivileged areas, and teacher training. Our school supply program also grew this year, as we gave out more than 26 thousand packages of supplies to needy students.

**Teletón.** As has become a tradition, Grupo Gigante was once again one of its biggest sponsors. Thanks to donations by Gigante, Office Depot and Fundación Gigante, together with donations collected from our customers in the "rounding up" program, as well as from our employees, we surpassed our goal.

**Indigenous communities.** Through our subsidiary Toks, we continued our "Productive Projects" program, under which we offer our clients high-quality produce made by indigenous communities.



## Financial information

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# Management's discussion & analysis

## Operating results

Total sales for Grupo Gigante in 2006 were 0.5% higher than in 2005. The improvement in sales was due primarily to the program of overhauling stores in the food retail segment, as well as strong performance from Toks, Radio Shack and Office Depot.

Our gross margin improved from 22.9% in 2005 to 24.3% in 2006, as a result of greater participation and broader margins in the restaurant business and in joint ventures, combined with a better mix of products sold and an increased proportion of private label items sold in our supermarkets.

Despite the aggressive growth of the sales floor area in our restaurants and joint ventures, actions taken to make management and operations more efficient resulted in a reduction of 0.3% in expenses.

Due to the above factors, operating income in 2006 rose 109.9% over the previous year.

Total financing cost was Ps185 million for the year, 37.6% lower than in 2005, due primarily to foreign-exchange gains on the issue of a bond in U.S. dollars, gains on the market value of a hedge instrument, and the impact of inflation on monetary position effect.

Extraordinary items brought a net charge of Ps206 million, primarily because of expenses relating to store closures.

Derived from the above, our net result went from a loss of Ps200 million in 2005 to a net profit of Ps307 million this year. As a percentage of revenues, net earnings went from (0.6%) to 0.9 percent.

## Financial position, liquidity and capital

The company operates in an industry that requires the intensive use of capital for building and remodeling stores and restaurants and to pay its vendors. The cash necessary for these activities and the working capital demanded for operations derive mainly from the company's own cash flow, in addition to bank and securities-market financing.

In 2006, consolidated net earnings totaled Ps307 million, bolstered by non-cash items. Consequently, the company reported net cash flow generation of Ps1.1 billion, after reversing those items from the net result and adding net changes in operating assets and liabilities. This figure was 51.2% higher than the Ps731 million generated in 2005. The net change in operating assets and liabilities in 2006 was Ps163 million, due primarily to an increase in accounts payable. This change was caused, among other things, by the favorable difference between inventory and vendor turnover.

Recoverable taxes consisted primarily of VAT paid, as well as credit balances for income tax and excise taxes.

Accrued taxes and expenses include income tax owed and provisions for other taxes; vacations, bonuses and benefits; provisions for contingencies, advertising expenses and third-party leasing; advance payments to clients and domestic creditors.

Accounts payable to related parties refers to an amount owed to Radio Shack International, Inc., as well as to Radio Shack Global Sourcing, Inc., both for the purchase of merchandise by our subsidiary, Radio Shack.

On April 13, 2006, Grupo Gigante, S.A.B. de C.V., formally concluded its offering of unsecured bullet senior notes on foreign markets, for a principal amount of US\$260 million, with a coupon rate of 8.75% a year and expiration in 2016. The issue, guaranteed and endorsed by approximately 70 of its subsidiaries, is represented by certificates placed at par, which pay biyearly interest every April 13 and October 13 during the life of the issue, starting on October 13, 2006. The issue carries the usual covenants for this type of transaction, both on dividend payments and stock repurchases by the company. The underwriter was ABN AMRO.

# Management's discussion & analysis

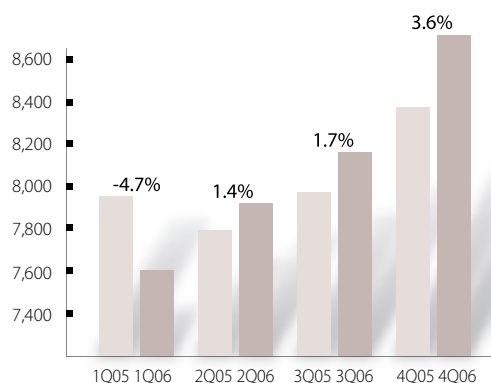
The proceeds of the placement were used to repay a mortgage loan from Banco Inbursa, S.A., for Ps2.7 billion (equivalent to approximately US\$254 million).

On December 21, 2005, Radio Shack de México, S.A. de C.V. signed a simple long-term credit contract for Ps60 million, payable in 36 monthly installments, starting on January 31, 2007.

The net resources generated by operating activities, the issue of debt securities by Grupo Gigante, S.A.B. de C.V., and a bank loan taken out by Radio Shack de México, S.A. de C.V., funded investments of Ps1.1 billion for the year. These investments were applied to store openings and remodelings, as well as to systems and logistics.

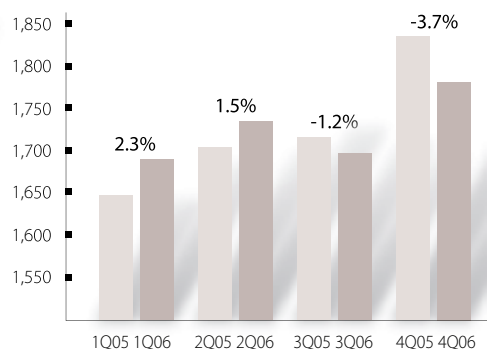
## Quarterly total sales

(Million pesos as of December 31, 2006)



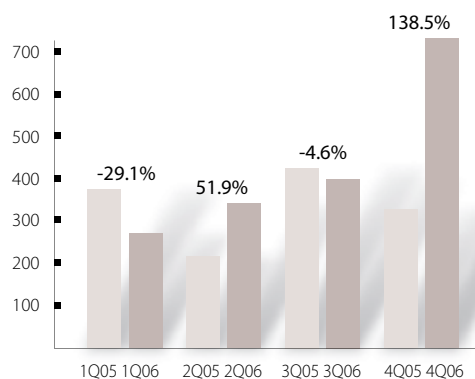
## Quarterly operating expenses

(Million pesos as of December 31, 2006)



## Quarterly EBITDA

(Million pesos as of December 31, 2006)



# Report of the Audit Committee

## Dear sirs:

As chairman, on behalf of the Audit Committee, and in accordance with section two of article 42 and section two of article 43 of the Securities Market Act, and the bylaws of Grupo Gigante, S.A.B. de C.V., I submit the report of this committee for fiscal year 2006.

During the year, this committee performed the following duties:

I.- Evaluated the status of the international control and internal audit system of Grupo Gigante, S.A.B. de C.V., and the subsidiaries it controls. We concluded that, in general, this company has an adequate internal control and internal audit system.

II.- Monitored the preventive and corrective measures applied, based on the results of the investigation into the failure to comply with the operating and bookkeeping guidelines and policies.

III.- Evaluated the performance of the firm Galaz, Yamazaki, Ruiz Urquiza, S.C., in its audit of the consolidated financial statements for the fiscal year ended December 31, 2006, as well as the external auditor in charge of this process, Juan Antonio Rodríguez. We believe both of these performed their functions appropriately, in keeping with financing reporting standards in Mexico, and the applicable provisions of the Securities Market Act.

IV.- Analyzed the description and assessment of additional or complementary services supplied by Galaz, Yamazaki, Ruiz Urquiza, S.C., responsible for the external audit. To this end, we issued a notice to the Board of Directors on October 24, 2006.

V.- Received the written reports and conducted the necessary interviews with the company's external and internal counsel, and with the management of Grupo Gigante, S.A.B. de C.V., in addition to participation in the quarterly meetings of the Board of Directors and analysis of the quarterly financial statements.

VI.- Analyzed the main results, based on a review of the consolidated financial statements of the company and the corporations that it controls, to confirm that the financial information has been prepared according to the same standards on financial information, criteria and practices used in the preparation of the annual reports.

VII.- Based on the analysis and discussion of the consolidated financial statements of Grupo Gigante, S.A.B. de C.V., we recommended that the Board of Directors approve those statements.

VIII.- Analyzed the description and effects of changes to the accounting practices approved during the period covered by this report.

IX.- Reviewed the content of the Chief Executive Officer's report, and formed the following opinion:

1. The accounting and information policies and criteria followed by the company are appropriate and sufficient, in accordance with its specific circumstances.
2. Those policies and criteria were applied consistently.
3. The report of the Chief Executive Officer reasonably reflects the financial position and consolidated results of the company.

X.- With regard to possible observations made by third parties referred to by the law, there was no point or observation to report regarding accounting, internal controls, or topics relating to the internal or external audit, or relating to claims of events they consider to be irregular in the company's management.

XI.- Followed up on the resolutions passed in the shareholders' meetings and meeting of the Board of Directors involving this committee.

Consequently, this document constitutes completion of the obligation established by the Securities Market Act and the bylaws of Grupo Gigante, S.A.B. de C.V.

Mexico City, February 16, 2007

Luis Santana  
Chairman  
Audit Committee

# Report of the Corporate Practices Committee

## Dear sirs:

As chairman, and in representation of the Corporate Practices Committee, and in accordance with article 43, section I and other applicable provisions of the Securities Market Act in effect at this time, I hereby submit the report of this committee's activities for fiscal year 2006.

In accordance with those provisions, during the above-mentioned fiscal year, the committee performed the following duties:

I.- To learn of the content and development of the project known as "Corporate Governance", with the support of the firm Accenture. The Board was presented with our recommendations and the results of that project.

II.- Review and adjust the company's governance bodies, including the Board itself and the committees, in accordance with the provisions of the new Securities Market Act.

III.- Review and adjust the organizational structure of both Grupo Gigante, S.A.B. de C.V., and its subsidiary, Gigante, S.A. de C.V. The Board was presented with the recommendations, descriptions and assessment of the principal positions within the structure.

IV.- Propose to the Board the designation of the company's Chief Executive Officer, as well as the policy on the use and attributes of that position in terms of powers of ownership.

V.- Analyze and develop a recommendation to the Board on the policies for designation and comprehensive compensation of the other top executives.

VI.- Present to the Board, for its approval, the Internal Regulations of the Board of Directors.

VII.- Once the Board has approved the creation of the Advisory Committee, consequently approve its Operating Regulations.

VIII.- Since there were no "transactions with related parties" or "wavers" reported for this period, there was no need to present a report to the Board.

Consequently, this document constitutes completion of the obligation established by article 43, section I and other applicable legal provisions.

Mexico City, February 20, 2007



Roberto Salvo  
Chairman  
Corporate Practices Committee

# Report of the Finance and Planning Committee

## Dear sirs:

As chairman, and in representation of the Finance and Planning Committee, and in accordance with the bylaws of Grupo Gigante, S.A.B. de C.V. and the current Regulations of the Board of Directors, I hereby present the report of this committee on its activities in fiscal year 2006.

In keeping with the above-mentioned provisions, during this past fiscal year, this committee met and presented to the Board of Directors reports and recommendations on the following topics:

1. The 2006 budget, status and adjustments.
2. The company's cash flow, with a particular emphasis on oversight and progress of the subsidiary Gigante, S.A. de C.V.
3. The company's quarterly results, to be presented to the Board of Directors.
4. Development and status of capital expenditures of the company and subsidiaries.
5. Supervision and use of the company's lines of credit, with special emphasis on the subsidiary Gigante, S.A. de C.V.
6. Structure, negotiation, issuance and placement of the company's U.S. dollar-bond.
7. Structure and trading framework for the dollar bond's currency hedge contracts.
8. Analysis and discussion of several financing sources and alternatives.
9. Analysis and definition of the premises and main assumptions regarding the preparation of the 2007 budget.

During the fiscal year covered by this report, the committee was informed of the content and development of the project entitled "Corporate Governance", prepared and carried out by management, with the support of an interdisciplinary group consisting of both internal and external people. We were also informed of the most important aspects regarding the "Transformation" project, prepared by the management of the subsidiary Gigante, S.A. de C.V. This has been an essential project in terms of the results obtained by the company.

With this report, we comply with the corporate bylaws and other applicable provisions of the Regulations of the Board of Directors.

Mexico City, February 20, 2007



Javier Fernández  
Chairman  
Finance and Planning Committee

# Independent Auditors' Report

## Deloitte.

Galaz, Yamazaki,  
Ruiz Urquiza, S.C.  
Paseo de la Reforma 505  
Piso 28  
Colonia Cuauhtémoc  
06500 México, D.F.  
México

Tel: +52 (55) 5080 6000  
Fax: + 52 (55) 5080 6001  
[www.deloitte.com/mx](http://www.deloitte.com/mx)

### **To the Board of Directors and Stockholders of Grupo Gigante, S. A. B. de C. V.**

We have audited the accompanying consolidated balance sheets of Grupo Gigante, S. A. B. de C. V. and Subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Gigante, S. A. B. de C. V. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended, in conformity with Mexican Financial Reporting Standards.

Galaz, Yamazaki, Ruiz Urquiza, S. C.

**Member of Deloitte Touche Tohmatsu**



C. P. C. Juan Antonio Rodríguez Espínola

February 20, 2007

## Consolidated balance sheets

As of December 31, 2006 and 2005

(In thousands of Mexican pesos (\$) of purchasing power as of December 31, 2006)

| <b>Assets</b>                                               | <b>2006</b>          | <b>2005</b>          |
|-------------------------------------------------------------|----------------------|----------------------|
| Current assets:                                             |                      |                      |
| Cash and cash equivalents                                   | \$ 898,148           | \$ 558,753           |
| Accounts receivable – net                                   | 1,392,952            | 1,174,502            |
| Inventories – net                                           | 4,402,670            | 4,558,789            |
| Prepaid expenses                                            | 186,770              | 234,273              |
| Derivative financial instruments                            | 510                  |                      |
| Total current assets                                        | 6,881,050            | 6,526,317            |
| Derivative financial instruments                            | 20,445               |                      |
| Property and equipment – net                                | 16,094,605           | 15,921,335           |
| Investment in shares in associates and others               | 224,271              | 216,809              |
| Goodwill and other assets – net                             | 880,641              | 859,503              |
| <b>Total</b>                                                | <b>\$ 24,101,012</b> | <b>\$ 23,523,964</b> |
| <b>Liabilities and stockholders' equity</b>                 |                      |                      |
| Current liabilities:                                        |                      |                      |
| Notes payable to financial institutions                     | \$ 30,535            | \$ 5,074             |
| Current portion of long-term debt                           | 55,745               | 72,873               |
| Trade accounts and notes payable                            | 4,946,689            | 4,663,032            |
| Due to related parties                                      | 76,265               | 135,002              |
| Accrued expenses and taxes                                  | 1,491,032            | 1,088,956            |
| Total current liabilities                                   | 6,600,266            | 5,964,937            |
| Long-term debt                                              | 2,983,849            | 2,833,967            |
| Employee retirement obligations                             | 229,602              | 237,590              |
| Deferred income taxes and employee statutory profit sharing | 933,405              | 1,069,567            |
| Total liabilities                                           | 10,747,122           | 10,106,061           |
| Stockholders' equity:                                       |                      |                      |
| Common stock                                                | 2,591,005            | 2,591,118            |
| Additional paid-in capital                                  | 7,251,804            | 7,252,059            |
| Retained earnings                                           | 17,078,040           | 16,807,195           |
| Insufficiency in restated stockholders' equity              | (12,407,508)         | (12,067,099)         |
| Cumulative initial effect of deferred income tax            | (1,265,469)          | (1,265,469)          |
| Majority stockholders' equity                               | 13,247,872           | 13,317,804           |
| Minority stockholder's equity                               | 106,018              | 100,099              |
| <b>Total stockholders' equity</b>                           | <b>13,353,890</b>    | <b>13,417,903</b>    |
| <b>Total</b>                                                | <b>\$ 24,101,012</b> | <b>\$ 23,523,964</b> |

See accompanying notes to consolidated financial statements.

## Consolidated statements of operations

For the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos (\$) of purchasing power as of December 31, 2006, except per share data)

|                                                                | 2006              | 2005                |
|----------------------------------------------------------------|-------------------|---------------------|
| Revenues:                                                      |                   |                     |
| Net sales                                                      | \$ 31,876,272     | \$ 31,791,688       |
| Other                                                          | 594,726           | 503,907             |
| Total revenues                                                 | 32,470,998        | 32,295,595          |
| Costs and expenses:                                            |                   |                     |
| Cost of sales                                                  | 24,582,354        | 24,909,912          |
| Operating expenses                                             | 6,882,353         | 6,906,340           |
| Total costs and expenses                                       | 31,464,707        | 31,816,252          |
| Income from operations                                         | 1,006,291         | 479,343             |
| Net comprehensive financing cost                               | 184,790           | 296,331             |
| Other expenses – net                                           | 206,124           | 178,572             |
| Income before income tax and employee statutory profit sharing | 615,377           | 4,440               |
| Income tax expense                                             | 297,785           | 238,658             |
| Employee statutory profit sharing expense (benefit)            | 11,115            | (33,769)            |
| <b>Consolidated net income (loss)</b>                          | <b>\$ 306,477</b> | <b>\$ (200,449)</b> |
| Net income (loss) of majority stockholders                     | \$ 295,649        | \$ (211,574)        |
| Net income of minority stockholders                            | 10,828            | 11,125              |
| <b>Consolidated net income (loss)</b>                          | <b>\$ 306,477</b> | <b>\$ (200,449)</b> |
| <b>Basic and diluted earnings (loss) per ordinary share</b>    | <b>\$ 0.30</b>    | <b>\$ (0.22)</b>    |

See accompanying notes to consolidated financial statements.

## Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos (\$) of purchasing power as of December 31, 2006)

|                                                     | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Insufficiency in<br>restated<br>stockholders'<br>equity | Initial cumulative<br>effect of<br>deferred<br>income tax | Minority<br>stockholders'<br>equity | Total<br>stockholders'<br>equity |
|-----------------------------------------------------|-----------------|----------------------------------|----------------------|---------------------------------------------------------|-----------------------------------------------------------|-------------------------------------|----------------------------------|
| Balance as of January 1, 2005                       | \$ 2,590,551    | \$ 7,259,473                     | \$ 16,966,273        | \$ (11,666,872)                                         | \$ (1,265,469)                                            | \$ 64,497                           | \$ 13,948,453                    |
| Sales of treasury shares – net                      | 567             | (7,414)                          | 52,496               |                                                         |                                                           |                                     | 45,649                           |
| Increase in minority<br>stockholders' equity        |                 |                                  |                      |                                                         |                                                           | 24,477                              | 24,477                           |
| Comprehensive loss                                  |                 |                                  | (211,574)            | (400,227)                                               |                                                           | 11,125                              | (600,676)                        |
| Balance as of December 31, 2005                     | 2,591,118       | 7,252,059                        | 16,807,195           | (12,067,099)                                            | (1,265,469)                                               | 100,099                             | 13,417,903                       |
| Repurchase of treasury shares                       | (113)           | (255)                            |                      |                                                         |                                                           |                                     | (368)                            |
| Employee retirement additional<br>minimum liability |                 |                                  | (24,804)             |                                                         |                                                           |                                     | (24,804)                         |
| Increase in minority<br>stockholders' equity        |                 |                                  |                      |                                                         |                                                           | 1,095                               | 1,095                            |
| Comprehensive loss                                  |                 |                                  | 295,649              | (340,409)                                               |                                                           | 4,824                               | (39,936)                         |
| Balance as of December 31, 2006                     | \$ 2,591,005    | \$ 7,251,804                     | \$ 17,078,040        | \$ (12,407,508)                                         | \$ (1,265,469)                                            | \$ 106,018                          | \$ 13,353,890                    |

See accompanying notes to consolidated financial statements.

## Consolidated statements of changes in financial position

For the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos (\$) of purchasing power as of December 31, 2006)

|                                                             | 2006              | 2005              |
|-------------------------------------------------------------|-------------------|-------------------|
| Operating activities:                                       |                   |                   |
| Consolidated net income (loss)                              | \$ 306,477        | \$ (200,449)      |
| Items that did not require (generate) resources:            |                   |                   |
| Depreciation and amortization                               | 775,554           | 855,768           |
| Loss (gain) on sale of property and equipment               | 13,778            | (28,744)          |
| Loss on disposals of property and equipment                 | 81,622            | 155,826           |
| Employee retirement obligations                             | 45,851            | 35,001            |
| Derivative financial instruments                            | (20,955)          |                   |
| Deferred income taxes and employee statutory profit sharing | (97,279)          | (86,390)          |
|                                                             | 1,105,048         | 731,012           |
| Changes in operating assets and liabilities:                |                   |                   |
| Accounts receivable – net                                   | (218,450)         | 593,971           |
| Inventories – net                                           | (140,017)         | (458,479)         |
| Prepaid expenses                                            | 47,503            | (13,304)          |
| Trade accounts and notes payable                            | 283,657           | 372,238           |
| Due to related parties                                      | (58,737)          | 36,633            |
| Employee retirement obligations                             | (64,121)          | 63,331            |
| Accrued expenses and taxes                                  | 312,915           | (529,302)         |
| Net resources generated by operating activities             | 1,267,798         | 796,100           |
| Financing activities:                                       |                   |                   |
| Notes payables to financial institutions                    | 25,461            | (54,265)          |
| Proceeds from long-term debt                                | 2,829,060         | 2,871,780         |
| Repayment of long-term debt                                 | (2,696,306)       | (2,733,282)       |
| Proceeds from increase in minority stockholders' equity     | 1,095             | 24,477            |
| (Repurchase) sale of treasury shares – net                  | (368)             | 45,649            |
| Net resources generated by financing activities             | 158,942           | 154,359           |
| Investing activities:                                       |                   |                   |
| Acquisition of property and equipment                       | (1,120,793)       | (1,318,787)       |
| Proceeds from sale of property and equipment                | 133,931           | 248,716           |
| Investment in shares in associates and others               | (7,462)           | (7,715)           |
| Goodwill and other assets – net                             | (93,021)          | 23,753            |
| Net resources used in investing activities                  | (1,087,345)       | (1,054,033)       |
| Cash and cash equivalents:                                  |                   |                   |
| Increase (decrease)                                         | 339,395           | (103,574)         |
| Balance at beginning of year                                | 558,753           | 662,327           |
| <b>Balance at end of year</b>                               | <b>\$ 898,148</b> | <b>\$ 558,753</b> |

See accompanying notes to consolidated financial statements.

## Notes to consolidated financial statements

For the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos (\$) of purchasing power as of December 31, 2006)

### 1. Nature of business

Grupo Gigante, S. A. B. de C. V. and Subsidiaries (the "Company") are engaged in self-service stores that sell groceries, perishables, clothing, general merchandise, office supplies and electronic goods.

### 2. Basis of presentation

**Explanation for translation into English** – The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS"). Certain accounting practices applied by the Company that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

- a. Consolidation of financial statements** – The consolidated financial statements include those of Grupo Gigante, S. A. B. de C. V. and its subsidiaries, whose shareholding percentage in their capital stock is shown below. The financial statements of Office Depot de México, S. A. de C. V. and PSMT México, S. A. de C. V. are consolidated using the proportionate consolidation method, based on the Company's 50% ownership interest in such entities. Significant inter-company balances and transactions have been eliminated.

| Company or Group                       | Equity  | Activity                                                                                                                                                                                                                                                        |
|----------------------------------------|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gigante, S. A. de C. V.                | 100.00% | 199 self-service stores that sell groceries, perishables, clothing and general merchandise. On August 1, 2005 this entity transferred all of its employees to a related party and as such, it began to receive administrative services from such related party. |
| Office Depot de México, S. A. de C. V. | 50.00%  | 118 office supply stores in Mexico, 4 in Costa Rica, 5 in Guatemala, 3 in El Salvador, 2 in Honduras, 3 in Panama and 3 distribution centers.                                                                                                                   |
| PSMT México, S. A. de C. V.            | 50.00%  | 2 club price stores in Guanajuato, Mexico and 1 in Querétaro, Mexico. As mentioned in Note 2e on February 11, 2005 this entity announced the suspension of its operations.                                                                                      |
| Gigante Holdings International, Inc.   | 100.00% | 9 self-service stores focusing on the Latin market in Los Angeles, California.                                                                                                                                                                                  |
| Cafeterías Toks, S. A. de C. V.        | 100.00% | A chain of 63 restaurants.                                                                                                                                                                                                                                      |
| Tiendas Super Precio, S. A. de C. V.   | 100.00% | 79 self-service stores that sell groceries.                                                                                                                                                                                                                     |
| Radio Shack de México, S. A. de C. V.  | 50.01%  | 147 stores that sell electronic goods.                                                                                                                                                                                                                          |
| Controtiendas, S. A. de C. V.          | 100.00% | 41 real estate companies that own land where Company stores and restaurants are located.                                                                                                                                                                        |

| Company or Group                                   | Equity  | Activity                                                                                                                          |
|----------------------------------------------------|---------|-----------------------------------------------------------------------------------------------------------------------------------|
| Bodega Gigante, S. A. de C. V.                     | 100.00% | 11 real estate companies that own land where Company stores are located.                                                          |
| Gigante-Fleming, S. A. de C. V.                    | 100.00% | A real estate company that owns land where two of the Company's stores are located, as well as the use and control of trademarks. |
| Servicios Gigante, S. A. de C. V.                  | 99.99%  | Provides administrative services to the Company.                                                                                  |
| Servicios Toks, S. A. de C. V.                     | 100.00% | Provides administrative services to the Company.                                                                                  |
| Operadora Gigante, S. A. de C. V.                  | 100.00% | Provides administrative services to the Company.                                                                                  |
| Servicios Gastronómicos Gigante, S. A. de C. V.    | 100.00% | Provides gastronomic services to the Company.                                                                                     |
| Servicios Operativos Gigante, S. A. de C. V.       | 100.00% | Provides administrative services to the Company.                                                                                  |
| Pagos en Línea, S. A. de C. V.                     | 100.00% | Processes and manages electronic cash transfers in Mexico.                                                                        |
| Procesadora Gigante, S. A. de C. V.                | 100.00% | Sales, administration and operation of commercial business related to packaging food.                                             |
| Importadora Corporativa del Centro, S. A. de C. V. | 100.00% | Purchase-sale, manufacture and commercialization of merchandise.                                                                  |
| Combustibles Gigante, S. A. de C. V.               | 100.00% | Sells gas and fuel.                                                                                                               |
| Retail Answers, S. A. de C. V.                     | 50.20%  | Provides administrative services to the Company.                                                                                  |
| Logistic Answers, S. A. de C. V.                   | 50.20%  | Provides administrative services to the Company.                                                                                  |
| Franquicias Super Precio, S. A. de C. V.           | 100.00% | Manages the use and control of trademarks.                                                                                        |
| Inmobiliaria Toks, S. A. de C. V.                  | 100.00% | A real estate company.                                                                                                            |

- b. Translation of financial statements of foreign subsidiaries** – To consolidate the financial statements of foreign subsidiaries that operate independently of the Company in terms of finances and operations, the same accounting policies of the Company are applied. The financial statements are restated for inflation of the country in which such foreign subsidiary operates to express amounts in purchasing power of the foreign currency as of the most recent year-end. Subsequently, all assets, liabilities, revenues, costs and expenses are translated into Mexican pesos using the closing exchange rate in effect as of the most recent balance sheet date presented. Cumulative translation effects are presented in insufficiency in stockholders' equity within stockholders' equity.

The financial statements of foreign subsidiaries included in the 2005 consolidated financial statements are restated for inflation of the country in which such foreign subsidiary operates and are subsequently translated into Mexican pesos using the exchange rate of the latest period presented.

- c. Comprehensive loss** – Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income (loss) of the year, plus other comprehensive income or loss items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of operations. In 2006 and 2005, other comprehensive loss items consist of the insufficiency in restated stockholders' equity (which includes the translation effects of foreign entities) and net income of the minority stockholders.
- d. Reclassifications** – Certain amounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2006.
- e. Comparability** – On February 11, 2005, the Company announced the suspension of operations of its subsidiary PSMT México, S. A. de C. V., for which operations were formally suspended on February 28, 2005. The condensed financial information of the subsidiary, which is included in these consolidated financial statements as of December 31, 2006 and 2005, is as follows:

| <b>Balance sheets:</b>           | <b>2006</b>        | <b>2005</b>        |
|----------------------------------|--------------------|--------------------|
| Current assets                   | \$ 58,690          | \$ 76,977          |
| Current liabilities              | (2,702)            | (2,611)            |
|                                  | 55,988             | 74,366             |
| <b>Stockholders' equity</b>      | <b>\$ 67,922</b>   | <b>\$ 86,964</b>   |
| <b>Statements of operations:</b> | <b>2006</b>        | <b>2005</b>        |
| Revenues                         | \$                 | \$ 58,684          |
| Costs and expenses               | (19,042)           | (95,232)           |
| Income tax expense               |                    | (72)               |
| <b>Net loss</b>                  | <b>\$ (19,042)</b> | <b>\$ (36,620)</b> |

### 3. Summary of significant accounting policies

**New financial reporting standards** – As of June 1, 2004, the function of establishing and issuing MFRS became the responsibility of the Mexican Board for Research and Development of Financial Reporting Standards (“CINIF”). CINIF decided to rename the accounting principles generally accepted in Mexico, previously issued by the Mexican Institute of Public Accountants (“IMCP”), as Mexican Financial Reporting Standards. As of December 31, 2005, eight Series A standards had been issued (NIF A-1 to NIF A-8), representing the Conceptual Framework, intended to serve as the supporting rationale for the development of such standards, and as a reference to resolve issues arising in practice; NIF B-1, Accounting Changes and Correction of Errors, was also issued. The Series A NIFs and NIF B-1 went into effect as of January 1, 2006. Application of the new MFRS did not have a material impact on the Company’s financial position, results of operations or related disclosures.

The accompanying consolidated financial statements have been prepared in conformity with MFRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Company’s management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Company are as follows:

- a. **Recognition of the effects of inflation** – The Company restates its consolidated financial statements to Mexican pesos of purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year, which are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year. Recognition of the effects of inflation results mainly in inflationary gains or losses on nonmonetary and monetary items that are presented in the financial statements under the following two line items:

**Insufficiency in restated stockholders’ equity** – Represents the accumulated monetary position result through the initial restatement of the consolidated financial statements and the loss from holding non-monetary assets which resulted from restating certain nonmonetary assets below inflation.

**Monetary position gain** – Monetary position gain, which represents the increase of purchasing power of monetary items caused by inflation, which is calculated by applying National Consumer Price Index (NCPI) factors to monthly net monetary position. Gains result from maintaining a net monetary liability position.

- b. **Cash and cash equivalents** – This line item consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. This line item is stated at nominal value plus accrued yields, which are recognized in results as they accrue.
- c. **Inventories and cost of sales** – Inventories are valued at the lower of replacement cost or realizable value. Cost of sales is restated for the effects of inflation using the last-in, first-out method.
- d. **Derivative financial instruments** – The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value in the balance sheet, regardless of its intent for holding them. Fair value is determined using prices quoted on recognized markets. If such instruments are not traded, fair value

is determined by applying recognized valuation techniques. These instruments are negotiated only with institutions of high repute. The Company's policy is not to carry out transactions with derivative financial instruments for the purpose of speculation.

When derivatives are entered into to hedge risks, and such derivatives meet all hedging requirements, their designation is documented at the beginning of the hedging transaction, describing the transaction's objective, characteristics, accounting treatment and how the effectiveness of the instrument will be measured.

Changes in the fair value of derivative instruments designated as hedges are recognized as follows: (1) for fair value hedges, changes in both the derivative instrument and the hedged item are stated at fair value and recognized in current earnings; (2) for cash flow hedges, changes in the effective portion are temporarily recognized as a component of other comprehensive income in stockholders' equity and then reclassified to current earnings when affected by the hedged item; the ineffective portion of the change in fair value is immediately recognized in current earnings; (3) for hedges of an investment in a foreign subsidiary, the effective portion is recognized as a component of other comprehensive income as part of the cumulative translation adjustment. The ineffective portion of the gain or loss on the hedging instrument is recognized in current earnings, if it is a derivative financial instrument. If not, it is recognized as a component of other comprehensive income until the investment is sold or transferred.

The Company discontinues hedge accounting when the derivative instrument matures, is sold, cancelled or exercised, when the derivative instrument does not reach a high percentage of effectiveness to compensate for changes in fair value or cash flows of the hedged item, or when the entity decides to cancel its designation as a hedge.

While certain derivative financial instruments are contracted for hedging from an economic point of view, they are not designated as hedges because they do not meet all of the requirements and are instead classified as trading for accounting purposes. Changes in fair value are recognized in current earnings as a component of comprehensive financing cost.

- e. **Property and equipment** – Property and equipment are initially recorded at acquisition cost and restated using the NCPI. Depreciation is calculated using the straight-line method, based on the useful lives of the related assets, as follows:

|                              | Years |
|------------------------------|-------|
| Buildings                    | 49    |
| Buildings on leased property | 49    |
| Store equipment              | 12    |
| Furniture and equipment      | 8     |
| Vehicles                     | 4     |

Comprehensive financing cost incurred during the period of construction is capitalized and restated using the NCPI.

- f. **Impairment of long-lived assets in use** – The Company reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the amounts mentioned above. The impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, competition and other legal and economic factors.
- g. **Goodwill** – Goodwill represents the excess of cost over recorded value of subsidiaries shares, as of the date of acquisition. It is restated using the NCPI and at least once a year, is subject to impairment tests.
- h. **Employee retirement obligations** – Seniority premiums, severance payments at the end of the work relationship and other post-retirement benefits are recognized as they accrue and are calculated by independent actuaries using the projected unit credit method at net discount rates. Accordingly, the liability is being accrued with, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's employees.
- i. **Deferred charges** – Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method over four years. Disbursements that do not meet such requirements, as well as research costs, are recorded in results of the period in which they are incurred. This caption also includes licenses and trademarks that are amortized over their related useful lives of four and 15 years, respectively.
- j. **Provisions** – Provisions are recognized for current obligations that result from a past event, are probable to result in the future use of economic resources, and can be reasonably estimated.
- k. **Income taxes, tax on assets and employee statutory profit sharing** – Income taxes ("ISR") and employee statutory profit sharing ("PTU") are recorded in results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the accounting and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred ISR assets are only recorded when there is high probability of recovery. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

The tax on assets ("IMPAC") paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented in the balance sheet decreasing the deferred ISR liability.

- l. **Foreign currency balances and transactions** – Foreign currency transactions are recorded at the applicable exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost in the consolidated statements of operations.

- m. Earnings (loss) per share** – Basic earnings (loss) per common share are calculated by dividing net income (loss) of majority stockholders by the weighted average number of ordinary shares outstanding during the year. As the Company has no dilutive securities, basic and diluted earnings per share are the same.

#### 4. Accounts receivable – net

|                                           | 2006                | 2005                |
|-------------------------------------------|---------------------|---------------------|
| Trade accounts receivable                 | \$ 564,447          | \$ 428,136          |
| Allowance for doubtful accounts           | (56,721)            | (30,193)            |
|                                           | 507,726             | 397,943             |
| Recoverable taxes, mainly value-added tax | 731,164             | 610,573             |
| Other                                     | 154,062             | 165,986             |
|                                           | <b>\$ 1,392,952</b> | <b>\$ 1,174,502</b> |

#### 5. Derivative financial instruments

The Company obtains financing under different conditions. If the rate is variable, interest rate swaps are entered into to reduce exposure to the risk of rate volatility, thus converting the interest payment profile from variable to fixed.

On April 13, 2006, the Company issued a private debt placement of long-term debt ("Senior Notes") of U.S. \$260 million dollars due in April 2016. Such debt accrues interest at an annual fixed rate of 8.75% payable on a semi-annually basis (see Note 10). On the same date, the Company contracted an exchange rate swap and an interest rate swap as follows:

- **Cross Currency Swap ("CCS")** – Changes the amount of debt over which interests are accrued from U.S. dollars into Mexican pesos at a fixed exchange rate of \$11.11 Mexican pesos for one U.S. dollar; this swap also changes the interest rate of the debt from 8.75% to variable interest calculated by adding 0.635% to the interbank interest rate ("TIIE"). The maturity of the swap is the same as the maturity of the Senior Notes.
- **Interest Rate Swap ("IRS")** – The Company pays a fixed interest rate of 9.755% and receives the variable interest rate of TIIE plus 0.635% as calculated above; the maturity of this swap is five years.

The swaps were classified as fair value swaps; therefore, changes in the fair value of the swaps are recognized in current year earnings.

**6. Property and equipment - net**

|                                | 2006                 | 2005                 |
|--------------------------------|----------------------|----------------------|
| Buildings                      | \$ 5,640,262         | \$ 5,946,992         |
| Buildings on a leased property | 5,639,168            | 4,912,019            |
| Store equipment                | 5,715,884            | 5,161,184            |
| Furniture and equipment        | 289,810              | 457,628              |
| Vehicles                       | 139,270              | 135,750              |
|                                | 17,424,394           | 16,613,573           |
| Accumulated depreciation       | (6,849,325)          | (6,197,111)          |
|                                | 10,575,069           | 10,416,462           |
| Construction in - progress     | 75,250               | 135,650              |
| Land                           | 5,444,286            | 5,369,223            |
|                                | <b>\$ 16,094,605</b> | <b>\$ 15,921,335</b> |

As of December 31, 2005, approximately 49%, of the Company's land and buildings were pledged as a guarantee for the Company's long-term debt (see Note 10).

**7. Investment in shares in associates and others**

As of December 31, 2006 and 2005, the investment in shares balance is mainly represented by the investment in the shares of PriceSmart, Inc., of 1,667,333 common shares (5.8% and 6.41% as of December 31, 2006 and 2005, respectively) of PriceSmart, Inc., which were purchased on November 23, 2004, at a price of U.S. \$10.00 per share. Such investment is accounted for under the cost method.

**8. Goodwill and other assets - net**

|                                             | 2006              | 2005              |
|---------------------------------------------|-------------------|-------------------|
| Goodwill - net                              | \$ 459,559        | \$ 453,962        |
| Restricted cash                             | 22,930            | 36,724            |
| Deferred charges - net                      | 275,520           | 233,432           |
| Intangible asset for retirement obligations | 66,627            | 81,149            |
| Other non-current assets                    | 56,005            | 54,236            |
|                                             | <b>\$ 880,641</b> | <b>\$ 859,503</b> |

Restricted cash represents cash reserves required to be maintained by one of the Company's subsidiaries in order to obtain credit with one of its suppliers.

**9. Notes payable to financial institutions**

The Company has certain short-term unsecured notes payable due to financial institutions. Outstanding borrowings under these arrangements amounted to \$30,535 and \$5,074 as of December 31, 2006 and 2005, respectively. The weighted average interest rates under these arrangements at December 31, 2006 and 2005 were 9.15% and 7.5%, respectively.

**10. Long-term debt**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 2006      | 2005         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|
| On August 22, 2005, the Company concluded restructuring its bank liabilities and acquired a new loan for \$2,700,000 (historical pesos) with a financial institution. Such loan was payable in 37 quarterly installments beginning September 2006; interest was payable quarterly at the 91-day TIE rate plus an applicable margin. Such margin was calculated as 2.85% of the outstanding amount during the first year of the loan and thereafter was to be calculated based on the relationship of the interest coverage ratio and total bank debt ratio compared to EBITDA. The interest rate as of December 31, 2005 was 11.49%. On April 13, 2006, the Company pre-paid such loan with the proceeds obtained from the Senior Notes mentioned below; there was a pre-payment penalty assessed for \$27,024 | \$        | \$ 2,809,350 |
| Note payable, collateralized by buildings with a net book value of \$137,424 at December 31, 2006; monthly payments are calculated based on a percentage of the sales of the Company's store that is located in such building; interest on outstanding balances is calculated at the 28-day TIE plus 2% (interest rate as of December 31, 2006 and 2005 was 9.34% and 10.56%, respectively)                                                                                                                                                                                                                                                                                                                                                                                                                    | 21,304    | 35,060       |
| Unsecured loan contract payable in 36 monthly installments with a 12-month grace period with regard to principal only; the first principal payment will be on January 31, 2007. Interest is payable monthly at a fixed rate of 11.45%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 60,000    | 62,430       |
| On April 13, 2006, the Company issued a private placement of long-term debt ("Senior Notes") for U.S. \$260 million dollars due in April 2016. Such debt accrues interest at an annual fixed rate of 8.75% payable on a semi-annual basis                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,829,060 |              |

|                                                                                                                       | 2006                | 2005                |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Capital lease obligations for equipment at annual interest rates that range from 9.84% to 14.72% at December 31, 2006 | 129,230             |                     |
| Long-term debt                                                                                                        | 3,039,594           | 2,906,840           |
| Less: current portion of long-term debt                                                                               | (55,745)            | (72,873)            |
|                                                                                                                       | <b>\$ 2,983,849</b> | <b>\$ 2,833,967</b> |

Approximately 70 of the net equity of the Company's subsidiaries are pledged as a guarantee for the Company's Senior Notes. The most restrictive covenants contained in the loan agreements restrict the payment of cash dividends and limit the repurchase of the Company's own shares. In addition, the covenants require the Company to maintain certain minimum financial ratios. The Company is in compliance with such covenants as of December 31, 2006.

The Company used the Senior Notes' proceeds to prepay its long-term bank loan of \$2,809,350 as discussed above.

The Company has contracted derivative financial instruments to hedge exchange rate risks on the above loans, as described in Note 5.

a. As of December 31, 2006, long-term debt matures as follows:

| Year ending December 31 |                     |
|-------------------------|---------------------|
| 2007                    | \$ 55,745           |
| 2008                    | 92,729              |
| 2009                    | 35,257              |
| 2010                    | 26,803              |
| 2011                    | 0                   |
| Thereafter              | 2,829,060           |
|                         | <b>\$ 3,039,594</b> |

b. At December 31, 2006, minimum rental commitments under capital leases are as follows:

|                                                |                  |
|------------------------------------------------|------------------|
| Total minimum lease obligations                | \$ 156,579       |
| Unearned interest                              | (27,349)         |
| Present value of obligations                   | 129,230          |
| Current portion of obligations                 | (32,913)         |
| Long-term portion of capital lease obligations | <b>\$ 96,317</b> |

Capital lease obligations, which include a purchase option at the end of the lease term for \$14,613, mature as follows:

| Year ending December 31 |                   |
|-------------------------|-------------------|
| 2007                    | \$ 45,358         |
| 2008                    | 45,358            |
| 2009                    | 37,660            |
| 2010                    | 28,203            |
|                         | <hr/>             |
|                         | <b>\$ 156,579</b> |

## 11. Employee retirement obligations

Net periodic cost for obligations resulting from severance payments at the end of the work relationship, seniority premiums and other post-retirement obligations was \$45,851 and \$35,001, in 2006 and 2005, respectively.

In addition to paying seniority premiums, the Company maintains a post-retirement plan for employees who retire voluntarily. Such plan grants defined benefits for all of its employees; the benefits consist of a lump sum payment calculated based on the seniority of employees who retire voluntarily and their annual salary at the date of retirement.

Seniority premium benefits, consist of a lump sum payment of 12 days' wages for each year worked, calculated using the most recent salary, not to exceed twice the legal minimum wage established by law.

The related liability and annual cost of such seniority premium benefits, post-retirement plan benefits and severance payments are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

The present values of these obligations and the rates used for the calculations are:

|                                             | 2006                | 2005                |
|---------------------------------------------|---------------------|---------------------|
| Accumulated benefit obligation              | \$ (258,216)        | \$ (279,095)        |
| Projected benefit obligation                | \$ (270,261)        | \$ (298,346)        |
| Plan assets                                 | 50,074              | 53,073              |
| Funded status - underfunded                 | (220,187)           | (245,273)           |
| Unrecognized items                          | 82,016              | 88,832              |
| Net projected liability                     | (138,171)           | (156,441)           |
| Additional liability                        | (91,431)            | (81,149)            |
| Employee retirement obligations             | <b>\$ (229,602)</b> | <b>\$ (237,590)</b> |
| Intangible asset for retirement obligations | \$ 66,627           | \$ 81,149           |
| Reduction in stockholders' equity           | \$ 24,804           | \$                  |
| Net periodic cost                           | \$ 45,851           | \$ 35,001           |
| Contributions to plan assets                | \$ 5,542            | \$ 479              |

Net discount rates used in actuarial calculations were as follows:

|                                                               | <b>2006</b> | <b>2005</b> |
|---------------------------------------------------------------|-------------|-------------|
|                                                               | %           | %           |
| Discount of the projected benefit obligation at present value | 5.0         | 4.0         |
| Salary increase                                               | 2.0         | 1.0         |
| Yield on plan assets                                          | 5.0         | 4.5         |

Unrecognized items are charged to results based on the average remaining service lives of employees which is 10 years.

Net periodic cost is comprised as follows:

|                                          | <b>2006</b>      | <b>2005</b>      |
|------------------------------------------|------------------|------------------|
| Service costs                            | \$ 21,273        | \$ 16,933        |
| Amortization of the transition liability | 7,906            | 10,213           |
| Amortization of variances in assumptions |                  | 191              |
| Interest cost                            | 18,728           | 7,635            |
| Less-yield on plan assets                | (2,056)          | (243)            |
|                                          | 45,851           | 34,729           |
| Curtailment costs                        |                  | 272              |
| Net periodic cost                        | <b>\$ 45,851</b> | <b>\$ 35,001</b> |

## 12. Stockholders' equity

a. Stockholders' equity consists of the following as of December 31, 2006 and 2005:

|                  | <b>Number<br/>of shares<br/>2006</b> | <b>Number<br/>of shares<br/>2005</b> | <b>Historical<br/>value<br/>2006</b> | <b>Historical<br/>value<br/>2005</b> |
|------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Fixed capital    | 176,734,102                          | 176,734,102                          | \$ 18,922                            | \$ 18,922                            |
| Variable capital | 805,655,775                          | 805,858,375                          | 86,258                               | 86,280                               |
|                  | <b>982,389,877</b>                   | <b>982,592,477</b>                   | <b>\$ 105,180</b>                    | <b>\$ 105,202</b>                    |

Common stock is comprised of common nominative shares. Fixed capital stock may not be withdrawn. Variable capital shares may be freely subscribed. Variable capital may not be greater than ten times fixed capital.

- b. During 2006, the Company repurchased a total of 202,600 of its shares and during 2005 it sold a total of 4,947,500 of its treasury shares, at various dates and various prices throughout each year, via cash contributions. At December 31, 2006 and 2005, the Company maintains in its treasury 3,910,067 and 3,707,467, shares respectively. The market value of such shares was \$11.00 and \$6.95, per share at December 31, 2006 and 2005, respectively.
- c. Retained earnings include a statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may not be distributed, except in the form of a stock dividend, unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2006 and 2005, the legal reserve, in historical pesos, was \$21,120 for both years.
- d. Stockholders' equity, except restated additional paid-in capital and tax retained earnings, will be subject to income tax at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.
- e. The balances of the stockholders' equity tax accounts as of December 31 are as follows:

|                                                | 2006                 | 2005                 |
|------------------------------------------------|----------------------|----------------------|
| Contributed capital account                    | \$ 8,188,102         | \$ 8,188,102         |
| Net consolidated tax income account            | 3,616,293            | 3,492,306            |
| Net reinvested consolidated tax income account | 187,079              | 187,079              |
| <b>Total</b>                                   | <b>\$ 11,991,474</b> | <b>\$ 11,867,487</b> |

### 13. Foreign currency balances and transactions

- a. At December 31, the foreign currency monetary position in thousands of U.S. dollars is as follows:

|                                                 | 2006                  | 2005                |
|-------------------------------------------------|-----------------------|---------------------|
| Monetary assets                                 | \$ 3,862              | \$ 3,264            |
| Monetary liabilities                            | (297,608)             | (38,930)            |
| Monetary liability position - net               | <b>\$ (293,746)</b>   | <b>\$ (35,666)</b>  |
| <b>Equivalent in thousands of Mexican pesos</b> | <b>\$ (3,172,456)</b> | <b>\$ (379,130)</b> |

- b. Approximately 7.11% and 5.79% of inventory purchases were imported by the Company in 2006 and 2005, respectively.
- c. Transactions denominated in thousands of U.S. dollars during the years ended December 31, 2006 and 2005, include import purchases of \$155,150 and \$125,405, respectively.
- d. The exchange rates in effect at the dates of the consolidated financial statements and at the date of the independent auditors' report were as follows:

|                                   | <b>December, 31</b> |             | <b>February, 20</b> |
|-----------------------------------|---------------------|-------------|---------------------|
|                                   | <b>2006</b>         | <b>2005</b> | <b>2007</b>         |
| Mexican pesos per one U.S. dollar | \$ 10.80            | \$ 10.63    | \$ 10.98            |

#### 14. Balances and transactions with related parties

- a. Transactions with related parties during the years ended December 31, 2006 and 2005, carried out in the ordinary course of business, were as follows:

|                                                          | <b>2006</b>       | <b>2005</b>       |
|----------------------------------------------------------|-------------------|-------------------|
| Purchases from PriceSmart, Inc.                          | \$                | \$ 438            |
| Purchases from Radio Shack International, Inc.           | 197,768           | 195,756           |
| Purchases from Radio Shack Global Sourcing, Inc.         | 36,852            |                   |
| Consulting services from Radio Shack International, Inc. | 5,049             |                   |
| Interest paid to Radio Shack International, Inc.         | 4,460             |                   |
|                                                          | <b>\$ 244,129</b> | <b>\$ 196,194</b> |

- b. Balances payable to (receivable from) related parties at December 31, are as follows:

|                                   | <b>2006</b>      | <b>2005</b>       |
|-----------------------------------|------------------|-------------------|
| PriceSmart, Inc.                  | \$               | \$ (283)          |
| Radio Shack International, Inc.   | 38,696           | 135,285           |
| Radio Shack Global Sourcing, Inc. | 37,569           |                   |
|                                   | <b>\$ 76,265</b> | <b>\$ 135,002</b> |

**15. Net comprehensive financing cost**

|                                                    | <b>2006</b>       | <b>2005</b>       |
|----------------------------------------------------|-------------------|-------------------|
| Interest expense                                   | \$ 556,159        | \$ 507,773        |
| Interest income                                    | (35,776)          | (36,798)          |
| Foreign exchange (gain) loss – net                 | (29,485)          | 14,234            |
| Monetary position gain                             | (326,299)         | (286,690)         |
| Mark to market of derivative financial instruments | (20,445)          |                   |
| Other financing expenses                           | 40,636            | 97,812            |
|                                                    | <b>\$ 184,790</b> | <b>\$ 296,331</b> |

**16. Income taxes, tax on assets and employee statutory profit sharing**

In accordance with Mexican tax law, the Company is subject to ISR and IMPAC. ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position. In 2005 and 2006, the tax rate was 30% and 29%, respectively, and as of 2007, the tax rate will be 28%. Due to changes in the tax legislation effective January 1, 2007, taxpayers who file tax reports and meet certain requirements may obtain a tax credit equivalent to 0.5% or 0.25% of taxable income. In addition, as a result of changes in the tax law effective in 2005, cost of sales is deducted instead of inventory purchases. Taxpayers had the option, in 2005, to ratably increase taxable income over a period from four to twelve years by the tax basis of inventories as of December 31, 2004, determined in conformity with the respective tax rules, and taking into account inventory turnover; the Company chose to amortize this inventory to taxable income over six years. Such inventory was decreased by the undeducted inventory balance according to Rule 106 and tax loss carryforwards, whose net balance as of December 31, 2006 and 2005 was \$1,594,973 and \$2,054,611, respectively. As of 2006, PTU paid is fully deductible.

Through 2006, IMPAC was calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities, including liabilities payable to banks and foreign entities. IMPAC is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years. As of January 1, 2007, the IMPAC rate will be 1.25% on the value of assets for the year, without deducting any liabilities.

PTU was determined by applying the statutory rate of 10% to the profit sharing base determined in accordance with the applicable law.

The Company, files consolidated ISR and IMPAC tax returns with its subsidiaries, with the exception of its subsidiaries Office Depot de México, S. A. de C. V. and PSMT México, S.A. de C.V.

## a. ISR and PTU consist of the following:

|                                                                                                          | 2006              | 2005               |
|----------------------------------------------------------------------------------------------------------|-------------------|--------------------|
| ISR expense (benefit):                                                                                   |                   |                    |
| Current                                                                                                  | \$ 366,662        | \$ 278,395         |
| Deferred                                                                                                 | (296,603)         | (262,023)          |
| Change in the valuation of allowance for recoverable tax on assets and benefit of tax loss carryforwards | 227,726           | 222,286            |
|                                                                                                          | <b>\$ 297,785</b> | <b>\$ 238,658</b>  |
| PTU expense (benefit):                                                                                   |                   |                    |
| Current                                                                                                  | \$ 11,624         | \$ 15,286          |
| Deferred                                                                                                 | (509)             | (49,055)           |
|                                                                                                          | <b>\$ 11,115</b>  | <b>\$ (33,769)</b> |

## b. The reconciliation of the ISR amounts is as follows:

|                                                                                                                | 2006              | 2005              |
|----------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| ISR at the statutory tax rate                                                                                  | \$ 178,459        | \$ 1,332          |
| Add (less)                                                                                                     |                   |                   |
| Effect of permanent differences                                                                                | (25,945)          | 35,467            |
| Change in the valuation of allowance for recoverable tax on assets paid and benefits on tax loss carryforwards | 227,726           | 222,286           |
| Effects of inflation                                                                                           | (43,686)          | (20,427)          |
| Other                                                                                                          | (38,769)          |                   |
| ISR at the effective tax rate                                                                                  | <b>\$ 297,785</b> | <b>\$ 238,658</b> |

## c. At December 31, 2006 and 2005, the main items comprising the liability balance of deferred ISR and PTU are:

|                                         | 2006             | 2005             |
|-----------------------------------------|------------------|------------------|
| Deferred ISR assets (liabilities):      |                  |                  |
| Property and equipment                  | \$ (1,419,061)   | \$ (1,435,962)   |
| Inventories                             | (446,593)        | (598,590)        |
| Other                                   | 58,957           | (10,214)         |
| Deferred ISR from temporary differences | (1,806,697)      | (2,044,766)      |
| Effect of tax loss carryforwards        | 608,008          | 361,735          |
| Recoverable tax on assets               | 910,103          | 1,030,679        |
| Deferred ISR liability                  | <b>(288,586)</b> | <b>(652,352)</b> |

|                                                                       | 2006                | 2005                  |
|-----------------------------------------------------------------------|---------------------|-----------------------|
| Allowance for recoverable tax on assets and of tax loss carryforwards | (646,323)           | (418,597)             |
| Long-term deferred ISR liability – net                                | (934,909)           | (1,070,949)           |
| Deferred PTU asset related to provisions                              | 1,504               | 1,382                 |
| Total long-term deferred liability – net                              | <b>\$ (933,405)</b> | <b>\$ (1,069,567)</b> |

- d. Due to a deterioration in the circumstances used to assess the recovery of tax on assets paid and recovery of the benefit of tax loss carryforwards, the valuation allowance for recoverable tax on assets and for the recoverable benefit of tax loss carryforwards was increased by \$227,726 and charged to results of operations of the year ended December 31, 2006.
- e. Tax loss carryforwards and recoverable tax on assets paid for which the deferred income tax asset and prepaid income tax, respectively, have been partially recognized can be recovered subject to certain conditions. Restated amounts as of December 31, 2006 and expiration dates are as follows:

| Year of expiration | Tax Loss carryforwards | Recoverable tax on assets |
|--------------------|------------------------|---------------------------|
| 2007               | \$ 20,896              | \$ 94,085                 |
| 2008               | 46,185                 | 58,146                    |
| 2009               | 107,382                | 69,454                    |
| 2010               | 132,610                | 86,026                    |
| 2011               | 132,985                | 71,960                    |
| 2012               | 177,308                | 100,104                   |
| 2013               | 193,111                | 110,561                   |
| 2014               | 176,781                | 118,597                   |
| 2015               | 496,536                | 112,010                   |
| 2016               | 687,662                | 89,160                    |
|                    | <b>\$ 2,171,456</b>    | <b>\$ 910,103</b>         |

## 17. Commitments

The Company has entered into operating leases for land, for indefinite periods where some of its stores and restaurants are located. Rent is calculated as a percentage of sales ranging from 1% to 4%. In 2006 and 2005, rental expense was approximately \$654,752 and \$670,856, respectively.

## 18. Contingencies

In 1992, the Company acquired its present subsidiary Blanes, S.A. de C.V., ("Blanes") an enterprise who at that time had 89 stores. To secure hidden liabilities, former Blanes shareholders (the "sellers") established a deposit for three years; at the end of said term, the sellers were in disagreement with the balance subject to a reimbursement as determined by independent public accountants, reason for which they dissent with the latter, and legal proceeding started. In 2003, said process concluded through an *amparo* judgment favorable to the Company, which did not thoroughly solved the issue, and permitted each the parties to start a new process. In March 2004, the Company was notified of a new claim filed by the sellers, requiring the amount of \$150,000 Pesos, Mexican Currency which was the amount of the original deposit, plus payment of interest accrued based on the CETES rate in force at the time when payment should have been made, multiplied by two, for each 28 days term as of February 9, 1996 up to the time of payment of the amount claimed by the sellers. The company disagrees with the calculation and its basis, since it was not what the parties agreed in the deposit agreement and the Company has already complied with said agreement. Nevertheless, the Company has established a reserve in the amount of \$215,905 Pesos, Mexican Currency, in addition to the amount of \$27,543 Pesos, Mexican Currency, i.e., a total amount of \$243,448 Pesos, Mexican Currency deposited previously in favor of the sellers, which the Company believes should be enough in the event of an adverse judgment. In April 2006, the Court ruled in favor of the Company and ordered to pay \$27,543 Pesos, Mexican Currency previously deposited for the benefit of the sellers, wherefore the Company would not be bound to make any additional disbursement and was released of any obligation arising from said deposit. Sellers in disagreement with said judgment filed an appeal.

Last August, the Superior Court of Justice for the Federal District, published a judgment, which ratified the first judgment dated April 19, 2006, wherein the Company was required to pay \$27,543 Pesos, Mexican Currency, releasing the Company of the others claims of the sellers. Said amount had already been deposited by the Company in February 1996 in the Deposits Office of said Court.

Said judgment exclusively modified the previous one with respect to the interest payment ordering, the Company to pay the sellers interest in arrears at the 28-day CETES rates, in force on the day of payment multiplied by two without any compounding, which at present rates, approximately amounts to \$43,000 Pesos, Mexican Currency, which the Company would have to pay in addition to the aforesaid \$27,543. The Company has a reserve fund for this kind of contingencies which covers the amount of said interest.

In disagreement with this second judgment, the parties respectively filed an *amparo* suit against same, which was came under the jurisdiction of the Sixth Collegiate Court for Civil Affairs of the Federal District, and is pending resolution.

## 19. New accounting principles

When Mexican NIF Series A went into effect on January 1, 2006, which represents the Conceptual Framework described in Note 3, some of its provisions created divergence with specific MFRS already in effect. Consequently, in March 2006, CINIF issued Interpretation Number 3 (INIF No. 3), Initial Application of MFRS, establishing that provisions set forth in specific MFRS that have not been amended should be followed until their adaptation to the Conceptual Framework is complete. For example, in 2006, revenues, costs and expenses were not required to be classified as

ordinary and non-ordinary in the statement of income and other comprehensive income items in the statement of stockholders' equity were not required to be reclassified into the statement of income at the time net assets that gave rise to them were realized.

CINIF continues to pursue its objective of moving towards a greater convergence with International Financial Reporting Standards. To this end, on December 22, 2006, it issued the following MFRS, which will become effective for fiscal years beginning on January 1, 2007:

NIF B-3, Statement of Income

NIF B-13, Events Occurring after the Date of the Financial Statements

NIF C-13, Related Parties

NIF D-6, Capitalization of Comprehensive Financing Result

Some of the significant changes established by these standards are as follows:

NIF B-3, Statement of Income, sets the general standards for presenting and structuring the statement of income, the minimum content requirements and general disclosure standards. Consistent with NIF A-5, Basic Elements of Financial Statements, NIF B-3 now classifies revenues, costs and expenses, into ordinary and non-ordinary. Ordinary items (even if not frequent) are derived from the primary activities representing an entity's main source of revenues. Non-ordinary items are derived from activities other than those representing an entity's main source of revenues. Consequently, the classification of certain transactions as special or extraordinary, according to former Bulletin B-3, was eliminated. As part of the structure of the statement of income, ordinary items should be presented first and, at a minimum, present income or loss before income taxes, income or loss before discontinued operations, if any, and net income or loss. Presenting operating income is neither required nor prohibited by NIF B-3. If presented, the line item other income (expense) is presented immediately before operating income. Cost and expense items may be classified by function, by nature, or a combination of both. When classified by function, gross income may be presented. Statutory employee profit sharing should now be presented as an ordinary expense (within other income (expense) pursuant to INIF No. 4 issued in January 2007) and no longer presented within income tax. Special items mentioned in particular MFRS should now be part of other income and expense and items formerly recognized as extraordinary should be part of non-ordinary items.

NIF B-13, Events Occurring after the Date of the Financial Statements, requires that for (i) asset and liability restructurings and (ii) creditor waivers to their right to demand payment in case the entity defaults on contractual obligations, occurring in the period between the date of the financial statements and the date of their issuance, only disclosure needs to be included in a note to the financial statements while recognition of these items should take place in the financial statements of the period in which such events take place. Previously, these events were recognized in the financial statements in addition to their disclosure. NIF A-7, Presentation and Disclosure, in effect as of January 1, 2006, requires, among other things, that the date on which the issuance of the financial statements is authorized be disclosed as well as the name of authorizing management officer(s) or body (bodies). NIF B-13 establishes that if the entity owners or others are empowered to modify the financial statements, such fact should be disclosed. Subsequent approval of the financial statements by the stockholders or other body does not change the subsequent period, which ends when issuance of the financial statements is authorized.

NIF C-13, Related Parties, broadens the concept “related parties” to include: a) the overall business in which the reporting entity participates; b) close family members of key or relevant officers; and c) any fund created in connection with a labor-related compensation plan. NIF C-13 requires the following disclosures: a) the relationship between the controlling and subsidiary entities, regardless of whether or not any intercompany transactions took place during the period; b) that the terms and conditions of consideration paid or received in transactions carried out between related parties are equivalent to those of similar transactions carried out between independent parties and the reporting entity, only if sufficient evidence exists; c) benefits granted to key or relevant officers; and d) name of the direct controlling company and, if different, name of the ultimate controlling company. Notes to comparative financial statements of prior periods should disclose the new provisions of NIF C-13.

NIF D-6, Capitalization of Comprehensive Financing Result, establishes general capitalization standards that include specific accounting for financing in domestic and foreign currencies or a combination of both. Some of these standards include: a) mandatory capitalization of comprehensive financing cost (“RIF”) directly attributable to the acquisition of qualifying assets; b) in the instance financing in domestic currency is used to acquire assets, yields obtained from temporary investments before the capital expenditure is made are excluded from the amount capitalized; c) exchange gains or losses from foreign currency financing should be capitalized considering the valuation of associated hedging instruments, if any; d) a methodology to calculate capitalizable RIF relating to funds from generic financing; e) regarding land, RIF may be capitalized if development is taking place; and f) conditions that must be met to capitalize RIF, and rules indicating when RIF should no longer be capitalized. The entity may decide on whether to apply provisions of NIF D-6 for periods ending before January 1, 2007, in connection with assets that are in the process of being acquired at the time this NIF goes into effect.

At the date of issuance of these financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

## **20. Financial statements issuance authorization**

On February 20, 2007, the issuance of the consolidated financial statements was authorized by Federico Coronado the Company’s Corporate Chief Finance Officer. These consolidated financial statements are subject to the approval of the general ordinary stockholders’ meeting.

# Board of Directors & Committees

## Equity board members

### Ángel Losada

Chairman of the Board of Directors and  
CEO of Grupo Gigante  
BS in Business Administration, Universidad Anáhuac

### Braulio Arsuaga

Joint Director, Hoteles Presidente  
BS in Business Administration, Universidad Anáhuac  
MS in Business Administration, Southern Methodist University

## Related board members

### Gonzalo Barrutieta

Chairman of the Board, Operadora IPC de México  
BS in Economics, ITAM  
MS in Business Administration, Claremont Graduate University

### José Alverde

CEO, Inmobiliaria Alosa  
BS in Business Administration, Universidad Iberoamericana  
MS in Business Administration, University of Texas at Austin

## Independent board members

### Roberto Salvo

Investor in several Nicaraguan companies,  
Independent board member in several companies  
BS in Business Administration, University of Notre Dame  
MS in Business Administration, INCAE, Nicaragua

### Gilberto Perezalonso

Independent board member in several companies  
BS in Legal Studies, Universidad Iberoamericana  
MS in Business Administration, INCAE, Nicaragua  
Corporate Finance Program, Harvard University

### José Aguilera

Independent board member in several companies  
BS in Public Accountancy, Escuela Bancaria y Comercial

### Luis Rebollar

Independent board member in several companies  
BS in Chemical Engineering, UNAM

### Javier Fernández

Financial Advisor  
BS in Mechanical Engineering, ITESM  
MS in Business Administration, Harvard University

### Luis Santana

Independent board member in several companies  
BS in Philosophy, Pontifical Gregorian University, Rome, Italy  
MS in Administration, IPADE, Mexico

### Armando Garza Sada

Development Director, Alfa Corporativo  
BS in Engineering, MIT  
MS in Business Administration, Stanford University

## Audit Committee

Luis Santana  
Chairman

Roberto Salvo

Luis Rebollar

## Corporate Practices Committee

Roberto Salvo  
Chairman

Gilberto Perezalonso

Luis Santana

## Finance and Planning Committee

Javier Fernández  
Chairman

Ángel Losada

José Aguilera

# Investor information

## Corporate headquarters

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### Grupo Gigante, S.A.B. de C.V.

Ejército Nacional No. 769 - A

Col. Granada

Delegación Miguel Hidalgo

11520, México D.F., México

Tel.: (52) 55 5269 8000

Fax: (52) 55 5269 8169

[www.gigante.com.mx](http://www.gigante.com.mx)



GIGANTE\*



ADR Level 1 GYGJY  
ADR Rule 144-A GPGTY

ISE  
(Irish Stock Exchange)  
Senior Notes  
ISIN: USP4952LAA46

## Depository bank

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### Bank of New York

620 Avenue of the Americas

New York, N.Y. 10011

USA

## CFO

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### Federico Coronado

Tel. (52)55 5269 - 8237

[fcoronad@gigante.com.mx](mailto:fcoronad@gigante.com.mx)

## Finance vicepresident & treasurer

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### Leopoldo Pardavell

Tel. (52)55 5269 - 8397

[lpardave@gigante.com.mx](mailto:lpardave@gigante.com.mx)

## Media relations / Communications

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### Sergio Montero

Tel. (52)55 5269 - 8121

[smontero@gigante.com.mx](mailto:smontero@gigante.com.mx)

## Investor relations

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### Manuel Cullen

Tel. (52)55 5269 - 8075

[macullen@gigante.com.mx](mailto:macullen@gigante.com.mx)

### Emilia Maldonado

Tel. (52) 5269-8000 ext. 8727

[emaldona@gigante.com.mx](mailto:emaldona@gigante.com.mx)

## Director, Fundación Gigante

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### Juan Rosas

Tel. (52)55 5269 - 8227

[jmrosas@gigante.com.mx](mailto:jmrosas@gigante.com.mx)

This annual report contains information regarding Grupo Gigante, S.A.B. de C.V. and its subsidiaries, based on the assumptions of its management. This information, as well as statements made about future events and expectations, is subject to risks and uncertainty, as well as to factors that may cause that the results, performance or progress of the Group might differ at any time. These factors include changes in general economic, political, government and commercial conditions on the national and global level, as well as change in interest rates, inflation, exchange-rate volatility, product prices, energy situation and others. Because of these risks and factors, the real results may vary substantially

